



THE POWER OF WE

 **Merchant Bank**
MBSL of Sri Lanka PLC

Annual Report 2013



THE POWER OF WE

At Merchant Bank of Sri Lanka PLC, we believe the bigger picture of your success comes from the first stroke of confidence and trust you place in us, motivating us to offer our services and innovations to inspire you, to excel in your life. Now, our formidable platform of financial management has been expanded into exciting new horizons with our strategic merger. With this merger, that expands our expertise and service platform, we offer bigger and better opportunities for your success and long term prosperity, underlined by the rock solid stability of the MBSL brand.

We remain true to the unyielding commitment to our values and ideals and this is what sets us apart and positions us to redefine business and enrich lives. Our diversified expertise, financial specialisation and strong corporate governance will be extended in your direction, sheltering you and protecting you, as you forge ahead in the quest of achieving your dreams.

Vision

To be the most dependable and diversified merchant bank of the nation

Mission

- To enhance our Clients' wealth through optimal and sustainable solutions
- To enhance Shareholder Value
- To enhance knowledge and skills of employees to facilitate service excellence
- To foster mutually beneficial relationships with our business partners
- To remain focused on our responsibilities towards social and national development

Our Values

In all our endeavours we shall uphold the accepted norms, ethics and best policies. Our quest for excellence will be guided by prudence and national interests. We will foster intrapreneurship amongst our employees and create an atmosphere where caring, openness and integrity will be valued

Contents

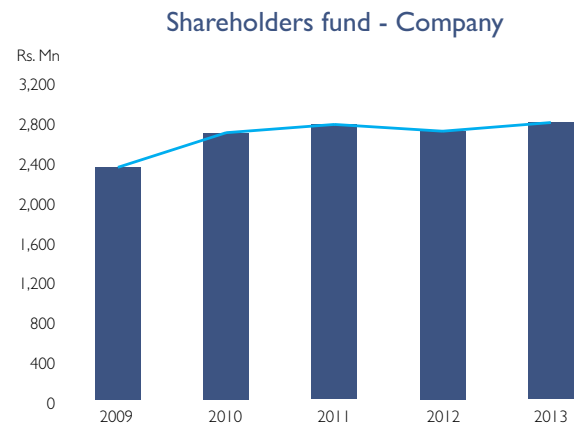
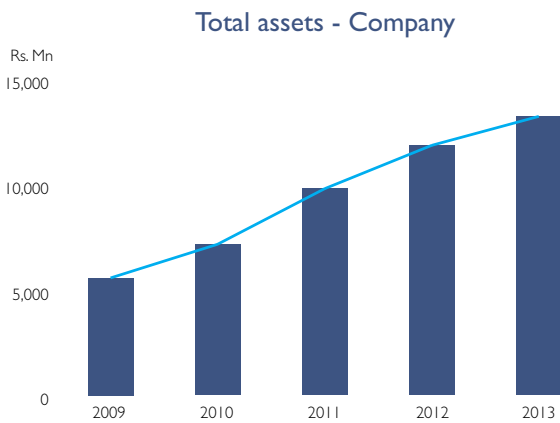
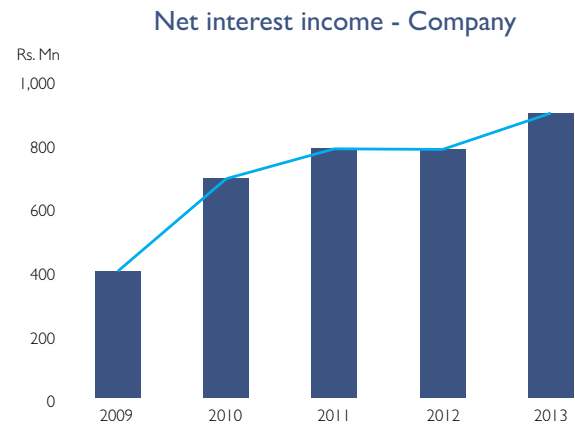
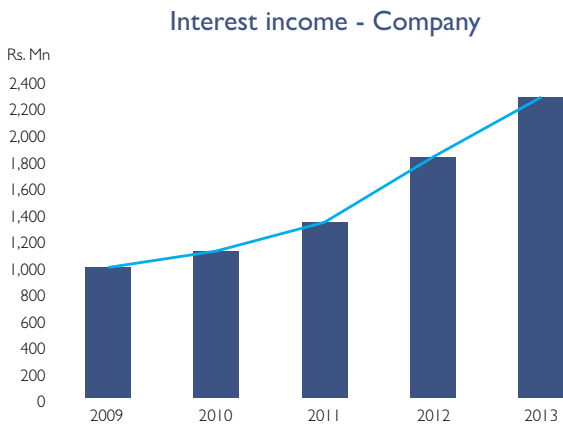
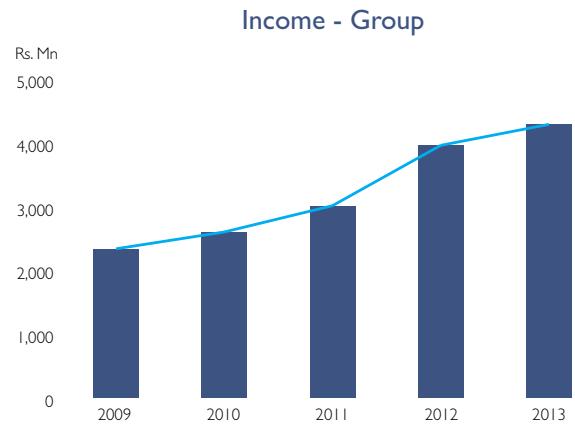
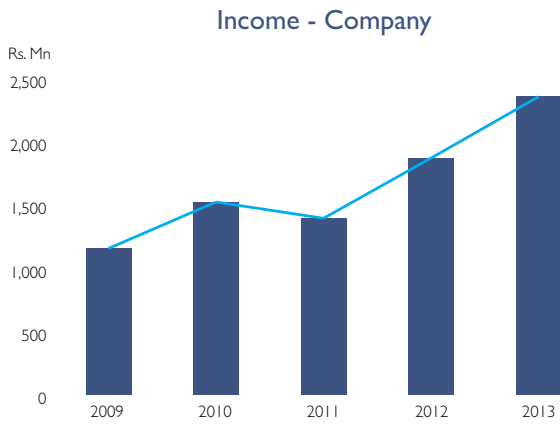
Milestones	03
Financial Highlights	04
Our Products & Services	06
Chairman's Review	08
Chief Executive Officer's Report	20
Board of Directors	24
Corporate Management	30
Management Discussion & Analysis	34
Risk Management	48
Sustainability Report	57
Corporate Governance	88
Directors' Statement on Internal Control	111
Independent Assurance Report	113
Annual Report of the Board of Directors on the Affairs of the Company	116
Directors' Responsibility for Financial Reporting	122
Report of the Remuneration Committee	123
Audit Committee Report	124
Independent Auditors' Report	125
Income Statement	126
Statement of Comprehensive Income	127
Statement of Financial Position	128
Statement of Changes in Equity	130
Statement of Cash Flows	131
Notes to the Financial Statements	132
Share & Debenture Information	221
Decade at a Glance	225
Statement of Value Added	231
Economic/ Financial Indicators	232
Contact Information	233
Glossary of Financial Terms	237
Notice of Meeting	242
Form of Proxy	243

Milestones

- 2012 - 30th Anniversary, opened up 16 new branches
- 2009 - Took over MBSL Savings Bank & Insurance
- 2008 - AA Institutional Rating
- 2007 - Annual Report Award
- 2006 - Obtained ISO 9001:2000 & National Productivity Award
- 2005 - Alliance with SBI Capital Markets Ltd - India
- 2000 - Taiki Akimoto 5S Award (JASTECA)
- 2000 - Obtained licence from CBSL to operate as a leasing company
- 1992 - Took over Colombo Credit Ltd
- 1991 - Listed in the CSE
- 1989 - Formed Lanka Securities (Pvt) Ltd, the first share brokering company in Sri Lanka
- 1982 - Formed as a limited liability company, the first merchant bank in Sri Lanka
- 1980 - Operated as a management consultancy division by BOC

Financial Highlights

	Company		Group	
	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Income	2,355,366	1,869,714	4,284,537	3,955,749
Interest and similar income	2,265,836	1,815,298	3,796,807	3,464,362
Profit/(loss) before income taxation	175,882	243,403	(80,902)	250,473
Net profit/(loss) for the year	116,940	201,247	(159,753)	180,217
Profit/(loss) attributable to equity holders of the parent	116,940	201,247	(102,121)	143,493
Total equity attributable to equity holders of the parent	2,780,876	2,693,659	2,794,265	2,897,524
Total liabilities	10,487,924	9,197,652	14,651,059	18,760,429
Debt issued and borrowed funds	9,623,147	7,946,502	9,625,317	8,555,027
Total assets	13,268,800	11,891,311	17,592,611	22,162,877
Total lending portfolio	9,905,403	9,286,076	12,227,554	16,954,914
Return on equity	4.21%	7.47%	(3.65%)	4.94%
Earnings per share (Rs.)	0.87	1.49	(0.76)	1.06
Net assets value per share (Rs.)	20.60	19.95	21.79	25.20
Share price (Rs.)	13.60	19.90	13.60	19.90



Our Products & Services

Lending

- Financial Lease
- Hire Purchase
- Micro Finance
- Bills Discounting
- Cheque Discounting
- Term Loan
- Project Loan
- Bank Guarantee
- Personal Loan

Corporate Advisory Services

- Margin Trading facilities
- Debt & Equity syndications
- Project structuring & planning
- Corporate/ Financial restructuring
- Feasibility studies
- Company/ Business valuations
- Independent opinions
- Advisory on Mergers and Acquisitions
- Management and Leverage buyouts
- Employee share ownership plans
- Corporate/ Business plans
- Business consultancy services
- Structuring of public/ private partnerships
- Arranging interactive training programmes

Capital Market Activities

- Structuring and acting as Managers & Registrars to public share issues
- Private placement of equity and debt
- Mandatory offers
- Underwriting
- Listing of debentures/bonds
- Portfolio management/investment plans for corporates & individuals
- Asset Securitization
- Trustee Services

Management Information

Chairman's Review



Dear shareholders,

I am proud to stand before you once again at this Annual General Meeting to report another year of favourable performance by your Company. While I do not realistically call the financial year's performance a remarkable one, I am hopeful of a far more improved performance in the years to come, supported by the solid foundation laid by your Company's recent expansion drive.

At the outset, I would like to talk about the expansion drive of 2012 and how it has put the foundation not only for the benefit of the Company, but also the economy and the needy segments of rural society. We decided to mark the 30th anniversary of the company in 2012, by adding 16 new branches in strategically significant locations, on 11 April 2012, to complete a network of at least 30 MBSL branches. Our objective was to reach a larger segment of society and widen our presence across the country. Although 30 branches may seem small in number, this initiative has successfully enhanced MBSL brand recognition and raised brand awareness across the country. In 2013, these 16 branches generated an income of Rs. 334 million, which is 15% of the total income of the Company and made a net contribution of Rs. 12 million, giving plenty of hopes for a brighter future. Such a contribution by newly established branches is a remarkable feat. Another important fact is that out of these 16 branches, nine were able to break-even by end of 2013. The remaining branches will definitely break-even by 2014. This will add value to the Company's asset base and bottom line, and will serve a larger segment of people and the needy sector. It will also facilitate greater stability of the Company. In addition, company's growth has contributed towards the creation of new job opportunities in the rural sector, thereby taking care of at least in a small scale, the national perspective.

In general, the financial year 2013, was not favourable to the Leasing industry. The policy rate reduction was encouraging to a company like MBSL that does not have access to customer deposits. However, the growth opportunity presented by the lower interest rates, was largely negated, due to the persistent downturn of the leasing market.

"In my belief, other than Bank of Ceylon, People's Bank, and companies having refinance facilities, MBSL is the only company that makes funding accommodation to under-developed population at the lowest rates of interest."

Owing to our strong focus, we were able to enhance our operating income by about 18% year-on-year. This is also a favourable achievement, in the context of the overall industry status. However, the operating profit of the Company was impacted upon to some extent by the rising NPA, despite an asset growth of 12%. In fact, if not for the rise in the NPA, we could have recorded a better bottom line and allocated a higher dividend to our shareholders. On a brighter note, I am happy to state that in the beginning of the new financial year, we have already been able to reduce the NPA to tolerable levels. Therefore, I am confident that by 2014, with the opportunities available, and consolidation of our wider geographic presence, we can achieve better financial results.

Our stock market trading too, were not favourable in 2013, due to the continued downturn of the market. We also had to incur a substantial loss from our associate stock brokering company, Lanka Securities (Pvt) Ltd in addition to our own trading losses.

An important contribution by the company, was the injection of funds into the rural sector through 'Siyath Saviya', our micro credit programme, which has a national significance. During the current financial year, we were able to cater for almost 6,858 clients and grant financial accommodations totalling Rs. 318 million. This contribution to the rural economy gives me a great deal of pleasure, and I am confident this will also be viewed in a similar perspective by our shareholders.

Chairman's Review

In my belief, other than Bank of Ceylon, People's Bank, and companies having refinance facilities, MBSL is the only company that makes funding accommodation to under-developed population, at the lowest rates of interest. In that context we can be happy that we are contributing to the society in a real sense, by supporting quality of life improvements of needy segments, which is the expectation of the Government, under the Mahinda Chinthana concept.

New leadership

A very special announcement to be made this year is that after a long period of searching, we were finally able to recruit a CEO with the courage and convictions to lead the Company in the right direction. This is indeed a noteworthy development because of the difficulty we faced in finding a candidate that met all our requirements, especially in the assurance of honesty. I am confident that with his extensive exposure in the banking industry through 40 years at Bank of Ceylon, and as demonstrated during the past few months, our new Chief Executive Officer, Mr.T Mutugala, will succeed in taking the Company to greater heights. I wish him good luck.

Our subsidiaries

Another milestone we achieved in 2013 was the successful merger of our subsidiary, MCSL Financial Services Ltd, with Ceylease Financial Services Ltd, which was a Bank of Ceylon subsidiary. The most important decision taken by the Board in this merger process was not to retrench any employees in whatever manner or offer VRS. Although a few employees did have uncertainties about the staff integration process consequent to the conclusion of the merger, a large majority of them are supportive with confidence.

Based on the recent Central Bank Road Map on financial sector consolidation, we have now commenced a strategic merger with MCSL Financial Services Ltd and MBSL Savings Bank Ltd. This will benefit all stakeholders, including shareholders, employees and customers, through the establishment of a larger entity with a comfortable asset base. In this merger too, we will adopt a policy of zero retrenchment and retain all employees in order to deploy them effectively, to endorse the Company's performance.

