



TOMORROW TRANSFORMED

Merchant Bank of Sri Lanka & Finance PLC



Annual report online
www.mbslbank.com

2016
Annual Report



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TOMORROW TRANSFORMED

During the year 2016, MBSL witnessed the positive impacts of its merger and enhanced corporate identity. With income and profitability levels surpassing the previous years our presence in the market has been strengthened.

We are now poised to achieve greater success as we strive to blend the key critical success factors – which are the vital ingredients for a transformed entity. As we progress towards our vision to be an innovative financial solutions provider, our strategic direction is focused towards building our IT infrastructure to meet the expectations of our discerning customers.

We believe that this will pave the way for MBSL to continue to grow and transform itself to a new dimension, which will transform the tomorrow of all our stakeholders as well.

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OUR VISION

G4-56

To be the most innovative business solution provider to the nation.

OUR MISSION

To enhance our clients' wealth through innovative and sustainable solutions whilst developing entrepreneurship

To enhance shareholder value upholding highest standards of corporate governance

To enhance knowledge and skills of employees while rewarding them for achieving service excellence

To foster mutually beneficial relationships with our business partners

To fulfill our responsibilities towards the society by serving the nation while maintaining principles of corporate social responsibility

OUR VALUES

Uphold the highest traditions of ethics, norms and best practices in all our endeavours

Guide our principles with wisdom and prudence in search of excellence

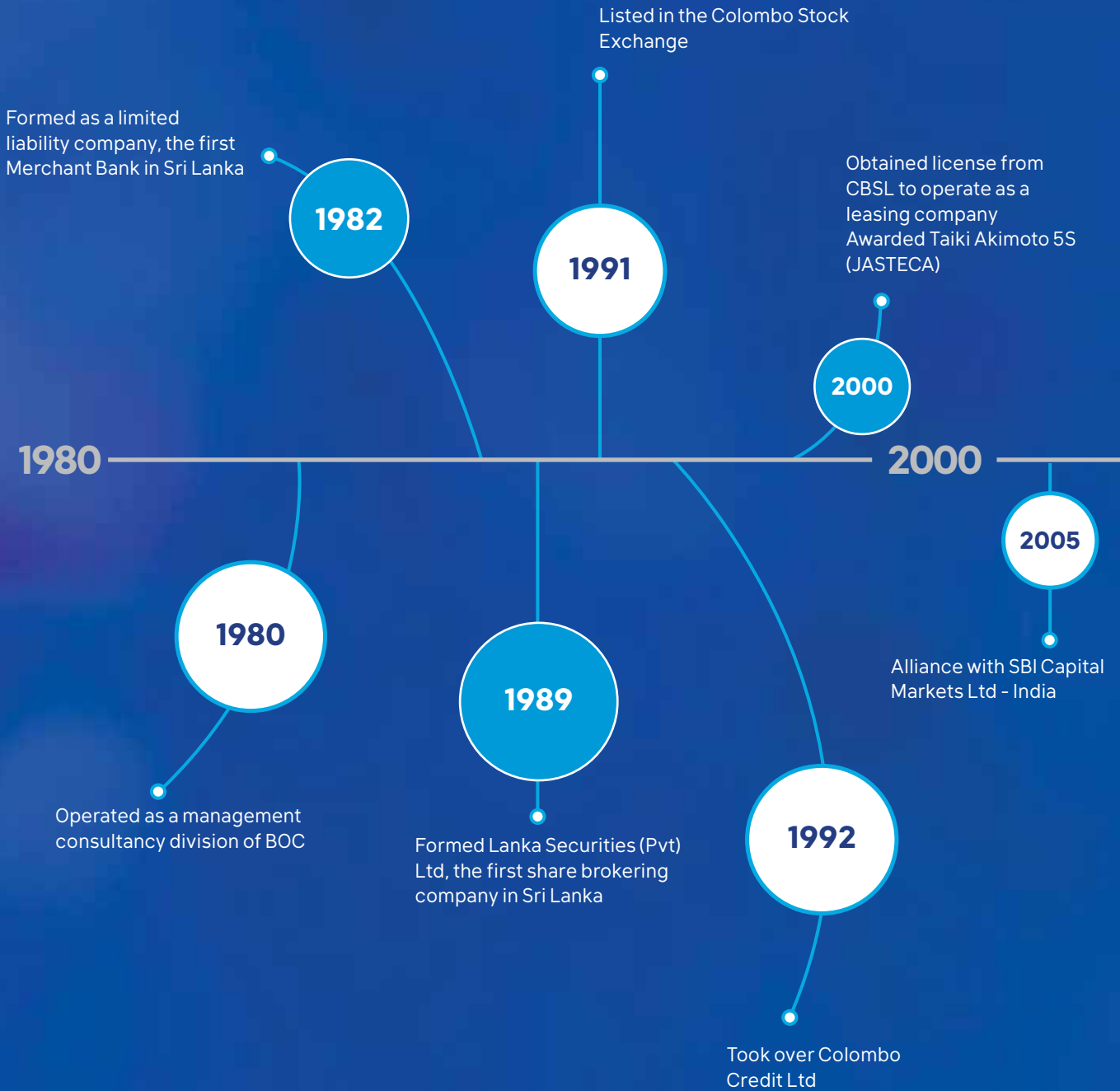
Foster intrapreneurship amongst our employees in creating an atmosphere of caring, sharing and integrity

Ensure good governance and transparency

Delight our clientele through service excellence, differentiation and innovation

Unite and be courageous to face challenges

Our Journey



Annual Report Award

2007

Took over MBSL Savings Bank and MBSL Insurance

Central Bank of Sri Lanka appointed MBSL as the managing agent of The Finance Company PLC

"Bronze Award" for Financial Institutions.

2009

Name changed to "Merchant Bank of Sri Lanka & Finance PLC"

"Gold Award" for the annual report 2013 in the leasing sector

2014

2008

2008

AA-Institutional Rating

"Silver Award - Joint" for Financial Institution

2006

Obtained ISO 9001-2000 & National Productivity Award

2012

30th Anniversary, opened up 16 new branches

Amalgamation of MBSL, MCSL & MSB and started operations as a RFC

"Gold Award" for the annual report 2014 in the leasing sector

Islamic finance and pawning operations expanded in some branches

2015

2016

"Best Employer Brand" Award in Sri Lanka

Emerging Financial Institute of the year award.

2016



Chairman's Review

G4-01

"Group demonstrated a remarkable growth in performance to achieve a profit before tax of Rs. 246.8 million compared to profit of Rs. 56 million the year before."

The financial year ending 31st December 2016 marked a turning point in the MBSL Group's growth trajectory and it gives me great pleasure to present to you, our valuable shareholders the Annual Report and Financial Statements of the Group.

In its second year of operations as a merged entity, the Group demonstrated a remarkable growth in performance to achieve a profit before tax of Rs. 246.8 million compared to profit of Rs. 56 million the year before. The Group effectively capitalized on emerging growth opportunities in the market through a holistic and proactive strategy which facilitated strong top and bottom line growth. The Company's excellence was awarded at the Middle East Asia Leadership Summit and Awards, where it received the accolade of 'Emerging Financial Institution' of the year. During the year MBSL Company was also named as one of the Best Employer Brands at the World Human Resource Development Congress organized by the Partnership Summit and Business Awards, in recognition of excellence in human resource practices, policies and strategies.

The Operating Landscape

The operating environment presented multiple challenges and opportunities during the year. The tighter monetary policy stance adopted by the regulator resulted in the upward movement of market interest rates during most part of the year, thereby inserting pressure on the industry's net interest margins. That said, policy impetus towards strengthening the country's SME sector has presented numerous opportunities for credit expansion. Meanwhile the implementation of the 70:30 rule on leasing facilities have contained demand for leasing, thereby compelling NBFIs to pursue growth outside the traditional business lines achieving increased diversity in lending profiles.

Strong Leadership Team

A new Board of Directors combining diverse skills, experience and industry acumen was appointed in July 2016. Directors represent entrepreneurial, professional and academic experience resulting in increased depth of discussions and more effective decision making. As per the requirements of the Colombo Stock Exchange, a Related Party Transactions Review Committee was formed during the year. The Group continues to maintain the highest standards of corporate conduct and ethics, and was fully compliant with all relevant regulations and guidelines during the year under review.

Strategy and Performance

We maintained focus on our key strategic priorities of growth, customer relationships, human capital development and sustainability during the year. Aggressive expansion in several new product areas such as working capital and daily collection loans enabled us to achieve strong growth in our loan books, despite a slowdown in the leasing market. We continued to strengthen customer relationships through multiple engagement mechanisms and financial literacy programmes targeting our micro financing customers. Developing our employee value proposition was a key priority during the year; we strengthened our promotions and rewards policy with the objective of nurturing a high-performance driven culture. As a responsible corporate citizen, we strive to embed sustainability to our daily operations. Our micro financing initiative allows us to empower and contribute to the development of over 17,000 micro entrepreneurs through providing access to finance at competitive rates. We also maintain proactive engagement with the communities we operate in, through multiple CSR activities during the year. The relevance and astuteness of our strategy is reflected in our remarkable performance during the year. The Company's profit before tax clocked in at a record Rs. 239.9 million compared to loss of Rs. 35.4 million the year before, signalling a turning point in our operations and affording us a strong platform for growth in the coming year.

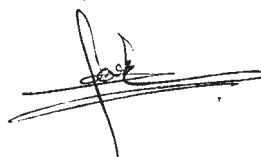
Way Forward

Tightening monetary policy indicators by the CBSL during the first quarter of 2017 is expected to lead to a further increase in market interest rates. That said, policy impetus towards driving growth of the country's micro and SME sectors are expected to sustain demand for credit and we are well positioned to benefit from this upturn. The strategy for the next three years is underpinned on a Blue Ocean approach to market segments and customers and we hope to venture into high-yielding product categories in order to diversify from our traditional lines of business. The implementation of a Core Banking System in second half of 2017 is anticipated to generate substantial operational efficiencies and risk management capabilities, thereby supporting overall profitability.

Acknowledgements

I look forward to another exciting year of opportunities and progress and would like to extend my gratitude to the Minister, Secretary and officials of the Ministry of Public Enterprises, the officials of the Treasury and Non-Bank Supervision department of the Central Bank of Sri Lanka and the Board of Directors of Bank of Ceylon. I would like to thank my colleagues on the Board of MBSL and look forward to working with you. Finally, my gratitude goes out to the management and all employees of MBSL for their commitment and dedication and all our customers and other stakeholders for their continued support.

Thank you.



Dr. Sujeewa Lokuhewa

Chairman

28th April 2017
Colombo



Chief Executive Officer's Review

"Company's overall pre-tax profit increasing to Rs. 239.9 million, from a loss of Rs.35.4 million the year before. The Company also returned to profitability during the year, with net profit increasing to Rs. 85.6 million, from a net loss of Rs. 78.3 million the year before."

The year under review was a defining one for the MBSL Group, as the Organisation achieved strong turnaround following a complex and challenging consolidation in 2015. The impeccable execution of a focused strategy enabled the Group to achieve strong growth in both top and bottom line to record its highest ever profitability and it gives me great pleasure, to present to you a review of the Group's performance for the financial year ending 31st December 2016.

A Challenging Operating Environment

Sri Lanka's gross domestic product (GDP) growth slowed to 4.4% during the year (2015:4.8%) primarily due to a contraction in the Agriculture Sector against the backdrop of adverse weather conditions. The Industrial and Services sectors grew by a respective 6.7% and 4.2% during the period. Meanwhile, a tightening monetary policy stance was adopted during the year resulting in interest rates edging upwards during the second half of the year. The NBFIs sector performed commendably during the year although the 70% Loan to Value ratio rule and persistently increasing vehicle prices continued to impact leasing portfolios. Overall, the sector's total assets grew by around 16% during the first nine

months of the year, driven by expansion in term loans, micro financing and factoring.

A Proactive Strategy to Drive Profitability

Our operations during the year were guided by a focused strategy, which was targeted towards driving profit growth and operational efficiencies. Strategic emphasis was placed on enhancing collections and implementing mechanisms to ensure strong credit quality. Resources were deployed towards strengthening monitoring and recovery mechanisms which resulted in the Group's gross non-performing-loan ratio to decline by 4.2%. Resultantly, the impairment charge for the year also declined to Rs. 24.24 million, from Rs. 462.15 million the year before upholding overall profitability. We also devoted time and effort towards strengthening technological capabilities, commencing preliminary work for the roll-out of a Core Banking System. We hope to launch the system in second half of 2017 and this is anticipated to accrue numerous benefits in terms of productivity, operational efficiency and risk management. The system will also position the Company as a future-ready financial institution with multiple initiatives including debit/credit cards, internet banking and mobile banking being launched to enhance the overall customer value proposition. The conversion to a licensed finance company has given the Company access to public deposits, facilitating increased diversity in our funding profile. During the year we strengthened human capital capabilities in driving deposit mobilization which enabled the Company to grow its deposit base by 16.86% to Rs.18.52 billion, a testament to its improving deposit franchise.

A Unique Employee Proposition

Our people strategy for the year was centered on developing a highly-skilled, performance oriented culture, which would equip employees with the skills required to drive our ambitious strategic agenda. We invested Rs. 14.63 million in upskilling employees in leadership development, recoveries and deposit mobilization among others. A structured performance based rewarding system was also launched facilitating the identification and career progression of high-performing employees. We also engaged with trade unions to successfully conclude a three-year collective agreement in January 2017, thereby ensuring minimal disruption to operations stemming from employee-related issues. During the year MBSL was recognised one of the Best Employer Brands at the World Human Resource Development Congress organized by the Partnership Summit and Business Awards, a testament to our ongoing efforts to enhance our employee value proposition. The Company was also the recipient of the award Emerging Financial Institute of the year, at the Middle East Asia Leadership Summit and Awards.

Record Profitability

The Group's impressive performance during the year is testament to the effectiveness of our strategy and the commitment of our team in delivering this agenda. Net

interest income at Group and Company level expanded by 5.55% and 4.55% respectively, despite the sharp increase in interest rates which pressured net interest margins.

The Credit portfolio grew by 16.29%, with strong growth stemming from the corporate and retail portfolio (+28.67%) and micro financing portfolios (+59.41%) as we sought to diversify our lending base. Profitability was upheld primarily by a sharp drop in impairment charges following the improvements in credit quality which resulted in the Company's overall pre-tax profit increasing to Rs. 239.9 million, from a loss of Rs.35.4 million the year before. The Company also returned to profitability during the year, with net profit increasing to Rs. 85.6 million, from a net loss of Rs. 78.3 million the year before.

Way Forward

Government impetus towards strengthening the country's SME sector is expected to present substantial opportunities for growth to the NBF sector and the Group is well positioned to capitalize on these emerging opportunities. A strategic agenda based on the blue ocean strategy will be implemented for the next three years and will see the Group pursuing diversification of its traditional products and markets. A proactive advertising and marketing campaign was also launched in line with this agenda to enhance our brand image and increase market acceptance. Geographical expansion is also on the cards and we will seek to strengthen our footprint in the North and Eastern as well as Southern regions with the addition of around 10 branches in the next financial year.

Acknowledgements

I am thankful to the Chairman and the Board of Directors for their guidance and continued confidence placed in me. My appreciation also goes out to the Minister and officials of the Ministry of Public Enterprises, the officials of the Treasury and Non-Bank Supervision department of the Central Bank of Sri Lanka. I would also like to thank the Colombo Stock Exchange, the Securities and Exchange Commission and the Board of Directors of Bank of Ceylon for their continued support. I am proud to lead such a dedicated team of employees and I am grateful to the MBSL family for their commitment and support. Finally my gratitude goes out to all our loyal customers and stakeholders who continue to partner the Group in its growth aspirations.



T Mutugala
Chief Executive Officer

28th April 2017
Colombo



This is our 3rd Integrated Annual Report and through it we hope to provide a succinct overview of our strategy, operating model, opportunities and risks, governance and value creation, primarily targeting current and potential investors. The Group’s strategy and operations reflect the value we derive from our resources and the relationships we depend on to create value and through this report we aim to provide a balanced assessment of Group’s value creation in reference to the capital inputs prescribed by the (Intergrated Reporting) Framework of the International Integrated Reporting Council.

Scope and boundary

G4-3, G4-15, G4-17, G4-18, G4-28, G4-29, G4-30

This Report covers the operations and summary review of Merchant Bank of Sri Lanka and Finance PLC, its subsidiary MBSL Insurance Company Ltd and associate Lanka Securities (Pvt) Ltd for the period from 1st January to 31st December 2016. We follow an annual reporting cycle and the Report builds on the Group’s previous Annual Report for the year 2015. The report also follows the principles

prescribed by the Global Reporting Initiative (GRI) G4- Core criteria for sustainability reporting. In continuously improving the meaningfulness and readability of our Report we have enhanced the scope of our material aspects to reflect aspects prescribed by the Global Reporting Initiative (GRI) and those specific to our industry and value creation process. There were no material changes in reporting scope or significant restatements in comparison to the previous year. The GRI content index is set out at the end of the report, pages 252 to 263.

Reporting principles and assurance

G4-32, G4-33

The Financial Statements presented from pages 140 to 238 of this report have been prepared in accordance with the Sri Lanka Financial Reporting Standards, the requirements of the Companies Act No.7 of 2007 and the Finance Leasing Act No.56 of 2000 and the relevant prudential regulations and directions applicable to Registered Finance Leasing Establishments by the Central Bank of Sri Lanka. The Corporate Governance and Risk Management reports are in compliance with the stipulations applicable to the Registered Finance Leasing Establishments and Listing Requirements of the Colombo Stock Exchange. Assurance on the Financial Statements and the Director’s Statement on Internal Controls has been provided by the Auditor General of Sri Lanka.

Feedback

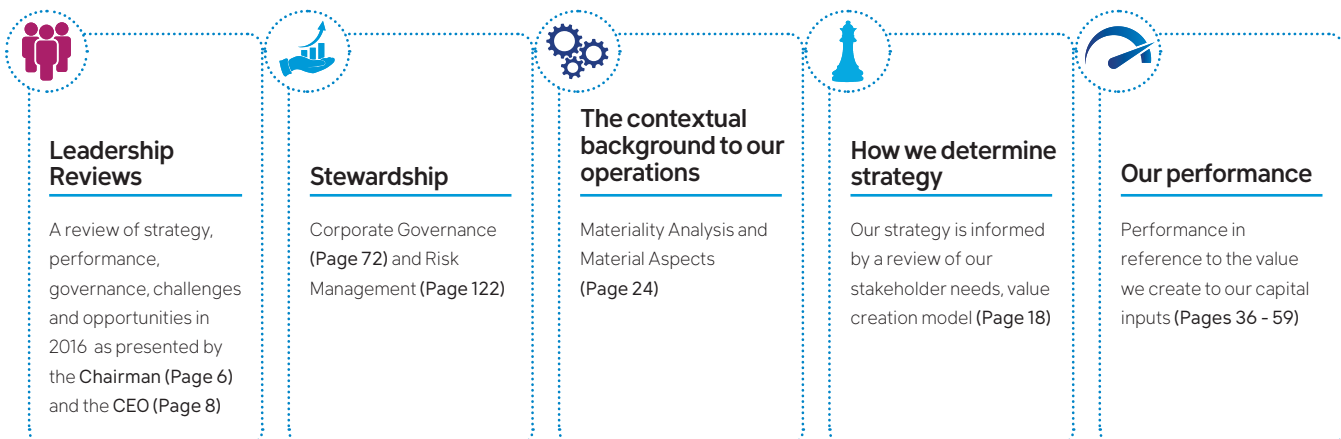
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We welcome suggestions, feedback and queries on our Report as we seek to continually enhance the quality and meaningfulness of information presented. Please contact,

Head of Finance

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Navigating our Report



Performance Highlights

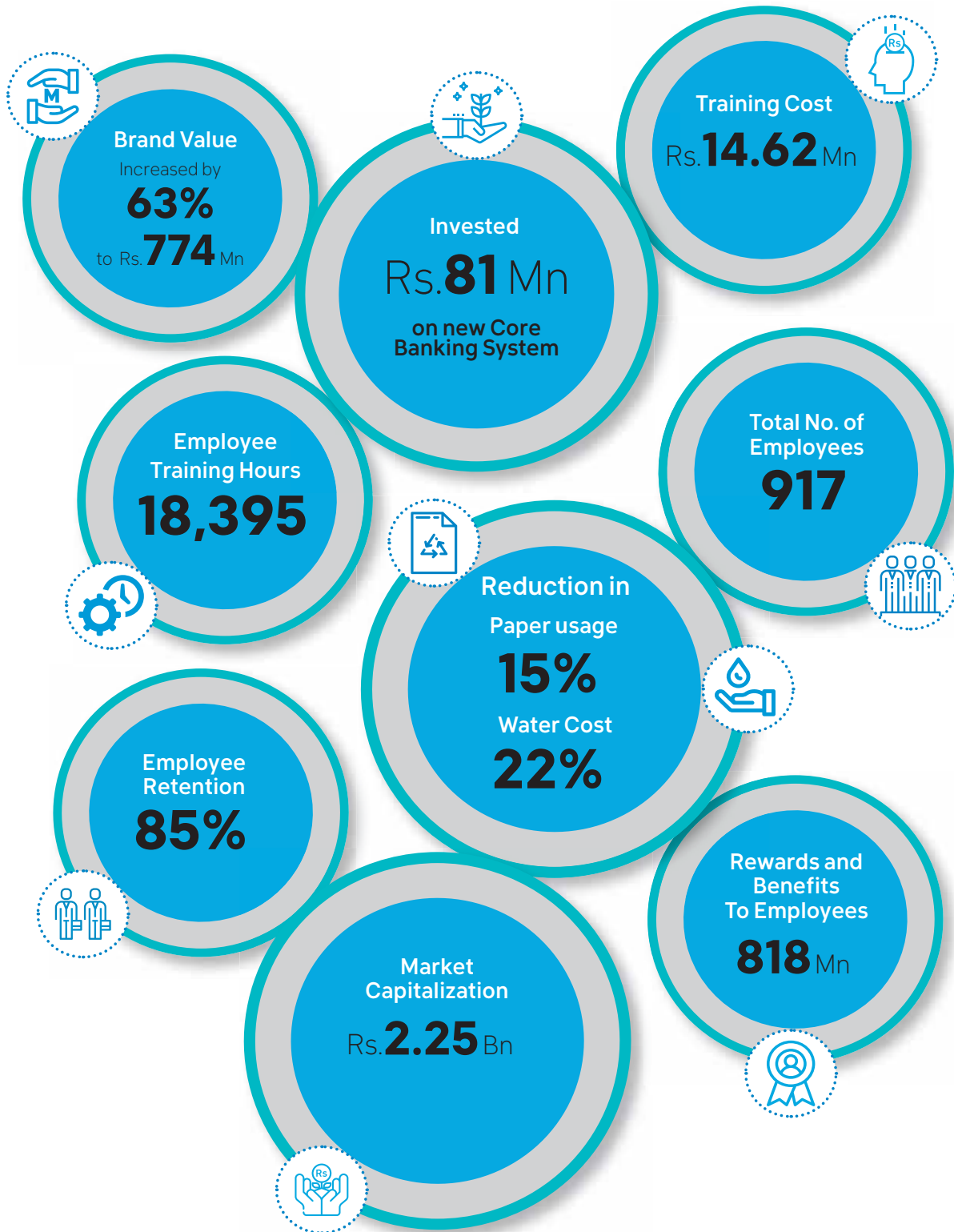
G4-09

Financial Highlights

	Company		
	2016	2015	Change (%)
Operating Performance (Rs. million)			
Net interest income	2,028.17	1,939.83	5
Gross income	4,888.16	4,216.99	16
Profit before tax	239.87	(35.43)	N/A
Current income tax	62.84	31.68	98
Profit after tax	85.62	(78.31)	N/A
Retained profit	853.17	747.41	14
Financial Position (Rs. million)			
Total assets	31,933.73	28,274.55	13
Net lending portfolio	27,052.00	23,225.78	16
Total deposits	18,518.42	15,846.31	17
Shareholders' funds	3,113.49	3,008.06	4
Operating Ratios (%)			
Return on equity	2.80	(2.54)	N/A
Cost to income ratio	72.06	66.89	8
Return on average assets	0.28	(0.28)	N/A
Loans to deposit ratio	146	147	(1)
Overall capital ratio	10.69	11.68	(1)
Core capital ratio	10.66	11.91	(1)
Shareholder Ratios			
Earnings/(loss) per share (Rs.)	0.52	(0.47)	N/A
Net asset value per share (Rs.)	18.77	18.13	4
Price earnings ratio (Times)	26.35	(31.77)	N/A
Market price per share (Rs.)	13.60	15.00	(9)

Non-Financial Highlights

	2016	2015	Change (%)
Manufactured Capital			
Customer touch points	49	49	0
Gold loan centers opened	6	13	(54)
Human Capital			
No. of employees	917	866	6
Payments to employees (Rs. million)	818	707	16
Investment in training (Rs. million)	14.62	7.09	106
Training time (Hours)	18,395	11,100	66
Training hour per employee	20.06	12.82	56
Profit per employee (Rs. million)	0.09	(0.09)	N/A
Retention rate (%)	85	84	1
Social and Relationship Capital			
No. of customers	198,824	138,895	43
Interest paid (Rs. million)	2,709.60	2,133.33	27
Loans granted (No's)	33,725	19,033	77
Deposits generated (No's)	45,170	31,576	43
Natural Capital			
Energy consumption (Units)	1,269,818	1,138,679	12
Water consumption (Units)	17,616	18,153	(3)
Paper usage (Units)	315,960	369,624	(15)
Paper recycled (Kg)	720	390	85



OUR BUSINESS

Who We Are

Merchant Bank of Sri Lanka & Finance PLC is Licensed Finance Company licensed and regulated by the Central Bank of Sri Lanka (CBSL). With an excellent track record of nearly 4 decades the Company has nurtured relationships with over 190,000 customers, contributing to the financial inclusion and empowerment of individuals across the country. We operate a network of 49 customer touch points in 22 districts and is driven by the dynamism and skills of 917 employees. The Company is listed on the Main Board of the Colombo Stock Exchange with a market capitalisation of Rs. 2.25 billion as at end-December 2016. The Company's fully-owned subsidiary MBSL Insurance is engaged in the provision of general and life insurance solutions. Company's associate is Lanka Securities (Pvt) Ltd which is a registered Stock Broker engages in equity trading, debt trading and margin trading. MBSL is a subsidiary of the state-owned financial powerhouse Bank of Ceylon, Sri Lanka's largest licensed commercial bank in terms of assets, deposits and branch reach.

MBSL emerged victorious at the Middle East Asia Leadership Summit and Awards (2016-17) winning the coveted Emerging Financial Institute of the year award. The World Leadership Federation is a global platform which celebrates corporate success, where leaders and flourishing organizations across the globe are recognized, appreciated and awarded for their efforts in making great accomplishments and achieving extraordinary targets.

Total Assets

Rs. **31,934** million
(2015: Rs.28,275 million)

Total Deposits

Rs. **18,518** million
(2015: Rs.15,846 million)

Interest Income

Rs. **4,738** million
(2015: Rs.4,073 million)

Profit for the Year

Rs. **85.62** million
(2015: Rs.(78.31) million)

Earnings per Share

Rs. **0.52**
(2015: Rs.(0.47))

Employees

917
(2015: 866)

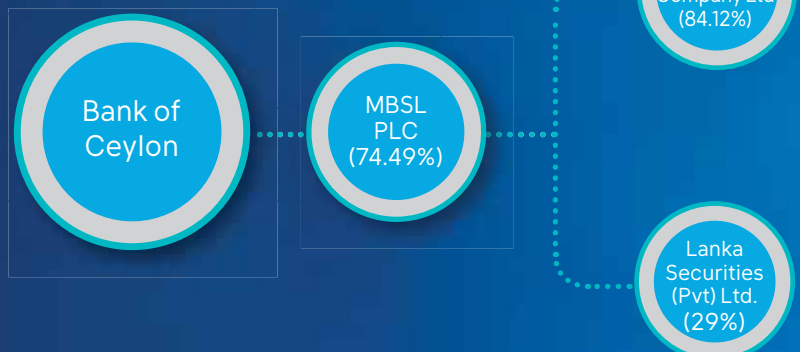
What We Do

We provide an array of lending and investment solutions to individuals, small and micro enterprises and corporate customers.

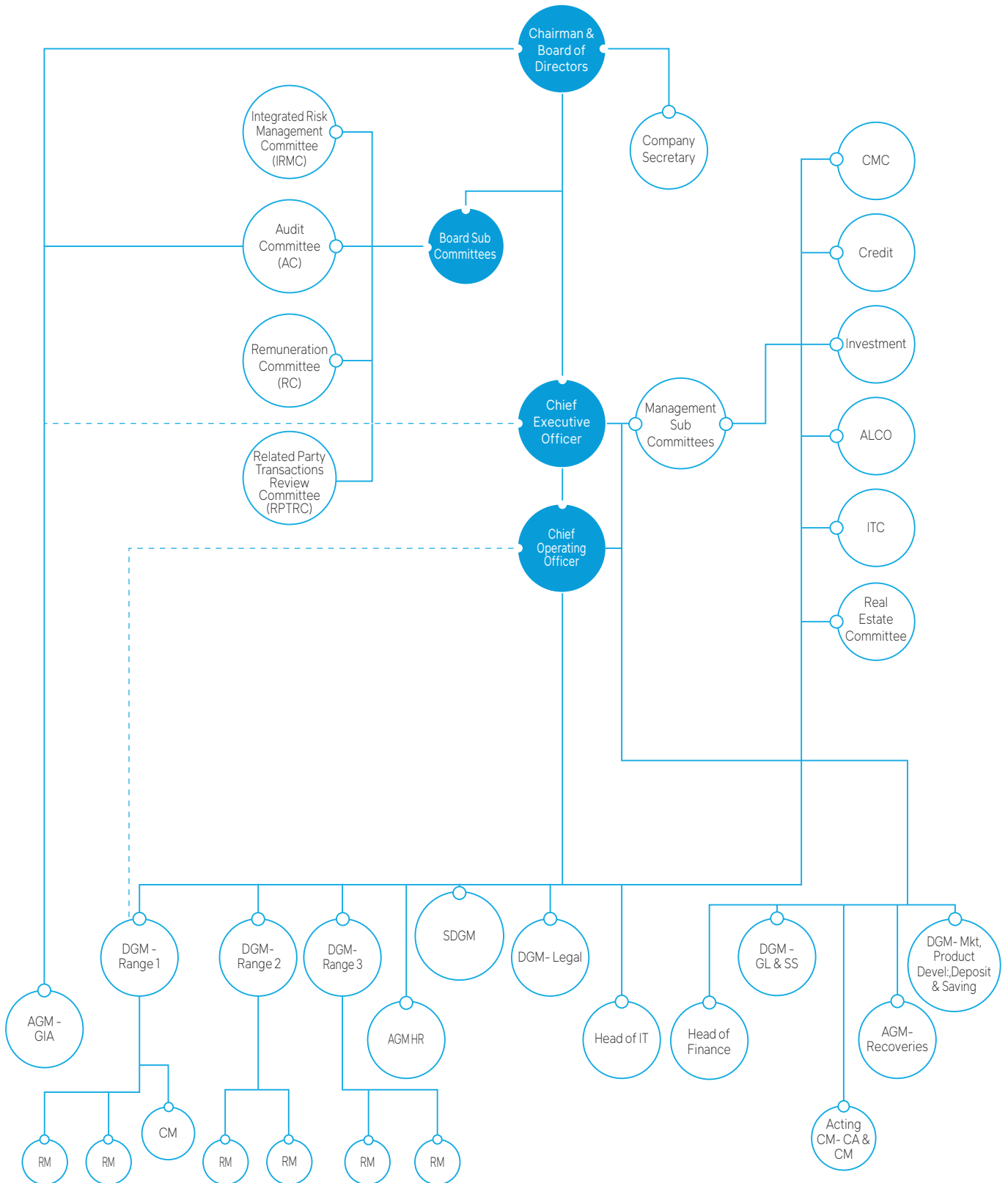


Shareholding Structure

G4-07

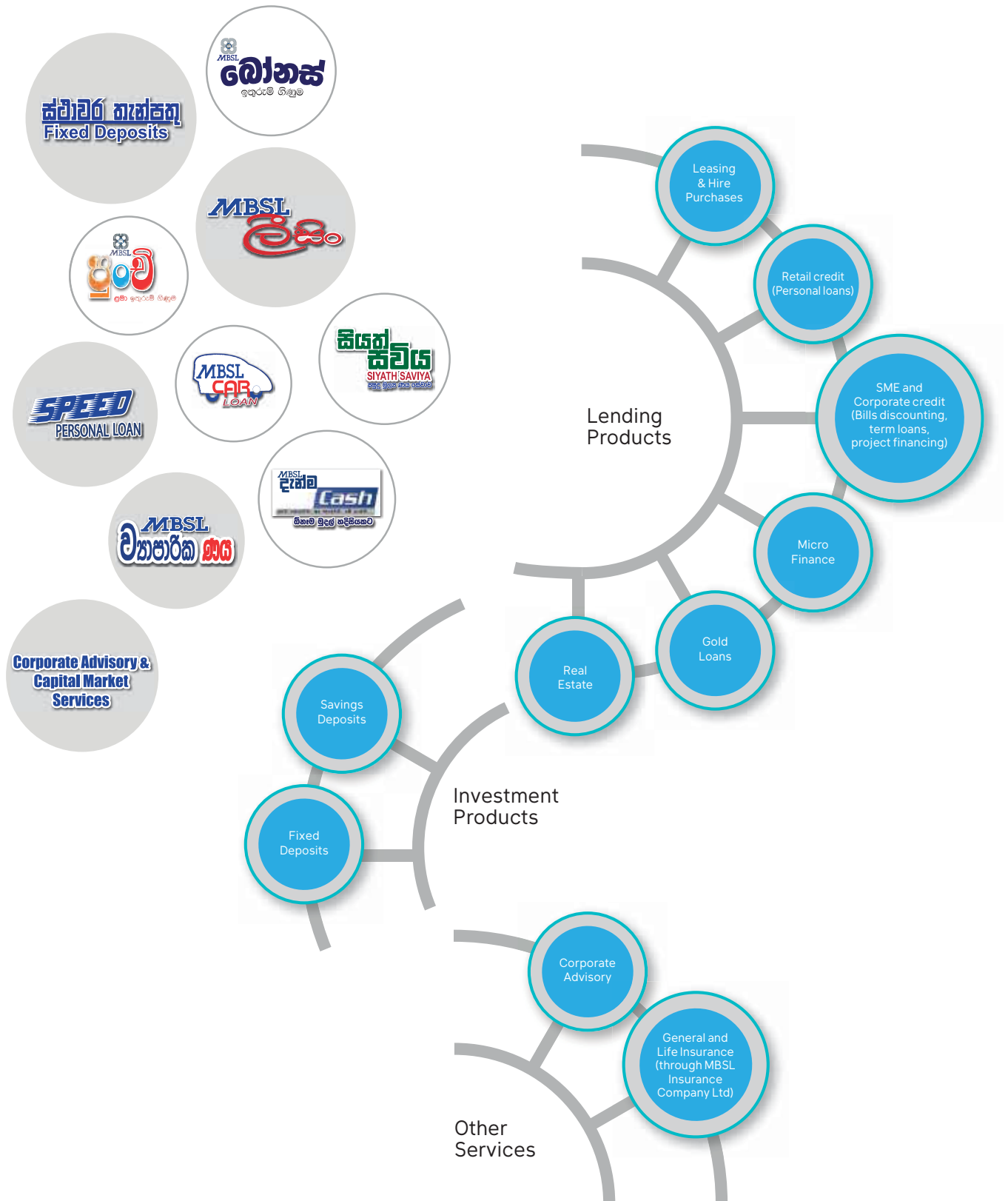


Organisational Structure



Products and Services

G4-04



Our Regional Footprint

G4-06



MBSL is committed towards managing its business in a way that addresses the diverse needs of its stakeholders and our strategy has been carefully formulated to balance these competing needs to generate sustainable stakeholder value.

OPERATING CONTEXT AND STRATEGY

Value Creation Model

Our Operating Environment

Engaging with Our Stakeholders

Defining What is Material

Strategic Framework

Our Approach to Sustainability

Strategic Performance

Business Line Review

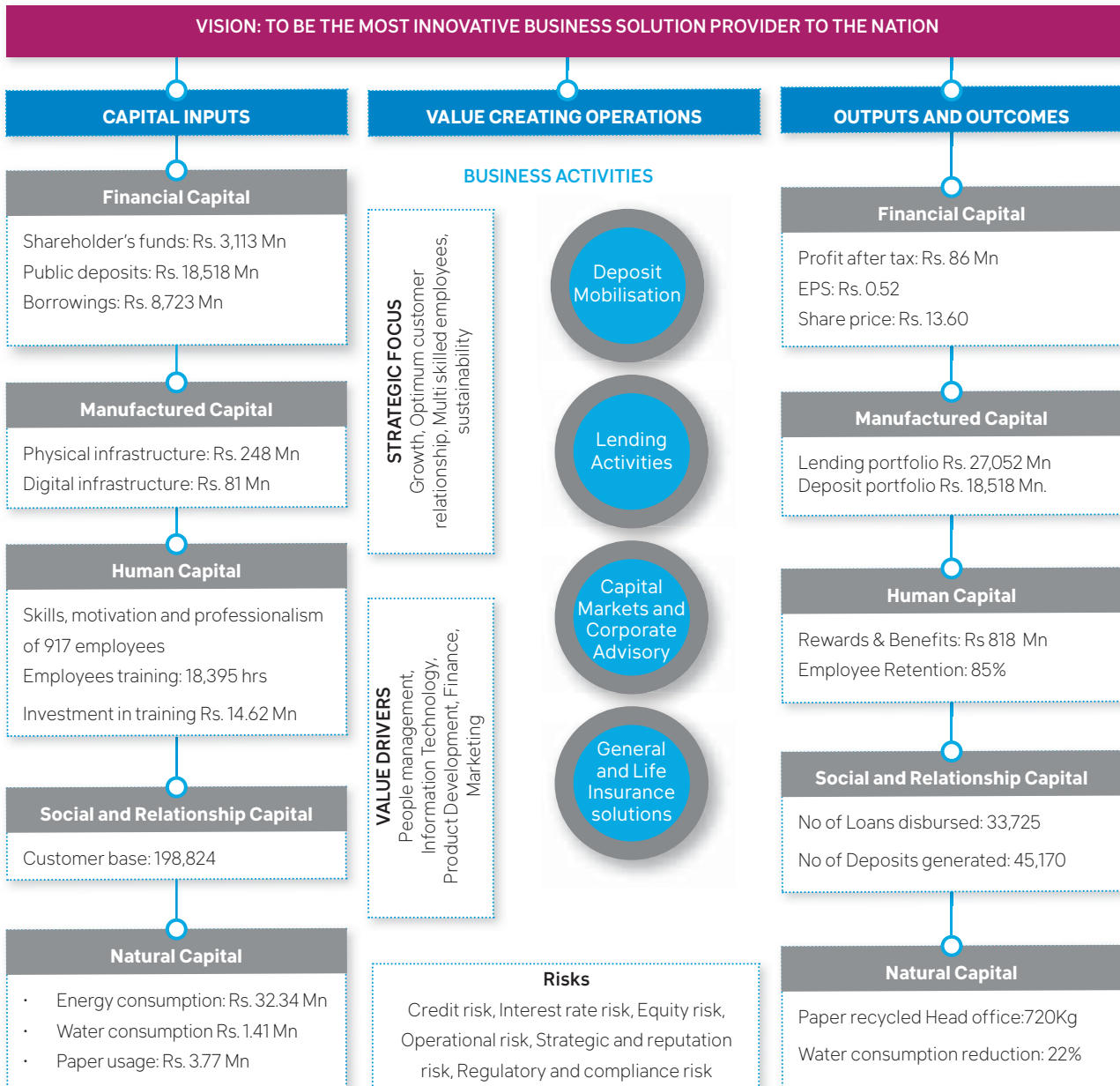
Leasing

Corporate and Retail Credit

Corporate Advisory and Capital Markets

Economic Value Addition

Value Creation Model



Our Operating Environment

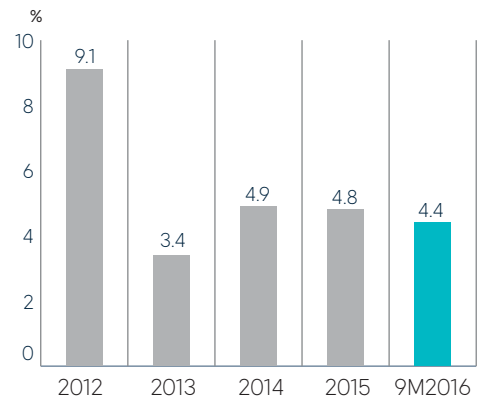
Trends in the Group’s operating context are a vital input in strategy formulation as it ensures that the Group’s strategic agenda will remain relevant given emerging risks and opportunities. MBSL proactively monitors these emerging trends in determining the potential implications on the Group.

Economic Growth

Trends in 2016

Sri Lanka’s GDP expanded by 4.4% during of 2016 underpinned by growth in country’s Industrial (6.7%) and Services sectors (+4.2%) while the Agriculture sector contracted in comparison to the previous year. With a share of 57% the Services sector continued to be the largest contributor to GDP and its growth was supported by the expansion of Financial and Insurance services (+8.4%) and information and communication subsector (+8.0%). The Industrial sector grew by 5.7% (compared to 2.1% in the corresponding period in 2015) as the construction sector rebounded with the recommencement of government and private sector projects. The Agriculture sector experienced a challenging year contracting by 4.2% as adverse weather conditions affecting the supply of several key crops.

GDP Growth



Source: Dept. of Census and Statistics

Financial Services Sector asset growth 11.4%

Implications on our strategy

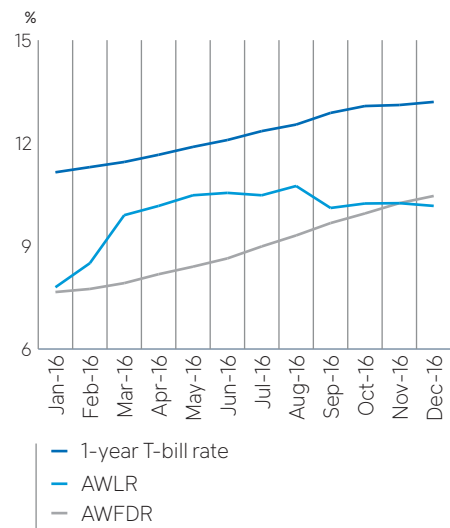
Opportunities for growth in the country’s trade sector, particularly stemming from the Government’s policy impetus towards driving economic growth through the SME sector. Difficulties in the agriculture sector could lead to weaker portfolio quality in this segment, potentially resulting in higher impairment charges.

Monetary Policy and Interest Rates

Trends in 2016

A tightening monetary policy stance was adopted during the year with the objective of curbing inflationary pressures and supporting the balance of payments. Accordingly, the Standing Deposit Facility Rate and Standing Lending Facility Rate were increased by 50 basis points each in February and July 2016, closing the year at 7.0% and 8.5% respectively. Meanwhile, the Statutory Reserve Ratio for Banks was also raised from 6.0% to 7.5% in January 2016. In response to these measures, market interest rates trend were on an upward trajectory for most part of the year.

Interest Rate Trends



Source: Central Bank of Sri Lanka

Implications on our strategy

Higher interest rates resulted in a slowdown in credit demand towards the second half of the year while interest margins narrowed given the faster repricing of short-term deposit liabilities.

Our Operating Environment

Inflation

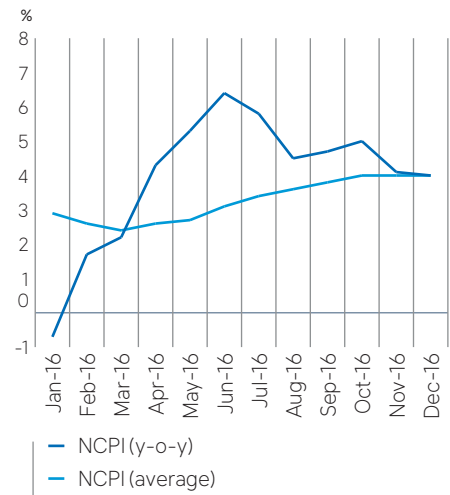
Trends in 2016

Headline and core inflation were on an upward trajectory during the first half of the year, reflecting demand driven inflationary pressures, supply constraints in the Agriculture sector as well as revisions to the tax structure. Resultantly, inflation measured by the Colombo Consumer’s Price Index (NCPI) peaked in June 2016, and then declined gradually and stabilized towards the latter part of the year.

Implications on our strategy

Stabilizing inflation towards the latter part of 2016 is expected to drive credit demand particularly in 2017

Inflation



Source: Central Bank of Sri Lanka

Government Finances

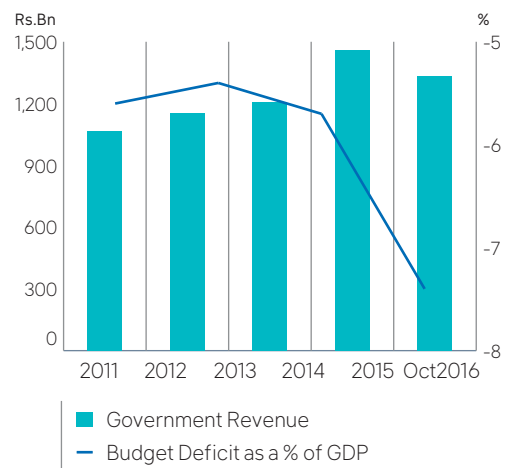
Trends in 2016

The budget deficit as a % GDP declined to 5.4% during the year (from 7.4% the year before), supported by the government’s fiscal consolidation efforts. Budget proposals on broadening the tax base and improving the administrative efficiency of collecting taxes is anticipated to contribute towards fiscal consolidation and more stable macro-economic fundamentals over the medium term.

Implications on our strategy

The excise duty-led increase in vehicle prices during the year resulted in a sharp decline in the demand for vehicles, compelling the Company to pursue growth and diversify its income sources.

Government Finances



Source: Central Bank of Sri Lanka

Commodity Prices

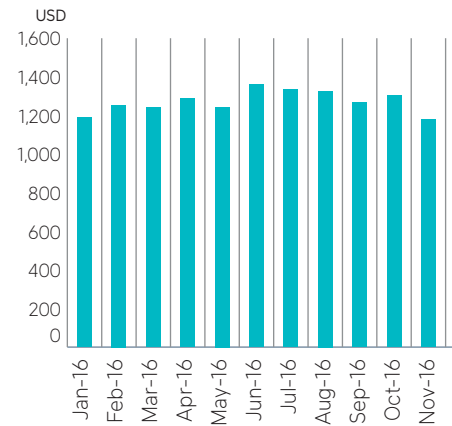
Trends in 2016

Commodity prices were generally on the rise following the increase in oil prices towards the second half of 2016. Resulting from strong infrastructure investments in China and expectations of fiscal easing in the United States, price of heavy metals also strengthened during the year.

Implications on our strategy

Rising gold prices have a favorable impact on the Company's gold loan portfolio, as the gold held as collateral increases in value in line with global price trends.

World Gold Price per Troy oz



Source: World Gold Council

Private Sector Credit Growth

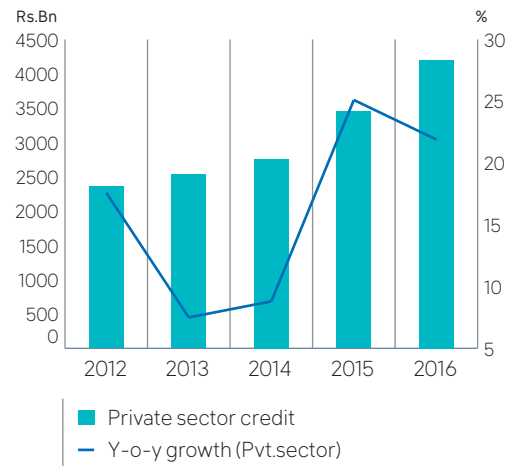
Trends in 2016

Private sector credit growth was strong during the year, despite the tightening monetary policy stance adopted by the CBSL. Accordingly credit to the private sector by commercial banks was 21.9% in 2016 although this is expected to gradually moderate during 2017 to a level consistent with the government's economic growth and inflation targets.

Implications on our strategy

The anticipated slowdown in credit demand following the rising interest rate scenario is expected to have an impact on the Company's ability to grow, although the Company's expansion into new products and market segments are expected to provide numerous opportunities for growth.

Private Sector Credit Growth



Source: Central Bank of Sri Lanka

Our Operating Environment

Performance of the NBFI Sector

Trends in 2016

- The sector comprised of 46 LFCs, 7 SLCs and which operate a network of 1,313 branches constituting around 7% of total financial sector assets
- The sector’s asset growth was strong at 21.7% in 2015.
- Credit growth was 21.0% during the period driven by secured loans, comprising of term loans, micro financing and factoring growth in leasing moderated during the year.
- Asset quality remained relatively unchanged with a gross NPL ratio of 5.4% by end-December 2016.
- Profitability was healthy during the year, with the ROA and ROE clocking in at 4.0% and 23.0% respectively. Total profit for the period doubled to Rs. 31.5 billion in 2015.
- Capital adequacy strengthened supported by profit generation with the overall RWCAR increasing to 11.7% from 11.2% in December 2015.

	2016 Rs.Bn	2015 Rs.Bn	y-o-y (%)
Assets	1,211.9	995.8	22
Loans and advances	962.7	795.8	21
Deposits	531.0	480.6	11
Gross NPL ratio (%)	5.3	5.7	-
Net NPL ratio (%)	1.2	1.6	-
ROA (%)	4.0	3.0	1
ROE (%)	23.1	12.4	11

Regulatory Developments

The following regulatory developments had an impact on the Group’s operations during the year;

- In September 2015, the CBSL introduced a 70% maximum limit on the loan to value ratio on motor vehicle leasing facilities, with the objective of enhancing the risk profile of financial institutions while curtailing vehicle imports into the country, which in recent years has had a substantial impact on the balance of payments.
- Multiple revisions to the import tariffs and calculation methodologies resulted in an escalation of vehicle prices during the year.

Implications on our strategy

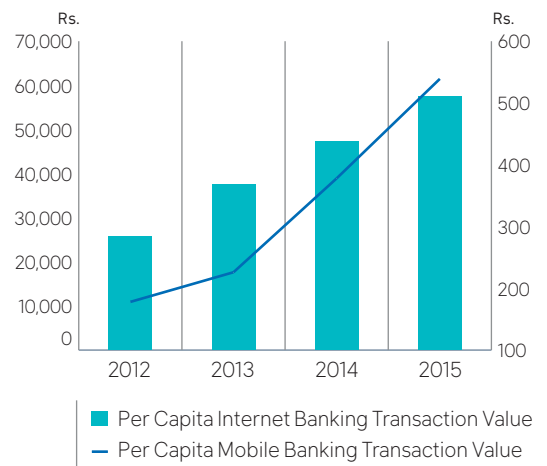
Overall the leasing industry experienced unprecedented challenges, with the dual impacts of the regulatory developments discussed above, having a significant impact on volumes. Leasing has dominated the Group’s credit portfolio in recent years, and these adversities compelled us to seek diversification of our portfolio through pursuing growth opportunities in the SME and micro financing sector.

Customer Preferences

Customers are increasingly seeking convenient and flexible platforms to engage in financial transactions and the digital revolution in financial services is transforming the way financial institutions interact with their customers. Changing preferences for self-service and digital channels is demonstrated in the persistent rise in the use of payment cards, online and mobile banking and the increase in the use of social media as a platform for customer engagement.

Implications on our strategy

We understand the critical importance of enhancing the Group’s digital proposition, particularly since we are a deposit accepting institution. Following the anticipated launch of the Group’s Core Banking System in June 2017, we hope to launch online and mobile banking while also making investments in an exclusive ATM network. Meanwhile, we have also strengthened social media engagement with customers as discussed in further detail in subsequent sections of this Report.



Source: Central Bank of Sri Lanka 1

Engaging with Our Stakeholders

G4-24,G4-25,G4-26,G4-27

Proactively identifying stakeholder needs is a crucial component of our strategy formulation, as strategy is designed to cater to the long-term requirements of all our stakeholders. We maintain a high level of engagement with our key stakeholders and feedback which obtained shape to our strategic agenda and guides our business operations.

When selecting which stakeholders to engage with we give due consideration to the potential impact they could have on our value creation process and those who are affected most by our activities. We adopt a systematic process to identify and question our stakeholders as illustrated below.

	Shareholders The Group's largest shareholder is BOC	Customers We serve over 190,000 customers island-wide	Employees/Trade unions The Group employs a total talent pool of 917 individuals
How we engaged with them	<ul style="list-style-type: none"> Annual general meeting Annual Report Quarterly financial statements Corporate website (ongoing) Media releases and press conferences (ongoing) 	<ul style="list-style-type: none"> Face to face interactions at all customer touch points (ongoing) Customer surveys (when required) Complaint resolution (ongoing) Customer workshops (ongoing) Annual Reports Corporate Website (ongoing) E-mail(ongoing) Social Media (ongoing) 	<ul style="list-style-type: none"> Performance appraisals (annual) HR policy manual (ongoing) Staff meetings on a monthly basis (monthly) Trade Union meetings (when required) Social events(ongoing) The MBSL intranet(ongoing) Written communications such as directions and circulars(ongoing) Face to face meetings when required(ongoing) Press releases(ongoing) Corporate Website (ongoing)
Key topics and concerns raised during the year	<ul style="list-style-type: none"> Adequate return commensurate to the risk undertaken Sustainable growth in earnings Effective governance and risk management frameworks Business expansion Brand recognition Ethical and socially responsible business practices 	<ul style="list-style-type: none"> Financial solutions at competitive pricing Security of funds (particularly depositors) Superior customer service Convenience and accessibility Value added services Financial inclusion, education and advice Compliance with applicable laws and regulations 	<ul style="list-style-type: none"> Attractive financial and non-financial incentives Ethical employment practices Opportunities for career progression Training and Development Job Security Work-life balance Compliance with applicable laws and regulations
Our response/ management approach	We strive to generate sustainable shareholder value through meticulous implementation of our strategy, continuous monitoring of performance and proactive risk management (refer pages 122 to 131)	We aim to nurture long-standing relationships with our customers through serving them as effectively as possible. (refer pages 52 to 56)	We provide a rewarding, dynamic and challenging environment to our employees (refer pages 46 to 52)

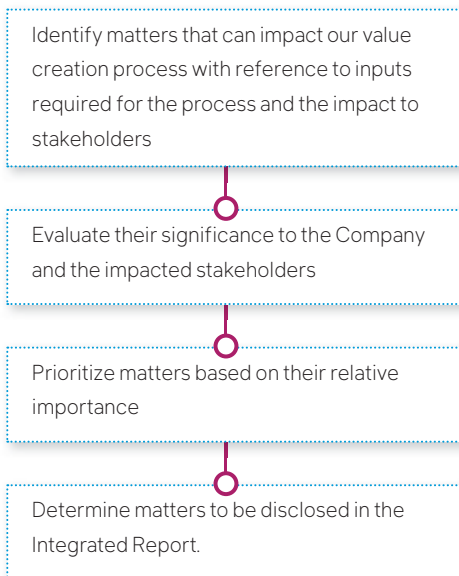
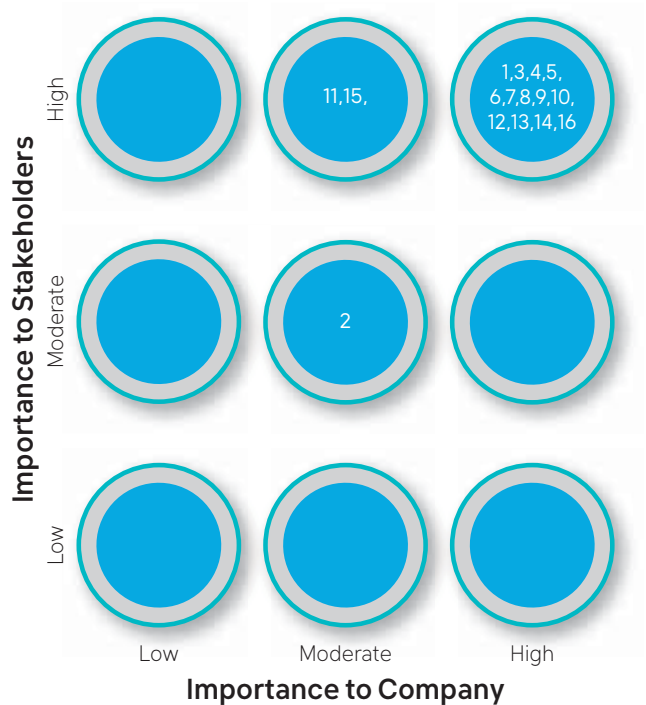
Defining What is Material

G4-02, G4-19, G4-20, G4-21, G4-23

The content to be included in this report was determined following a systematic process of materiality analysis to ensure that we discuss the factors that have the most significance to our stakeholders. These issues are defined as material issues and consist of aspects that could potentially have the most significant impact on the Company's ability to create value and stakeholder concerns identified through the Stakeholder Engagement process described on page 23 of this report. Material issues play a vital role in determining our strategy and business activities.

This year, we have widened the scope of our materiality analysis by looking beyond the aspects recommended by GRI to include aspects that are particularly relevant to our industry and the Company's approach towards value creation. We have also clearly identified the relationship and links between the selected material aspects and the corresponding GRI aspects.

The identification of material aspects follows robust stakeholder engagement (page 23), an evaluation of our value creation model (page 18) and emerging trends in the operating environment (page 19). The identified aspects are then rated based on the potential importance to stakeholders and the significance of the impacts.

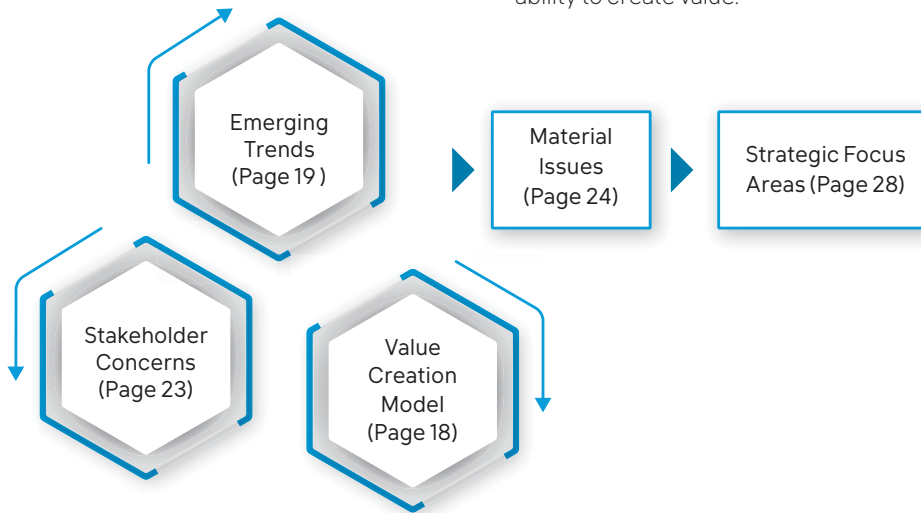


No.	Material Aspect	Corresponding GRI aspect	Aspect boundary	Changes in significance (if any)
Strategic Focus Area: Growth				
1	Financial performance	Economic performance	Internal	-
2	Market reach	Indirect economic impacts, Product portfolio	External	
3	Process efficiency	-	Internal	
Strategic Focus Area: Optimum Customer Relationships				
4	Service delivery	-	Internal and external	-
5	Diversification of portfolio		Internal and external	▲
6	Responsible lending	Product Labelling, Marketing Communications, Compliance	Internal and external	-
7	Customer Privacy	Customer Privacy	Internal	-
Strategic Focus Area: Building a multi-skilled, empowered staff				
8	Training and Development	Training and Development	Internal	▲
9	Employee engagement	-	Internal	-
10	Labour Practices	Diversity and Equal Opportunity, Equal remuneration, Labour practices and Decent Work, Grievance handling, Labour management relations	Internal	-
11	Health and Safety	Occupational health and safety	Internal	-
Strategic Focus Area: Governance and Risk Management				
12	Risk Management	Audit	Internal	-
13	Governance practices	Anti-corruption	Internal	-
14	Compliance		Internal	-
Strategic Focus Area: Sustainability and CSR				
15	Minimising our environmental impacts	Energy, Waste and Effluents, Water, Emissions, Active ownership	Internal and external	-
16	Community engagement	-	External	-

Strategic Framework

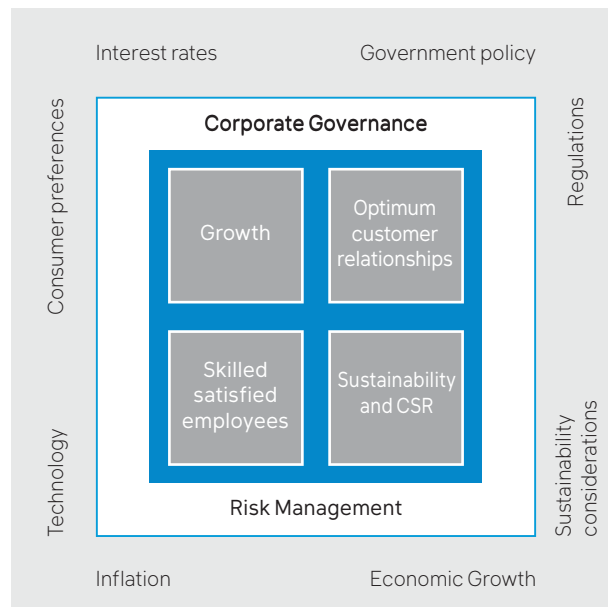
The Company's strategy for the year was formulated following extensive stakeholder engagement as well as an evaluation of the distinctive strengths in the Company's

value creation model. Strategy is also informed by emerging trends in the operating landscape which present opportunities and risks that could potentially impact our ability to create value.



The Company's strategic actions in 2016 were a furtherance of its strategic agenda for 2015 and were centered on four key pillars as illustrated below. Growth was a key priority during the year, with emphasis placed on broadening our product portfolio and pursuing growth in new market segments. Nurturing optimum customer relationships through investments in customer engagement and education and upskilling employees on customer service continued to be a focus enabling the Company to increase customer acquisition. Employees play a vital role in driving

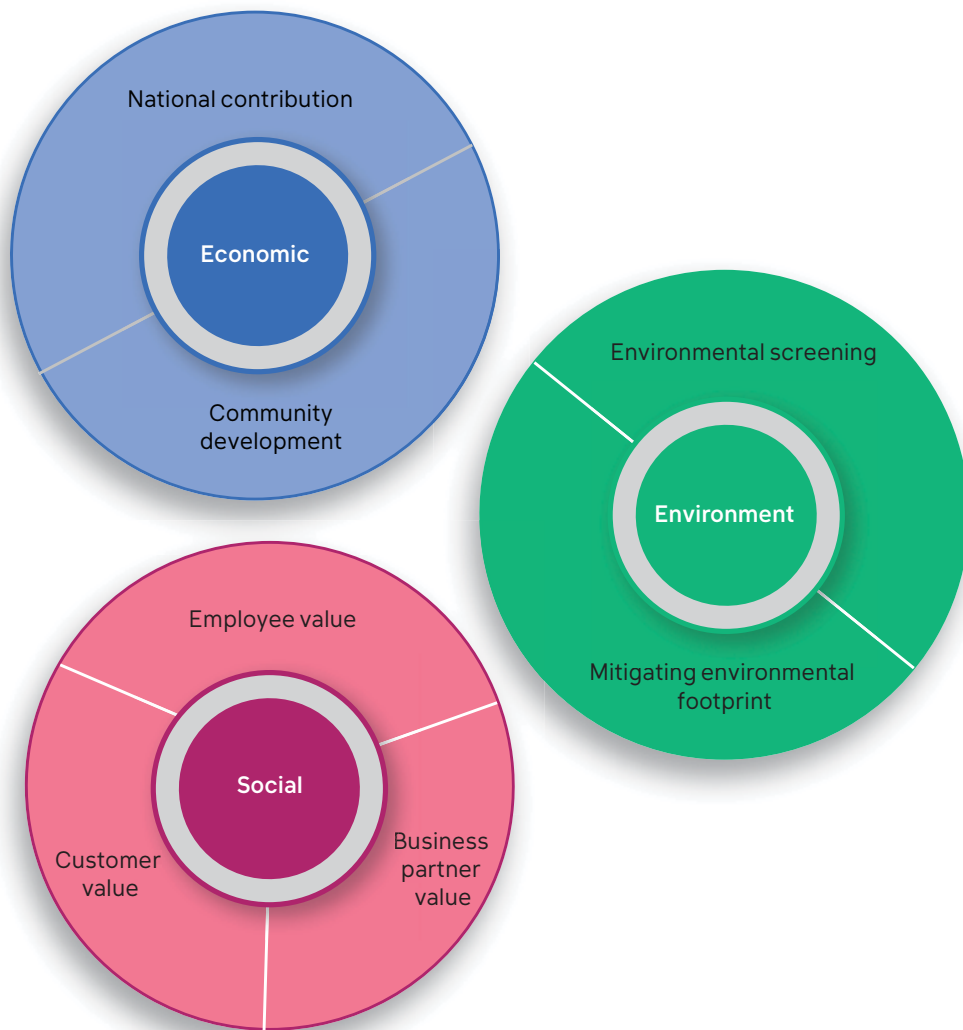
our strategy and substantial investments were made in targeted, skills-driven training while revising career progression and succession plans to retain our top talent. We strive to embed sustainability considerations into every aspect of our business with specific focus on providing financing for underserved segments of the market and contributing to the sustainable development of the communities we operate in. The Company's performance against these strategic objectives is discussed in subsequent sections of this Report.