Good governance

In general, the year under reference was challenging in every respect. In addition to such general challenges, the year 2013 also posed a number of challenges in the context of good governance. Although such incidents are not normally disclosed, citing possible detrimental impacts on corporate image, I am a firm believer in transparency as a key component of good governance. That is why I feel it necessary, to disclose the unpleasant incident of a fraud in one of our subsidiaries, MBSL Insurance Company Ltd. Fraud was committed at top level at MBSL Insurance Company Ltd, and immediate remedial action was taken. The situation has now been rectified and those responsible for the misappropriation of public funds and some who justified such misappropriations are no longer in the company and the Board. I am happy to announce that the Board of MBSL Insurance Company Ltd has now been reconstituted and the company is under the careful purview of the Bank of Ceylon and MBSL. Perfect order and good governance have been restored. I wish to place on record my sincere appreciation to the Insurance Board of Sri Lanka for its role as the regulator in restoring normalcy in the company. I take this opportunity to assure our shareholders that action has been taken to recover the losses of this fraud, and MBSL Insurance Company Ltd has now returned to normalcy.

While large scale corruption takes place at top level in some companies in the country, such incidents are generally concealed under the guise of protecting corporate image. However, I believe what is good for corporate image, is to acknowledge such setbacks and take corrective and preventive action that sends the correct message of strong governance to the management, employees and shareholders. This is why it is necessary to reveal the factual position in the annual report records, whether it is good or bad.

I also wish to bring to the notice of our shareholders that the 'conflict of interest,' of a Director, which was raised by the respected shareholders, has now been resolved. The matter of 'conflict of interest' was raised by some shareholders at the previous Annual General Meeting and the subsequent Extraordinary General Meeting. This matter

has now become immaterial, as the Director concerned has tendered his resignation from the Board, consequent to the Board seeking clarification promptly on the conflict of interest. In this situation, I must express my pleasure and gratitude towards our shareholders, about the concern exhibited towards the Company's wellbeing and for flagging such governance issues responsibly.

Looking to the future

We welcome the Government's efforts at consolidating the financial sector, although some sections of the corporate sector do not view this decision in a favourable light, citing various reasons. We welcome this decision, particularly on account of being able to build a stable financial organisation, with adequate capital and a quality asset base. This move is also particularly important in eliminating duplication of cost and services provided within the Group and attaining economies of scale.

In line with this national financial sector consolidation plan, we have commenced a process to merge MCSL Financial Services Ltd and MBSL Savings Bank Ltd, with MBSL. Having taken over Ceylinco Savings Bank Ltd, which is now called MBSL Savings Bank Ltd, we could not effect a total recovery of the bank, due to our inability to capitalise the bank adequately and unforeseen eventualities experienced in the midst of downturn of its stability. The proposed merger of MBSL, with MCSL Financial Services Ltd and MBSL Savings Bank Ltd, will not only stabilise the two subsidiaries, but will also facilitate access to customer deposits for MBSL. This will open up a new avenue for low cost funding, which will in turn facilitate further expansion of business at reasonable prices. This would allow us to reach out to more people than ever before, including rural and developing communities.

My appreciations

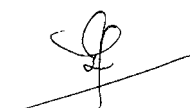
Given the challenges faced during the year, I would like to make a special acknowledgement of our employees, and the Merchant Bank Branch of the Ceylon Bank Employees Union, for their commitment and support extended in achieving our current performance and also their support in overcoming the crisis in the MBSL Insurance Company

Ltd. Due to macroeconomic factors out of our control, the leasing market saw a significant decline during the year. As leasing accounts for a major portion of the Company's business, our achievements in the current financial year is obviously a result of our employees' commitment and dedication, under the guidance of the able and highly focused Board of Directors, together with the Chief Executive Officer. I extend my heartfelt gratitude to the present Board of Directors for their effective contributions in every respect with utmost honesty.

In the face of the governance challenges experienced by the Company and the companies of the Group during the year, I would like to acknowledge the support of the former Chairman of Bank of Ceylon, Mr. Razik Zarook. Mr. Zarook has been committed towards protecting MBSL's interests at all times and was a tower of strength for us to overcome these challenges. On behalf of the Board of Directors, I record my appreciation for his sincere support, extended in protecting the MBSL image, and wish him good luck and good health.

On the same note, I would like to thank our shareholders for their vigilance towards the best interests of the Company and I hope they continue to display such commitment at all times. I am confident that we will have the privilege of the continued patronage of our shareholders.

I would also like to thank His Excellency the President, and the Secretary to the Ministry of Finance and Planning, Dr P B Jayasundara, for their confidence placed in me, and for giving me the opportunity to serve the people of this country.



M. R. Shah

Chairman

30 April 2014

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හිතවත් කොටස්හිමියනි,
 ඔබේ සමාගම සාර්ථක කාර්යසාධනයක් පෙන්නුම් කරන ලද තවත් වර්ෂයක් පිළිබඳව වාර්තා කිරීමට නැවත වරක් වාර්ෂික මහා සභාව හමුවේ පෙනීසිටීමට ලැබීම මට ඉමහත් අභිමානයකි. මෙම මූල්‍ය වර්ෂයේ අපේ කාර්ය සාධනය යථාර්ථවාදී දෘෂ්ටි කෝණයකින් සලකා බැලූ විට අතිවිශිෂ්ට යැයි පැවසීමට මට අපහසුය. එසේ වුවත් දිවයින පුරා අපේ ව්‍යාප්තිය වර්ධනය උදෙසා අප දියත් කළ ක්‍රියාමාර්ගය මගින් අපට ලැබී ඇති ශක්තිමත් අත්තිවාරම මත පදනම් වී ඉදිරි වර්ෂවල දී උසස් කාර්ය සාධන මට්ටමක් කරා නියත වශයෙන්ම ළඟාවීමට හැකිවනු ඇත යන්න මගේ විශ්වාසයයි.

ප්‍රථමයෙන්ම මෙම සමාගමේ ඉදිරි ගමන උදෙසා පමණක් නොව, මූල්‍ය පහසුකම් අවශ්‍ය ග්‍රාමීය ජන කොටස් වෙනුවෙන් ද දියත් කරන ලද අපේ ව්‍යාප්තිය පුළුල් කිරීමේ සැලසුම ගැන පැවසීමට කැමැත්තෙමි. MBSL 30 වන සංවත්සර සැමරුම ක්‍රමෝපායක වශයෙන් වැදගත් ස්ථානවල නව ශාඛා 16ක් පිහිටුවමින් MBSL ශාඛා ජාලය අවම වශයෙන් 30 දක්වා වැඩි කරමින් සැමරීමට අපි තීරණය කළෙමු. අපේ අභිප්‍රාය වන්නේ රට තුළ අපේ ව්‍යාප්තිය වර්ධනය කිරීම හා සමාජයේ බහුතර ජනතාව වෙත ළඟාවීමයි. ශාඛා 30ක් යනු සාපේක්ෂව ගණනින් ඉතා විශාල නොවුණත් MBSL නාමය රට පුරා ජනතාව අතර ප්‍රචලිත කිරීමටත් අපේ අලෙවිනාම ප්‍රතිරූපය ශක්තිමත් කොට තහවුරු කිරීමටත් ඉන් විශාල සේවයක් ඉටුවිය. අනාගතය පිළිබඳ සුබ ලකුණු පහළ කරමින් 2013 වර්ෂයේ දී මෙම ශාඛාවන් 16 මගින් ජනිත කළ ආදායම රුපියල් මිලියන 334ක් වූ අතර එය සමාගමේ සමස්ත ආදායමෙන් 15%ක් විය. එසේම මෙම ශාඛාවන් මගින් සමාගමට ලබා දුන් ශුද්ධ දායකත්වය රුපියල් මිලියන 12කි. අලුතින්ම ආරම්භ කළ ශාඛාවන් මගින් මෙවන් දායකත්වයක් ලැබීම ඉතා සුවිශේෂී කරුණකි. එසේම තවත් වැදගත් කරුණක් වන්නේ මෙම නව ශාඛාවන් 16න් 9ක්ම 2013 වර්ෂය තුළ ශාඛාවේ පිරිවැය ඉක්ම වූ ආදායමක් ඉපැයීමට සමත් වීමයි. අනෙකුත් නව ශාඛාවන් ද 2014 වර්ෂය තුළ දී එම මට්ටම කරා නියත වශයෙන් ම ළඟාවනු ඇත. මෙය සමාගමේ මූල්‍ය ස්ථාවරත්වය තවදුරටත් ශක්තිමත් කිරීමට දායකවනු ඇත. MBSL ශාඛා ජාලයේ ව්‍යාප්තිය සුළු ප්‍රමාණයකින් හෝ රටේ රැකියා අවස්ථා වර්ධනය කිරීමට ද උපකාරී වූ අතර එය ද ජාතික දෘෂ්ටිකෝණයකින් ගත්කල වැදගත් මෙහෙවරකි.

2013 වර්ෂය පොදු වශයෙන් ගත්කල ලිසිං අංශය සම්බන්ධයෙන් හිතකර වූ වර්ෂයක් නොවේ. ගනුදෙනුකරුවන්ගේ තැන්පතු නොමැති MBSL වැනි සමාගමකට මහබැංකු පොලී අනුපාතික අඩුකිරීම හිතකර විය. එහෙත් පහළ පොලී අනුපාතික මගින් ලබාදුන් හිතකර තත්ත්වයේ එල නෙලාගැනීමේ වරම ලිසිං වෙළඳපොළේ දක්නට ලැබුණු අඛණ්ඩ පහත වැටීම හේතු කොටගෙන බොහෝදුරට අහිමි විය.

අපේ දැඩි සුපරීක්ෂාකාරීත්වය හා කැපවීම මත මෙහෙයුම් ආදායම 2012 වර්ෂයට සාපේක්ෂව 2013 වර්ෂයේ 18% කින් වර්ධනය වීමට හේතු විය. සමස්ත ලිසිං වෙළඳපොළේ පොදුවේ දකින්නට ලැබුණු අහිතකර තත්ත්වය අවධානයට ගත් විට මෙය ප්‍රමාණවත් ජයග්‍රහණයකි. කෙසේවුවත් වත්කම් 12%කින් වර්ධනය වූවත් ඉහළ නැගුණු අක්‍රීය වත්කම් (NPA) හේතුවෙන් සමාගමේ මෙහෙයුම් ලාභයට අහිතකර බලපෑමක් එල්ල විය. සැබවින්ම NPA ඉහළ නැගීම සිදු නොවුණේ නම් අපේ මූලික වත්කම් පදනමේ වැඩි වර්ධනයක් සමඟ අපේ කොටස් හිමියන් වෙත වැඩි ලාභාංශ පැවරීමේ හැකියාව ද අපට ලැබෙන්නට ඉඩ තිබිණි. ඒ අතරම මේ වන විට අපට නව මූල්‍ය වර්ෂය ආරම්භයේදී NPA දැරිය හැකි මට්ටමකට අඩුකරගැනීමට හැකිව තිබෙන බව ඉතාමත් සතුටින් ප්‍රකාශ කිරීමට කැමැත්තෙමි. ඒ අනුව උදාවී ඇති නව අවස්ථාවන් සහ වැඩි තූගෝලීය ප්‍රදේශයක් ආවරණය වන අපේ ශාඛා ජාලය හේතුවෙන් අපට ඉදිරියේ දී වඩාත් යහපත් මූල්‍යමය ප්‍රතිඵල අත්කරගැනීමට හැකිවනු ඇතැයි යන්න මම දැඩිව විශ්වාස කරමි.

කොටස් වෙළඳපොළේ පැවති අඛණ්ඩ පහත වැටීම හේතුකොටගෙන 2013 වර්ෂයේ අපේ කොටස් වෙළඳපොළ කටයුතු ද යහපත් නොවිණි. අපගේ කොටස් වෙළඳපොළ ගනුදෙනු මගින් සිදුවූ අලාභවලට අමතරව අපේ කොටස් තැරැවිකාර උප සමාගම වන ලංකා සෙක්යුරිටීස් සමාගමට (LSL) ද සැලකිය යුතු අලාභයකට මුහුණපෑමට සිදුවිය.

අප විසින් සිදුකළ වැදගත් මෙහෙවරක් වන්නේ අපේ ක්ෂුද්‍ර මූල්‍ය වැඩසටහන වන "සියත් සවිය" මගින් ග්‍රාමීය අංශය වෙත ණය පහසුකම් ලබාදීමයි. මෙම මූල්‍ය වර්ෂය තුළ දී අපට එසේ 6,858ක පිරිසක් වෙනුවෙන් රුපියල් මිලියන 318ක ණය පහසුකම් ලබාදීමට හැකිවිය. ග්‍රාමීය ආර්ථිකයට

මෙසේ පිටුවහලක් වන්නට ලැබීම මට මහත් සතුටක් වන අතර අපේ කොටස්හිමියන්ගේ දෘෂ්ටිය ද වියම බව මම විශ්වාස කරමි.

මගේ විශ්වාසයට අනුව ලංකා බැංකුව හා මහජන බැංකුවත් ප්‍රතිමූල්‍ය පහසුකම් හිමි අනෙකුත් සමාගම් ද හැරෙන්නට අඩු වරප්‍රසාදලත් ජනතාව වෙනුවෙන් අඩුම පොලී අනුපාතිකයක් යටතේ ණය පහසුකම් ලබාදෙන එකම සමාගම MBSL වේ. ඒ අනුව අඩු ආදායම් ලබන ජනතාවගේ ජීවන තත්වය නංවාලීම උදෙසා දායකවීම මගින් සමාජයට සැබෑ දායකත්වයක් ලබාදෙන්නට හැකිවීම පිළිබඳව අපට සතුටු විය හැක. මහින්ද චිත්තන වැඩ පිළිවෙල යටතේ රජයේ අභිප්‍රාය වන්නේ ද වියම වේ.

හව භාගකත්වය

අපේ සමාගම නිවැරදි දිශාවට අධීක්ෂිතයෙන් හා කැපවීමෙන් රැගෙන යා හැකි ප්‍රධාන විධායක නිලධාරී සොයාගැනීම උදෙසා අප විසින් දරන ලද පරිශ්‍රමය සාර්ථක වූ බව මෙම වසරේ අප විසින් නිවේදනය කළ යුතු සුවිශේෂී කරුණකි. මෙය සුවිශේෂී කරුණක් වන්නේ අදාළ සියලුම අවශ්‍යතාවන් හා සුදුසුකම් සපුරාලන්නා වූ ද එසේම අවංක හා විශ්වසනීය වූත් තැනැත්තෙකු සොයාගැනීම අප මුහුණදී සිටි අභියෝගයන් වූ බැවිනි. වර්ෂ හතළිහක් පුරා ලංකා බැංකුවේ සේවය තුළින් මූල්‍ය ක්ෂේත්‍රයේ හසළ අත්දැකීම් සහිත ප්‍රවීණ බැංකුකරුවෙකු හා ඒ බව පසුගිය මාස කිහිපයේ දී අප සමාගම තුළ දී ක්‍රියාවෙන්ම ප්‍රදර්ශනය කළ අපගේ ප්‍රධාන විධායක නිලධාරී වී. මුතුගල මහතාට අප සමාගම දිදුලන හෙට දිනක් කරා රැගෙනයාමට හැකිවනු ඇත. මම ඔහුට මගේ උණුසුම් සුඛ පැතුම් පිරිනමමි.

අනුබද්ධිත සහ උප සමාගම්

2013 වර්ෂයේ දී අප විසින් පසුකරන ලද තවත් සන්ධිස්ථානයක් වන්නේ අපේ උප සමාගමක් වන මර්චන්ඩ් ක්‍රෙඩිට් ඔෆ් ශ්‍රී ලංකා (MCSL) ලංකා බැංකුවේ උපසමාගමක් වූ සීලීස් (Ceylease) සමග සාර්ථකව ඒකාබද්ධ කරනු ලැබීමය. මෙම ඒකාබද්ධ කිරීමේ ක්‍රියාවලිය තුළ දී අධ්‍යක්ෂ මණ්ඩලය විසින් ගනු ලැබූ ඉතාම වැදගත් තීරණයක් වන්නේ එහිදී කිසිදු කාර්ය මණ්ඩල සාමාජිකයෙකු හෝ සේවයෙන් ඉවත් කිරීමෙන් වැළකීමටත් ස්වේච්ඡා විශ්‍රාම ගැනීමේ සැලසුමක් වෙත යොමු නොකිරීමටත් ගනු ලැබූ තීරණයයි.

මූල්‍ය අංශය ශක්තිමත් කිරීම පිළිබඳ ශ්‍රී ලංකා මහබැංකුවේ මගපෙන්වීමට අනුව අප විසින් දැන් MCSL හා MBSL ඉතිරිකිරීමේ බැංකුව MBSL සමූහ ක්‍රමෝපායික වශයෙන් ඒකාබද්ධ කිරීම අරඹා ඇත. මෙසේ ඉහළ වත්කම් හිමිකාරීත්වයක් සහිත වඩා විශාල ආයතනයක බිහිවීම කොටස්හිමියන් සේවකයන් සහ ගනුදෙනුකරුවන් ඇතුළු අප හා සබැඳුණු සියලු පාර්ශව වලට ප්‍රතිලාභ අත්කරදෙනු ඇත. මෙම ඒකාබද්ධ කිරීමේ දී ද අප විසින් කිසිවෙකු සේවයෙන් ඉවත් කරනු නොලබයි. කාර්ය මණ්ඩල වල සියළු දෙනා කාර්යක්ෂමව හා ඵලදායී ආකාරයෙන් සේවයේ යොදවමින් සමාගමේ කාර්ය සාධනය ඉහළ නැංවීම උදෙසා ඔවුන් සියලු දෙනා රඳවා ගනු ලබනු ඇත.

යහපාලනය

පොදු වශයෙන් ගත් කළ අදාළ වර්ෂය සෑම අතින්ම අභියෝගාත්මක විය. මෙම පොදු අභියෝගයන්ට අමතර වශයෙන් යහපාලනය සම්බන්ධයෙන් ද අභියෝග ගණනාවකට මුහුණ දෙන්නට සිදුවිය. සමාගම් ප්‍රතිරූපයට හානි සිදුවිය යන හේතුසාධකය මත ඒවැනි සිද්ධීන් බොහෝවිට හෙළිකිරීම සිදු නොවන මුත් මෙම පාරදෘෂ්‍යතාවය යහපාලනයේ ප්‍රධාන අංගයක් වශයෙන් සලකමි. අපේ එක් උපසමාගමක් වූ MBSL ඉන්ජුරින්ස් සමාගමේ සිදුවූ අයථා ක්‍රියාවක් පිළිබඳව හෙළිකළ යුතුයැයි මා ඒ අනුව විශ්වාස කරමි. MBSL ඉන්ජුරින්ස්හි කළමනාකාරීත්වයේ ඉහළම මට්ටම හා සම්බන්ධව එම අයථා ක්‍රියාව සිදුව තිබූ අතර වහාම ඒ සම්බන්ධයෙන් අවශ්‍ය ක්‍රියාමාර්ග ගනු ලැබිණි. දැන් සියල්ල යථා තත්වයට පත් ව ඇති අතර මහජන මුදල් අයථා පරිහරණය සම්බන්ධයෙන් වගකිවයුතු අය සහ එවන් ක්‍රියා සාධාරණීකරණය කළ අය දැන් සමාගම හා අධ්‍යක්ෂ මණ්ඩලය තුළ තවදුරටත් නොසිටිති. MBSL ඉන්ජුරින්ස් අධ්‍යක්ෂ මණ්ඩලය නැවත පත්කරනු ලැබූ බව ද එම සමාගම දැන් ලංකා බැංකුවේ සහ MBSL හි සුපරීක්ෂාකාරී අධීක්ෂණය යටතේ පවතින බව ද සතුටින් දැනුම් දීමට කැමැත්තෙමි. සියල්ල යථා තත්වයට පත්කර ආයතනය තුළ යහපාලනය නැවත ස්ථාපිත කර ඇත. මෙම සමාගම නැවත යථා තත්වයට පත්කිරීම සම්බන්ධයෙන් රක්ෂණ ක්ෂේත්‍රයේ නියාමනය භාර ශ්‍රී ලංකා රක්ෂණ මණ්ඩලය විසින් ලබාදුන් සහයෝගයට මගේ හෘදයාංගම ස්තූතිය ප්‍රකාශ කිරීමට කැමැත්තෙමි. මෙම වංචනික ක්‍රියාව හේතුවෙන් අහිමි වූ

සභාපතිතුමාගේ පණිවිඩය

අරමුදල් නැවත ලබාගැනීමට ක්‍රියාකළ බව ද දැන් MBSL ඉන්ෂුරන්ස් නැවත යථාපරිදි ක්‍රියාත්මක වන බව ද අපේ කොටස් හිමියන්ට තහවුරු කිරීමට කැමැත්තෙමි.

රටේ සමහර සමාගම්වල ඉහළම මට්ටමින් මහා පරිමාණයේ වටවා දූෂණ සිදුවීම් බොහෝ විට සමාගම් ප්‍රතිරූපය රැකගැනීම යන්නට මුවා වී එවන් සිද්ධි ප්‍රසිද්ධියට පත්වීම වළක්වනු ලැබේ. එහෙත් මගේ විශ්වාසය වන්නේ සමාගම් ප්‍රතිරූපය වඩාත් යහපත් වන්නේ විවැනි අකටයුතුකම් අනාවරණය කරමින් නැවත ඒවා සිදුනොවන ආකාරයට අවශ්‍ය ක්‍රියාමාර්ග ගැනීම හා පිලියම් යෙදීම බවය. මෙමගින් කළමනාකාරිත්වය, සේවකයන් හා කොටස්හිමියන් වෙත යැවෙන පැහැදිලි පණිවිඩය වන්නේ විබද සිද්ධි සඳහා නැවත ඉඩ නොලැබෙන බවය. යහපත් හෝ අයහපත් හෝ වුවද පැවති යථා තත්වය වාර්ෂික වාර්තා මගින් විලෙසින් ම අනාවරණය කළ යුතු වන්නේ ඒ නිසාය.

එසේම අධ්‍යක්ෂ මණ්ඩල සාමාජිකයෙකු සම්බන්ධයෙන් මතු වූ පරස්පර විරෝධී වගකීම් පිලිබඳව (Conflict of interest) අපගේ කොටස්හිමියන් විසින් මතුකරන ලද ගැටළුව මේ වන විට විසඳා ඇති බව ද සඳහන් කිරීමට කැමැත්තෙමි. මෙම ප්‍රතිවිරෝධී වගකීම් පිලිබඳ ප්‍රශ්නය පසුගිය වර්ෂයේ මහාසභා රැස්වීමේ දී සහ ඉන් අනතුරුව පැවති විශේෂ මහා සභා රැස්වීමේ දී කොටස්හිමියන් විසින් මතු කරනු ලැබිණි. එම ගැටළුව මේ වන විට අදාළ නොවන්නේ අප අධ්‍යක්ෂ මණ්ඩලය විසින් අදාළ අධ්‍යක්ෂ මණ්ඩල සාමාජිකයා වෙතින් ප්‍රතිවිරෝධී වගකීම් සම්බන්ධයෙන් කරුණු පැහැදිලි කිරීමක් ඉල්ලා සිටීමත් ඒ අනුව ඔහු විසින් ස්වකීය ඉල්ලා අස්වීම ඉදිරිපත් කිරීමත් සිදුවූ බැවිනි. සමාගමේ යහපත හා ඉදිරි ගමන වෙනුවෙන් දක්වන ලද නිරන්තර අවධානය වෙනුවෙන් ද මෙවන් සිද්ධි අනාවරණය කිරීමට ගත් පරිශ්‍රමය වෙනුවෙන් ද අපේ කොටස්හිමියන්ට මාගේ සතුව ප්‍රකාශ කරන අතර ඔවුන්ට මාගේ ස්තූතිය ද හිමි වේ.

අනාගත දැක්ම

මූල්‍ය අංශය ශක්තිමත් කිරීම උදෙසා වන රජයේ ප්‍රයත්නයට අපේ ප්‍රසාදය පළකරමු. කෙසේවුවත් ව්‍යාපාර ක්ෂේත්‍රයේ සමහර අංශ විවිධ හේතුසාධක ඉදිරිපත් කරමින් රජයේ මෙම තීරණයට අකැමැත්ත ප්‍රකාශ කිරීම දක්නට ඇත. රජයේ මෙම තීරණය සමඟ

අප එකඟවන්නේ එම තීරණය හේතුවෙන් ප්‍රමාණවත් ප්‍රාග්ධනයක් සහ උසස් වත්කම් පදනමක් සහිත ස්ථාවර හා ශක්තිමත් මූල්‍ය ආයතන බිහිවීමට මග පෑදෙන බැවිනි. එසේම එකම ව්‍යාපාර සමූහයක් තුළින් අවශ්‍ය සියලුම සේවා සැලසෙන බැවින් සේවා ලබාගැනීමේ දී එකම වියදම එක්වරකට වඩා දරන්නට සිදුවීම වැළකෙන අතර පරිමාණානුකූල ඵල අත්කරගැනීමට ද අවකාශ සැලසේ.

දැන් MBSL ඉතිරිකිරීමේ බැංකුව නමින් හඳුන්වනු ලබන එවකට සෙලින්කෝ ඉතිරි කිරීමේ බැංකුව අප විසින් අත්පත්කර ගැනීමෙන් පසුව අපට එම බැංකුව සම්පූර්ණයෙන් ම යථා තත්ත්වයට පත් කිරීමට අපහසු විය. ඊට හේතුව නම් එය යථා තත්ත්වයට පත්කිරීමට අවශ්‍ය තරම් ප්‍රාග්ධනය අපට සපයාගැනීමට අපහසු වීමත් එම බැංකුවේ බිඳ වැටීම තුළ ඇති ව තිබූ අර්බුදකාරී තත්ත්වය බරපතළ වීමත් නිසාය. MBSL, MCSL සහ MBSL ඉතිරිකිරීමේ බැංකුවන් අතර යෝජිත ඒකාබද්ධකිරීම අපේ අනුබද්ධිත සමාගම්වලට ස්ථාවරත්වයක් ලබාදීමට පමණක් නොව එමගින් MBSL සඳහා ගනුදෙනුකරුවන්ගේ තැන්පතු රැස් කිරීමට ප්‍රවේශයක් ලැබීම ද සිදුවේ. මෙමගින් අපට අඩු පිරිවැය අරමුදල් සම්පාදන මාර්ගයක් හිමිවන අතරම එය අපට අඩු පොලී ණය පහසුකම් සැපයීමේ හැකියාව ද ලබාදෙයි. එය අපේ ව්‍යාපාරික ක්‍රියාකාරිත්වය පුළුල් කිරීමටද උපකාරී වනු ඇත. එමගින් ග්‍රාමීය හා දියුණුවන ප්‍රදේශවල ජනතාව ඇතුළු බහුතර ජනතාවක් වෙත අපේ සේවය තවදුරටත් ව්‍යාප්ත කිරීමට අපට අවකාශ ලැබේ.

මගේ ප්‍රණාමය

පසුගිය වර්ෂය තුළ මුහුණ දෙන්නට සිදුවූ අභියෝග ගැන සලකා බලන විට අපේ කාර්ය මණ්ඩලයේ සියළු දෙනාටත් ලංකා බැංකු සේවක සංගමයේ මර්චන්ට් බැංකු ශාඛාවටත් අප අත්කරගත් කාර්ය සාධන මට්ටම කරා ළඟාවීම උදෙසා වූ ඔවුන්ගේ කැපවීම හා සහයෝගය වෙනුවෙන් ද MBSL ඉන්ෂුරන්ස් අර්බුදයේ දී ඔවුන් ලබාදුන් සහයෝගය වෙනුවෙන් ද විශේෂයෙන් ස්තූතිවන්ත වීමට කැමැත්තෙමි. අපගේ පාලනයෙන් බැහැරව පවත්නා වූ සාර්ව ආර්ථික සංරචක හේතුවෙන් පසුගිය වර්ෂය තුළ දී ලිසිං වෙළඳපොළෙහි සැලකිය යුතු පහත වැටීමක් දකින්නට ලැබුණි. ලිසිං පහසුකම් ලබාදීම අපේ සමාගමේ ව්‍යාපාරික ක්‍රියාවලියේ ප්‍රධානතම කොටසක් වන බැවින් එවැනි තත්වයක් තුළ වුවද මෙම මූල්‍ය වර්ෂය තුළ අපේ

සාර්ථකත්වය ප්‍රධාන විධායක නිලධාරී සමඟ අපේ අධ්‍යක්ෂ මණ්ඩලයේ මග පෙන්වීම යටතේ අපේ සේවක සේවිකාවන්ගේ කැපවීමේ හා අධිෂ්ඨානශීලී ක්‍රියාකාරීත්වයේ ප්‍රතිඵලයකි. ඉතා සඳ්භාවයෙන් යුතුව ලබාදුන් ඵලදායී දායකත්වයන් වෙනුවෙන් ආයතනයේ වර්තමාන අධ්‍යක්ෂ මණ්ඩලයට මගේ හෘදයාංගම කෘතඥතාව පුද්ගලයන්ට කැමැත්තෙමි.