Our Approach to Sustainability

MBSL’s approach to sustainability is based on integrating economic, social and environmental practices to generate long-term value to our stakeholders including customers, employees, shareholders, business partners, the national economy and the communities we operate in. Sustainability

considerations are therefore an important input to our strategic processes and business activities. In following the principles of the <IR> Framework, details of our value creation to stakeholders during the year, is discussed in detail in subsequent sections of this report.

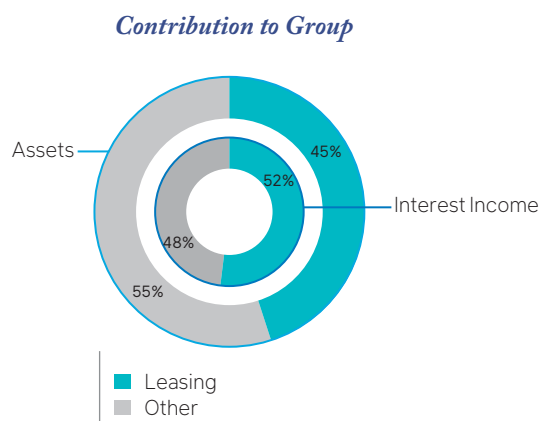


Strategic Performance

Business Line Review

Leasing

Leasing continues to be the Group's key income generator, although its contribution to consolidated earnings continued to decline, reflective of the Group's strategic focus towards diversifying its lending portfolio. MBSL is an industry pioneer in leasing with a presence in over 22 districts and is primarily engaged in providing facilities for three- and four-wheeled vehicles.



Highlights of 2016

- Demonstrated strong resilience in challenging market conditions
- Growth in operating profit of 32% driven by recovery focus, strong collections and better portfolio quality
- Impairment charges declined by 89%
- Gross NPL ratio improved to 7.07% from 9.81% in 2015
- Portfolio growth of 5%

Group / Company		2016	2015	y-o-y %
Revenue	Rs. Mn	2,511.33	2,327.76	8
Net interest income	Rs. Mn	1,230.60	1,260.78	(2)
Impairment charge	Rs. Mn	23.84	221.46	(89)
Operating profit	Rs. Mn	508.06	385.23	32
Assets	Rs. Mn	14,991.75	14,235.40	5
Liabilities	Rs. Mn	12,843.26	4,840.39	165
Gross NPL ratio	%	7.07	9.81	(3)
Cost to income ratio	%	58	54	4
No. of customers	Number	21,188	18,726	13
Portfolio outside the Western Province	%	67	68	(1)
Operating profit per employee	Rs. Mn	0.55	0.44	25

The leasing industry recorded one of the most challenging years in recent history, affected by the dual impacts of the 70:30 Loan to Value ratio rule and a significant escalation in vehicle prices during the year. Multiple revisions to import tariffs and the calculation methodology for vehicles resulted in the price of passenger vehicles increasing sharply during the year. Operating conditions were further challenged by the rising interest rate environment which resulted in margin compression.

Key challenges

- Sharp rise in vehicle prices due to revisions in import tariffs
- Full year of the 70:30 L to V ratio rule implementation
- Rising interest rates

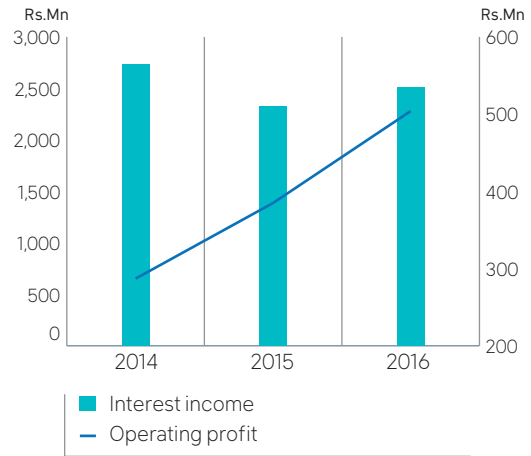
Strategy and Performance

MBSL's leasing business demonstrated strong resilience in a highly challenging operating environment to achieve an operating profit growth of 32% in 2016. Interest income growth was moderate at 8%, supported by a portfolio expansion of 5%, while the persistent increase in funding costs during the year resulted in net interest income contracting by 2% in comparison to 2015. Overall profitability for the year was upheld by a strong focus on portfolio quality, which resulted in impairment charges declining sharply in comparison to 2015.

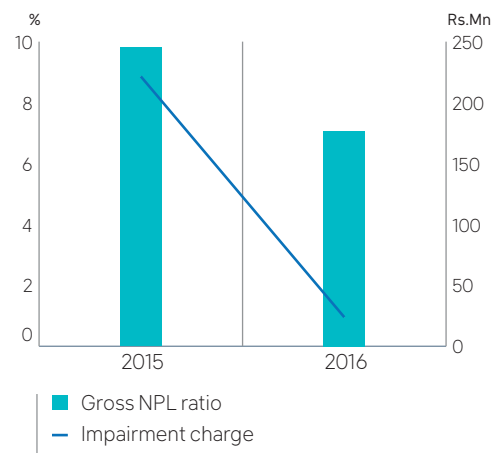
As demand for leasing facilities declined in view of unfavorable market conditions, MBSL placed strategic focus on strengthening recoveries and collections through proactive monitoring. Target-based collection mechanisms in branches as well as rigorous monitoring from Head Office compelled branch employees to pursue collections more aggressively. Analytics enabling early identification of potential NPLs also allowed branches to follow-up on specific facilities to ensure collections. We also focused on curtailing the influx of new NPLs through strengthening credit appraisal mechanisms. Resultantly, the leasing division's gross NPL ratio declined from 9.81% in 2015 to 7.07% in 2016 while impairment charges for the year amounted to Rs. 23.84 million compared to Rs. 221.46 million the year before.

As an organisation with a deep commitment towards financial inclusion and empowerment, the majority of our leasing disbursements continue to originate outside the Western Province. With a network of over 29 branches outside the Western Province, 67% of MBSL's leasing portfolio stems from outstations. Meanwhile, three-wheeler leasing is considered an entry-level product which effectively facilitates the socio-economic progress of low income families through providing a relatively stable source of income. Three-wheeler leasing constitutes around 16% of the Company's total leasing book, and through our attractive three-wheeler leasing proposition, we have directly empowered and supported over 3,172 individuals in 22 districts across the island.

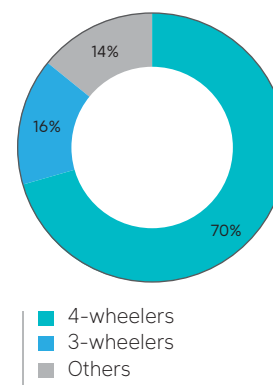
Interest Income Vs Profitability



Trends in Portfolio Quality



Portfolio Breakdown



Business Line Review

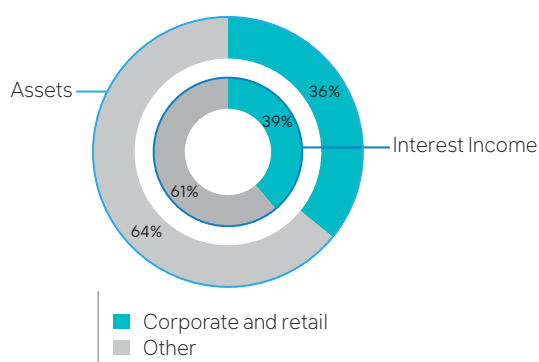
Way Forward

The prevalent challenges in the leasing industry have compelled us to seek diversification in our portfolio and pursue growth in other lending products. That said, leasing will continue to be one of the Group’s primary products and we will drive portfolio growth in untapped geographies and new market segments over the medium to long-term. Ongoing focus on maintaining a healthy portfolio is anticipated to support the business line’s profitability and the anticipated implementation of the Core Banking System in mid-2017 will facilitate substantial improvements in portfolio management and monitoring.

Corporate and Retail Credit

The Group’s fastest growing segment in 2016, Corporate and Retail credit consists of personal loans, term loans and bills discounting catering to individuals, small and medium enterprises and corporates. Through this business line, the Group also provides gold loan and micro financing facilities. Challenges in the leasing industry during the year, compelled the Group to pursue diversification of its portfolio resulting in corporate and retail credit accounting for an increased 6% of total advances.

Contribution to Group



Group / Company		2016	2015	y-o-y %
Revenue	Rs. Mn	1,876.35	1,437.75	31
Net interest income	Rs. Mn	955.30	803.86	19
Impairment charge	Rs. Mn	0.40	235.85	(100)
Operating profit	Rs. Mn	430.99	106.83	303
Assets	Rs. Mn	12,156.04	8,863.00	37
Liabilities	Rs. Mn	10,413.94	2,871.04	263
Gross NPL ratio	%	17.42	24.95	(8)
Cost to income ratio	%	55	58	(3)
No. of customers	Number	48,159	32,097	50
Portfolio outside the Western Province	%	40	38	2
Operating profit per employee	Rs. Mn	0.47	0.12	292

Highlights of 2016

- Portfolio growth of 33% led by new product development and high level of customer engagement
- Effective diversification of the portfolio
- Ongoing focus on maintaining quality resulted in a sharp reduction in impairment charges
- Operating profit increased by 303% to Rs 430.99 million

Operating Environment

Demand for corporate and retail credit was strong for most part of the year, before decelerating in response to tightening monetary policy conditions and the resultant increase in interest rates. The NBFIs sector witnessed increased demand for credit stemming from the SME sector and micro financing sectors, although rising funding costs towards the latter part of the year led to an industry-wide margin compression.

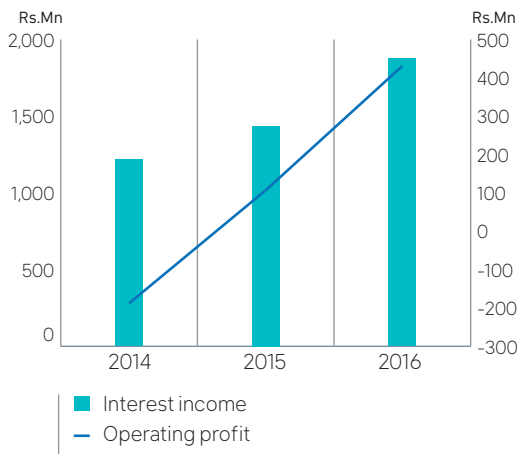
Key challenges

- Rising interest rates and the resultant compression in margins
- Slowdown in credit demand in the latter part of the year

Strategy and Performance

The corporate and retail credit segment demonstrated strong growth during the year, with total assets and interest income growing by 37% and 31% respectively. The strategic pursuit of growth in high-yielding market segments through new product development enabled the segment to widen its net interest margins, upholding overall profitability. The Group-wide focus on strengthening collections and improving recoveries led to the segment's impairment charge declining to just Rs. 0.40 million from Rs. 235.85 million the year before. Overall the segment's operating profit more than tripled in comparison to the previous year to record Rs. 430.99 million from Rs. 106.83 million the year before.

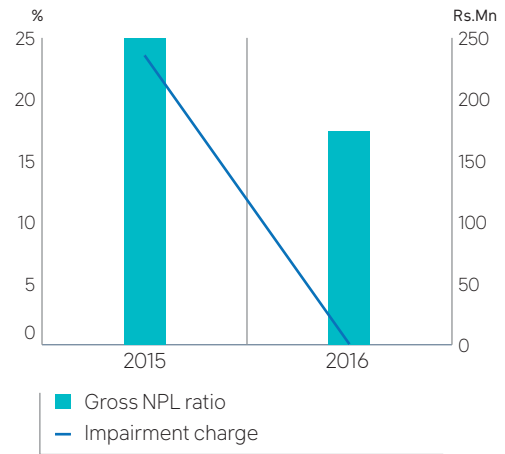
Interest Income Vs Profitability



Substantial Improvements in Portfolio Quality

The corporate and retail credit portfolio achieved significant improvements in portfolio quality, reflecting ongoing focus on strengthening recovery processes and underwriting criteria. The division's impairment charges declined to just Rs. 0.40 million from Rs. 235.85 million the year before. Meanwhile, its gross NPL ratio also declined to 17.42% from 24.95% in 2015. Proactive follow-up and stronger recovery efforts resulted in the segment's absolute gross NPLS also declining by 8%, as several large loans were recovered during the year. Recovery processes were strengthened through focused training on credit management skills, expediting pre-legal sanctions and engaging customers in offering flexible repayment terms. Meanwhile, the central recovery unit increased engagement and co-ordination with the branches in streamlining and standardizing recovery procedures. As a licensed finance company, the Group also benefits from its ability to pursue recoveries under summary procedures of the Debt Recovery Provisions.

Portfolio Quality



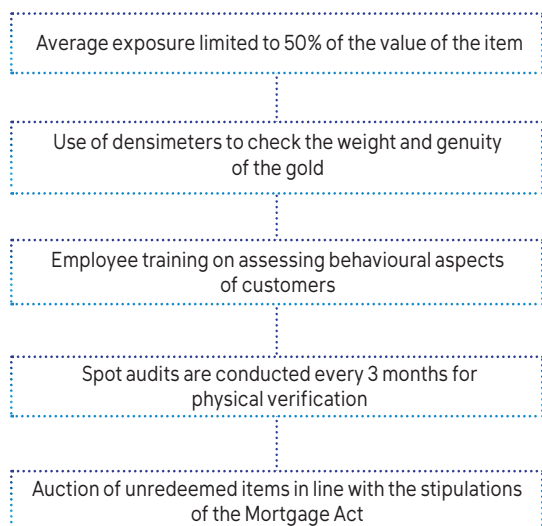
Small and Medium Enterprise Loans (SME)

The SME sector is a key growth area for the Company, given the national policy impetus towards strengthening this sector to be the driver of economic growth. The Company's SME portfolio grew to 262.47 million in 2016, upheld by the successful launch of a new product targeting the trading segment. Quick Business Loans enable traders to obtain short-term facilities effectively and efficiently without collateral. Daily collections and proactive engagement with customers has enabled the Company to maintain good portfolio quality in this relatively high-yielding product segment. The convenience and flexibility of this product has made it a popular offering among traders.

Gold Loans

The Company also pursued aggressive expansion of gold loans during the year and the portfolio increased by more than 154% to Rs.499.86 million. Pawning is currently carried out through 34 branches island-wide with a strong presence in the Northern region of the country. Focus was placed on recruiting individuals with prior experience and skills in gold loans, which enabled stringent assessment of the products being mortgaged. This facilitates an appropriate balance between risk and return dynamics when growing the portfolio. Delinquencies in the portfolio were minimal at less than 1%, supported by the following stringent appraisal and collection mechanisms;

Business Line Review



Micro Finance

The Company commenced its micro financing initiative Siyath Saviya, in 2010, in line with its financial inclusivity objectives and empowering the rural sector. Through this product line, the Company extends short-term facilities for business purposes to individuals who typically lack access to formal financing, due to lack of credit history and adequate documentation. MBSL engages in cluster based lending, through which borrowers in a cluster are mutually responsible for the repayment of the loan facility. Since inception, the Company has supported nearly 25,000 entrepreneurs in 22 districts contributing directly towards their socio economic progress. In addition to financial support, we also strive to nurture financial discipline and business skills through structured training and awareness programs which are conducted on an ongoing basis (refer pages 50 to 51 for further information). During the year, we pursued aggressive expansion of this portfolio through the branch reach with strong growth stemming from the Northern, Eastern and North Central provinces. Resultantly, the portfolio increased by 59% to Rs.993.17 million during the year.

Way Forward

We will continue to focus on growing the Corporate and Retail portfolio in line with the Group's diversification strategy, enabling us to capture emerging opportunities in this segment. Resultantly, the segment's contribution to the total portfolio is expected to gradually increase over the short to medium term as we achieve a more balanced and stable portfolio. Maintaining credit quality is a key focus and we will continue to refine structures and streamline processes to nurture a strong collections and recoveries culture within the Organization.

Corporate Advisory and Capital Markets

The division offers a broad range of advisory and capital market related services which include portfolio management, provision of Capital market related services (such as structuring and management of equity, debt issues and private placements) and Corporate Advisory services. The unfavorable equity market conditions have continued to adversely impact the division's performance in recent years.

Highlights of 2016

- Subdued conditions in share market with the ASI declining by 9% during the year.
- Operating losses increased due to mark to market losses on the investment portfolio.

Group / Company		2016	2015	y-o-y %
Revenue	Rs. Mn	18.47	17.52	5
Net interest income	Rs. Mn	(30.74)	(35.44)	13
Other income	Rs. Mn	(21.84)	(6.77)	(223)
Operating profit	Rs. Mn	(142.18)	(86.08)	(65)
Assets	Rs. Mn	372.90	750.14	(50)
Liabilities	Rs. Mn	319.46	238.44	34
No. of customers (Margin Trading)	Number	66	53	25

Performance of the Colombo Stock Exchange continued to be impacted by subdued investor sentiments and an outflow of foreign funds following expectations of higher interest rates in the US. Meanwhile, rising interest rates in Sri Lanka during the second half of the year resulted in investors shifting funds to more attractive fixed income securities. Resultantly, the All Share Price Index declined by 9% during the year while daily average turnover also fell by 30% as such, market conditions were unfavorable to Initial Public Offerings during the year.

Key challenges

- Downturn in the share market
- Rising interest rate scenario

Performance

Understandably, the segment's performance was affected by the adverse market conditions during the year and mark to market losses on the Group's share portfolio amounted to 58.23 million in 2016. Despite a moderate 5% growth in interest income, the rising interest rates scenario impacted the Group's margin trading business with interest expenses surpassing divisional revenue resulting in a net interest loss of Rs. 30.74 million. Overall the division's operating losses widened to Rs. 142.18 million, from Rs. 86.08 million the year before.

Way Forward

The non-conducive market conditions have compelled MBSL to relook at its Corporate advisory and Capital markets division and determine its role in the Group's future strategic direction. With the protracted slump in the country's share market, the division's operations are not immediately expected to post recovery and focus will be placed on curtailing losses through rebalancing the Group's investment portfolio.

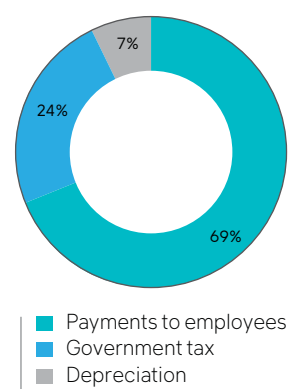
Economic Value Addition -Company

	2016 Rs. Mn	2015 Rs. Mn *Restated
Gross Value Added		
Total income	4,888	4,217
Cost of borrowings & support services	(3,738)	(2,914)
Provision for bad debts & investments	(24)	(462)
	1,126	841
Value Allocated		
Payments to employees	782	671
Government tax	266	100
Depreciation	78	70
	1,126	841

Sources & Utilization of Income

	2016 Rs. Mn	2015 Rs. Mn *Restated
Sources of Income		
Interest income	4,738	4,073
Fee & commission income	41	43
Dividend income	13	17
Other income	96	84
	4,888	4,217
Utilization of Income		
Payment to lenders	2,710	2,133
Payments to employees	782	671
Support services	1,028	781
Depreciation & amortization	78	70
Impairment charges for loans and other losses	24	462
Government taxes	266	100
	4,888	4,217

Value Allocation





Strengthened our presence in the market as a merged entity with

**a diversified
products
and services
range**

The MD&A has been carefully structured to demonstrate how we created value to our capital inputs during the year under review, providing a balanced yet holistic assessment of our value transformation process

MANAGEMENT DISCUSSION AND ANALYSIS

Financial Capital

Manufactured Capital

Human Capital

Social and Relationship Capital

Natural Capital

Management Discussion and Analysis

Financial Capital

The Group successfully returned to profit generation in 2016, following three years of consolidated losses in the aftermath of the merger. Performance during the year was underpinned by healthy growth in the loan portfolio, portfolio diversification, effective cost management and significant improvements in credit quality. These factors enabled the Group to record a net profit of Rs. 81.14 million, compared to net profit of Rs. 3.28 million in 2015.

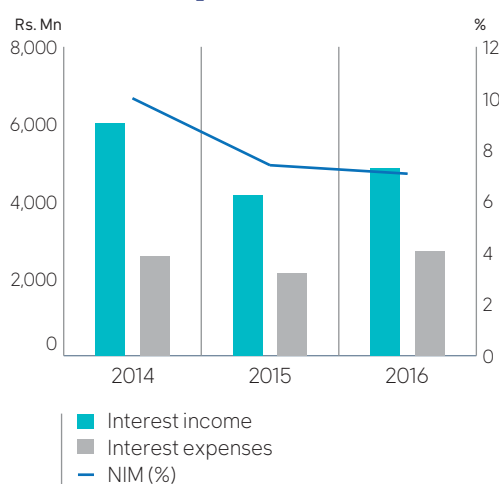
Group			
Rs. Mn	2016	2015	y-o-y %
Inputs			
Shareholders' funds	3,146.56	3,054.78	3
Customer deposits	18,518.42	15,846.31	17
Other debt	8,722.79	7,883.32	11

Value creating activities

- Loan disbursements of Rs. 3,395.69 million
- Generated new deposits Rs. 2,465.62 million
- Focus on diversifying portfolio and foray into high yielding segments
- Strong focus on credit quality and recoveries

Group			
Rs. Mn	2016	2015	y-o-y %
Outputs			
Net interest income	2,142.45	2,029.71	6
Profit after tax	81.14	3.28	2,374
EPS (Rs.)	0.71	0.13	446

Financial Capital

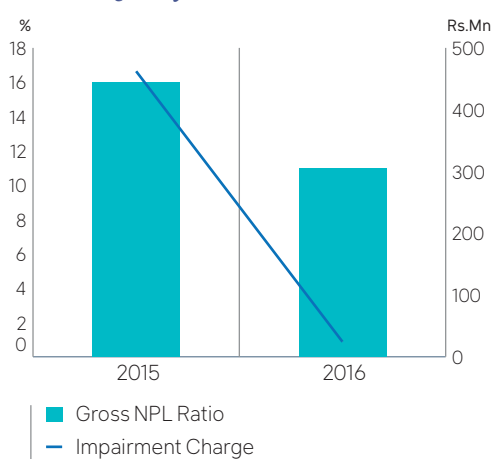


Other Income

Other income consists primarily of fee and commission income, trading income and insurance premium and fee and commission income. Net fee and commission income declined to Rs. 35.02 million from Rs. 97.76 million during the year, primarily due to a reduction in reinsurance commission income at MBSL Insurance. Meanwhile, net trading losses for the year amounted to Rs. (58.23) million (2015: Rs.55.34 million) reflecting mark to market losses on the Group's investment portfolio, which was adversely affected by the protracted slump in the equity market.

Impairment on Loans and Advances

Credit Quality



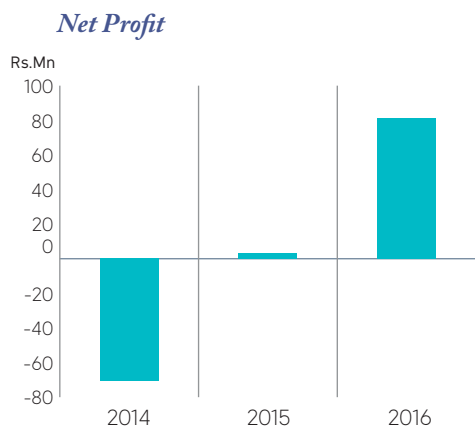
Profit growth during the year was supported primarily by substantial improvements in its credit quality which enabled the Company to achieve a sharp reduction in its impairment charges. Accordingly, impairment for the year amounted to Rs. 24.24 million compared to Rs. 462.15 million stemming from both the leasing and corporate & retail lending portfolios. As detailed in the business line reviews on pages 28 to 33 the improvement in credit quality during the year resulted from a strong focus on recoveries, streamlining of collection and monitoring procedures and ongoing employee training on credit assessment and management. Resultantly, the Company's gross NPL ratio improved to 15.67% from 11.48% the year before.

Cost Management

The increases in overhead costs were contained to 5% during the year as Group-wide focus was placed on improving efficiencies and employee productivity. Personnel expenses, the single largest component of overhead costs increased by 16% during the year; this reflects the addition of new talent to the team as well as revisions to the salary structures which is expected to enhance the Group's ability to attract and retain the industry's top talent. Meanwhile, other expenses (consisting of retirement benefits, depreciation and amortization and other operating expenses) declined by 3% during the year. The Group's overall cost to income ratio increased during the year declining to 62% from 60% the year before. At Company level, the cost to income ratio clocked in at 72% compared to 67% the year before as total operating expenses increased by 13% during the year.

Profitability

The Group's pre-tax profit nearly tripled during the year, underpinned by healthy top line growth, substantial and sustained improvements in credit quality as well as cost efficiencies. Current income tax expenses also increased by 79% to Rs. 74.25 million reflecting the Group's increased value creation to the government. In the second full financial year since its merger, the Group was able to generate a profit of Rs. 81.14 million in 2016, a commendable achievement given the complexity and challenges associated with the consolidation of three distinctly different entities. The Company also returned to profitability during the year, with net profit increasing to Rs. 85.62 million, from a net loss of Rs. 78.31 million the year before. Group's return on net assets widened to 2.62% in this year due to this profitability.



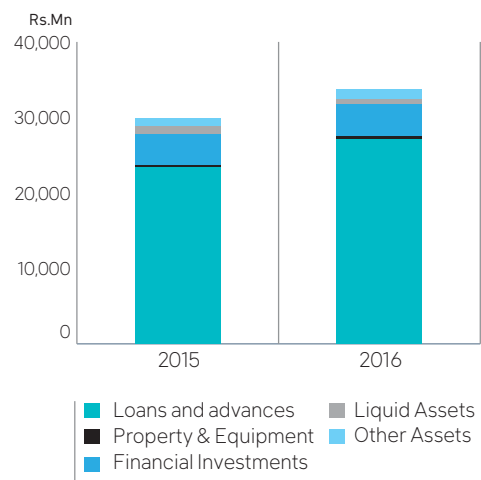
Balance Sheet Analysis

Asset Growth

The Group's total assets increased by 12.5% to reach Rs. 33.64 billion by end-December 2016 mainly due to relatively strong loan growth of 16%. Meanwhile, the Company's asset base also expanded by 13% as loan growth was healthy at 17%. Increasing returns in the government securities market saw the Group widening its exposure to treasury bills and bonds resulting in available for sale financial investments increasing by over 57% to Rs. 3.13 billion. Following the strong growth in loans and advances the asset portfolio tilted more towards credit assets as liquid assets were channeled towards loan growth. Accordingly, the credit portfolio accounted for 81% of the Group's assets, compared to 78% the year before.

Portfolio diversification was a strategic priority during the year as industry conditions compelled the Group to pursue growth in non-traditional areas of business including personal loans, trading loans, micro financing and gold loans. Accordingly, the reliance on leasing continued to diminish accounting for 55% of the Group's loan portfolio during the year, compared to 61% in 2015.

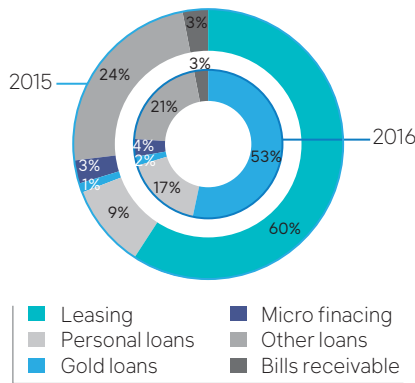
Asset Composition



Management Discussion and Analysis

Financial Capital

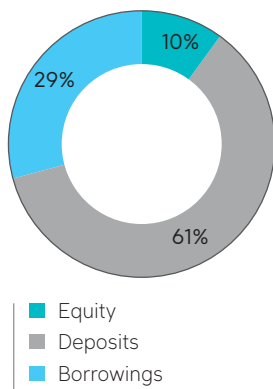
Loan Composition



Liabilities

Customer deposits are the Company’s primary source of funding, financing approximately 58% of the Company’s asset base and contributing 61% to total funding. Corporate and retail deposits grew by 17% to Rs.18.52 billion during the year, as the Company’s deposit franchise continued to strengthen. We also placed emphasis on upskilling branch employees on deposit mobilization. Despite the rising interest rate scenario which typically leads to depositors shifting funds from savings to time deposits, MBSL successfully grew its low-cost savings deposit portfolio by 5%, as a result of proactive marketing efforts. Meanwhile, debt exposure increased by 11% to Rs. 8.72 billion during the year, accounting for 29% of total funding during the year. The funding composition remained relatively unchanged in comparison to the previous year.

Funding Composition



Previously a specialised leasing company, MBSL obtained the ability to mobilise deposits following the merger in 2015 and has since then invested in strengthening its deposit proposition. The Company’s low-cost deposit base is still relatively low and a campaign to drive minor savings was carried out in 2016. During the year, the Company focused on enhancing the deposit mobilizing skills of its branch employees through targeted training. These investments are expected to bear fruit in 2017 supported by the Company’s extensive branch reach, excellent track record and confidence associated with government ownership. The deposit proposition will be further strengthened by a dedicated ATM network which is to be launched following the implementation of the Core Banking System in second half of 2017.

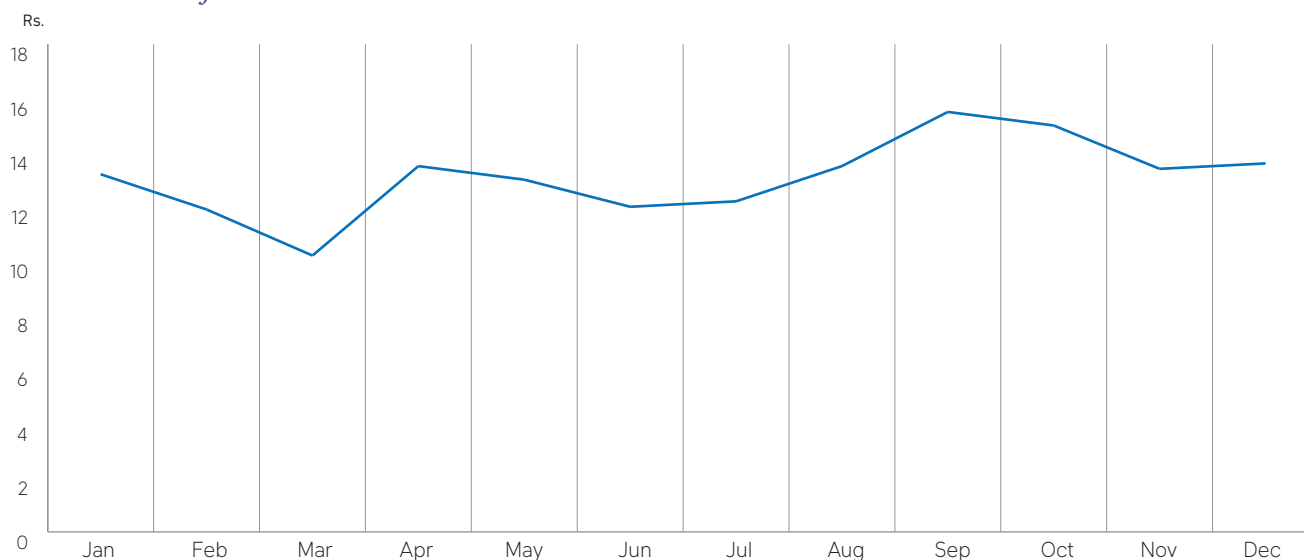
Capitalisation

Total equity increased by 4% to Rs. 3.11 billion mainly due to profit retention during the year. Meanwhile, capital adequacy levels declined following loan growth, yet remained comfortably above the statutory minimums with the tier 1 and overall risk weighted capital adequacy ratios clocking in at 10.66% and 10.69% respectively during the year.

Shareholder Value Creation

Earnings per share increased to Rs. 0.71 from Rs. 0.13 the previous year, demonstrating the Group’s continued value creation to its shareholders. Net assets per share also increased by 4% to Rs. 18.88 during the year. Meanwhile, MBSL’s share price declined by 9% to close the year at Rs. 13.60, reflecting the decline in the broad market which also saw the ASI falling by around 9% during the year. Accordingly, market capitalisation also declined to Rs. 2.25 billion, from Rs.2.49 billion in 2015.

Group/Company	2016	2015
Earnings per share (Rs)	0.71	0.13
Net assets per share (Rs)	18.88	18.10
Share price (Rs)	13.60	15.00
Market capitalisation (Rs.billion)	2.25	2.49
MBSL turnover to total turnover at CSE (%)	4	5

Share Price Performance - 2016**Market Share Information**

	2016	Q4	Q3	Q2	Q1	2015
Share price (Rs.)						
Highest	16.50	16.50	16.00	14.80	15.20	20.50
Lowest	10.10	13.20	11.60	10.10	10.20	14.20
Closing	13.60	13.60	15.50	12.00	10.20	15.00
No. of transactions	4,392.00	1,092.00	1,731.00	976.00	593.00	5,424.00
No. of shares traded (Mn)	8.41	2.06	4.46	1.17	0.71	10.86
Shares traded to total shares (%)	0.13	0.52	0.20	0.07	0.03	0.13
Turnover (Rs. Mn)	119.30	31.35	63.99	15.44	8.53	191.24
MBSL turnover to total market turnover (%)	4.00	5.00	8.00	2.00	1.00	5.00
No. of days traded	234	61	60	58	55	237
Average daily turnover (Rs. Mn)	737.56	681.16	787.00	708.71	773.37	896.73
Market Capitalisation - CSE (MC)(Rs. Bn)	2,745.41	2,745.41	2,785.68	2,677.63	2,586.15	2,938.00
Market Capitalisation - MBSL (MC)(Rs. Bn)	2.25	2.25	2.57	1.99	1.69	2.49
MBSL MC to CSE MC (%)	0.08	0.08	0.09	0.07	0.07	0.08
MBSL market capitalisation ranking	135	135	131	147	158	136

Management Discussion and Analysis

Financial Capital

Total number of shareholders stood at 11,434 by end-December 2016, with more than 80% of the shareholders holding less than 1,000 shares. Accordingly, the parent company, Bank of Ceylon's shareholding amounted to 74.49% by end-December 2016 while public shareholding remained relatively unchanged at 25.50%. In terms of number of shareholders, public shareholders account for 99.94% of the Company's total shareholder base as demonstrated below.

Public Holdings

	2016	2015
No. of shares held by the Public	42,302,815 (25.50%)	42,306,898(25.51%)
No. of Public Shareholders	11,427 (99.94%)	11,684 (99.92%)

Foreign shareholding continued to be minimal, with 99.35% of shares held by residents.

Distribution of Ordinary Shareholders

	as at 31st December 2016				as at 31st December 2015			
	No. of shareholders	No. of shareholders %	No. of shares	No. of shares %	No. of shareholders	No. of shareholders %	No. of shares	No. of shares %
1 - 1,000	9286	81.21	1,690,172	1.02	9,465	80.95	1,758,916	1.06
1,001 - 10,000	1734	15.17	6,037,485	3.64	1,829	15.64	6,258,308	3.77
10,001 - 100,000	363	3.17	10,050,987	6.06	352	3.01	9,870,865	5.95
100,001 - 1,000,000	48	0.42	11,104,996	6.69	43	0.37	9,368,745	5.65
over 1,000,000	3	0.03	136,990,901	82.59	4	0.03	138,617,707	83.57
Total	11,434	100.00	165,874,541	100.00	11,693	100.00	165,874,541	100.00

Composition of Ordinary Shareholders

		as at 31st December 2016				as at 31st December 2015			
		No. of shareholders	No. of shareholders %	No. of shares	No. of shares %	No. of shareholders	No. of shareholders %	No. of shares	No. of shares %
Resident	Individual	10,427	91.19	19,785,711	11.93	10,664	91.20	18,743,022	11.31
	Company	955	8.35	145,015,408	87.42	976	8.35	145,694,055	87.83
Non Resident	Individual	50	0.44	905,939	0.55	50	0.43	883,745	0.53
	Company	2	0.02	167,483	0.10	3	0.02	553,719	0.33
Total		11,434	100.00	165,874,541	100.00	11,693	100.00	165,874,541	100.00

Directors' Shareholding

Names of Directors	No. of shares	As a % of Total shares	No. of shares	As a % of Total shares
	As At 31st December 2016		As At 31st December 2015	
Mr. C. N. Wijewardana	4,235	0.0026%	N/A	0%

Twenty Largest Shareholders		As at 31 December 2016			As at 31st December 2015	
		Number of shares	Percentage holding (%)	Cumulative Percentage Holding (%)	Number of shares	Percentage holding (%)
1	BANK OF CEYLON NO. 1 ACCOUNT	123,562,267	74.49%	-	123,562,267	74.49%
2	BANK OF CEYLON A/C CEYBANK UNIT TRUST	10,796,141	6.51%	81.00%	10,757,541	6.49%
3	PHOENIX VENTURES PRIVATE LIMITED	2,632,493	1.59%	82.59%	2,632,493	1.59%
4	RICHARD PEIRIS FINANCIAL SERVICES (PVT) LTD/ M.A.A.KARIM	556,651	0.34%	82.92%	-	-
5	MERRILL J FERNANDO & SONS (PVT) LIMITED	526,165	0.32%	83.24%	526,165	0.32%
6	PEOPLE'S LEASING & FINANCE PLC/ MR. D.M.P.DISANAYAKE	428,450	0.26%	83.50%	425,450	0.26%
7	SEYLAN BANK PLC/SPICE OF LIFE (PVT) LTD	387,934	0.23%	83.73%	251,895	0.15%
8	HATTON NATIONAL BANK PLC/DINESH NAGENDRA SELLAMUTT	386,301	0.23%	83.96%	286,301	0.17%
9	MR. N. BALASINGAM	381,400	0.23%	84.19%	381,400	0.23%
10	PRIME LANDS (PVT) LTD	375,000	0.23%	84.42%	1,665,406	1.00%
11	MR. B.T. PRATHAPASINGHE	345,000	0.21%	84.63%	345,000	0.21%
12	Mr. A. CHELLIAH (DECEASED)	333,800	0.20%	84.83%	333,800	0.20%
13	LB FINANCE PLC. / K.T.R.P. SAMARATHUNGA	312,401	0.19%	85.02%	-	-
14	MR. M.M.FUAD	310,114	0.19%	85.21%	-	-
15	MR. A. M. WEERASINGHE	305,583	0.18%	85.39%	305,583	0.18%
16	BARTLEET PRODUCE MARKETING (PVT.) LTD.	300,000	0.18%	85.57%	300,000	0.18%
17	PEOPLE'S LEASING & FINANCE PLC/L.P.HAPANGAMA	300,000	0.18%	85.75%	300,000	0.18%
18	MR. W.L.T ANANDAWANSA	282,039	0.17%	85.92%	-	-
19	ASHA FINANCIAL SERVICES LTD. / MR. C.N.PAKIA	275,200	0.17%	86.09%	264,250	0.16%
20	D.S. L INVESTMENTS PVT. LTD.	269,603	0.16%	86.25%	269,603	0.16%
Total of largest shareholders		143,066,542	86.25%			
Total of other shareholders		22,807,999	13.75%			
Total shareholders		165,874,541	100.00%			

Management Discussion and Analysis

Financial Capital

Debenture Information

The trading/market information relating to the Company's outstanding debentures are as follows:

Debenture - Market Information

2016										
Type	Type A 13 March	Type B 13 March	Type C 13 March	Type D 13 March	Type A 13 Dec	Type C 13 Dec	Type D 13 Dec	Type A 14 Nov	Type B 14 Nov	
Tenure	5 Years	4 Years	5 Years	5 Years	4 Years	4 Years	4 Years	5 Years	5 Years	
Issue date	28-Mar-13	28-Mar-13	28-Mar-13	28-Mar-13	17-Dec-13	17-Dec-13	17-Dec-13	13-Nov-14	13-Nov-14	
Maturity date	27-Mar-18	27-Mar-17	27-Mar-18	27-Mar-18	16-Dec-17	16-Dec-17	16-Dec-17	12-Nov-19	12-Nov-19	
Interest rate	17.50%	17.25%	16.70%	16.50%	14.25%	13.50%	13.25%	9.00%	8.75%	
Coupon rate (%)	17.50%	17.25%	16.70%	16.50%	14.25%	13.50%	13.25%	9.00%	8.75%	
Effective annual yield (%)	17.50%	17.25%	17.77%	17.80%	14.25%	14.19%	14.08%	9.00%	9.07%	
Interest rate comparable government security (%)	11.56%	10.31%	11.56%	11.56%	10.31%	10.31%	10.31%	11.94%	11.94%	
Frequency of interest payable	Annually	Annually	Quarterly	Monthly	Annually	Quarterly	Monthly	Annually	Bi-annually	
Rating	AA-BY Lanka Rating (lanka) Ltd				AA- BY Lanka Ratings (lanka) Ltd				AA- BY Lanka Ratings Agency Ltd	
Amount (Rs. Mn)	625.11	485.24	723.19	166.46	674.77	17.54	11.47	909.77	1,090.23	
ISIN No.	LK0186D19194	LK0186D19202	LK0186D19210	LK0186D19228	LK0186D20929	LK0186D20911	LK0186D20937	LK0186D22669	LK0186D22677	
Market value (Rs.)										
Highest	115.18	102.56	102.00	101.00	102.63					
Lowest	107.92	102.56	102.00	101.00	102.62	HAS NOT	HAS NOT	HAS NOT	HAS NOT	
Closing	115.18	102.56	102.00	101.00	102.62	BEEN	BEEN	BEEN	BEEN	
Current yield (%)	15.19%	16.82%	16.37%	16.34%	13.89%	TRADED	TRADED	TRADED	TRADED	
YTM (%)	13.16%	16.33%	15.95%	16.19%	13.36%					

MBSL's total outstanding debenture value was Rs.5.15 billion as at end-December 2016, consisting of 47.03 million unsecured redeemable debentures. All debentures are listed on the Colombo Stock Exchange with rates of returns ranging from 8.75% to 17.50%.

2015											
Type A 13 March	Type B 13 March	Type C 13 March	Type D 13 March	Type A 13 Dec	Type B 13 Dec	Type C 13 Dec	Type D 13 Dec	Type A 14 Nov	Type B 14 Nov		
5 Years	4 Years	5 Years	5 Years	4 Years	3 Years	4 Years	4 Years	5 Years	5 Years		
28-Mar-13	28-Mar-13	28-Mar-13	28-Mar-13	17-Dec-13	17-Dec-13	17-Dec-13	17-Dec-13	13-Nov-14	13-Nov-14		
27-Mar-18	27-Mar-17	27-Mar-18	27-Mar-18	16-Dec-17	16-Dec-16	16-Dec-17	16-Dec-17	12-Nov-19	12-Nov-19		
17.50%	17.25%	16.70%	16.50%	14.25%	13.50%	13.50%	13.25%	9.00%	8.75%		
17.50%	17.25%	16.70%	16.50%	14.25%	13.50%	13.50%	13.25%	9.00%	8.75%		
17.50%	17.25%	17.77%	17.80%	14.25%	13.50%	14.19%	14.08%	9.00%	9.07%		
8.82%	8.36%	8.82%	8.82%	8.36%	7.74%	8.36%	8.36%	9.46%	9.46%		
Annually	Annually	Quarterly	Monthly	Annually	Annually	Quarterly	Monthly	Annually	Bi-annually		
AA-BY Lanka Rating (lanka) Ltd				AA- BY Lanka Ratings (lanka) Ltd						AA- BY Lanka Ratings Agency Ltd	
625.11	485.24	723.19	166.46	674.77	296.22	17.54	11.47	909.77	1,090.23		
LK0186D19194	LK0186D19202	LK0186D19210	LK0186D19228	LK0186D20929	LK0186D20945	LK0186D20911	LK0186D20937	LK0186D22669	LK0186D22677		
121.70	110.64			108.82			111.04	97.35			
115.18	110.64	HAS NOT	HAS NOT	108.82	HAS NOT	HAS NOT	111.04	97.35	HAS NOT		
115.18	110.64	BEEN	BEEN	108.82	BEEN	BEEN	111.04	97.35	BEEN		
15.19%	15.59%	TRADED	TRADED	13.10%	TRADED	TRADED	11.93%	9.24%	TRADED		
9.91%	9.74%			9.79%			9.65%	9.74%			

Management Discussion and Analysis

Manufactured Capital

As a financial institution, the Company's manufactured capital consists of its physical infrastructure including the branch network and gold loan centers as well as its information systems and other digital infrastructure. Manufactured capital plays a vital role in connecting employees and customers and facilitating the customer experience while ensuring efficient and simplified processes.

	2016	2015	y-o-y %
Inputs			
Property & equipment (Rs.Mn)	741.13	598.56	24
Customer touchpoints	49	49	-

Value creating activities

- Investments/additions to PPE amounting to Rs. 248 million
- Preliminaries on implementing a Core Banking System which is anticipated to be launched in second half of 2017 & invested Rs. 81 million.
- 4 Branch relocations
- Opened 06 new Gold loan centers

	2016	2015	y-o-y %
Outputs			
Lending Portfolio	27,052.00	23,225.78	16
Deposit Portfolio	18,518.42	15,846.31	17

Physical Infrastructure

The Company's network consists of 49 customer touch points across 22 districts, which are the key contact points for customer engagement. Leasing as well as SME and retail products are promoted to customers through the branch network, facilitating both credit growth and deposit mobilization. Gold loan facilities are disbursed through 34 of these branches while the 6 new gold centers were added to the network during the year.

In 2016, we focused on consolidating our branches and optimising the network to capitalize on growth opportunities. Accordingly, four branches, namely Kilinochchi, Nittambuwa, Kotahena and Jaffna were relocated during the year to enhance the customer experience through increased accessibility and convenience. The relocations have also afforded the Group a strong platform for growth, particularly

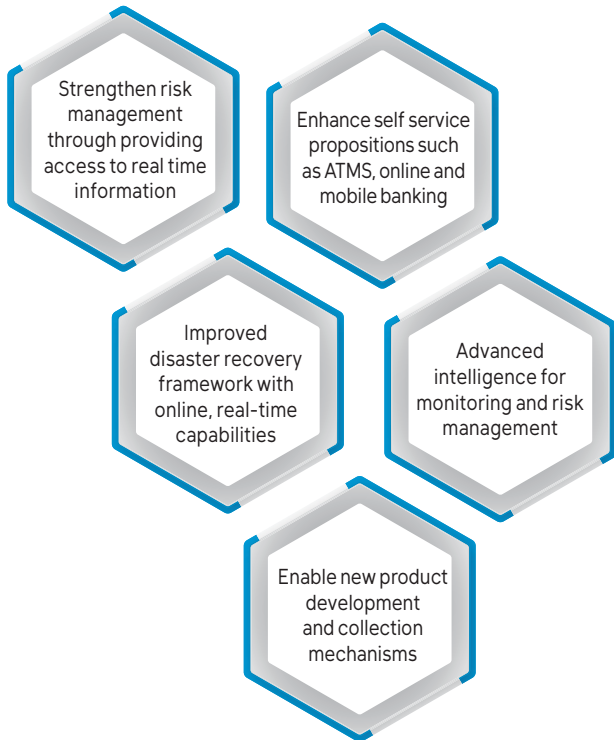
given the potential for entrepreneurial development resultant credit demand in these regions. Branches also pursued a deposit drive during the year, complemented by targeted training programmes to enhance employees' deposit mobilization skills. Resultantly, the Company's deposit portfolio grew by 17% during the year, with low-cost savings deposits also recording a growth of 5%.

Digital Infrastructure

Strengthening its digital infrastructure is a key short-to-medium term priority for the Company. The anticipated implementation of a Core Banking System in second half of 2017 is expected to transform the Company to an efficient, customer-centric, future-ready organisation through providing the management with access to real-time, holistic information. The implementation of the system will also enhance the Company's self-service proposition with ATMs, online and mobile banking services expected to be rolled out during the second half of the year. During the year, the Company joined the SLIPS (Sri Lanka Interbank Payment System) enabling online interbank payments and fund transfers.

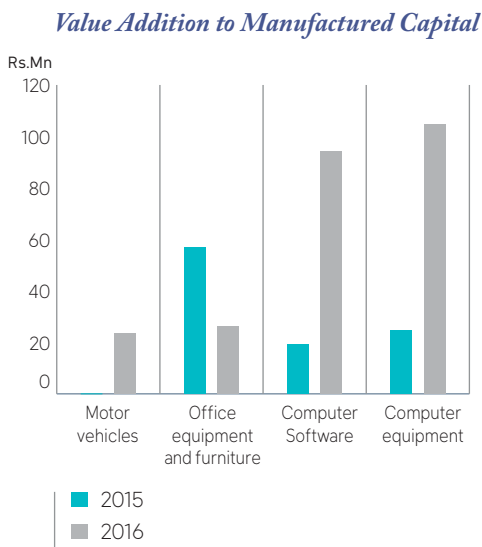


Key aspects of the Company's digitisation drive include are,



Value Addition to Manufactured Capital

In 2016, the Company invested 248 million in enhancing its manufactured capital, of which nearly 80% comprised of investments in computer equipment and digital infrastructure as demonstrated below.



Management Discussion and Analysis

Human Capital

Our team of 917 motivated and skilled employees is empowered to drive the Company’s strategic agenda. They live MBSL’s corporate values, facilitate the customer experience and are a vital element of our value creation process. In turn, the Company provides its employees a dynamic and rewarding work environment, competitive remuneration and numerous opportunities for skill and career development.

	2016	2015	y-o-y %
Inputs			
Headcount	917	866	6
Employee training hours	18,395	11,100	66
Total cost for training development Rs. Mn	14.62	7.09	106
Skills, attitudes and motivation of our team			

Value creating activities

- Invested Rs. 14.62 million in 18,395 training hours
- 04 Managerial level promotions and 06 Executive level promotions
- Enhanced policy frameworks for recruitment, training and promotions

	2016	2015	y-o-y %
Outputs			
Rewards and benefits (Rs.million)	818	707	16
Employee retention (%)	85	84	1

Our Approach and Value Proposition

MBSL’s approach to managing its human capital embodies an environment which fosters teamwork, ongoing investments in talent development and a high level of employee engagement. The strength of our employee value proposition has enabled the Company to attract and retain talented individuals.

Employee Value Proposition



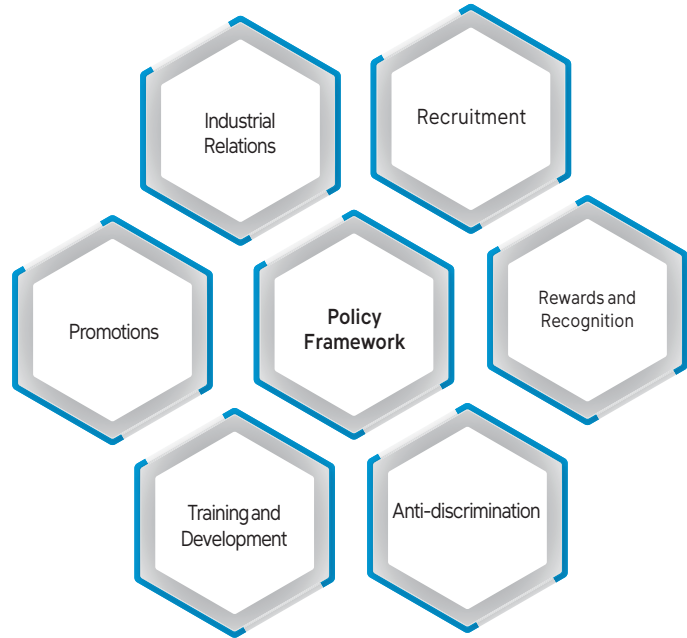
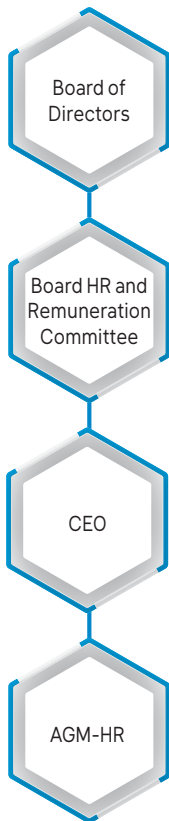
People Strategy in 2016

G4-LA8

The Company’s people strategy for the year was centered on several specific objectives. A new promotion policy was introduced with the dual objectives of nurturing a performance driven culture and providing a clear path of career progression for high-performing employees. Training initiatives targeted towards equipping employees with the specific skills required for driving the Company’s strategic agenda were carried out during the year. The Company also engaged with trade unions to successfully conclude a three-year collective agreement in January 2017, thereby ensuring minimal disruption to operations stemming from employee-related issues. Overall a strong foundation was put in place to ensure the retention of high-performing employees, who are expected to be the Company’s next generation of leaders.

HR Governance and Policy Framework

Comprehensive policy frameworks, robust governance structures and formalised systems and procedures ensure the consistent operationalization of the Company’s HR framework at all levels of the organisation. The policy framework has a broad coverage of multiple aspects pertaining to HR management including recruitment, equal opportunity, rewards and recognition, training and development, grievance mechanisms and industrial relations among others. During the year, the Company revised its recruitment, training and career development policies in line with its people strategy for 2016.

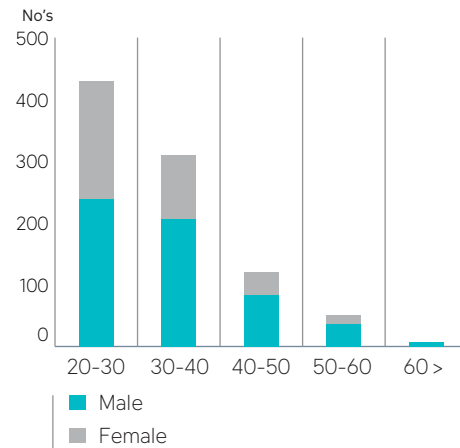


Team Profile

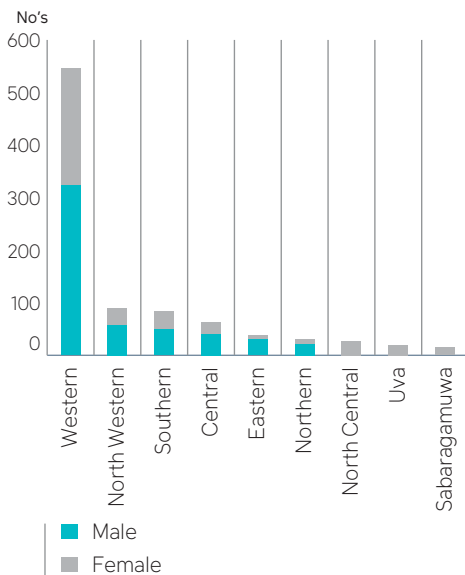
G4-10, G4-LA 12

The Company's workforce is diverse in its gender and age representation, facilitating a blend of different perspectives and ideas. Female representation of 38% is the total workforce, compared to the national average of around 34%. With 80% of our employees below the age of 40, the Company's workforce is also young, agile and quick to respond to changing dynamics. We do not employ part-time workers.

Employees by Age and Gender



Employees by Region and Gender



Employees by Category and Gender



Management Discussion and Analysis

Human Capital

Employee Engagement

G4-LA05

We maintain a high level of employee engagement, facilitated through numerous formal and informal platforms. Performance appraisals are held for all staff at least on an annual basis while staff meetings are held at departmental and regional level regularly. An open door policy is maintained by all middle and corporate management facilitating an open and clear line of communication. Engagement also occurs through trade unions and the respective collective agreements while a formalised grievance mechanism is also in place to respond to employee concerns effectively.

Year-round work-life balance initiatives including cultural and religious celebrations such as Poson Bathi Gee Saraniya, Christmas Carols and Sinhalese and Tamil New Year celebrations promote a sense of camaraderie among employees.



In recognition of the value proposition we offer to employees, MBSL was named as one of the Best Employer Brands at the World Human Resource Development Congress organized by the Partnership Summit and Business Awards. The Award recognizes excellence in human resource practices, policies and strategies in place.

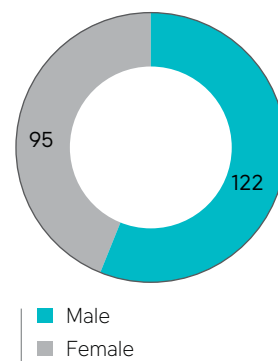


Employee Attraction

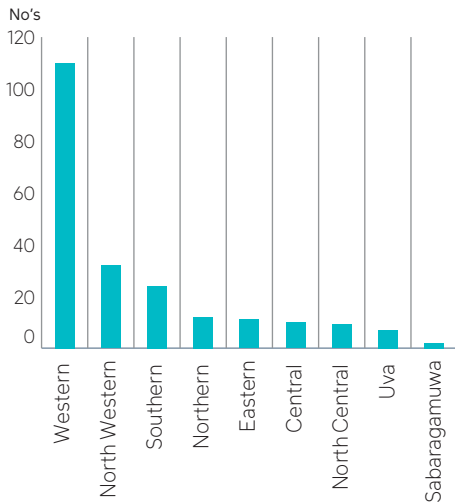
G4-LA01

We are an equal opportunity employer and do not discriminate based on age, gender or ethnicity. In compliance with Sri Lanka's labour laws we do not engage in any form of child labour and/or forced labour. During the year, MBSL recruited 217 new employees to its team. When recruiting for branches, best efforts are made to hire from the respective localities and during the year 107 new employees were hired from outside the Western Province.

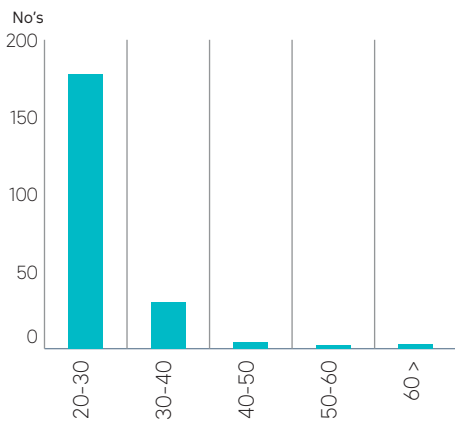
New Recruits by Gender



New Employees Hired by Region



New Employees Hired by Age Group



Rewards and Recognition

G4-EC03 G4-LA02, G4-LA05, G4-LA13

The Company's remuneration package is designed to attract and retain the industry's top talent. We offer an array of attractive financial and non-financial incentives and do not discriminate between gender, age or ethnicity when determining incentives. The ratio of basic salary & remuneration between man & women is 1:1 during the year, we successfully concluded negotiations for a 3-year collective agreement with the trade union. Given the increasingly intensifying competition for talent in the financial services industry, we revised salary structures and benefits to suitably reflect market conditions. MBSL employees are eligible for Employees' Provident Fund and Employees' Trust Fund benefits. MBSL contributes 12% and 3% as EPF and ETF contributions respectively. In addition, the Company provides gratuity payments at retirement, for all employees with over five years of uninterrupted service.

In addition to salary, permanent employees are provided the following benefits;

Key Benefits Rs. Mn	2016	2015
Salaries Wages & Bonus	608.4	530.9
Employers' Contribution to EPF	59.2	49.2
Gratuity	40.5	42.6
Medical Expenditure	32.6	22.1
Overtime	20.8	18.0
Staff Welfare	20.0	17.3
Employers' Contribution to ETF	14.8	12.3
Housing Loan Reimbursement	9.6	7.1
Incentives	5.4	3.0
Memberships in professional bodies	5.1	2.8
Staff Insurance	1.1	1.5

Performance Management

G4-LA11

All permanent employees are appraised at least on an annual basis, providing an opportunity to openly discuss expectation gaps, identify training needs and provide constructive feedback for performance improvements. Individual, Departmental and Regional targets are assigned based on the Corporate Business Plan during the commencement of each year, and performance is assessed against these targets.

During the year, we revised the Company's promotion policy with the objective of designing a clear path of career progression for high-performing employees. Accordingly, eligibility for promotions now stem from two channels; general promotions are awarded to employees who successfully complete their academic and professional qualifications while merit based promotions are awarded to high-performing employees. This will enable top-performers to progress rapidly and allow the Company to develop a talent pipeline to nurture the next generation of leaders. During the year, four Executive grade employees were promoted to Manager grade, while six employees from other grades, were promoted to Executive grades.

Training and Development

G4-LA09, G4-LA10

Talent development has emerged as a key pillar in the Company's employee value proposition and every year we provide an array of internal, external and foreign training opportunities. In 2016 we focused on identifying training needs and conducting a range of training initiatives aimed at equipping employees with specific skills required to drive the Company's medium term strategic agenda. A training assessment was also introduced during the year, providing

Management Discussion and Analysis

Human Capital

an opportunity for employees to give feedback on the effectiveness of the relevant training initiative. Highlights of several key training programmes that were conducted during the year are as follows;

	Targeted Skill	Description	Number of Participants	Total Training Hours
Internal Training	Leadership competency development	A residential 2-day workshop for managerial staff facilitating the effective development of leadership-based competencies	143	2,002
	Customer relationship management and product knowledge	Module based training for new marketing employees	105	840
	Legal compliance, credit and recovery	Develop knowledge on the legal issues pertaining to credit and recovery amongst the recovery staff	345	2,760
	Credit appraisal skills including financial analysis, assessing securities and negotiation skills	Comprehensive credit training targeting branch managers and credit officers	75	6,600
	Strategic planning	High-level workshop to present strategic plan	93	744



In addition to the above, employees also participated in numerous external training initiatives conducted by The Institute of Chartered Accountants of Sri Lanka, Centre

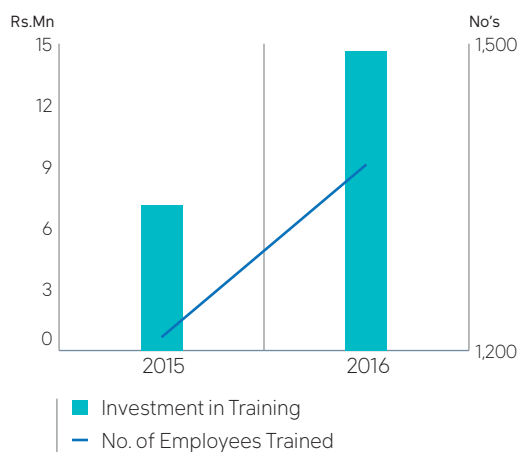
for Banking Studies at the CBSL, Institute of Personnel Management and the Bar Association of Sri Lanka among others.

Training Statistics

G4-LA11, G4-HR02

During the year, 1,382 employees received training, undergoing 18,395 training hours at a total investment of Rs. 14.62 million. Average training hours per employee amounted to 20, an increase of 57% compared to the previous year.

Employee Training



Type of training	No. of participants		Training hours	
	2016	2015	2016	2015
Internal	1,279	1,121	17,364	9,940
External	102	86	919	952
Foreign	1	6	112	208
	1,382	1,213	18,395	11,100

Internship Opportunities

G4-LA10

MBSL also provides internship opportunities for undergraduates and students engaged in obtaining professional qualifications. Through this program, the Company enables students to obtain practical, hands-on working experience in a dynamic and rewarding work environment. During the year, we provided 32 such internship opportunities to students as given below;

Institute/University	2016	
	Male	Female
The Institute of Chartered Accountants of Sri Lanka	6	9
Association of Accounting Technicians - Sri Lanka	-	3
National Apprentices & Industrial Training Authority	-	1
University of Sri Jayawardenepura	-	1
University of Rajarata	1	-
National Institute of Business Management	-	1
Other	1	9
Total	8	24

Industrial Relations

G4-11, G4-EC5, G4-EC6, G4-LA04, G4-LA08

We recognise our employees' right to freedom of association and 47% of our employees are represented by the MBSL branch of the Ceylon Bank Employees Union. We engaged proactively with our trade unions in formulating the collective agreement for the next three years and continue to maintain productive and cordial relationships. There were no disruptions to work resulting from industrial disputes during the year.

The minimum notice period provided to employees for operational changes is given below;

	2016
Retirements	3 months
Resignation-termination	3 months

Grievance Mechanisms

G4-57, G4-58, G4-LA16, G4-HR12

A structured and formalised grievance handling mechanism is in place enabling employees to bring forward their concerns. The process ensures anonymity and defines specific roles and responsibilities for handling employee grievances.

Employee Retention

G4-LA03

Our efforts to strengthen employee engagement enhance opportunities for career progression and continued investment in training and development enabled the Company to achieve an employee retention rate of approximately 85% during the year.

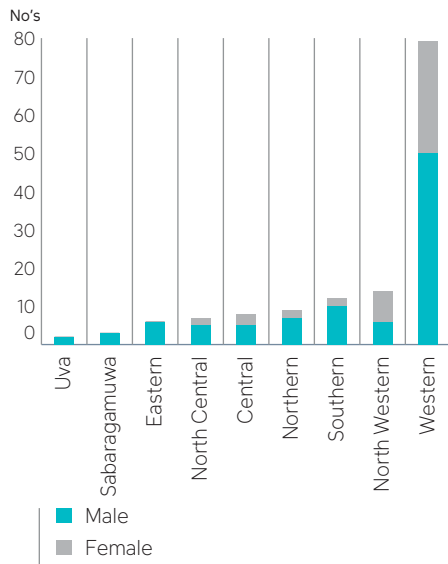
Employee Turnover by Age and Gender



Management Discussion and Analysis

Human Capital

Employee Turnover by Region and Gender



Meanwhile, return to work rates after maternity leave improved significantly during the year, demonstrating the Company's efforts in retaining female employees through providing a conducive work environment.