අප සමාගමට සහ අප ව්‍යාපාර සමූහයට අයත් සමාගම්වලට මෙම වර්ෂය තුළ දී මුහුණපාන්නට සිදුවූ යහපාලනය පිළිබඳ ගැටළු සැලසුම් වීම් ලංකා බැංකුවේ නිවැරදි සහායක රසීක් සාරකේ මහතා විසින් ලබාදුන් සහයෝගය පිළිබඳව ද විශේෂයෙන් ස්තූතිවන්ත වෙමි. රසීක් සාරකේ මහතා සැමවිටම MBSL රැකගැනීම උදෙසා උපරිමයෙන් කටයුතු කළ අතර මෙම අභියෝග ජයගැනීමේහිලා අපට ඉමහත් ශක්තියක් හා ආශීර්වාදයක් විය. MBSL ප්‍රතිරූපය රැකගැනීම උදෙසා චතුරත්වයෙන් විසින් ලබාදුන් සහයෝගය වෙනුවෙන් අපේ අධ්‍යක්ෂ මණ්ඩලය වෙනුවෙන් ද මා කෘතඥතාව පුද්ගලයන් ලබන අතර චතුරත්වය නිරෝගී සුවය හා යහපත් හෙට දිනක් ප්‍රාර්ථනා කරමි.

සමාගමේ යහපත වෙනුවෙන් දක්වනු ලබන නිරන්තර අවධානය සම්බන්ධයෙන් අපේ කොටස්නිමියන් වෙත ද මගේ ස්තූතිය ප්‍රකාශ කිරීමට කැමැත්තෙමි. ඔවුන් ඉදිරියටත් සැමකල්හිම එසේ ක්‍රියාත්මක වනු දැකීම මගේ අපේක්ෂාවය. අපේ කොටස්නිමියන්ගේ අඛණ්ඩ විශ්වාසය හා අනුග්‍රහය ඉදිරියටත් විලෙසම අප වෙත ලැබෙන බව මම දැඩිව විශ්වාස කරමි.

මා වෙත තබන ලද විශ්වාසය සම්බන්ධයෙන් ද මේ රටේ ජනතාවට සේවය කිරීමට මට අවස්ථාව සලසා දීම සම්බන්ධයෙන් ද අතිගරු ජනාධිපතිතුමන්ගේ මුදල් හා ප්‍රතිපත්ති සැලසුම් අමාත්‍යවරයාගේ ලේකම් පී. ඩී. ජයසුන්දර මහතාටත් මගේ ප්‍රණාමය පුද්ගලයන්ට.

ඔබේ විශ්වාසී



එම්. ආර්. ඡා
සහායක

2014 අප්‍රේල් 30

தலைவரின் மதிப்புரை

மதிப்பிற்குரிய பங்குதாரர்களே,

மற்றுமொரு முறையாக நடைபெறும் இவ் வருடாந்த பொதுக் கூட்டத்தில், இவ்வருடமும் உங்கள் நிறுவனத்தின் சிறந்த செயற்பாட்டைப் பற்றிய அறிக்கையைச் சமர்ப்பிப்பதில் நான் பெருமிதம் கொள்கின்றேன். இந் நிதியாண்டின் செயற்பாடு விஷேடமாகக் குறிப்பிடத்தக்க ஒன்றாகக் காணப்படாவிடினும், அண்மைக் காலத்தில் நடைபெற்ற நிறுவனத்தின் விஸ்தரிப்பு செயற்பாடுகள், வருகின்ற வருடங்களில் நிறுவனத்தின் விருத்திக்கு பாரியளவு பங்கை வகிக்கும் என்பதை நான் முழுவதும் நம்புகின்றேன்.

முதலில், 2012 இல் மேற்கொள்ளப்பட்ட நிறுவனத்தின் விஸ்தரிப்பானது, நிறுவனத்திற்கு பல அனுகூலங்களைப் பெற்றுத் தருவதோடு மட்டுமல்லாமல், பொருளாதாரத்திற்கும், தேவை காணப்படும் கிராமிய பகுதிகளுக்கும் எவ்வாறு அத்திவாரமாகக் காணப்படுகின்றது என்பதை நான் கூற விரும்புகின்றேன். 2012ம் ஆண்டில் MBSL இன் 30வது வருட நிறைவை விசேஷித்த விதமாகக் கொண்டாடும் முகமாக, MBSL கிளை வலையமைப்பில் ஆகக்குறைந்தது 30 கிளைகளைக் கொண்டிருக்க வேண்டும் என்ற நோக்கத்தோடு, 2012 ஏப்பிரல் 11ம் திகதி முக்கியமான இடங்களில் 16 கிளைகளை நிறுவ நாம் தீர்மானித்தோம். பெரும்பாலான சமூகத்தினரை அடைவதும், நாடு முழுவதும் எமது சேவை விஸ்தரிக்கப்பட வேண்டும் என்பதே எமது நோக்கமாகக் காணப்பட்டது. 30 கிளைகள் எண்ணிக்கையில் சிறிதாகக் காணப்பட்டாலும், MBSL நாமத்திற்கான அங்கீகாரம் உயர்த்தப்பட்டதுடன், நாடு முழுவதும் ஒரு விழிப்புணர்வு ஏற்படுத்தப்பட்டது. 2013ம் ஆண்டு இந்த 16 கிளைகள் மூலமும் 334 மில்லியன் ரூபா வருமானமாகப் பெறப்பட்டது. அதாவது இது நிறுவனத்தின் மொத்த வருமானத்தின் 15% ஆகக் காணப்பட்டதுடன், பிரகாசமான எதிர்காலத்திற்கு வித்திடும் வகையில் இதன் தேறிய வருமானம் 12 மில்லியன் ரூபாவாகக் காணப்பட்டது. இவ்வாறு புதிதாக நிறுவப்பட்ட கிளைகள் மூலமாக கிடைக்கப்பெற்ற இவ் வருமானமானது குறிப்பிடத்தக்க ஒன்றாகும். மற்றுமொரு முக்கிய விடயம் என்னவெனில் இப் பதினாறு கிளைகளிலும் 9 கிளைகள் 2013ம் ஆண்டின் இறுதியில் தமது சமப்பாட்டுப் புள்ளியை அடைந்திருந்தன. எஞ்சிய ஏனைய கிளைகளும் 2014ம் ஆண்டில் தமது சமப்பாட்டுப் புள்ளியை அடைந்துவிடும் என்பதில் எவ்வித ஐயமுமில்லை. இது நிறுவனத்தின் சொத்துக்களுக்கும் நிகர வருமானத்திற்கும் பெறுமதி சேர்ப்பதுடன், பெரும்பாலான மக்களுக்கு சேவை வழங்கவும், தேவையான பிரிவினருக்கு

உதவவும் வழிவகுக்கும். நிறுவனத்தின் ஸ்திரத்தன்மைக்கும் பாரியளவில் உதவி புரியும். இவற்றுக்கும் மேலாக, MBSL இன் வளர்ச்சியானது, கிராமப்புறத்தில் புதிய வேலைவாய்ப்புகளை உருவாக்க பங்காற்றியுள்ளதுடன், தேசிய ரீதியில் உதவவும் வழிவகுத்துள்ளது.

2013ம் நிதியாண்டானது, குத்தகைத் துறைக்குச் சாதகமான ஆண்டாகக் காணப்படவில்லை. வாடிக்கையாளர் வைப்புக்கள் மீது எவ்வித அணுகுதலும் இல்லாத MBSL போன்ற நிறுவனங்களுக்கு, ஒப்பந்த வீதத்தில் ஏற்பட்ட குறைவானது, தூண்டுதலாகக் காணப்பட்டது. எவ்வாறாயினும், குத்தகைச் சந்தையில் ஏற்பட்ட வீழ்ச்சியின் காரணமாக, குறைந்த வட்டி வீதத்தால் ஏற்பட்ட வளர்ச்சி அனுகூலமாக அமையவில்லை.

உறுதியான நோக்கத்தோடு நாம் செயற்பட்டதால், ஒவ்வொரு வருடமும் எமது நிகர வருமானத்தை, 18% ஆக அதிகரிக்க முடிந்தது. இத்துறையின் நிலைமையோடு ஒப்பிடுகையில் இது சாதகமான ஒன்றாகக் காணப்பட்டது. எவ்வாறாயினும் சொத்து வளர்ச்சியானது 12% ஆகக் காணப்பட்ட போதிலும், செயற்படா சொத்துக்களில் ஏற்பட்ட அதிகரிப்பானது, நிறுவனத்தின் செயற்பாட்டு இலாபத்தில் பாதிப்பை ஏற்படுத்தியது. உண்மையிலேயே, செயற்படா சொத்துக்களில் அதிகரிப்பு ஏற்படாமல் இருந்திருந்தால், குறிப்பிடத்தக்க நிகர வருமானத்தை நிறுவனம் பெற்றிருக்கலாம். அத்துடன் உயர் பங்குலாபங்களையும் எமது பங்குதாரர்களுக்கு வழங்கியிருக்கலாம். ஆனால் நான் மகிழ்ச்சியோடு தெரிவிக்கும் விடயம் என்னவெனில், நிதியாண்டின் ஆரம்பத்திலேயே, செயற்படா சொத்துக்களின் அதிகரிப்பை ஏற்கக்கூடிய வகையில் எம்மால் குறைக்க முடிந்தது. ஆகையால் 2014ம் ஆண்டு, காணப்படும் சந்தர்ப்பங்கள் ஊடாகவும், மேற்கொள்ளப்பட்ட கிளை விஸ்தரிப்பின் மூலமும் சிறந்த நிதி ரீதியான முடிவுகளை எம்மால் பெற்றுக்கொள்ள முடியும் என்பதில் எனக்கு முழு நம்பிக்கை உண்டு.

2013 இல் தொடர்ச்சியாக சந்தையில் காணப்பட்ட வீழ்ச்சியின் காரணமாக, எமது பங்குச் சந்தை நடவடிக்கைகளும், சாதகமானதாகக் காணப்படவில்லை. எமது வியாபார நடடங்களுக்கு மேலாக, எமது துணை பங்குத் தரகு நிறுவனமான லங்கா செக்கியுரிட்டீஸ் இன் நடடங்களையும் நாம் ஏற்றுக்கொள்ள வேண்டியதாகக் காணப்பட்டது.

MBSL மூலமாக மேற்கொள்ளப்பட்ட முக்கிய பங்களிப்பு என்னவெனில், தேசிய ரீதியில் முக்கியத்துவம் வாய்ந்த,

எமது சியத் சவிய நுண் கடன் திட்டத்தின் மூலம் கிராமியத் துறைக்கு நிதி வழங்கியமையே. தற்போதைய நிதியாண்டில் 6,858 கிராமிய வாடிக்கையாளர்களுக்கு, மொத்தமாக 318 மில்லியன் ரூபா நிதியுதவி வழங்கி எம்மால் உதவ முடிந்தது. இவ்வாறு கிராமியப் பொருளாதாரத்திற்கு எமது பங்களிப்பை வழங்க முடிந்ததை முன்னிட்டு நான் மகிழ்ச்சி கொள்வதுடன், இவ்வாறான எமது பங்களிப்பினை எமது பங்குதாரர்களும் சாதகமான முறையில் எடுத்துக்கொள்வர் என நான் நம்புகிறேன்.

இலங்கை வங்கி, மக்கள் வங்கி மற்றும் மீள்நிதியிடல் வசதியைக் கொண்ட கம்பனிகள், இவற்றைத் தவிர, அபிவிருத்தியடையாத கிராமப் பகுதியினருக்கு நிதி வசதிகளை குறைந்த வட்டி வீதத்தில் வழங்கும் ஒரே நிறுவனம் MBSL மட்டுமே. இவ்வாறான ஒரு நிலமையில் பார்க்கும்பொழுது, மஹிந்த சிந்தனை கருப்பொருளின் கீழ் அரசாங்கம் எதிர்பார்க்கும், தேவை காணப்படும் பிரிவினரின் வாழ்க்கைத் தரத்தை உயர்த்தும் நடவடிக்கையில், எமது பங்களிப்பை சமூகத்திற்கு வழங்குவதன் மூலம் எமது ஒத்துழைப்பையும் நாம் வழங்கியுள்ளோம் என்பதில் நான் பெருமகிழ்ச்சி கொள்கின்றேன்.

புதிய தலைமைத்துவம்

இவ்வருடம் விஷேடமாக உங்களுடன் பகிர்ந்துகொள்ள வேண்டிய ஒரு விடயம் என்னவெனில், நீண்டகால தேடலுக்கு பின், நிறுவனத்தை திடநம்பிக்கையோடு, மனத் தைரியத்துடனும் சரியான பாதையில் நடத்திச் செல்வதற்கான, பிரதான நிறைவேற்று அதிகாரி ஒருவரை (CEO) நியமிப்பதற்கான சந்தர்ப்பம் கிடைத்தது. பல சிரமங்களுக்கு மத்தியிலும், இவ்வாறான ஒரு பதவிக்கு அவசியமான சகல தகைமைகளையும் கொண்டு, விஷேடமாக நம்பிக்கைக்கு பாத்திரமான ஒருவரை நாம் கண்டடைந்து, நியமிக்க முடிந்தது குறிப்பிடத்தக்க ஒரு விடயமாகும். இலங்கை வங்கியில் 40 வருட காலம் சேவை மூலம், பாரியளவில் வங்கித் துறையில் அனுபவத்தை கொண்டிருக்கும், எமது புதிய பிரதான நிறைவேற்று அதிகாரி திரு. ரி. முத்துகல, இந் நிறுவனத்தை உயர்ந்த நிலைக்கு கொண்டு செல்வதில் வெற்றி காண்பார் என்பதில் எனக்கு முழு நம்பிக்கை உண்டு. அவருக்கு எனது வாழ்த்துக்கள்.

எமது துணை நிறுவனங்கள்

2013 இல் குறிப்பிடப்பட வேண்டிய மற்றுமொரு மைல்கல் என்னவெனில், எமது துணைநிறுவனமான மேர்சன்ட் கிரெடிட் ஓ.பி ஸ்ரீ லங்கா (MCSL) ஆனது, இலங்கை வங்கியின் துணை

நிறுவனமாக காணப்பட்ட சீலீஸ் உடன் இணைக்கப்பட்டதே. இச் சந்தர்ப்பத்தில் பணிப்பாளர் சபையினால் மேற்கொள்ளப்பட்ட முக்கிய தீர்மானம் என்னவெனில், ஊழியர்களின் எண்ணிக்கையை எந்த ஒரு விதத்திலேயும் குறைப்பதில்லை எனவும் அல்லது விருப்பு ஓய்வு திட்டத்தை வழங்குவதில்லை எனவும் தீர்மானிக்கப்பட்டது. இவ்விரு நிறுவனங்களின் இணைப்புச் செயற்பாட்டின் விளைவாக இடம்பெற்ற ஊழியர்கள் ஒன்றிணைப்புச் செயற்பாடு தொடர்பாக, சில ஊழியர்களுக்கு தெளிவில்லாத நிலை காணப்பட்டிருந்த போதிலும், பெரும்பாலானோர் இதற்கு தமது முழு ஒத்துழைப்பை நம்பிக்கையோடு வழங்கினர்.

நிதித் துறையில் ஏற்படும் ஒன்றிணைப்புகள் தொடர்பான அண்மையில் வெளியிடப்பட்ட மத்திய வங்கியின் சாலை வரைபடத்தை அடிப்படையாகக் கொண்டு, MCSL மற்றும் MBSL சேமிப்பு வங்கிக்கு இடையில் திறமுறை அடிப்படையிலான ஒன்றிணைப்பு தற்பொழுது ஆரம்பிக்கப்பட்டுள்ளது. போதுமான அளவு சொத்தினை அடிப்படையாகக் கொண்டு, பாரிய ஒரு அமைப்பு ஸ்தாபிக்கப்படுவதன் ஊடாக, பங்காளர்கள், ஊழியர்கள் மற்றும் வாடிக்கையாளர்கள் உட்பட அனைத்து பங்குதாரர்களும் இதன் அனுசூலங்களைப் பெற்றுக்கொள்ள முடியும். இவ்வாறான ஒன்றிணைப்பின் போதும் ஊழியர்களின் எண்ணிக்கையில் எவ்வித குறைவையும் ஏற்படுத்தாது, நிறுவனத்திற்கான செயற்பாட்டினை பயனளிக்கக்கூடிய வகையில் மேற்கொள்வதற்கு, ஊழியர்கள் அனைவரையும் பரவலாக்கி தக்கவைத்துக்கொள்ளும் கொள்கையையே கடைபிடிக்க உள்ளோம்.

சிறந்த ஆளுகை

பொதுவாகவே குறிப்பிடப்படும் ஆண்டு எல்லா வகையிலும் சவால்கள் நிறைந்த ஆண்டாகவே காணப்பட்டது. இப் பொதுவான சவால்களுக்கு மேலாகவும், 2013ம் ஆண்டில் நல்லதொரு நிர்வாகத்தை அடிப்படையாகக் கொண்ட சவால்களும் காணப்பட்டன எனலாம். பொதுவாகவே நிறுவனத்தின் நற்பெயருக்கு பாதிப்பினை ஏற்படுத்தும் இவ்வாறான சம்பவங்கள் வெளிப்படையாக பகிர்ந்துகொள்ளப்படுவதில்லை. ஆனால் வெளிப்படையாக செயற்படுவது, நல்லதொரு நிர்வாகத்திற்கான முக்கிய கருவி என நான் நம்புகிறேன். அதனாலேயே, எமது துணை நிறுவனங்களில் ஒன்றான MBSL காப்புறுதி நிறுவனத்தில் இடம்பெற்ற மோசடி நிகழ்வினைப் பற்றி இங்கே குறிப்பிடுவது அவசியம் என நான் நினைத்தேன். MBSL காப்புறுதி நிறுவனத்தின் மேல்நிலை அதிகாரிகளின் பொறுப்பிலேயே இம் மோசடி நடைபெற்றுள்ளதுடன்,

தலைவரின் மதிப்புரை

அதனை இழப்பீடு செய்வதற்கான நடவடிக்கையும் உடனடியாக மேற்கொள்ளப்பட்டது. இடம்பெற்ற மோசடி தற்பொழுது சீர்செய்யப்பட்டு விட்டது. அத்துடன் பொதுமக்களுடைய நிதியின் கையாடுதலுக்கு பொறுப்பாக இருந்தவர்களும், இவ்வாறான நிதிக் கையாடுதலை அனுமதித்தவர்களும் தற்பொழுது, பணிப்பாளர் சபையிலோ நிறுவனத்திலோ இல்லை. MBSL காப்புறுதிச் சபை மீள மாற்றியமைக்கப்பட்டதுடன், தற்பொழுது நிறுவனமானது, இலங்கை வங்கி மற்றும் MBSL இன் பார்வைக்கு கீழேயே இயங்கி வருகின்றது என்பதை மகிழ்ச்சியுடன் தெரிவித்துக் கொள்கின்றேன்.

சரியான நடைமுறையும், நல்நிர்வாகமும் மீண்டும் இயல்பு நிலையில் நடைபெறுகின்றது. நிறுவனத்தின் நடைமுறைகளை இயல்பு நிலைக்கு கொண்டுவருவதற்கு, கட்டுப்பாட்டாளராக செயலாற்றிய இலங்கை காப்புறுதிச் சபைக்கு எனது மனமார்ந்த பாராட்டுக்களைத் தெரிவித்துக் கொள்கின்றேன். நடைபெற்ற மோசடி தற்பொழுது சீர்செய்யப்பட்டு விட்டதுடன், MBSL காப்புறுதி மீண்டும் இயல்பு நிலைக்கு திரும்பி விட்டது எனவும் எமது பங்குதாரர்களுக்கு இச் சந்தர்ப்பத்தில் உறுதிசெய்கின்றேன்.

சில நிறுவனங்களின் மேல்நிலை அதிகாரிகளின் பொறுப்பில் பாரியளவில் ஊழல் நடைபெறும் அதேவேளை, நிறுவனத்தின் பெயரை பாதுகாக்கும் நோக்கத்தில், இவ்வாறான மோசடிகள் மறைக்கப்பட்டு விடுகின்றன. எவ்வாறாயினும் நிறுவனத்தின் நற்பெயரைப் பாதுகாத்துக்கொள்ள வேண்டுமெனின், நிறுவனத்தின் பின்னடைவுகளுக்கான காரணங்களை வெளிப்படையாக ஏற்றுக்கொண்டு, அதனை தடுப்பதற்கான சரியான நடைமுறைகளை பின்பற்றுவதே என நான் நம்புகிறேன். இதன் மூலம் சிறந்த முகாமை குறித்த சரியான தகவல், நிர்வாகத்தையும், ஊழியர்களையும், பங்குதாரர்களையும் சென்றடையும். அதனாலேயே, நன்மையானதாக இருந்தாலும், தீமையானதாக இருந்தாலும், உண்மையான நிலவரம் வருடாந்த அறிக்கையில் குறிப்பிடப்பட வேண்டும்.

இந்நேரத்தில் மற்றுமொரு விடயத்தையும் எமது பங்குதாரர்கள் முன்னிலையில் வைக்க நான் விரும்புகிறேன். குறித்த பங்குதாரர்கள், குறித்த ஒரு பணிப்பாளரால் ஏற்பட்ட பல முரண்பாடான நடவடிக்கைகள் பற்றி கேள்வியெழுப்பிய வேளையில், அக்குறிப்பிட்ட பிரச்சனையும் கண்டறியப்பட்டு தீர்த்து வைக்கப்பட்டது. கடந்த வருடாந்த பொதுக்கூட்டத்திலும் அதனைத் தொடர்ந்து விசேஷ

டப் பொதுக்கூட்டத்திலும், இப் பிரச்சனையை சில பங்குதாரர்கள் முன்வைத்தனர். அதன் பின்னர் உடனடியாக, இப்பிரச்சனையைப் பற்றி பணிப்பாளர் தெளிவாக ஆராய்ந்த பின்னர், குறித்த பணிப்பாளர் பணிப்பாளர் சபையிலிருந்து விலகுவதற்கான அவரது ராஜினாமா கடிதத்தை வழங்கினார். இவ்வாறான ஒரு நிலமையில், நிறுவனத்தின் நற்பெயருக்கு பங்கம் விளைவிக்கும் முகமாக ஏற்பட்ட இப்பிரச்சனையை சுட்டிக்காட்டிய எமது பங்குதாரர்களுக்கு எனது மனமார்ந்த நன்றிகளை தெரிவிக்க விரும்புகின்றேன்.

எதிர்காலம் பற்றிய நோக்கு

நிதித்துறையை ஒன்றிணைப்பதற்காக அரசாங்கம் மேற்கொண்டு வருகின்ற முயற்சிகளை நாம் வரவேற்கின்றோம். பல்வேறு காரணங்களினால் கூட்டுறவுத் துறையைச் சார்ந்த சில பிரிவுகள் இந்த முடிவை சாதகமானது எனக் கருதவில்லை. போதியளவு மூலதனத்துடனும், தரமான சொத்துக்களை அடிப்படையாகக் கொண்டும் ஸ்திரமான நிதி நிறுவனமொன்றை கட்டியெழுப்ப முடியும் என்ற காரணத்தினாலே, இத் தீர்மானத்திற்கு எமது முழு விருப்பத்தையும் தெரிவிக்கின்றோம். மேற்கொள்ளப்பட்ட இத் தீர்மானமானது, குழுமத்திற்குள் செலவுகள் மற்றும் சேவைகள் இரட்டிப்பாவதை தடுக்க உதவுவதுடன், பொருளாதார அளவுகோளை எட்டுவதற்கும் உதவும்.

தேசிய நிதித்துறையின் கூட்டிணைவு திட்டத்திற்கேற்ப, MCSL மற்றும் MBSL சேமிப்பு வங்கி இவை இரண்டையும், எமது நிறுவனத்துடன் இணைப்பதற்கான செயற்பாட்டை நாம் தொடங்கியுள்ளோம். செலிங்கோ சேமிப்பு வங்கி நாம் பொறுப்பேற்றுக் கொண்ட பின், தற்போது அது MBSL சேமிப்பு வங்கி என அழைக்கப்படுகின்றது. வங்கியை நாம் பொறுப்பேற்றுக் கொண்டாலும், இழப்பீட்டை முழுவதும் ஈடு செய்ய எம்மால் முடியவில்லை. காரணம், போதியளவு மூலதனம் வழங்குவதற்கான இயலுமை எம்மிடம் இருக்கவில்லை. அத்துடன், நிறுவனத்தின் ஸ்திரத்தன்மையில் ஏற்பட்ட வீழ்ச்சியின் காரணமாக இடம்பெற்ற எதிர்பாராத நிகழ்வுகளும் இதற்கு காரணமாக இருந்தன. MCSL மற்றும் MBSL சேமிப்பு வங்கி இவை இரண்டும் MBSL உடன் இணைக்கப்படுவதன் மூலம் இவ் விரண்டு துணை நிறுவனங்களும் ஸ்திரப்படுத்தப்படுவது மட்டுமல்லாமல், MBSL இல் வாடிக்கையாளர் வைப்புக்களை மேற்கொள்ளவும் ஒரு திறவுகோலாக இது அமையும். இது குறைந்த செலவிலான நிதியிடலுக்கு வழிவகுப்பதன் மூலம், கட்டுப்படியாகும் செலவில் வியாபாரத்தை விஸ்தரிக்கவும் உதவிடும். அத்துடன் எமது சேவை, கிராமிய மற்றும்

அபிவிருத்தியடைந்து வரும் சமூகத்தினர் உட்பட பெரும்பாலான மக்களைச் சென்றடையவும் உதவும்.

எனது பாராட்டுக்கள்

பல்வேறு சவால்களை எதிர்கொண்டதன் மத்தியிலும், எமது தற்போதைய செயற்பாட்டை அடைவதற்கும், MBSL காப்புறுதி நிறுவனத்தால் ஏற்பட்ட நெருக்கடியிலிருந்து மீண்டு வருவதற்கும், தமது அர்ப்பணிப்பு மற்றும் ஒத்துழைப்பை வழங்கிய எமது ஊழியர்களுக்கும், இலங்கை வங்கி ஊழியர் ஒன்றியத்தின் மேர்ச்சன்ட் வங்கி கிளைக்கும் எனது விசேட நன்றிகளை தெரிவித்துக் கொள்கின்றேன். எமது கட்டுப்பாட்டுக்குட்படாத பேரினப் பொருளாதாரத்தால், லீசிங் சந்தையில் கடந்தாண்டு வீழ்ச்சி ஏற்பட்டது. எமது வர்த்தக நடவடிக்கைகளில் லீசிங் முக்கிய பங்காக அமைந்திருந்ததினால், தற்போதைய நிதியாண்டில் நாம் சிறந்த பெறுபேறுகளை பெற்றுக்கொள்வதற்கான முக்கிய காரணம், எமது பிரதான நிறைவேற்று அதிகாரியுடன் இணைந்து தற்போதைய பணிப்பாளர் சபையின் வழிகாட்டல் மூலம், எமது ஊழியர்கள் காண்பித்த அர்ப்பணிப்பும், கடமையுணர்ச்சியுமே ஆகும். அத்துடன் எமது தற்போதைய பணிப்பாளர் சபையின் முழுமையான பங்களிப்புக்கும் அவர்கள் நம்பிக்கையோடு மேற்கொண்ட சகல நடவடிக்கைகளுக்கும் எனது இதயப்பூர்வமான நன்றிகளை தெரிவித்துக்கொள்கின்றேன்.

நிறுவனத்தாலும், ஏனைய துணை நிறுவனங்களாலும், எதிர்கொள்ளப்பட்ட நிர்வாகச் சவால்களிலிருந்து, நல்ல முறையில் வெளிவர எமக்கு உதவிய இலங்கை வங்கியின் முன்னாள் தலைவர் திரு. ராஸிக் ஸருக் அவருக்கும் எனது நன்றிகளும் பாராட்டுக்களும். அவர் MBSL மீது அக்கறை காண்பித்தது மட்டுமல்லாமல், நாம் முகங்கொடுத்த சவால்களிலிருந்து வெளியே வரவும் ஒரு உறுதித்தூணாக அவர் செயல்பட்டார். MBSL நற்பெயரை பாதுகாக்க அவர் வழங்கிய சேவைக்கு எமது பணிப்பாளர் சபையின் சார்பில் நன்றி கூறும் அதேவேளை, அவருக்கு வாழ்த்துக்களையும் தெரிவிப்பதுடன், சிறந்த உடல் நலத்தோடு நீண்ட நாட்கள் வாழவும் வாழ்த்துக்கின்றேன்.

இந்த தருணத்தில் எமக்கு ஒத்துழைப்பு வழங்கிய எமது பங்குதாரர்களுக்கும் நன்றிகள். எமது நிறுவனம் தொடர்பில் அவர்கள் மிகக் கவனமாக செயற்பட்டு எமக்கு பக்க பலமாக இருந்தார்கள். எதிர்காலத்திலும் அவர்கள் இதே ஒத்துழைப்பையும் ஆதரவையும் வழங்குவார்கள் என்ற நம்பிக்கை உள்ளது.