	2016	2015
Total No of female employee	346	312
No of employee that took maternity leave	16	8
Returned to work after maternity leave	13	4
Return to work rate % (Returned to work after maternity leave/no of employee that took maternity leave)	81%	50%

Social and Relationship Capital

Understanding and proactively responding to our stakeholder needs are fundamental to creating and sustaining our value creation and we consistently seek opportunities to enhance and strengthen relationships with our stakeholders.

	2016	2015	y-o-y %
Inputs			
Total customer base	198,824	138,895	43
Community relationships			
Partnerships with our suppliers			
Value creating activities			
<ul style="list-style-type: none"> • New product development and customer service oriented culture • Ongoing investments in community engagement 			
Out puts			
Number of new loans disbursed	33,725	19,033	77
New deposits generated	45,170	31,576	43

Key elements of the company's social and relationship capital are,



Customer Engagement

G4-PR5

We maintain a high level of engagement with our customers facilitated through customer surveys, face to face interaction, a customer hotline as well as multiple forms of print and electronic media communication, including the interactive corporate website and social media platforms including Facebook and LinkedIn. The feedback obtained from these engagement mechanisms are a key input to our marketing, customer service and product development strategies.



Social Media Engagement

In a bid to increase brand recognition among millennials, MBSL enhanced its social media presence during the year with the launch of a new Facebook page. The page features exciting offers, product details and other information relevant for potential and existing customers. We also conducted a quiz competition for our Facebook subscribers, an initiative which was extremely well received. By end-2016, total 'likes' on our page exceeded more than 6,100.

Customer Profile

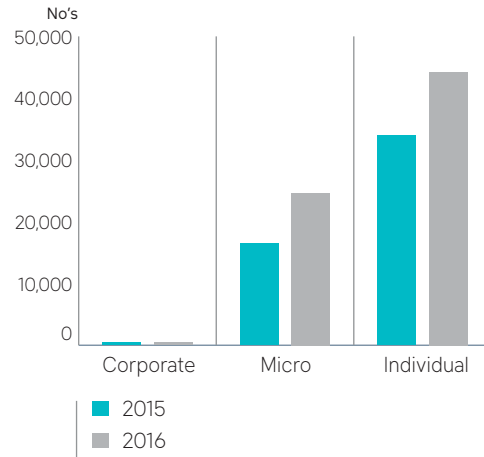
MBSL caters to nearly 69,347 individual, corporate and SME lending customers across the island, through a holistic value proposition aimed at supporting customer requirements through different stages of business and personal growth. In 2016, we added 33,681 new customers to our base, translating to a 36% increase in total lending customers served. MBSL also serves over 130,000 deposit customers through a range of attractive fixed and savings deposit products. Customers also vary in terms of their industry exposure, representing agriculture, fisheries, dairy, and cottage industries among others.

Memberships of Associations

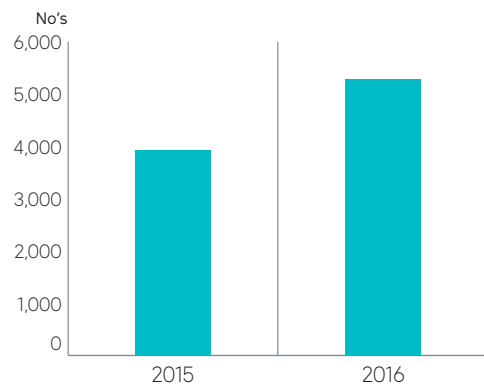
G4-16

- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- Central Bank of Sri Lanka
- Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka
- Leasing Association of Sri Lanka
- Ceylon Chamber of Commerce
- The Credit Information Bureau of Sri Lanka
- The Department of Registrar of Companies
- Ministry of Public Enterprise Development
- Sri Lanka Accounting and Auditing Standards Monitoring Board

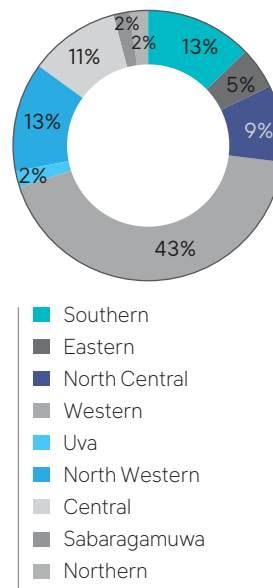
Lending Customers



Fixed Deposit Customers



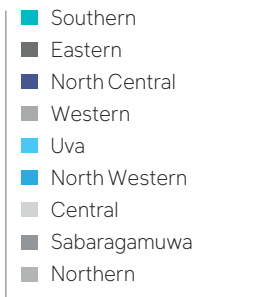
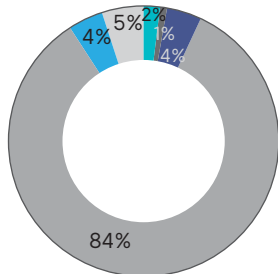
Regional Breakdown of Lending Portfolio



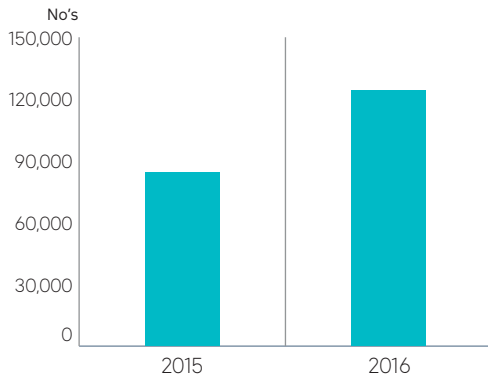
Management Discussion and Analysis

Social and Relationship Capital

Regional Breakdown of Deposit Portfolio



Savings Customers



Customer Accessibility

Following an aggressive branch roll-out a few years ago, and the amalgamation in 2015, MBSL currently operates a network of 49 touch points including head office in all 9 provinces of the country. Our customers are also able to obtain a limited range of our services such as loan repayments, Cash & Cheque deposits & Slip Account transfers through our parent's extensive branch reach, which consists of nearly 600 island-wide branches. Our customers will also be able to access funds through Commercial Bank's extensive ATM network with the anticipated implementation of a Core Banking System in 2017, we hope to enhance customer accessibility and convenience through strengthening the self-service proposition.

Customer touch points

Provinces	Customer touch points
Southern	6
Eastern	4
North Central	5
Western	20
Uva	2
North Western	4
Central	4
Sabaragamuwa	2
Northern	2

Customer Education and Financial Literacy

G4-SO1, G4-SO2, G4-SO4,

In aligning ourselves with the national socio economic goals of financial inclusion, regional development and female empowerment, MBSL continues to invest in strengthening financial discipline and literacy amongst our micro financing customers through structured training programs. Carried out as a vital element of the 'Siyath Saviya' initiative, these island-wide programs feature lectures and workshops by MBSL employees and external experts on an array of subjects ranging from nurturing savings, enterprise management and cash management among others. During the year, we partnered with the Industrial Development Board in conducting such a program in Monaragela with the participation of 110 prospective female entrepreneurs and MBSL's micro financing customers.



Responsible Lending Practices

G4-S08, G4-PR2, G4-PR3, G4-PR4, G4-PR6, G4-PR9

We ensure that the terms and conditions applicable to our products and services are clearly understood by all customers. Relevant information such as interest rates on loans and deposits, exchange rates and other terms are clearly communicated to all customers. Detailed product brochures which comply with CBSL requirements and other relevant legislation are made available to all customers. Marketing officers and Relationship managers are also responsible for explaining product characteristics, cost structures, benefits and any other relevant information to potential and existing customers. During the year, there were no instances of non-compliance to any relevant product and service related regulation or other guidelines.

Meanwhile, the Company's marketing communications follow a structured approval process to ensure compliance to accuracy, relevant regulatory requirements and consistency to our branding guidelines. During the year, there were no incidents of non-compliance to any regulations, voluntary codes or other guidelines pertaining to marketing communications.

Customer Privacy

G4-PR07, GR-PR08

As a financial institution, we understand the important obligation we have towards preserving the financial and personal information of our customers. In 2016, we invested in strengthening the firewalls and reporting capabilities of our Information Systems while the IT policy was revamped to align with the CBSL's base line security standards. An IT Security Council is also in place within the Company, which regularly reviews the required improvements in information security measures. During the year there were no incidents of non-compliance to any regulations, voluntary codes or other guidelines pertaining to marketing communications.

Customer Grievance

G4-S011

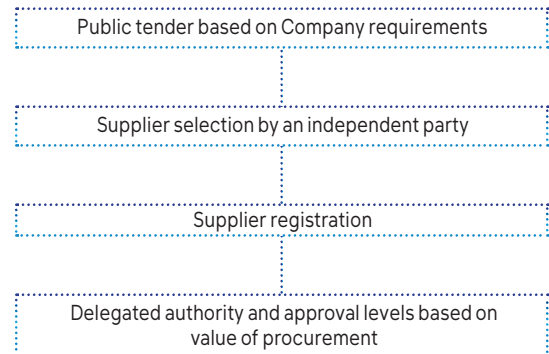
A formalised grievance handling procedure is in place for all customer complaints. Customers are given the opportunity to communicate grievances through the call center as well as through suggestion boxes at all branches. All grievances received are recorded and routed to the Customer Service Unit for feedback. Grievance data is subsequently analyzed to identify areas for process and quality improvements. The MBSL call center and Customer Service Unit track all

customer complaints and feedback, which is subsequently analyzed to identify areas for further improvement in service quality. Customer complaints have continued to gradually decline over the recent years, as the Company has focused on enhancing its service delivery.

Business Partners

G4-12, G4-13, G4-EC9, G4-HR6

MBSL procures products and services from numerous parties, ranging from material suppliers to utility service providers and asset suppliers. Approximately 99% of the Company's procurement spending is on local suppliers. A Board approved procurement manual ensures that incidences of corruption and fraud are minimized through a standardised and transparent process. A dedicated Procurement Committee is also in place to ensure the effective implementation of the stipulations set out in the manual. Public tenders are called annually, and supplier selection is done carried out entirely by an independent third party, ensuring the integrity of the process. Selected new suppliers are registered on a central database.



Community Relationships

G4-S01

The community relationships we have nurtured over the years provide us the social license to operate and enable us to generate sustainable value to the communities we operate in. The Board of Directors hold apex responsibility for ensuring that all community engagement initiatives carried out by the Company are broadly in line with its sustainability objectives. The responsibility of selecting, effectively implementing and monitoring the performance of these projects lies with the corporate management team. During the year, we refined our CSR focus to the two specific areas of Education and Entrepreneurial Development and strived to engage with communities in a proactive and strategic manner.

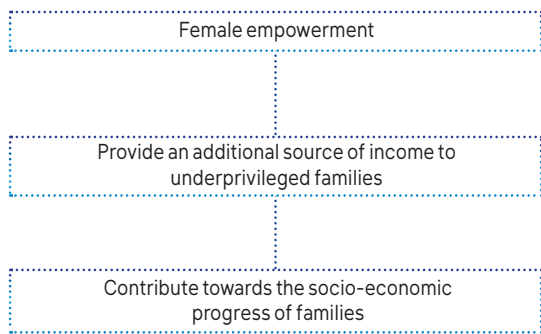
Management Discussion and Analysis

Social and Relationship Capital

Developing Entrepreneurship

Our micro finance initiative, 'Siyath Saviya' combines our business objectives with our sustainability agenda in providing financial support to rural entrepreneurs who have limited access to other avenues of funding due to their risk profile. Under this program we provide collateral free loans to individuals engaging in agriculture, small businesses and dairy production.

The initiative has been designed to primarily benefit vulnerable groups, including women and entrepreneurs in the North Central and Eastern provinces of the country. Since inception in 2010 we have supported the livelihoods of nearly 25,000 entrepreneurs through financial assistance, technical support and other forms of guidance. The Siyath Saviya initiative has directly benefitted these communities through,



Education

MBSL is an approved training partner for several universities, professional accounting institutes, including the Institute of Chartered Accountants of Sri Lanka and University of Sri Jayewardenepura thereby providing opportunities for students to obtain practical training through internship opportunities and placements. During the year, we provided such 32 internship opportunities directly contributing towards enhancing skill levels and employability of young students.

In 2016, MBSL also donated a stock of books to the Dharmapuram Ulawanur Children's Society, with the objective of inculcating reading habits and contributing towards developing children's' literary knowledge. At a total investment of Rs.0.025 million, this directly benefitted over 50 students. This initiative is expected to be continued as an ongoing program, with donations to selected rural

schools. During the year, we also contributed 5 used desktop computers valued at around Rs.0.44 million in order to support the administrative functions relating to the Aranayake flood aids.



Management Discussion and Analysis

Natural Capital

As a financial services provider, we are cognizant of our ability in propagating environmentally-friendly business practices by ensuring that our borrowers are conscious on the potential negative environmental impacts of our businesses and processes. The Company is also committed to minimising the direct environmental impacts of its operations, through continuously monitoring its usage of natural resources and discharge of waste and other outputs.

G4-EN06

Rs. Mn	2016	2015	y-o-y %
Inputs			
Paper	3.77	3.60	5
Water	1.41	1.83	(22)
Energy	32.34	31.10	4

Value creating activities

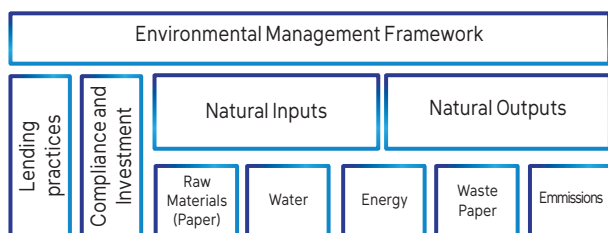
- Paper recycling
- Concerted efforts to improve energy efficiency
- Employee engagement in water conservation
- Environmental screening criteria for large loans

Outputs & Inputs

Waste paper recycled –Headoffice	720KG
Reduced water cost by	22%
Reduced Stationery usage by	15%

Management Approach

As a financial services provider, the Company's environmental impact is limited to its consumption of natural resources such as energy, water and paper and outputs from its operations such as waste and emissions. The Company's Environmental Management Framework ensures that all relevant environmental indicators are tracked on a consistent basis enabling us to identify areas for further improvement.



Lending Practices

G4-14, G4-32, G4-33, G4-EN27, G4-EN32, G4-EN33, G4-HR1, G4-F57, G4-F58

We strive to propagate good environmental practices by incorporating environmental screening criteria for facilities. Accordingly, the Company's credit criteria for these facilities include assessment of customers' compliance to the Central Environmental Authority's and other relevant environmental regulations. Potential negative environmental implications of the business are also assessed. The Company applies the precautionary principle when disbursing loans and developing new products.

The Company has also encouraged the use of hybrid and electric vehicles through special leasing products, with the objective of reducing carbon emissions and reliance on fossil fuels. In 2016, the Company disbursed a respective Rs.13.56 million and Rs.6.85 million for financing hybrid and electric vehicles.

Hybrid vehicles	Rs. Mn
Lending portfolio as at end-Dec 2016 (Gross)	95.80
Disbursement in 2016	13.56
Electric vehicles	
Lending portfolio as at end-Dec 2016 (Gross)	28.78
Disbursement in 2016	6.85

Compliance and Investment

G4-EN-29

Responsibility for ensuring compliance to all environmental regulations lies with the compliance division and monthly compliance reports are provided to the Board of Directors through the Intergrated Risk Management Committee. During the year, there were no incidences of non-compliance to environmental regulations.

Managing Inputs

Raw Materials

G4-EN1

The Company's primary raw material is paper, which is consumed in its daily operations. Our approach towards managing this input is modelled on the 3R strategy of Reduce, Reuse and Re-cycle. Process automation has also encouraged the reduction of paper usage; for example, the introduction of an automated employee attendance system allows employees to conduct administrative

Management Discussion and Analysis

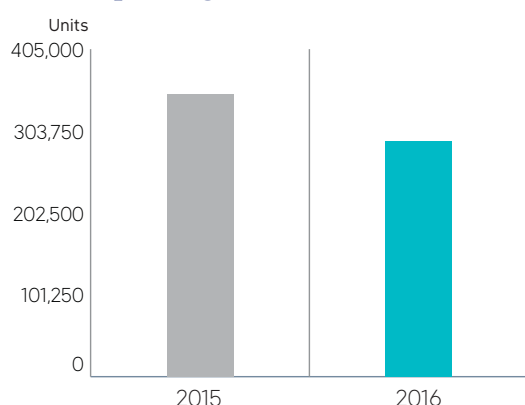
Natural Capital

functions such as applying for leave digitally. Annual reports are also provided in hard copies only in the event of specific requests. We also actively discourage the use of unnecessary printing and photocopying.



The implementation of the Core Banking System is anticipated to result in a significant decline in the Company's paper consumption, facilitated by digital platforms for communication as well as self-service propositions for customers. In 2016, the Company's total paper decreased by 17% to 291,761 units, testimony to our efforts in driving reductions in paper usage among our employees.

Paper Usage



In addition to paper, the Company's other raw materials include files, toners and ribbons and usage of these materials are given below;

	2016	2015	y-o-y %
Inputs (Units)			
Paper	291,761	349,887	(17)
Files	15,568	12,601	24
Toner	407	389	5
Ribbons	430	370	16
Others	7,794	6,377	22
Total	315,960	369,624	

Energy

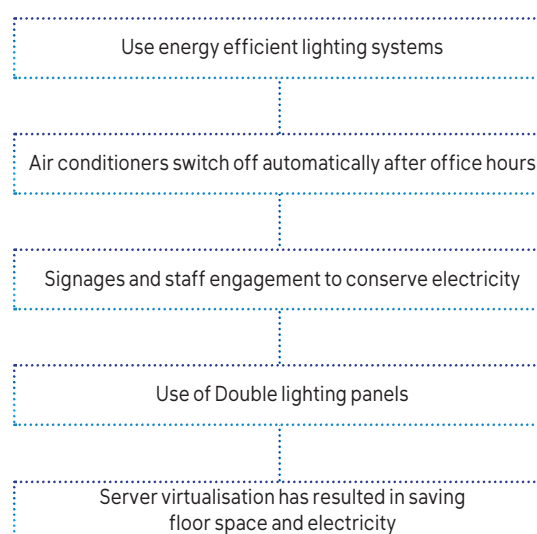
G4-EN3, G4-EN5, G4-EN6, G4-EN30

Energy sources consist of electricity consumed from the national grid as well as fuel which is used in Company owned vehicles. The Company's energy consumption is tracked at head office and all branches to effectively capture the Company's energy footprint and identify areas for improvement. The Company's electricity consumption increased by 12% during the year. We also implemented mechanisms to capture the Company's fuel consumption on a holistic and systematic manner. During the year, the Company's fuel cost increased by 38% in comparison to the previous year, primarily due to increased efforts on business promotional activities and recoveries.

Source	Consumption in units- 2016	Consumption in units- 2015
Electricity - Units	1,269,818	1,138,679
Petrol - Liter	11,158	N/A
Diesel -Liter	17,281	N/A
Electricity consumption per employee - Units	1,385	1,315
Fuel consumption per employee (Litre)	31	N/A

N/A - Not Available

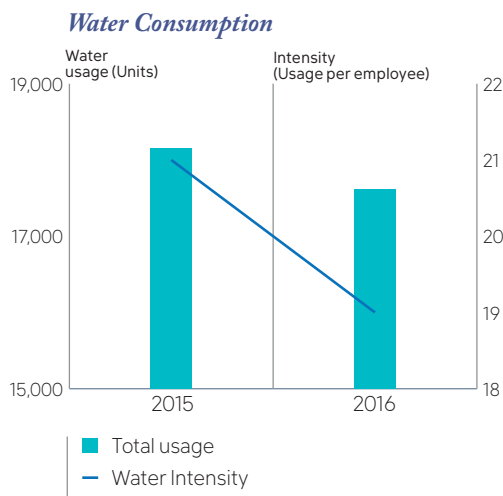
Concerted efforts were made towards improving the Company's energy efficiency as detailed below:



Water

G4-EN8, G4-EN9, G4-EN10

The Company's operations are not water intensive, and water is only used for consumption by employees. Employees are engaged in water consumption through displays, posters and periodic notices. During the year, the Company's total water consumption decreased by 3% to 17,616 units during the year while water consumption per employee declined by 8%, a testimony to our efforts towards improving water efficiency.



Impacts of Climate Change

G4-EC2

The Company has not computed the potential impacts of climate change on its operations. However, as a financial services organisation, implications of climate change are likely to impact the Company's lending portfolios in sectors such as agriculture and fisheries which are affected by erratic weather conditions and droughts.

Managing Outputs

Waste and Effluents

G4-EN2, G4-EN23

The key types of waste generated from the Company's operations are paper and e-waste. Paper waste is collected at Head Office and sent for recycling and during the year under review, the Company recycled 720 Kg of paper, a near doubling in comparison to the previous year. E-waste is also disposed of responsibly, with computer hardware that is re-usable being sent to primary schools as part of the Company's CSR initiatives in education.

	No.	Cost (Rs. million)
Computer accessories	112	3.35
Office furniture	N/A	0.59

N/A - Not available

A photograph of three people in business attire engaged in a conversation. On the left, a man in a blue shirt. In the center, a man in a dark suit and red tie. On the right, a woman in a blue and grey business suit. They are standing in front of a banner for the Merchant Bank of Sri Lanka. The banner contains text in Sinhala and English, including 'IBS' and 'Merchant Bank of Sri Lanka'. The entire image has a blue overlay.

As we progress towards our vision to be an

**innovative
financial
solutions
provider**

Strong corporate governance practices and robust risk management frameworks underpin our value creation and ensure that we manage our organisation in an ethical and transparent manner with emphasis on the highest standards of business practice.

STEWARDSHIP

Board of Directors

Corporate Management

Corporate Governance

Annual Report of the Board of Directors on the
Affairs of the Company

Audit Committee Report

Remuneration Committee Report

Related Party Transactions Review Committee Report

Integrated Risk Management Committee Report

Risk Management

Board of Directors





- 1. **Dr. S Lokuhewa** - Chairman
- 2. **Mr. C N Wijewardana** - Director
- 3. **Mr. D M Gunasekera** - Director
- 4. **Mr. W P R P H Fonseka** - Director
- 5. **Mr. K B S Bandara** - Director
- 6. **Mr. N Perera** - Director
- 7. **Mr. S N Dayaratne** - Director
- 8. **Mr. S P Arsakularatne** - Director
- 9. **Mr. H J D Fonseka** - Director

Board of Directors

Dr. S Lokuhewa

Chairman

Non Executive Non Independent

Dr. Lokuhewa is currently the Chairman/Managing Director of Dhanaroso Holdings (Pvt.) Ltd. and Universal Consultancy Services (Pvt.) Ltd, positions he has held since 2009. He is engaged in the management of diverse businesses including real estate development, solar power products, Italian coffee shops, consultancy services. He counts over twenty years' experience in reputed Finance Companies at senior and middle level management positions and over ten years experience at Board level in the areas of Information Technology, real estate, jewellery trade, pharmaceuticals, Solar Power, air-conditioning plants and hospitality businesses. He was also the Group Director/CEO of the EAP Regent Group for a period of five years.

In 2011, Dr. Lokuhewa was the recipient of the UDC Master Class award for the Best Property Development Company presented by the former Prime Minister of Malaysia Dr. Mahathir Mohamed for the Company in which he was employed as Managing Director/CEO. During his career in the middle management he was also awarded the Best Branch Manager for five consecutive years. Dr. Lokuhewa was appointed as Chairman of MBSL Insurance Company Limited (MBSLI) in November 2016. Dr. Lokuhewa holds an Honorary Doctorate in Philosophy (Ph.D.) in Business Administration awarded by the Open International University of Greece.

Mr. C N Wijewardane

Non Executive Non Independent Director

Mr. Wijewardane was appointed to the Board of Bank of Ceylon as a Non-Executive Director in November 2015 and was appointed to the Board of MBSL Insurance Company Limited (MBSLI) as a Non-Executive Director in June 2016.

An Engineer by profession, Mr. Wijewardane graduated from the University of Hull, UK with BSc Honours Degree in Digital Electronics and Communications. His work experience includes many years in the IBM World Trade Corporation, where he worked as a System Engineer and Marketing Manager in the Sri Lankan operations and subsequently as a Country General Manager. He also served at IBM's Asia Pacific Group Headquarters in Hong Kong, where he was in-charge of Mass Marketing Programmes in all of Asia Pacific for IBM's AS/400 series. Mr. Wijewardane was heading the Marketing Team in IBM Sri Lanka and he was also managing the AS/400 Mass Marketing Programme for IBM ASEAN Operations out of Singapore. Mr. Wijewardane also served at Lexmark International's Asia Pacific Operations based in Sydney, Australia. At Lexmark he worked as a Regional Manager spearheading distribution and service operations for Lexmark Products in Pakistan, India, Bangladesh, Sri Lanka, Myanmar, Maldives and New Zealand. He is recognized for setting up effective channels operations in diverse cultures and sub cultures.

Mr. D M Gunasekera

Non Executive Non Independent Director

Mr. Gunasekera is the General Manager/Chief Executive Officer of Bank of Ceylon was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC in February 2013 and reappointed as a Non Independent Non-Executive Director of the Board with effect from 26th July 2016.

Mr. Gunasekera is a career banker with 34 years of diversified banking experience in corporate and offshore banking, sales and channel management and international banking operations. Prior to his being appointed Chief Executive Officer, he has held a number of key corporate management positions in these areas. He possesses extensive experience in credit management and administration.

Being a graduate from the University of Colombo, with a Special Degree in Public Finance and Taxation, he has successfully completed the Program on Corporate Management for Sri Lanka (LKCM2) conducted by The Association for Overseas Technical Scholarship (AOTS) Japan and the Advanced Management Program on Corporate Management for Sri Lanka (AMP63) conducted by Wharton University of Pennsylvania, USA. He is also an Associate Member of the Institute of Bankers of Sri Lanka.

He serves as a Non-Executive Nominee Director on the Boards of several subsidiaries and associate companies of Bank of Ceylon including Bank of Ceylon (UK) Ltd. He also chairs the Boards of BoC Management & Support Service (Pvt.) Ltd., Ceybank Holiday Homes (Pvt.) Ltd., the Sri Lanka Banks' Association (Guarantee) Ltd. and the Financial Ombudsman Sri Lanka (Guarantee) Ltd. for the year 2016/2017. He is also a member on the Governing Board of the Institute of Bankers of Sri Lanka (IBSL) and a member of the Association of Professional Bankers (APB Sri Lanka).

He has been appointed as the Vice Chairman of Asia-Pacific Rural and Agricultural Credit Association (APRACA) for the year 2016/2017.

He has also been awarded the '100 GLOBAL SUSTAINABLE LEADERS (CEO) AWARD' 2016 by the World Sustainability Congress in Dubai. This award is a recognition of most eminent professional and organizations as superlative Sustainability Leaders.

Board of Directors

Mr. W P R P H Fonseka

Non Executive Non Independent Director

Mr. Fonseka is a Non Executive Non Independent Director nominated by the Bank of Ceylon. He joined Bank of Ceylon in 1990 as a Management Trainee and currently holds the position of Chief Financial Officer of the Bank. Mr. Fonseka started his banking career in branch operations and counts over 27 years of extensive experience in all aspect of commercial banking. He has specialized in financial management and strategic planning and implemented of an effective corporate planning process, budgetary control system etc., in Bank of Ceylon. He held a range of senior management positions including Budget & Strategic Planning, Retail Banking and Finance & Planning in Bank of Ceylon.

He serves as the Non-Executive Chairman of the Board of Transitional Lanka Solutions (Pvt.) Ltd since November 2012. Mr. Fonseka has also been appointed as a Director of Lanka Securities (Pvt.) Ltd. He serves as a Director of Property Development PLC and MBSL Insurance Company Limited. He is an Alternate Director of LankaClear (Pvt.) Ltd. and acts as the Chairman of the Audit Committees of Property Development PLC, Merchant Bank of Sri Lanka & Finance PLC and LankaClear (Pvt.) Ltd.

He holds a Special Degree in Business Administration from the University of Sri Jayewardenepura, Postgraduate Diploma in Management from Postgraduate Institute of Management and a Masters Degree in Business Administration from the University of Southern Queensland, Australia. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. K B S Bandara

Non Executive Non Independent Director

Mr. Bandara is attached to Bank of Ceylon and presently holds the position of Deputy General Manager (Sales & Channel Management). He has wide experience in serving several key areas of banking including International Banking Operations, Treasury Management, Corporate Lending, Development Banking and Electronic Banking Channels in senior capacities. He also headed the Banks's operation in London as the Chief Executive Officer of Bank of Ceylon (UK) Ltd during 2011-2012. He was also appointed to the Board of MBSL Insurance Company Limited (MBSLI) as Non-Executive Director in November 2016.

He had been a resource person at the Institute of Bankers of Sri Lanka in the field of credit and investment management. Prior to joining the Bank, he served as an Assistant Lecturer at the University of Kelaniya and served at Mahaweli Authority. He serves in the Governing Board of Institute of Bankers of Sri Lanka and as the President of Association of Professional Bankers (APB) of Sri Lanka.

Mr. Bandara is a Physical Science graduate of the University of Kelaniya, Sri Lanka and holds a MBA with a Merit Pass from the Postgraduate Institute of Management, University of Sri Jayewardenepura, Sri Lanka. He is a Fellow member of Institute of Bankers of Sri Lanka and obtained a Postgraduate Diploma in Bank Management from the same institute together with the best student award in 1998.

Mr. N Perera

Non Executive Non Independent Director

Mr. Perera, Attorney-at-Law, started his legal career in the chambers of former President of the Bar Association of Sri Lanka Mr. Ananda Wijesekara P.C and is a Senior Criminal Lawyer. He travels extensively appearing mainly in Magistrates' Courts and High Courts all over the island. Mr. Perera has appeared in Intellectual Property, Bribery and corruption, debt recovery, defamation, labour related matters and other criminal cases of cheating, robbery, rape and murder. He has also been successfully retained by Companies as their Counsel with regard to cases filed under the Consumer Protection Authority and the Food Act.

A member of the Medico Legal Society of Sri Lanka, he is a much respected delegate of the Bar Association for the past 15 years and was a Committee member of the Colombo Law Society for a period of five years. Mr. Perera is presently the Chairman of the Industrial Technology Institute (former CISIR) of Sri Lanka and a Non Executive Director of the Board of MBSL Insurance Company Limited (MBSLI) since November 2016. Whilst being the legal consultant of the Taekwondo Federation of Sri Lanka, he was one of the 3 Sri Lankan representatives at the Conservative Party Campaign in the United Kingdom in 2006.

Mr. S N Dayaratne

Non Executive Independent Director

Mr. Dayaratne, Attorney-at-Law was admitted to the Bar in 1979 and counts over thirty eight years' experience as an active legal practitioner in labour, monitory and civil matters in Original Courts and Appellate Courts. He graduated from the law faculty, University of Colombo in 1977. He has served as Chairman of Rent Board Kegalle for a period of six years and acted as the Company Secretary in three peopalised bus companies namely Mawanella, Kegalle and Rambukkana until they were amalgamated as Sabaragamuwa Bus Company. He is presently serving as the Company Secretary of Hotel Athgiri (Pvt.) Ltd. and A M Aberathne & Sons (Pvt.) Ltd.

Mr. S P Arsakularatne

Non Executive Independent Director

Mr. Arsakularatne, is a Partner of K.D.P. Arsakularatne & Sons, dealer Ceylon Petroleum Corporation. He was also the Deputy Chairman of Seethawakapura Urban Council. Mr. Arsakularatne counts several years' banking experience in the areas of credit administration, international trade, foreign currency and operations.

Mr. H J D Fonseka

Non Executive Independent Director

Mr. Fonseka is a senior lawyer who was admitted to the Bar in 1984 and is currently engaged in private practice. He also holds Bachelor of Arts Degree in 1968 by the University of Ceylon. He serves as a Panel Lawyer at the Bank of Ceylon, Hatton National Bank PLC and Commercial Bank of Ceylon PLC.

Corporate Management



1. Mr. T Mutugala - Chief Executive Officer, **2. Mr. D Daluwatte** - Chief Operating Officer
3. Ms. S Amaratunga - Senior Deputy General Manager **4. Mr. L Kaluarachchi** - Deputy General Manager - Range 03, **5. Mr. S Uduwawala** - Deputy General Manager - Range 02, **6. Mr. J Gamalath** - Deputy General Manager - Marketing & Product Development



7. Mrs. K Jayatilake - Deputy General Manager - Legal/ Company Secretary, **8. Mr. L. Peiris** - Deputy General Manager- Support Services & Gold Loan, **9. Mr. K Jayasundara** - Assistant General Manager - Recoveries, **10. Mr. S Fernando** - Assistant General Manager - Internal Audit, **11. Mr. C Withanachchi** - Assistant General Manager - Information Technology, **12. Mr. D. Gunawardhana** - Assistant General Manager - Human Resources, **13. Mr. P. Kandanaarachchi** - Head of Finance

Corporate Management

Mr. T Mutugala

Chief Executive Officer

Mr. Mutugala is a Professional Banker with nearly 40 years of experience in Commercial Banking, primarily in Bank of Ceylon, the largest state-owned Commercial Bank. He has a fine blend of skills in banking, operational, information systems audit as well as overseas branch operations. As an Assistant General Manager he has played a leading role in implementing Information Systems Security Policy of the Bank. Subsequently, as a Deputy General Manager (Support Services) he provided the leadership to Bank's Procurement Function, Business Process Re-engineering and Central Back Office operations from July 2012 to July 2013.

Mr. Mutugala is a Member of the Chartered Institute of Management Accountants (ACMA) and also a Certified as an Information Systems Auditor (CISA) by Information Systems Audit and Control Association – ISACA (USA).

Mr. D. Daluwatte

Chief Operating Officer

An experienced Banking and Finance professional, he counts over 28 years of Corporate Management experience in investment banking and corporate finance. He previously held the position of Deputy General Manager - Corporate Finance at Hatton National Bank and was the group Joint Managing Director of George Steuart & Company Ltd. Prior to his appointment as Chief Operating Officer of the Company he held the position of Chief Executive Officer at MCSL Financial Services (Pvt) Ltd.

He is a fellow member of the Institute of Chartered Accountants of Sri Lanka, fellow member of the Chartered Institute of Management Accountants UK and member of the Chartered Institute for IT, UK. He has served as the Vice President of the Finance Houses Association of Sri Lanka (FHA) for a period of three years and has represented the FHA in the Committee of Ceylon Chamber of Commerce.

Ms. S Amaratunga

Senior Deputy General Manager

Ms. Amaratunga holds a MBA from the Postgraduate Institute of Management (University of Sri Jayewardenepura) and a Postgraduate Diploma Level Certificate for Modern Banking from PIM. She also holds a B.Com (Special) Degree from University of Jayewardenepura.

Ms. Amaratunga has close to 27 years experience and served as Head of several divisions of the Company such as Treasury, Trade Finance, Strategic Planning & Risk

Management and Compliance Divisions. She also has extensive experience in Credit Management, Recoveries, Balance Scorecard Performance Management System, Mergers & Acquisition processes, Restructuring, Finance and Cost Accounting and Human Resource. Currently, she is overlooking the functions of Recovery Division, HR Division in addition to Credit Administration, Risk Management and Compliance Divisions and Strategic Planning process of the Company.

Mr. L. Kaluarachchi

Deputy General Manager – Range 3

With over 31 years' experience in the financial sector, he brings with him a diverse array of skills in credit, leasing and credit risk management. Making his entry into Merchant Banking in 1994, as the Manager Leasing, he subsequently progressed to many senior positions with the Company including DGM - Leasing, Acting CEO, DGM - Recoveries, DGM - Support Services and presently holds the position of DGM - Range III. He holds a B.Com (Special) Degree from the University of Kelaniya.

Mr. S. Uduwawala

Deputy General Manager – Range 2

Mr. Uduwawala counts over 35 years of experience in the Banking Industry, particularly in Credit and Branch Operations. He has extensive experience in three leading Commercial Banks in Sri Lanka and has worked for Nepal Sri Lanka Merchant Bank Ltd on secondment as its Manager - Credit on an overseas appointment.

At present he is the Deputy General Manager – Range 2. Prior to taking over as DGM – Range 2 he was the Deputy General Manager of the Leasing Division, Branch Operations and also the Micro Finance Division.

Mr. J. Gamalath

Deputy General Manager - Marketing & Product Development

A skilled marketing professional, with experience in multiple roles in sales and distribution, channel management, product and brand management and marketing communication. He has previously held senior marketing positions in leading telecommunication sector companies. Mr. Gamalath holds a Master of Business Studies from the University of Colombo and a Professional Postgraduate Diploma in Marketing from the Chartered Institute of Marketing UK.

Mrs. K. Jayatilake

Deputy General Manager - Legal/ Company Secretary

Mrs. Jayatilake is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public counting over 26 years' experience at the Bar. She holds a Masters' Degree in Law (Commercial Law) from the University of Southampton (United Kingdom), a Bachelors' Degree in Arts with Second Class Honours (upper division pass) from the University of Colombo, in English, Economics and Political Science. Mrs. Jayatilake has worked in both the public and private sector as an in-house legal advisor at Senior Management level in addition to functioning as a Company Secretary. She has also worked as a Short Term Consultant with the World Bank.

Mr. L. Peiris

Deputy General Manager - Support Services & Gold Loan

Over 32 years' experience in the banking sector, which include positions in Corporate Management, Senior Managerial and Managerial capacities in diverse areas of exposure. His experience includes 6 years in International Banking (Trade Finance) Division of Saudi British Bank, Riyadh, Saudi Arabia (HSBC Group) and 26 years in Sri Lanka (Emirates Bank International Colombo Branch, Hatton National Bank, Seylan Bank, Ceylinco Savings Bank, MBSL Savings Bank and Merchant Bank of Sri Lanka & Finance Plc. His competency and skills levels are spread over International Trade, Banking Operations, Branch Banking and Administration, Business Development and Service Excellence. He holds a Bachelor of Arts in International Banking, Finance and Administration from the Trinity College and University - Spain.

Mr. K. Jayasundara

Assistant General Manager - Recoveries

Mr. Jayasundara has multi-faceted exposure in diverse areas in financial services and has previously held senior management positions in operations and credit. He holds an MBA - Banking & Finance offered from the Post Graduate Institute of Management (PIM) and a BSc (Hons) degree with a specialization in Agricultural Economics from University of Sri Jayawardenepura.

Mr. S. Fernando

Assistant General Manager - Internal Audit

Mr. Fernando is a Member of the Institute of Internal Auditors (U.S.A) and is a Certified Internal Auditor (U.S.A). He counts over 17 years of experience in the field of Internal Auditing in local conglomerates, as well as multinational companies.

Mr. C. Withanachchi

Assistant General Manager - Information Technology

Mr. Withanachchi counts over 17 years of diverse experience in Information Technology, including Software Developments, Design, System Administration and Delivery Management and exposure to Banking & Finance, ATM Implementation, Telecommunication and Manufacturing. He holds a BSc Degree in Information Technology and is currently reading for MSc in Information Security. He is also certified from IBM Corporation as an iSeries Expert on ILE RPG Programmer and from the Indian Institute of Management - Bangalore for Innovation and IT Management.

Mr. D. Gunawardhana

Assistant General Manager - Human Resources

A Human Resources Management professional, Mr. Dhammika Gunawardhana has extensive experience in HR Management in a variety of industry sectors.

He is a fellow member of the Institute of Chartered Business Administrators, Professional member of Association of HR Professionals and a member of Institute of Personnel Management (IPM) and Institute of Management of Sri Lanka. He is also an Associate member of Institute of Certified Professional Managers, Sri Lanka Institute of Training & Development and National Institute of Professional Counselors.

Mr. Gunawardhana holds a BSc Degree in Business Administration from the University of Sri Jayawardenapura, BMS. Sp. Degree (Second Class Upper Honors) (Specialized in Human Resource Management) from the Open University of Sri Lanka. He holds a Diploma in Management from the Open University of Sri Lanka, Diplomas in Psychological counseling from the Institute of Psychological Studies & Department of Psychiatry, Faculty of Medical Sciences, University of Sri Jayawardenapura and Diploma in Computer Science.

Mr. P. Kandanaarachchi

Head of Finance

Mr. Kandanaarachchi serves as the Head of Finance. Mr. Kandanaarachchi counts over 11 years' experience in the financial service sector and 5 years' experience in audit and accounting. He is an Associate member of The Institute of the Chartered Accountants of Sri Lanka.

Corporate Governance

G4-34-44, G4-48-52

Corporate Governance

Robust governance practices which underpins MBSL's sustainable creation of value has enabled the Company to nurture strong relationships amongst the Board, shareholders and other stakeholders. The Company is committed to the highest standards of transparency and ethical business conduct which are articulated through a comprehensive framework of policies and Director's Code of Ethics. Judicious empowerment is facilitated through formal governance structures which ensure that there is an appropriate balance of power within the Company.

Governance framework

MBSL's Corporate Governance framework has been developed to comply with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and other relevant laws and regulations. In addition, MBSL has voluntarily adopted the G4 standards for Sustainability Reporting issued by the Global Reporting Initiatives and the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC).

In terms of subsection (1)(1) of Section 36 of the 19th Amendment (Amendment to Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka), the Auditor of the Company shall be the Auditor General of Sri Lanka.

Standards and principles

Standards and principles		Governance systems
Internal	External	
<ul style="list-style-type: none"> Vision, Mission and Values Articles of Association Director's Code of Ethics Group's Corporate Governance Framework and practices Terms of References for Board and Board sub-committees Comprehensive framework of policies, systems and procedures 	<ul style="list-style-type: none"> Companies Act No. 7 of 2007 Finance Companies (Corporate Governance) Direction No. 3 of 2008 Finance Leasing (Corporate Governance) Direction No. 4 of 2009 Listing Rules of the Colombo Stock Exchange Sri Lanka Accounting Standards Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) G4 Standards for Sustainability reporting issued by the Global Reporting Initiative 	<ul style="list-style-type: none"> Stakeholder engagement Strategic planning Risk management Compliance People management Internal and external audit Related Party Transactions

The Board of Directors

The Company's Board of Directors consists of 9 Non-Executive Directors (including the Chairman) of whom 3 are deemed independent. Directors combine a variety of perspectives and skills including professional, academic and entrepreneurial insights which enhance the depth and overall effectiveness of decisions. The Board's responsibilities including determining the Company's strategic direction, defining governance structures, setting

the risk appetite and formulating policy frameworks.

The Board is supported by several sub-committees with oversight responsibility for specific areas. During the year, the Related Party Transactions Committee was established in compliance with the requirements of the Listing Rules of the Colombo Stock Exchange.

Board Sub-Committee	Mandate
Audit Committee	<p>Ensuring the integrity of the Company's financial statements</p> <p>Review the adequacy and effectiveness of the Company's internal controls</p> <p>Makes recommendations to the Board on the appointment of external auditors and their remuneration</p> <p>Ensures the internal audit activities are carried out objectively and independently</p>
Integrated Risk Management Committee	<p>Development and implementation of an integrated risk management framework</p> <p>Ensure compliance with all relevant regulations and legislation</p> <p>Monitors the adequacy of the contingency plans</p>
Remuneration Committee	<p>Makes recommendations to the Board on the remuneration paid to Directors and the Chief Executive Officer</p>
Related Party Transactions Review Committee	<p>Review in advance all proposed related party transactions other than those transactions explicitly exempted in the Code.</p> <p>Adopting and reviewing policies and procedures on related party transactions of the Company and overseeing existing policies and procedures.</p> <p>Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board of Directors or Shareholders of the Company.</p>

The Board is also supported by seven Management Committees; namely the Asset and Liability Committee, the Investment Committee, the NPL Committee, the IT Steering Committee, the Credit Committee, the HR Committee and the Real Estate Committee.

The Board meets at least on a monthly basis with special meetings convened if and when the need arises. Board papers are circulated well in advance, providing adequate time for preparation. The Corporate Management is responsible for ensuring that timely and high quality information is provided to the Board, in sufficient time ahead of every meeting. Directors also receive regular briefings designed to update their skills and knowledge and also have the opportunity to participate in relevant external training sessions, such as those organized by the Sri Lanka Institute of Directors. The Board also engaged in an evaluation of its activities on an annual basis, facilitated by the Company Secretary.

Setting Strategic Direction

The Company's activities for the year were aligned to its Strategic Plan for 2017-2019. Strategy is determined based on the Company's value creation process, its competitive strengths and emerging trends in the operating environment.

The Board consistently monitors performance against the Strategic Plan based on a set of defined parameters covering earnings, financial position, credit quality and capitalisation among others. The Strategic Plan for 2017-2019 was also formulated with the key objective of enhancing competitiveness and customer centricity, positioning MBSL for its next phase of growth.

Risk Management and Internal Controls

The Board holds apex responsibility for maintaining sound risk management and internal control frameworks. It is also responsible for determining the risk appetite the Company is willing to take in achieving its growth aspirations. The risk management framework and risk performance during the year are described in the Risk Report on pages 122 to 131 and the Report of the Integrated Risk Management Committee on pages 120 to 121. Directors are also responsible for formulating and implementing a comprehensive framework of internal controls which ensure that assets are safeguarded and the integrity of financial reporting is preserved.

Corporate Governance

Section i

Compliance with Requirements on the Content of the Annual Report in Rule 7.6 of the Listing Rules

CSE Rule No.	Governance Requirement	Extent of Compliance in 2016
7.6 (i)	Names of persons who during the financial year were directors of the Company.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
7.6 (ii)	Principal activities of the Company and its Subsidiaries during the year and any changes therein.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Please refer "Financial Capital" for the 20 largest holders of voting shares. The Company has not issued any non-voting shares.
7.6 (iv)	The Public Holding percentage.	Please refer "Financial Capital".
7.6 (v)	Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year.	Please refer "Financial Capital".
7.6 (vi)	Information pertaining to material foreseeable risk factors.	Please refer "Risk Management Report".
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Please refer "Human Capital".
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties.	Please refer "Note 26" to the "Financial Statements".
7.6 (ix)	Number of shares representing the stated capital.	Please refer "Note 38" to the "Financial Statements" on 'Capital'.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Please refer "Financial Capital".
7.6 (xi)	Ratios and market price information on: EQUITY 1. Dividend per share. 2. Dividend payout. 3. Net asset value per share. 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year). DEBT 1. Interest rate of comparable government security. 2. Debt/equity ratio. 3. Interest cover. 4. Quick asset ratio. 5. The market prices & yield during the year. 6. Changes in credit rating.	Not applicable. Not applicable. Please refer "Statement of Financial Position". Please refer "Financial Capital". Please refer "Financial Capital". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Financial Capital". Please refer "Annual Report of the Board of Directors".

CSE Rule No.	Governance Requirement	Extent of Compliance in 2016
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Please refer "Note 27" to the "Financial Statements" on 'Property & Equipment'.
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement.	The Company has not raised funds through a public issue, a rights issue or a private placement during the year 2016.
7.6 (xiv)	Information in respect of Employee Share Option Schemes or Employee Share Purchase Schemes .	The Company does not have any Employee Share Option Schemes or Employee Share Purchase Schemes at present.
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.	This report provides the disclosures referred to in Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	The Company did not have any related party transactions exceeding this threshold during the year 2016.

Section ii

Compliance with Listing Requirements on Corporate Governance Rules for Listed Companies issued by the Colombo Stock Exchange

CSE Rule No.	Governance Requirement	Extent of Compliance in 2016
7.10.1	Non-Executive Directors	
	a. The board shall include at least, two (2) non-executive directors; or such number of non-executive directors' equivalent to one third (1/3rd) of the total number of directors, whichever is higher.	Complied. All nine (09) directors who comprise the Board are non-executive directors, and have held office prior to and immediately preceding the Annual General Meeting.
	b. The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.	
	c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	
7.10.2	Independent Directors	
	a. Where the constitution of the board includes only two (2) non-executive directors in terms of Rule 7.10.1 above, both such non-executive directors shall be "independent" (as per the criteria set out in Rule 7.10.4 of the CSE Listing Rules). In all other instances two (2) or one third (1/3rd) of non-executive directors appointed to the board, whichever is higher, shall be "independent".	Complied. Three (03) out of the nine (09) directors are independent in terms of the criteria defined by CSE Rule 7.10.4.
	b. The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied.

Corporate Governance

CSE Rule No.	Governance Requirement	Extent of Compliance in 2016
7.10.3	Disclosures relating to Directors	
	a. The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the Annual Report the names of directors determined to be "independent."	Complied.
	b. In the event a director does not qualify as "independent" against any of the criteria set out below but if the board, taking into account all the circumstances, is of the opinion that the director is nevertheless "independent" the board shall specify the criteria not met and the basis for its determination in the Annual Report.	Not applicable.
	c. In addition to disclosures relating to the independence of a director set out above, the board shall publish in its Annual Report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.	Complied. Resume of each director is given on pages 64 to 67 of the Annual Report.
	d. Upon appointment of a new director to its board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.	Complied. The Company Secretary has provided the required information to the Exchange upon appointment of new directors.
7.10.5	Remuneration Committee	
	a. Composition	
	The remuneration committee shall comprise;	Complied.
	of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its board);	Remuneration Committee consists of five (05) non-executive directors, three (03) of whom are independent.
	or	
	of non-executive directors a majority of whom shall be independent, whichever is higher.	
	One (1) non-executive director shall be appointed as Chairman of the committee by the board.	
	b. Functions	
	The remuneration committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer ("CEO") of the company and/or equivalent position thereof, to the board of the company which will make the final determination upon consideration of such recommendations.	Complied. Please refer the 'Remuneration Committee Report' on page 116 of the Annual Report.

CSE Rule No.	Governance Requirement	Extent of Compliance in 2016
c.	<p>Disclosure in the Annual Report</p> <p>The Annual Report should set out the names of directors (or persons in the parent company’s committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.</p>	<p>Complied.</p> <p>The names of the members of the Remuneration Committee are given in the “Remuneration Committee Report” on page 116 of the Annual Report. Fees paid to directors are disclosed in the ‘Notes to Financial Statements’ on page 161 of the Annual Report.</p>
7.10.6	Audit Committee	
a.	<p>Composition</p> <p>The audit committee shall comprise;</p> <p>of a minimum of two (2) independent non-executive directors (in instances where an entity has only two (2) directors on its board);</p> <p>or</p> <p>of non-executive directors, a majority of whom shall be independent, whichever shall be higher.</p> <p>One (1) non-executive director shall be appointed as the Chairman of the audit committee by the board.</p> <p>Unless otherwise determined by the audit committee, the CEO and the Chief Financial Officer (“CFO”) of the company shall attend audit committee meetings.</p> <p>The Chairman or one (1) member of the audit committee should be a Member of a recognized professional accounting body.</p>	<p>Complied.</p> <p>The Audit Committee consists of six (6) non-executive directors, three (3) of whom are independent.</p> <p>Complied.</p>
b.	<p>Functions</p> <p>The audit committee’s functions shall include,</p> <p>(i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards.</p> <p>(ii) Overseeing of the company’s compliance with financial reporting requirements, information requirements of the Companies Act No. 7 of 2007 and other relevant financial reporting related regulations and requirements.</p> <p>(iii) Overseeing the processes to ensure that the company’s internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards.</p> <p>(iv) Assessment of the independence and performance of the company’s external auditors.</p>	<p>Complied.</p> <p>The functions of the audit committee and its Report are given on page 114.</p> <p>Complied.</p> <p>Complied.</p> <p>Not applicable, Since the Auditor General is the external auditor of the Bank where the independence is guaranteed under the Constitution of Sri Lanka and the committee has no role to play in the engagement of the external auditor.</p>

Corporate Governance

CSE Rule No.	Governance Requirement	Extent of Compliance in 2016
	(v) To make recommendations to the board pertaining to appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.	Not applicable.
	c. Disclosure in the Annual Report	
	The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the Annual Report.	Complied.
	The audit committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.	The names of members of the audit committee and its report are given on page 113 of the Annual Report.
	The Annual Report shall contain a report by the audit committee setting out the manner of compliance by the company in relation to the above, during the period to which the Annual Report relates.	

Section iii

Finance Companies (Corporate Governance) Direction No. 3 of 2008 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2016
2	The Responsibilities of the Board of Directors	
2(1)	The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-	Complied.
	a) Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	
	b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years;	The Strategic Plan for 2017- 2019 is available.
	c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	
	d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	
	e) Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	
	f) Identifying and designating key management personnel, who are in a position to;	
	(i) Significantly influence policy;	
	(ii) Direct activities; and	
	(iii) Exercise control over business activities, operations and risk management;	

Section	Governance Requirement	Extent of Compliance in 2016
	<ul style="list-style-type: none"> g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel; h) Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy; i) Periodically assessing the effectiveness of its own governance practices, including: <ul style="list-style-type: none"> (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary; j) Ensuring that the finance company has an appropriate succession plan for key management personnel; k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives; l) Understanding the regulatory environment; m) Exercising due diligence in the hiring and oversight of external auditors. 	
2(2)	The Board shall appoint the Chairman and the Chief Executive Officer ("CEO") and define and approve the functions and responsibilities of the Chairman and the CEO in line with paragraph 7 of this Direction.	Complied.
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 finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	Complied. Directors have obtained independent professional advice when necessary.
2(4)	A director shall abstain from voting on any Board resolution in relation to matter to 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.	Not applicable. No such circumstance arose during the financial year under review.
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 finance company is firmly under its authority.	Complied.
2(6)	The Board shall, if it considers that the finance company is, or 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 the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review.
2(7)	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The "Corporate Governance Report" is included in the Annual Report in pages 72 to 105.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied.
3	Meetings of the Board	
3(1)	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Complied. Please refer page 105 of the Annual Report for details of attendance.
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 finance company.	Complied.
3(3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied.
3(4)	A director who has not attended at least two-thirds (2/3rd) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) 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.	Complied.
3(5)	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied.
3(6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied.
3(7)	All directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied.
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.	Complied.
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 Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.

Section	Governance Requirement	Extent of Compliance in 2016
4	Composition of the Board	
4(1)	The number of directors on the Board shall not be less than five (5) and not more than thirteen (13).	Complied. The Board including the Chairman comprises of nine (09) non – executive directors.
4(2)	Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (09) years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
4(3)	An employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4(4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4th) of the total number of directors.	Complied. Please refer pages 109 to 110 of the Annual Report.
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.	Not applicable. No alternate directors had been appointed.
4(6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors' qualifications and experience are given in pages 64 to 67 of the Annual Report.
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 (1/2) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied. Please refer page 105 of the Annual Report.
4(8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer page 109 of the Annual Report.
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 orderly succession of appointments to the Board.	Complied.
4(10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.
5	Criteria to assess the fitness and propriety of directors	
5(1)	A person over the age of seventy (70) years shall not serve as a director of the finance company.	Complied.
5(2)	A director of the finance company shall not hold office as a director or any other equivalent position in more than twenty (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 ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied.
6.	Delegation of Functions	
6(1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6(2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied.
7	The Chairman and the Chief Executive Officer	
7(1)	The roles of the Chairman and the CEO shall be separate and shall not be performed by one and the same person.	Complied.
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 the 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 finance company's Annual Report.	Not complied.
7(3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the CEO and the nature of any relationship [including financial, business, family or other material /relevant relationship(s)], if any, between the Chairman and the CEO and the relationships among members of the Board.	Complied.

Section	Governance Requirement	Extent of Compliance in 2016
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.
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied.
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.
7(7)	The Chairman shall encourage each director to make 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 finance company.	Complied.
7(8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied.
7(9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied.
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
7 (11)	The CEO shall function as the apex executive-in-charge of day-to-day management of the finance company's operations and business.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2016
8	Board appointed Committees	
8(1)	<p>Every finance company shall have at least the two (2) Board committees set out in paragraph 8(2) and 8(3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee.</p> <p>The Board shall present a report on the performances, duties and functions of each Committee, at the annual general meeting of the finance company.</p>	<p>Complied.</p> <p>The Audit Committee, Remuneration Committee, Integrated Risk Management Committee and the Related Party Transactions Review Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 113, 117, 121 and 118 of the Annual Report.</p>
8(2)	<p>Audit Committee</p> <p>The following shall apply in relation to the Audit Committee:</p>	
8(2) (a)	The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied.
8 (2) (b)	The Board members appointed to the audit committee shall be non-executive directors.	<p>Complied.</p> <p>The Audit Committee consists of six (6) non- executive directors, three (3) of whom are independent.</p>
8 (2) (c)	<p>The audit 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 Central Bank guidelines issued to external 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 (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.</p>	<p>Not Applicable.</p> <p>The Auditor General is the external auditor of MBSL.</p>
8 (2) (d)	The Audit 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>Not Applicable.</p> <p>MBSL's auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.</p>

Section	Governance Requirement	Extent of Compliance in 2016
8 (2) (e)	<p>The audit 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 audit 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 auditor's independence or objectivity in relation to the provision of non-audit services, the audit 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>Not Applicable.</p> <p>This does not arise since the Auditor General is the Auditor of MBSL.</p>
8 (2) (f)	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with the Directions issued under the Finance Companies Act No. 78 of 1988 (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 (1) auditor is involved.</p>	<p>Complied.</p> <p>The scope and extent of audit have been determined by the Auditor General.</p>
8 (2) (g)	<p>The audit 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 audit committee shall focus particularly on: (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>	<p>Complied.</p> <p>The Audit Committee reviews the Company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.</p>
8 (2) (h)	<p>The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters 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.</p> <p>The Audit Committee discusses issues, problems and reservations arising from the final audit. The representatives of BDO Partners, Chartered Accountants, who assisted the Auditor General in the year 2016 audit met the Audit Committee.</p>
8 (2) (i)	<p>The audit committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied.</p>

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
8 (2) (j)	<p>The audit committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> (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; (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; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the audit 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; (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. 	Complied.
8 (2) (k)	The audit committee shall consider the major findings of internal investigations and management's responses thereto;	<p>Complied.</p> <p>Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.</p>
8 (2) (l)	The CFO, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the CEO may also attend meetings upon the invitation of the audit committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors being present.	Please refer the Audit Committee Report on pages 113 to 115 of the Annual Report for details.
8 (2) (m)	The audit committee shall have: (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.	Complied.
8 (2) (n)	The audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied.
8 (2) (o)	<p>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>Complied.</p> <p>Please refer page 114 and 105 of the Annual Report for details of attendance of each individual member at audit committee meetings.</p>

Section	Governance Requirement	Extent of Compliance in 2016
8 (2) (p)	The secretary to the audit committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the audit committee meetings.	Complied. The Head of Internal Audit acts as Secretary of the Audit Committee.
8 (2) (q)	The audit 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 audit committee shall ensure that proper arrangements are in place for the 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.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Division is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.
8 (3)	Integrated Risk Management Committee The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):	
8 (3) (a)	The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC 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 IRMC.	Complied. Please refer the Report on "Risk Management" pages 122 to 131 of the Annual Report for details.
8 (3) (b)	The IRMC shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the 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 company basis and group basis.	Complied.
8 (3) (c)	The IRMC 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 IRMC.	Complied.
8 (3) (d)	The IRMC 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 IRMC on the basis of the company's policies and regulatory and supervisory requirements.	Complied.
8 (3) (e)	The IRMC shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Not Complied.
8 (3) (f)	The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central bank of Sri Lanka.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2016
8 (3) (g)	The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied.
8 (3) (h)	The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.	Complied.
9.	Related Party Transactions	
9(2)	<p>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 purposes 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 ten percent (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 ten percent (10%) of the paid up capital of the finance company, has substantial interest. 	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	

Section	Governance Requirement	Extent of Compliance in 2016
9(4)	<p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph "more favourable treatment" shall mean:</p> <ul style="list-style-type: none"> a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of five (5) years or more. b) Charging a rate of interest lower 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 favorable 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 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 performance of legitimate duties and functions. 	<p>Complied.</p> <p>Please refer Note 41 under "Notes to the Financial Statements" on pages 206 to 209 of the Annual Report.</p>
10	Disclosures	
10(1)	<p>The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	Complied.
10(2)	<p>The Board shall ensure that at least the following disclosures are made in the Annual Report:</p>	
10(2)(a)	<p>A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p>	<p>Complied.</p> <p>Please refer "Directors' Responsibility for Financial Reporting" on page 136 of the Annual Report.</p>
10(2)(b)	<p>A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.</p>	<p>Complied.</p> <p>Please refer pages 134 to 135 of the Annual Report for the relevant report by the Board.</p>

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
10 (2) (c)	The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 135.
10 (2) (d)	Details of directors, including names, transactions with the finance company.	Complied. Please refer page 207 of the Annual Report for details.
10 (2) (e)	Fees/remuneration paid by the finance company to the directors in aggregate.	Complied. Please refer page 110 of the Annual Report for details.
10 (2) (f)	Total net accommodation as defined in paragraph 9(4) of this Direction 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.	Complied. Please refer 'Note 41' under 'Notes to the Financial Statements' on pages 206 to 209 of the Annual Report.
10 (2) (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.	Complied. Please refer 'Note 41' under 'Notes to the Financial Statements' on pages 206 to 207 of the Annual Report.
10 (2) (h)	A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Complied. Please refer the "Annual Report of the Board of Directors on the Affairs of the Company" and the Statement of "Directors' Responsibilities for Financial Reporting" on page 111 and 136 respectively of the Annual Report for details.
10 (2) (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.	No such issue has arisen during the Financial year under review.

Section	Governance Requirement	Extent of Compliance in 2016
10 (2) (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.	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

Section iv

Finance Leasing (Corporate Governance) Direction No.4 of 2009 for Registered Finance Leasing Establishments

Section	Governance Requirement	Extent of Compliance in 2016
2	The Responsibilities of the Board of Directors	
2 (1)	The Board is responsible for strengthening the safety and soundness of the company by- <ul style="list-style-type: none"> a) Approving and overseeing the company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the company; b) Approving the overall business strategy of the company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years; c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently; d) Approving policy of communication with all stakeholders of the company, including lenders, creditors, shareholders and borrowers; e) Reviewing the adequacy and the integrity of the company's internal control systems and management information systems; f) Identifying and designating key management personnel who are in a position to <ul style="list-style-type: none"> (i) significantly influence policy ; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management; g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel; h) Ensuring that there is appropriate oversight of the affairs of the company by key management personnel, that is consistent with the company's policy; 	Complied. The "Strategic Plan for 2017 –2019" is available.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
	<ul style="list-style-type: none"> i) Periodically assessing the effectiveness of its own governance practices, including <ul style="list-style-type: none"> (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests; and (iii) The identification of weaknesses and implementation of changes where necessary; j) Ensuring that the company has an appropriate succession plan for key management personnel; k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives; l) Understanding the regulatory environment; m) Exercising due diligence in the hiring and oversight of external auditors; 	
2(2)	The Board shall appoint the Chairman and Chief Executive Officer ("CEO") and define and approve their functions and responsibilities in line with paragraph 7 of this Direction.	Complied.
2(3)	The Board shall determine a procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the company.	Complied. The Directors have obtained independent professional advice when necessary.
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.	Not applicable. No such circumstance arose during the financial year under review.
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.	Complied.
2(6)	The Board shall, if it considers that the company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review.
2(7)	The Board shall include in the company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The "Corporate Governance Report" is included in the Annual Report in pages 72 to 105.
2(8)	The Board shall adopt a scheme of self - assessment to be undertaken by each director annually, and maintain records of such assessment.	Complied.

Section	Governance Requirement	Extent of Compliance in 2016
3	Meetings of the Board	
3 (1)	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolution/papers shall be avoided as far as possible.	Complied. Please refer page 105 of the Annual Report for details of attendance.
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.	Complied.
3 (3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied.
3 (4)	A director who has not attended at least two-thirds (2/3rd) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the director's meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied.
3 (6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied.
3 (7)	All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied.
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.	Complied.
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 a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
4	Composition of the Board	
4 (1)	The number of directors on the Board shall not be less than five (5) and not more than nine (9).	Complied. The Board including the Chairman comprises of nine (09) non-executive directors.
4 (2)	Subject to paragraph 5(1) of this Direction and the transitional provisions contained herein the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (9) years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
4 (3)	An employee of the company may be appointed, elected or nominated as a director of the company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4 (4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4th) of the total number of directors.	Complied. Please refer to pages 109 to 110 of the Annual Report.
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.	Complied. No alternate directors had been appointed.
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors' qualifications and experience are given in pages 64 to 67 of the Annual Report.
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 third (1/3rd) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied. Please refer page 105 of the Annual Report.
4 (8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the company. The company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer page 109 of the Annual Report.
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 orderly succession of appointments to the Board.	Complied.