என்மீது நம்பிக்கை வைத்து நாட்டு மக்களுக்கு சேவையாற்றுவதற்கு எனக்கொரு சந்தர்ப்பத்தை வழங்கிய அதிமேதகு ஜனாதிபதி அவர்களுக்கும் நிதி மற்றும் திட்டமிடல் அமைச்சின் செயலாளர் கலாநிதி பி.பி.ஜயசுந்தர அவர்களுக்கும் எனது மனமார்ந்த நன்றிகள்.



எம். ஆர். ஜா
தலைவர்

2014 ஏப்ரல் 30

Chief Executive Officer's Report



Due to the downturn experienced in the local leasing market, year 2013 was particularly demanding for the company. The stagnant leasing market affected overall performance and posed difficulties towards achieving our financial targets. However, despite the overall slower growth that before in the leasing market, I am happy to report strong and sustained asset and income growth for your Company and its subsidiaries.

While the Company's profitability declined to Rs. 117 million compared to Rs. 201 million in the previous financial year, total revenue increased to Rs. 2.4 billion, from Rs. 1.9 billion in the previous year. Total assets expanded to Rs. 13.3 billion from Rs. 11.9 billion in 2012. Our subsidiaries too, continued to show commendable income and asset growth. MBSL Savings Bank Ltd saw an encouraging asset growth of 22% and a revenue growth of 32%, while our associate MCSL Financial Services Ltd saw an asset growth of 36% and an income growth of 32%. Lanka Securities (Pvt) Ltd, our other associate, recorded an asset growth of 3.5% and gross profit has increased by 1.3%. I am encouraged by this strong performance, particularly in the wake of major changes in the new financial year.

I am also pleased to announce that the two debenture issues held during the year were extremely successful and were oversubscribed, indicating the public confidence in the MBSL brand. This was further evidenced by the AA- rating we received from the independent rating agency RAM Ratings (Lanka) Ltd.

During the year, the leasing market remained lacklustre and even indicated signs of further deterioration. Lower vehicle registrations coupled with rising vehicle prices and slower economic activities, resulted in overall lower demand for leasing products. This situation was compounded by recovery lags and higher default rates from existing customers. As the major share of company's business is within the leasing market, this downturn in demand for leasing products had

"Having successfully completed a turbulent year, your Company is now on the threshold of a new era of expansion, challenges and opportunities."

a direct negative impact on our bottom line and NPA ratio. Due to higher default rates, the Company also experienced higher disposal losses of leased vehicles, than in the previous financial year. In addition, the capital markets too, experienced a downturn during the third quarter of the year, resulting in the need for provisioning for capital market losses.

However, your Company responded speedily to unfavourable market conditions by introducing measures to contain the downward trend in revenues and profits. As a result, I am happy to report a reversal of the situation by the fourth quarter of 2013. This is mainly due to an aggressive recovery campaign that was structured and implemented swiftly. This quick response was able to successfully contain and turnaround the leasing portfolio.

During the year, your Company also focused on other, alternative revenue streams such as expanding the corporate and retail credit portfolios and by focusing on new opportunities in emerging markets such as, the debt market and micro credit market. I am proud to announce that your Company was able to leverage its specialised expertise for the local corporate sector and raise an impressive Rs. 3 billion in debt issues for corporate clients during the year. Your Company also continued to expand market share within the corporate and retail credit sector, which saw a growth of 44%

Chief Executive Officer's Report

during the year. company's micro credit programme "Siyath Saviya" expanded its market presence during the year with nine MBSL branches also stepping in to distribute credit. This resulted in over 5,000 people accessing "Siyath Saviya" credit, within the year. This is indeed good news, as these injections of credit into the rural grass, roots are already bearing fruit, particularly in uplifting quality of life in the regions and by addressing the economic imbalance between the western province and the regions.

A new era for MBSL

As I mentioned at the beginning of my message, in 2014, your Company is on the threshold of a new era that will see significant changes in the overall structure, size and operations of the Company. These changes are a result of the financial sector consolidation programme of the Central Bank of Sri Lanka, aimed at strengthening and improving the quality of Sri Lanka's financial sector.

In line with Central Bank directives, the company is required to merge with two of its subsidiaries, MBSL Savings Bank Ltd and MCSL Financial Services Ltd, by 30 June 2014. Once this merger process is concluded, the company will transform into a much larger financial entity, with a wider business scope, and larger national footprint, with our network of 30 branches increasing to 60.

I am confident that changes portend greater opportunities for company's growth, than ever before. We are already in the process of addressing complex human and technological internal adjustments, to facilitate this transition. We have also lined up many exciting new products and services for our customers to benefit from this growth. Every effort will be made to manage the change process with minimum inconvenience to our valued customers and we intend to provide uninterrupted services to all our clients throughout this process.

I believe successful change in management will be vital for a smooth and inclusive transformation. Therefore, we have already selected a highly experienced international consultancy, M/s. Ernst and Young, to manage the merger process in a transparent manner and to develop a new, inclusive, organisation structure for the merged entity. At the outset, I must stress that this merger process will not entail job losses for any employees, in all three companies. On the contrary, these changes will create many opportunities for growth and development for all employees. Therefore, as key stakeholders of this change process, I call on all employees to support and cooperate in making this transition a success.

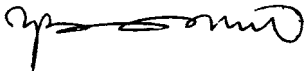
With the support of our employees and other stakeholders, I look forward to transforming the company into a modern, technology-driven, and highly competitive financial entity, within the next few years. We are already in the process of developing a mobile platform to take our services to a wider market through mobile banking and mobile marketing technologies. In fact, I am confident we can make use of technology for a number of purposes, including enhancing process efficiency, cutting costs, managing disbursements and recoveries, personalising and customising our products, improving customer relationship management and expanding micro lending. We are also currently in the process of negotiating a credit line with several parties, targeting the micro finance sector.

The new entity that will emerge from the merger process will continue to harness the strength of our parent, the Bank of Ceylon, Sri Lanka's single largest financial entity. I am confident that, the new strengths we gain through the merger process will open up many new opportunities in the market and will continue to strengthen our market share.

I look forward to the support of all stakeholders, in particular the employees of all three companies, in this new journey that we will embark very soon.

Appreciations

My appreciation goes out to the Chairman and the Board of Directors, shareholders and all staff, for their hardwork and commitment during the year. I also thank the regulators for their guidance. I look forward to an exciting new year, that will see the emergence of a bigger and better financial institution to serve the needs of the people of this country.



T. Mutugala

Chief Executive Officer

30 April 2014

Board of Directors



Mr. M. R. Shah
Chairman - Non Executive Director



Mr. P. G. Rupasinghe
Non Executive - Senior Independent Director



Mr. D. M. Gunasekara
Non Executive Director



Mr. K. B. S. Bandara
Non Executive Director



Mr. M. S. S. Paramananda
Non Executive - Independent Director



Mr. A. B. L. A. De Silva
Non Executive Director



Mr. W. P. R. P. H. Fonseka
Alternate Director to Mr. D. M. Gunasekara



Mr. C. R. Jayawarna
Non Executive - Independent Director

Board of Directors

Mr. M. R. Shah

Chairman - Non Executive Director

Mr. Shah, the Chairman of MBSL, was appointed to the Board in June 2010. Prior to joining the Company, he had served Commercial Bank of Ceylon PLC for 33 years and at the time of retirement, he had held the position of an Executive Officer. Mr. Shah has a Diploma in Diplomatic & International Affairs & Intermediate of Institute of Bankers' Sri Lanka.

While serving the Commercial Bank of Ceylon PLC, he having been involved in trade union activities, was elected the Secretary of the Commercial Bank Branch Union of the Ceylon Bank Employees' Union (CBEU) in 1986 and the President in 1988. In the year 1994, he was elected the General Secretary of the apex body of the prestigious organization of the Ceylon Bank Employees' Union and elected the President in the year 2000 which position he held until retirement in February 2010.

In 2009 he was elected the Secretary General of the Asian Regional Organization of Banks, Insurance and Finance Unions and he continues to hold such position to date.

Mr. Shah is the Chairman of MBSL Savings Bank Limited. He is a Director of MCSL Financial Services Limited and Lanka Securities (Pvt) Ltd.

Mr. P. G. Rupasinghe

Non Executive - Senior Independent Director

Mr. Rupasinghe earned his Masters Degree in Business Administration (MBA) from the Postgraduate Institute of Management (PIM), a Postgraduate Diploma in Advanced Social Statistics and a Special Degree in Economics from the University of Sri Jayawardenepura.

Mr. Rupasinghe started his development banking career with DFCC Bank in 1978 and has over 20 years experience in Project Appraisal, Monitoring & Follow-up, Economic Research, Consultancy, Planning & Branch Banking of which 13 years in the senior executive capacity. He has seven years

of Postgraduate teaching experience as a visiting lecturer in Economics, Accounting, Human Resource Management and Organizational Behaviour at the Open University of Sri Lanka.

He was a former Chairman of National Institute of Business Management (NIBM) and a Director & Trustee of the National Development Trust Fund under the Ministry of Finance. Mr. Rupasinghe served as a Member of the Provincial Public Service Commission (WV). He also served as a Member of the National Sports Council of Sri Lanka and Government Wages Board. He has also served as a Director in MBSL Savings Bank Limited until September 2013, and MBSL Insurance Company Limited and Lanka Securities (Pvt) Limited until October 2013.

During his career at DFCC Bank he has participated in several International training programs on Development Banking, Management Development, Executive Development and Economic Development programs organized by the EDI of World Bank, UNIDO, UNDP and ADB, ADFIAP, PDPC & AIM of the Philippines, Manila. He has also participated in a workshop on "Macro-Economic Management and Policy Analysis" organized by the EDI of World Bank in collaboration with the Central Bank of Sri Lanka.

In the formative years of his career as a development banker, he has participated in various seminars and workshops on Leasing, Stock Exchange Operations, Project Financing, Project Appraisal & Economic Appraisal of Development projects, Short-Term Funds Management, Rapid Identification and Formulation of SMI Projects, Monitoring and Evaluation of Development Projects and Rehabilitation of Sick Projects.

He is a Life Member of Sri Lanka Association of Economists (SLAE), Alumni Association of Asian Institute of Management (AIM) and Postgraduate Institute of Management (PIM).

Mr. M. S. S. Paramananda

Non Executive - Independent Director

Mr. Paramananda was a Member of Sri Lanka Accountants Service. He holds a Diploma in Accountancy and a Diploma in Commerce of the Ceylon Technical College and a Post Graduate Diploma in Public Finance of the Sri Lanka Institute of Development Administration. He is a Fellow Member of the Association of Public Finance Accountants of Sri Lanka, as well as a Member of the Association of Accounting Technicians of Sri Lanka.

An Accountant by profession, he served the Government in the Local Government Sector, the Provincial Councils and in the District Secretariat. He functioned as the Chief Accountant in several Ministries, including the Ministry of Fisheries and Aquatic Resources Development and the Ministry of Urban Development, Housing and Construction.

He was also involved in the work connected with Implementation and Administration of the Fiscal Policy of the Government and Specialized in Foreign Funding Management and Regulating Financial policies of the public Enterprises.

His Practical knowledge has been enhanced by handson engagements with ADB, JBIC, World Bank Funded Development Projects of the State.

Mr. A. B. L. A. De Silva

Non Executive Director

Mr. De Silva holds a Diploma in Journalism from the University of Sri Jayawardenepura. He is a Freelance Journalist by profession with extensive experience in media and journalism. He was the media advisor to former Foreign Minister of Sri Lanka. He is also a foreign affair analyst on the ITN Network.

He serves as the Chairman of MCSL Financial Services Limited, Asian International Hotel School and Asian Vocational Educational Centre. He was also a former Executive Director of Sri Lanka Export Credit Insurance

Corporation. Mr. De Silva is a Director of MBSL Savings Bank Limited and MBSL Insurance Company Limited.

Mr. D. M. Gunasekara

Non Executive Director

Mr. Gunasekera is the General Manager/Chief Executive Officer of Bank of Ceylon.

Prior to his appointment in January 2013 as General Manager/Chief Executive Officer he served from October 2010 as the Deputy General Manager in charge of retail banking and sales and channel management. Mr. Gunasekara commenced his career with the Bank in 1983 and over the years received extensive training in banking, especially in all aspects of credit management and administration. He served at BOC London Branch from 1997 – 2000. His other contributions include his services as a resource person of the Bank of Ceylon's internal training facility. He counts 30 years of overall experience in banking. He is a Council Member of the Association of Professional Bankers and also a resource person at the Institute of Bankers' of Sri Lanka.

He is a Non-Executive nominee Director on the Boards of BOC Travels (Pvt) Ltd, BOC Property Development & Management (Pvt) Ltd., BOC Management & Support Services (Pvt) Ltd., Bank of Ceylon (UK) Ltd., Ceybank Holiday Homes (Pvt) Ltd., Ceybank Assets Management (Pvt) Ltd., Hotels Colombo (1963) Ltd., Institute of Bankers of Sri Lanka, Credit Information Bureau of Sri Lanka, Lanka Financial Services (Bureau) Limited and LankaClear (Private) Ltd.

He has successfully completed the programme on Corporate Management for Sri Lanka (LKCM2 AOTS) in Japan, an Advanced Management Programme conducted by the Wharton University of Pennsylvania, USA. Mr. Gunasekara graduated from the University of Colombo, Sri Lanka, with a Special Degree in Public Finance & Taxation in 1981. He is an Associate Member of the Institute of Bankers of Sri Lanka.

Board of Directors

Mr. K. B. S. Bandara

Non Executive Director

Mr. Bandara is a nominee Director of Bank of Ceylon since March 2013. He has briefly served in the MBSL Board in 2010 as well. He chairs the Integrated Risk Management Committee and is a member of the Audit Committee of MBSL. He is a permanent employee of Bank of Ceylon holding the position of Deputy General Manager since March 2012. His current business portfolio at BOC includes Product Management, Islamic Financing, Development Banking, Electronic Banking and Credit/Debit Cards Operations.

He counts over 24 years experience in banking, both local and abroad gaining wide exposure in the fields of information systems, investments, treasury management, international banking operations and corporate banking. He worked at Bank of Ceylon London Branch as a Dealer and later at Bank of Ceylon (UK) Ltd as the Chief Executive Officer which has helped him to gain a sound fundamental knowledge of regulations and compliances in the banking arena. Prior to joining the bank, he was an Assistant Lecturer at University of Kelaniya and served at Mahaweli Authority. He is also a nominee Director of BOC to several other companies.

He had been a resource person at the Institute of Bankers of Sri Lanka in the fields of credit & investment management. He is also serving as the Secretary General of Association of Professional Bankers (APB) of Sri Lanka in 2013/14 term.