Section	Governance Requirement	Extent of Compliance in 2016
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
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 regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.
5	Criteria to assess the fitness and propriety of directors	
5 (1)	A person over the age of seventy (70) years shall not serve as a director of the company.	Complied.
5 (2)	A director of the company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/ societies/ bodies corporate, including associate companies and subsidiaries of the company. Provided that such director shall not hold office of a director or any other equivalent position in more than ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied.
6	Management functions delegated to the Board	
6 (1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6 (2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the company.	Complied.
7	The Chairman and the Chief Executive Officer	
7 (1)	The roles of the Chairman and the CEO shall be separated and shall not be performed by one and the same person.	Complied.
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 the 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.	Not complied.
7 (3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the CEO and the nature of any relationship [including financial, business, family or other material /relevant relationship(s)], if any, between the chairman and the CEO and the relationships among members of the Board.	Complied.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
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.
7 (5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the company secretary.	Complied.
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.
7 (7)	The Chairman shall encourage each director to make 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.
7 (8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied.
7 (9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied.
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
7 (11)	The CEO shall function as the apex executive-in-charge of day-to-day management of the Company's operations and business.	Complied.
8	Board appointed Committees	
8 (1)	Every company shall have at least two (2) Board committees set out in paragraph 8(2) and 8(3) of this Direction. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the Committee. The Board shall present a report on the performances, duties and functions of each Committee, at the AGM of the Company.	Complied. The Audit Committee, Remuneration Committee, Integrated Risk Management Committee and the Related Party Transactions Review Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 113, 117, 121 and 118 of the Annual Report.

Section	Governance Requirement	Extent of Compliance in 2016
8 (2)	Audit Committee The following shall apply in relation to the Audit Committee:	
8 (2) (a)	The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied.
8 (2) (b)	The majority of the Board members appointed to the audit committee shall be non-executive directors.	Complied. The Audit Committee consists of six (6) non-executive directors, three (3) of whom are independent.
8 (2) (c)	The audit committee shall make recommendations on matters in connection with: <ul style="list-style-type: none"> (i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to external auditors from time to time, (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the external auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term. 	Not Applicable. The Auditor General is the external auditor of MBSL.
8 (2) (d)	The audit 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.	Not Applicable. MBSL's auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
8 (2) (e)	<p>The audit committees 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 audit committee shall ensure that provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the audit 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 individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor. 	<p>Not Applicable.</p> <p>This does not arise since the Auditor General is the Auditor of MBSL.</p>
8 (2) (f)	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the company's compliance with Directions issued under the Finance Leasing Act No. 56 of 2000 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 (1) auditor is involved.</p>	<p>Complied.</p> <p>The scope and extent of audit have been determined by the Auditor General.</p>
8 (2) (g)	<p>The audit committee shall review the financial information of the company, in order to monitor the integrity of the financial statements of the company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the company's Annual Report and accounts and periodical reports before submission to the Board, the Audit Committee shall focus particularly on: (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>	<p>Complied.</p> <p>The Audit Committee reviews the Company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.</p>
8 (2) (h)	<p>The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters 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.</p> <p>The Audit Committee discusses issues, problems and reservations arising from the final audit. The representatives of BDO Partners, Chartered Accountants, who assisted the Auditor General in the year 2016 audit met the Audit Committee.</p>

Section	Governance Requirement	Extent of Compliance in 2016
8 (2) (i)	The audit committee shall review the external auditor’s management letter and the management’s response thereto.	Complied.
8 (2) (j)	<p>The audit committee shall take the following steps with regard to the internal audit function of the company:</p> <ul style="list-style-type: none"> <li data-bbox="288 629 932 723">(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; <li data-bbox="288 741 954 864">(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; <li data-bbox="288 882 963 943">(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; <li data-bbox="288 960 963 1055">(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; <li data-bbox="288 1072 963 1261">(v) Ensure that the audit 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; <li data-bbox="288 1279 919 1368">(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; 	Complied.
8 (2) (k)	The audit committee shall consider the major findings of internal investigations and management’s responses thereto;	Complied. Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.
8 (2) (l)	The CFO, the Chief Internal Auditor and a representative of the external auditors may normally attend audit committee meetings. Other Board members and the CEO may also attend meetings upon the invitation of the Audit Committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors of the Company being present.	Please refer the Audit Committee Report on pages 113 to 115 of the Annual Report for details.
8 (2) (m)	The audit committee shall have: (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.	Complied.
8 (2) (n)	The audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
8 (2) (o)	The Board shall, in the Annual Report, disclose in an informative way, <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. 	Complied. Please refer page 114 and 105 of the Annual Report for details of attendance of each individual member at Audit Committee meetings.
8 (2) (p)	The secretary to the audit committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the Audit Committee meetings.	Complied. The Head of Internal Audit acts as Secretary of the audit committee.
8 (2) (q)	The audit 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 audit committee shall ensure that proper arrangements are in place for the 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.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Division is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.
8 (3)	Integrated Risk Management Committee The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):	
8 (3) (a)	The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC 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 IRMC.	Complied. Please refer the Report of the Risk Management on pages 122 to 131 of the Annual Report for details.
8 (3) (b)	The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC 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 IRMC.	Complied.
8 (3) (c)	The IRMC 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 risk limits as specified by the IRMC.	Complied.

Section	Governance Requirement	Extent of Compliance in 2016
8(3)(d)	The IRMC 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 IRMC on the basis of the company's policies and regulatory and supervisory requirements.	Complied.
8(3)(e)	The IRMC shall meet, at least quarterly, to assess all aspects of risk management including updated business continuity plans.	Not Complied.
8(3)(f)	The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied.
8(3)(g)	The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied.
8(3)(h)	The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.	Complied.
9. Related Party Transactions		
9(2)	<p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> a) A subsidiary of the company; b) Any associate company of the company; c) A director of the company; d) A key management personnel of the company; e) A relative of a director or a key management personnel of the company ; f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company; g) A concern in which a director of the company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company, has substantial interest. 	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
9 (3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> (a) Granting accommodation, (b) Creating liabilities to the company in the form of borrowings or investments, (c) Providing financial or non-financial services to the company or obtaining those services from the company, (d) Creating or maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	Complied.
9 (4)	<p>The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to an unrelated comparable counterparty of the company. For the purpose of this paragraph "more favorable 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 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 company's share capital and debt instrument with a remaining maturity of five (5) years. b) Charging a rate of interest lower than the 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 favorable 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 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 performance of legitimate duties and functions. 	<p>Complied.</p> <p>Please refer Financial Statements, 'Note 41' - 'Related party Transactions' on pages 206 to 209 of the Annual Report.</p>

Section	Governance Requirement	Extent of Compliance in 2016
10.	Disclosures	
10 (1)	The Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	Complied.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
10 (2) (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.	Complied. Please refer "Directors' Responsibility for Financial Reporting" on page 136 of the Annual Report.
10 (2) (b)	A report by the Board on the 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.	Complied. Please refer pages 134 to 135 of the Annual Report for the relevant report by the Board.
10 (2) (c)	The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 135.
10 (2) (d)	Details of directors, including names, transactions with the company.	Complied. Please refer page 207 of the Annual report for details.
10 (2) (e)	Fees/remuneration paid by the company to the directors in aggregate.	Complied. Please refer page 110 of the Annual Report for details.
10 (2) (f)	Total net accommodation as defined in paragraph 9(4) of this Direction 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 capital funds of the company.	Complied. Please refer 'Note 41' under 'Notes to the Financial Statements' on pages 206 to 209 of the Annual Report.
10 (2) (g)	The aggregate values of remuneration paid by the company to its key management personnel and the aggregate values of the transactions of the company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and borrowing through debt instruments or investments made in the company.	Complied. Please refer 'Note 41' under 'Notes to the Financial Statements' on pages 206 to 207 of the Annual Report.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2016
10 (2) (h)	A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied. Please refer the "Annual Report of the Board of Directors" on the Affairs of the Company and the Statement of "Directors' Responsibilities for Financial Reporting" on pages 111 and 136 respectively of the Annual Report for details.
10 (2) (i)	The external auditor's certification of the compliance with the Finance Leasing Act No. 56 of 2000 and directions issued by the Director of Department of Supervision of Non-Bank Financial Institutions in the annual corporate governance reports.	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

Attendance at the Meetings of the Board & Sub-Committees held during the financial year 2016

Name of the Director	Directorship Status	Board	Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Related Party Transactions Review Committee	No. of Meetings Held
		23	03	01	03	01	
Mr. E. M. R. C. Perera (Chairman) Resigned w.e.f. 26.07.2016	Non Independent Non Executive Director	10	N/A	N/A	N/A	N/A	
Ms. S. P. Wellappili Resigned w.e.f. 17.05.2016	Non Independent Non Executive Director	04	N/A	N/A	N/A	N/A	
Mr. R. T. Wijesinha Resigned w.e.f. 28.06.2016	Non Independent Non Executive Director	06	N/A	N/A	N/A	N/A	
Mr. C. N. Wijewardane	Non Independent Non Executive Director	21	N/A	01	03	01	
Mr. A. S. Padmaperuma Resigned w.e.f. 26.07.2016	Non Independent Non Executive Director	09	N/A	N/A	N/A	N/A	
Mr. H. P. A. Gunawardana Resigned w.e.f. 26.07.2016	Non Independent Non Executive Director	09	N/A	N/A	N/A	N/A	
Dr. S. Lokuhewa (Chairman)	Non Independent Non Executive Director	13	N/A	01	N/A	N/A	
Mr. D. M. Gunasekara	Non Independent Non Executive Director	12	N/A	00	N/A	N/A	
Mr. W. P. R. P. H. Fonseka	Non Independent Non Executive Director	10	03	N/A	N/A	01	
Mr. K. B. S. Bandara	Non Independent Non Executive Director	10	02	N/A	02	00	
Mr. N. Perera	Non Independent Non Executive Director	11	03	00	N/A	N/A	
Mr. S. N. Dayaratne	Independent Non Executive Director	13	03	01	N/A	01	
Mr. S. P. Arsakularatne	Independent Non Executive Director	12	03	00	N/A	00	
Mr. H. J. D. Fonseka	Independent Non Executive Director	12	00	01	02	01	

Annual Report of the Board of Directors on the Affairs of the Company

1. General

The Directors have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31st December 2016 of Merchant Bank of Sri Lanka & Finance PLC.

Merchant Bank of Sri Lanka & Finance PLC is a public limited liability company incorporated on 04th March 1982 under the Companies Ordinance (Cap.145), re-registered under the provisions of the Companies Act No.07 of 2007 and is quoted on the Colombo Stock Exchange since 1991. The Company is registered as a Finance Company licensed under the Finance Business Act No. 42 of 2011 and registered as a Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

The Audited Financial Statements included in this Annual Report have been prepared and presented with the relevant

disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

The Registered Office of the Company is situated at Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 03 at which address the Company's head office is also located.

This Report provides the information as required by the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on 17 May 2017.

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report and is disclosed hereunder in respect of the year under review (i.e., for the year ended 31st December 2016)

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference (section of the Companies Act No. 7 of 2007)	Extent of compliance by the Company
i The nature of the business of the Group and the Company together with any change thereof during the accounting period and the classes of business in which the Company has an interest	Section 168 (1) (a)	Refer on page 146
ii Signed Financial Statements of the Company and the Group for the accounting period completed	Section 168 (1) (b)	Refer on page 140
iii Auditors' Report on the Financial Statements of the Company and of the Group	Section 168 (1) (c)	Refer on page 137
iv Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer on page 146
v Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on pages 206 to 209
vi Director's fee and other benefits paid to Directors of the Company and its subsidiaries during the accounting period	Section 168 (1) (f)	Refer on page 110
vii Information on donations made by the Company during the accounting period	Section 168 (1) (g)	Refer on page 111
viii Names of Directors of the Company as at the end of the accounting period and the names of persons who ceased to hold office as directors during the accounting period	Section 168 (1) (h)	Refer on pages 109 to 110
ix Disclosure on amounts payable to the Auditor as Audit Fees and a separate disclosure on amounts payable to the Auditor as Fees for other services rendered during the accounting period	Section 168 (1) (i)	Refer on page 111
x Particulars of the Auditors' relationship with the Company and/or any of its subsidiaries (other than that of Auditor) or any interest the Auditor has in the Company and/or its Subsidiaries	Section 168 (1) (j)	Refer on page 111
xi Acknowledgement of the contents of this Report/Signatures on behalf of the Board by any two directors and the Company Secretary	Section 168 (1) (k)	Refer on page 112

2. Vision, Mission & Corporate Conduct

The Company's vision, mission and values are given on page 3 of this Report.

3. Principal Activities

The Company is a registered Finance Leasing Company under the provisions of the Finance Leasing Act No.56 of 2000 and a Finance Company licensed by the Monetary Board of Central Bank of Sri Lanka under the Finance Business Act No 42 of 2011. The Company is also a registered Market Intermediary by the Securities and Exchange Commission of Sri Lanka under the categories of (i) Margin Provider (ii) Underwriter and (iii) Investment Manager. MBSL has a subsidiary and an associate Company namely, MBSL Insurance Company Limited and Lanka Securities (Private) Limited respectively, which collectively constitute the Group.

The principal activities of the Company are Leasing and Hire Purchase, Corporate and Retail Credit, Corporate Advisory, Capital Market activities, lending to SMEs and Agriculture sectors, deposit mobilization and the provision of other related financial services.

The principal activities of the subsidiary and associate are given in the Note 2.3 to the Financial Statement on page 146.

4. Review of Operations

A review of the operations of the Company during the financial year ended 31st December 2016 and results of those operations are contained in the Chairman's Review on pages 6 to 7, the Chief Executive Officer's Review on pages 8 to 9, and Management Discussion and Analysis on pages 36 to 59. These reports form an integral part of the Annual Report.

5. Future Outlook

An overview of the future plans and developments of the Company is presented in the Chairman's Review on page 7 and Chief Executive Officer's Review on page 9 of this Annual Report.

6. Financial Statements of the Company and the Group

The Audited Financial Statements of the Company and of the Group for the year ended 31st December 2016 duly signed by the Head of Finance, the Chief Executive Officer and approved by the Board of Directors of the Company

are given on pages 140 to 238 and form an integral part this Report of the Board.

7. Directors' Responsibility for Financial Reporting

The Board of Directors are responsible for the preparation of the Financial Statements of the Group and the Company, which reflects a true and fair view of the state of affairs of the Company and of the Group. The Directors are of the view that the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, Significant Accounting Policies and Notes thereto appearing on pages 140 to 238 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Finance Leasing Act No. 56 of 2000, Finance Business Act No 42 of 2011, Regulation of Insurance Industry Act No 43 of 2000 and the Banking Act No 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility for Financial Reporting' appearing on page 136 forms an integral part of this Report.

8. Auditors' Report

The Auditor General is the Auditor of the Merchant Bank of Sri Lanka & Finance PLC in terms of the provisions of the article 154(4) of the Constitution of the Democratic Socialist Republic of Sri Lanka. Report of the Auditor General on the Financial Statements of the Company and the Consolidated Financial Statements for the year ended 31st December 2016 is given on pages 137 to 138 of this Annual Report.

9. Significant Accounting Policies and Changes During the Year

During the year under review, there were no changes in the accounting policies that had been adopted by the Group and the Company were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standards LKAS 01 on 'Presentation of Financial Statements' and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007. The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Company are given on pages 146 to 238 of the Annual Report.

Annual Report of the Board of Directors on the Affairs of the Company

10. Income

The income of the Company for the year ended 31st December 2016 was Rs.4,888 Mn (2015-Rs. 4,217). An analysis of the Income is given in Note 4 to the Financial Statements on page 156.

11. Financial Results & Appropriations

Details of the Company & Group performance and appropriation of profit are tabulated as follows.

	Company		Group	
	2016 Rs. Mn	2015 Rs. Mn	2016 Rs. Mn	2015 Rs. Mn
For the year ended 31st December				
Profit before taxation	239.87	(35.43)	246.80	56.00
Taxation	(154.25)	(42.88)	(165.66)	(52.72)
Profit after taxation	85.62	(78.31)	81.14	3.28
Profit brought forward from the previous year	747.41	842.94	746.02	742.99
Profit available for appropriation	833.03	764.63	827.16	746.27
Super Gain Tax	-	(38.75)	-	(38.75)
	833.03	725.88	827.16	707.52
Appropriations				
Other comprehensive income	37.26	21.53	39.53	19.63
Transfer to reserves	(17.12)	-	(17.12)	-
Total appropriation	20.14	21.53	22.41	19.63
Non-Controlling Interest	-	-	36.71	18.87
Un-appropriated profit carried forward	853.17	747.41	886.28	746.02

12. Reserves

A summary of Company and Group reserves are given below.

For the year ended 31st December	Company		Group	
	2016 LKR Mn.	2015 LKR Mn.	2016 LKR Mn.	2015 LKR Mn.
Statutory Reserve Fund	157.67	140.54	157.67	140.54
Available-for-Sale Reserve	(21.80)	(4.35)	(36.20)	(8.92)
Retained Earnings	853.17	747.41	886.28	746.02

Information on the movement of reserves are given in the Statement of Changes in Equity on page 144 and in 'Note 39' respectively to the Financial Statements on pages 205 to 206.

13. Taxation

The Company is liable for income tax at the rate of 28% (2015-28%) and VAT on Financial Services at 11% - 15%.

14. Statutory Payments

The Board of Directors confirm that to the best of their knowledge and belief, statutory payments to all relevant regulatory and statutory authorities have been paid by the Company.

15. Property & Equipment

The total capital expenditure incurred on the acquisition of property & equipment and intangible assets of the Group and the Company amounted to Rs. 175Mn and Rs. 167Mn respectively. The details of property & equipment of the Company are given in Note 27 to the Financial Statements on pages 191 to 194.

16. Market Value of Freehold Properties

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer. The Directors are of the opinion that the carrying amount is not in excess of the current market values of the property. The details of freehold property owned by the Company are given in 'Note 27' to the Financial Statements on page 193.

17. Issue of Shares and Debentures

The Company did not issue any shares and debentures during the financial year.

18. Stated Capital and Debentures

The Company's Stated Capital as at 31st December 2016 was LKR 2,124.46 Mn, comprising of 165,874,541 ordinary voting shares. The details of the Stated Capital are given in Note 38 to the Financial Statements on page 205.

The details of debentures redeemed during the year ended 31st December 2016 and those outstanding as at 31st December 2016 are given in 'Note 32.1' to the Financial Statements on page 198.

19. Capital Adequacy

The Company ensures that it maintains the statutory requirement on core capital and supplementary capital, to mitigate the liquidity risk and safe guard the depositors, thus

ensuring the sustainability of the Company and the industry as a whole. Core capital and total risk weighted capital adequacy ratios of the Company stood at 10.66 percent and 10.69 percent respectively as at 31st December 2016. The information on minimum capital requirement is given on page 238.

20. Share Information

Information relating to earnings, net assets and market value per share is given in 'Financial Highlights' on page 11. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given in the Section on 'Financial Capital' on pages 39 to 41.

21. Substantial Shareholdings

Information on Top Twenty Shareholders

Details of the top twenty shareholders percentages of their respective holdings and percentage holding of the public are given in the section on 'Financial Capital' on pages 40 to 41.

22. Directors

The names of the Directors who comprised the Board of Directors of the Company as at 31st December 2016 are given below and their attendance at the board meetings during the year is given on page 105 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent / Non-Independent Status
Dr. S Lokuhewa	Chairman Non Executive Director	Non-Independent
Mr. C N Wijewardane	Non Executive Director	Non-Independent
Mr. D M Gunasekara	Non Executive Director	Non Independent
Mr. W P R P H Fonseka	Non Executive Director	Non-Independent
Mr. K B S Bandara	Non Executive Director	Non-Independent
Mr. N Perera	Non Executive Director	Non-Independent
Mr. S N Dayaratne	Non Executive Director	Independent
Mr. S P Arsakularatne	Non Executive Director	Independent
Mr. H J D Fonseka	Non Executive Director	Independent

Annual Report of the Board of Directors on the Affairs of the Company

Appointments during the year under review

Mr. E M Ronald C. Perera, Ms. S. P. Wellapili, Mr. R T Wijesinha, Mr. C N Wijewardane, Mr. A S Padmaperuma and Mr. H P A Gunawardana were appointed to the directorate of MBSL with effect from 02.03.2016 in terms of the direction issued by the Monetary Board of the Central Bank of Sri Lanka under section 12(6) of the Finance Business Act No. 42 of 2011.

Dr. S Lokuhewa, Mr. D M Gunasekara, Mr. W P R P H Fonseka, Mr. K B S Bandara, Mr. N Perera, Mr. S N Dayaratne, Mr. S P Arsakularatne and Mr. H J D Fonseka were appointed to the directorate of MBSL with effect from 26.07.2016.

Resignations during the year under review

Mr. R P K Gallage, Mr. D M Gunasekara, Mr. S S Gamage, Mr. A H Samarasinghe, Mr. S L Rahaman, Mr. L C De Silva, Mr. B J Sinniah and Mr. W P R P H Fonseka (Alternate Director to Mr. D M Gunasekara) vacated office as Director in terms of Article 84(b) of the Articles of Association of the Company with effect from 02.03.2016.

Ms. S P Wellappili resigned from the directorate of MBSL with effect from 17.05.2016.

Mr. R T Wijesinha ceased as director from the directorate of MBSL with effect from 28.06.2016 since he did not offer himself for election at the Annual General Meeting held on 28.06.2016

Mr. E M Ronald C. Perera, Mr. A S Padmaperuma and Mr. H P A Gunawardana resigned from the directorate of MBSL with effect from 26.07.2016.

Appointments after 1st January 2017

Mr. R M D V Jayabahu was appointed as Alternate Director to Mr. K B S Bandara - Non-Independent / Non Executive Director w.e.f. 20.04.2017.

Mr. D M L B Dassanayake was appointed as Alternate Director to Mr. D M Gunasekara -Non-Independent / Non Executive Director w.e.f 12.05.2017.

Resignations after 1st January 2017

None.

Recommendations for election

Dr. S Lokuhewa, Mr. D M Gunasekara, Mr. W P R P H Fonseka, Mr. K B S Bandara, Mr. N Perera, Mr. S N Dayaratne, Mr. S P Arsakularatne and Mr. H J D Fonseka retire in terms of Article 93 of the Articles of Association of the Company and being

eligible for election have each offered themselves for election at the forthcoming Annual General Meeting and are so recommended by the Board of Directors.

Mr. C N Wijewardane retire in terms of Article 86 read with Article 87 of the Articles of Association of the Company and being eligible for re-election has offered himself for re-election at the forthcoming Annual General Meeting and is recommended by the Board of Directors.

23. Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings namely Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee are presented on pages 105.

24. Interests Register

In compliance with the provisions of the Companies Act No.7 of 2007, an Interests Register is maintained by the Company.

The Company's Directors have made general declarations in relation to their respective interests in transactions/proposed transactions with the Company as provided for in section 192(2) of the Companies Act No.7 of 2007. Arising from these, details of contracts in which the Directors' have an interest are given under 'Note 41' to the Financial Statements on pages 206 to 209 of the Annual Report, dealing with related party disclosures.

25. Directors' Remuneration

Directors' fees and emoluments paid during the year are as follows:

	Company LKR'Mn	Group LKR'Mn
Directors' Fees and Emoluments	4.12	7.37

26. Directors' Interest in Shares of the Company

None of the Directors of the Board held shares in the Company as at 31st December 2016 except for Mr. C N Wijewardana who held 4,235 shares.

27. Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 206 to 209.

28. Related Party Transactions

Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standard - LKAS 24- Related Party Disclosures which is adopted in the preparation of the Financial Statements. This disclosure is given in Note 41 to the Financial Statements on page 206 which form an integral part of the Annual Report of the Board of Directors.

29. Appointment of Auditors

The retiring Auditors, the Auditor General have expressed their willingness to continue in office for the financial year 2017.

A resolution to re-appoint the Auditor General and to authorize the Directors to determine their audit fees will be proposed at the forthcoming Annual General Meeting.

30. Auditors' Remuneration and Interests in the Company / Group

The Auditors, Auditor General were paid Rs. 1,917,685 for the year ended 31st December 2016 as audit fees by the Company. In addition, they were paid Rs. 625,000 by the Company, for permitted non-audit-related services.

As far as the Board of Directors are aware, the Auditors do not have any other relationship or interests in the Company or its Subsidiary or Associate.

31. Compliance with Laws and Regulations

The Company has not engaged in any activity contravening any laws and regulations.

32. Environmental Protection

The Company has used its best endeavours to comply with the relevant environmental laws and regulations. The Company has not engaged in any activity that is harmful or hazardous to the environment.

33. Corporate Donations

During the year under review, the Company has made donations amounting to Rs. 197,286 (2015 - Rs. 230,737) in terms of the resolution passed at the last Annual General Meeting. This amount excludes contributions made towards the Company's Corporate Social Responsibility (CSR) initiatives. The CSR initiatives of the Company are presented in Social and Relationship Capital Report given on pages 52 to 56 of this Annual Report.

34. Events after the Reporting Period

Details of events after the reporting period are reflected in Note 43 to the Financial Statements on page 213.

35. Outstanding Litigation

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company disclosed in 'Note 47' of the Financial Statements on page 218 will not have a material impact on the financial position of the Company or on its future operations.

36. Going Concern

The Board of Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, the Board of Directors continue to adopt the going concern basis in preparing Financial Statements even though, Subsidiary Company, MBSL Insurance Company Limited (MBSLI) has issues with reference to the going concern of the Company (MBSLI) as discussed in the 'Note 44' to the Financial Statements on page 214.

37. Risk Management and System of Internal Controls

Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Company in managing risks are detailed in the Risk Management Report on pages 122 to 131.

38. Corporate Governance

Directors' Declarations

The Board of Directors declare that-

- (a) The Company complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations.
- (b) The Directors have declared all material interests in contracts involving the Company.
- (c) All endeavors have been made to ensure that the Company's shareholders have been treated equitably in accordance with the original Terms of Issue.

Annual Report of the Board of Directors on the Affairs of the Company

- (d) The business operates as a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Company's Corporate/Business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company, its Subsidiary and Associate Company are prepared based on the going concern concept, and
- (e) The Directors have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence herewith.

The measures taken and the extent to which the Company has complied with the Codes of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 72 to 105.

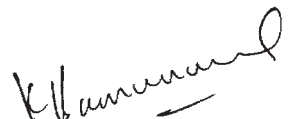


Dr. S Lokuheva
Chairman

17th May 2017
Colombo



C N Wijewardana
Director



K Jayatilake
Company Secretary

39. Human Resources

The Company continued to implement appropriate Human Resource Management Policies to develop employees and optimize their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees which has resulted in high motivation.

40. Annual General Meeting

The Thirty Fifth Annual General Meeting of the Company will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Tuesday 27th June 2017 at 10.00 am. The Notice convening the Thirty Fifth Annual General Meeting is given on page 278.

41. Acknowledgement of the Contents of the Report

As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007, the Board of Directors hereby acknowledge the contents of this Annual Report.

This Annual Report is signed for and on behalf of the Board of Directors by:

Audit Committee Report

The Audit Committee of Merchant Bank of Sri Lanka & Finance PLC (MBSL) functions in terms of the Audit Committee Charter approved by the Board of Directors. The scope of the Audit Committee Charter is reviewed and updated regularly incorporating the provisions of the new regulatory requirements, Standards and Acts.

Composition of Audit Committee

Pursuant to a reconstitution of the Board in March 2016, the Audit Committee comprised of the following members:

- Mr. Ranel. T. Wijesinha – Chairman
Non Executive
Non Independent Director
(Appointed w.e.f 29/04/2016 and resigned w.e.f 26/07/2016)
- Mr. C.N. Wijewardane – Member
Non Executive
Non Independent Director
(Appointed w.e.f 29/04/2016 and resigned w.e.f 26/07/2016)
- Mr. A. S. Padmaperuma – Member
Non Executive
Independent Director
(Appointed w.e.f 29/04/2016 and resigned w.e.f 26/07/2016)

With the reconstitution of the Board that took place in July 2016, the composition of the committee is as follows:

- Mr. W.P.R.H Fonseka – Chairman
Non Executive
Non Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. K.B.S Bandara – Member
Non Executive
Non Independent Director
(Appointed w.e.f 10/08/2016 and resigned w.e.f 23/12/2016)
- Mr. N. Perera – Member
Non Executive
Independent Director
(Appointed w.e.f 10/08/2016)

- Mr. S.N. Dayaratne – Member
Non Executive
Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. S. Arsakularatne – Member
Non Executive
Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. H.J.D. Fonseka – Member
Non Executive
Independent Director
(Appointed w.e.f 23/12/2016)

The Committee Meetings

The Committee held 3 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors.

The Chief Executive Officer, Head of Finance, attend the meetings by invitation. The Heads of Divisions were invited to the meetings of the Committee at various times to get clarifications.

Assistant General Manager – Internal Audit is the Secretary to the Committee

Key Responsibilities of the Committee

Audit Committee of the MBSL which functions as a subcommittee of the Main Board, assists the Main Board in fulfilling its oversight responsibilities and provides an independent review of the financial reporting process. The following areas come under the purview of the Audit Committee;

Financial reporting

- a) Reviews the financial information of the Company in order to ensure the integrity of the financial statements, its Annual Report, accounts etc.
- b) Evaluating, reviewing and monitoring the adequacy and effectiveness of the internal control systems to ensure integrity of the financial reporting.

Audit Committee Report

Compliance

- a) Reviews the effectiveness of the systems and procedures adopted by the Company and monitors compliance with applicable laws and regulations.
- b) Reviews the findings of the examinations carried out by regulatory agencies and/or any auditor on compliance with such laws and regulations.
- c) Follows-up of any instances of non-compliance with statutory and regulatory requirements

Internal Audit

- a) Reviews performance of the Internal Audit Function, audit reports and follow up on recommendations
- b) Reviews the audit charter, audit plans, activities, audit scope, reporting requirements, etc. of the internal audit function of the Company
- c) Reviews findings and recommendations by the Internal Auditors, together with comments made by Management
- d) Assesses the effectiveness of such findings and responses.

External Audit

- a) Evaluates the independence and objectivity of the External Auditors and the effectiveness of the audit process
- b) Coordination with Internal Audit.
- c) Reviews the External Audit Report on the financial statements and Management Letter outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.
- d) The Committee meets the External Auditors separately to discuss any matters that the Committee or Auditors believe should be discussed privately.

Summary of the Activities carried out by the Committee during the year

During the year under review the Committee discharged its duties as follows;

Financial information

- a) The quarterly and annual financial statements of the Company were reviewed and discussed with the Management and the External Auditors, prior to dissemination to the public, including the extent of compliance with Sri Lanka Accounting Standards and the adequacy of disclosures required by other applicable laws, rules and guidelines.

- b) Evaluated the adequacy and effectiveness of internal control systems to ensure integrity of the financial reporting

Compliance:

- a) Reviewed the effectiveness of the systems and procedures of the Company to monitor compliance with applicable laws and regulation of the country.
- b) Reviewed the reports submitted by the Management on the state of compliance with the relevant laws, regulations and settlement of statutory payments was reviewed and discussed.

Internal Audits

- a) Assigned the Internal Auditor at regular intervals to review effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation
- b) Reviewed the reports received from the Internal Auditor covering audits and investigations and discussed with the Management on the recommendations made and followed up on the implementation.
- c) Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis.
- d) Reviewed the Internal Audit reports and monitored the implementation of recommendations made therein.

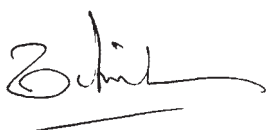
External Audit

- a. The external audit is carried out by the Auditor General in terms of the Constitution of the Country. The Auditor General was assisted by the M/s BDO Partners, Chartered Accountants during the year 2016. Prior to commencement of the Audit, the Audit Committee met with the External Auditors, M/s BDO Partners to review and discuss the process and procedures.
- b. The Committee reviewed the Management Letter issued by the External Auditors and the Management response thereto.
- c. Reviewed and followed up upon final audit issues identified by the Auditors pertaining to the audit for the year 2016

Conclusion

The Audit Committee is satisfied that internal controls which provide a reasonable assurance that the affairs of the Company are managed in accordance with approved policies of the Company and that the Company's assets are properly accounted for and adequately safeguarded.

The Audit Committee confirms that the responsibilities of the Audit Committee in terms of the Direction No.4 of 2009 on Corporate Governance issued by the Central Bank and the Listing Rules of the Colombo Stock Exchange have been complied with.



W P R P H Fonseka

Chairman - Audit Committee

17th May 2017

Colombo

Remuneration Committee Report

The Remuneration Committee is a sub-committee of the Board of Directors comprising of the following members.

- Mr. Ruwan Gallage - Chairman/Independent Non Executive Director (vacated office as Director w.e.f. 02.03.2016)
- Mr. Sandun Gamage - Member/ Non-Independent Non Executive Director (vacated office as Director w.e.f. 02.03.2016)

Effective from 29.04.2016 the Remuneration Committee comprised as follows:

- Mr. Ajith Gunawardana - Chairman/ Non-Independent Non Executive Director (resigned from the directorate w.e.f. 26.07.2016)
- Mr. Ranel T. Wijesinha - Member/ Non-Independent Non Executive Director (ceased as director w.e.f. 28.06.2016)

- Mr. C N Wijewardane - Member/ Non-Independent Non Executive Director

Effective from 10.08.2016 the Remuneration Committee comprised as follows:

- Dr. S Lokuhewa - Chairman/Independent Non Executive Director
- Mr. C N Wijewardane - Non Independent/ Non Executive Director
- Mr. D M Gunasekara - Non Independent/Non Executive Director
- Mr. H J D Fonseka - Independent/ Non Executive Director
- Mr. S N Dayaratne - Independent/ Non Executive Director

Effective from 23.12.2016 the Remuneration Committee comprises as follows:

- Dr. S Lokuhewa - Chairman/ Non Independent Non Executive Director
- Mr. C N Wijewardane - Non Independent/ Non Executive Director
- Mr. N Perera - Non Independent/ Non Executive Director
- Mr. H J D Fonseka - Independent/ Non Executive Director
- Mr. S N Dayaratne - Independent/ Non Executive Director
- Mr. S P Arsakularatne - Independent/ Non Executive Director

The Chairman of the Remuneration Committee was also functioning as the Chairman of the Board of Directors. The Remuneration Committee met once during the Financial Year under review.

The Remuneration Committee of Merchant Bank of Sri Lanka & Finance PLC is responsible to determine a broad remuneration framework for the Chairman and the Board of Directors including the Executive (if any) and Non-Executive Directors as well as the Chief Executive Officer.

The Remuneration Policy of the Company endeavours to attract, motivate and retain quality management in a competitive environment with the relevant expertise to achieve the desired objectives of the Company.

In addition to taking into account the long term interest of MBSL and its shareholders, the Remuneration Committee is required to comply with any circulars pertaining to Public Enterprises (Public Finance Enterprises Circulars), any Directions issued by the relevant line Ministry and the concurrence of the Bank of Ceylon in determining the remuneration paid to the Directors.

The Directors are entitled for fees for attendance at Board Meetings and sub-committee meetings (per sitting) and also

a reimbursable travelling allowance. Further, the members are also entitled for the payment of additional fees for any additional services/responsibilities taken by them through committee level participation as may be determined from time to time.


The remuneration of the Chairman shall be determined by taking into account his/her relevant experience, academic and competency levels, leadership qualities and having regard to competitive market rates paid by similar institutions.

The remuneration of the CEO shall be determined based on his/her industry experience, academic and competency levels, leadership credentials, competitive market rates paid by similar institutions and any other relevant factors as may be determined by the Remuneration Committee/Board in line with the remuneration structure of the organization.

The remuneration of the CEO may comprise of different components such as cash and non-cash benefits and will be linked to measurable standards of performance.

The Remuneration Committee makes its recommendations to the Board of Directors for final approval.

The total Directors' emoluments are disclosed in 'Note 13' on page 161 of the Financial Statement.



Dr. S Lokuheva

Chairman - Remuneration Committee

17th May 2017
Colombo

Related Party Transactions Review Committee Report

Purpose of the Committee

The purpose of the Committee is to review in advance all proposed related party transactions other than those transactions explicitly exempted in the Code. Accordingly, except for transactions mentioned under Rule 27 of the Code, all other related party transactions are required to be reviewed by the Committee either prior to the transaction

being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Composition of the Committee

The Related Party Transactions Review Committee is appointed by the Board of Directors of the Company. As at 31st December 2016, it comprises of the following Directors:

	Name of the Directors	Directorship Status	Membership Status
1	Mr. S.N Dayaratne	Non Executive Independent Director	Chairman
2	Mr. C.N Wijewardane	Non Executive Non Independent Director	Member
3	Mr. W.P.R.P.H Fonseka	Non Executive Non Independent Director	Member
4	Mr. K.B.S Bandara	Non Executive Non Independent Director	Member
5	Mr. H.J.D Fonseka	Non Executive Independent Director	Member
6	Mr. S.P Arsakularatne	Non Executive Independent Director	Member

Scope of the Committee

- Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- Reviewing in advance all proposed related party transactions of the Company except those explicitly exempted in the Code under Rule 27
- Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company
- Establishing guidelines in respect of recurrent Related Party Transactions to be followed by the Senior Management in respect of ongoing dealings with the relevant related party
- Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the express purpose of providing information concerning the Related Party Transaction to the Committee

- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulation are made in a timely and detailed manner

Policies and Procedures

The Company has in place a Related Party Transactions Policy (RPT) whereby the categories of persons/entities who shall be considered as "related parties" has been identified. The RPT Policy ensures that the Company does not engage in transactions with related parties in a manner that would grant parties "more favourable" treatment.

In accordance of the RPT policy, self-declarations are obtained from each Director for the purpose of identifying parties related to them.

The Code of Business Conduct and Ethics of the Company, which sets out internal policies applicable to conflicts of interests, also plays a key role in managing Related Party Transactions.

Meetings of the Committee

The Committee was established in the latter part of the year and met once during the year under review. The quorum for a meeting is four members. Members of the Senior Management were invited to participate in the meeting of the committee as required. The Finance Division submitted comprehensive reports on Related Party Transactions to the Committee. Details of all transactions with the related parties during the year 2016 were reviewed by the Committee.

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 41' of this Annual Report.



S N Dayaratne

Chairman - Related Party Transactions Review Committee

17th May 2017
Colombo

Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) of the Merchant Bank of Sri Lanka & Finance PLC (MBSL) functions in terms of the Risk Management Policy approved by the Board of Directors. The Risk Management Policy is reviewed and updated regularly in order to maintain prudent risk management practices within the Company.

Composition of Integrated Risk Management Committee

Board Level Members

Mr.C.N. Wijewardane - Chairman

Non-Executive Non Independent Director

Mr. K.B.S Bandara - Member

Non-Executive Non Independent Director

Mr. H.J.D. Fonseka - Member

Non-Executive Independent Director

Mr. T. Mutugala- Member

Chief Executive Officer

Other Members

Mr. D. Daluwatta - Member

COO & Acting Branches Range 1

Ms. S. Amaratunga - Member

SDGM & Compliance Officer

Mr. S. Uduwawala - Member

DGM - Branches Range 2

Mr. L. Kaluarachchi - Member

DGM - Branches Range 3

Mrs. K. Jayatilake

DGM - Legal & Company Secretary

Mr. L. Peiris - Member

DGM - Gold Loan & Support Services

Mr. J. Gamlath - Member

DGM - Marketing, Product Development, Deposits & Savings

Mr. P. I.Kandanaarachchi - Member

Head of Finance

Mr. C. Withanachchi - Member

Head of IT

Mr. S. Fernando - Member

AGM - Internal Audit

Mr. K. Jayasundera - Member

AGM - Recoveries

Mr. T. D. D. K. Gunawardena - Member

AGM - HR.

Mrs. L. Goonewardena - Member

Acting Chief Manager – Corporate Advisory & Capital Markets

Mr. H. N. Wijayatunga - Member

Manager – Risk Management

The IRMC Meetings

The IRMC held three (03) meetings during the year under review. The Risk Assessment reports and other risk related reports are reviewed at the IRMC meeting and Risk Assessment reports are forwarded to the Board of Directors with recommendations as specified by the corporate governance directions issued by the Central Bank of Sri Lanka (CBSL).

Key Responsibilities of the Committee

IRMC is a Board appointed subcommittee which consists of three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Company Secretary of MBSL acts as the secretary to the committee.

IRMC works closely with key management personnel and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee. In addition to that the committee is responsible for;

- (I) Assess all risks to the 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.
- (II) 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.
- (III) 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 Company's policies and regulatory and supervisory requirements.
- (IV) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
- (V) 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.
- (VI) Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- (VII) Establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

Conclusion

The Committee has reviewed the process of identification, evaluation and management of all significant risks of MBSL and supported execution of the overall business strategy of the Company within predefined risk parameters.



C N Wijewardane

Chairman - Integrated Risk Management Committee

23rd May 2017

Colombo

Risk Management

G4-45-47

Risk Management Review

Proactive and effective risk management is fundamental to the generation of sustainable stakeholder value. As a Company, we are cognizant of the changing dynamics in our industry and understand the vital importance of continuously refining and enhancing our risk management framework and practices. Risk considerations are also a critical input in determining strategy as well as managing our day to day operations. The Company's holistic approach towards risk management is facilitated by comprehensive policy frameworks, well-defined governance structures and appropriate tools and techniques to measure and manage risk.

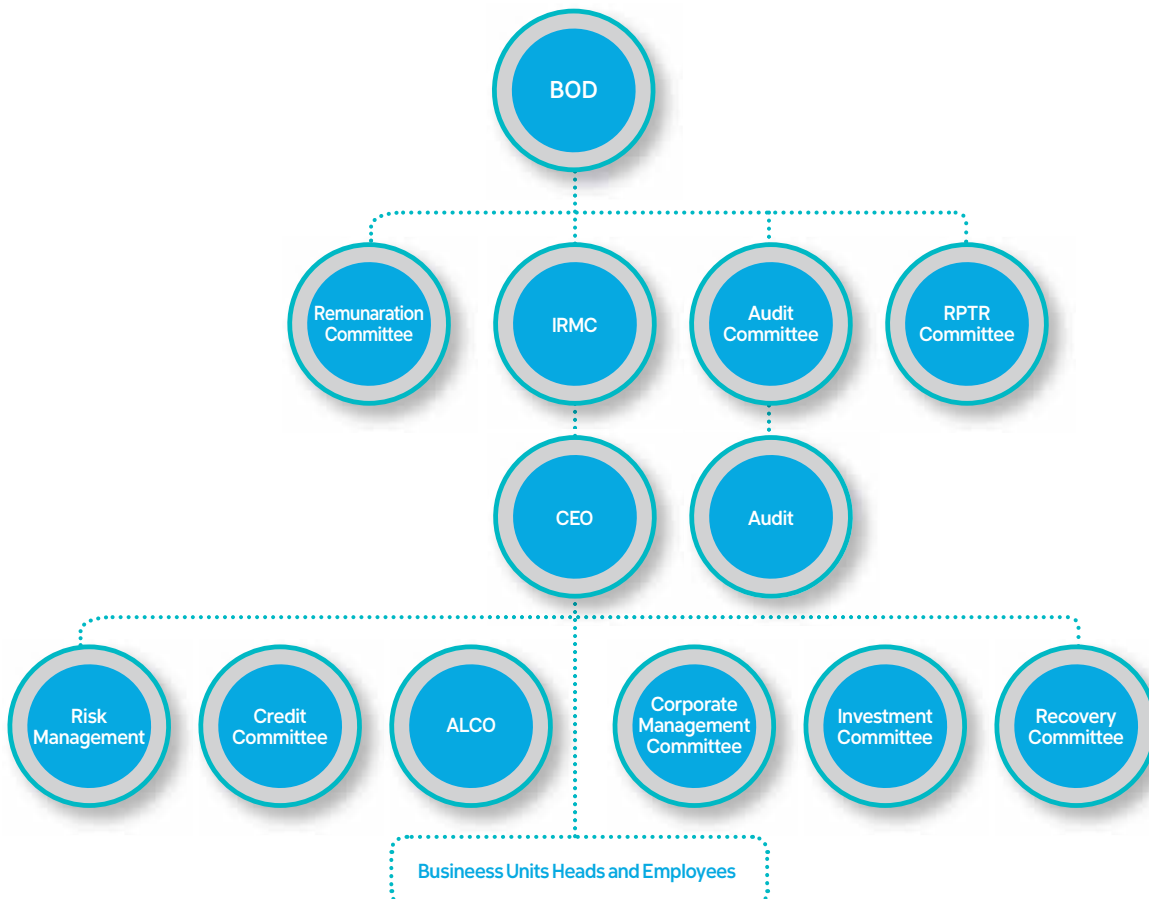
Highlights of 2016

- Revised risk management policy
- Revised liquidity risk management policy
- Revised AML policy to comply with CDD rule 2016
- Reduced Gross NPL by 4.2%

- Maintained liquid assets ratio well above the regulatory requirement
- Invested in new Core Banking System
- Board approved the strategic plan 2017-19
- Complied with directions issued by the Central Bank and other applicable regulations issued by SEC, CSE and other institutions.
- Improved brand recognition of the Company

Risk Governance

MBSL's Board of Directors holds apex responsibility for ensuring that the Company's risk profile is maintained within pre-determined parameters. The Board is thus responsible for determining the Company's risk appetite, formulating risk-related policy frameworks, monitoring the Company's risk profile on an ongoing basis and ensuring the adequacy and effectiveness of the risk management processes and procedures in place. The Board is assisted by several sub-committees and management committees in the discharge of its duties related to risk management as illustrated below.



Integrated Risk Management Committee (IRMC)

The IRMC provides independent oversight of all risk related aspects across the Company and works closely with the management in ensuring the adequacy and effectiveness of the implementation of risk governance structures, policy frameworks, standards and processes. The IRMC consists of three non-executive directors, CEO and key management personnel supervising risk categories, i.e., credit, market, liquidity, operational and strategic risks. The terms of references and committee activities during the year are detailed in the IRMC report on page 120 of the Annual Report.

Audit Committee

The Board Audit Committee reviews the Company's internal financial controls to identify, assess, monitor and manage financial risks. The Committee also assesses the independence and monitors the performance of the Internal Audit. The Audit Committee comprises solely of non-executive directors and further details on the activities of the BAC are given on page 114 of this report.

Credit Committee

A management committee, the Credit Committee is responsible for ensuring that the Company's credit risk exposures are managed within the Board approved risk appetite. The Committee is empowered to approve credit within the delegated parameters (assigned by the BOD) subject to specific terms and conditions. They also recommend specific policies and procedures that require the attention of the BOD. The committee consists of corporate management personnel headed by the CEO.

Assets and Liability Management Committee (ALCO)

The ALCO is the Board appointed Management Committee considered as a top-end advisory unit for the Board. It is responsible for the management of Market Risk, Liquidity Risk and the management of balance sheet structures including Capital Risk. The committee consists of corporate management personnel headed by the CEO and makes vital contributions to the Company's future strategic direction.

Investment Committee

The Investment Committee is a management committee holding responsibility for managing the Company's investment portfolio and makes decisions pertaining to the purchase, hold and selling of investments. It is headed by the CEO and is represented by corporate management personnel.

Recovery Committee

The Committee is responsible for implementing the Company's collections and recovery strategies and ensuring that the NPL position is maintained within defined parameters. The Committee consists of corporate management members and headed by CEO of the Company.

IT Steering Committee

The IT Steering Committee is headed by the CEO and each division is represented by one officer. The Committee ensures that the Company's IT strategy is aligned to the growth strategies and business requirements of each division.

Divisional Heads and Regional Managers

As the first line of defense, the divisional Heads are responsible for identifying and mitigating the risks faced by their respective divisions. The regional managers are responsible to identify and manage the risks of branches in the region.

Internal Audit Division

The Internal Audit Division is headed by Assistant General Manager (AGM) Group Internal Audit. The division has the authority to audit all branches and divisions of the Company and report to the board audit committee.

Risk Management Division

The Risk Management Division functions independently from profit and volume targets and holds executive responsibility for identifying, analysing, evaluating, mitigating and monitoring of the Company's overall risk profile. Key responsibilities of the Division include,

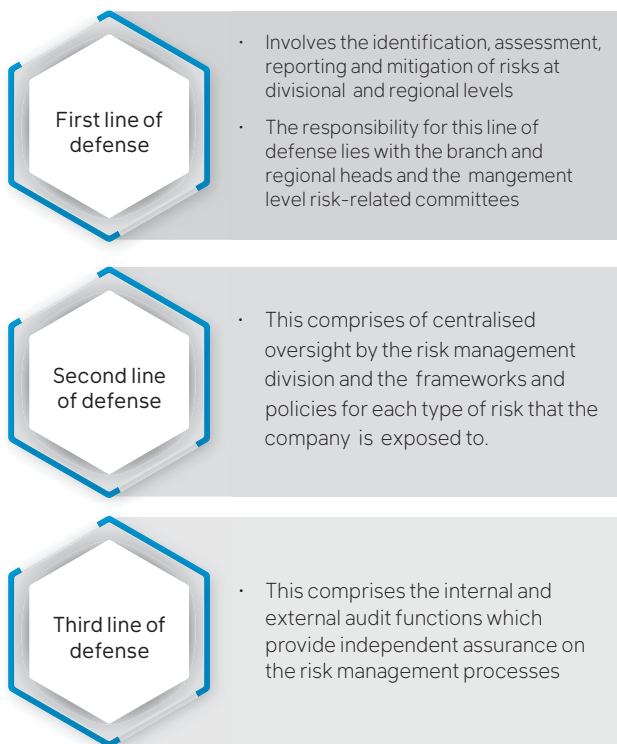
- Assesses all risks that affect to the Company on timely manner, proposed strategies to mitigate the risks and submit reports to BOD and IRMC
- Establish Risk Management policies and procedures
- Develop guidelines, instructions, models and action plans to assist specific activities, processes, branches or divisions to mitigate various types of risks
- Identification and analysis of key risk exposures
- Ensure that risk mitigation techniques are adequately implemented

Risk Management

- Submission of quarterly risk assessment reports to the IRMC and to the Board

Approach to Risk Management

MBSL's risk management framework is based on the globally accepted three lines of defense model, which ensures the clear segregation of duties, enabling the Company to manage its risks in a standardised manner.



Risk Management Process



Risk Identification: Potential risks are identified at business unit level at least on an annual basis through various risk identification methods.

Risk Analysis and Estimation: A range of quantitative and qualitative tools are used to measure the impact of the identified risk exposures. These methods include analytical review, stress testing and scenario analysis, inquiry and confirmation among others. Risk Analysis is also conducted at Business Unit level and verified by the Risk Management Division.

Risk Mitigation: The risk mitigation strategy is determined based on the feedback obtained from the risk analysis exercise. Strategies are recommended to all business units by the Risk Management Division. The four key strategies are, exploiting, accepting, sharing and avoiding.

Risk Monitoring and Reporting: A risk assessment report which details on the Company's overall risk profile is prepared by the Risk Management Division and reported to the IRMC at least on a quarterly basis. Additionally, the Risk Management Division also compiles various risk evaluation reports for the decision making process. Further the compliance report is submitted to the Board on a monthly basis.

Risk Universe

MBSL's business activities give rise to various risk exposures, comprising those that can directly be managed by the Company and risks which are typically beyond the Company's control. These risks can only be monitored to assess the potential impact on capital. The Company's key risk exposures can be categorized as follows;

Risk Universe

Managed by the Bank

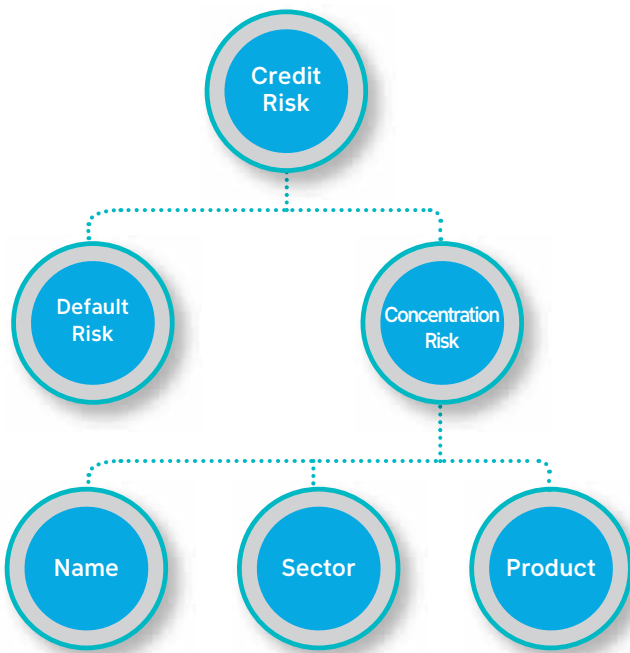
Risk type	Financial risk				Event risk	
Risk exposure	Credit risk	Liquidity risk Funding risk	Market risk	Operational risk	Strategic risk	Compliance risk Reputation risk

Monitored by the Bank to assess impact

Risk type	Geopolitical	Macro-economic	Regulatory
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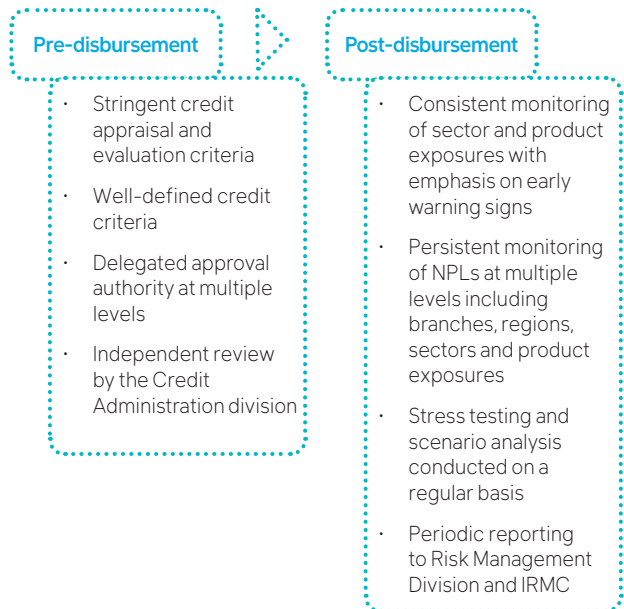
Credit Risk

Credit Risk is defined as the risk arising from financial losses if any client or market counterparty fails to fulfill their contractual obligations to MBSL. Credit Risk takes the form of default risk and concentration risk and arises primarily from the Company’s lending portfolio.



Credit Risk Management

The business units function as the first line of defense in managing credit risk, supported by independent review by the Credit Committee, as well as the processes, standards and frameworks implemented by the Risk Management Division. The Company’s credit risk management framework is characterised by a suite of robust risk policy frameworks, stringent and well-defined credit criteria, proactive monitoring and a culture of responsible lending.



Risk Management

During the year, the Company placed strategic emphasis on further strengthening its credit risk management framework through,

- Enhancing the collections mechanism through introducing collection targets and ratios for branches
- Mechanism for identification of potential NPLs through an early warnings system in branches
- Better co-ordination between the branches and the Central Recoveries unit
- Enhanced customer engagement in restructuring and offering flexible repayment solutions

Credit Risk Performance in 2016

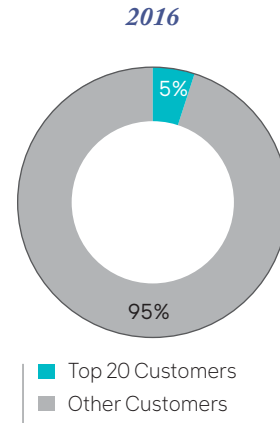
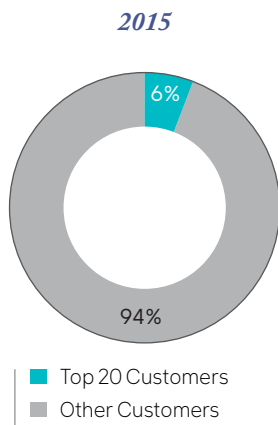
Default Risk

Default risk is the key component of credit risk and comprises of potential losses arising from the default of a borrower or counterparty. The Company recorded substantial improvements in its default risk indicators and during the year Gross NPA and Net NPA ratio reduced by 4.2% and 4.0% respectively compared to the year 2015.

Concentration Risk

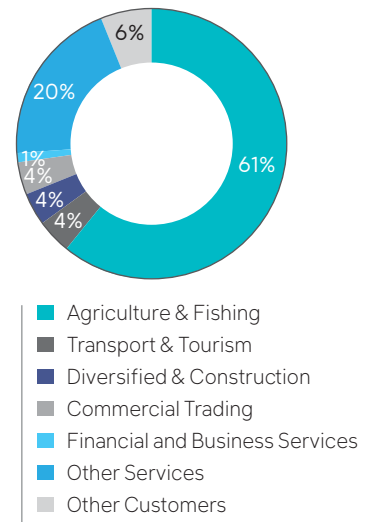
Concentration risk arises from high lending exposure to a particular sector, product, region or customer/Company. The Company's individual, sector and product concentration are managed through pre-defined limits against which exposures are monitored by an ongoing basis.

Name concentration arises from large exposures to specific individual borrowers. The Company maintains a relatively diversified portfolio and minimal name concentration risk. In 2016, the top 20 borrowing customers represented only 5% of the Company's total lending portfolio.

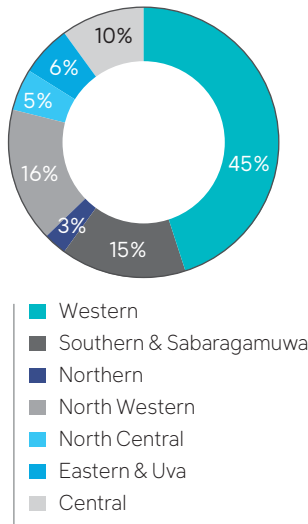


In terms of sector concentration, the Company's largest exposures are to the agriculture sector which accounted for nearly 61% of the total lending portfolio. Meanwhile, the Company's portfolio continues to be well diversified regionally, with approximately 55% of loans and advances originating outside the Western Province.

Industry Wise Concentration 2016

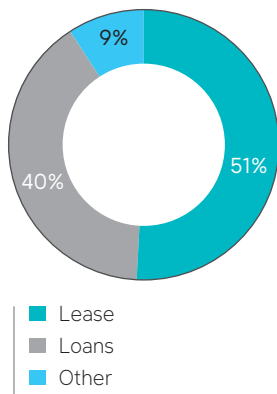


Geographical Concentration 2016

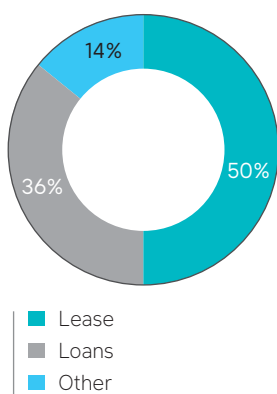


In terms of product concentration, leasing continues to dominate the Company's lending portfolio although its relative significant has declined in recent years as the Company pursued strategic expansion in other product categories.

Product Concentration 2016



Product Concentration 2015

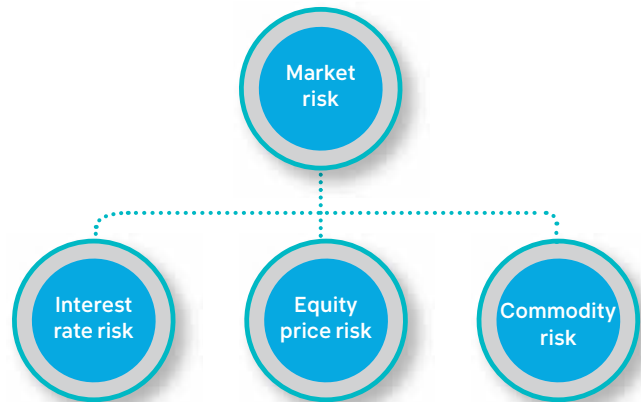


Stress testing was carried out to identify the potential impact of asset quality deterioration on the Company's capital adequacy position.

Description	CAR as at 31-Dec-16	Shock Level		
		5%	20%	50%
Credit Risk				
Tier I Capital	10.66%	10.64%	10.60%	10.51%
Total Capital	10.69%	10.67%	10.63%	10.54%

Market Risk

Market risk is defined as the risk of losses in MBSL's on-balance sheet and off-balance sheet positions arising from movements in market variables. Market Risk of MBSL arises due to adverse movement in interest rates, equity market, commodity market and exchange rates.



Market Risk Management

The ALCO and Investment Committee holds executive responsibility for overseeing the Company's market risk which includes monitoring interest rate and equity risks. A Board-approved policy framework which details the Company's Risk Management policy provides guidance on the procedures, tools and techniques for identifying, evaluating, monitoring and reporting all aspects related to market risk.

Interest Rate Risk

The Company is exposed to interest rate risk through its lending activities, deposits and financial investments. The ALCO regularly monitors the movements in the market interest rates together with the Company's asset liability maturity mismatches and exposures are reported to the Board through the IRMC. In addition the Company regularly conducts stress testing analyses to gauge the potential impact of interest rate movements on its capital position.

Risk Management

Equity Risk

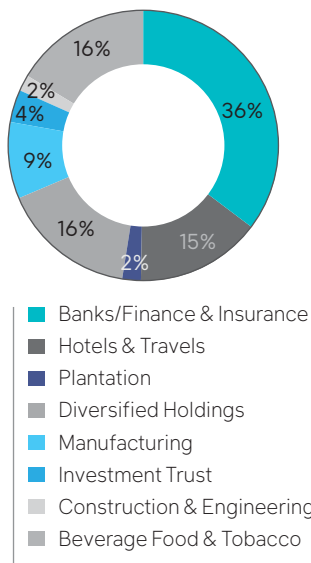
The Investment Committee holds overall responsibility for managing the Company’s equity portfolio, including all selling and buying decisions. Accordingly, the Committee regularly monitors movements in share prices, concentration risks of the portfolio as well as broader economic developments. Stress testing is also conducted using the Value at Risk (VAR) technique to measure the potential impact of adverse share price movements. The performance and concentration of the portfolio is reviewed by the IRMC at least on a quarterly basis.

Market Risk Performance in 2016

Equity Risk

Overall, the Company’s exposure to equity investments is limited, accounting for less than 2% of total assets by end-December 2016. MBSL’s share portfolio performance reflected the downturn in the broader market, which declined by around 40% during the year. Resultantly, the Company incurred mark to market losses of Rs. 61 million on its trading portfolio during the year mainly due to the performance of the macro economic factors. Meanwhile, the Company equity portfolio continues to be well diversified with balanced exposure across all industry sectors.

Sector Portfolio 2016



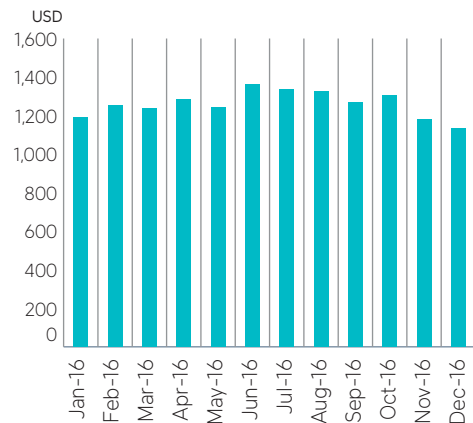
Stress Testing Results

Description	CAR as at	Shock Level		
	31-Dec-16	5%	20%	50%
Market Risk -Equity				
Tier I Capital	10.66%	10.65%	10.64%	10.61%
Total Capital	10.69%	10.68%	10.67%	10.64%

Commodity Risk

The Company’s exposure to commodity risk stems from its gold loan portfolio as fluctuations in global gold prices have a direct impact on the value of the collateral maintained by the Company. This risk is managed through maintaining an average Loan to Value ratio which provides an adequate buffer against sharp declines in prices. In 2016, gold prices were generally on the rise, although declining marginally during the last two months of the year.

World Gold Price per Troy oz



Description	CAR as at	Shock Level		
	31-Dec-16	5%	20%	50%
Market Risk -Pawning				
Tier I Capital	10.66%	10.65%	10.65%	10.65%
Total Capital	10.69%	10.68%	10.68%	10.68%

Liquidity and Funding Risk

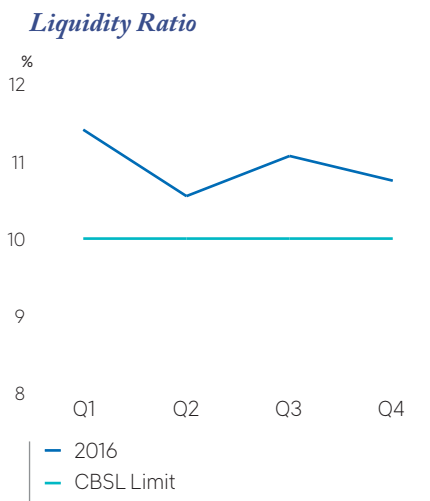
Liquidity risk is the potential loss arising from the changes in the Company’s ability to sell or dispose assets and settle liabilities in a timely manner.

Effective management of the Company’s liquidity risk exposure is vital in ensuring the continuity of its operations and its liquidity risk management framework ensures that the Company maintains adequate funds to meet its contractual

obligations on a timely basis. The ALCO and Treasury division holds responsibility for ensuring that the Company maintains adequate liquidity levels to meet its contractual obligations. Key aspects of the Company’s liquidity management framework are as follows;

- Consistent monitoring of the Company’s liquidity position to ensure compliance to internal targets and regulatory requirements
- Diversified funding strategy with liquidity sourced from multiple sources
- Contingency funding plans are in place to mitigate risks in the event of a sudden liquidity crisis

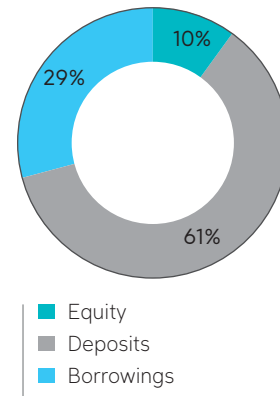
During the year, the Company maintained its liquidity levels well within the stipulated minimum as demonstrated below.