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

Mr. W. P. R. P. H. Fonseka

Alternate Director to Mr. D. M. Gunasekara

Mr. Fonseka has been appointed as a Deputy General Manager of the Bank of Ceylon in March 2012, and currently holds the position of Deputy General Manager (Retail Banking) of the Bank.

Mr. Fonseka who joined the Bank of Ceylon in 1990 has specialized in financial management and strategic planning of the Bank, whilst acquiring wide experience in all aspects of commercial banking. He provided leadership and guidance in order to maintain a healthy asset and liability structure of the Bank. With the assignment to Bank of Ceylon London Branch, he obtained comprehensive experience in treasury and international banking activities.

Mr. Fonseka is the Chairman on the Board of Transnational Lanka Records Solutions (Pvt) Ltd since November 2012. He has been serving as a nominee Director on the Board of Mireka Capital Land (Pvt) Limited since 2008 and also acts as a nominee Director on the Board of Mireka Homes (Pvt) Ltd. He has been appointed as an Alternate Director to Mr. D. M. Gunasekara on the Board of LankaClear (Pvt) Ltd and serves as an Observer on the Board of Sintesi Ltd, a BOI approved Private Limited Company too. Mr. Fonseka also acts as the Chairman of the Audit Committee, a Board subcommittee of LankaClear (Pvt) Limited since November 2012 and also serves as the Chairman of the Audit Committees of Merchant Bank of Sri Lanka PLC.

Graduated from the University of Sri Jayawardenepura, Sri Lanka, with a Bachelor of Science Special Degree in Business Administration and holds a Postgraduate Diploma in Management from the Postgraduate Institute of Management, University of Sri Jayawardenepura, Sri Lanka. He also holds a MBA from the University of Southern Queensland, Australia. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. C. R. Jayawarna

Non Executive - Independent Director

Mr. Jayawarna is a professional marketer and a social worker whose enlightened objective is to establish a just and egalitarian society. He has worked in public and private organizations in the capacity of junior and senior management level. He currently serves in several organizations in the capacity of Chairman, Secretary and an Executive Committee Member. Mr. Jayawarna joined the Sri Lanka Ports Authority (SLPA) as a Senior Manager in the Marketing and Business Development Division and he is the youngest Senior Managers serving in the Middle Level Management at Sri Lanka Ports Authority.

Prior to his current assignment at SLPA, joining at the age of 31 years, Mr. Jayawarna worked at Youth Corps Head Quarters which falls within the purview of the Ministry of Skills Development and Public Enterprise Reforms in the capacity of Deputy Director (Industrial Relations and Information Technology). He was the youngest Deputy Director in Youth Corps at that time. Apart from this, he worked with Informatics (Pvt) Ltd as a Marketing Trainee and was later promoted to the post of Marketing Executive and Business Development Executive respectively before he completed his university studies.

Mr. Jayawarna received his Bachelor of Arts Degree in 2003 majoring in Economics with International Relations and Demography. He completed his Masters of Business Studies at the Faculty of Graduate Studies, University of Colombo and he completed his Post Graduate Studies in Business Management at the same University. He is an Associate Member of Sri Lanka Institute of Marketing. In 1997 he completed the Diploma in International Relations at Bandaranaike Centre for International Studies.

Corporate Management



Mr. T. Mutugala
Chief Executive Officer



Mr. L. Kaluarachchi
*Deputy General Manager
Recoveries*



Mr. A. M. A. Cader
*Deputy General Manager
Corporate Advisory & Capital Markets*



Mr. J. Gamalath
*Deputy General Manager
Group Marketing & Product Development*



Mr. P. Herath
*Assistant General Manager
Finance & Treasury Management*



Mr. S. Fernando
*Assistant General Manager
Group Internal Audit*



Mr. R. Siriwardena

*Deputy General Manager
Corporate & Retail Credit / Information Technology*



Ms. S. Amaratunga

*Deputy General Manager
Strategic Planning, Risk Management and Compliance*



Ms. K. Jayathilake

*Deputy General Manager
Group Legal / Company Secretary*



Mr. S. Uduwawala

*Actg. Deputy General Manager
Leasing & Administration*



Mr. K. Perera

Head of Human Resources & Operations

Corporate Management

Mr. T. Mutugala

Chief Executive Officer

Mr. Mutugala is a professional banker with more than 39 years of experience in Commercial Banking.

He joined the Bank of Ceylon in March 1974. He has a fine blend of skills in operational banking audit as well as overseas branch operations. Prior to his present appointment he has provided the leadership to Information Systems Audit functions of the Bank of Ceylon for nearly 5 years as Assistant General Manager (Information Systems Audit). During this period, he has played a leading role in implementing IT System Security Strategy in the Bank. Subsequently, as a Deputy General Manager (Support Services) he has provided the leadership to Bank's Procurement Function, Business Process Re-engineering and Central Back Office operations from July 2012 to July 2013.

He is a Non-Executive Director of MBSL Savings Bank Ltd and is also a member of its Audit Committee, Integrated Risk Management Committee, Nomination Committee and Human Resources and Remuneration Committee. He is also a Director of MBSL Insurance Co. Ltd.

Mr. Mutugala is a Member of the Chartered Institute of Management Accountants (ACMA) and also a Certified Information Systems Auditor (CISA).

Mr. L. Kaluarachchi

Deputy General Manager - Recoveries

Mr. Kaluarachchi has had an illustrious career in his field and is a versatile officer who brings with him more than 28 years of wide ranging experience in the financial industry. Making his entry into Merchant Banking in 1994, where he was appointed as the Manager Leasing, he subsequently progressed to hold the positions of Senior Manager Leasing, Assistant Director Leasing and DGM Leasing. Mr. Kaluarachchi holds B.Com Special Degree from the University of Kelaniya.

Mr. R. Siriwardena

Deputy General Manager – Corporate & Retail

Credit / Information Technology

Mr. Siriwardena holds a B.Sc (Business Administration) Degree from the University of Sri Jayawardenepura and is an

Associate Member of the Institute of Chartered Accountants of Sri Lanka. He has over 22 years experience which includes Portfolio Management, Merchant Banking, Strategic Planning, Risk Management and Credit.

Ms. S. Amaratunga

Deputy General Manager - Strategic Planning, Risk Management and Compliance

Ms. Amaratunga holds a MBA from Postgraduate Institute of Management (PIM), University of Sri Jayawardenepura, and Postgraduate Diploma Level Certificate for Modern Banking from PIM, and B.Com (Special) Degree from University of Sri Jayawardenepura. Her 23 years of experience in banking covers Treasury Management, Corporate and Retail Banking, Trade Finance, Recovery, CRM, Strategic Planning, Balanced Scorecard Performance Management, M&A Process Management, Risk Management, Compliance and Financial Management.

Mr. A. M. A. Cader

Deputy General Manager - Corporate Advisory & Capital Markets

Mr. Cader is a Fellow of The Chartered Institute of Management Accountants, London (FCMA) and a Chartered Global Management Accountant (CGMA). He also holds an MSc in Information Management from Sri Lanka Institute of Information Technology (SLIIT) and Masters in Business Studies (MBS) from University of Colombo. Mr. Cader obtained Postgraduate Diplomas in Business Administration and Economic Development (University of Colombo). He has completed the Certificate and Diploma in Marketing at the Chartered Institute of Marketing, London and Post Graduate Diploma in Information Technology by SLIIT and CIMA London. Mr. Cader is a Fellow member of Certified Management Accountants of Sri Lanka an Associate member of the Institute of Financial Accountants of London.

At present he functions as the Deputy General Manager – Corporate Advisory & Capital Markets as the Head of Division. He has experience of over 23 years at Bank in Corporate Advisory, Capital Markets and Fund Management and 38 years of total experience in Financial Management, Service Marketing, Business Administration and Investment Banking.

Mr. J. Gamalath

Deputy General Manager – Group Marketing & Product Development

Mr. Gamalath holds a Postgraduate Diploma in Marketing and a member of the Chartered Institute of Marketing (CIM-UK). He obtained an MBA from the University of Colombo Faculty of Graduate Studies and is currently reading for his PhD in Industrial Economics at the University of Colombo, Department of Economics. He also counts for over 15 Years of experience in Brand Management, Marketing and Product Management in multiple industries.

Mrs. K. Jayatilake

Deputy General Manager – Group Legal / Company Secretary

Mrs. Jayatilake holds a Masters Degree in Law from the University of Southampton (United Kingdom), a Bachelors Degree in Arts (with a second class upper division pass) from the University of Colombo and is also an Attorney-at-Law of the Supreme Court and a Notary Public counting over 21 years experience at the Bar.

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.

Mr. S. Uduwawala

Actg. Deputy General Manager – Leasing & Administration

Mr. Uduwawala accounts for over 32 years of experience in the Banking industry. His area of speciality covers Credit and Branch operations. At present he is the head of the Leasing Division, branch operations and also the Micro Finance Division.

Mr. P. Herath

Assistant General Manager – Finance & Treasury Management

Mr. Herath is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (FCA) and an Associate Member of the Certified Management Accountants of Sri Lanka. He holds a B.Sc (Business Administration) special degree from the University of Sri Jayawardenepura and Master of Business Administration (MBA) from the University of Colombo. He has over 14 years of experience in the field of finance.

Mr. S. Fernando

Assistant General Manager – Group 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 15 years of experience in the field of internal auditing in local conglomerates, as well as multinational companies.

Mr. K. Perera

Head of Human Resources & Operations

Mr. Perera holds a Bachelor of Commerce (Special) Degree from the University of Sri Jayawardenepura and Diploma in Banking from the Institute of Bankers of Sri Lanka.

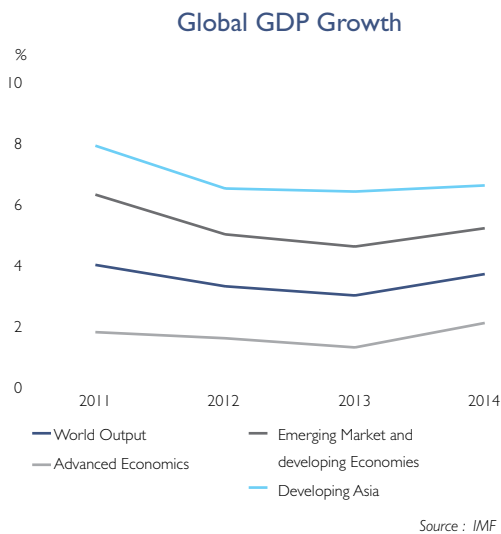
He is a professional banker with multidisciplinary working background and experience over a span of 37 years in various fields of Banking, Human Resource Management and Administration. Being employed in two leading commercial banks, he has represented the corporate management team over the last 15 years. He joined the management team of MBSL in the recent past.

Management Discussion & Analysis

The Macroeconomic Environment

World Economy

The International Monetary Fund noted that global activity strengthened during the second half of 2013 enabling the world GDP to expand at the rate of 3% in 2013, compared to the growth of 3.2% in 2012. The world economy is expected to continue the recovery trend and is projected to reach a 3.7% GDP rate in 2014 and 3.9% in 2015. In 2013, emerging markets and developing economies surged at the faster pace of 4.7% and contributed more than two-thirds of global growth. Emerging and Developing Asian economies moved forward at the rate of 6.5% in 2013, compared to the growth rate of 6.7% in 2012, and is projected to achieve a 6.7% growth in 2014 and a 6.8% growth rate in 2015.

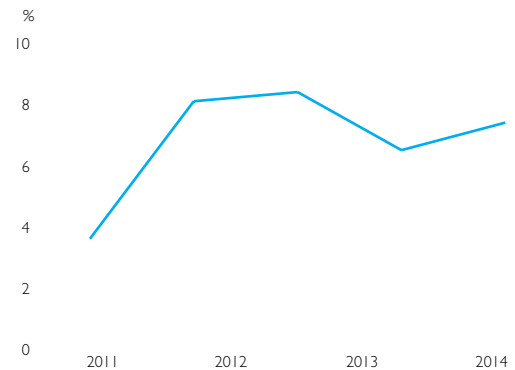


Sri Lankan Economy

Economic Growth

The economy rebounded strongly in 2013, with a GDP growth rate of 7.3%, compared to 6.3% in 2012, with all three sectors of agriculture, industry and services, contributing to growth. The industrial sector expanded by 9.9% during the year, compared to the 10.3% growth rate of 2012, while the agriculture sector recorded a growth rate of 4.7%, compared the 5.2% growth in 2012, and the services sector saw a robust growth of 6.4%, compared to the 4.6% rate of growth in 2012.

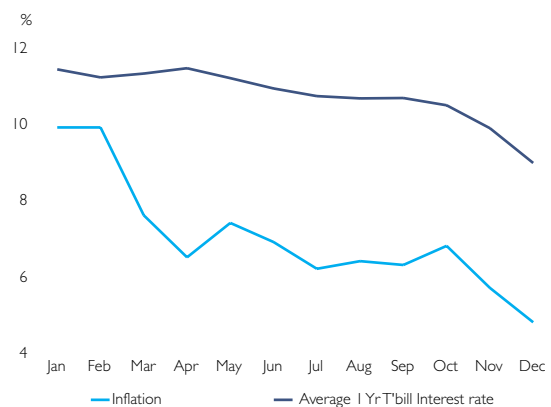
Real GDP Growth



Source : Central Bank of Sri Lanka

Annual average headline inflation remained at single digit for the fifth consecutive year and decelerated further during the year to reach a benign mid-single digit level in December 2013. According to the Colombo Consumers' Price Index inflation declined to 6.9% in December 2013. With exports recording a growth of 6.4% in 2013 and import expenditure declining by 6.2%, a significant improvement was seen in the trade balance, and the overall balance of the BOP recorded a surplus of US\$ 985 million in 2013, compared to a surplus of US\$ 151 million recorded in 2012.