The Company also maintains a relatively diverse funding portfolio, sourcing liquidity from multiple sources depending market dynamics and interest rate movements. Deposits are the largest source of funding accounting for 61% of the total funding base, followed by borrowings 29% and shareholders’ funds 10%.

Meanwhile, the Company’s capitalisation levels are healthy; despite declining marginally during the year following loan growth, MBSL’s tier capital adequacy ratio is comfortably above the regulatory minimum. The overall RWCAR clocked in at 10.69% by end-December 2016 and the Company plans to raise tier 2 capital via a subordinated debenture in 2017 to enhance the overall capital position.

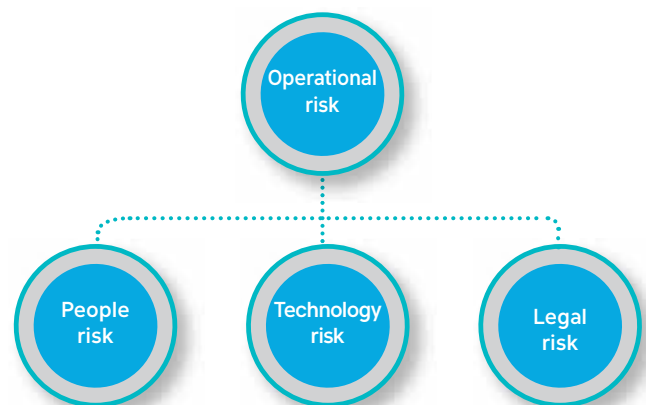
Funding Composition



Capital Adequacy Ratio%	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Core Capital	11.75	11.35	11.10	10.66
Total Capital	11.63	11.24	11.07	10.69

Operational Risk

Operational risk is defined as the direct or indirect loss resulting from inadequate or failed internal processes, people and systems or from external events. According to Basel II definitions, legal risk is included as a component of Operational Risk.



Operational Risk Management

Key aspects of MBSL’s operational risk management are,

- Implementation of a comprehensive business continuity plan to minimise interruptions to operations in the event of systems and process failures

Risk Management

- Branch level operational risk assessments are carried out quarterly through an online system, which ensures the identification of critical issues. Branch related matters are discussed at Corporate Management meetings on an ongoing basis.
- Whistle blower policy in place to encourage reporting of potential and ongoing fraudulent activities
- Proactive HR Steering Committee in place to identify and address all HR related issues.
- Clear, well defined job responsibilities which ensure segregation of duties
- Ongoing assessments are carried out by the Company Internal Audit department to identify failures in internal control systems

During the year under review, there were no significant losses arising from operational risks.

Stress Testing

Stress testing was conducted to assess the Company's ability to withstand shocks of varying gravity related to operational risk. MBSL has the ability to bear 50% level shock level while maintaining capital adequacy ratio of the Company as prescribed by the CBSL.

Description	CAR as at	Shock Level		
	31-Dec-16	5%	20%	50%
Operational Risk**				
Tier I Capital	10.66%	10.32%	10.28%	10.18%
Total Capital	10.69%	10.35%	10.30%	10.21%

** Assumption: Operational Loss is LKR 100 Mn

Strategic Risk

Strategic risks are the potential losses arising from the possibility of the Bank's future business plans and strategies being inadequate.

This risk is a function of the compatibility of an MBSL's strategic goals, business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

Key aspects of MBSL's strategic risk management framework are,

- Implementation of a Board approved strategic plan

which takes cognisance of industry trends, stakeholder needs and the strength and weaknesses of our value creation model

- Reviewing performance of the strategic plan against pre-defined performance indicators on a consistent basis
- Persistently monitoring industry trends including market dynamics, macro-economic changes and competitor behavior
- Conducting variance analysis by comparing budgeted against actual performance and recommending appropriate strategies.
- Conducting competitor analysis, reviewing industry trends and taking prompt actions to prevent risks.
- Conducting risk assessment prior any acquisition or investment

Compliance Risk

Compliance risk is the risk arising out of non-compliance with applicable laws, regulations, codes of conduct and standards of good practice culminating in financial loss, or loss to the Bank's reputation.

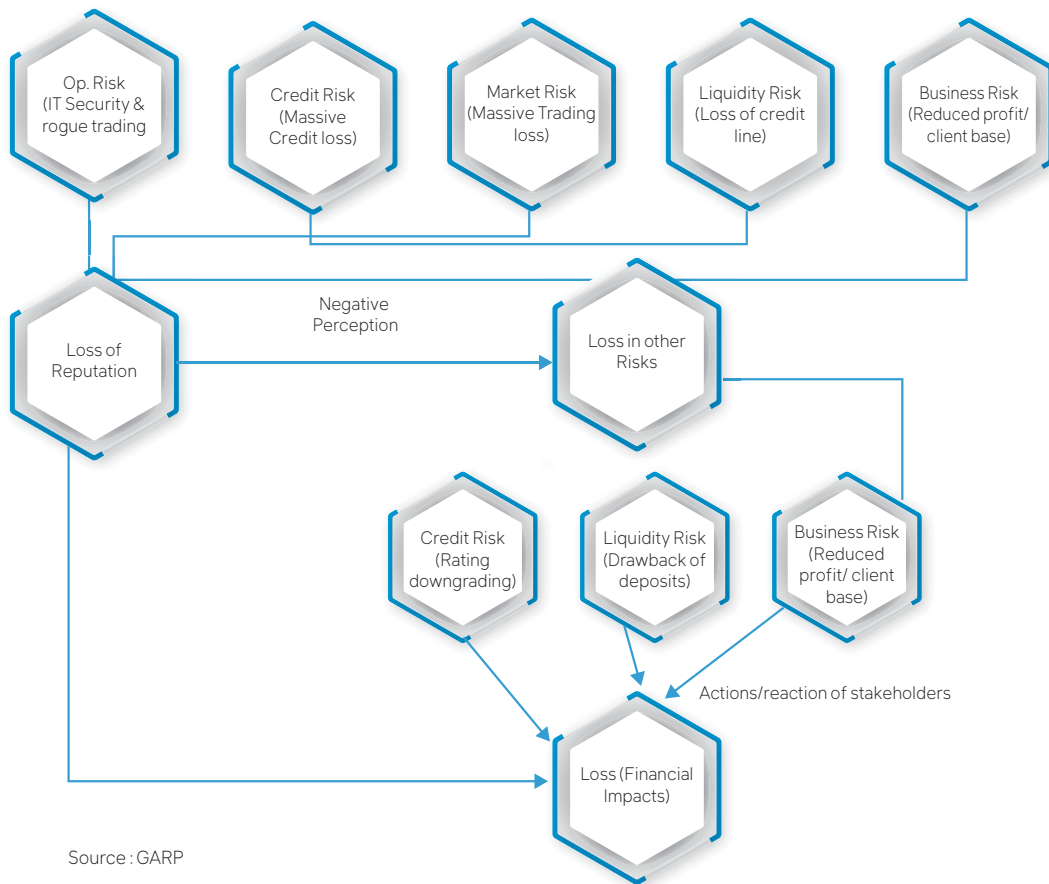
MBSL's dedicated compliance officer is responsible for monitoring the Company's overall compliance risks. Compliance checks are conducted for all business units on a monthly basis and prompt action is taken in instances of non-compliance. The Audit Committee also monitors the Company's compliance through regular reporting from the Compliance division.

Further, all the advertisements, publications are reviewed by the Compliance division to ensure that the publications are in line with relevant compliance requirements. The Company has also educated the MBSL staff regarding the compliance requirements and regulations stipulated by the CBSL directions, through the intranet in order to minimize the violations of any such compliance requirement by the company.

With the anticipated implementation of the new Core Banking System, MBSL is expected to implement the guidelines suggested by CBSL under customer due diligence rule including risk based approach.

Reputational Risk

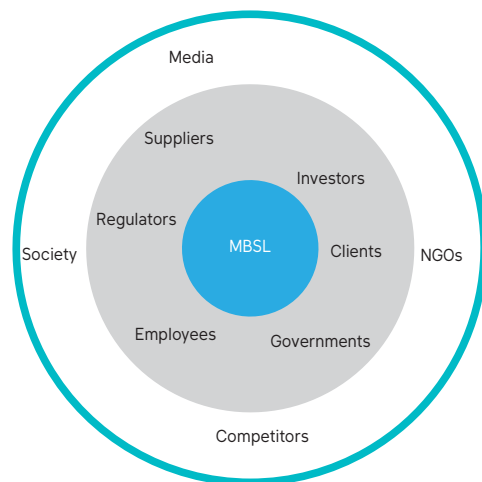
Reputational risks are those that impact the Bank’s current or prospective earnings capacity and organisational value arising from the loss of confidence, breakdown in relationships and negative perceptions of transactional stakeholders.



The Company’s reputational risk management framework is underpinned by the following

- Robust stakeholder engagement mechanisms and a formalised communication strategy with all stakeholders
- Compliance to all CBSL and other relevant regulations
- Lending and deposit rates are maintained as per CBSL guidelines
- The Company has implemented customer due diligence, Know Your Customer and Anti Money Laundering policies to prevent accepting deposits from such organizations or persons.

Stakeholders of MBSL



A man and a woman in business attire are looking at a laptop screen in an office setting. The man is standing and pointing at the screen, while the woman is sitting and looking at the screen. The background is blurred, showing office shelves and a window. The entire image has a blue tint.

During the year 2016, MBSL

achieved growth

In income and profitability levels, along with a growth in the asset base which surpassed the previous years.

FINANCIAL INFORMATION

Financial Calendar	DATE
2016	
Publication of interim financial statements for the quarter ended 31st December 2015	23-Mar-16
Publication of interim financial statements for the quarter ended 31st March 2016	10-May-16
Authorization of issue of financial statements for the year ended 31st December 2015	18-May-16
Publication of Annual Report for the financial year ended 31st December 2015	2-June-16
34th Annual General Meeting of the Company	28-June-16
Publication of interim financial statements for the quarter ended 30th June 2016	26-July-16
Publication of interim financial statements for the quarter ended 30th September 2016	7-Nov-16
2017	
Publication of interim financial statements for the quarter ended 31st December 2016	28-Feb-17
Authorization of issue of financial statements for the year ended 31st December 2016	28-April-17
Allotment of Debentures -2017	3-May-17
Publication of Interim Financial Statements for the quarter ended 31st March 2017	9-May-17
Publication of Annual Report for the financial year ended 31st December 2016 to be released on or before	31-May-17
35 th Annual General Meeting of the Company	27-June-17
Publication of Interim Financial Statements (Unaudited) for the quarter ending 30th June 2017 to be released on or before	15-Aug-17
Publication of Interim Financial Statements (Unaudited) for the quarter ending 30th September 2017 to be released on or before	15-Nov-17
Publication of Interim Financial Statements (Unaudited) for the quarter ending 31st December 2017 to be released on or before	15-Feb-18

Directors Statement on Internal Control Over Financial Reporting

The Board of Directors is pleased to present the Directors' Statement on Internal Control in line with the section 10(2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the Direction No. 06 of 2013.

Responsibility

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Merchant Bank of Sri Lanka & Finance PLC's (MBSL) system of internal controls. However, such a system is designed to manage the MBSL's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of MBSL. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by MBSL and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines.

The process is regularly reviewed by the Board and accords with the guidance for directors of Banks on the Directors' Statement of Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. As per the said guidance, significant processes affecting significant accounts of MBSL were assessed along with the key risk areas of MBSL.

The Board is of the view that the system of internal controls 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 on risk and control by identifying and assessing the risks faced by MBSL and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying and reviewing the design and effectiveness of the internal control system on 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.

- Internal audit department established by the Board is to assist the Board to ensure that MBSL complies with policies and procedures, evaluate the effectiveness of the internal control system in place and highlights significant findings in respect of any non-compliance on an ongoing basis. Internal audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company, review internal control issues identified by the internal audit division, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. Further it highlights the areas that need more internal controls while suggesting improvements to existing internal controls. The minutes of the Audit Committee meetings are tabled to the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report on page 114.
- Operational committees are established by the Board with appropriate empowerment to assist the Board in ensuring the effectiveness of the 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.

- In assessing the internal control system, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of Company. These in turn were observed and checked by the Internal Audit department to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.

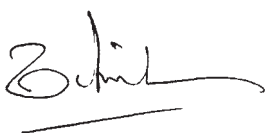
The confirmation by the Board

Based on the above processes, the Board confirms that the financial reporting system of MBSL has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes 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

Based on the procedures performed, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of internal control system over financial reporting of the Company.

For and on behalf of the Board,



W P R P H Fonseka

Director



C N Wijewardena

Director

17th May 2017
Colombo

Directors' Responsibility for Financial Reporting

This Statement sets out the responsibilities of the Directors in relation to the financial statements of the Company and the Group. The responsibilities of the auditors in relation to the financial statements are set out in the 'Report of the Auditor General' on page 137 of the Annual Report.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that the Company and the Group keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Company and the Group as at end of each financial year and of the financial performance of the Company and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31 December 2016, Income Statement and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

Accordingly, the Directors confirm that the financial statements of the Company and the Group give a true and fair view of:

- (a) The financial position of the Company and the Group as at Reporting date; and
- (b) The financial performance of the Company and the Group for the financial year ended on the reporting date.

The Directors are required to ensure that the financial statements of the Company and the Group for the financial year ended 31 December 2016 have been prepared and presented based on the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting & Auditing standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereto, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The Directors have also taken reasonable measures to safeguard the assets of the Company and of the Group and to prevent and detect frauds and other irregularities. In that regard, the Directors have established appropriate systems of internal control with the view to preventing and detecting fraud and other irregularities. The Directors have reasonable expectations, after making enquiries and following a review of the Company's Budget for the ensuing year including cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore has continued to adopt the going concern basis in preparing the financial statements.

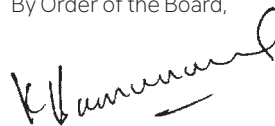
The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange. The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue.

Pursuant to provision of Article 154 (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Company and issue the final opinion on the Financial Statements of the Company. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on Page 137 of this Annual Report.

Compliance Report

The Directors confirm that to the best of their knowledge, all taxes, statutory levies and financial obligations of the Company and the Group have been either paid or adequately provided for in the Financial Statements. The Directors further confirm that after considering the financial position, operating conditions, regulatory and other factors and such matters required to be addressed in the 'Code on Corporate Governance' issued jointly by the Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission, the Directors have a reasonable expectation that the Company and the Group possess adequate resources to continue in operation for the foreseeable future. For this reason, we continue to adopt the Going Concern basis in preparing the Financial Statements. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



K Jayatilake
Company Secretary

17th May 2017
Colombo

Report of the Auditor General



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මගේ අංකය
எனது இல. }
My No. }

BAF/B/BOC-S/MBSL/2016

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

23 May 2017

To the Shareholders
of the Merchant Bank of Sri Lanka & Finance PLC

Report of the Auditor General on the Financial Statements of the Merchant Bank of Sri Lanka & Finance PLC and its subsidiary for the year ended 31 December 2016

The audit of the financial statements of Merchant Bank of Sri Lanka & Finance PLC ("Company") and the consolidated financial statements of the company and its subsidiary ("Group") for the year ended 31 December 2016 comprising the statement of financial position as at 31 December 2016 and the statement of profit or loss, statement of changes in equity and statement of cash flow for the year then ended and a summary of significant accounting policies and other explanatory information was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

judgement, 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 Company's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal controls. 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.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinion.

Opinion

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

Emphasis of Matter

Without qualifying my opinion, I draw your attention to the following notes to the financial statements which relate to the subsidiary company MBSL Insurance Company Limited.

- Note 44 in the financial statements regarding the going concern assumption in the preparation of the financial statements of MBSL Insurance Company Limited.
- Note 47.2.2 which describes the contingent liability related to a performance bond insurance claim intimated during the year. My opinion is not qualified in respect of these matters.

Report of the Auditor General



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 Auditor General's Department

Other Matter

The consolidated financial statements of Merchant Bank of Sri Lanka and Finance PLC for the year ended 31st December 2015 were audited by another auditor who expressed an unqualified opinion on those statements on 18th May 2016 with the emphasis of matter regarding the going concern of the subsidiary, MBSL Insurance Company Limited.

Report on Other Legal and Regulatory Requirements

- As required by Section 163 (2) of the Companies Act No. 07 of 2007, I state the following:
 - a) The basis of opinion and scope and limitations of the audit are as stated above.
 - b) In my opinion:
 - I have obtained all the information and explanations that were required for the audit and as far as appears from my examinations, proper accounting records have been kept by the Company,
 - The financial statements of the Company give a true and fair view of its financial position as at 31st December 2016, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No.07 of 2007.

However, it should be noted that, the net assets of the subsidiary are less than half of the stated capital and face a serious loss of capital situation in terms of Section 220 of the Companies Act No 07 of 2007.

- As discussed in note 44 to the financial statements, the subsidiary has not segregated the long term insurance business and the general insurance business being carried on by it into two separate companies in accordance with Section 53 of Regulation of Insurance Industry (Amendment) Act No.03 of 2011.
- The non-life business of the subsidiary does not fulfill the minimum required thresholds set for the capital adequacy ratio and total available capital by the regulation of Insurance Industry Act, No.43 of 2000, "the Solvency Margin (Risk Based Capital) Rules 2015, while the life business does not fulfill the minimum required threshold set for total available capital.

Report to Parliament

My report to parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

H. M. Gamini Wijesinghe
Auditor General

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Statement of Profit or Loss

For the year ended 31st December	Note	Company		Group	
		2016 Rs.'000	2015 Rs.'000 Restated *	2016 Rs.'000	2015 Rs.'000 Restated *
Income	4	4,888,155	4,216,991	6,099,998	5,429,495
Interest and similar income		4,737,774	4,073,159	4,853,007	4,164,059
Interest and similar expenses		(2,709,604)	(2,133,325)	(2,710,557)	(2,134,351)
Net interest income	5	2,028,170	1,939,834	2,142,450	2,029,708
Fee and commission income		41,455	42,640	100,695	197,659
Fee and commission expenses		-	-	(65,674)	(99,898)
Net fee and commission income	6	41,455	42,640	35,021	97,761
Insurance premium income	7	-	-	995,321	903,910
Net claims and benefits		-	-	(845,430)	(616,128)
Net trading income	8	10,072	46,862	5,612	48,531
Net gain/ (loss) on financial assets - held-for-trading	9	(61,096)	(54,137)	(58,226)	(55,336)
Other operating income	10	159,950	108,467	203,589	170,672
Total operating income		2,178,551	2,083,666	2,478,337	2,579,118
Impairment charges for loans and other losses	11	(24,239)	(462,151)	(27,959)	(474,618)
Net operating income		2,154,312	1,621,515	2,450,378	2,104,500
Personnel expenses	12	(781,530)	(670,740)	(993,084)	(857,116)
Retirement benefit expenses	37.1	(40,464)	(42,648)	(45,697)	(47,751)
Depreciation of property, equipment & investment properties	27 & 26	(63,572)	(59,022)	(82,651)	(79,897)
Amortisation of intangible assets	28	(14,098)	(11,148)	(21,588)	(20,269)
Other operating expenses	13	(670,156)	(610,267)	(943,391)	(975,134)
Total operating expenses		(1,569,820)	(1,393,825)	(2,086,411)	(1,980,167)
Operating profit before VAT on financial services and impairment of investment in subsidiary		584,492	227,690	363,967	124,333
Impairment of investment in subsidiary		(232,891)	(205,899)	-	(18,193)
Profit from operations after impairment of investment in subsidiary		351,601	21,791	363,967	106,140
Value Added Tax on financial services		(111,730)	(57,219)	(111,730)	(57,219)
Share of associate company's profit / (loss) before tax	24.1	-	-	(5,437)	7,080
Profit /(loss) before income tax		239,871	(35,428)	246,800	56,001
Income tax expense	14	(154,247)	(42,878)	(165,658)	(52,718)
Profit /(loss) for the year		85,624	(78,306)	81,142	3,283
Profit for the year attributable to:					
Equity holders of the parent		85,624	(78,306)	117,853	22,152
Non controlling interests		-	-	(36,711)	(18,869)
Profit /(loss) for the year		85,624	(78,306)	81,142	3,283
Earnings / (loss) per share:					
Basic/diluted earnings / (loss) per share (Rs.)	15	0.52	(0.47)	0.71	0.13

* Certain amounts shown do not correspond to the Financial Statements of 2015 and reflect adjustments made due to notional tax income on interest income for the year ended 31st December 2015 as explained in the Note 45.

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from page 146 to 238 form an integral part of the Financial Statements.

Statement of Comprehensive Income

For the year ended 31st December	Note	Company		Group	
		2016 Rs.'000	2015 Rs.'000 Restated *	2016 Rs.'000	2015 Rs.'000 Restated *
Profit /(loss) for the year		85,624	(78,306)	81,142	3,283
Other comprehensive income / (expenses)					
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):					
Gains / (Losses) on re-measuring available for sale financial assets		(17,452)	(47,835)	(29,129)	(53,833)
Net other comprehensive income / (expenses) to be reclassified to profit or loss in subsequent periods		(17,452)	(47,835)	(29,129)	(53,833)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):					
Actuarial gains/(losses) on defined benefit plans	37	39,068	32,603	40,541	31,215
Share of associates company's other comprehensive income	24.1	-	-	1,035	(726)
Deferred tax effect relating to components of other comprehensive income	14	(1,810)	(11,072)	(1,810)	(11,072)
Net other comprehensive income / (expenses) not to be reclassified to profit or loss in subsequent periods		37,258	21,531	39,766	19,417
Total other comprehensive income / (expenses) for the year, net of tax		19,806	(26,304)	10,637	(34,416)
Total comprehensive income / (expenses) for the year, net of tax		105,430	(104,610)	91,779	(31,133)
Total comprehensive income / (expenses) attributable to:					
Equity holders of the parent		105,430	(104,610)	130,111	(11,091)
Non controlling interests		-	-	(38,332)	(20,042)
Total comprehensive income / (expenses) for the year, net of tax		105,430	(104,610)	91,779	(31,133)

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from page 146 to 238 form an integral part of the Financial Statements.

Statement of Financial Position

As at 31st December	Note	Company		Group	
		2016 Rs.'000	2015 Rs.'000 Restated *	2016 Rs.'000	2015 Rs.'000 Restated *
Assets					
Cash and cash equivalents	17	401,301	380,830	441,357	432,947
Placements with banks & financial institutions	18	118,933	440,093	262,319	571,672
Securities purchased under resale agreements	19.1	265,687	785,965	730,773	1,609,702
Financial investments - held-for-trading	20	323,655	541,970	331,586	552,741
Bills receivable	21.1	739,403	595,888	739,403	595,888
Loans and advances to customers	21.2	11,320,845	8,406,632	11,392,491	8,505,054
Lease and hire purchase receivable	21.3	14,991,751	14,223,259	14,991,751	14,223,259
Financial investments - available-for-sale	22	2,735,645	1,754,206	3,126,815	1,994,857
Financial investments - held-to-maturity	23	57,766	56,507	57,766	56,507
Real estate stock		24,144	62,545	24,143	62,545
Investment in associate company	24	81,084	81,084	91,325	96,484
Investment in subsidiary	25	77,306	310,197	-	-
Investment properties	26	127,670	145,840	127,670	145,840
Property and equipment	27	312,337	219,260	354,092	273,122
Intangible assets	28	37,705	38,816	59,028	67,141
Other assets	29	318,496	231,455	910,918	712,333
Total assets		31,933,728	28,274,547	33,641,437	29,900,092
Liabilities					
Due to banks	30	201,635	258,062	224,997	273,968
Securities sold under repurchase agreements	19.2	401,820	416,472	401,820	416,472
Due to customers	31	18,518,419	15,846,306	18,518,419	15,846,306
Debt issued and borrowed funds	32	8,722,787	7,883,323	8,722,787	7,883,323
Insurance provision - life	33.1	-	-	514,258	444,257
Insurance provision - non-life	33.4	-	-	781,034	512,333
Current tax liabilities	34	151,128	146,284	141,180	136,336
Deferred tax liabilities	35	206,888	113,669	206,888	113,669
Other liabilities	36	404,174	356,840	752,034	956,610
Retirement benefits obligations	37	213,388	245,532	231,463	262,040
Total liabilities		28,820,239	25,266,488	30,494,880	26,845,314

As at 31st December	Note	Company		Group	
		2016 Rs.'000	2015 Rs.'000 Restated *	2016 Rs.'000	2015 Rs.'000 Restated *
Equity					
Stated capital	38	2,124,457	2,124,457	2,124,457	2,124,457
Statutory reserves	39.1	157,669	140,544	157,669	140,544
Retained earnings	39.2	853,165	747,408	886,283	746,023
Available-for-sale reserve	39.3	(21,802)	(4,350)	(36,195)	(8,920)
Total equity attributable to equity holders of the parent		3,113,489	3,008,059	3,132,214	3,002,104
Non-controllings interests		-	-	14,343	52,674
Total equity		3,113,489	3,008,059	3,146,557	3,054,778
Total liabilities and equity		31,933,728	28,274,547	33,641,437	29,900,092
Commitments and contingent liabilities	47	132,265	123,536	616,478	546,079
Net Assets Value per share (Rs.)		18.77	18.13	18.88	18.10

* Certain amounts shown do not correspond to the Financial Statements of 2015 and reflect adjustments made due to notional tax income on interest income for the year ended 31st December 2015 as explained in the Note 45.

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from page 146 to 238 form an integral part of the Financial Statements.

These Financial Statements have been prepared in compliance with the requirements of the Companies Act No. 7 of 2007.



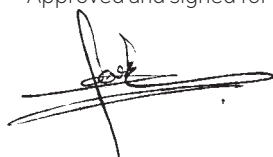
P I Kandanaarachchi
Head of Finance



T Mutugala
Chief Executive Officer

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

Approved and signed for and on behalf of the Board.



Dr. S Lokuhewa
Chairman



WPRPH Fonseka
Director

28th April 2017
Colombo

Statement of Changes in Equity

Company	Stated capital Rs:'000	Statutory reserves Rs:'000	Available-for- sale reserve Rs:'000	Retained earnings Rs:'000	Total equity Rs:'000
Balance as at 01st January 2015	2,124,457	140,544	43,485	842,936	3,151,422
Super gain tax adjustment	-	-	-	(38,753)	(38,753)
Net profit for the year	-	-	-	(78,306)	(78,306)
Other comprehensive income / (expenses), net of tax	-	-	(47,835)	21,531	(26,304)
Balance as at 31st December 2015 - Restated	2,124,457	140,544	(4,350)	747,408	3,008,059
Net profit for the year	-	-	-	85,624	85,624
Other comprehensive income / (expenses) net of tax	-	-	(17,452)	37,258	19,806
Transfers to statutory reserves	-	17,125	-	(17,125)	-
Balance as at 31st December 2016	2,124,457	157,669	(21,802)	853,165	3,113,489

Group	Stated capital Rs:'000	Statutory reserves Rs:'000	Available-for- sale reserve Rs:'000	Retained earnings Rs:'000	Non controlling interests Rs:'000	Total equity Rs:'000
Balance as at 01st January 2015	2,124,457	140,544	43,961	742,987	72,715	3,124,664
Super gain tax adjustment	-	-	-	(38,753)	-	(38,753)
Net profit for the year	-	-	-	22,152	(18,869)	3,283
Other comprehensive income / (expenses), net of tax	-	-	(52,881)	19,637	(1,172)	(34,416)
Balance as at 31st December 2015 - Restated	2,124,457	140,544	(8,920)	746,023	52,674	3,054,778
Net profit for the year	-	-	-	117,853	(36,711)	81,142
Other comprehensive income / (expenses), net of tax	-	-	(27,275)	39,532	(1,620)	10,637
Transfers to statutory reserves	-	17,125	-	(17,125)	-	-
Balance as at 31st December 2016	2,124,457	157,669	(36,195)	886,283	14,343	3,146,557

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from page 146 to 238 form an integral part of the Financial Statements.

Statement of Cash Flows

Accounting Policy

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flow in accordance with the Sri Lanka Accounting Standard-LKAS 7 'Statement of Cash Flows', whereby operating activities, investing activities and financing activities are separately recognized. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the Statement of Cash Flows is comprised of those items as explained in Note 40 on page 206.

For the year ended 31st December	Notes	Company		Group	
		2016 Rs:'000	2015 Rs:'000 Restated *	2016 Rs:'000	2015 Rs:'000 Restated *
Cash flows from operating activities					
Profit / (loss) before income tax		239,871	(35,428)	246,800	56,001
Adjustments for :					
Change in operating assets	40.2	(3,899,099)	(2,989,522)	(3,987,586)	(2,916,392)
Change in operating liabilities	40.3	2,719,447	4,416,592	2,806,239	4,671,856
Share of associate company's profit before tax		-	-	5,437	(7,080)
Contribution to defined benefit plans		40,464	42,648	45,697	47,751
Other non-cash items included in profit before tax	40.4	219,617	610,963	15,798	451,330
Dividends received		(12,853)	(14,008)	(13,127)	(12,559)
		(692,553)	2,031,245	(880,742)	2,290,907
Gratuity paid		(33,539)	(11,564)	(35,733)	(13,603)
Net cash generated from operating activities before income tax		(726,092)	2,019,681	(916,475)	2,277,304
Tax paid		(57,995)	(89,315)	(69,683)	(89,315)
Net cash generated from operating activities		(784,087)	1,930,366	(986,158)	2,187,989
Cash flows from investing activities					
Purchase of financial assets designated at FVPL		(31,279)	(563,386)	(33,716)	(563,595)
Proceeds from disposal of financial assets designated at FVPL		185,713	879,520	189,128	882,543
Purchase of financial investments-AFS & HTM		(3,082,222)	(2,639,079)	(3,243,384)	(2,843,193)
Net proceeds from sale of financial investments-AFS & HTM		2,228,223	2,704,596	2,228,223	2,719,096
Net increase/ (decrease) in other investment		321,160	1,274,323	309,353	1,281,409
Purchase of property & equipment		(154,237)	(81,487)	(160,095)	(89,803)
Purchase of intangible assets		(12,987)	(19,415)	(14,487)	(22,879)
Proceeds from sale of property & equipment		48,671	3,329	51,649	3,329
Dividend received		12,853	14,008	13,127	15,346
Net cash generated from / (used in) investing activities		(484,105)	1,572,409	(660,202)	1,382,253
Cash flows from financing activities					
Net increase / (decrease) reverse repo and repo agreements		505,626	(246,438)	864,277	(321,914)
Net increase/ (decrease) in other borrowings		1,173,945	(3,017,390)	1,173,945	(3,017,390)
Payments on redemption of debentures		(334,481)	(268,080)	(334,481)	(268,080)
Net cash generated from / (used in) financing activities		1,345,090	(3,531,908)	1,703,741	(3,607,384)
Net decrease in cash and cash equivalents during the year		76,898	(29,133)	57,381	(37,142)
Cash and cash equivalents at the beginning of the year		122,768	151,901	158,979	196,121
Cash and cash equivalents at the end of the year		199,666	122,768	216,360	158,979
Analysis of cash and cash equivalents at the end of the year 40.1					
Cash and short term funds		401,301	380,830	441,357	432,947
Dues to banks		(201,635)	(258,062)	(224,997)	(273,968)
		199,666	122,768	216,360	158,979

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from page 146 to 238 form an integral part of the Financial Statements.

Notes to the Financial Statements

1 Corporate Information

This section gives a description of the reporting entity, the principal activities of the Company and Group entity and the identification of Financial Statements and its authorization.

1.1 Reporting Entity

Merchant Bank of Sri Lanka & Finance PLC (MBSL) is a public quoted company incorporated in 1982 and domiciled in Sri Lanka. It is registered under the provisions of the Finance Business Act No.42 of 2011. The ordinary shares of the Company are listed in the Colombo Stock Exchange. The Company was re-registered under the Companies Act No.07 of 2007. The Company changed its name as Merchant Bank of Sri Lanka & Finance PLC with effect from 21st November 2014 and it was formerly known as Merchant Bank of Sri Lanka PLC. MBSL Savings Bank Limited and MCSL Financial Services Limited have been amalgamated with Merchant Bank of Sri Lanka & Finance PLC as at 01st January 2015. Consequent to the amalgamation Merchant Bank of Sri Lanka & Finance PLC remains as the surviving entity. The registered office of the Company is located at the Bank of Ceylon Merchant Tower, No. 28, St Michael's Road, Colombo 03.

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31st December 2016, comprise the Company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

Parent Entity & Ultimate Parent Entity

In the opinion of the Directors, the Company's parent entity and its ultimate parent entity is Bank of Ceylon which is a Government owned entity.

Number of Employees

The staff strength of the Company and the Group as at 31st December 2016 were 971 and 1,423 respectively. (866 and 1,440 as at 31st December 2015)

1.3 Group Information

Principal Activities and Nature of Operations

Entity	Principle business activities
Company	
Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit, corporate advisory services, capital market operations, margin trading, micro financing, agricultural credit facilities, real estate, pawning operations, islamic finance and accepting of savings and fixed deposits.
Subsidiary	
MBSL Insurance Company Limited	Underwriting of all classes of life and general insurance
Associate	
Lanka Securities (Private) Limited	Registered stock broker engages in equity trading, debt trading and margin trading

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

1.4 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended 31st December 2016 (including comparatives) were approved and authorised for issue on 28th April 2017 in accordance with the resolution of the Board of Directors on 28th April 2017.

2 Basis of Preparation

This section provides the basis of preparation of Financial Statements including significant accounting policies and application of Sri Lanka Accounting Standards and other related statutory requirements.

2.1 Basis of Preparation and Other Significant Accounting Policies

Summary of significant accounting policies, significant accounting judgements, estimates and assumptions used, other general accounting policies and Sri Lanka Accounting Standards (SLFRS) not yet adopted are provided in this section.

All specific accounting policies and accounting estimates in relation to the reported values have been presented in the respective notes.

2.2 Statement of Compliance

The Consolidated Financial Statements of the Group and separate Financial Statements of the Company, as at 31st December 2016 and for the year ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No.42 of 2011, Regulation of Insurance Industry Act No.43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

- Statement of Profit or Loss and Statement of Comprehensive Income providing the information on the financial performance of the Company and the Group for the year under review (Refer pages 140 to 141);
- A Statement of Financial Position providing the information on the financial position of the Company and the Group as at year end (Refer page 142 to 143);
- A Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer page 144);
- A Statement of Cash Flow providing the information to the users, on the ability of the Company and the Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 145); and
- Notes to the Financial Statements comprising accounting policies and other explanatory information (Refer pages 146 to 238).

2.3 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility in relation to the Financial Statements, as set out in the 'Statement of Directors' Responsibility for Financial Reporting', 'Annual Report of the Board of Directors on the Affairs of the Company' and in the certification on the Statement of Financial Position on page 136, 106 and 143 respectively.

2.4 Basis of Measurement

The Financial Statements of the Company have been prepared on accrual basis under historical cost convention and applied consistently with no adjustment being made for inflationary factors affecting the Financial Statements except for the following material items in the Statement of Financial Position and Statement of Profit or Loss and Statement of Comprehensive Income.

Item	Basis of measurement	Note no./s	Page reference
Financial assets Held-for-trading	Fair value	20	168
Financial assets Available-for-sale	Fair value	22	182
Defined benefit obligation	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	37	203

2.5 Functional and Presentation Currency

The Financial Statements of the Company and the Group are presented in Sri Lanka Rupees, which is the Group's functional and presentation currency.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company and the Group in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. The accounting principles are applied consistently other than where specially disclosed with due regard to prudence, materiality and substance over form criteria as explained in Sri Lanka Accounting Standard - LKAS 1 - 'Presentation of Financial Statements'. Where appropriate, the accounting policies are disclosed in the succeeding notes.

Notes to the Financial Statements

2.7 Use of Materiality, Offsetting and Rounding Materiality & Aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard - LKAS 1 - 'Presentation of Financial Statements'.

Offsetting

Assets and liabilities and income and expenses in the Financial Statements are not set off unless required or permitted by Sri Lanka Accounting Standards.

Rounding

"The amounts in the Financial Statements have been rounded off to the nearest Rupees thousand, (Rs.'000) except where otherwise indicated."

2.8 Summary of Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Financial Statements of the Company in conformity with SLFRSs/LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognized prospectively.

Information about significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the Financial Statements are described in the relevant notes as follows.

- Impairment losses on non-financial assets
Note No 25, 26, 27 & 28
- Deferred tax liabilities - Note No. 35
- Provision for impairment of loans and advances
Note No. 21
- Retirement benefits obligation - Note No.37
- Provision and contingent liabilities - Note No. 47

2.8.1 Going Concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the Financial Statements of the Group continue to be prepared on the going concern basis.

2.8.2 Events after the Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date when the Financial Statements are authorized for issue.

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate adjustments are made where necessary. Information on events after the reporting period are disclosed under Note No. 43 on page 213.

3 Significant Accounting Policies

3.1 Basis of Consolidation

The Consolidated Financial Statements for the year ended 31st December 2016 comprise the Financial Statements of the Company (Parent Company) and its subsidiary (together referred to as the "Group") and the Company's interest in associate company. The Financial Statements of all companies in the Group have common financial year which ends on 31st December 2016 and use consistent accounting policies.

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

3.2 Business Combination & Goodwill

Business combinations are accounted for using the acquisition method as per requirements of Sri Lanka Accounting Standard - SLFRS 3 - 'Business Combinations'.

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the

acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash Generating Units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

3.3 Common Control Business Combination

Common control business combinations are accounted using the guidelines issued under Statement of Recommended Practice (SoRP) - Merger accounting for common control business combination issued by Institute of Chartered Accountants of Sri Lanka. Accordingly,

- The net assets of the combining entities are consolidated using the existing book values.
- No amount is recognised as goodwill which arise as a result of difference between the consideration and net assets acquired.

3.3.1 Loss of Control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognized in profit or loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.3.2 Transactions Eliminated on Consolidations

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

3.4 Foreign Currency

3.4.1 Foreign Currency Transactions and Balances

All foreign exchange transactions are converted to functional currency which is Sri Lankan Rupees (Rs.), at the rates of exchange prevailing at the time the transactions are effected.

Monetary assets and liabilities denominated in foreign currency are retranslated to the functional currency equivalents at the spot exchange rate prevailing at the reporting date.

The gains or losses arising on translation of monetary items are recognized in the Statement of Profit and Loss.

3.5 Financial Instruments

3.5.1 Date of Recognition

Financial assets and financial liabilities are initially recognised when a Group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

Notes to the Financial Statements

3.5.2 Initial Measurement of Financial Instruments

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

3.5.3 Classification & Subsequent Measurement of Financial Assets

At the inception financial assets are classified in to one of the following categories:

- Fair value through profit or loss (FVTPL) (either as held-for-trading or designated at fair value through profit or loss)
- Loans and receivables (L & R)
- Held-to-maturity financial assets (HTM)
- Available-for-sale financial assets (AFS)

The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition.

3.5.4 Effective Interest Method (EIR)

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

3.5.5 Financial Assets and Liabilities Measured at Fair Value Through Profit or Loss

a) Financial Assets Held-for-Trading

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

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognized in profit or loss, interest and dividend income is recorded in 'Net trading income' according to the terms of the contract, or when the right to receive the payment has been established. The Group evaluates its financial assets held-for-trading, other than derivatives, to determine whether the intention to sell them in the near-term is still appropriate. When the Group is unable to trade these financial assets due to inactive markets and management's intention to sell them in the foreseeable future significantly changes, the Group may elect to reclassify these financial assets in rare circumstances. Financial assets held-for-trading include instruments such as government and other debt securities and equity instrument that have been acquired principally for the purpose of selling or repurchasing in the near term and derivatives, including separated embedded derivatives explained below unless they are designated as effective hedging instruments.

b) Financial Assets and Liabilities Designated at Fair Value through Profit or Loss

Financial assets and financial liabilities classified in this category are those that have been designated by management on initial recognition. Management may only designate an instrument at fair value through profit or loss upon initial recognition when the following criteria are met, and designation is determined on an instrument by instrument basis.

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets designated at fair value through profit or loss'. Interest earned is accrued in 'Interest income', using the effective interest rate (EIR), while dividend income is recorded in

'Net trading income' when the right to the payment has been established.

3.5.6 Financial Liabilities at Amortized Cost

Financial instruments issued by the Company and the Group that are not designated at fair value through profit or loss, are classified as financial liabilities at amortized cost.

After the initial recognition, these financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest expense recognized on an effective yield basis. The effective interest method as a method of calculating the amortized cost of a financial liability and allocating interest expense over the relevant period.

3.5.7 De-recognition of Financial Assets and Financial Liabilities

3.5.7.1 Financial Assets

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

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

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognized in Other Comprehensive Income is recognized in Statement of Profit or Loss.

When the Company and the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognized to the extent of the Company's continuing involvement in the asset. In that case, the Company and the Group also recognizes an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

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

3.5.7.2 Financial Liabilities

A financial liability is de-recognized when the obligation under the liability is discharged or cancelled or expired. 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 de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

3.5.8 Offsetting of Financial Instruments

Financial assets and financial liabilities are offset and the net amount reported in the Consolidated 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.

Income and expenses are presented on a net basis only when permitted under SLFRSs, or for gains and losses arising from a group of similar transactions such as in the Group's trading activity.

3.5.9 Determination of Fair Value

The fair value for financial instruments traded in active markets at the Statement of Financial Position date is based on their quoted market price without any deduction for transaction costs.

Notes to the Financial Statements

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using valuation models with the Group's best estimate of the most appropriate model assumptions.

3.6 Impairment of Non-Financial Assets

The Group assesses at each reporting date whether there is an indication that an asset may be impaired. If any such indication exists, or when annual impairment testing for an asset is required, the Group makes an estimate of the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or Cash Generating Units (CGU) fair value less costs to sell and its value in use. Where the carrying amount of an asset or CGU exceeds its recoverable amount, the asset is considered as impaired and is written down to its recoverable amount.

In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. In determining fair value less costs to sell, recent market transactions are taken into account, if available. If no such transactions can be identified, an appropriate valuation model is used. These calculations are corroborated by valuation multiples or other available fair value indicators.

Impairment losses are recognized immediately in profit or loss. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. Previously recognized impairment losses are reversed only if there has been a change in the assumptions used to determine the recoverable amount of the asset since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does

not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined net of depreciation, had no impairment loss been recognized for the asset in prior years. Such reversal is recognized in the Statement of Profit or Loss.

3.7 Provisions

A provision is recognized in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 - 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognized is the best estimate of the consideration required to settle the present obligation at the Reporting date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.8 Borrowing Costs

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that normally take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets, until such time the assets are substantially ready for their intended use or sale. Income earned from temporarily investing specific borrowings pending their expenditure on a qualifying asset is deducted from the borrowing costs eligible to be added to the carrying amount. All other borrowing costs are recognized in profit or loss in the period in which they are incurred in accordance with Sri Lanka Accounting Standard - LKAS 23 - 'Borrowing cost'. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.9 Significant Accounting Policies that are Specific to the Business of the Subsidiary - MBSL Insurance Company Limited (MBSLI)

3.9.1 Deferred Expenses

3.9.1.1 Deferred Acquisition Costs (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses and/or investment

contracts with Discretionary Participation Feature (DPF), are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition, DAC for general insurance is amortized over the period on the basis unearned premium is amortized. The reinsurances share of deferred acquisition cost is amortized in the same manner as the underlying asset amortization is recorded in the statement of Profit or Loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in an accounting estimate.

DAC are derecognized when the related contracts are either expired or cancelled.

3.9.1.2 Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized.

3.9.2 Reinsurance

The Subsidiary-MBSLI cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the Subsidiary-MBSLI may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the Subsidiary-MBSLI will receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

The Subsidiary-MBSLI also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognized as revenue or expenses in the same manner

as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognized when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.9.3 Insurance Contract Liabilities

3.9.3.1 Life Insurance Contract Liabilities

Life insurance liabilities are recognized when contracts are entered into and premiums are received. These liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the Subsidiary-MBSLI. Adjustments to the liabilities at each reporting date are recorded in the Statement of Profit or Loss. Profits originated from margins of adverse deviations on run-off contracts are recognized in the Statement of Profit or Loss over the life of the contract, whereas losses are fully recognized in the Statement of Profit or Loss during the first year of run-off. The liability is derecognized when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are

Notes to the Financial Statements

adequate, net of related PVIF and DAC, by using an existing liability adequacy test. The Liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows, option pricing models and stochastic modeling. To the extent that the test involves discounting of cash flows, the interest rate applied may be based on management's prudent expectation of current market interest rates. Any inadequacy is recorded in the Statement of Profit or Loss, initially by impairing PVIF and DAC and, subsequently, by establishing a technical reserve for the remaining loss. In subsequent periods, the liability for a block of business that has failed the adequacy test is based on the assumptions that are established at the time of the loss recognition. The assumptions do not include a margin for adverse deviation.

3.9.3.2 Non-Life Insurance Contract Liabilities

Non-life insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognized as premium income. At each reporting date the Subsidiary-MBSLI reviews its

unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognized in the Statement of Profit or Loss by setting up a provision for liability adequacy.

3.9.3.3 Investment Contract Liabilities

Investment contracts are classified between contracts with and without Discretionary Participation Feature (DPF). The accounting policies for investment contract liabilities with DPF are the same as those for life insurance contract liabilities.

Investment contract liabilities without DPF are recognized when contracts are entered into and premiums are charged. These liabilities are initially recognized at fair value this being the transaction price excluding any transaction costs directly attributable to the issue of the contract. Subsequent to initial recognition investment, contract liabilities are measured at fair value through profit or loss.

Deposits and withdrawals are recorded directly as an adjustment to the liability in the Statement of Financial Position. Fair value adjustments are performed at each reporting date and are recognized in the Statement of Profit or Loss. Fair value is determined through the use of prospective discounted cash flow techniques. For unitized contracts, fair value is calculated as the number of units allocated to the policyholder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit-prices at the reporting date are valued on a basis consistent with their measurement basis in Statement of Financial Position adjusted to take account of the effect on the liabilities of the deferred tax on unrealized gains on assets in the fund.

Non-unitized contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modeling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

The liability is derecognized when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash flows from the two components are distinct while they can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance.

3.9.4 Discretionary participation features (DPF)

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. Under the terms of the contracts surpluses in the DPF funds can be distributed

to policyholders and shareholders on a 90/10 basis. The Group has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at annually are held within insurance or investment contract liabilities as appropriate.

3.10 New Accounting Standards Issued but not yet effective

A number of new standards and amendments to standards, which have been issued but not yet effective as at the reporting date, have not been applied in preparation these Consolidated Financial Statements and the Group plans to apply these Standards on the respective effective dates.

Accounting Standard	Summary of the Requirement	Possible impact on Financial Statements
Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments'	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on Financial assets. It also carries forward the guidance on recognition and derecognition of Financial instruments from LKAS 39. Effective date of SLFRS 9 has been deferred till January 01, 2018.	The Group/Company, is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9.
Sri Lanka Accounting Standard - SLFRS 15 - 'Revenue from Contracts with Customers'	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on 'Revenue' and LKAS 11 on 'Construction Contracts'. SLFRS 15 is effective for the periods beginning on or after January 01, 2017.	The Group/Company is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15.
Sri Lanka Accounting Standard - SLFRS 16 - Leases	IFES 16 eliminates the classifications of leases as either operating or finance for lessees and instead, introduces a single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset at the start of the lease and because most lease payments are made over time, also obtaining financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying LKAS 17. The new standard SLFFR 16 supersedes the requirement in LKAS 17 leases and will become effective on 01st Jauary 2019.	The Group/company is assessing the potential impact on its Consolidated Financial Statements resulting from the application of amended SLFRS 16.

Notes to the Financial Statements

4 Income

Accounting Policy

Income is recognised to the extent that it is probable that the economic benefits will flow to the Company and the Group and revenue can be reliably measured. The specific recognition criteria, for each type of gross income, given under the respective income notes.

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000 Restated*	2016 Rs.'000	2015 Rs.'000 Restated*
Interest and similar income	4,737,774	4,073,159	4,853,007	4,164,059
Fee and commission income	41,455	42,640	100,695	197,659
Insurance premium income	-	-	995,321	903,910
Net trading income	10,072	46,862	5,612	48,531
Net gain/ (loss) on financial assets - held-for-trading	(61,096)	(54,137)	(58,226)	(55,336)
Other operating income	159,950	108,467	203,589	170,672
	4,888,155	4,216,991	6,099,998	5,429,495

5 Net Interest Income

Accounting Policy

Recognition of Income and Expenses

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

Interest and Similar Income and Expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability. The calculation takes into account all contractual terms of the financial instrument and includes any fees or incremental costs that are directly attributable to the instrument and an integral part of the EIR, but not future credit losses.

The carrying amount of the financial assets or financial liability is adjusted if the Group revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and change in carrying amount is recorded as interest income for financial assets and interest expenses for financial liabilities. However for a reclassified financial assets for which the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

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

Overdue Interests

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

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000 Restated*	2016 Rs.'000	2015 Rs.'000 Restated*
Interest and similar income				
Loans and advances to customers	4,436,037	3,815,685	4,511,517	3,891,327
Financial investments - available-for-sale & held-to-maturity	278,132	186,779	317,885	202,037
Financial investments designated at fair value through profit or loss	-	199	-	199
Placements with banks and financial institutions	23,605	70,496	23,605	70,496
	4,737,774	4,073,159	4,853,007	4,164,059
Interest and similar expenses				
Due to banks	289,460	67,258	289,556	67,285
Due to customers	1,705,850	1,145,128	1,705,850	1,145,128
Debt issued and other borrowed funds	684,919	892,393	684,919	892,393
Other	29,375	28,546	30,232	29,545
	2,709,604	2,133,325	2,710,557	2,134,351
Net Interest Income	2,028,170	1,939,834	2,142,450	2,029,708

6 Net Fee and Commission Income

Fee and Commission Income

Accounting Policy

Fee and commission income is earned from a diverse range of services provided by the Group to its customers. Fees and commission income is accounted for as follows:

- Income earned on the execution of a significant act is recognized as revenue when the act is completed; and
- Income earned from the provision of services is recognized as revenue as the services are provided;

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Fee and commission income				
Trade and other related activities	41,455	42,611	24,572	42,611
Reinsurance commission income	-	-	61,214	136,190
Brokering services	-	29	-	29
Others	-	-	14,909	18,829
	41,455	42,640	100,695	197,659
Fee and commission expenses				
Fees	-	-	65,674	99,898
	-	-	65,674	99,898
Net Fee and Commission Income	41,455	42,640	35,021	97,761

Notes to the Financial Statements

7 Insurance Premium Income

Accounting Policy

Gross Premiums

Gross recurring premiums on life and investment contracts with Discretionary Participation Features (DPF) are recognized as revenue when receivable from the policy holder. For single premium business, revenue is recognized on the date on which the policy is effective.

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the policy commences.

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24th basis.

Reinsurance Premiums

Gross reinsurance premiums on life and investment contracts are recognized as an expense from the date on which the policy is effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered in to the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks - attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

Benefits, Claims and Expenses Recognition

Gross Benefits and Claims

Gross benefits and claims for life insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts, as well as changes in the gross valuation of insurance and investment contract liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

General insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognized in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the Directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the Financial Statements for that period. The methods used and the estimates made are reviewed regularly.

Reinsurance Claims

Reinsurance claims are recognized when the related gross insurance claim is recognized according to the terms of the relevant contract.

For the year ended 31st December	Group	
	2016 Rs:'000	2015 Rs:'000
Non-life insurance	998,991	1,194,676
Life insurance	235,533	203,235
Total gross written premium	1,234,524	1,397,911
Change in unearned premium provisions	29,441	94,851
Gross premium income	1,263,965	1,492,762
Less: Premium ceded to reinsurers	268,644	588,852
Net premium income	995,321	903,910

8 Net Trading Income

Accounting Policy

Results arising from trading activities include dividends from financial assets and gain / (Loss) on disposal of financial assets - held-for-trading.

For the year ended 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Dividend income	12,853	16,795	13,127	18,133
Gain/(Loss) on disposal of quoted shares	(2,781)	30,067	(7,515)	30,398
Net trading income	10,072	46,862	5,612	48,531

9 Net Gain/ (Loss) on Financial Assets - Held-for-Trading

Accounting Policy

Fair value gains and losses attributable to changes in the fair values of the equity and debt securities classified under financial assets held-for-trading is recognised in the Statement of Profit or Loss, when there is a change to the fair value of the asset.

For the year ended 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Financial assets held-for-trading	(61,096)	(54,137)	(58,226)	(55,336)
	(61,096)	(54,137)	(58,226)	(55,336)

10 Other Operating Income

Accounting Policy

Other operating income includes gains on disposal of property & equipment, dividend income, profit & losses from real estates and gains from sale of available for sale financial investments.

Gain from Sale of Available-for-Sale Financial Investments

Gains from sale of available-for-sale financial investments are the amounts transferred from equity to the Statement of profit or Loss on the derecognition of investments classified as available for sale investments.

Notes to the Financial Statements

Dividend Income

Dividend income shall be recognized when the Group's right to receive payment is established.

For the year ended 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Dividend received from non trading investments	-	(2,787)	-	(5,574)
Profit/(loss) on sale of property & equipment including foreclosed properties	32,909	4,781	35,990	4,781
Other income	127,041	106,473	167,599	171,465
	159,950	108,467	203,589	170,672

11 Impairment Charges for Loans and Other Losses

Accounting Policy

The Company and Group recognise the changes in the impairment provisions for loans and receivables which are assessed as per Sri Lanka Accounting Standard - LKAS 39 - 'Financial Instruments: Recognition and Measurement'. The methodology adopted by the Company and the Group is explained in Note 21 to these Financial Statements.

For the year ended 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Loans and advances to customers				
Bills receivables (Note 21.1.1)	16,018	6,873	16,018	6,873
Loans and advances to customers (Note 21.2.1)	(15,612)	233,822	(15,612)	233,822
Lease and hire purchase rental receivables (Note 21.3.3)	23,833	221,456	23,833	221,456
Insurance receivables	-	-	3,720	12,467
	24,239	462,151	27,959	474,618

12 Personnel Expenses

Accounting Policy

Personnel expenses include salaries, bonus, terminal benefit charges and other related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of obligation.

Defined Contribution Plan – Employees' Provident Fund and Employees' Trust Fund (EPF & ETF)

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Group and employees contribute 12% and 8% of gross emoluments of employees to Employee's Provident Fund. The Group contribute 3% of gross emoluments of employees to the Employees' Trust Fund.

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Staff emoluments	629,301	549,122	783,808	681,242
Employers' contribution to defined contribution plans				
Employees' Provident Fund	59,175	49,186	79,345	66,676
Employees' Trust Fund	14,794	12,297	19,833	16,632
Other personnel expenses	78,260	60,135	110,098	92,566
	781,530	670,740	993,084	857,116

13 Other Operating Expenses

Accounting Policy

Other operating expenses are recognised in the statement of profit or loss 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 the property & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at that profit for the year.

Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01st January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of Value Added Tax (VAT) on financial Services.

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Directors' emoluments	4,123	6,299	7,367	13,346
Auditors' remuneration				
Audit fees	1,918	1,568	2,723	2,745
Non audit fees	625	711	833	711
Professional and legal fees	27,537	26,302	42,283	31,195
Donations	197	231	222	256
Office administration and establishment expenses	241,974	211,027	318,268	290,125
Other	393,782	364,129	571,695	636,756
	670,156	610,267	943,391	975,134

Notes to the Financial Statements

14 Income Tax Expense

Accounting Policy

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the reporting date.

Accordingly, provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto. The Company and its subsidiary are liable for income tax on profit from operations is calculated at the rate of 28%.

For the year ended 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000 Restated*	2016 Rs:'000	2015 Rs:'000 Restated*
Current tax				
Current income tax	62,838	31,684	74,249	41,524
(Over) / under provision of taxes in respect of prior years	-	-	-	-
Deferred tax				
Relating to origination and reversal of temporary differences				
Statement of Profit or Loss	91,409	11,194	91,409	11,194
Other comprehensive income	1,810	11,072	1,810	11,072
	156,057	53,950	167,468	63,790
Tax charged to statement of profit or loss	154,247	42,878	165,658	52,718
Tax charged to other comprehensive income	1,810	11,072	1,810	11,072
	156,057	53,950	167,468	63,790
Effective tax rate (excluding deferred tax)	26.20%	-	30.08%	-
Effective tax rate	64.30%	-	67.12%	-

Reconciliation of the Total Tax Charged

A reconciliation between the tax expense and the accounting profit multiplied by statutory tax rate for the years ended 31st December is as follows:

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000 Restated*	2016 Rs.'000	2015 Rs.'000 Restated*
Accounting profit before tax	239,871	(35,428)	246,800	56,001
Add : Disallowable expenses	573,332	522,404	611,530	613,229
Add : Lease Capital Recoverable	7,545,620	5,457,413	7,545,620	5,457,413
Less : Allowable expenses	5,865,789	4,755,036	5,981,532	4,776,249
Less : Exempted / allowable income	1,994,681	1,538,521	2,020,095	1,668,090
Statutory income	498,353	(349,168)	402,323	(317,696)
Less : Tax loss set off	271,722	(464,099)	(93,883)	(654,278)
Assessable income	226,631	114,931	496,206	336,582
Taxable income	224,421	113,158	262,473	142,814
At the effective income tax rate	62,838	31,684	73,492	39,987
Current tax on profits for the year	62,838	31,684	73,492	39,987
Deffered tax charged / (reversal) for the year	91,409	11,194	91,409	11,194
Tax expense for the year	154,247	42,878	164,901	51,181
Share of associate company's current tax	-	-	757	1,537
Deffered tax charged / (reversal) to other comprehensive income	1,810	11,072	1,810	11,072
Total income tax expense	156,057	53,950	167,468	63,790

15 Earnings / (Loss) per Share and Dividend per Share

15.1 Basic / Diluted Earnings / (Loss) per Share

Accounting Policy

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares.

For the year ended 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000 Restated*	2016 Rs.'000	2015 Rs.'000 Restated*
Profit/(loss) attributable to ordinary shareholders (Rs.'000)	85,624	(78,306)	117,853	22,152
Number of ordinary shares used as denominator ('000)	165,875	165,875	165,875	165,875
Basic /diluted earnings /(loss) per ordinary share (Rs.)	0.52	(0.47)	0.71	0.13

15.2 Dividend per Share

No dividend has been declared and paid by the Company and the Group during the year 2016 and 2015.

Notes to the Financial Statements

16 Analysis of Financial Instruments by Measurement Basis

Accounting Policy

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard-LKAS 39 - 'Financial Instruments: Recognition and Measurement' under heading of the Statement of Financial Position.

16.1 Company - 2016

	Held-for- Trading (FVPL)	Available- for-Sale (AFS)	Loans and Receivables (L & R)	Held-to- Maturity (HTM)	Total Rs.'000
Assets					
Cash and cash equivalents	-	-	401,301	-	401,301
Placements with banks & financial institutions	-	-	118,933	-	118,933
Securities purchased under resale agreements	-	-	265,687	-	265,687
Financial investments - held-for-trading	323,665	-	-	-	323,665
Bills receivable	-	-	739,403	-	739,403
Loans and advances to customers	-	-	11,320,845	-	11,320,845
Lease and hire purchase receivable	-	-	14,991,751	-	14,991,751
Financial investments - available-for-sale	-	2,735,645	-	-	2,735,645
Financial investments - held-to-maturity	-	-	-	57,766	57,766
Other assets	-	-	34,454	-	34,454
Total financial assets	323,655	2,735,645	27,872,374	57,766	30,989,440
				Other Financial Liabilities at amortised cost	Total Rs.'000
Liabilities					
Due to banks				201,635	201,635
Securities sold under repurchase agreements				401,820	401,820
Due to customers				18,518,419	18,518,419
Debt issued and borrowed funds				8,722,787	8,722,787
Other liabilities				110,717	110,717
Total financial liabilities				27,955,378	27,955,378

16.2 Company - 2015

	Held-for- Trading (FVPL)	Available- for-Sale (AFS)	Loans and Receivables (L & R)	Held-to- Maturity (HTM)	Total Rs.'000
Assets					
Cash and cash equivalents	-	-	380,830	-	380,830
Placements with banks & financial institutions	-	-	440,093	-	440,093
Securities purchased under resale agreements	-	-	785,965	-	785,965
Financial investments - held-for-trading	541,970	-	-	-	541,970
Bills receivable	-	-	595,888	-	595,888
Loans and advances to customers	-	-	8,406,632	-	8,406,632
Lease and hire purchase receivable	-	-	14,223,259	-	14,223,259
Financial investments - available-for-sale	-	1,754,206	-	-	1,754,206
Financial investments - held-to-maturity	-	-	-	56,507	56,507
Other assets	-	-	87,458	-	87,458
Total financial assets	541,970	1,754,206	24,920,125	56,507	27,272,808

	Other Financial Liabilities at amortised cost	Total Rs.'000
Liabilities		
Due to banks	258,062	258,062
Securities sold under repurchase agreements	416,472	416,472
Due to customers	15,846,306	15,846,306
Debt issued and borrowed funds	7,883,323	7,883,323
Other liabilities	68,061	68,061
Total financial liabilities	24,472,224	24,472,224

Notes to the Financial Statements

16.3 Group - 2016

	Held-for- Trading (FVPL)	Available- for-Sale (AFS)	Loans and Receivables (L & R)	Held-to- Maturity (HTM)	Total Rs.'000
Assets					
Cash and cash equivalents	-	-	441,357	-	441,357
Placements with banks & financial institutions	-	-	262,319	-	262,319
Securities purchased under resale agreements	-	-	730,773	-	730,773
Financial investments - held-for-trading	331,586	-	-	-	331,586
Bills receivable	-	-	739,403	-	739,403
Loans and advances to customers	-	-	11,392,491	-	11,392,491
Lease and hire purchase receivable	-	-	14,991,751	-	14,991,751
Financial investments - available-for-sale	-	3,126,815	-	-	3,126,815
Financial investments - held-to-maturity	-	-	-	57,766	57,766
Other assets	-	-	34,454	-	34,454
Total financial assets	331,586	3,126,815	28,592,548	57,766	32,108,715

	Other Financial Liabilities at amortised cost	Total Rs.'000
Liabilities		
Due to banks	224,997	224,997
Securities sold under repurchase agreements	401,820	401,820
Due to customers	18,518,419	18,518,419
Debt issued and borrowed funds	8,722,787	8,722,787
Other liabilities	110,717	110,717
Total financial liabilities	27,978,740	27,978,740

16.4 Group - 2015

	Held-for- Trading (FVPL)	Available- for-Sale (AFS)	Loans and Receivables (L & R)	Held-to- Maturity (HTM)	Total Rs.'000
Assets					
Cash and cash equivalents	-	-	432,947	-	432,947
Placements with banks & financial institutions	-	-	571,672	-	571,672
Securities purchased under resale agreements	-	-	1,609,702	-	1,609,702
Financial investments - held-for-trading	552,741	-	-	-	552,741
Bills receivable	-	-	595,888	-	595,888
Loans and advances to customers	-	-	8,505,054	-	8,505,054
Lease and hire purchase receivable	-	-	14,223,259	-	14,223,259
Financial investments - available-for-sale	-	1,994,857	-	-	1,994,857
Financial investments - held-to-maturity	-	-	-	56,507	56,507
Other assets	-	-	87,458	-	87,458
Total financial assets	552,741	1,994,857	26,025,980	56,507	28,630,085

	Other Financial Liabilities at amortised cost	Total Rs.'000
Liabilities		
Due to banks	273,968	273,968
Securities sold under repurchase agreements	416,472	416,472
Due to customers	15,846,306	15,846,306
Debt issued and borrowed funds	7,883,323	7,883,323
Other liabilities	367,986	367,986
Total Financial liabilities	24,788,055	24,788,055

17 Cash and Cash Equivalents**Accounting Policy**

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. There were no cash and cash equivalent balances held by the Group companies that were not available for use by the Group. Cash & cash equivalents are carried at amortized cost.

As at 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Cash in hand	183,510	129,765	183,510	129,765
Cash at bank	217,791	251,065	257,847	303,182
	401,301	380,830	441,357	432,947

Notes to the Financial Statements

18 Placements with Banks & Financial Institutions

Accounting Policy

Balances with banks & financial institutions includes fixed deposits and other deposits in local currency. Balances with banks & financial institution are carried at amortised cost in the Statement of Financial Position.

As at 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Fixed Deposits	118,933	440,093	262,319	571,672
	118,933	440,093	262,319	571,672

19 Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the Consolidated Statement of Financial Position as a liability with a corresponding obligation to return it, including accrued interest as a liability within 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

Securities Purchased Under Resale Agreements

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

As at 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
19.1 Assets				
Repurchase agreements	265,687	785,965	730,773	1,609,702
	265,687	785,965	730,773	1,609,702
19.2 Liabilities				
Reverse repurchased agreements	401,820	416,472	401,820	416,472
	401,820	416,472	401,820	416,472

20 Financial Investments - Held-for-Trading

Held-to-maturity financial assets are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group and Company has the intention and ability to hold to maturity. After initial measurement, held-to-maturity financial assets are subsequently measured at amortised cost using the EIR, less impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees that are an integral part of the EIR. The amortisation is included in interest income in the Statement of Profit or Loss. The losses arising from impairment of such investment are recognised in the Statement of Profit or Loss in impairment charges for loans and receivables and other losses.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances), the entire category would be reclassified as available-for-sale.

As at 31st December		Company		Group	
		2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Quoted equities and unit trusts	(Note 20.1)	321,420	539,556	329,351	550,327
Debt securities	(Note 20.2)	2,235	2,414	2,235	2,414
		323,655	541,970	331,586	552,741

20.1 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Company						
Bank, Finance and Insurance						
Asia Asset Finance PLC	-	2,500,000	-	4,350	-	4,249
Central Finance PLC	45,000	39,894	5,842	10,531	4,500	10,092
Ceylinco Insurance PLC	1,810	2,810	2,851	4,426	2,697	4,175
Chilaw Finance PLC	-	35,104	-	768	-	803
Citizens Development Business						
Finance PLC-Non Voting	44,733	44,733	3,992	3,992	2,778	3,579
Commercial Bank of Ceylon PLC	9,964	10,000	1,714	1,745	1,445	1,402
Commercial Bank of Ceylon						
PLC-Non Voting	-	68,018	-	8,367	-	8,366
Commercial Credit & Finance						
PLC	30,000	-	1,998	-	1,689	-
Development Finance						
Corporation of Ceylon PLC	120,000	120,000	24,993	24,993	14,700	20,172
Hatton National Bank PLC-Non						
Voting	-	15,000	-	2,625	-	2,669
HNB Assurance PLC	7,500	7,500	621	621	441	560
Housing Development Finance						
Corporation PLC	26,500	27,000	1,832	1,866	1,251	1,812
Janashakthi Insurance Company PLC	674,893	674,893	13,072	13,072	11,066	11,811
Lanka Orix Leasing Co. PLC	133,100	126,600	15,180	14,642	9,650	11,900
LOLC Finance PLC	500,000	-	1,300	-	1,300	-
National Development Bank PLC	72,704	67,704	16,513	15,688	11,342	13,141
Nations Trust Bank PLC	210,032	210,032	20,657	20,657	16,992	18,126
Sampath Bank PLC	-	25,000	-	6,283	-	6,200
Sanasa Development Bank PLC	256	-	27	-	27	-
Seylan Bank PLC	135,000	135,000	13,846	13,846	12,150	12,825
Seylan Bank PLC-Non Voting	330,000	375,000	17,845	20,227	19,470	27,375
Softlogic Finance PLC	60,515	60,515	3,340	3,340	2,058	3,141
The Finance Company PLC	200,000	200,000	973	1,000	580	900
Union Bank of Colombo PLC	10,000	-	170	-	154	-
			146,766	173,039	114,290	163,298

Notes to the Financial Statements

20.1 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Diversified Holdings						
Adam Capital PLC	-	200,000	-	520	-	420
Aitken Spence PLC	115,000	115,000	11,616	11,616	7,475	11,121
Browns Investment PLC	-	1,953,034	-	5,216	-	2,734
CT Holdings PLC	-	20,000	-	4,206	-	2,800
Hemas Holdings PLC	-	117,803	-	10,013	-	10,944
John Keells Holdings PLC	264,627	246,549	42,826	45,600	38,371	43,910
John Keells Holdings PLC (Warrants - 23)	-	445,529	-	24,160	-	14,391
Softlogic Holdings PLC	-	220,000	-	3,376	-	3,410
The Colombo Fort Land & Building PLC	45,000	45,000	1,230	1,230	900	1,031
Vallibel One PLC	-	147,230	-	3,079	-	3,165
			55,672	109,016	46,746	93,926
Construction and Engineering						
Access Engineering PLC	-	620,442	-	19,854	-	14,332
Colombo Dockyard PLC	17,918	17,918	3,537	3,537	1,408	2,689
Commercial Development PLC	4,649	4,649	451	451	349	430
MDT Walkers PLC	130,000	130,000	7,745	7,745	5,330	6,656
			11,733	31,587	7,087	24,107
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	-	5,000	-	4,450	-	4,963
Distilleries Co of Sri Lanka PLC	-	185,000	-	35,732	-	45,510
Keells Food Products PLC	27,672	10,729	4,746	1,899	4,372	2,227
Lucky Lanka Milk Processing PLC	2,657,487	3,057,722	15,808	18,265	8,504	10,396
Melstacorp Limited	600,000	-	28,973	-	35,580	-
Renuka Agri Foods PLC	752,274	752,274	3,091	3,177	2,182	3,084
			52,618	63,523	50,638	66,180
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	63,219	63,219	5,793	5,793	2,725	4,299
Asian Hotels & Properties PLC	132,817	206,214	9,938	15,430	7,571	12,187
Bansei Royal Resorts Hikkaduwa PLC	-	28,600	-	306	-	257
Ceylon Hotel Corporation PLC	2,930	7,326	75	187	59	185
Confifi Hotel Holdings PLC	147,472	147,472	10,927	10,928	4,173	5,619
Eden Hotel Lanka PLC	127,743	127,743	3,677	3,677	1,725	2,236
Galadari Hotel PLC	20,000	610,387	292	8,915	214	6,409
John Keells Hotels PLC	75,000	75,000	1,175	1,175	818	1,155
Marawila Resorts PLC	959,168	959,168	4,606	4,656	2,302	2,686
The Kingsbury PLC	1,937,727	1,937,727	41,846	41,845	29,454	33,910
Waskaduwa Beach Resort PLC	50,000	-	306	-	220	-
			78,635	92,912	49,261	68,943

20.1 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Manufacturing						
ACL Cables PLC	-	40,000	-	4,323	-	4,836
ACME Printing & Packaging PLC	131,023	131,023	1,137	1,198	812	1,074
Agstar Fertilizers PLC	-	418,173	-	2,834	-	2,676
Central Industries PLC	5,000	-	250	-	248	-
Dankotuwa Porcelain PLC	630,902	630,902	6,301	6,301	4,479	5,363
Eastern Merchants PLC	257,922	132,667	2,179	1,244	1,599	1,167
Kelani Tyres PLC	115,000	115,000	9,023	9,023	7,464	8,913
Lanka Tiles PLC	48,253	46,253	5,786	5,565	4,627	5,129
Pelawatte Sugar Industries PLC	41,600	41,600	1,799	1,799	978	978
Piramal Glass Ceylon PLC	800,000	800,000	5,100	5,100	4,240	4,880
Sierra Cables PLC	1,390,000	1,423,758	6,157	6,307	4,587	5,695
Textured Jersey PLC	-	75,000	-	1,700	-	2,663
Tokyo Cement Co.(Lanka) PLC - Non Voting	-	25,000	-	1,043	-	988
			37,732	46,437	29,034	44,362
Trading						
Brown and Company PLC	5,178	5,178	526	539	435	523
Ceylon & Foreign Trades PLC	-	3,595	-	27	-	23
Tess Agro PLC- Non Voting	-	430,298	-	770	-	688
			526	1,336	435	1,234
Stores and Supplies						
Ceylon Tea Brokers PLC	192,655	192,655	937	937	751	713
			937	937	751	713
Power and Energy						
Lanka IOC PLC	-	100,000	-	5,424	-	3,710
Laugfs Gas PLC - Non Voting	26,088	25,000	1,008	1,000	858	953
Vallibel Power Erathna PLC	50,000	500,000	459	4,608	440	4,450
			1,467	11,032	1,298	9,113
Health Care						
Nawaloka Hospitals PLC	-	3,800,000	-	14,627	-	12,540
			-	14,627	-	12,540
Land and Property						
Colombo Land & Developemnt Co PLC	-	228,583	-	9,178	-	5,852
Overseas Realty (Ceylon) PLC	-	481,042	-	11,427	-	11,160
Serendib Land PLC	-	75	-	172	-	159
			-	20,777	-	17,171

Notes to the Financial Statements

20.1 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Chemical and Pharmaceuticals						
Chemical Industries (Colombo)						
PLC - Non Voting	7,500	-	585	-	510	-
			585	-	510	-
Plantation						
Balangoda Plantations PLC	497,486	497,486	14,996	14,996	6,069	8,756
Elpitiya Plantations PLC	-	223,646	-	5,623	-	4,764
Kotagala Plantations PLC	67,444	67,444	2,644	2,644	600	1,201
			17,640	23,263	6,669	14,721
Investment Trust						
Ceylon Investment PLC	91,164	91,164	8,893	8,893	4,475	7,257
Lanka Century PLC	520,000	393,822	7,167	5,695	6,136	4,765
Renuka Holding PLC	106,441	76,441	4,266	3,471	2,246	2,056
			20,326	18,059	12,857	14,078
Telecommunication						
Dialog Telecom PLC	100,000	813,665	1,149	9,346	1,050	8,706
			1,149	9,346	1,050	8,706
Footwear and Textiles						
Ceylon Leather Products PLC	11,348	5,770	873	481	794	444
			873	481	794	444
Service						
Paragon Ceylon PLC	-	20	-	19	-	20
			-	19	-	20
Total value of quoted equities and unit trusts			426,659	616,391	321,420	539,556

20.2 Other Debt Securities

Commercial Credit & Finance PLC	20,000	20,000	2,141	2,141	2,235	2,414
Total value of listed debentures			2,141	2,141	2,235	2,414
Total value of financial assets at fair value through profit or loss			428,800	618,532	323,655	541,970
Marked to market valuation loss (Note 20.2.1)			(105,145)	(76,562)	-	-
Fair value of financial assets designated at fair value through profit or loss			323,655	541,970	323,655	541,970

20.2.1 Marked to Market Valuation Loss

Balance as at 01st January	(76,562)	(22,425)
Fair value loss transferred to disposal account	32,513	-
Fair value loss charged to statement of profit or loss	(61,096)	(54,137)
Balance as at 31st December	(105,145)	(76,562)

20.3 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016	2015	2016	2015
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group						
Bank, Finance and Insurance						
Asia Asset Finance PLC	-	2,520,000	-	4,388	-	4,281
Central Finance PLC	45,000	39,894	5,842	10,531	4,500	10,092
Ceylinco Insurance PLC	1,810	2,810	2,851	4,426	2,697	4,175
Chilaw Finance PLC	3,753	38,857	87	855	77	897
Citizens Development Business						
Finance PLC-Non Voting	44,733	44,733	3,992	3,992	2,778	3,579
Commercial Bank of Ceylon PLC	9,964	10,000	1,714	1,745	1,445	1,402
Commercial Bank of Ceylon						
PLC-Non Voting	-	68,018	-	8,367	-	8,366
Commercial Credit & Finance PLC	30,000	-	1,998	-	1,689	-
Development Finance						
Corporation of Ceylon PLC	120,000	120,000	24,993	24,993	14,700	20,172
Hatton National Bank PLC						
-Non Voting	-	15,000	-	2,625	-	2,669
HNB Assurance PLC	7,500	7,500	621	621	441	560
Housing Development Finance						
Corporation PLC	26,500	27,000	1,832	1,866	1,251	1,812
Janashakthi Insurance Company						
PLC	674,893	674,893	13,072	13,072	11,068	11,811
Lanka Orix Leasing Co. PLC	133,100	126,600	15,180	14,642	9,650	11,900
LOLC Finance PLC	500,000	-	1,300	-	1,300	-
National Development Bank PLC	72,704	67,704	16,513	15,688	11,342	13,141
Nations Trust Bank PLC	210,032	210,032	20,657	20,657	16,992	18,126
Sampath Bank PLC	-	25,000	-	6,283	-	6,200
Sanasa Development Bank PLC	256	-	27	-	27	-
Seylan Bank PLC	135,000	135,000	13,846	13,846	12,150	12,825
Seylan Bank PLC-Non Voting	330,000	375,000	17,845	20,227	19,470	27,375
Softlogic Finance PLC	60,515	60,515	3,340	3,340	2,058	3,141
Swarnamahal Financial Services PLC	-	25,831	-	143	-	41
The Finance Company PLC	200,000	200,000	973	1,000	580	900
Union Bank of Colombo PLC	10,000	-	170	-	154	-
			146,853	173,307	114,369	163,465
Diversified Holdings						
Adam Capital PLC	-	1,200,000	-	3,250	-	2,520
Aitken Spence PLC	115,000	115,000	11,616	11,616	7,475	11,121
Browns Investment PLC	-	1,953,034	-	5,216	-	2,734
CT Holdings PLC	-	20,000	-	4,206	-	2,800
Hemas Holdings PLC	-	117,803	-	10,013	-	10,944
John Keells Holdings PLC	285,998	250,793	46,170	46,507	41,470	44,668
John Keells Holdings PLC						
(Warrants - 23)	-	445,529	-	24,160	-	14,391
Softlogic Holdings PLC	-	220,000	-	3,376	-	3,410
The Colombo Fort Land &						
Building PLC	45,000	45,000	1,230	1,230	900	1,031
Vallibel One PLC	-	147,230	-	3,079	-	3,165
			59,016	112,653	49,845	96,784

Notes to the Financial Statements

20.3 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Construction and Engineering						
Access Engineering PLC	-	620,442	-	19,854	-	14,332
Colombo Dockyard PLC	17,918	17,918	3,537	3,537	1,408	2,689
Commercial Development PLC	4,649	4,649	451	451	349	430
MDT Walkers PLC	130,000	130,000	7,745	7,745	5,330	6,656
			11,733	31,587	7,087	24,107
Beverages, Food and Tobacco						
Ceylon Tobacco Company PLC	-	5,000	-	4,450	-	4,963
Distilleries Co of Sri Lanka PLC	-	185,000	-	35,732	-	45,510
Keells Food Products PLC	27,672	10,729	4,746	1,899	4,372	2,227
Lucky Lanka Milk Processing PLC	2,657,487	3,057,722	15,808	18,265	8,504	10,396
Melstacorp PLC	600,000	-	28,973	-	35,580	-
Renuka Agri Foods PLC	752,274	752,274	3,091	3,177	2,182	3,084
			52,618	63,523	50,638	66,180
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	63,219	63,219	5,793	5,793	2,725	4,299
Asian Hotels & Properties PLC	132,817	206,214	9,938	15,430	7,571	12,187
Bansei Royal Resorts Hikkaduwa PLC	-	28,600	-	306	-	257
Ceylon Hotel Corporation PLC	2,930	7,326	75	187	59	185
Confifi Hotel Holdings PLC	147,472	147,472	10,928	10,928	4,173	5,619
Eden Hotel Lanka PLC	127,743	127,743	3,677	3,677	1,725	2,236
Galadari Hotel PLC	20,000	610,387	292	8,915	214	6,409
John Keells Hotels PLC	75,000	75,000	1,175	1,175	818	1,155
Marawila Resorts PLC	959,168	959,168	4,606	4,656	2,302	2,686
The Kingsbury PLC	1,937,727	1,937,727	41,846	41,845	29,454	33,910
Waskaduwa Beach Resort PLC	50,000	-	306	-	220	-
			78,636	92,912	49,261	68,943
Manufacturing						
ACL Cables PLC	-	40,000	-	4,323	-	4,836
ACME Printing & Packaging PLC	131,023	131,023	1,137	1,198	812	1,074
Agstar Fertilizers PLC	-	418,173	-	2,834	-	2,676
Central Industries PLC	5,000	-	250	-	248	-
Dankotuwa Porcelain PLC	630,902	630,902	6,301	6,301	4,479	5,363
Eastern Merchants PLC	257,922	132,667	2,179	1,244	1,599	1,167
Kelani Tyres PLC	115,000	115,000	9,023	9,023	7,464	8,913
Lanka Tiles PLC	48,253	46,253	5,786	5,565	4,627	5,129
Pelawatte Sugar Industries PLC	68,400	68,400	2,925	2,925	978	978
Piramal Glass Ceylon PLC	800,000	800,000	5,100	5,100	4,240	4,880
Sierra Cables PLC	1,390,000	1,423,758	6,157	6,307	4,587	5,695
Textured Jersey PLC	-	75,000	-	1,700	-	2,663
Tokyo Cement Co.(Lanka) PLC - Non Voting	-	25,000	-	1,043	-	988
			38,858	47,563	29,034	44,362

20.3 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016	2015	2016	2015
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Trading						
Brown and Company PLC	5,178	5,178	526	539	435	523
Ceylon & Foreign Trades PLC	-	3,595	-	27	-	23
Tess Agro PLC- Non Voting	-	430,298	-	770	-	688
			526	1,336	435	1,234
Stores and Supplies						
Ceylon Tea Brokers PLC	192,655	192,655	937	937	751	713
			937	937	751	713
Power and Energy						
Lanka IOC PLC	-	100,000	-	5,424	-	3,710
Laugfs Gas PLC - Non Voting	26,088	25,000	1,008	1,000	858	953
Resus Energy PLC	172,737	172,737	3,407	3,407	3,852	4,301
Vallibel Power Erathna PLC	50,000	500,000	459	4,608	440	4,450
			4,874	14,439	5,150	13,414
Health Care						
Nawaloka Hospitals PLC	-	3,800,000	-	14,627	-	12,540
			-	14,627	-	12,540
Land and Property						
Colombo Land & Developemnt Co PLC						
Co PLC	2,700	231,283	96	9,274	73	5,918
Overseas Realty (Ceylon) PLC	-	481,042	-	11,427	-	11,160
Serendib Land PLC	-	75	-	172	-	159
			96	20,873	73	17,237
Chemical and Pharmaceuticals						
Chemical Industries (Colombo) PLC - Non Voting						
PLC - Non Voting	7,500	-	585	-	510	-
PC Pharma PLC	-	1,400,000	-	4,045	-	840
			585	4,045	510	840
Plantation						
Agalawatta Plantations PLC	-	7,230	-	217	-	148
Balangoda Plantations PLC	497,486	497,486	14,996	14,996	6,069	8,756
Elpitiya Plantations PLC	-	223,646	-	5,623	-	4,764
Guardian Capital Partners PLC	18,472	18,472	1,006	1,006	719	741
Kotagala Plantations PLC	67,444	67,444	2,644	2,644	600	1,201
			18,646	24,486	7,388	15,610
Investment Trust						
Ceylon Investment PLC	91,164	91,164	8,893	8,893	4,475	7,257
Equity One PLC	-	26,664	-	977	-	1,299
Lanka Century PLC	520,000	393,822	7,167	5,695	6,136	4,765
Renuka Holding PLC	106,441	76,441	4,266	3,471	2,246	2,056
			20,326	19,036	12,857	15,377
Telecommunication						
Dialog Telecom PLC	100,000	813,665	1,149	9,346	1,050	8,706
			1,149	9,346	1,050	8,706

Notes to the Financial Statements

20.3 Quoted Equities and Unit Trusts

	No of Shares		Cost		Fair Value	
	2016	2015	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Footwear and Textiles						
Ceylon Leather Products PLC	11,348	5,770	873	481	794	444
			873	481	794	444
Service						
Kalamazoo Systems PLC	135	135	172	172	109	351
Paragon Ceylon PLC	-	20	-	19	-	20
			172	191	109	371
Total value of quoted equities and unit trusts			435,898	631,342	329,351	550,327

20.4 Other Debt Securities

Commercial Credit & Finance PLC	20,000	20,000	2,141	2,141	2,235	2,414
Total value of listed debentures			2,141	2,141	2,235	2,414
Total value of financial assets at fair value through profit or loss			438,039	633,483	331,586	552,741
Marked to market valuation loss (Note 20.4.1)			(106,453)	(80,742)	-	-
Fair value of financial assets designated at fair value through profit or loss			331,586	552,741	331,586	552,741

20.4.1 Marked to Market Valuation Loss

Balance as at 01st January	(80,742)	(25,406)
Fair value loss transferred to disposal account	32,515	-
Fair value loss charged to statement of profit or loss	(58,226)	(55,336)
Balance as at 31st December	(106,453)	(80,742)

21 Loans and Advances to Customers

Accounting Policy

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

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

After initial measurement, loans and receivables are subsequently measured at amortised cost using EIR, less allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognized in the Statement of Profit or Loss 'Impairment charges for loans and receivables and other losses'.

Lease and Hire Purchase Receivables

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

Group/Company as a Lessor

Leases, where the Group/Company does not transfer substantially all of the risk and benefits of ownership of asset are classified as operating leases. Initial direct cost incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognized over the lease term on the same basis as rental income. Contingent rents are recognized as revenue in the period in which they are earned.

Group as a Lessee

Leases that do not transfer to the Group/Company substantially all the risk and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognized as an expense in the Statement of Profit or Loss on a straight line basis over the lease term. Contingent rental payable is recognized as an expense in the period in which they are incurred.

'Day 1' profit or Loss

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

Impairment of Financial Assets

The Group assesses at each reporting date, whether there is any objective evidence that a financial asset is impaired. A financial asset is deemed to be impaired if, and only if, there is an objective evidence of impairment as a result of one or more events that have occurred after the initial recognition of the asset (an incurred loss events) and that loss event (or event) has an impact on the estimated future cash flows of the financial assets that can be reliably estimated.

Loans and Receivables

Losses for impaired loans and receivables are recognized promptly when an objective evidence has occurred. Impairment allowances are calculated on individual and collective basis. Impairment losses are recorded as charges to the Statement of Profit or Loss. The carrying amount of impaired loans and receivables on the Statement of Financial Position is reduced through the use of impairment allowance accounts. Losses expected from future events are not recognized.

Notes to the Financial Statements

Individually Assessed Loans and Receivables

For all loans and receivables that are considered individually significant, the Company assesses on a case by case basis at each reporting date whether there is any objective evidence that a loan is impaired. The criteria used to determine that there is such objective evidence include;

- Known cash flow difficulties experienced by the borrower;
- Past due contractual payments of either principal or interest;
- The probability that the borrower will enter bankruptcy or other financial realisation; and
- A significant downgrading in credit rating by an external credit rating agency.

For those loans and receivables where objective evidence of impairment exists, impairment losses are determined considering the following factors:

- Company's aggregate exposure to the customer;
- The viability of the customer's business model and their capacity to trade successfully out of financial difficulties and generate sufficient cash flow to service debt obligations;
- The amount and timing of expected receipts and recoveries;
- The realisable value of security (or other credit mitigates) and likelihood of successful repossession;
- The likely deduction of any costs involved in recovery of amounts outstanding ;

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

Collectively Assessed Loans and Receivables

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

Incurred but not yet Identified Impairment

Individually assessed loans and receivables for which no evidence of loss has been specifically identified on an individual basis are grouped together according to their credit risk characteristics for the purpose of calculating an estimated collective loss. This reflects impairment losses that the Group has incurred as a result of events occurring before the reporting date, which the Group and Company are not able to identify on an individual loan basis and that can be reliably estimated. These losses will only be individually identified in the future. As soon as information becomes available which identifies losses on individual loans and receivables within the Group those loans and receivables are removed from the Group and assessed on an individual basis for impairment.

The collective impairment allowance is determined after taking into account;

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

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

Current economic conditions and portfolio risk factors are also evaluated when calculating the appropriate level of allowance required to cover the inherent loss. These additional macro and portfolio risk factors may include:

- recent lending portfolio growth and product mix.
- exchange rates, interest rates.
- changes in laws and regulations.

Reversals of Impairment

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

Write-off of Loans and Receivables

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

Re-negotiated Loans and Receivables

Where possible, the Group / Company seeks to re-structure loans and receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreements of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The management continuously reviews the re-negotiated loans and receivables to ensure that all criteria are met and that future payments are likely to occur. The loans and receivables continue to be subject to any criteria are met and that future payments are likely to occur. The loans and receivables continue to be subjected to an individual or collective impairment assessment calculated using the original EIR.

Notes to the Financial Statements

21.1 Bills Receivable

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Bills discounted	878,661	730,125	878,661	730,125
Deferred income	(4,616)	(1,613)	(4,616)	(1,613)
	874,045	728,512	874,045	728,512
Less : Allowance for impairment losses (Note 21.1.1)	134,642	132,624	134,642	132,624
	739,403	595,888	739,403	595,888

21.1.1 Movement In Allowance for Individual and Collective Impairment during the Year

Individual impairment charges

As at 01st January	121,056	137,193	121,056	137,193
Charge / (write back) to statement of profit or loss	15,818	1,406	15,818	1,406
Write off during the year	(14,000)	(17,543)	(14,000)	(17,543)
As at 31st December	122,874	121,056	122,874	121,056

Collective Impairment Charges

As at 01st January	11,568	6,101	11,568	6,101
Charge / (write back) to statement of Profit or Loss	200	5,467	200	5,467
As at 31st December	11,768	11,568	11,768	11,568
Total	134,642	132,624	134,642	132,624

21.2 Loans and Advances to Customers

As at 31st December				
Term loans	5,049,631	5,172,063	5,049,631	5,172,063
Personal loans	4,681,342	2,375,653	4,681,342	2,375,653
Cheque discounting	34,314	41,525	34,314	41,525
Staff loans	213,491	226,700	213,491	226,700
Textile debt recovery fund	-	1,735	-	1,735
Susahana loan scheme	-	1,359	-	1,359
Margin trading	122,149	189,118	122,149	189,118
Micro finance	993,172	623,030	993,172	623,030
Commercial papers and other placements	-	-	67,024	94,380
Pawning	499,855	196,843	499,855	196,843
Real estate loans	37,036	58,914	37,036	58,914
Loans to life policy holders	-	-	4,622	4,042
Loans against fixed deposits	308,494	200,507	308,494	200,507
	11,939,484	9,087,447	12,011,130	9,185,869
Less : Allowance for impairment losses (Note 21.2.1)	618,939	680,815	618,639	680,815
Net loans and advances to customers	11,320,845	8,406,632	11,392,491	8,505,054

21.2.1 Movement In Allowance for Individual and Collective Impairment during the Year

As at 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Individual Impairment Charges				
As at 01st January	413,391	320,530	413,391	320,530
Charge / (write back) to statement of profit or loss	36,685	102,905	36,685	102,905
Write off during the year	(46,564)	(10,044)	(46,564)	(10,044)
As at 31st December	403,512	413,391	403,512	413,391
Collective Impairment Charges				
As at 01st January	267,424	136,507	267,424	136,507
Charge / (write back) to statement of profit or loss	(52,297)	130,917	(52,297)	130,917
As at 31st December	215,127	267,424	215,127	267,424
Total	618,639	680,815	618,639	680,815

21.3 Lease and Hire Purchase Receivable

21.3.1 Finance Lease / Hire Purchase Receivable within One Year from the Reporting Date

Total lease rental receivable	19,177,170	18,484,420	19,177,170	18,484,420
Less : Lease rental receivable after one year	12,539,828	12,132,089	12,539,828	12,132,089
Lease rental receivable within one year from the reporting date	6,637,342	6,352,331	6,637,342	6,352,331
Less : Unearned lease income	1,931,241	1,821,306	1,931,241	1,821,306
	4,706,101	4,531,025	4,706,101	4,531,025

21.3.2 Finance Lease / Hire Purchase Receivable after One Year from the Reporting Date

Lease rental receivable after one year from the reporting date	12,539,828	12,132,089	12,539,828	12,132,089
Less : Unearned lease income	1,930,532	1,755,297	1,930,532	1,755,297
	10,609,296	10,376,792	10,609,296	10,376,792
	15,315,397	14,907,817	15,315,397	14,907,817
Less : Provision for impairment (Note 21.3.3)	323,646	684,558	323,646	684,558
Net investment in leases and hire purchase	14,991,751	14,223,259	14,991,751	14,223,259

21.3.3 Movement in Allowance for Individual and Collective Impairment during the Year

Individual Impairment Charges				
As at 01st January	513,515	473,394	513,515	473,394
Charge / (write back) to statement of profit or loss	29,884	196,065	29,884	196,065
Write off during the year	(384,745)	(155,944)	(384,745)	(155,944)
As at 31st December	158,654	513,515	158,654	513,515
Collective impairment charges				
As at 01st January	171,043	145,652	171,043	145,652
Charge / (write back) to statement of profit or loss	(6,051)	25,391	(6,051)	25,391
As at 31st December	164,992	171,043	164,992	171,043
Total	323,646	684,558	323,646	684,558

Notes to the Financial Statements

22 Financial Investments - Available-for-Sale

Accounting Policy

Available-for-sale investments include equity and debt securities. 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. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value unquoted investments are recorded at cost since the fair value of these investments can not be reliably measured.

Unrealized gains and losses are recognized directly in equity (other comprehensive income) in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the statement of profit or loss in 'other operating income'. Interest earned whilst holding available-for-sale financial investments is reported as 'interest income' using the EIR.

Dividends earned, whilst holding available-for-sale financial investments are recognized in the statement of profit or loss as 'net trading income', when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the statement of profit or loss in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Impairment of Available-for-Sale Financial Asset

For available-for-sale financial investments, the Group assesses at each reporting date whether there is objective evidence that an investment is impaired. In the case of debt instruments classified as available-for-sale, the Group assesses individually whether there is objective evidence of impairment based on the same criteria as financial assets carried at amortized cost.

However, the amount recorded for impairment is the cumulative loss measured as the difference between the amortized cost and the current fair value, less any impairment loss on that investment previously recognized in the Statement of Profit or Loss. Future interest income is based 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 and similar income'. If, in a subsequent period, the fair value of a debt instrument increases and the increase can be objectively related to a credit event occurring after the impairment loss was recognized in the Statement of Profit or Loss, the impairment loss is reversed through the Statement of Profit or Loss.

Impairment of Available-for-Sale-Investment

The Group and the Company review its financial assets classified as available-for-sale at each reporting date to assess whether they are impaired. This requires similar judgments as applied to the individual assessment of loans and receivables.

In the case of equity investments classified as available-for-sale, objective evidence would also include a significant or prolonged decline in the fair value of the investment below its cost. The determination of what is significant or prolonged requires judgment. 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 Statement of Other Comprehensive Income is removed from equity and recognised in the Statement of Profit or Loss. Impairment losses on equity investments are not reversed through the Statement of Profit or Loss; increase in the fair value after impairment are recognised in Statement of Other Comprehensive Income.

As at 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Government securities (Note 22.1)	2,694,335	1,712,896	3,049,945	1,944,534
Quoted investments	-	-	34,583	9,013
Unquoted investments (Note 22.2)	41,310	41,310	42,287	41,310
Total financial investments - available-for-sale	2,735,645	1,754,206	3,126,815	1,994,857

22.1 Government Securities

Treasury bills	2,277,121	1,129,328	2,320,870	1,223,698
Treasury bonds	417,214	583,568	729,075	720,836
	2,694,335	1,712,896	3,049,945	1,944,534

As at 31st December	No of Shares		2016 Holding %	Cost		Fair Value	
	2016	2015		2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000

22.2 Unquoted Investments

Company							
Mega Containers Limited	1,000,000	1,000,000	6.21	10,000	10,000	20,491	20,491
Ceylinco Investment Company Limited (Note 22.2.1)	500,000	500,000	46.35	5,000	5,000	-	-
Credit Information Bureau of Sri Lanka Limited	540	540	0.216	54	54	54	54
Ranwan Industries (Private) Limited	165,790	165,790	5.00	3,600	3,600	-	-
LVL Energy Fund Limited	2,500,000	2,500,000	0.54	20,000	20,000	20,000	20,000
Finance & Guarantee Company Limited	2,506,562	2,506,562	0.15	17,546	17,546	765	765
San Michele Limited	50,000	50,000	-	500	500	-	-
				56,700	56,700	41,310	41,310
Adjustment for fair value changes				(11,290)	(11,290)	-	-
Adjustment due to impairment				(4,100)	(4,100)	-	-
Total unquoted investments				41,310	41,310	41,310	41,310

22.2.1 Although the Company has acquired 46.35% equity capital of Ceylinco Investment Company Limited, the investment has not been classified as an associate company due to pending court decision on the ownership structure of the company.

Notes to the Financial Statements

As at 31st December	No of Shares		2016 Holding %	Cost		Fair Value	
	2016	2015		2016 Rs:000	2015 Rs:000	2016 Rs:000	2015 Rs:000
Group							
Mega Containers Limited	1,000,000	1,000,000	6.21	10,000	10,000	20,491	20,491
Ceylinco Investment Company Limited	500,000	500,000	46.35	5,000	5,000	-	-
Credit Information Bureau of Sri Lanka Limited	540	540	0.216	54	54	54	54
Ranwan Industries (Private) Limited	165,790	165,790	5.00	3,600	3,600	-	-
LVL Energy Fund Limited	2,500,000	2,500,000	0.54	20,000	20,000	20,000	20,000
Finance & Guarantee Company Limited	2,506,562	2,506,562	0.15	17,546	17,546	765	765
San Michele Limited	50,000	50,000	-	500	500	-	-
Equity One Limited	26,664	-	-	977	-	977	-
				57,677	56,700	42,287	41,310
Adjustment for fair value changes				(11,290)	(11,290)	-	-
Adjustment due to impairment				(4,100)	(4,100)	-	-
Total unquoted investments				42,287	41,310	42,287	41,310

23 Financial Investments - Held-to-Maturity

Accounting Policy

Held-to-Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates, which the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. Amortised cost is calculated by taking in to accounting any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'interest income' in the Statement of Profit or Loss. The losses arising from impairment of such investments are recognized in the Statement of Profit or Loss in 'impairment charges for loans and other losses'.

If the Group were to sell or reclassify more than an insignificant amount of held-to-maturity investments before maturity (other than in certain specific circumstances permitted in the Sri Lanka Accounting Standard – LKAS 39 - 'Financial Instruments: Recognition and Measurement') the entire category would be tainted and would have to be reclassified as available-for-sale. Furthermore, the Group would be prohibited from classifying any financial asset as held-to-maturity during the following two years.

Impairment of Held-to-Maturity Financial Assets

An impairment loss in respect of held-to-maturity financial assets measured at amorised cost is calculated as the difference between its carrying amount and the present value of estimated future cash flows discounted at the asset's original EIR and is recognised in Statement of Profit or Loss. Interest on impaired assets continues to be recognised through the unwinding of discount. When a subsequent event caused the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

As at 31st December	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Debt securities - Treasury bonds	57,766	56,507	57,766	56,507
	57,766	56,507	57,766	56,507

24 Investment in Associate Company

Accounting Policy

Investment in associate is accounted for at cost in the Company's Financial Statements and under the equity method in the Consolidated Financial Statements.

Under the equity method, the investment in associate is initially accounted for at cost and the carrying amount is adjusted for post-acquisition changes in the Company's share of net asset of the associate, less any impairment in the Company's net investment in associate.

Associate is an entity in which the Company has significant influence, but no control over the financial and operating policies.

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

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

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

Profit and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment cost in accordance with the Sri Lanka Accounting Standard - LKAS 39 - 'Financial Instruments: Recognition and measurement'.

Notes to the Financial Statements

As at 31st December	Country of Incorporation	Principal Activity	No. of Shares	Holding %	Company			
					2016		2015	
					Cost Rs:'000	Directors' Valuation Rs:'000	Cost Rs:'000	Directors' Valuation Rs:'000
Unquoted								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,067,750	29.00%	81,084	81,084	81,084	81,084
Balance as at 31st December					81,084	81,084	81,084	81,084

24.1 Carrying Value on Equity Basis

As at 31st December	Group	
	Lanka Securities (Pvt) Ltd	
	2016 Rs:'000	2015 Rs:'000
Net assets at the beginning of the year	96,484	94,454
Add: Profit / (loss) before tax accruing to the group	(5,437)	7,080
Less: Income tax	757	1,537
Add: Other comprehensive income for the year	1,035	(726)
Less: Dividend received	-	2,787
Net assets at the end of the year	91,325	96,484

24.2 Summarized Financial Information of Associate

For the year ended 31st December	Group	
	Lanka Securities (Pvt) Ltd	
	2016 Rs:'000	2015 Rs:'000
Income	89,605	159,255
Less: Expenses	108,354	134,842
Profit before taxation	(18,749)	24,413
Less: Income tax expense / (reversal)	2,609	5,299
Profit for the period	(21,358)	19,114
Other comprehensive income / (expenses)	3,569	(2,504)
Total comprehensive income for the period	(17,789)	16,610
As at 31st December		
Total assets	391,590	478,049
Total liabilities	76,677	145,347

25 Investment in subsidiary

Accounting Policy

Investment in subsidiaries are stated at cost, net of any impairment losses which are charged to the Statement of Profit or Loss and it is in accordance with the Sri Lanka Accounting Standards - LKAS 27 - 'Separate Financial Statements'.

Subsidiaries are entities that are controlled by the Company/Group. Subsidiaries are consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. The Company is presumed to control an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

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

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the consolidated Statement of Financial Position, but separate from parent shareholder's equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this result in a deficit balance. Acquisition of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

As at 31st December	Country of Incorporation	Principal Activity	No. of Shares	Holding %	Company			
					2016		2015	
					Cost	Directors' Valuation	Cost	Directors' Valuation
					Rs:'000	Rs:'000	Rs:'000	Rs:'000
Unquoted								
MBSL Insurance Company Ltd (Note 25.1)	Sri Lanka	Insurance	475,697,403	84.12	516,096	77,306	516,096	310,197
Less : Impairment provision (Note 25.2)					438,790	-	205,899	-
Balance as at 31st December			475,697,403		77,306	77,306	310,197	310,197

Notes to the Financial Statements

25.1 Summarized Financial Information of MBSL Insurance Company Ltd

For the year ended 31st December

	2016 Rs.'000	2015 Rs.'000
Net operating income	296,067	485,772
Less : Operating expenses	(516,591)	(586,340)
Profit /(loss) before income tax	(220,524)	(100,568)
Less : Income tax expense / (reversal)	10,655	8,303
Profit /(loss) for the year	(231,179)	(108,871)
Other comprehensive income / (expenses)	(10,204)	(7,386)
Total comprehensive income for the year, net of tax	(241,383)	(116,257)
As at 31st December	2016 Rs.'000	2015 Rs.'000
Loans and Receivables	675,495	1,049,695
Reinsurance Assets-Insurance Contracts	289,794	88,449
Insurance Receivables	211,672	294,016
Property, equipment and Intangible Assets	63,077	82,186
Other assets	534,732	405,994
Total assets	1,774,770	1,920,340
Due to banks	23,364	15,906
Insurance Contract Liabilities	1,295,292	956,590
Insurance Payables	68,673	259,362
Other liabilities	295,293	354,951
Total liabilities	1,682,622	1,586,809
Total equity	92,148	333,531
Total liabilities and equity	1,774,770	1,920,340

25.2. Impairment Provision

At the end of the reporting period, the Company assessed the recoverable amount of the investment in subsidiary, MBSL Insurance Company Limited of Rs. 516.1 Mn and the recoverable amount of the goodwill of Rs.18.2 Mn respectively.

The recoverable amount of investment in subsidiary as at 31st December 2016 was determined as Rs.77.3 Mn and further, impairment allowance of Rs.232.9 Mn (2015: Rs.205.9 Mn) was made during the year 2016 in the Company's Financial Statements. The Group determined that the goodwill associated with its investment in subsidiary is fully impaired by Rs.18.2 Mn (2015: 18.2 Mn).

Impairment of Investment in Subsidiary :

The main indicator that was considered for the assessment of impairment of the investment in subsidiary was the continuous losses in the current and previous years resulting in the carrying value of the investment in the Company's Financial Statements exceeding the subsidiary's net assets.

The recoverable amount of the investment in subsidiary was assessed using the net asset based valuation. The net asset of the company comprises of life insurance fund reserve and net equity. Even though the company determined the recoverable amount of the investment in subsidiary using the fair value less cost to sell value method in previous years, this year the management decided to use net asset based approach by considering the current status of the Subsidiary as a most suitable approach to compare with other competitors.

The value in use model was not considered for the purpose of determination of the recoverable value of the investment since the management has already decided to divest the investment.

The impairment loss has been separately presented in the Statement of Profit or Loss.

25.3 Divestment of Shareholding in Subsidiary

The Board of Directors of the Company at its meeting held on 23rd September 2016 granted its principal approval to divest the shareholding representing 84.12% in the subsidiary MBSL Insurance Company Limited. The same has been published in Colombo Stock Exchange in terms of section 8.1b of Listing Rules. But the transaction has not been concluded as at the reporting date, to consider this as a discontinued operation.

26 Investment Properties

Accounting Policy

Investment properties are properties held either to earn rental income or for capital appreciation or for both. But not for sale in the ordinary course of business, used in the production or supply of goods or service or for administrative purpose.

Basis of Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The carrying amount includes the cost of replacing part of an existing Investment Property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an Investment Property.

The Company adopts the cost model for subsequent measurement of investment properties in accordance with Sri Lanka Accounting Standard - LKAS 40 - 'Investment Property'. Accordingly, land classified as investment property is stated at cost, and buildings classified as investment property are stated at cost less any accumulated depreciation and any accumulated impairment losses. Provision for depreciation is made over the period of 20 years at the rate of 5% per annum using the straight-line method for buildings classified as investment property. Land is not depreciated.

The Group revalues investment property at least once in five years for disclosure purpose.

Derecognition

Investment Properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the statement of profit or loss in the period of derecognition.

Notes to the Financial Statements

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Cost				
Balance as at 01st January	165,876	165,876	165,876	165,876
Less : Disposals	15,791	-	15,791	-
Cost as at 31st December	150,085	165,876	150,085	165,876
Accumulated depreciation as at 31st December	22,415	20,036	22,415	20,036
Net book value as at 31st December	127,670	145,840	127,670	145,840
Accumulated depreciation				
Balance as at 01st January	20,036	16,999	20,036	16,999
Add : Charge for the year	2,961	3,037	2,961	3,037
Less : On Disposals	582	-	582	-
Balance as at 31st December	22,415	20,036	22,415	20,036
Rental income derived from investment property	Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that generated rental income during the period	Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that did not generate rental income during the period	902	867	902	867

26.1 Investment Properties Held by the Company/Group

As at 31st December	2016										
	Location	No of Buildings	Building sq.ft	Extent perches	Fair Value Hierarchy	Cost / Carrying amount			Fair Value		
						Land Rs:'000	Buildings Rs:'000	Total Rs:'000	Land Rs:'000	Buildings Rs:'000	Total Rs:'000
No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.				16.61p	Level 3	1,750	-	1,750	26,200	N/A	26,200
No 385/1, Kotte Road, Pitakotte.	1	2,896		19.01p	Level 3	2,958	1,730	4,688	3,343	1,955	5,298
No 116/4, 116/7, 116/26, 116/27, 116/29 1st Cross Street, Colombo 11.				12.35P	Level 3	1,249	-	1,249	2,602	N/A	2,602
No 102 & 104, Dam Street, Colombo 12. (Note.26.1.a)	1	20,368		1R-10.7P	Level 3	17,970	11,989	29,959	213,000	20,000	233,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.				2.0A	Level 3	600	-	600	3,400	N/A	3,400
Mirissawelawatta hena; Thekkawatta Dambadeniya				1A-OR-28.00P	Level 3	162	-	162	2,000	N/A	2,000
No 64, Gabadawa Estate, Pitipana, Homagama				10.00P	Level 3	686	-	686	1,400	N/A	1,400
No.2, Plan No.1206, Silverberst Estate, Pitipana, Homagama				0A-2R-20.70P	Level 3	991	-	991	2,014	N/A	2,014
Fingara town & country Club, No.50/21, Old Kesbewa Road, Boralesgamuwa	1			2A-1R-4.35P	Level 3	65,604	44,396	110,000	182,175	115,840	298,015
						91,970	58,115	150,085	436,134	137,795	573,929

- 26.1.a** The fair value of the investment properties as at 31st December 2016 was based on market valuations carried out in the year 2011, 2013, 2014 & 2016 by Mr. D N Dhammika Baranage RICS (UK), DIV AIS (SL) and Mr. H A W Perera B.Sc. Estate Mgt & Valuation (Special), Mr. Samantha Kumara Madawan Arachchi Bs.(EMV), City Planning (JP), Dip (UPM) NI, AIREV and Mr. A.G. Gunarathne B.Sc. Estate Mgt & Valuation, F.IV (Sri Lanka), L.G.T Tungasiri(AIV).F.IV (Sri Lanka).Dip.in Valuation(S.L.T.C), who are independent valuers not connected with the Company. The Directors have reviewed the values of the investment properties as at 31st December 2016 and concluded that there was no impairment.
- 26.1.b** The Company has entered into an agreement with 71 tenants to sell the lease hold rights of the property at No. 102 & 104, Dam Street, Colombo 12 subject to the approval of Urban Development Authority (UDA). The date of the completion of this sale and the execution of the Deed of Transfer in favour of the purchaser in respect of lease hold rights of the premises shall be fixed subsequent to the registration of the said premises as a Condominium unit and upon a Condominium Deed of Declaration being executed and obtaining all necessary approvals from the UDA for such registration within five years from the execution of said agreement. However, the Company has not obtained the condominium status and other necessary approval from UDA to proceed selling the lease hold right Agreement till the reporting date. MBSL shall expeditiously affect the Transfer Deeds contemplated by the agreement after having obtained the registration of the Condominium Plan and the Condominium Declaration and any other statutory approval from UDA and upon the balance payment of the purchase consideration settled in full.

27 Property and Equipment

Accounting Policy

Basis of Recognition

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

Property and equipment are recognized if it is probable that future economic benefits associated with the asset will flow to the group and cost of the asset can be reliably measured.

Basis of Measurement

An item of Property and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

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

The Company and Group apply the cost model to property & equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Subsequent Cost

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property and equipment are charged to the Statement of Profit or Loss as incurred.

Repairs & Maintenance

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

27.b

	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group							
Cost							
Balance as at 01st January 2015	9,961	2,943	67,113	13,157	237,129	341,555	671,858
Additions during the year	-	-	-	-	28,459	61,344	89,803
Disposals during the year	-	-	(788)	(3,350)	-	(210)	(4,348)
Transfers /impairment during the year	-	-	5,222	(5,222)	-	-	-
Balance as at 31st December 2015	9,961	2,943	71,547	4,585	265,588	402,689	757,313
Additions during tshe year	-	-	23,388	-	108,165	28,542	160,095
Disposals during the year	-	-	(11,000)	-	(3,789)	(876)	(15,665)
Transfers / impairment during the year	-	-	-	-	-	(7,220)	(7,220)
Balance as at 31st December 2016	9,961	2,943	83,935	4,585	369,964	423,135	894,523
Accumulated depreciation							
Balance as at 01st January 2015	-	1,312	42,164	7,871	184,673	175,647	411,667
Charge for the year	-	147	11,683	1,212	24,912	38,907	76,861
On Disposals	-	-	(788)	(3,350)	-	(199)	(4,337)
On Transfers / Impairment	-	-	4,205	(4,205)	-	-	-
Balance as at 31st December 2015	-	1,459	57,264	1,528	209,585	214,355	484,191
Charge for the year	-	147	8,555	1,045	27,264	42,679	79,690
On Disposals	-	-	(9,447)	-	(3,789)	(327)	(13,563)
On Transfers / Impairment	-	-	-	-	-	(9,887)	(9,887)
Balance as at 31st December 2016	-	1,606	56,372	2,573	233,060	246,820	540,431
Net book value							
As at 31st December 2015							273,122
As at 31st December 2016							354,092

Information on Impairment of the freehold land and buildings of the Company

Location	No. of Buildings	Extent (Perches)	Buildings (sq. ft.)	Fair Value Hierarchy	Revalued Amounts Land / Buildings Rs.'000	Net Book Value of Buildings Rs.'000	Net Book Value of Land Rs.'000	As a % of Total NBV
470, Hendala Road, Wattala	1	64	2,200	Level 3	79,400 79,400	1,337 1,337	9,961 9,961	703%

Market value of the lands and buildings of the Company as at 31st December 2016 was Rs. 79,400,000 as per the valuation carried out in March 2016 by Mr. S.A.M.A. Perera (FIV). The Directors have reviewed the values of the land & buildings as at 31st December 2016 and concluded that there was no impairment.

Notes to the Financial Statements

Title Restriction on Property & Equipment

There were no restrictions existed on the title of the property & equipment of the Group as at the date of the Statement of Financial Position.

Property & Equipment Pledged as Security for Liabilities

There were no items of property & equipment pledged as securities for liabilities except for lease hold assets.

Compensation from Third Parties for Items of Property & Equipment

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

Fully Depreciated Property & Equipment

The cost of fully depreciated property & equipment of the Group which are still in use as at the financial position date are as follows:

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Motor vehicles	34,639	31,543	34,639	31,543
Computer equipments	131,662	85,953	157,965	85,953
Equipment, furniture & fittings	70,681	48,229	86,168	48,229
Total	236,982	165,725	278,772	165,725

Temporarily Idle Property & Equipment

There were no property & equipment of the Group that were temporarily idle as at the reporting date.

Property & Equipment Retired from Active Use

There were no property & equipment of the Group were retired from active use as at the reporting date.

28 Intangible Assets

Accounting Policy

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably and it is probable that the expected future economic benefits that are attributable to it will flow to the Company / Group in accordance with the Sri Lanka Accounting Standard - LKAS 38 - 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are stated in the Statement Financial Position at cost less any accumulated amortisation and any accumulated impairment losses if any.

Subsequent Expenditure

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

Useful Economic Lives, Amortisation and Impairment

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

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

Derecognition

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognition of the asset is recognised in the Statement of Profit or Loss in the year the asset is derecognised.

The estimated useful lives for the current and comparative years are as follows:

Class of asset	Percentage per annum	Period
Computer Software	20% -25%	4-5 Years

28.a

As at 31st December	Computer Software Rs.'000	Total Rs.'000
Company		
Cost		
Balance as at 01st January 2015	111,098	111,098
Additions and improvements during the year	19,415	19,415
Balance as at 31st December 2015	130,513	130,513
Additions and improvements during the year	12,987	12,987
Balance as at 31st December 2016	143,500	143,500
Accumulated amortisation		
Balance as at 01st January 2015	80,549	80,549
Amortization for the year	11,148	11,148
Balance as at 31st December 2015	91,697	91,697
Amortization for the year	14,098	14,098
Balance as at 31st December 2016	105,795	105,795
Net book value		
As at 31st December 2015		38,816
As at 31st December 2016		37,705

Notes to the Financial Statements

28.b

As at 31st December	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
Group Cost			
Balance as at 01st January 2015	156,817	18,193	175,010
Additions and improvements during the year	22,879	-	22,879
Balance as at 31st December 2015	179,696	18,193	197,889
Additions and improvements during the year	14,487	-	14,487
Adjustment	(5,251)	-	(5,251)
Balance as at 31st December 2016	188,932	18,193	207,125
Accumulated amortisation & impairment			
Balance as at 01st January 2015	92,286	-	92,286
Amortization for the year	20,269	-	20,269
Impairment provision for the year	-	18,193	18,193
Balance as at 31st December 2015	112,555	18,193	130,748
Amortization for the year	21,588	-	21,588
Adjustment due to amortization	(4,239)	-	(4,239)
Balance as at 31st December 2016	129,904	18,193	148,097
Net book value			
As at 31st December 2015			67,141
As at 31st December 2016			59,028

Fully Amortized Intangible Assets

Gross carrying amount of intangible assets which have been fully amortized that are still in use as follows;

	Company		Group	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Computer Software	83,749	86,866	90,041	86,866

There were no restrictions existed on the title of the intangible assets of the Group as at the reporting date. Further, there were no items pledged as securities for liabilities.

29 Other Assets

Accounting Policy

The Company and the Group classify all their other assets as mainly comprise of advance payments, commercial paper and sundry receivables

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Claims and commission receivables	18,508	15,142	18,508	15,142
Receivables	107,237	104,110	161,502	166,687
Advances and pre payments	46,395	45,256	83,618	80,647
Other accounts	146,356	66,947	152,371	67,392
Reinsurance assets-insurance contracts	-	-	289,794	88,449
Insurance receivables	-	-	211,672	294,016
Commercial Paper	414,306	382,906	414,306	382,906
	732,802	614,361	1,331,171	1,095,239
Less : Allowance for impairment	414,306	382,906	420,853	382,906
	318,496	231,455	910,918	712,333

30 Due to Banks

Accounting Policy

Due to the banks, includes bank overdrafts obtained by the Company from banks. Subsequent to initial recognition, these are measured at their amortized cost using the EIR method.

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Bank overdraft	201,635	258,062	224,997	273,968
	201,635	258,062	224,997	273,968

31 Due to Customers

Accounting Policy

Due to customers include fixed deposits and saving deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortization is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are derecognised as well as through the EIR amortisation process.

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Savings deposits	728,257	693,207	728,257	693,207
Time deposits	17,790,162	15,153,099	17,790,162	15,153,099
	18,518,419	15,846,306	18,518,419	15,846,306

Notes to the Financial Statements

32 Debt Issued and Borrowed Funds

Accounting Policy

Debt securities issued represent the funds borrowed by the Company and the Group for long term and short term liquidity fund requirements. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of profit or loss when the liabilities are derecognised as well as through the EIR amortisation process

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Debentures (Note 32.1)	5,154,869	5,489,350	5,154,869	5,489,350
Short term borrowing	3,567,918	2,393,973	3,567,918	2,393,973
Total debt issued and borrowed funds	8,722,787	7,883,323	8,722,787	7,883,323

32.1 Debentures

ISIN No.	Face value Rs '000	Interest rate	Colombo		Interest Payable Frequency	Allotment Date	Term of Redemption	Company / Group Value as at	
			Stock Exchange Listing	Security				2016 Rs:'000	2015 Rs:'000
Fixed Rate Debentures									
LK0186D19194	625,110	17.50%	listed	Nil	Annually	28-Mar-13	27-Mar-18	735,088	734,412
LK0186D19202	485,240	17.25%	listed	Nil	Annually	28-Mar-13	27-Mar-17	569,943	569,250
LK0186D19210	723,190	16.70%	listed	Nil	Quarterly	28-Mar-13	27-Mar-18	753,581	753,663
LK0186D19228	166,460	16.50%	listed	Nil	Monthly	28-Mar-13	27-Mar-18	168,786	168,717
LK0186D20929	674,770	14.25%	listed	Nil	Annually	17-Dec-13	16-Dec-17	771,045	770,901
LK0186D20911	17,540	13.50%	listed	Nil	Quarterly	17-Dec-13	16-Dec-17	18,136	18,137
LK0186D20937	11,470	13.25%	listed	Nil	Monthly	17-Dec-13	16-Dec-17	11,599	11,600
LK0186D22669	909,770	9.00%	listed	Nil	Annually	13-Nov-14	12-Nov-19	991,796	991,405
LK0186D22677	1,090,230	8.75%	listed	Nil	Bi Annually	13-Nov-14	12-Nov-19	1,134,895	1,135,027
Fixed Rate Debenture Redeemed During the Year									
LK0186D20945	296,220	13.50%	listed	Nil	Annually	17-Dec-13	16-Dec-16	-	336,238
Total Debentures	5,000,000							5,154,869	5,489,350

Outstanding number of debentures as at 31st December 2016 consisted of 47,037,800 Unsecured Redeemable debentures of Rs. 100/- each issued by the Company.

Company has not repurchased any of its own debt during the year. (2015: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2016 and 2015.

33 Insurance Provision

Life Insurance Contracts Liabilities (including investment contract liabilities with DPF)

The liability for life insurance contracts and investment contract with DPF is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment return, expenses, lapse and surrender rates and discount rate. The subsidiary bases mortality, morbidity on standard of the industry.

Mortality tables which reflect historical experience, adjusted when appropriate to reflect the Subsidiary is unique risk exposure, product characteristics, target markets and own claims severity and frequency experience. For these contracts that insure risk related to longevity, prudent allowance is allowable is made for expected future mortality improvements as well as wide ranging changes to life style, could insignificant changes to the expected future mortality exposure. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expenses levels, adjusted for expected expenses inflation is appropriate.

Laps and surrender rates are based on the Subsidiary's historical experience of laps and surrenders.

Discount rates are based on current market risk rates, adjusted for the Subsidiary own risk exposure.

Non-life insurance Contacts Liabilities

Non-Life insurance contract liabilities are recognised when contracts are entered and premium are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of the certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques. The liabilities is not discounted for the time value of money. No provision for equalisation or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally, the reserve is released over the term of the contract and is recognised as premium income. At each reporting date, the Group receives its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums is inadequate, the deficiency is recognised in the Statement of Profit or a Loss by setting up a provision for liability adequacy.

This note indicates the liability on account of policyholders which has been actuarially valued and claims/benefits due to life policyholders, which remain unclaimed to the reporting date.

Notes to the Financial Statements

33.1 Insurance provision - life

As at 31st December	Group	
	2016 Rs.'000	2015 Rs.'000
Balance as at 1st January	425,231	335,256
Increase in life fund	69,940	89,975
	495,171	425,231
Fair value reserve	(16,803)	(1,152)
	478,368	424,079
Unclaimed benefits	35,890	20,178
Balance as at 31st December	514,258	444,257

Insurance Provision - Life

Long-term insurance contract liabilities included in the life insurance fund result primarily from traditional non-participating life insurance products. Short-duration contract liabilities are primarily accident and health insurance products. The insurance provision has been established based upon the following:

- interest rates which vary by product and as required by regulations issued by the Insurance Board of Sri Lanka.
- mortality rates based on published mortality tables adjusted for actual experience as required by regulations issued by the Insurance Board of Sri Lanka.
- surrender rates based upon actual experience by geographic area and modified to allow for variations in policy form.

33.2 Surplus/Deficit

As at 31st December	Group	
	2016 Rs.'000	2015 Rs.'000
Balance as at 1st January	425,231	335,256
Increase in life fund	69,940	89,975
	495,171	425,231
Fair value reserve	(16,803)	(1,152)
Life fund balance as at 31st December	478,368	424,079
Insurance contract liabilities (life) - Net premium valuation method	-	377,909
Insurance contract liabilities (life) - Gross premium valuation method	422,005	-
Surplus/(deficit) as at 31st December 2016	56,363	46,170
Surplus created due to change in valuation method from NPV to GPV (Note 33.3)	(35,431)	-
	20,932	46,170

The company allocates assets and expenses to participating and non participating policy funds based on the insurance contract liability for participating and non participating policy funds determined by the consultant actuary Ms. Teja Ranade Gadhoke as at the year end.

33.3 Surplus created due to change in valuation method from NPV to GPV

	Group
As at 31st December	2016
	Rs.'000
Surplus created due to change in valuation method from NPV to GPV	3,002
Non-participating policies	
Surplus created due to change in valuation method from NPV to GPV	32,429
Non-participating policies	
	35,431

Valuation of Life Insurance Fund

The valuation of life insurance fund as at 31st December 2016 was made by Ms. Teja Ranade Gadhoke a qualified professional actuary who also determined and certified the surplus created due to change in valuation method from NPV to GPV. As per the report, policy liabilities based on the Gross Premium Valuation method amount to Rs.422 Mn.

Liability Adequacy Test

In the opinion of the consultant actuary Ms Teja Ranade Gadhoke, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was made for premium deficiency.

33.4 Insurance Provision - Non-Life

	Group	
As at 31st December	2016	2015
	Rs.'000	Rs.'000
Provision for reported claims by policy holders	408,237	115,520
Provision for claims IBNR	48,779	43,354
Outstanding claims provision	457,016	158,874
Provision for unearned premiums	324,018	353,459
Total non - life insurance provision	781,034	512,333

Group**Liability Adequacy Test**

A Liability Adequacy Test ("LAT") for non-life contract liability was carried out by Mr.Methew Maguire, FIAA for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31 December 2016 as required by Sri Lanka Accounting Standard - SLFRS4-'Insurance Contracts'. The UPR provision of Rs.324 Mn set by the subsidiary, net of reinsurance, is adequate in relation to the unexpired risks of MBSL Insurance Co. Ltd as at 31 December 2016. As such, there is no premium deficiency to be recognized by the subsidiary. In addition according to the consultant actuary's report, IBNR provision of Rs. 48.8 Mn is adequate in relation to the claim liability of MBSL Insurance Company Ltd as at 31 December 2016.

34 Current Tax Liabilities**Accounting Policy**

The Group and the Company is subject to income taxes. Significant judgement is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of laws, at the time of the preparation of these Financial statements.

Current tax assets are recognised at historical values less impairment. Income tax liabilities are recorded at the amounts expected to be paid.

Notes to the Financial Statements

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000 Restated*	2016 Rs:'000	2015 Rs:'000 Restated*
Balance at 01st January	146,284	208,001	136,336	208,001
Add: Provision for taxation	62,838	31,684	74,249	41,524
Add: Super gain tax	-	38,753	-	38,753
Less: Paid during the year	27,906	80,162	27,906	81,699
Less: Set off during the year	30,088	10,010	41,499	28,261
Less: ESC and ACT receivable balance	-	41,982	-	41,982
Balance as at 31st December	151,128	146,284	141,180	136,336

35 Deferred Tax Liabilities

Accounting Policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

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

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

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

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

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Deferred tax assets (Note 35.2.1)	(434,082)	(465,723)	(434,082)	(465,723)
Deferred tax liability (Note 35.2.2)	640,970	579,392	640,970	579,392
	206,888	113,669	206,888	113,669

35.1 Deferred Tax Movement

Balance as at 01st January	113,669	91,403	113,669	91,403
Charge for the year	91,409	11,194	91,409	11,194
Deferred tax charge relating to components of Statements of Comprehensive Income	1,810	11,072	1,810	11,072
Balance as at 31st December	206,888	113,669	206,888	113,669

35.2 Reconciliation of Deferred Tax Liability

Deferred tax assets and liabilities are attributable to the following:

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
35.2.1 Deferred tax assets				
Carry forward tax losses	(374,333)	(396,974)	(374,333)	(396,974)
Retirement benefit obligation	(70,688)	(77,878)	(70,688)	(77,878)
Actuarial gains/(losses) recognised in Statement of Comprehensive Income	10,939	9,129	10,939	9,129
	(434,082)	(465,723)	(434,082)	(465,723)

35.2.2 Deferred Tax Liability

Accelerated depreciation allowance for tax purpose				
Lease assets	610,960	558,927	610,960	558,927
Accelerated depreciation allowance for tax purpose fixed assets	30,010	20,465	30,010	20,465
	640,970	579,392	640,970	579,392
Net deferred tax liabilities	206,888	113,669	206,888	113,669

Deferred tax has been calculated at the rate of 28%.

36 Other Liabilities**Accounting Policy**

Other liabilities include accrued expenses and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Accrued expenses	56,220	25,001	50,104	36,498
Payable to employees & suppliers	134,360	135,724	178,982	203,570
Insurance payable	4,489	6,269	73,162	265,631
Margin accounts	9,307	11,227	9,307	11,227
Lease creditors				
Within 12 months	1,536	1,316	5,057	3,841
Later than 12 months	-	1,536	10,686	14,898
Other liabilities	198,262	175,767	424,736	420,945
	404,174	356,840	752,034	956,610

37 Retirement Benefits Obligations**Accounting Policy**

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by the Sri Lanka Accounting Standards LKAS 19 - 'Employee Benefits'.

Gratuity

In compliance with the Payment Gratuity Act No.12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees.

Recognition of Actuarial Gains and Losses

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

Notes to the Financial Statements

Funding Arrangements

The gratuity liability is not externally funded.

Accounting Estimates

The actuarial valuation involves making demographic & financial assumptions specified below.

Demographic Assumptions: Mortality rates, Staff turnover, Disability, Retirement age

Financial Assumptions: Rate of discount, Salary Increase, Gratuity formula, Employee data, Assets

The mortality rates represent the probabilities of "death" occurring within one year of any given age based on publicly available mortality table issued by Institute of Actuaries, London.

In determining the appropriate long term rate of discount management considers market rates of interest on short term Corporate Bonds/Government Bonds and the anticipated long term rate of inflation.

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Balance as at 01st January	245,531	247,051	262,040	259,107
Expense recognised in the statement of profit or loss (Note 37.1)	40,464	42,648	45,697	47,751
Payment made during the year	(33,539)	(11,564)	(35,733)	(13,603)
Actuarial gains/(losses) recognized in other comprehensive income	(39,068)	(32,603)	(40,541)	(31,215)
Balance as at 31st December	213,388	245,532	231,463	262,040

37.1 Expense Recognised in the Statement of Profit or Loss

Current service cost	15,911	20,413	19,338	24,250
Interest cost	24,553	22,235	26,359	23,501
	40,464	42,648	45,697	47,751

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2016 by Messrs.' Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the liability is the 'Projected Unit Credit, the method recognised by the Sri Lanka Accounting Standard, LKAS 19 on 'Employee Benefit'.

37.2 Actuarial Assumptions

	2016 Rs:'000	2015 Rs:'000
Discount rate	12.11%	10.00%

Retirement Age

Expected average working life of the active participants is 7 - 8 years for the year ended 31st December 2016 .

37.3 Sensitivity of Assumptions Employed in Actuarial Valuation

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

The sensitivity of the Statement of Profit or Loss and Statement of Financial Position is the effect of the assumed changes in discount rate and on the profit or loss and employment benefit obligation for the year.

Increase/ (Decrease) in Discount Rate	Sensitivity effect on Statement of Profit or Loss Increase / (Reduction) in results for the year (Rs'000)	Sensitivity effect on Employment Benefit Obligation Increase/ (Decrease) in the Liability (Rs'000)
1%	(9,338)	(9,338)
(1%)	10,295	10,295
* Discount rate is fixed at; 2016 - 12.11%		

38 Stated Capital

As at 31st December	Company		Group	
	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000
Balance as at 01st January	2,124,457	2,124,457	2,124,457	2,124,457
New share issue	-	-	-	-
Balance as at 31st December	2,124,457	2,124,457	2,124,457	2,124,457
No. of shares in issue				
Balance as at 01st January	165,875	165,875	165,875	165,875
New share issue	-	-	-	-
Balance as at 31st December	165,875	165,875	165,875	165,875

39 Reserves

39.1 Statutory Reserves

As at 31st December	Company		Group	
	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000
Balance as at 01st January	140,544	140,544	140,544	140,544
Add: Transfers during the year	17,125	-	17,125	-
Balance as at 31st December	157,669	140,544	157,669	140,544

Statutory reserve represents the reserve fund of the Company created in terms of the Finance Companies (Capital Funds) Direction No. 01 of 2003 issued by the Central Bank of Sri Lanka.

39.2 Retained Earnings

As at 31st December	Company		Group	
	2016 Rs'000	2015 Rs'000	2016 Rs'000	2015 Rs'000
Balance as at 01st January	747,408	842,936	746,023	742,987
Add: Profit for the year	85,624	(78,306)	117,853	22,152
Transfers to statutory reserves	(17,125)	-	(17,125)	-
Other comprehensive income	37,258	21,531	39,532	19,637
Super gain tax adjustment	-	(38,753)	-	(38,753)
Balance as at 31st December	853,165	747,408	886,283	746,023

Notes to the Financial Statements

39.3 Available-for-Sale Reserve

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Balance as at 01st January	(4,350)	43,485	(8,920)	43,961
Add: losses on available for sale financial assets	(17,452)	(47,835)	(27,275)	(52,881)
Balance as at 31st December	(21,802)	(4,350)	(36,195)	(8,920)

40 Additional Cash Flow Information

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
40.1 Analysis of Cash and Cash Equivalents				
Cash and short term funds	401,301	380,830	441,357	432,947
Due to banks with original maturity less than three months	(201,635)	(258,062)	(224,997)	(273,968)
	199,666	122,768	216,360	158,979
40.2 Change in Operating Assets				
Loans and advances given to customers	(3,826,220)	(2,521,649)	(3,799,444)	(2,412,260)
Other operating assets	(48,640)	(5,722)	(160,183)	(29,514)
Adjustment for impairment	(24,239)	(462,151)	(27,959)	(474,618)
	(3,899,099)	(2,989,522)	(3,987,586)	(2,916,392)
40.3 Change in Operating Liabilities				
Due to customers	2,672,113	4,521,286	2,672,113	4,753,663
Other operating liabilities	47,334	(104,694)	(204,576)	(81,189)
Insurance provision	-	-	338,702	(618)
	2,719,447	4,416,592	2,806,239	4,671,856
40.4 Other Non-Cash Items Included in Profit Before Tax				
Loss/Profit on disposal of quoted shares	2,781	(30,067)	7,515	(30,398)
Interest accrued on government securities	(146,151)	(148,010)	(146,151)	(163,268)
Profit on sale of property and equipment	(32,909)	(3,317)	(35,990)	(3,317)
Net (gain)/loss on financial assets designated at FVPL	61,096	54,137	58,226	55,336
Impairment charges	257,130	668,050	27,959	492,811
Depreciation and amortisation	77,670	70,170	104,239	100,166
	219,617	610,963	15,798	451,330

Other Financial Disclosures

This section provides information on related party disclosures and other disclosures required by the Sri Lanka Accounting Standards.

41 Related Party Transactions

The Company / Group carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 - 'Related Party Disclosures'.

41.a Transactions with Key Management Personal (KMP)

According to Sri Lanka Accounting Standard - LKAS 24, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the directors of the Company / Group (including executive and non-executive directors), chief executive officer, chief operating officer have been classified as KMP of the Company.

41. b Directors Interest in Contracts/ Transactions with Related Parties

Dr. Sujeewa Lokuhewa, Mr. C. N. Wijewardane, Mr. D. M. Gunasekara, Mr. W. P. R. P. H. Fonseka, Mr. K. B. S. Bandara, Mr. N. Perera, Mr. S. N. Dayaratne, Mr. S. P. Arsakularatne, Mr. H. J. D. Fonseka were directors of the Company / Group as at 31 December 2016.

**41. c Transactions with Key Management Personnel
Remunerarion to Key Management**

For the year ended 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
(a) Remuneration to Board of Directors				
Short term employees benefits	4,123	6,299	7,367	13,346
	4,123	6,299	7,367	13,346
(b) Remuneration to Corporate Management				
Short term employees benefits	69,146	66,807	90,814	85,811
Post employment benefits	18,977	-	18,977	-
	88,123	66,807	109,791	85,811

Transactions, arrangements and agreements with key management personnel

	Company
	2016 Rs:'000
(a) Items in Statement of Financial Position	
Assets - Loan and receivables	17,296
Liabilities - Due to customers	4,861
(b) Items in Statement of Profit or Loss	
Interest Income	897
Interest expense	523

In addition to the above, the Company has also provided company maintained vehicles to the Chairman and the Chief Executive officer in line with the approved employment terms of the Company.

41.d Terms and Conditions of Transactions with Related Parties

The transactions mentioned in Note 41.e arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances at the year end are unsecured except Rs. 250 Mn Term loan & OD facility obtained from Bank Of Ceylon. Such loans & OD facility are secured by leasing & hire purchase facilities and micro finance facilities. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31st December 2016, the Company/Group has not made any provision for impairment relating to amounts owed by related parties.

Notes to the Financial Statements

Related party transactions (Contd.)

41.e Details of significant related party transactions that have been carried out in the ordinary course of business in an arms length basis with entities are disclosed below.

	Nature of Transactions	Income/ (expenses) recognized during the year		Assets / (Liabilities) as at 31st December	
		2016	2015	2016	2015
		Rs:'000	Rs:'000	Rs:'000	Rs:'000
Transactions with parent company					
Bank of Ceylon	Money Market Loan	(110,401)	(1,051)	(1,320,000)	(15,000)
	Debenture Interest paid	(155,177)	(155,025)	(1,626,020)	(1,626,020)
	Bank fee and charges	(2,819)	(116)	-	-
	Interest received- REPO	2,162	1,911	263,466	-
	Interest paid-REPO	(62)	(3,233)	-	-
Transactions with subsidiary					
MBSL Insurance Company Limited	Insurance agency commission	16,883	19,104	-	-
	Business Promotion	-	(12)	-	-
	Insurance expenses	(10,235)	(8,443)	-	-
Transactions with associate					
Lanka Securities (Private) Limited	Dividend received	-	2,508	-	-
	Lease rental received	-	282	-	-
Transactions with other companies					
Credit Information Bureau of Sri Lanka	Dividend received	234	216	-	-
	CRIB charges	(15,182)	(16,546)	-	-
Grand Oriental Hotel	Staff Training	(659)	(1,128)	-	-
	Meeting expenses	(229)	(244)	-	-
BOC Property Development and Management Company Limited	Rent paid	(55,383)	(43,883)	-	-
	Electricity, water, office maintenance, rates	(15,459)	(13,030)	-	-
Ceybank Asset Management Limited	Interest paid on Fixed Deposits and savings	(79)	-	(14,036)	-

	Nature of Transactions	Income/ (expenses) recognized during the year		Assets / (Liabilities) as at 31st December	
		2016	2015	2016	2015
		Rs:'000	Rs:'000	Rs:'000	Rs:'000
	Interest paid on Money Market Loan	-	(4)	-	-
Lanka Clear (Private) Limited	Slips processing charges	(240)	(118)	-	-
	charges for online data transfer process	(14)	-	-	-
	Interest paid on Fixed Deposits and savings	(2,864)	-	(184,710)	-
	Interest on Commercial papers	-	(645)	-	-
The Financial Ombudsman Sri Lanka (Guarantee) Limited	Subscription	(70)	-	-	-
Group					
Subsidiary - MBSL Insurance Company Limited					
Ceybank Holiday Homes (Private) Limited	Staff Training	-	(549)	-	-
Institute of Bankers of Sri Lanka	Business Promotion	-	(20)	-	-
Bank of Ceylon	Gross written premium	26,470	43,403		
	Premium receivable	-	-	785	5,981
	Claim incurred	26,495	6,362	-	-

Notes to the Financial Statements

42 Fair Value of Financial Instruments

Determination of Fair Value and Fair Value Hierarchy

Accounting Policy

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques. These incorporate the Company's/Group's estimate assumptions that a market participant would make when valuing instruments.

Financial assets at Fair Value Through Profit or Loss- Held-for-Trading

Held-for-trading financial assets valued using valuation techniques primarily consist of quoted investments. These quoted assets are valued using quoted market price in an active market of each securities.

Financial Assets and Liabilities Carried at Amortised Cost

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated based on the discounted cash flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under level 3 in the fair value hierarchy.

Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an active market, direct observation of a traded price may not be possible. In these circumstances, the Company/Group uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

Determination of Fair Value and Fair Value Hierarchy

The Company and Group use 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 which 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:

As at 31st December	2016				2015			
	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total
Company								
Financial assets								
Financial investments -								
held-for-trading	323,655	-	-	323,655	541,970	-	-	541,970
	323,655	-	-	323,655	541,970	-	-	541,970
Financial investments -								
available-for-sale								
Government securities	2,694,335	-	-	2,694,335	1,712,896	-	-	1,712,896
Unquoted investments	-	-	41,310	41,310	-	-	41,310	41,310
	2,694,335	-	41,310	2,735,645	1,712,896	-	41,310	1,754,206
	3,017,990	-	41,310	3,059,300	2,254,866	-	41,310	2,296,176
Group								
Financial assets								
Financial investments -								
held-for-trading	331,586	-	-	331,586	552,741	-	-	552,741
	331,586	-	-	331,586	552,741	-	-	552,741
Financial investments -								
available-for-sale								
Government securities	3,049,945	-	-	3,049,945	1,944,534	-	-	1,944,534
Quoted investments	-	34,583	-	34,583	-	9,013	-	9,013
Unquoted investments	-	-	42,287	42,287	-	-	41,310	41,310
	3,049,945	34,583	42,287	3,126,815	1,944,534	9,013	41,310	1,994,857
	3,381,531	34,583	42,287	3,458,401	2,497,275	9,013	41,310	2,547,598

Notes to the Financial Statements

Accounting Policy

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques incorporating group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Instruments Carried at Fair Value

The fair value is the amount for which a financial asset could be exchanged between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, which is the case for a number of financial assets and liabilities, a discounted cash flow or generally accepted estimation and valuation techniques based on market conditions at the reporting date are used to calculate an estimated value.

Financial Investments Available-for-Sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of government debt securities and unquoted equity securities.

These assets are valued using models that use both observable and unobservable data. The un-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other Financial Assets Designated at Fair Value Through Profit or Loss

Other financial assets designated at fair value through profit or loss valued using the market price since an active market exists.

Day 1 profit

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, the Group amortise the difference between the transaction price and fair value (i.e. Day 1 profit or loss) over time on an applicable basis in interest income. The table below shows the movement in the aggregate profit not recognised when financial instruments were initially recognised ('Day 1 profit').

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Balance as at 01st January	51,396	73,226	51,396	73,226
Reduction due to passage of time	(16,840)	(18,062)	(16,840)	(18,062)
Deferral of profit on new transactions	16,008	15,045	16,008	15,045
Derecognition of the instruments	(10,267)	(18,813)	(10,267)	(18,813)
Balance as at 31st December	40,297	51,396	40,297	51,396

Set out below is a comparison, by class, of the carrying amounts and fair values of the Group'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.

As at 31st December	Company				Group			
	2016		2015		2016		2015	
	Rs.'000 Carrying Amount	Rs.'000 Fair value	Rs.'000 Carrying Amount	Rs.'000 Fair value	Rs.'000 Carrying Amount	Rs.'000 Fair value	Rs.'000 Carrying Amount	Rs.'000 Fair value
Financial Assets								
Placements with banks & financial institutions	118,933	118,933	440,093	440,093	262,319	262,319	571,672	571,672
Bills receivable	739,403	739,403	595,888	595,888	739,403	739,403	595,888	595,888
Loans and advances to customers	11,320,845	11,320,845	8,406,632	8,406,632	11,392,491	11,392,491	8,505,054	8,505,054
Lease and hire purchase receivable	14,991,751	14,991,751	14,223,259	14,223,259	14,991,751	14,991,751	14,223,259	14,223,259
Financial investments - held-to-maturity	57,766	57,508	56,507	60,324	57,766	57,508	56,507	60,324
Other assets	34,454	34,454	87,458	87,458	34,454	34,454	87,458	87,458
Total	27,263,152	27,262,894	23,809,837	23,813,654	27,478,184	27,477,926	24,039,838	24,043,655
Financial liabilities								
Due to customers	18,518,419	18,518,419	15,846,306	15,846,306	18,518,419	18,518,419	15,846,306	15,846,306
Debt issued and borrowed funds	8,722,787	8,722,787	7,883,323	7,883,323	8,722,787	8,722,787	7,883,323	7,883,323
Other liabilities	110,717	110,717	68,061	68,061	110,717	110,717	367,986	367,986
Total	27,351,923	27,351,923	23,797,690	23,797,690	27,351,923	27,351,923	24,097,615	24,097,615

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

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 to their fair value.

Fixed rate Financial Instruments

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

43 Events after the Reporting Period

No circumstances have arisen since the reporting date which would require adjustments to, or following material event took place in the Company since 31st December 2016 that require disclosure in these financial statements

The Company has proposed for an initial issue of 10,000,000 listed, unsecured, subordinated, redeemable debentures at an issue price of Rs.100/- each with an option to issue up to further 10,000,000 of the said debentures at the discretion of the Company, in the event of an oversubscription of the initial issue. Subscription list was opened on 20th April 2017.

Notes to the Financial Statements

44 Going Concern of Subsidiary

Going concern of MBSL Insurance Company Limited

The MBSL Insurance Company Limited has incurred a loss of Rs.231,179,000/- for the year ended 31st December 2016 (2015 loss of Rs. 108,871,000/-) and accumulated losses of Rs. 972,726,000/- as at 31st December 2016 (2015 - Rs.743,021,000/-). It should also be noted that the net assets are less than half of the stated capital and face a serious loss of capital situation in term of Section 220 of the Companies Act No.07 of 2007.

The non-life business does not fulfill the minimum required thresholds set for Capital Adequacy Ratio and Total Available Capital by the Regulation of Insurance Industry Act, No.43 of 2000, "the Solvency Margin (Risk Based Capital) Rules 2015" while the life business does not fulfill the minimum required threshold set for Total Available Capital.

The subsidiary has also not segregated the long-term insurance business and the general insurance business being carried on by it into two separate companies in accordance with Section 53 of Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.

However, the financial statements of the subsidiary are prepared with the assumption that the subsidiary is able to continue as going concern with the written undertaking given by the parent company Merchant Bank of Sri Lanka & Finance PLC, as the controlling shareholders of MBSL Insurance Company Limited which holds 84.12% of the issued capital of MBSL Insurance Company, to infuse capital in to MBSL Insurance Company Limited as and when required.

45 Restatement of Comparatives

Comparative figures were restated as adjustments made due to notional tax on interest income for the year ended 31st December 2015.

The restatement had and impact on the following components of financial statements for the year ended 31st December 2015.

45.1 Statement of Profit or Loss

	Company			Group		
	Current Presentation 2015 Rs.'000	As Reported Previously 2015 Rs.'000	Impact Rs.'000	Current Presentation 2015 Rs.'000	As Reported Previously 2015 Rs.'000	Impact Rs.'000
Interest and similar income	4,073,159	4,055,225	17,934	4,164,059	4,146,125	17,934
Income tax expense	(42,878)	(37,857)	(5,021)	(62,666)	(57,645)	(5,021)
Profit /(loss) for the year	(78,306)	(91,219)	12,913	(6,665)	(19,578)	12,913

45.2 Statement of Financial Position

Assets

Other assets	231,455	213,521	17,934	712,333	694,399	17,934
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Liabilities

Current tax liabilities	146,284	141,263	5,021	146,284	141,263	5,021
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Equity

Retained earnings	747,408	734,495	12,913	736,075	723,162	12,913
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46 Financial Reporting By Segment

Accounting Policy

The Group's segmental reporting is based on the business segment.

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

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

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group.

Inter-segment transfers are accounted for at competitive fair market prices charged to inter-company counterparts for similar services. Such services are eliminated on consolidation.

As per the provision of Sri Lanka Reporting Standards - SLFRS 08 - Operating Segment of the Group has been identify based on the products and services offered by the Group of which level of risks and rewards are significantly differ from one another.

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

Lease and Hire Purchase

This segment includes leasing and hire purchase products offered to the customers

Corporate and retail credit

This segment includes Loan products offered to the customers.

Corporate advisory and capital markets

This segment includes capital market and corporate advisory services.

Insurance

Insurance business segment includes life and general insurance.

Notes to the Financial Statements

46 Financial Reporting By Segment (Contd.) Group

For the year ended 31st December	Leasing		Corporate & Retail Credit	
	2016 Rs.'000	2015 Rs.'000	2016 Rs.'000	2015 Rs.'000
Revenue from external customers				
Interest and similar income	2,511,325	2,327,757	1,876,346	1,437,745
Interest and similar expenses	1,280,721	1,066,973	921,045	633,887
Net interest income	1,230,604	1,260,784	955,301	803,858
Other income	43,283	46,901	9,702	8,320
Inter-segment transactions	-	-	-	-
Total operating income	1,273,887	1,307,685	965,003	812,178
Impairment charges for loans and other losses	(23,836)	(221,456)	(403)	(235,852)
Net operating income	1,250,051	1,086,229	964,600	576,326
Depreciation of property & equipment and investment properties	30,048	29,520	21,609	18,712
Amortisation of intangible assets	6,664	5,576	4,792	3,534
Segment result	508,061	385,227	430,989	106,829
Impairment of goodwill				
Profit / (loss) from operations after impairment from subsidiary investments				
Value Added Tax on financial services				
Share of associate company's profit / (loss) before tax				
Profit / (loss) before income tax				
Income tax expense				
Profit / (loss) for the year				
Assets				
Capital expenditures				
Property & equipment	65,938	40,200	53,467	27,504
Intangible assets	6,424	9,579	5,209	6,156
Total assets	14,991,751	14,235,402	12,156,037	8,863,004
Total liabilities	12,843,264	4,840,394	10,413,940	2,871,035

Corporate advisory & Capital markets		Insurance		Eliminations / Unallocated		Total	
2016	2015	2016	2015	2016	2015	2016	2015
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
18,469	17,524	115,233	90,900	331,634	290,133	4,853,007	4,164,059
49,211	52,965	66,627	1,025	392,953	379,501	2,710,557	2,134,351
(30,742)	(35,441)	48,606	89,875	(61,319)	(89,368)	2,142,450	2,029,708
(21,835)	(6,765)	248,310	408,365	56,427	92,589	335,887	549,410
-	900	-	-	-	(900)	-	-
(52,577)	(41,306)	296,916	498,240	(4,892)	2,321	2,478,337	2,579,118
-	(4,843)	(3,720)	(12,467)	-	-	(27,959)	(474,618)
(52,577)	(46,149)	293,196	485,773	(4,892)	2,321	2,450,378	2,104,500
1,155	1,137	19,079	21,133	10,760	9,395	82,651	79,897
256	243	7,490	9,121	2,386	1,795	21,588	20,269
(142,184)	(86,080)	(220,524)	(100,573)	(212,375)	(181,070)	363,967	124,333
						-	(18,193)
						363,967	106,140
						(111,730)	(57,219)
						(5,437)	7,080
						246,800	56,001
						(165,658)	(52,718)
						81,142	(3,283)
1,640	13,042	5,858	8,274	33,192	783	160,095	89,803
160	374	-	4,265	2,694	2,505	14,487	22,879
372,896	750,144	77,306	1,920,338	6,043,447	4,131,204	33,641,437	29,900,092
319,455	238,437	1,684,583	1,602,767	5,233,638	17,292,681	30,494,880	26,845,314

Notes to the Financial Statements

47 Commitments and Contingent Liabilities

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

The table below shows the Group's maximum credit risk exposure for commitments and guarantees.

As at 31st December	Company		Group	
	2016 Rs:'000	2015 Rs:'000	2016 Rs:'000	2015 Rs:'000
Financial Guarantees and Claims to the customers	132,265	123,536	616,478	546,079
Total commitments and contingencies	132,265	123,536	616,478	546,079

47.1 Company

In the normal course of business, the Company makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and therefore form part of the overall risk of the Company. No material losses are anticipated as a result of these transactions.

Further, the Company has issued a letter of comfort to the subsidiary, MBSL Insurance Company Limited to provide financial support in any difficulty.

Pending Litigations

In the normal course of business, the Company incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
1	43156/MR DC - Colombo	This action has been filed against MBSL for releasing the leased article to the third party who was authorized in writing by the lessee to receive the certificate of registration etc. from MBSL. Following the full settlement of the lease facility by the third party, MBSL released the vehicle and the lessee thereafter filed this action against MBSL claiming damages, thus disputing the signature on his own letter of authority.	Plaintiff's action dismissed on 15/07/2016. Appeal pending
2	421/05 DC - Kandy (HCCP/ CA/LA 38/2015)	This action has been filed challenging the repossession of the leased article. However, the repossession has been effected in strict conformity with the provisions of the lease agreement. Therefore, no liability could be passed down to MBSL and this action will not be successful. Trial still proceeding	Further trial 03/11/2017
3	4124/M DC - Gampaha	The Lessee/ Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle. However the injunction sought by the lessee/ plaintiff preventing MBSL from disposing the vehicle in issue was disallowed.	Further inquiry on 29/05/2017
4	23840/M DC - Anuradhapura	The Lessee/ Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle and a declaration that MBSL has violated the provisions of the Lease Agreement and matter is presently proceeding in Trial.	Judgement to be delivered by the previous judge on 28/06/2017

No.	Action / Case No.	Purpose / Cause of Action	Current Status
5	DMR/3675/11 DC - Colombo	This action has been filed against the MBSL to recover Rs.2,500,000/- as damages for refusal to grant a Hire Purchase facility.	Further Trial on 27/06/2017
6	13436/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the Plaintiff's wife in an accident involving the above vehicle. As the MBSL is the absolute owner, MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Objection on 05/05/2017
7	13434/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the Plaintiff's wife in an accident involving the above vehicle. As MBSL is the absolute owner, MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Objection on 05/05/2017
8	13435/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the Plaintiff's wife in an accident involving the above vehicle. As the MBSL is the absolute owner MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However, as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Objection on 05/05/2017
9	13437/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the Plaintiff's father in an accident involving the above vehicle. As MBSL is the absolute owner, MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Objection on 05/05/2017
10	Claim- 01/2014 HC Hambantota	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2237/2010. The Petitioner is seeking the release of seized articles.	Argument on 17/05/2017
11	Appeal No.134/2009 (F) Civil Appellate Court Gampaha	This is an appeal instituted against the order of DC Gamapaha in favour of MBSL in case No.426/L filed by a Mortgagor seeking to nullify the Mortgage bond executed by her to secure a financial leasing facility obtained in 1998. Against the dismissal of that action she filed this appeal and the hearing has been concluded.	Judgement reserved for delivery in due course

Notes to the Financial Statements

No.	Action / Case No.	Purpose / Cause of Action	Current Status
12	DMR/000578/13 DC Kandy	The Plaintiff has filed this action against the registered owner of the vehicle and MBSL seeking damages for injuries caused to the Plaintiff in an accident involving the above vehicle. As MBSL is the absolute owner MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Answer on 20/07/2017
13	LT application No.13/305/02	This is an application filed by an ex. Employee of MBSL in the Labour Tribunal seeking re-instatement and the payment of back wages. This employee's service was terminated due to a financial fraud committed by him when functioning as the Cashier. On a complaint made by MBSL the Colombo Fraud Bureau through the Attorney General's Department filed criminal action bearing No.HC/1676/2004 in the Criminal High Court of Colombo. Trial is being heard at present and the MBSL witnesses have finished their evidence. In the event that this criminal action is decided against this employee the question of reinstatement and payment of back wages is most unlikely to arise.	The hearing of the LT application kept in abeyance pending the final determination of the High Court Action.
14	CL/146/2015 (HC/ Civil/MR/529/08) DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/ Civil/529/MR/2008.	Inquiry on 20/06/2017
15	CL/147/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/ Civil/529/MR/2008.	Inquiry on 20/06/2017
16	CL/148/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/ Civil/529/MR/2008.	Inquiry on 20/06/2017
17	CL/149/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/ Civil/529/MR/2008.	Inquiry on 02/05/2017
18	SC/HC/LA/43/2015 (HC/CIVIL496/09/ MR)	This Appeal was submitted by the Respondent/ Lessee in HC/Civil case No. 496/2009 the order of which was delivered in favour of MBSL by the High court.	Argument on 02/08/2017.
19	2963/L DC - Gampaha	Plaintiff filed this action seeking a declaration that the Mortgage Bond taken as security by MBSL be declared a nullity .	Susituted services 1st dependent on 15/06/2017
20	6029/M DC - Gampaha	The Plaintiff has filed this action against the registered owner of the vehicle, MBSL Insurance and MBSL seeking damages for injuries caused to the Plaintiff in an accident involving the above vehicle. MBSL is made a party since the absolute ownership of MBSL has still not been cancelled at the RMV despite being fully settled. According to the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Answer due on 15/06/2017

No.	Action / Case No.	Purpose / Cause of Action	Current Status
21	7122/M DC - Kalutara	The Plaintiff has filed this action against the registered owner of the vehicle and MBSL seeking damages for injuries caused to the Plaintiff in an accident involving the above vehicle. Although MBSL is made a party since the absolute ownership of MBSL has still not been cancelled at the RMV despite being fully settled. According to the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer. It is important that no relief has been claimed from MBSL.	Trial on 22/08/2017.
22	Claim -2 HC GALLE	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010.	Further Trial on 27/04/2017.
23	Claim -3 HC GALLE	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010.	Further Trial on 27/04/2017.
24	Claim -4 HC GALLE	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010.	Further Trial on 27/04/2017.
25	19426/L DC Colombo	Owner of the property denies the signature in the Mortgage Bond.	Case is laid by until identification/ substitution of the heirs of the Plaintiff.
26	7300/L DC Negombo	Declaration of title sought by the Plaintiff.	Judgment given on 04/11/2015 in favour of MBSL. Customer has appealed against the said Judgment.
27	Mt. Lavinia 2357/07/L (L/18/08) DC Nugegoda 8/08 Connected to DC Col 17451/MB	Third party seeks a declaration of title on the property that was mortgaged to MBSL by the Borrower where judgment has been entered in favour of MBSL.	This case is laid by till the steps are taken by the Plaintiff.
28	4145/L DC Chilaw	A third party seeks a declaration of title on the property that was mortgaged to MBSL and owned by MBSL through court auction.	Further Trial on 19/06/2017
29	DC Kaluthara 145/ PRO	Testamentary Action connected to DC Colombo Case No. 17513/ MB	Laid by until the substitution of the petitioner. (Facility is fully settled)
30	16855/L DC Galle	Third Party seeks a declaration of title in respect of the Property mortgaged to MBSL and owned by MBSL through court auction.	Further Trial on 27/04/2017.
31	HC/CIVIL/06/2013/ MR	The Plaintiff is seeking, inter alia, the refund of the advance payment of LKR 50,761,866.10 made by the Plaintiff to MBSL, in connection with a Share Sale and Purchase Agreement entered in March 2012 in respect of the sale of MBSL's shareholding in MBSL Savings Bank Limited at that time to a consortium of investors led by the Plaintiff and a Mandatory Injunction in this connection.	Injunction refused. Trial on 10/07/2017 and 14/07/2017
32	CHC/695/15/MR	The Plaintiff being a member of the consortium of investors who entered into a Share Transfer Agreement with MBSL in March 2012 with regard to the sale and purchase of MBSL's shareholding in MBSL Savings Bank Limited has instituted this action against MBSL, seeking inter alia the refund of the advance payment of LKR 19,842,233.06 made by the Plaintiff to MBSL.	Trial on 11/07/2017

Notes to the Financial Statements

No.	Action / Case No.	Purpose / Cause of Action	Current Status
33	CA 198/07 HC(CIVIL) 145/98/1	A Restitution - Integrum Action to set aside the judgment of Commercial High court dated 01/09/2003 which was in favour of MBSL and to set aside the Auction held on 17/01/2005.	Argument on 02/08/2017
34	DSP/62/2015 DC - Colombo	Interim injunction restraining MBSL From auctioning the Mortgage property by way of Parate execution was refused.	Trial on 15/06/2017.
35	9473/L DC Embilipitiya	The Plaintiff seeks a declaration of Title on the property that was mortgaged to MBSL and owned by MBSL through court auction.	Case laid by till the final determination of the case No. 12941/SPL filed against the Petitioner by a 3rd party.
36	DC Kurunegala 8190/L	This action has been filed against MCSL Financial Services Limited (2nd defendant) seeking a declaration of title for the land which has been mortgaged to MCSL Financial Services Limited by the 1st defendant	Term of settlement entered on 24/04/2017
37	DC Attanagalla 826/L -	This action has been filed against MCSL Financial Services Limited (5th defendant), seeking for an order declaring Mortgage Bond No1505 dated 16/11/2011 attested by J.C Ponnaiah, Notary Public and deed of tranfer null and void.	Further Trial on 16/05/2017
38	1520/MR/14 - DC Kaduwela	This action has been filed against MCSL Financial Services Limited (1st defendant) and two others by a Customer of MCSL Financial Services Limited who has obtained a Lease facility and defaulted. MCSL Financial Services Limited has been made a party to this action only for the notice purpose.	Call on 05/05/2017
39	DMR/8867/09 - DC Colombo	The plaintiff filed action against MCSL Financial Services Limited seeking an order for damages caused to the plaintiff by wrongful conduct of the defendant.	On 01/04/2015, Order delivered in favour of MBSL - Appeal filed by the Plaintiff is pending before Civil Appellate High Court of Colombo.
40	8147/L DC Kurunegala	The Plaintiff has filed action against a Customer- (2nd defendant) and MCSL Financial Services Limited (1st defendant) seeking interim and permanent injunction orders restraining 1st defendant from enforcing the Mortgage Bond No. 1825 dated 26/03/2011 attested by M.K.T.U Senevirathne, Notary Public.	Amended Plaint to be filed on 02/05/2017.
41	DSP 98/10 DC Colombo	The Plaintiff has filed action against MCSL Financial Services Limited (1st defendant) and another person (2nd defendant- Customer of Lease Facility) seeking a declaration that plaintiff is the owner of the land which has been mortgaged to MCSL Financial Services Limited.	On 25/04/2016 Judgment delivered in favour of MBSL. Appeal filed by the Plaintiff.
42	DMR 608/12 DC Colombo	The Plaintiff has filed action against MCSL Financial Services Limited claiming damages for Malicious prosecution.	Further Trial on 24/08/2017
43	4977/SPL DC Colombo	Plaintiff is seeking an order declaring Mortgage Bond No 77 dated 02-10-1995 attested by Mihirun Nisha Nachchiya Abdeen, Notary Public null and void. This case has been filed against MCSL Financial Services Limited and 3 others in 1997.	Commission Report due on 03/05/2017

No.	Action / Case No.	Purpose / Cause of Action	Current Status
44	3114/L DC Gampaha	This action has been filed against MCSL Financial Services Ltd (2nd defendant) seeking declaration of title for the land which has been Mortgaged to MCSL Financial Services Ltd by the 1st defendant.	Answer due on 07/06/2017.
45	618/L DC Kaduwela	This action has been filed against MCSL Financial Services Limited (2nd defendant) seeking declaration of title for the land which has been Mortgaged to MCSL Financial Services Limited by the 1st defendant.	Written Submission on 16/06/2017.
46	00007/2016/DCL	Writ executed against 2D in the case No.1043/12/MR- In consequences of the writ claim case has been filed by the petitioner in DC Colombo.	Inquiry on 09/06/2017
47	DC/Matara/SPI/ 868	This action has been filed challenging the repossession of a Vehicle regarding a Hire Purchase facility granted by MCSL Financial Services Limited.	Answer filled on 07/04/2017. trial on 14/09/2017
48	DSP 115/2016 DC - Colombo	This action has been instiuted by the Customer seeking a Restitutio integram order with regard to the Leased vehicle and an interim injunction restraining the Bank from disposing the vehicle from the District Court of Colombo.	Answer on 24/04/2017.
49	CHC/215/2015/ MR (COMMERCIAL HIGH COURT)	Plaintiffs are the Shareholders of the company and they have filed an action in District Court of Colombo (Case No. DMR/785/13) claiming Rs.3,841,000/- for the shares they have invested for amounting to Rs.2,400,000/-. This case has been transferred to the Commercial High Court by the District Court order dated 20.11.2015 considering the value of the case.	Notice returnable on 12/06/2017
50	LT/2/627/2016	The applicant has filed this action in the Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or in an alternative reasonable compensation against termination of his employment.	Calling on 05/05/2017
51	LT/8/33/2016	The Applicant has made an application to Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or in an alternative reasonable compensation against the termination of his employment.	Futher Trial on 09/05/2017
52	01/ADDL/25/2016	The applicant has sought an order for reinstatement of his employment with back wages and allowances or an alternative reasonable compensation against the termination of his employment.	Inquiry on 08/05/2017 and 06/06/2017
53	LT/2/676/2016	The applicant has filed this action in the Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or in an alternative reasonable compensation against termination of his employment.	Calling on 05.05.2017.
54	DSP/91/2014	Plaintiff has filed this action in the District Court of Colombo seeking a declaration from courts that the letter of suspension issued by the Bank is a nulity and also seeking to prevent the bank from taking further action against the plaintiff.	Fixed for Trial on 30.05.2017.

Notes to the Financial Statements

No.	Action / Case No.	Purpose / Cause of Action	Current Status
55	DSP/92/2014	Plaintiff has filed this action in the District Court of Colombo seeking a declaration from courts that the letter of suspension issued by the Bank is a nullity and also seeking to prevent the bank from taking further action against the plaintiff.	Fixed for Trial on 30.05.2017.
56	353/16/SPL	Plaintiff has filed this action against the bank and two others seeking nullity of several deeds in the title chain including the mortgage bond executed in favour of the bank and also claiming that the property alienated to the bank by way of Fiscal conveyance in subject to a constructive trust.	Answer by 2nd & 3rd Defendants & Steps for 1st Defendant on 26.05.2017.
57	322/SPL	This action has been filed seeking the release of the property mortgaged to MCSL following the settlement of all dues. The cancelled bond given to the customer has been lost/misplaced and MCSL has refused to issue a deed of release. No other relief sought.	Objections on 12.05.2017.
58	DLA/8014/2017 DC Negombo	This action has been filed by the Plaintiff against the bank and another in the District Court Negombo seeking interim injunction preventing the bank auctioning the mortgage property executed in favour of the bank. Further, the plaintiff has sought to nullify the mortgage bond executed in favour of the bank.	Answer and written submission on 28.04.2017.

47.2 Group

Contingencies and commitments of MBSI Insurance Company Limited.

47.2.1 Contingent Liabilities

Litigation and claims which are currently against the subsidiary, MBSL Insurance Company Limited, in the normal course of business is summarized as follows:

	2016 Rs:'000	2015 Rs:'000
Bond claims	4,899	76,077
Insurance claims	15,142	7,700
Third party claims	464,171	338,766
	484,212	422,543

47.2.2 No provision has been made in the financial statements for a performance bond insurance claim amounting to Rs.293,932,500/- intimated during the year. The performance bond was issued on behalf of a contractor, for a period of three years (from 1st November 2013 to 1st November 2016) annually renewable. However, the premium for the final year was not been settled by the contractor and the policy cancelled on 12th January 2016. The cancellation has been intimated to the claimant in writing. On 1st September 2016, the claimant has called on the performance bond informing that the contractor has failed to perform as per the agreement entered with the claimant. There is a probability that the claimant would initiate legal action against MBSL Insurance Company Limited. However, the opinion of the directors in consultation with the lawyers of MBSL Insurance Company Limited is that the claimant has no legal right to claim under the performance bond as it was cancelled by MBSL Insurance Company Limited for the non-settlement of premium and this was informed to the claimant several months before the claimant made the claim.

47.2.3

- The subsidiary, MBSL Insurance Company Limited has been issued with an assessment by the Department of Inland Revenue in relation to the year of assessment 2011/2012 under the Inland Revenue Act No.10 of 2006, assessing the life insurance business to pay an income tax liability of Rs.3.1 Mn. The subsidiary intends to lodge an appeal against the said assessment.
- The subsidiary has been issued with an assessment by the Department of Inland Revenue in relation to the year of assessment 2012/2013 under the Inland Revenue Act No. 10 of 2006, assessing the life insurance business to pay an income tax liability of Rs.3.3 Mn. The subsidiary intends to lodge an appeal against the said assessment.
- The subsidiary has been issued with an assessment by the Department of Inland Revenue in relation to the year of assessment 2013/2014 under the Inland Revenue Act No.10 of 2006, assessing the life insurance business to pay an income tax liability of Rs.19.72 Mn. The subsidiary intends to lodge an appeal against the said assessment.

Notes to the Financial Statements

48 Risk Management

Risk Management of the company is the systematic process of identifying, quantifying and managing all risks and opportunities that can affect the achievement of the Merchant Bank of Sri Lanka & Finance PLC strategic and financial goals. Merchant Bank of Sri Lanka & Finance PLC has established a sound risk management framework to identify and mitigate the risk exposure.

The Board of Directors (BOD) is primarily responsible for overall risk management of Merchant Bank of Sri Lanka & Finance PLC. Hence the BOD has established Integrated Risk Management Committee for prudent risk management. Integrated Risk Management Committee (IRMC) of the company is responsible for:

- Assessing all risks that affect to Merchant Bank of Sri Lanka & Finance PLC and taking necessary actions to mitigate risks.
- Reviewing the adequacy and effectiveness of all management level committees to address specific risks and managing those risks within quantitative risks limits identified by the committee.
- Assessing all aspects of risk management including updated business continuity plan.
- Take prompt corrective actions to mitigate the effects of specific risks identified by the IRMC or Risk Management division.

Merchant Bank of Sri Lanka & Finance PLC has identified 4 critical types of risk which can affect on MBSL's operations adversely as credit, market, liquidity and operational risks.

Risk Mitigation

Merchant Bank of Sri Lanka & Finance PLC has established IRMC, Assets and Liability Committee (ALCO), Investment and Credit Committees for mitigating the risk exposure, faced by the company. Credit committee is responsible to mitigate the credit risk while ALCO is responsible to mitigate the liquidity risk of Merchant Bank of Sri Lanka & Finance PLC by managing assets and liabilities of the Company. All the other committees report to the IRMC. The IRMC is responsible to manage the overall risk of Merchant Bank of Sri Lanka & Finance PLC and headed by a Board member. The Merchant Bank of Sri Lanka & Finance PLC uses accepted methods to mitigate risks faced by the Company.

Risk Measurement Systems

Merchant Bank of Sri Lanka & Finance PLC measures the expected and unexpected losses using various accepted models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. Merchant Bank of Sri Lanka & Finance PLC is developing exposure limits, forecasting, ratios and risk assessment forms to identify and measure the risk.

Credit Risk

Credit Risk is the potential that a company borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Financial Institutions need to manage the credit risk inherent in the entire portfolio as well as the risks associated with individual credits or transactions. Merchant Bank of Sri Lanka & Finance PLC has established a Credit Committee to ensure the credit quality of the company. Credit Committee makes necessary amendments to collateral requirement, interest rates and exposure limits by analyzing credit worthiness of the counterparties. At present Merchant Bank of Sri Lanka & Finance PLC is in the process of developing a credit rating system to analyze the clientele. Exposure, Repayment capacity, Collateral value and purpose are used as criteria of credit ratings. Merchant Bank of Sri Lanka & Finance PLC analyzes the concentration to loan portfolio to mitigate the credit risk. Concentration is measured based on industry sector and geographical spread.

Concentration Risk

Concentration risk can arise from uneven distribution of exposures to its borrowers. Concentration risk can create in several ways:

- (a). Individual counterparties
- (b). Groups of individual counterparties or related entities
- (c). Counterparties in specific geographical locations
- (d). Industry sectors
- (e). Specific products

Sector wise concentration and geographical concentration is considered to assess the concentration risk of the company. Merchant Bank of Sri Lanka & Finance PLC focuses to maintain a diversified portfolio to reduce the concentration risk.

Market Risk

Market Risk is the risk of losses in on and off balance sheet positions arising from movements in market prices. Market Risk can arise due to variations in interest rates, exchange rates, equity prices and commodity market prices. Interest rate risk and equity price risk mainly affect on Merchant Bank of Sri Lanka & Finance PLC business activities. Merchant Bank of Sri Lanka & Finance PLC uses sensitivity analysis, discounted cash flows and maturity gap analysis to calculate the market risk.

Liquidity Risk

Liquidity Risk is the possibility of losses arising from fluctuations in group's ability to sell or dispose the assets and settle the liabilities.

Groups believes that effective management of Liquidity Risk is vital for continuing group's operations successful. Accordingly, Merchant Bank of Sri Lanka & Finance PLC has implemented the Board approved Liquidity Risk Management policy and established an Assets and Liability Committee (ALCO). Merchant Bank of Sri Lanka & Finance PLC uses ratios and maturity gap analysis to identify the Liquidity Risk of the Group.

Notes to the Financial Statements

48 Risk Management (Contd.)

Company

Industry Analysis Risk Concentration

The company's concentrations of risk are managed by industry sector.

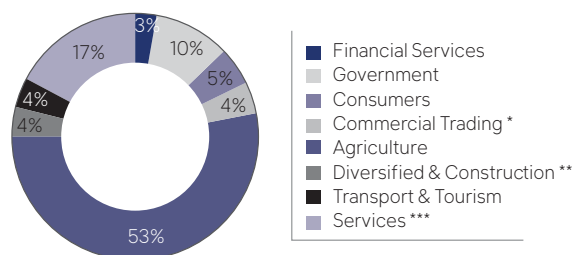
As at 31st December	Financial Services	Government	Consumers	Commercial Trading*	Agriculture	Diversified & Construction**	Transport & Tourism	Services***	Total
									Rs.'000
Financial Assets									
Cash and cash equivalents	401,301	-	-	-	-	-	-	-	401,301
Placements with banks & financial institutions	118,933	-	-	-	-	-	-	-	118,933
Securities purchased under resale agreements	-	265,687	-	-	-	-	-	-	265,687
Financial investments -									
held-for-trading	128,134	2,229	6,669	79,489	49,261	53,834	1,696	2,345	323,655
Bills receivable	-	-	-	96,549	4,963	427,298	-	210,593	739,403
Loans & advances to customers	90,353	-	838,470	289,722	6,227,939	341,164	256,920	3,276,277	11,320,845
Lease and hire purchase receivable	94,581	-	790,163	797,446	10,164,050	343,688	940,941	1,860,882	14,991,751
Financial investments - available-for-sale									
Government securities	-	2,694,335	-	-	-	-	-	-	2,694,335
Other securities	5,000	-	-	-	-	36,310	-	-	41,310
Financial investments -									
held-to-maturity	57,766	-	-	-	-	-	-	-	57,766
Other assets	8,464	-	-	20,983	-	290	-	4,717	34,454
Total financial assets	904,532	2,962,251	1,635,302	1,284,189	16,446,213	1,202,584	1,199,557	5,354,812	30,989,440

* Commercial Trading includes Industry, Trade, Import & Export, Power, Retail and Wholesale and Margin Trading

** Diversified & Construction includes Diversified Holdings, Manufacturing and Property Development

*** Services include IT, Health care, Telecommunication and others

2016 - Company



Group**Industry Analysis Risk Concentration**

The company's concentrations of risk are managed by industry sector.

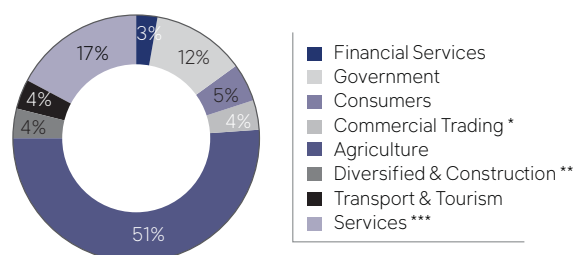
As at 31st December	Financial Services	Government	Consumers	Commercial Trading*	Agriculture	Diversified & Construction**	Transport & Tourism	Services***	Total Rs:'000
Financial Assets									
Cash and cash equivalents	441,357	-	-	-	-	-	-	-	441,357
Placements with banks & financial institutions	262,319	-	-	-	-	-	-	-	262,319
Securities purchased under resale agreements	-	730,773	-	-	-	-	-	-	730,773
Financial investments - held-for-trading	128,211	2,229	7,388	79,489	49,261	57,006	1,696	6,306	331,586
Bills receivable	-	-	-	96,549	4,963	427,298	-	210,593	739,403
Loans & advances to customers	90,353	-	838,470	361,368	6,227,939	341,164	256,920	3,276,277	11,392,491
Lease and hire purchase receivable	94,581	-	790,163	797,446	10,164,050	343,688	940,941	1,860,882	14,991,751
Financial investments - available-for-sale									
Government securities	-	3,049,945	-	-	-	-	-	-	3,049,945
Other securities	5,000	-	-	-	-	71,870	-	-	76,870
Financial investments - held-to-maturity	57,766	-	-	-	-	-	-	-	57,766
Other assets	8,464	-	-	20,983	-	290	-	4,717	34,454
Total financial assets	1,088,051	3,782,947	1,636,021	1,355,835	16,446,213	1,241,316	1,199,557	5,358,775	32,108,715

* Commercial Trading includes Industry, Trade, Import & Export, Power, Retail and Wholesale and Margin Trading

** Diversified & Construction includes Diversified Holdings, Manufacturing and Property Development

*** Services include IT, Health care, Telecommunication and others

2016 - Group



Notes to the Financial Statements

48 Risk Management (Contd.)

Geographical Analysis

The following table presents the distribution of financial assets of the Company & Group by geographical segment, allocated based on the location in which the financial assets and liabilities are recorded for the year ended 31st December 2016 together with comparative figures for the year ended 31st December 2015.

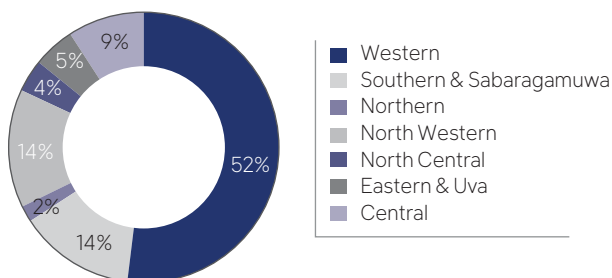
Company

As at 31st December	Western		Southern & Sabaragamuwa		Northern	
	2016	2015	2016	2015	2016	2015
Financial Assets						
Cash and cash equivalents	256,279	294,755	43,381	19,411	12,513	5,982
Placements with banks & financial institutions	118,933	440,093	-	-	-	-
Securities purchased under resale agreements	265,687	785,965	-	-	-	-
Financial investments - held-for-trading	323,655	541,970	-	-	-	-
Bills receivable	618,092	492,215	37,846	21,927	-	-
Loans & advances to customers	6,552,287	5,053,749	1,829,056	1,226,200	405,410	258,617
Lease and hire purchase receivable	4,992,280	4,570,165	2,258,848	2,121,597	343,017	328,503
Financial investments - available-for-sale						
Government securities	2,694,335	1,712,896	-	-	-	-
Other securities	41,310	41,310	-	-	-	-
Financial investments - held-to-maturity	57,766	56,507	-	-	-	-
Other assets	28,028	71,146	1,590	4,036	217	551
Total financial assets	15,948,652	14,060,771	4,170,721	3,393,171	761,157	593,653

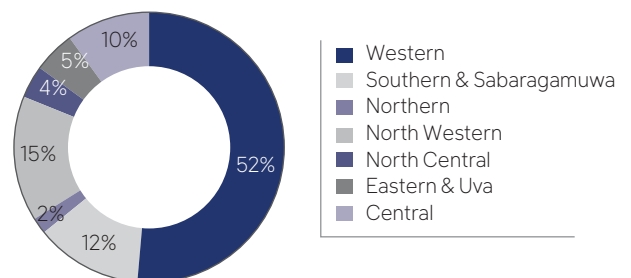
Group

As at 31st December	Western		Southern & Sabaragamuwa		Northern	
	2016	2015	2016	2015	2016	2015
Financial Assets						
Cash and cash equivalents	296,336	346,872	43,381	19,411	12,513	5,982
Placements with banks & financial institutions	262,319	571,672	-	-	-	-
Securities purchased under resale agreements	730,773	1,609,702	-	-	-	-
Financial investments - held-for-trading	331,586	552,741	-	-	-	-
Bills receivable	618,092	492,215	37,846	21,927	-	-
Loans & advances to customers	6,623,933	5,152,171	1,829,056	1,226,200	405,410	258,617
Lease and hire purchase receivable	4,992,280	4,570,165	2,258,848	2,121,597	343,017	328,503
Financial investments - available-for-sale						
Government securities	3,049,945	1,944,534	-	-	-	-
Other securities	76,870	50,323	-	-	-	-
Financial investments - held-to-maturity	57,766	56,507	-	-	-	-
Other assets	28,028	71,146	1,590	4,036	217	551
Total financial assets	17,067,928	15,418,049	4,170,721	3,393,171	761,157	593,653

2016 - Company



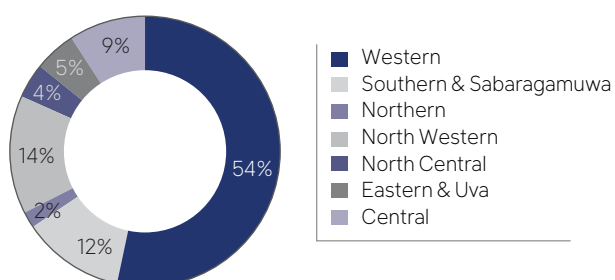
2015 - Company



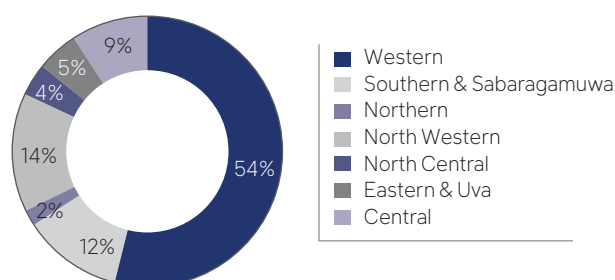
										Rs.'000
North Western		North Central		Eastern & Uva		Central		Total		
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	
36,738	24,586	11,478	6,194	17,953	13,707	22,957	16,195	401,301	380,830	
-	-	-	-	-	-	-	-	118,933	440,093	
-	-	-	-	-	-	-	-	265,687	785,965	
-	-	-	-	-	-	-	-	323,655	541,970	
31,256	29,165	7,292	865	9,816	11,273	35,102	40,443	739,403	595,888	
910,958	814,296	204,131	125,384	577,442	390,633	841,561	537,753	11,320,845	8,406,632	
3,323,026	3,257,189	1,064,820	1,046,757	1,004,498	916,162	2,005,261	1,982,886	14,991,751	14,223,259	
-	-	-	-	-	-	-	-	2,694,335	1,712,896	
-	-	-	-	-	-	-	-	41,310	41,310	
-	-	-	-	-	-	-	-	57,766	56,507	
2,539	6,446	245	623	433	1,098	1,402	3,558	34,454	87,458	
4,304,518	4,131,682	1,287,966	1,179,823	1,610,142	1,332,873	2,906,283	2,580,835	30,989,440	27,272,808	

										Rs.'000
North Western		North Central		Eastern & Uva		Central		Total		
2016	2015	2016	2015	2016	2015	2016	2015	2016	2015	
36,738	24,586	11,478	6,194	17,953	13,707	22,957	16,195	441,356	432,947	
-	-	-	-	-	-	-	-	262,319	571,672	
-	-	-	-	-	-	-	-	730,773	1,609,702	
-	-	-	-	-	-	-	-	331,586	552,741	
31,256	29,165	7,292	865	9,816	11,273	35,102	40,443	739,404	595,888	
910,958	814,296	204,131	125,384	577,442	390,633	841,561	537,753	11,392,491	8,505,054	
3,323,026	3,257,189	1,064,820	1,046,757	1,004,498	916,162	2,005,261	1,982,886	14,991,751	14,223,259	
-	-	-	-	-	-	-	-	3,049,945	1,944,534	
-	-	-	-	-	-	-	-	76,870	50,323	
-	-	-	-	-	-	-	-	57,766	56,507	
2,539	6,446	245	623	433	1,098	1,402	3,558	34,454	87,458	
4,304,518	4,131,682	1,287,966	1,179,823	1,610,142	1,332,873	2,906,283	2,580,835	32,108,715	28,630,085	

2016 - Group



2015 - Group



Notes to the Financial Statements

48 Risk Management (Contd.)

Maturity Analysis

The table below summarises the maturity portfolio of the undiscounted cash flows of the Group's financial assets and liabilities as at 31st December 2016.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to be paid and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

Maturity analysis

Company	On Demand	Up to	3 - 12	1-3	3-5	More than	Total
	Rs:'000	3 months	months	years	years	5 years	Rs:'000
	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Assets							
Financial Assets							
Cash and cash equivalents	401,301	-	-	-	-	-	401,301
Placements with banks & financial institutions	-	-	118,933	-	-	-	118,933
Securities purchased under resale agreements	-	-	265,687	-	-	-	265,687
Financial investments - held-for-trading	-	323,655	-	-	-	-	323,655
Bills receivable	-	739,403	-	-	-	-	739,403
Loans & advances to customers	56,880	1,119,395	3,152,943	4,562,016	2,041,280	388,331	11,320,845
Lease and hire purchase receivable	238,706	1,207,337	4,065,508	7,260,552	2,202,622	17,026	14,991,751
Financial investments - available-for-sale	-	-	2,277,121	240,958	-	217,566	2,735,645
Financial investments - held-to-maturity	-	-	-	56,270	1,496	-	57,766
Other financial assets	-	34,454	-	-	-	-	34,454
Total financial assets	696,887	3,424,244	9,880,192	12,119,796	4,245,398	622,923	30,989,440
Non Financial Assets							
Real estate stock	-	-	24,144	-	-	-	24,143
Investment in associate company	-	-	-	-	-	81,084	81,084
Investment in subsidiary	-	-	-	-	-	77,306	77,306
Investment properties	-	-	-	-	-	127,670	127,670
Property and equipment	-	-	-	-	-	312,337	312,337
Intangible assets	-	-	-	-	-	37,705	37,705
Other assets	-	284,042	-	-	-	-	284,043
Total non-financial assets	-	284,042	24,144	-	-	636,102	944,288
Total Assets	696,887	3,708,286	9,904,336	12,119,796	4,245,398	1,259,025	31,933,728
Financial Liabilities							
Due to banks	201,635	-	-	-	-	-	201,635
Securities sold under repurchase agreements	-	401,820	-	-	-	-	401,820
Due to customers	899,474	6,818,621	7,890,612	1,808,304	1,048,331	53,077	18,518,419
Debt issued and borrowed funds	1,204,159	2,932,396	800,466	3,785,766	-	-	8,722,787
Other financial liabilities	-	81,246	29,471	-	-	-	110,717
Total financial liabilities	2,305,268	10,234,083	8,720,549	5,594,070	1,048,331	53,077	27,955,378

48 Risk Management (Contd.)**Maturity analysis (Contd.)**

Company	On Demand	Up to 3 months	3 - 12 months	1-3 years	3-5 years	More than 5 years	Total
	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000
Non Financial Liabilities							
Current tax liabilities	-	-	151,128	-	-	-	151,128
Deferred tax liabilities	-	-	-	-	-	206,888	206,888
Other liabilities	-	293,457	-	-	-	-	293,457
Retirement benefits obligations	-	-	-	-	-	213,388	213,388
Total non-financial liabilities	-	293,457	151,128	-	-	420,276	864,861
Total Liabilities	2,305,268	10,527,540	8,871,677	5,594,070	1,048,331	473,353	28,820,239
Equity							
Stated capital	-	-	-	-	-	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	853,165	853,165
Available-for-sale reserve	-	(21,802)	-	-	-	-	(21,802)
Statutory reserves	-	-	-	-	-	157,669	157,669
Total equity	-	(21,802)	-	-	-	3,135,291	3,113,489
Total Liabilities and Equity	2,305,268	10,505,738	8,871,677	5,594,070	1,048,331	3,608,644	31,933,728
Group							
Group	On Demand	Up to 3 months	3 - 12 months	1-3 years	3-5 years	More than 5 years	Total
	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000
Assets							
Financial Assets							
Cash and cash equivalents	441,357	-	-	-	-	-	441,357
Placements with banks & financial institutions	-	-	262,319	-	-	-	262,319
Securities purchased under resale agreements	-	465,086	265,687	-	-	-	730,773
Financial investments - held-for-trading	-	331,586	-	-	-	-	331,586
Bills receivable	-	739,403	-	-	-	-	739,403
Loans & advances to customers	56,880	1,119,395	3,154,121	4,631,221	2,042,317	388,557	11,392,491
Lease and hire purchase receivable	238,706	1,207,337	4,065,508	7,260,552	2,202,622	17,026	14,991,751
Financial investments - available-for-sale	-	43,700	2,277,121	265,965	203,932	336,097	3,126,815
Financial investments - held-to-maturity	-	-	-	56,270	1,496	-	57,766
Other financial assets	-	34,454	-	-	-	-	34,454
Total financial assets	736,943	3,940,961	10,024,756	12,214,008	4,450,367	741,680	32,108,715
Non Financial Assets							
Real estate stock	-	-	24,143	-	-	-	24,143
Investment in associate company	-	-	-	-	-	91,325	91,325
Investment properties	-	-	-	-	-	127,670	127,670
Property and equipment	-	-	-	-	-	354,092	354,092
Intangible assets	-	-	-	-	-	59,028	59,028
Other assets	-	284,042	592,422	-	-	-	876,464
Total non-financial assets	-	284,042	616,565	-	-	632,115	1,532,722
Total Assets	736,943	4,225,003	10,641,321	12,214,008	4,450,367	1,373,795	33,641,437

Notes to the Financial Statements

48 Risk Management (Contd.)

Maturity analysis (Contd.)

Group	On Demand Rs:'000	Up to 3 months Rs:'000	3 - 12 months Rs:'000	1-3 years Rs:'000	3-5 years Rs:'000	More than 5 years Rs:'000	Total Rs:'000
Financial Liabilities							
Due to banks	224,997	-	-	-	-	-	224,997
Securities sold under repurchase agreements	-	401,820					401,820
Due to customers	899,474	6,818,621	7,890,612	1,808,304	1,048,331	53,077	18,518,419
Debt issued and borrowed funds	1,204,159	2,932,396	800,466	3,785,766	-	-	8,722,787
Other financial liabilities	-	81,246	29,471	-	-	-	110,717
Total financial liabilities	2,328,630	10,234,083	8,720,549	5,594,070	1,048,331	53,077	27,978,740
Non Financial Liabilities							
Insurance provision - life	-	-	-	-	-	514,258	514,258
Insurance provision - non - life	-	781,034	-	-	-	-	781,034
Current tax liabilities	-	-	141,180	-	-	-	141,180
Deferred tax liabilities	-	-	-	-	-	206,888	206,888
Other liabilities	-	293,457	347,860	-	-	-	641,317
Retirement benefits obligations	-	-	-	-	-	231,463	231,463
Total non-financial liabilities	-	1,074,491	489,040	-	-	952,609	2,516,140
Total Liabilities	2,328,630	11,308,574	9,209,589	5,594,070	1,048,331	1,005,686	30,494,880
Equity							
Stated capital	-	-	-	-	-	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	886,283	886,283
Available-for-sale reserve	-	(21,802)	-	-	-	(14,393)	(36,195)
Statutory reserves	-	-	-	-	-	157,669	157,669
Non-controlling interests	-	-	-	-	-	14,343	14,343
Total equity	-	(21,802)	-	-	-	3,168,359	3,146,557
Total Liabilities and Equity	2,328,630	11,286,772	9,209,589	5,594,070	1,048,331	4,174,045	33,641,437

48 Risk Management (Contd.)**Maturity of the Group's contingent liabilities and commitments**

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

For issued guarantees to customers the maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called.

							Rs.'000
Company	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years	Total as at 31-12-2016
Financial guarantees & claims to the customers	132,265	-	-	-	-	-	132,265
Total contingencies and commitments	132,265	-	-	-	-	-	132,265

							Rs.'000
Group	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years	Total as at 31-12-2016
Financial guarantees & claims to the customers	616,478	-	-	-	-	-	616,478
Total contingencies and commitments	616,478	-	-	-	-	-	616,478

The Group expects that not all the contingent liabilities and commitments will be drawn before expiry of the commitments.

Impairment Assessment

Group uses an incurred loss model for the recognition of losses on impaired financial assets. Therefore, losses can only be recognized when objective evidence of a specific loss event has been observed. Triggering events include the following:

- * Significant financial difficulty of the customer
- * A breach of contract such as a default of payment
- * Where the Group grants a customer a concession due to the customer experiencing financial difficulty
- * It becomes probable that the customer will enter bankruptcy or other financial reorganization
- * Internal or external observable data that suggests that there is a decrease in the estimated future cash flows from the loans

This approach differs from the direction issued by the Central Bank of Sri Lanka.

Individually Assessed Allowances

Merchant Bank of Sri Lanka & Finance PLC assesses the impairment allowances for each individually significant loan or advance on an individual basis, include any overdue payments of interests, breaching of the debt covenant or credit rating downgrades. Items considered when determining allowance amounts include projected receipts and the expected payout should bankruptcy ensue, the counterparty's business plan, availability of financial support to the counter party, realizable value of the collateral and the timing of the expected cash flows. Merchant Bank of Sri Lanka & Finance PLC assesses the impairment allowances at each reporting date, unless unexpected negative circumstances require more attention.

Notes to the Financial Statements

Collectively Assessed Allowances

Merchant Bank of Sri Lanka & Finance PLC assesses the impairment allowance for loans and advances and held to maturity debt instruments that are not individually significant and for individually significant loans and advances that have been assessed individually and determined not to be impaired. The collective assessment is computed for groups of lending assets with similar risk characteristics and Merchant Bank of Sri Lanka & Finance PLC assesses the collective allowances based on historical information.

As at 31st December 2016 the value of collateral that the Company holds relating to loans individually determined to be impaired amounts to Rs. 1,921 Mn. The collateral consists of cash, securities and properties.

Credit quality by class of financial assets

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk.

Company	Past due but not impaired *							Individually impaired	Total 31-12-2016
	Neither due nor impaired*	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12			
Rs:'000									
Financial Assets									
Cash and cash equivalents	401,301	-	-	-	-	-	-	-	401,301
Placements with banks & financial institutions	118,933	-	-	-	-	-	-	-	118,933
Securities purchased under resale agreements	265,687	-	-	-	-	-	-	-	265,687
Financial investments - held-for-trading	323,660	-	-	-	-	-	-	-	323,660
Bills receivable	674,123	-	25,706	5,255	-	40,931	128,030	-	874,045
Loans & advances to customers	7,706,420	1,587,542	1,002,271	72,502	54,285	667,617	848,847	-	11,939,484
Lease and hire purchase receivable	8,696,031	4,148,503	1,447,230	28,685	14,853	612,865	367,224	-	15,315,391
Financial investments - available-for-sale									
Government securities	2,694,335	-	-	-	-	-	-	-	2,694,335
Other securities	41,310	-	-	-	-	-	-	-	41,310
Financial investments - held-to-maturity	57,766	-	-	-	-	-	-	-	57,766
Other assets	34,454	-	-	-	-	-	-	-	34,454
Total	21,014,020	5,736,045	2,475,207	106,442	69,138	1,321,413	1,344,101	-	32,066,366

Group	Past due but not impaired *							Total	
	Neither past due nor impaired*	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12	Individually impaired	31-12-2016	
Rs.'000									
Financial Assets									
Cash and cash equivalents	441,357	-	-	-	-	-	-	-	441,357
Placements with banks & financial institutions	262,319	-	-	-	-	-	-	-	262,319
Securities purchased under resale agreements	730,773	-	-	-	-	-	-	-	730,773
Financial investments - held-for-trading	331,587	-	-	-	-	-	-	-	331,587
Bills receivable	674,123	-	25,706	5,255	-	40,931	128,030	-	874,045
Loans & advances to customers	7,778,066	1,587,542	1,002,271	72,502	54,285	667,617	848,847	-	12,011,130
Lease and hire purchase receivable	8,696,031	4,148,503	1,447,230	28,685	14,853	612,865	367,224	-	15,315,391
Financial investments - available-for-sale									
Government securities	3,049,945	-	-	-	-	-	-	-	3,049,945
Other securities	76,870	-	-	-	-	-	-	-	76,870
Financial investments - held-to-maturity	57,766	-	-	-	-	-	-	-	57,766
Other assets	34,454	-	-	-	-	-	-	-	34,454
Total	22,133,291	5,736,045	2,475,207	106,442	69,138	1,321,413	1,344,101	-	33,185,637

* Collective impairment allowances are made for 'neither past due nor impaired' and 'past due but not impaired' loans.

49 Operational Risk

Operational risk refers to the risk that risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Group's Integrated Risk Management Committee and Risk Management division has taken necessary actions to identify and manage the company operational risk prudently and effectively.

The Company recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, legal or regulatory penalties if such risks are not objectively managed.

Notes to the Financial Statements

Capital

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the company's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Sri Lanka.

During the past year, the company had complied in full with all its externally imposed capital requirements. (2015: the same).

Capital Management

The primary objectives of the company's capital management policy are to ensure that the company complies with externally imposed capital requirements and that the company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholders' value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the company may adjust the amount of dividend payment to shareholders, return capital to the shareholders or issue capital securities. No changes yet have been made in the objectives, policies and processes from the previous years, however, it is under constant scrutiny of the Board.

Capital Adequacy Ratio (CAR)

The Company's CAR remained well above the minimum ratio prescribed by the Central Bank of Sri Lanka (CBSL) despite substantial increase in loans and advances.

Month	Core Capital Ratio	Core Capital Ratio	Total Capital Ratio	Total Capital Ratio
	(%)	(%)	(%)	(%)
	2016	2015	2016	2015
31-Mar	11.75	13.85	11.63	14.50
30-Jun	11.35	13.63	11.24	13.64
30-Sep	11.10	12.58	11.07	12.36
31-Dec	10.66	11.91	10.69	11.68

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Quarterly Analysis

Statement of Profit or Loss

(Rs.'000)

Company	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter		Total	
	2016	2015	2016	2015	2016	2015	2016	2015	2016	2015
Income	1,036,131	945,811	1,162,119	1,081,819	1,271,442	1,062,853	1,418,463	1,126,508	4,888,155	4,216,991
Interest and similar income	1,077,704	976,481	1,098,172	1,000,474	1,202,326	1,003,896	1,359,572	1,092,308	4,737,774	4,073,159
Interest and similar expenses	585,476	527,578	629,462	524,796	718,962	531,601	775,704	549,350	2,709,604	2,133,325
Net interest income	492,228	448,903	468,710	475,678	483,364	472,295	583,868	542,958	2,028,170	1,939,834
Fee and commission income	8,858	11,975	10,677	10,432	11,097	9,293	10,823	10,940	41,455	42,640
Fee and commission expenses	-	-	-	-	-	-	-	-	-	-
Net fee and commission income	8,858	11,975	10,677	10,432	11,097	9,293	10,823	10,940	41,455	42,640
Net trading income	4,352	6,030	6,136	13,161	(32,662)	10,819	32,246	16,852	10,072	46,862
Net gain / (loss) on financial assets - held-for-trading	(90,416)	(63,664)	16,524	28,849	65,715	6,726	(52,919)	(26,048)	(61,096)	(54,137)
Other operating income	35,633	14,989	30,610	28,903	24,966	32,119	68,741	62,546	159,950	108,467
Total operating income	450,655	418,233	532,657	557,023	552,480	531,252	642,759	577,158	2,178,551	2,083,666
Impairment charges from loans and other losses	14,368	244,820	(15,665)	88,623	(511)	82,635	26,047	46,073	24,239	462,151
Net operating income	436,287	173,413	548,322	468,400	552,991	448,617	616,712	531,085	2,154,312	1,621,515
Personnel expenses	180,916	158,520	190,954	163,844	187,909	167,799	221,751	180,577	781,530	670,740
Provision for employee benefit	12,000	12,000	12,000	12,000	12,000	12,000	4,464	6,648	40,464	42,648
Depreciation of property & equipment	14,974	13,554	14,644	14,327	15,099	14,588	18,855	16,553	63,572	59,022
Amortization of intangible assets	3,245	2,373	3,222	2,830	3,502	2,927	4,129	3,018	14,098	11,148
Other operating expenses	158,221	120,692	164,794	163,536	177,491	168,306	169,650	157,733	670,156	610,267
Total operating expense	369,356	307,139	385,614	356,537	396,001	365,620	418,849	364,529	1,569,820	1,393,825
Profit / (loss) from operations	66,931	(133,726)	162,708	111,863	156,990	82,997	197,863	166,556	584,492	227,690
Impairment from investment in Group companies	-	-	-	-	-	-	232,891	205,899	232,891	205,899
Profit / (loss) from operations after impairment from subsidiary investments	66,931	(133,726)	162,708	111,863	156,990	82,997	(35,028)	(39,343)	351,601	21,791
Value added tax (VAT) on financial services	19,780	2,261	36,246	19,419	25,345	17,646	30,359	17,893	111,730	57,219
Profit before income tax	47,151	(135,987)	126,462	92,444	131,645	65,351	(65,387)	(57,236)	239,871	(35,428)
Income tax expense	9,812	-	28,758	-	9,332	6,107	106,345	36,771	154,247	42,878
Profit/(loss) for the period	37,339	(135,987)	97,704	92,444	122,313	59,244	(171,732)	(94,007)	85,624	(78,306)

Statement of Financial Position

(Rs.'000)

Company	1st Quarter		2nd Quarter		3rd Quarter		4th Quarter	
	2016	2015	2016	2015	2016	2015	2016	2015
Assets								
Cash and cash equivalents	388,947	618,289	321,913	695,245	392,636	290,555	401,301	380,830
Placements with banks & financial institutions	445,694	964,221	-	674,258	114,680	683,816	118,933	440,093
Securities purchased under resale agreements	641,941	-	402,539	151,245	259,097	309,812	265,687	785,965
Financial investments - held-for-trading	450,180	500,811	412,827	536,324	365,208	547,884	323,655	541,970
Bills receivable	567,313	584,817	602,008	645,051	636,514	631,744	739,403	595,888
Loans & advances to customers	8,867,925	7,931,912	9,552,434	7,886,657	10,290,565	7,964,144	11,320,845	8,406,632
Lease and hire purchase rental receivable	14,576,853	12,230,500	15,104,138	12,785,017	14,963,546	13,378,946	14,991,751	14,223,259
Financial investments - available-for-sale	1,921,816	2,418,088	2,399,070	2,136,826	2,684,048	1,986,106	2,735,645	1,754,206
Financial investments - held-to-maturity	58,082	-	57,221	115,668	56,596	57,485	57,766	56,507
Real estate stock	40,788	108,658	30,826	102,794	28,844	85,174	24,144	62,545
Investments in associate companies	81,084	81,084	81,084	81,084	81,084	81,084	81,084	81,084
Investments in subsidiaries	310,197	516,096	310,197	516,096	310,197	516,096	77,306	310,197
Investment properties	145,081	148,673	139,073	148,469	138,347	148,264	127,670	145,840
Property and equipment	216,805	205,860	206,296	205,706	231,779	209,132	312,337	219,260
Intangible assets	36,174	32,181	32,996	36,701	41,597	33,774	37,705	38,816
Other assets	222,927	50,335	316,406	140,655	331,265	228,193	318,496	231,455
Total assets	28,971,807	26,391,525	29,969,028	26,857,796	30,926,003	27,152,209	31,933,728	28,274,547
Liabilities								
Due to banks	132,888	301,602	445,193	288,991	220,408	399,171	201,635	258,062
Securities sold under repurchase agreements	401,064	435,682	403,808	263,073	401,125	245,045	401,820	416,472
Due to customers	18,014,561	11,591,512	17,169,383	13,646,481	17,748,712	14,846,074	18,518,419	15,846,306
Debt issued and borrowed funds	6,543,438	9,779,258	7,915,018	8,337,523	8,383,712	7,623,853	8,722,787	7,883,323
Current tax liabilities	143,422	208,001	172,180	207,352	171,612	172,699	151,128	146,284
Deferred tax liabilities	113,669	91,403	113,669	91,403	113,669	91,403	206,888	113,669
Other liabilities	374,662	716,830	408,933	647,533	389,086	347,272	404,174	356,840
Employee benefit liability	257,278	255,896	255,796	266,332	254,811	277,275	213,388	245,532
Total liabilities	25,980,982	23,380,184	26,883,980	23,748,688	27,683,135	24,002,792	28,820,239	25,266,488
Equity								
Stated capital	2,124,457	2,124,457	2,124,457	2,124,457	2,124,457	2,124,457	2,124,457	2,124,457
Retained profits	771,834	724,899	869,538	817,343	991,851	876,587	853,165	747,408
Available-for-sale reserve	(46,010)	21,441	(49,491)	26,764	(13,984)	7,829	(21,802)	(4,350)
Statutory reserves	140,544	140,544	140,544	140,544	140,544	140,544	157,669	140,544
Total equity	2,990,825	3,011,341	3,085,048	3,109,108	3,242,868	3,149,417	3,113,489	3,008,059
Total liabilities and equity	28,971,807	26,391,525	29,969,028	26,857,796	30,926,003	27,152,209	31,933,728	28,274,547

Decade at a Glance

Based on Financial Statements Prepared in compliance with SLAS

Company	2010	2009	2008	2007
For the year ended 31st December	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Operating Results				
Income	1,522,980	1,155,731	1,035,227	872,598
Interest expenses	419,041	584,247	547,386	333,204
Operating expenses & provisions	535,870	345,720	300,898	273,261
Share of Associate Company	82,639	28,500	16,471	7,136
Profit before income tax	650,708	254,264	203,414	273,269
Income tax on profit	201,037	53,286	(1,664)	34,799
Profit after income tax	449,671	200,978	205,078	238,470
Net profit for the year	449,671	200,978	205,078	238,470
Balance Sheet Information				
Assets				
Government Treasury Bills and Bonds	279,765	387,847	131,084	41,735
Investments on Securities & Properties	622,900	511,217	395,616	410,456
Loans and advances	1,567,034	1,143,361	807,469	570,618
Lease receivable	3,816,504	2,958,996	3,128,124	3,154,198
Property & Equipment	44,047	37,844	30,519	24,517
Investments in associate & Subsidiary companies	568,327	354,546	103,895	95,543
Other Assets	284,024	185,114	171,421	107,015
Total Assets	7,182,601	5,578,925	4,768,128	4,404,082
Liabilities				
Debentures	716,800	1,074,160	1,144,160	1,327,510
Borrowings	3,179,712	1,658,985	1,553,949	1,079,083
Other liabilities & Deferred Taxation	606,896	515,008	390,225	432,773
	4,503,408	3,248,153	3,088,334	2,839,366
Net Assets	2,679,193	2,330,772	1,679,794	1,564,716
Capital Employed				
Stated Capital	1,607,000	1,607,000	1,067,000	1,067,000
Retained Profit/(Loss) & Reserve fund	1,072,193	723,772	612,794	497,716
	2,679,193	2,330,772	1,679,794	1,564,716

Ratios and Related Information**Company**

For the year ended 31st December	2010	2009	2008	2007
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Return on Net Assets - %	16.78%	8.62%	12.21%	15.24%
Net Profit - %	29.53%	17.39%	19.81%	27.33%
Cost to Income Ratio - %	42.58%	54.95%	53.30%	41.14%
Income Growth - %	31.78%	11.64%	18.64%	23.89%
Profit Growth - %	123.74%	-2.00%	-14.00%	13.80%
Assets Growth - %	28.75%	17.00%	8.27%	25.70%
Net Assets Growth - %	14.95%	38.75%	7.35%	10.48%
Gearing Ratios				
Debt to Equity - Times	1.45	1.17	1.61	1.54
Interest Cover - Times	2.55	1.44	1.37	1.82
Liquidity Ratios				
Quick Ratio - Times	0.93	1.04	1.19	1.57
Investors Ratios				
Market value of a voting share - Rs.	45.80	19.50	7.25	14.25
Basic earnings per share - Rs.	3.33	1.49	2.28	2.65
Net assets value per share - Rs.	19.85	17.26	18.66	17.39
Price earnings ratio - Times	13.75	13.09	3.18	5.38
Earning yield - %	7.27%	7.64%	31.45%	18.60%
Dividend per share - Rs.	1.25	0.75	1.00	1.00
Dividend Cover - Times	2.66	1.98	2.28	2.65
Dividend yield ratio - %	2.73%	3.85%	13.79%	7.02%
Dividend Payout ratio - %	37.54%	50.34%	43.86%	37.74%

Decade at a Glance

Based on Financial Statements Prepared in compliance with SLAS

Group	2010	2009	2008	2007
For the year ended 31st December	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Operating Results				
Income	2,595,680	2,332,321	1,647,537	1,443,925
Interest expenses	850,177	1,274,896	921,486	658,647
Operating expenses & provisions	1,032,534	727,000	494,628	464,824
Share of Associate Company	82,639	28,500	16,471	7,136
Profit before income tax	795,608	358,925	247,894	327,590
Income tax on profit	233,700	73,592	4,908	38,134
Profit after income tax	540,977	285,333	242,986	289,456
Minority interest	48,632	55,771	18,574	24,984
Net profit for the year	492,345	229,562	224,412	264,472
Balance Sheet Information				
Assets				
Government Treasury Bills and Bonds	1,626,575	1,291,653	446,084	362,499
Investments on Securities & Others	892,052	768,975	430,929	452,165
Loans and advances	3,960,576	3,435,815	1,672,491	887,570
Lease receivable	6,554,698	5,035,167	4,660,299	4,814,920
Property & Equipment	145,426	150,924	44,466	37,360
Investments in associate & Subsidiary companies	121,617	95,022	82,977	74,625
Other Assets	1,123,406	1,054,916	251,782	173,608
Total Assets	14,424,350	11,832,472	7,589,028	6,802,747
Liabilities				
Deposits from customers	5,676,955	4,897,367	2,199,270	1,813,329
Debentures	734,684	1,169,644	1,144,160	1,327,510
Borrowings	3,311,089	1,733,170	1,682,372	1,240,575
Other liabilities & Deferred Taxation	1,514,540	1,307,202	553,314	564,407
	11,237,268	9,107,383	5,579,116	4,945,821
Minority Interest	288,683	207,823	172,208	153,634
Net Assets	2,898,399	2,517,266	1,837,704	1,703,292
Capital Employed				
Stated Capital	1,607,000	1,607,000	1,067,000	1,067,000
Retained Profit/(Loss) & Reserve fund	1,291,399	910,266	770,704	636,292
	2,898,399	2,517,266	1,837,704	1,703,292

Ratios and Related Information**Group**

For the year ended 31st December	2010	2009	2008	2007
Operating Ratios				
Return on Net Assets - %	16.99%	9.12%	12.21%	15.53%
Net Profit - %	20.84%	12.23%	14.75%	20.05%
Cost to Income Ratio - %	52.50%	70.44%	55.15%	45.21%
Income Growth - %	11.29%	41.56%	14.10%	24.08%
Profit Growth - %	96.93%	17.43%	-16.05%	18.33%
Assets Growth - %	21.90%	55.92%	11.56%	11.68%
Net Assets Growth - %	15.14%	36.98%	7.89%	11.41%
Gearing Ratios				
Debt to Equity - Times	3.34	3.10	2.73	2.57
Interest Cover - Times	1.94	1.28	1.27	1.50
Liquidity Ratios				
Quick Ratio - Times	0.69	0.85	0.87	1.00
Investors Ratios				
Market value of a voting share - Rs.	45.80	19.50	7.25	14.25
Basic earnings per share - Rs.	3.65	1.70	2.49	2.94
Net assets value per share - Rs.	21.47	18.65	20.42	18.93
Price earnings ratio - Times	12.55	11.47	2.91	4.85
Earning yield - %	7.97%	8.72%	34.34%	20.63%
Dividend per share - Rs.	1.25	0.75	1.00	1.00
Dividend Cover - Times	2.92	2.27	2.49	2.94
Dividend yield ratio - %	2.73%	3.85%	13.79%	7.02%
Dividend Payout ratio - %	34.25%	44.12%	40.16%	34.01%

Decade at a Glance

Based on Financial Statements Prepared Under SLFRS

For the year ended 31st December	Company			
	2016 Rs.'000	2015 Rs.'000 Restated	2014 Rs.'000 Restated	2013 Rs.'000
Operating Results				
Income	4,888,155	4,216,991	4,734,641	2,355,366
Interest Expenses	2,709,604	2,133,325	2,579,431	1,371,937
Operating Expenses & Provisions	1,938,680	2,119,094	2,101,923	807,547
Share of Associate Company	-	-	-	-
Profit before income tax	239,871	(35,428)	53,287	175,882
Income tax on profit	154,247	42,878	83,957	58,942
Profit after income tax	85,624	(78,306)	(30,670)	116,940
Non controlling interests	-	-	-	-
Net profit attributable to equity holders of the parent	85,624	(78,306)	(30,670)	116,940
Statement of Financial Position Information				
Assets				
Cash in hand and cash at bank	401,301	380,830	351,903	180,104
Deposits with banks	118,933	440,093	1,674,998	784,480
Reverse Repurchase Agreement	265,687	785,965	465,211	140,768
Financial assets designated at FVPL	323,655	541,970	882,176	262,817
Bills receivable	739,403	595,888	646,124	627,283
Loans & advances to customers	11,320,845	8,406,632	7,954,469	2,342,414
Lease and Hire purchase rental receivable	14,991,751	14,223,259	12,168,389	6,935,706
Financial investments - available for sale	2,735,645	1,754,206	1,178,814	667,855
Financial investments - Held to maturity	57,766	56,507	653,338	-
Investment in Associate & Subsidiary Companies	158,390	391,281	597,180	1,008,106
Property & Equipment, Intangible Assets and Investment properties	477,712	403,916	373,195	95,132
Other Assets	342,640	294,000	368,127	224,135
Total Assets	31,933,728	28,274,547	27,313,924	13,268,800
Liabilities				
Due to banks	201,635	258,062	200,002	99,118
Securities sold under repurchase agreements	401,820	416,472	442,170	-
Due to customers	18,518,419	15,846,306	11,092,643	-
Debt issued and Borrowed funds	8,722,787	7,883,323	11,141,793	9,623,147
Other liabilities & Deferred taxation	975,578	862,325	1,285,894	765,659
Total liabilities	28,820,239	25,266,488	24,162,502	10,487,924
Non controlling interests	-	-	-	-
Total equity attributable to equity holders of the parent	3,113,489	3,008,059	3,151,422	2,780,876
Capital Employed				
Stated Capital	2,124,457	2,124,457	2,124,457	1,607,000
Retained Earnings & Reserves	989,032	883,602	1,026,965	1,173,876
Capital Employed	3,113,489	3,008,059	3,151,422	2,780,876

								Group
2012	2011	2016	2015	2014	2013	2012	2011	
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
			Restated	Restated				
1,869,714	1,393,526	6,099,998	5,429,495	6,023,040	5,227,315	3,955,749	3,009,426	
1,035,739	541,370	2,710,557	2,134,351	2,583,660	2,364,151	1,989,101	1,234,716	
590,572	483,141	3,137,204	3,246,223	3,441,106	2,943,460	1,698,689	1,344,174	
-	60,248	(5,437)	7,080	17,208	(606)	(17,486)	60,248	
243,403	429,263	246,800	56,001	15,483	(80,902)	250,473	490,784	
42,156	92,992	165,658	52,718	86,016	78,851	70,256	125,318	
201,247	336,271	81,142	3,283	(70,533)	(159,753)	180,217	365,466	
-	-	(36,711)	(18,869)	(9,386)	(57,632)	36,724	30,703	
201,247	336,271	117,853	22,512	(61,147)	(102,121)	143,493	334,763	
156,130	97,260	441,357	432,947	406,132	275,688	317,758	247,625	
140,242	-	262,319	571,672	1,796,986	1,186,017	485,954	274,243	
116,532	450,000	730,773	1,609,702	1,313,486	469,958	590,525	552,218	
311,676	280,815	331,586	552,741	896,629	285,545	373,391	387,609	
525,741	527,022	739,403	595,888	646,124	627,283	525,743	527,024	
1,698,280	1,452,314	11,392,491	8,505,054	8,097,427	3,640,429	4,458,095	4,382,575	
7,062,055	5,534,145	14,991,751	14,223,259	12,168,389	7,959,842	11,971,076	9,316,466	
695,868	424,127	3,126,815	1,994,857	1,221,417	1,427,400	1,161,481	1,238,225	
-	-	57,766	56,507	653,338	100,957	507,737	308,216	
678,823	629,484	91,325	96,484	94,454	438,234	106,228	132,774	
107,675	54,201	540,790	486,103	491,792	393,956	419,012	301,276	
398,289	378,374	935,061	774,878	805,625	753,263	1,245,877	1,299,234	
11,891,311	9,827,742	33,641,437	29,900,092	28,591,799	17,558,572	22,162,877	18,967,485	
138,239	183,718	224,997	273,968	210,011	152,338	272,994	520,638	
419,462	930,597	401,820	416,472	442,170	-	435,558	930,597	
-	-	18,518,419	15,846,306	11,092,643	2,824,918	7,546,297	6,983,892	
7,946,502	5,356,872	8,722,787	7,883,323	11,141,793	9,625,317	8,555,028	5,622,322	
693,449	594,280	2,626,857	2,425,245	2,580,518	2,048,486	1,950,552	1,473,646	
9,197,652	7,065,467	30,494,880	26,845,314	25,467,135	14,651,059	18,760,429	15,531,095	
-	-	14,343	52,674	72,715	139,805	504,924	461,072	
2,693,659	2,762,275	3,132,214	3,002,104	3,051,949	2,767,707	2,897,524	2,975,318	
1,607,000	1,607,000	2,124,457	2,124,457	2,124,457	1,607,000	1,607,000	1,607,000	
1,086,659	1,155,275	1,007,757	877,647	927,492	1,160,707	1,290,524	1,368,318	
2,693,659	2,762,275	3,132,214	3,002,104	3,051,949	2,767,707	2,897,524	2,975,318	

Decade at a Glance

Ratios and Related Information

For the year ended 31st December	Company					
	2016 Rs.'000	2015 Rs.'000 Restated	2014 Rs.'000 Restated	2013 Rs.'000	2012 Rs.'000	2011 Rs.'000
Operating Results						
Operating Ratios						
Return on Net Assets - %	2.80%	-2.54%	-0.97%	4.21%	7.47%	12.17%
Net Profit - %	1.75%	-1.86%	-0.65%	4.96%	10.76%	24.13%
Return on Assets - %	0.28%	-0.28%	-0.11%	0.88%	1.69%	3.42%
Cost to Income Ratio - %	72.06%	66.89%	57.94%	65.71%	55.03%	34.19%
Income Growth - %	15.92%	-10.93%	86.46%	25.97%	34.17%	-8.50%
Assets Growth - %	12.94%	3.52%	75.91%	11.58%	21.00%	37.62%
Net Assets Growth - %	3.50%	-4.55%	4.95%	3.24%	-2.48%	5.09%
Gearing Ratios						
Debt to Equity - Times	8.94	8.11	3.88	3.50	3.16	2.34
Interest Cover - Times	1.09	0.98	1.02	1.13	1.24	1.79
Liquidity Ratios						
Quick Ratio - Times	0.66	0.76	0.88	0.69	0.75	1.15
Investors Ratios						
Market value of a voting share - Rs.	13.6	15.00	17.50	13.60	19.90	39.60
Basic earnings per share - Rs.	0.52	(0.47)	(0.18)	0.87	1.49	2.49
Net assets value per share - Rs.	18.77	18.13	19.00	20.60	19.95	20.46
Price earnings ratio - Times	26.35	(31.77)	(94.65)	15.70	13.35	15.90

Group					
2016	2015	2014	2013	2012	2011
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
	Restated	Restated			
2.62%	0.11%	-2.31%	-3.69%	4.95%	11.25%
1.33%	0.06%	-1.17%	-3.06%	4.56%	12.14%
0.26%	0.11%	-0.25%	-0.91%	0.81%	1.93%
61.56%	60.09%	79.10%	96.98%	77.62%	59.82%
12.35%	-9.85%	41.91%	32.14%	31.45%	15.94%
12.51%	4.58%	48.38%	-20.77%	16.85%	31.95%
3.00%	0.09%	8.01%	-4.48%	-2.61%	4.01%
8.86	7.99	3.86	3.53	3.20	2.38
1.09	1.03	1.01	0.97	1.13	1.40
0.69	0.82	0.81	0.69	0.63	0.85
13.60	15.00	17.50	13.60	19.90	39.60
0.49	0.02	-0.43	(0.76)	1.06	2.48
18.88	18.10	18.40	20.50	21.46	22.04
0.04	0.00	-41.16	(17.98)	18.72	15.97

Independent Assurance Report



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INDEPENDENT ASSURANCE REPORT TO THE STAKEHOLDERS OF MERCHANT BANK OF SRI LANKA & FINANCE PLC ON THE SUSTAINABILITY REPORT – 2016

Introduction and Scope of the Engagement

The management of Merchant Bank of Sri Lanka & Finance PLC ("the company") engaged us to provide an independent assurance on the following elements of the Sustainability Report 2016 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 33 of the Report.
- Limited assurance on key performance indicators and other information presented in the Report prepared in accordance with the requirements of Global Reporting Initiative G4 in accordance with comprehensive guideline.

Responsibility of the Management on the Report

The Management of the company is responsible for the preparation and presentation of the Report in accordance with the company's sustainability practices and policies which are derived from Global Reporting Initiatives GRI (G4) in accordance with –Comprehensive Sustainability Reporting Guidelines. These responsibilities include among other things, identification of stakeholders and material issues, determining the sustainable performance criteria for reporting and establishing appropriate processes and internal control systems to measure and report the sustainability performance criteria.

Our Responsibility

Our responsibility is to perform a reasonable and limited assurance engagement and express conclusions based on the work performed in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ('CASL').

Reasonable assurance is a high level of assurance. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

This Report is made solely to the company in accordance with our engagement letter dated 3rd April, 2017. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for professional Accountants issued by the CASL.

Assurance Procedures Carried Out

Financial Information

We reconciled the information on financial performance as reported on page 33 of the Report with the audited financial statements of the company for the years ended 31st December, 2016 and 2015.

Key Performance Indicators

We reviewed the reliability of the data/information on Key Performance Indicators for the year ended 31st December, 2016 based on reviews of:

- the systems used to generate, aggregate and report these information;
- the information reported by the relevant business units to corporate level;
- the information validation processes at corporate and business level;
- the information trends in discussions with management and
- the calculation performed by the company on a sample basis through recalculation.

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : Sujeewa Rajapakse FCA, FCMA, MBA. Tishan H. Subasinghe FCA, ACMA, CISA, MBA. H. Sasanka Rathnaweera FCA, ACMA. Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. Hasanthi D. Amarakoon ACA, ACMA. R. Vasanthakumar Bsc (Acc), ACA

Other Information

We planned and performed following assurance procedures on other information presented in the Report:

- Inquiring relevant company's personnel to understand the process for collection, analysis, aggregation and presentation of information in the Report.
- Reviewing the system used to generate, aggregate and report the information in the Report.
- Interviewing the senior management and relevant staff at corporate level and selected business unit level and obtained the evidence concerning sustainability strategy and policies for material issues and implementation of those across operation of the company.
- Reviewing and validating the information contained in the Report.
- Reading the information presented in the Report to determine whether that information is in line with our overall knowledge of, and experience with, sustainability performance of the company.
- Comparison of the content of the report against the criteria for a Global Reporting Initiatives G4 in accordance with - Comprehensive Sustainability Reporting Guideline.

Conclusion

Based on the procedures performed, as described above, we conclude that:

- The information on financial performance as specified on page 33 of the Report is properly derived from the audited financial statements of the company for the years ended 31st December, 2016 and 2015.
- Nothing has come to our attention that causes us to believe that key performance indicators and other information presented in the Report are not presented, in all material respects, in accordance with the company's sustainability practices and policies which are derived from GRI (G4) in accordance with - Comprehensive Sustainability Reporting Guidelines.

BDO Partners

CHARTERED ACCOUNTANTS

Colombo

28th April, 2017

GRI Checklist

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
Strategy and Analysis			
G4-1	Statement from the Chairman	6	Yes
G4-2	Description of key impacts, risks and opportunities	24	Yes
Organisational profile			
G4-3	Name of reporting organisation	10	Yes
G4-4	Primary brands, products and/or services	15	Yes
G4-5	Location of the organisation headquarters	Corporate information	Yes
G4-6	Countries where the organisation operates, has significant operations or that are specifically relevant to sustainability topics covered	16	Yes
G4-7	Nature of ownership and legal form	13, Corporate information	Yes
G4-8	Markets served	Contact information	Yes
G4-9	Scale of the reporting organisation	11	Yes
G4-10	<ul style="list-style-type: none"> a. Total employees by employment contract and gender b. Total number of permanent employees by employment type and gender. c. Total workforce by employees, supervised workers and by gender d. Total workforce by religion and gender e. Whether substantial portion of work is done by self-employed or other outside parties other than employees f. Significant variations in employment numbers 	47	Yes Yes Yes
G4-11	Percentage of total employees covered by collective bargaining agreements	51	Yes
G4-12	Description of the organisation's supply chain	55	Yes
G4-13	Material changes regarding size, structure, ownership or supply chain	55	Yes
G4-14	How organisation addresses precautionary approach or principle	57	Yes
G4-15	Externally developed economic, environmental and social charters and principles or other initiatives to which the organisation subscribes or endorses	10	Yes
G4-16	Memberships in associations and national or international advocacy organisations in which the organisation holds position, participates in projects and committees, provides funding and views membership as strategic	53	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-17	Identified Material Aspects and Boundaries a. List of entities included in the organisation's Consolidated Financial Statements b. Entities not covered in report pertaining to (a.) above	10	Yes
G4-18	a. Process for defining the report content and the Aspect Boundaries b. Approach to implementing the report principles for Defining Report Content	10	Yes
G4-19	Identified material aspects, in the process for defining report content	24	Yes
G4-20	For identified Material Aspect, the Aspect Boundary within the organisation	24	Yes
G4-21	For identified Material Aspect, the Aspect Boundary outside the organisation	24	Yes
G4-22	Effect of any restatement of information provided in previous reports with reason for such restatements	214	Yes
G4-23	Significant changes from previous reporting periods in the scope and Aspect Boundaries	24	Yes
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organisation	23	Yes
G4-25	Basis for identification and selection of stakeholders with whom to engage	23	Yes
G4-26	<ul style="list-style-type: none"> • Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group • Indication of whether any of the engagements were undertaken specifically as part of the report preparation process 	23	Yes
G4-27	<ul style="list-style-type: none"> • Key topics and concerns raised through stakeholder engagement and how the organisation responded to those key topics and concerns • Stakeholder groups that relate to key topics and concerns 	23	Yes
Report Profile			
G4-28	Reporting period for information provided	10	Yes
G4-29	Date of most recent previous report	10	Yes
G4-30	Reporting cycle	10	Yes
G4-31	Contact point for questions regarding the report or its contents	10	Yes

GRI Checklist

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-32	a. "In accordance" option chosen b. GRI Content Index c. External Assurance Report	10, 57	Yes
G4-33	Policy and current practice with regard to seeking external assurance for the report	10, 57	Yes
Governance			
G4-34	Governance Structure and Composition Governance structure including Committees under the highest governance body responsible for economic, social and environment decision-making	72-105	Yes
G4-35	The process for delegating authority for economic, environmental and social topics from the highest governance body to Senior Executives and other employees	72-105	Yes
G4-36	Appointment of executive level positions with responsibility for economic, environmental and social topics and reporting mechanism to highest governance body	72-105	Yes
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	72-105	Yes
G4-38	Composition of highest governance body and its committees	72-105	Yes
G4-39	Whether chair of the highest governance body is an Executive Officer	72-105	Yes
G4-40	The nomination and selection processes for the highest governance body and its committees and the criteria used for nominating and selecting highest governance body members	72-105	Yes Yes
G4-41	Process adopted in ensuring conflicts of interest related to the highest governance body is avoided and managed and reported in related disclosures	72-105	Yes Yes Yes
Highest Governance Body's Role in Setting Purpose, Values and Strategy			
G4-42	Roles of the highest governance body's and senior executives in the development, approval and updating of the organisation's purpose, value or mission statement, strategies, policies and goals related to economic, environmental and social impacts	72-105	Yes Yes
Highest Governance Body's Competencies and Performance Evaluation			
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	72-105	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-44	Process and actions taken in relation to the evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	72-105	Yes
Highest Governance Body's Role in Risk Management			
G4-45	Role of the highest governance body in the identification and management including implementation of due diligence processes in relation to economic, environmental and social impacts, risks and opportunities. A further level of stakeholder consultation is needed in this process	122-131	Yes
G4-46	Role of the highest governance body's involved in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	122-131	
G4-47	Frequency of the highest governance body's in reviewing of economic, environmental and social impacts, risks and opportunities	122-131	Yes
Highest Governance Body's Role in Sustainability Reporting			
G4-48	Highest committee or position that formally reviews & approves the organisation's sustainability report	72-105	Yes and approves the organisation's Sustainability
Highest Governance Body's Role in Evaluating Economic, Environment and Social Performance			
G4-49	Process adopted to communicate critical concerns to the highest governance body	72-105	Yes
G4-50	Nature and total number of critical concerns communicated to the highest governance body and the mechanisms used to address and resolve them	72-105	Yes
Remuneration and Incentives			
G4-51	Remuneration policies including performance criteria for the highest governance body and senior executives in relation to economic, environmental and social objectives	72-105	Yes
G4-52	Process of determining remuneration including whether Remuneration Consultants are Independents	72-105	Yes Yes
G4-53	Views of stakeholders in relation to remuneration including results of votes on related policies and proposals, if applicable	N/A	Yes
G4-54	Ratio of the annual total compensation for the highest-paid individual in each country to the median annual total compensation for all employees in the same country	N/A	Yes

GRI Checklist

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-55	Ratio of percentage increase in annual total compensation for the highest-paid individual in each country to the median percentage increase in annual total compensation for all employees in the same country	N/A	Yes
Ethics and Integrity			
G4-56	Organisation's values, principles, standards and norms of behaviour adopted	3	Yes
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour and matters related to organisational integrity, such as helplines or advice lines	51	Yes
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisation's integrity including whistle-blowing mechanisms or hotlines	51	Yes
Category: Economic			
G4-DMA	<ul style="list-style-type: none"> Economic Performance Management Approach Financial services sector specific DMA on economic performance 		Yes Yes
G4-EC1	<ul style="list-style-type: none"> Direct economic value generated, distributed and retained Economic performance financial services sector specific disclosure 	N/A	Yes Yes
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	59	Yes
G4-EC3	Coverage of Defined Benefit Plan obligations	49	Yes
G4-EC4	Financial assistance received from the Government	N/A	Yes
G4-DMA	Market Presence Management Approach		Yes
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	51	Yes
G4-EC6	Proportion of senior management personnel hired from local communities at significant locations of operation	51	Yes
G4-DMA	Indirect Economic Impacts Management Approach		Yes
G4-EC7	Development and impact of infrastructure investments and service supported	Not reported	Yes
G4-EC8	Significant indirect economic impacts, including impact extent	Not reported	Yes
G4-DMA	Procurement practices Management Approach		Yes
G4-EC9	Proportion of spending on local suppliers at significant location of operations	55	

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
Category: Environmental			
G4-DMA	Materials		Yes
G4-EN1	Materials used by weight or volume	57	Yes
G4-EN2	Percentage of materials used that are recycled input materials	59	
G4-DMA	Energy Management Approach		Yes
G4-EN3	Energy consumption within the organisation	58	Yes
G4-EN4	Energy consumption outside the organisation	N/A	Yes
G4-EN5	Energy intensity	58	Yes
G4-EN6	Reduction in energy consumption	57, 58	Yes
G4-EN7	Reductions in energy requirements of products and services	N/A	Yes
G4-DMA	Water Management Approach		Yes
G4-EN8	Total water withdrawal by source	59	Yes
G4-EN9	Water sources significantly affected by withdrawal of water	59	Yes
G4-EN10	Percentage and total volume of water recycled and reused	59	Yes
G4-DMA	Bio-Diversity Management Approach		Yes
G4-EN11	Operational sites owned, leased, managed in protected areas and areas of high bio-diversity value outside protected areas.		Yes
G4-EN12	Description of significant impacts of activities, products and services on bio-diversity in protected areas and areas of high bio-diversity value outside protected areas	As a financial service provider MBSL operations have no significant negative impact on biodiversity	Yes
G4-EN13	Habitats protected or restored		Yes
G4-EN14	Total number of IUCN red listed species and national conservative list species with habitats in areas affected by operations by level of extinction risk		Yes
G4-DMA	Emissions Management Approach		Yes
G4-EN15	<ul style="list-style-type: none"> Direct Greenhouse Gas (GHG) emissions (scope 1) Sector Specific additional disclosure 	N/A	Yes Yes
G4-EN16	<ul style="list-style-type: none"> Energy indirect GHG emissions (scope 2) Sector Specific additional disclosure 	N/A	Yes Yes
G4-EN17	<ul style="list-style-type: none"> Other indirect GHG emissions (scope 3) Sector Specific additional disclosure 	N/A	Yes Yes

GRI Checklist

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-EN18	GHG emissions intensity	N/A	Yes
G4-EN19	Reduction of GHG emissions	N/A	Yes
G4-EN20	Emissions of ozone depleting substances (ODS)	N/A	Yes
G4-EN21	NOx, SOx and other significant air emissions	N/A	Yes
G4-DMA	Effluents and Waste Management Approach		Yes
G4-EN22	Total water discharge by quality and destination	N/A	Yes
G4-EN23	<ul style="list-style-type: none"> • Total weight of waste by type and disposal method, reuse, recycling, composting • Financial services sector specific disclosure 	59	Yes
G4-EN24	Total number and volume of significant spills	N/A	Yes
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the BASEL Convention and percentage of transported waste shipped internationally	N/A	Yes
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly effected by the organisation's discharge of water and run-off	N/A	Yes
G4-DMA	Products and Services Management Approach		Yes
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	57	Yes
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	N/A	Yes
G4-DMA	Compliance Management Approach		Yes
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	57	Yes
G4-DMA	Transport Management Approach		Yes
G4-EN30	Impacts of transporting products and other goods and materials for operations, and transporting members of the workforce	58	Yes
G4-DMA	Overall Management Approach		Yes
G4-EN31	Total environmental protection expenditures and investments by type	N/A	Yes
G4-DMA	Supplier Environment Assessment Management Approach		Yes
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	57	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	57	Yes
G4-DMA	Environment Grievance Mechanisms Management Approach		Yes
G4-EN34	Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms	N/A	Yes
Category: Social			
Subcategory – Labour Practices and Decent Work			
G4-DMA	Employment Management Approach		Yes
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender and region	48	Yes
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	49	Yes
G4-LA3	Return to work and retention rates after parental leave, by gender	51	Yes
G4-DMA	Labour / Management Relations Management Approach		Yes
G4-LA4	Minimum notice periods regarding operational changes, including whether it is specified in collective agreements	51	Yes
G4-DMA	Occupational Health and Safety <ul style="list-style-type: none"> • Management Approach • Sector specific additional DMA 		Yes Yes
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	48, 49	Yes
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender	N/A	Yes
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	N/A	Yes
G4-LA8	Health and safety topics covered in formal agreements with trade unions	46, 51	Yes
G4-DMA	Training and Education Management Approach		Yes
G4-LA9	Average hours of training by gender and by employee category undertaken during the reporting period by employees	49	Yes

GRI Checklist

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability and managing career endings	49, 51	Yes
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	49, 50	Yes
G4-DMA	Diversity and equal opportunity Management Approach		Yes
G4-LA12	Composition of governance bodies and breakdown of employees category according to gender, age group, minority group membership and other indicators of diversity	47	Yes
G4-DMA	Equal Remuneration for Men and Women Management Approach		Yes
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	49	Yes
G4-DMA	Labour Practices and Grievance Mechanisms Management Approach		Yes
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	51	Yes
Subcategory – Human Rights			
G4-DMA	Investment Management Approach		Yes
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	57	Yes
G4-HR2	Total hours of employee training on human rights policies	50	Yes
G4-DMA	Non-Discrimination Management Approach		Yes
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Not reported	Yes
G4-DMA	Child Labour Management Approach		Yes
G4-HR5	Operations and significant suppliers identified as having significant risk of forced or compulsory labour and measures taken to contribute to the effective abolition of child labour	MBSL does not recruit people less than 18 years of age and through supplier selection process	Yes
G4-DMA	Forced or Compulsory Labour Management Approach		Yes
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	55	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-DMA	Security Practices Management Approach		Yes
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	Security service is provided by BOC PDML	Yes
G4-DMA	Assessment Management Approach		Yes
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Initial dedicated to preserving human rights	Yes
G4-DMA	Human Rights Grievance Mechanism Management Approach		Yes
G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	51	Yes
Subcategory – Society			
G4-DMA	Local Communities Management Approach		Yes
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	54, 55	Yes
G4-SO2	Operations with significant actual and potential negative impacts on local communities	54	Yes
G4-DMA	Anti-Corruption Management Approach		Yes
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	No corruption was recorded	Yes
G4-SO4	Communication and training on anti-corruption policies and procedures	54	Yes
G4-SO5	Confirmed incidents of corruption and actions taken	No corruption was recorded	Yes
G4-DMA	Compliance Management Approach		Yes
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	55	Yes
G4-DMA	Grievance Mechanism for Impacts on Society Management Approach		Yes
G4-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	55	Yes

GRI Checklist

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
Subcategory – Product Responsibility			
G4-DMA	Customer Health and Safety		Yes
G4-PR1	Percentage of significant products and service categories for which health and safety impacts are assessed for improvement	Being a financial service provider MBSL does not have any impact on products & service	Yes
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	55	Yes
G4-DMA	Product and Service Labelling <ul style="list-style-type: none"> · Management Approach · Sector specific DMA 		Yes Yes
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling and percentage of significant products and service categories subject to such information requirements	55	Yes
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	55	Yes
G4-PR5	Results of surveys measuring customer satisfaction	52	Yes
G4-DMA	Marketing Communications Management Approach		Yes
G4-PR6	Sale of banned or disputed products	55	Yes
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	55	Yes
G4-DMA	Customer privacy Management Approach		Yes
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	55	Yes
G4-DMA	Compliance Management Approach		Yes
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	55	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-DMA	Product portfolio <ul style="list-style-type: none"> • Management Approach • Sector specific DMA 		Yes Yes
G4-FS6	Sector Specific Indicators Percentage of the portfolio for business lines by specific region, size and by sector	126,127	Yes
G4-FS7	Monitory value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	57	Yes
G4-FS8	Monitory value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose Stand-alone disclosure on product responsibility: <ul style="list-style-type: none"> • Audit Management Approach 	57	Yes

Basis of Ratio

Return on Equity (ROE%)	$\frac{\text{Profit / Loss Attributable to Ordinary Share}}{\text{Average Shareholder's Equity}} \times 100$
Return on Capital Employed (ROCE%)	$\frac{\text{Profit before Interest \& Tax}}{\text{Borrowings+Deposits+Equity}} \times 100$
Cost to Income Ratio (%)	$\frac{\text{Total Operating cost without VAT on Financial Services}}{\text{Net Operating Income}} \times 100$
Debt to Equity (Times)	$\frac{\text{Total Borrowings}}{\text{Total Shareholder's Equity}}$
Debt to Total Assets (Times)	$\frac{\text{Borrowings}}{\text{Total Assets}}$
Earning Per Share (EPS- Rs:)	$\frac{\text{Profit / Loss Attributable to ordinary shareholders}}{\text{Average Number of Share}}$
Price Earning (PE) Ratio (Times)	$\frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$
Dividend Per Share (Rs:)	$\frac{\text{Profit / Loss Attributable to Ordinary Share}}{\text{Number of Ordinary Share}}$
Dividend Yield (%)	$\frac{\text{Dividend Per Ordinary Share}}{\text{Market Price Per Share}} \times 100$
Market Capitalization (Rs)	$\text{Market Price Per Share} \times \text{Number of Shares}$
Total Return of Share (%)	$\frac{(\text{Closing Market Price} - \text{Opening Market Price}) + \text{Dividend Per Share}}{\text{Opening Market Price}} \times 100$

Return on Assets (ROA) - %	Profit After tax	*100
	Total Assets	
Operating Profit Margin - %	Operating Profit Before VAT on Financial Services	*100
	Interest Income	
Interest Cover (Times)	Profit Before Interest & Tax	
	Interest Expenses	
Current Ratio	Current Assets	
	Current Liabilities	
Net Assets Value Per Share (NAPS) -Rs:	Total Share Holders Equity	
	Number of Share	
Earning Yield (EY)	Earning Per Share	*100
	Market Price Per Share	
Dividend Cover Ratio (Times)	Profit / Loss Attributable to Ordinary Shareholders	
	Total Dividend Paid to Shareholders	
Dividend Pay Out (%)	Total Dividend Paid to Shareholders	*100
	Profit / Loss Attributable to Ordinary Shareholders	
Price to Book Value (PBV) (Times)	Market Price Per Share	
	Net Assets Per Share	
Net Interest Margin (NIM) (%)	Net Interest Income	*100
	Average Interest Earnings Assets	

Glossary

A

Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

Amortization

The systematic allocation of the depreciable amount of an asset over its useful life.

Associate Company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Available-for-Sale Financial assets

All non-derivative financial assets that does not fall into any of the three categories, namely, held to maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category - does not mean that the entity stands ready to sell these all the time.

C

Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash Equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commercial Paper

An unsecured short term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Consolidated Financial Statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

Contingencies

A condition or situation existing on the statement of financial position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost / Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Credit Risk

Credit risk or default risk is the potential that a borrower or counterparty failing to meet its obligations in accordance with agreed terms and conditions.

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

D**Deferred Taxation**

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Dividend Cover

Profit attributable to shareholders divided by gross dividends. This ratio measures the number of times dividend is covered by current year's attributable profits.

Dividend Yield

Dividend per share as a percentage of its market value.

E**Earnings per Ordinary Share (EPS)**

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Economic Value Added (EVA)

A measure of productivity that takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

F**Fair Value**

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

G**Gearing**

Long term borrowings divided by the total funds available for shareholders.

Group

A group is a parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H**Held-to-Maturity (HTM) Investments**

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

Glossary

<p>I</p> <p>Impairment This occurs when recoverable amount of an asset is less than its carrying amount.</p> <p>Impaired Loans Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.</p> <p>Individually Assessed Impairment Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.</p> <p>Impairment Allowances Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.</p> <p>Intangible Asset An intangible asset is an identifiable non-monetary asset without physical substance.</p> <p>Interest Cover A ratio showing the number of times interest charges are covered by earnings before interest and tax.</p> <p>Interest Margin Net interest income expressed as a percentage of average interest earnings assets.</p> <p>Interest rate Risk The risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.</p> <p>Interest Spread Represents the difference between the average interest rate earned on interest earnings assets and the average interest rate paid on interest-bearing liabilities.</p> <p>Investment Properties Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use or sale.</p> <p>K</p> <p>Key Management Personnel (KMP) Key management personnel are those persons having authority and responsibility for planning, directing and</p>	<p>controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.</p> <p>L</p> <p>Liquid Assets Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with Banks, bills of exchange and Treasury Bills and Bonds.</p> <p>Loan to Value Ratio (LTV) LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.</p> <p>Liquidity Risk The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.</p> <p>Loans and Receivables Conventional loan assets that are unquoted (originated or acquired).</p> <p>M</p> <p>Market Capitalisation Number of ordinary shares in issue multiplied by the market value of a share as at the year end.</p> <p>Market Risk This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.</p> <p>Materiality The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.</p> <p>N</p> <p>Net Assets Value per Ordinary Share Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.</p> <p>Net Interest Income (NII) The difference between income earned from interest bearing assets and cost incurred on financial instrument / facilities used for funding the interest bearing assets.</p> <p>Non-Controlling Interest Equity in a subsidiary not attributable, directly or indirectly, to a parent.</p>
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Non-performing Ratio

Total non-performing leases, hire purchase loans and other advances divided by total advances portfolio.

O**Off-Balance Sheet Transactions**

Transactions that are not recognised as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P**Parent**

A Parent is an entity which has one or more subsidiaries.

Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R**Related Parties**

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Return on Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

Risk Weighted Assets

On statement of financial position assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Segment Analysis

Analysis of financial information by segments of an entity specifically the different business in which it operates.

Shareholders' Funds

Total of stated capital and reserves.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company.

Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise which is known as the parent.

Substance Over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T**Transaction Costs**

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

V**Value Added**

Value of wealth created by providing financial and other-related services less the cost of providing such services.

Y**Yield to Maturity**

Discount rate at which the present value of future cash flows would equal the security's current price.

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Mr.Thusara Muramudali Acting Branch Manager	034-4286286 011-3075075	077-6720479	212, Panadura Road, Horana.	034-2262973	thusaram@mbslbank.com
KOTTAWA BRANCH					
Mr. Saman Susantha Manager	011-2782099	077-6721662	262/2, High Level Road,Pannipitiya, Kottawa.	011-2783389	samanl@mbslbank.com
MAHARAGAMA BRANCH					
Mr.Vajira Ratnayake Manager	011-4306096 011-4306097	077-3219582	No: 159, Awissawella Rd, Maharagama	011-2745451	vajirar@mbslbank.com
MORATUWA BRANCH					
Ms. Nirosi Kahandage Manager	011-2641420	077-6539594	731, Galle Road, Idama,Moratuwa.	011-2642120	nirosi@mbslbank.com
NUGEGODA BRANCH					
Mr.Sampath Gunasekera Acting Branch Manager	011 -2768453	077-6721537	196, High Level Road, Nugegoda	011- 2815535	sampathg@mbslbank.com
PANADURA BRANCH					
Mr.Asinda Gunawardena Branch Manager	038-4927941 038-4927942	077-5952977	No.159/2, Galle Road, Panadura.	038-2236889	asindag@mbslbank.com
RATNAPURA BRANCH					
Mr.Chinthaka Athukorala Branch Manager	045-4928089 045-4928093	077-3241089	No.231, Main Street, Rathnapura.	045-2232524	chinthakaa@mbslbank.com
UNION PLACE					
Mr.Amith Wanigaratne Senior Manager	011-2374000	077-6721054	519, T B Jayah Mawatha, Colombo 10.	011-2374044	amithw@mbslbank.com
METROPOLITAN BRANCH					
Mr.Pravin Fernando Manager	011-2358000 011-2358002 011-4710359	077-1541401	67/1, Mahinda Place, Kirulapona.	011-2358090	pravinf@mbslbank.com
GAMPAHA BRANCH					
Mr.Asanka Abeysinghe Branch Manager	033-2248443	077-3792957	49, Yakkala Road, Gampaha.	033-2248442	asankak@mbslbank.com
KADAWATHA BRANCH					
Mr.Ranjith Kumarapeli Manager	011-2901542	077-1445683	Shop No 2,1246/ A2, Kandy Road. Kadawatha	011-2920335	ranjithk@mbslbank.com

<i>Head Offices</i>	<i>Telephone</i>	<i>Mobile No</i>	<i>Address</i>	<i>Fax</i>	<i>Email</i>
KIRIBATHGODA BRANCH					
Ms. Thilini Ranasinghe Branch Manager	011-2910772	077-4488767	246 A, Nawajeevana Place, Kandy Road, Kiribathgoda.	011-2910771	thilindir@mbslbank.com
KOTAHENA BRANCH					
Mr.Lavashanthan Sathyamoorthi	011-2388377	077-4424532	174, George R.De Silva Mawatha, Kotahena, Colombo 13.	011-2432088	lavashanthans@mbslbank.com
NITTAMBUWA BRANCH					
Mr.Udesh Manjula Branch Manager	033-4937564 033-4937565	077-3240873	No.48/3, Kandy Road, Nittambuwa.	033-2288842	udeshm@mbslbank.com
GALLE BRANCH					
Mr. Gayan Nilanga Manager	091-2234751 091-4924912 091-4924913	077-3219583	No:34, Wakwella Road, Galle	091-2234750	gayann@mbslbank.com
AMBALANGODA BRANCH					
Mr. W W A Dharmendra Branch Manager	091-4943759 091-4943765	077-3240887	No.45, Station Road, Ambalangoda	091-2256675	dharmendraa@mbslbank.com
AMBALANTHOTA BRANCH					
Mr.Kishan Keerthi Branch Manager	047-4933660 047-4933661	077-3240572	No:133, Main street, Ambalanthota	047-2225610	keerthid@mbslbank.com
DENIYAYA BRANCH					
Mr.Roshan Thotagamuwa Branch Manager	041-4935173 041-4935174	077-3675448	No.153/1, Hospital Road, Deniyaya	041-2273731	roshant@mbslbank.com
EMBILIPITIYA BRANCH					
Mr.Priyajith Subasinghe Branch Manager	047-4931992 047-4931993	077-3240827	No.132 B, New Town Road, Embilipitiya	047-2261735	priyajiths@mbslbank.com
MATARA BRANCH					
Mr.Shyaman Karunanayaka Branch Manager	041-2233886	077-5506573	49/1/1 St.Anagarika Dharmapala Mw Matara.	041-2233889	shyamank@mbslbank.com
MATHUGAMA BRANCH					
Mr. Emil Cooray Branch Manager	034-4947811 034-4947812	077-3240846	No.92/4, Agalawatta Road, Mathugama	034-2249992	emilc@mbslbank.com
TISSAMAHARAMA BRANCH					
Mr. Pathum De Silva Branch Manager	047-2222711	077-4955211	No.117, Palliyawatta Junction, Tissamaharama.	047-2222712	pathums@mbslbank.com
KALUTHARA BRANCH					
Mr.Pathum Dassanayake Branch Manager	034-2224245	077-6720861	426, Galle Road, Kalutara South. 284, Katugasthota Road, Kandy.	034-2229482	pathumd@mbslbank.com

Contact Information

<i>Head Offices</i>	<i>Telephone</i>	<i>Mobile No</i>	<i>Address</i>	<i>Fax</i>	<i>Email</i>
KANDY BRANCH Mr.Chaminda Amarasinghe Branch Manager	081-4481702 081-2224818 081-2224819	077-3047775	284, Katugasthota Road, Kandy	081-4481701	chamindaa@mbslbank.com
KANDY BRANCH - CITY OFFICE Mr.Nimal Hataraliyadda Manager	081-2237378 081-2237380	077-6690164	"Ceybank House" No.88, Dalada Veediya, Kandy.	081-2237378	nimalh@mbslbank.com
AMPARA BRANCH Mr.Krishantha Bandara Branch Manager	063-4923540 063-4923541	077-3241027	No.6, D S Senanayake Mw, Ampara	063-2224260	krishanthab@mbslbank.com
BANDARAWELA BRANCH Mr.Sumith Karunaratne Branch Manager	057-4926910 057-4926911	077-3240329	No.11,Badulla Road, Thanthiriya, Bandarawela	057-2233807	sumiths@mbslbank.com
BATTICALOA BRANCH Mr. P Nivaraj Manager	065-4926799 065-4926787	077-3240721	No.28, Bar Road, Batticaloa	065-2228575	nivarajp@mbslbank.com
DAMBULLA BRANCH Mr.Sumith Premarathne Office In Charge	066-2284205	077-1912084	1/690, Anuradhapura Road, Dambulla.	066-2284204	sumithp@mbslbank.com
HATTON BRANCH Mr. Perumal Baskar Branch Manager	051-4924641 051-4924642	077-3241135	No: 263, Dimbula Road, Hatton	051-2224375	baskarp@mbslbank.com
MONARAGALA BRANCH MR. Ajith Priyantha Manager	055-4929361 055-4929362	077-3240193	No. 280, Wallawaya Road, Monaragala	055-2276087	ajithp@mbslbank.com
NEGOMBO BRANCH Mr. Pandula Bandara Manager	031-4933922 031-4932230	077-4467507	No:329/16, Main Street, Negambo	031-2228466	pandulab@mbslbank.com
CHILAW BRANCH Mr. Nuwan Prasanga Acting Branch Manager	032-2224414 032-2224415	077-6643542	No.6,Ebert Silva Estate,Colombo Road, Chillaw.	032-2224033	nuwanp@mbslbank.com
WENNAPPUWA BRANCH Mr.Nadeesha Saparamadu Branch Manager	031-2245664	077-6721708	No.197,1st Floor, Chillaw Road, Wennappuwa.	031-2245665	nadeeshap@mbslbank.com
PUTTALAM BRANCH Mr.Chaminda Pushpakumara Acting Branch Manager	032-4928795 032-4928796 037-2281730	077-1024291	No.1, Stadium Complex, Kurunagala Road, Puttalam.	032-2267776	chamindam@mbslbank.com
KULIYAPITIYA BRANCH Mr.Malinda Pathirana Branch Manager		077-6573760	No.413/1/1, Madampe, Kuliyapitiya.	037-2281731	malindap@mbslbank.com

<i>Head Offices</i>	<i>Telephone</i>	<i>Mobile No</i>	<i>Address</i>	<i>Fax</i>	<i>Email</i>
JA-ELA BRANCH Mr.Thanura Pradeep Branch Manager	011-2249292	077-6557014	No.270/1, Negombo Road, Thudalla, Ja-Ela	011-2249291	thanuraw@mbslbank.com
KANDANA BRANCH Mr.Susith De Silva Branch Manager	011- 4344072 011 -4344073	072-1706482	NO.310, Colombo Road, Kandana	011 - 4544177	susithd@mbslbank.com
WATTALA BRANCH Mr.Samith Jayasekara Branch Manager	011-2931761	077-6573766	No.5/B/C, Negambo Road, Wattala.	011-2931762	samithj@mbslbank.com
KURUNEGALA BRANCH Mr.Nishantha Dhahanaka Branch Manager	037-2224215	077-3241323	No.40,Kandy Road,Kurunegala.	037-2223916	nishanthad@mbslbank.com
ANURADHAPURA BRANCH Mr.Amila Mawathawewa Branch Manager	025-4580507 025-2234485	077-2519083	No: 82, Main Street, Anuradhapura	025-4580508	amilaw@mbslbank.com
JAFFNA BRANCH Mr.R Arulvel Branch Manager	021-2220380	077-4497165	No.317,Clock Tower Road, Jaffna.	021-2220381	arulvelr@mbslbank.com
KILINOCCHI BRANCH Mr. L Logeswaran Officer In Charge	021-2280078	077-3241020	No.30 Kandy Road, Karadipokku, Kilinochchi.	021-2280079	logesw@mbslbank.com
HINGURAKGODA BRANCH Mr.Chaminda Batagoda Branch Manager	027-4924761 027-4924762	077-3240274	No.1, Air-Port Road, Damana Kumbura, Hingurakgoda	027-2245483	dammikab@mbslbank.com
KEKIRAWA BRANCH Mr.Tharanga Buddhika Officer In Charge	025-4928951 025-4928952	077-3240264	No.24, Yakalla Road, Kekirawa	025-2264799	tharangab@mbslbank.com
VAVUNIYA BRANCH Mr. R Saravanan Manager	024-4925475 024-4588685	077-6519372	No: 99, station Road, Vavuniya	024-2226108	saravananr@mbslbank.com
TRINCOMALEE BRANCH Mr. Samson Varapragasam Branch Manager	026-4928888 026-4595151	077-3650017	No: 53 North Coast, Trincomalee	026-2226784	samsonv@mbslbank.com
REGIONAL OFFICES					
REGION 01					
Mr.Sanjaya Ranatunga Regional Manager	011-4711734	077-3219571	No.28, St.Michael's Road, Colombo 03.	091-2256675	sanjayar@mbslbank.com
REGION 02					
Mr.Ruwan Piyadasa Regional Manager	011-2374000	077-7776494	519,T B Jayah Mawatha,Colombo 10		ruwanp@mbslbank.com

Contact Information

<i>Head Offices</i>	<i>Telephone</i>	<i>Mobile No</i>	<i>Address</i>	<i>Fax</i>	<i>Email</i>
REGION 03					
Mr.Ratnasiri Mayakaduwa Regional Manager	091-2234751	077-3047787	No:34, Wakwella Road, Galle		ratnasirim@mbslbank.com
REGION 04					
Mr.Keerthi Ramanayake Regional Manager	081-2224820	077-3219578	284, Katugasthota Road, Kandy.		keerthir@mbslbank.com
REGION 05					
Mr.S P Niroshan Regional Manager	031-2228325	077-6721509	No:329/16, Main Street, Negambo		niroshans@mbslbank.com
REGION 06					
Mr.Saman Pathmadeera Regional Manager	037-4939836 037-4692006	077-3219579	No.40,Kandy Road,Kurunegala.		samanp@mbslbank.com

Corporate Information

Name of Company

Merchant Bank of Sri Lanka & Finance PLC
(Formerly known as 'Merchant Bank of Sri Lanka PLC')

Company Registration No

PQ10

Legal Form

A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 on 4th March 2007 and quoted on the Colombo Stock Exchange.

A Registered Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

A Registered Finance Company licensed under the Finance Business Act No. 42 of 2011.

Stock Exchange Listing

25th April 1991

Registered Office

Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road,
Colombo 03
Tel. 011 4711711
Fax. 011 4711742
Web. www.mbslbank.com

Tax Payer Identification No.

124011426

VAT Registration No.

124011426 7000

Central Bank registration No.

050

Financial Year End

31st December

Board of Directors

Dr. S Lokuhewa (Chairman)
Mr. C N Wijewardane
Mr. D M Gunasekara
Mr. W P R P H Fonseka
Mr. K B S Bandara
Mr. N Perera
Mr. S N Dayaratne
Mr. S P Arakularatne
Mr. H J D Fonseka

Chief Executive Officer

Mr. T Mutugala
Tel: 4711700
Fax: 4711704
E-mail : mutugalat@mbslbank.com

Deputy General Manager - Legal/Company Secretary

Mrs. Karnika Jayatilake
Tel: 4711766
E-mail : karnikaj@mbslbank.com

Subsidiary Company

MBSL Insurance Company Limited
No. 122, Kew Road
Colombo 02
Tel : 2 304500
Fax: 2 300499
E-mail : info@mbslinsurance.lk
Web : www.mbslinsurance.lk

Associate Company

Lanka Securities (Pvt) Ltd
No. 228/1, Galle Road
Colombo 04
Tel : 4706757
Fax: 4706767
E-mail : lankasec@sltnet.lk
Web : www.lsl.lk

Auditors

The Auditor General of the Democratic Socialist Republic of Sri Lanka

Lawyers

Julius & Creasy
Attorneys-at-Law, Solicitors & Notaries Public
No. 41, Janadhipathi Mawatha , Colombo 01

Principal Banker

Bank of Ceylon

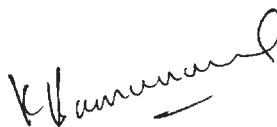
Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty Fifth Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Tuesday 27th June 2017 at 10.00 am for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31st December 2016 together with the Report of the Auditors thereon.
2. To re-elect as a Director Mr. Charitha Nissanka Wijewardane who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To elect as a Director Dr. Sujeewa Lokuhewa who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
4. To elect as a Director Mr. Dassanayake Mudiyansele Gunasekara who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
5. To elect as a Director Mr. Warnasooriya Patabendige Russel Padmaraj Hemath Fonseka who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
6. To elect as a Director Mr. Koliya Bandaralage Senarath Bandara who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
7. To elect as a Director Mr. Niroshana Perera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
8. To elect as a Director Mr. Sunil Nayanasinghe Dayaratne who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
9. To elect as a Director Mr. Sandun Priyal Arakularatne who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
10. To elect as a Director Mr. Hewafonseka Joseph Denzil Fonseka who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
11. To re-appoint the Auditor General as the Auditor of the Company in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the financial year 2017. The Audit Fees for the audit shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Enterprises Circular No: PED 01/2016 dated 01.01.2016..
12. To authorize the Directors to determine donations for the financial year 2017.

By Order of the Board of

MERCHANT BANK OF SRI LANKA & FINANCE PLC



K Jayatilake
Company Secretary

30th May 2017
Colombo

NOTES:

1. A Form of Proxy is attached hereto, for use if necessary, in which event, it should be completed and returned to the Registered Office of the Company – Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a Shareholder of the Company.
3. The instrument appointing a Proxy may be in writing under the hand of the appointer or of his/her Attorney, or if such appointer is a corporation under its common seal or the hand of its Attorney or duly authorized person.

Form of Proxy

I/We.....

of.....

being a shareholder/ shareholders of the Merchant Bank of Sri Lanka & Finance PLC, hereby appoint

..... of..... whom failing of

whom failing any one of the Directors as *my/our Proxy, to represent * me/us, and to speak and to vote on *my/our behalf at the Annual General Meeting of the Company to be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Tuesday 27th June 2017 at 10.00 am and at any adjournment thereof and at every poll which may be taken in consequence thereof. *I/We the undersigned hereby authorize my/our Proxy to vote on *my/our behalf in accordance with the preference indicated below:

	For	Against
01. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31st December 2016 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
02. To re-elect as a Director Mr. Charitha Nissanka Wijewardane who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
03. To elect as a Director Dr. Sujeewa Lokuhewa who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
04. To elect as a Director Mr. Dassanayake Mudiyanseelage Gunasekara who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
05. To elect as a Director Mr. Warnasooriya Patabendige Russel Padmaraj Hemath Fonseka who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
06. To elect as a Director Mr. Koliya Bandaralage Senarath Bandara who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
07. To elect as a Director Mr. Niroshana Perera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
08. To elect as a Director Mr. Sunil Nayanasinghe Dayaratne who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
09. To elect as a Director Mr. Sandun Priyal Arsakularatne, who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
10. To elect as a Director Mr. Hewafonsekage Joseph Denzil Fonseka, who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
11. To re-appoint the Auditor General as the auditor of the Company in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the financial year 2017. The Audit Fees for the audit shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Enterprises Circular No: PED 01/2016 dated 01.01.2016.	<input type="checkbox"/>	<input type="checkbox"/>
12. To authorize the Directors to determine donations for the financial year 2017.	<input type="checkbox"/>	<input type="checkbox"/>

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

.....
Signature

Notes:

1. Please delete the inappropriate words.
2. If no indications are given and /or there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the proxy form have been completed) as to the way in which the proxy holder should vote, the proxy holder shall vote as he /she thinks fit.
3. A proxy holder need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the Meeting.
4. Instructions as to completion of the Form of Proxy is given below.

INSTRUCTIONS AS TO THE COMPLETION OF THE FORM OF PROXY

1. Kindly perfect the form of proxy after filling legibly your full name and address by signing in the space provided and inserting the date.
2. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given the proxy in his / her discretion may vote as he / she thinks fit.
3. The instrument appointing a proxy may be in writing under the hand of the appointer or of his/her Attorney, duly authorized in writing, or if such appointer is a corporation under its common seal or the hand of its Attorney or duly authorized person. If the form of proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed form of proxy, if it has not already been registered with the Company.



Designed & produced by REDWORKS
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