Interest Rates vs Inflation



Financial sector consolidation

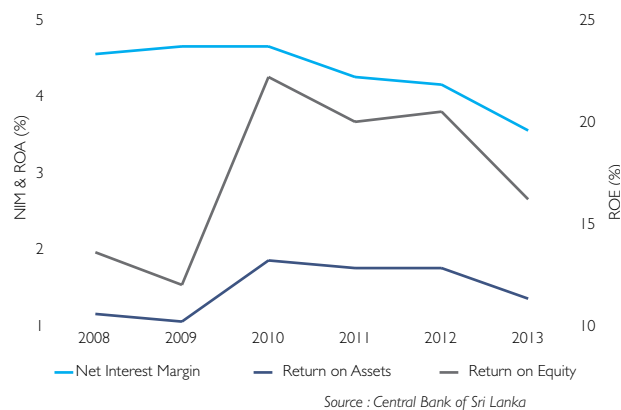
As stated by His Excellency the President in his Budget Speech on 21 November 2013, in order to steer Sri Lanka towards the economic goals set for 2016 and beyond, a

stable financial sector with strong and dynamic financial institutions, must to be created. Therefore, a Master Plan on the Consolidation of the Financial Sector to achieve such an outcome, was articulated by the Governor of the Central Bank to the relevant stakeholders in January 2014. Accordingly, when the consolidation process is completed, the NBFIs sector is expected to comprise about 20 NBFIs, each with an asset base of around Rs. 20 billion. The banks with assets less than Rs. 100 billion will be expected to grow beyond Rs. 100 billion through organic growth, or consolidation/merger with other banks/NBFIs, over a reasonable time horizon. In keeping with such a vision, banks are expected to submit broad plans by 30 June 2014 for possible mergers and/or consolidation.

Industry performance

The banking sector was represented by 33 licensed banks during 2013, comprising 21 domestic banks, which included 9 licensed specialised banks and 12 commercial banks. In addition, the banking sector included 12 branches of foreign banks. The current year saw reduced profitability in the banking sector with overall industry profit after tax reaching Rs. 74.6 billion, compared to the profit after tax of Rs. 82.7 billion recorded for 2012. All the profitability indicators of the banking sector, such as Net Interest Margin (NIM), Return on Assets (ROA) and Return on Equity (ROE), declined during the year.

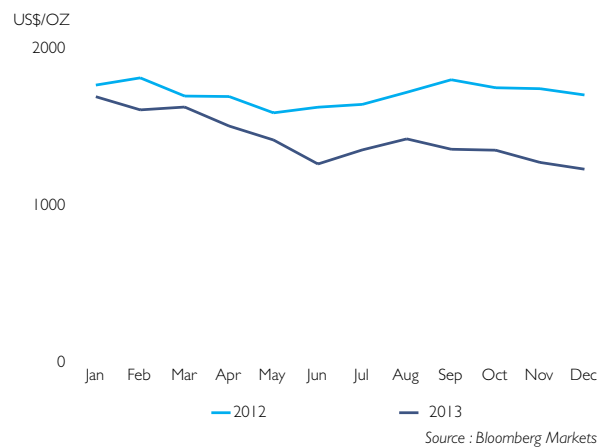
Profitability Indicators of the Banking Sector



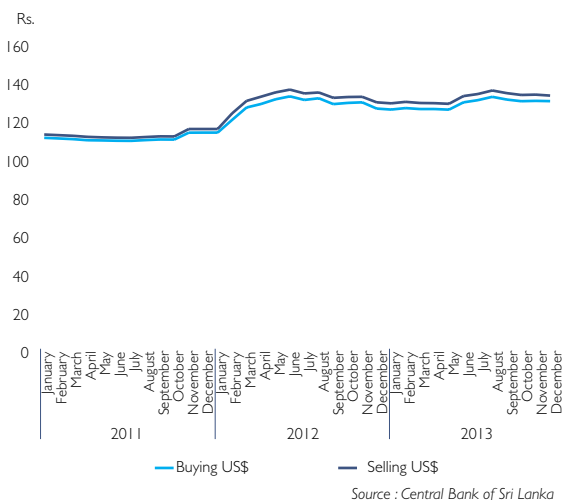
The NIM declined from 4.1 % in 2012 to 3.5 % in 2013, due to the increase in the share of high cost term deposits in total deposits, the moderation in credit growth and the increase

in low yielding assets. The sector's asset growth moderated, as credit granted by banks to the private sector expanded at a slower pace in 2013. Total assets of the sector stood at Rs. 5.9 trillion as at December 2013, which is an increase of 16.5% year-on-year. The capital base of the banking sector increased by 11.7%, largely on account of internally generated funds, that is, profits. Deposits continued to be the main funding source of the banking sector, accounting for 70.2% of total liabilities as at end 2013. The asset quality of the sector deteriorated during the year with the NPL ratio rising from 3.7% as at end 2012 to 5.6% by end 2013. This was largely the result of weaker loan quality in the pawning portfolio, and slower loan growth. NPLs increased by Rs. 74 billion during 2013, out of which Rs. 56 billion relates to pawning advances.

Gold Prices



Buying & Selling Exchange Rates of Commercial Banks



Management Discussion & Analysis

Leasing market

The year was a challenging one for leasing activities as the industry was affected by not only a sluggish vehicle market but also a sharp increase in NPLs. Demand for leasing remained lackluster due to high costs stemming from the higher vehicle import duties and relatively high interest rates. These developments resulted in the industry experiencing lower growth rates of assets, accommodations and investments during the year. Overall, industry profitability and capital base decreased, while operating costs increased.

The total value of leasing and finance industry assets reached Rs. 717 billion during the year. However, asset growth slowed to 20% by end December 2013 compared to the growth rate of 22% recorded by end December 2012. Lending rates decelerated to 17%, from 21% in 2012, while the accommodation portfolio grew to Rs. 553 billion, as at end of 2013. Among the accommodation products, other secured loans, loans against deposits and finance leases recorded high growth rates of 63%, 26% and 16% respectively. Investments of the licensed finance companies and specialise leasing companies grew only marginally by 3%, compared to the growth of 14% recorded for 2012. Total borrowings by the industry reached Rs. 192 billion, an increase of 9% as at end 2013, and 11 LFCs and SLCs also issued listed debentures, valued at Rs. 21.9 billion, to raise funds. The accommodation to deposits and borrowings ratio decreased from 110% in 2012 to 104% in 2013, indicating a deceleration in demand for lending activities of the sector. The capital base of the sector increased marginally by 3% in 2013 to Rs. 97 billion, compared to an increase of 23% in 2012, mainly due to a decrease in profitability of the sector.

The total amount of industry NPLs increased to Rs.37 billion as at end December 2013, from Rs.23 billion in 2012. Exposure to NPLs relative to the total accommodations outstanding increased to 6.7% by end 2013 from 5% in 2012. The interest margin declined to 6.6% for 2013, from 7.4% in the previous year. The liquid assets to total assets ratio increased from 6% in 2012, to 8% in 2013, due to reduced lending, coupled with the growth in deposits. Liquid assets of the sector increased by Rs. 24 billion in 2013, in comparison to the increase of Rs.11 billion in 2012, mainly due to

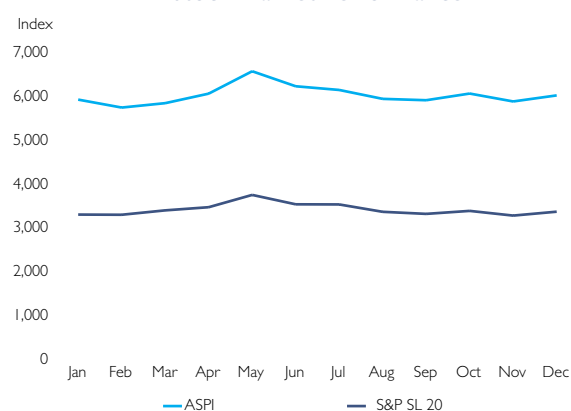
increased investments in Treasury bills and deposits with licensed banks.

Equities and debt market

Following tax exemptions declared under the national budget for 2013, the year under review saw enhanced activity in the debt market, with both the value and the number of debentures issued increasing considerably. During the year, there were 83 new debenture issues, by 24 companies, which were subsequently listed on the CSE. While debentures amounting to Rs. 69.1 billion were issued in 2013, in comparison, in 2012, there were 9 issues of debentures by two banking institutions which amounted to Rs. 12.5 billion.

The stock market too, rebounded during the year with the All Share Price Index (ASPI) and the S&P Sri Lanka 20 Index (S &P SL20) of the Colombo stock exchange outperforming several regional markets, such as Hong Kong, India, Phillipines, Korea and Singapore. Market capitalisation increased by 13.4%, by Rs. 292 billion, to Rs.2.46 trillion at end December 2013, from Rs. 2.17 trillion in 2012. In terms of turnover, activity levels at the Colombo stock exchange recorded a marginal drop. Total turnover for the year 2013 was Rs. 200.4 billion, a drop of 6.2% when compared with the total turnover of Rs. 213.8 billion in the previous year.

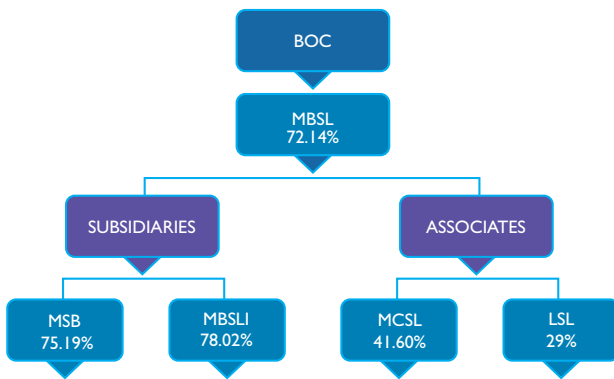
Stock Market Performance



Source : Central Bank of Sri Lanka

Organizational profile

Merchant Bank of Sri Lanka PLC (MBSL/the company) is a 72.14% owned subsidiary of Bank of Ceylon (BOC), Sri Lanka's largest licensed commercial bank, in terms of assets. the company has two subsidiaries: MBSL Savings Bank Ltd (MSB) and MBSL Insurance Company Ltd (MBSLI). It also has associate stakes in Lanka Securities (Pvt) Ltd (LSL) and MCSL Financial Services Ltd (MCSL), a licensed finance company. In August 2013, MCSL and Ceylease Financial Services Ltd (a subsidiary of BOC) merged, thereby resulting in MCSL becoming an associate of the company. Currently, the MBSL Group comprises MSB, MBSLI, and the two associate companies LSL and MCSL.



During the financial year 2013, company's financial performance was below the anticipated levels, due to the persistent downturn of the leasing market, as leasing accounts for about 70% of company's lending business. However, company's strong financial base and commercial expertise continued to inspire public confidence and sustain growth during the year under review. Indicative of company's stability and financial strength, RAM Rating (Lanka) Ltd reaffirmed company's respective long- and short-term financial institution ratings at AA- and PI respectively.

In the face of the downturn in the leasing sector, the company focused on opportunities in the emerging debt market and also on expanding the corporate and retail portfolios. Fuelled by government incentives to develop the debt market, Sri Lanka is seeing strong demand for corporate debt instruments. Maximising on this emerging opportunity, the company successfully issued two debentures that raised Rs. 3 billion in total, to strengthen the financial base of the Company. The year also saw satisfactory progress in

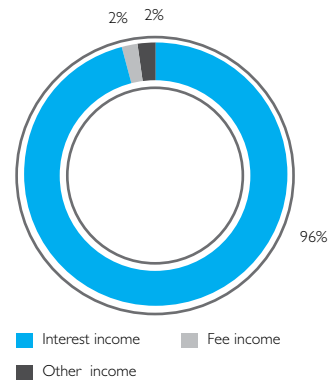
expanding corporate and retail credit services offered by the company.

Financial Review

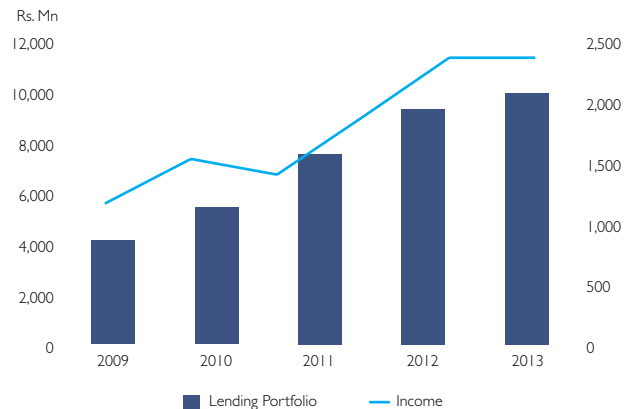
Income

Despite the setbacks experienced in the leasing markets, our overall income continued to sustain growth during the year with total income increasing to Rs. 2.4 billion from Rs. 1.9 billion in 2012. This income growth was mainly driven by corporate and retail credit expansion. During the current financial year, the company has seen significant achievements in corporate and retail credit portfolio growth. These efforts will be continued into the new financial year. Net interest income too, increased by 15% to Rs. 894 million, from Rs. 780 million in the previous financial year.

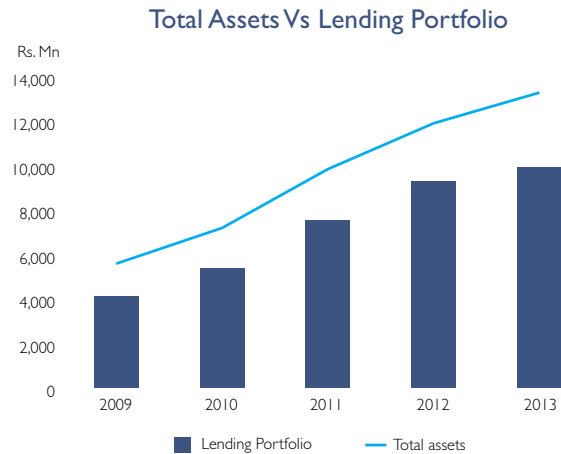
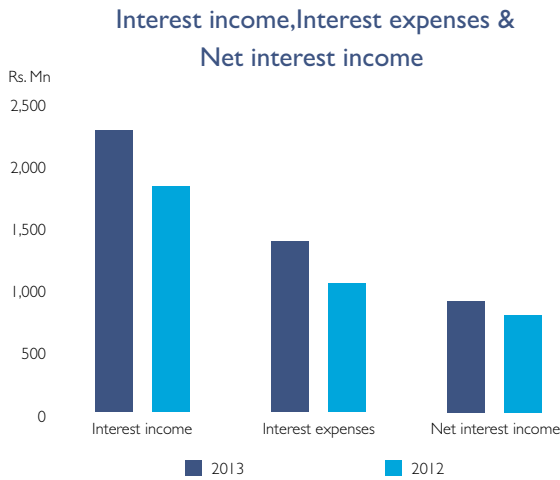
Composition of income



Lending vs Income



Management Discussion & Analysis



Asset Growth

With the expansion of loans and advances company's assets showed a strong growth from Rs. 11.9 billion in 2012, to Rs. 13.3 billion in 2013. The company continued to maintain an asset mix that ensured the highest returns while spreading the market risk. The Company's lending portfolio covers the retail, micro, SME and corporate sectors, while the portfolio mix includes leasing and hire purchase, loans and advances, investments in securities and properties, and government securities.

During the year under review, company's total lending portfolio, increased by 7% compared to the previous year. The Leasing division represented the largest share of lending accounted for Rs. 7 billion out of total lending of Rs. 9.9 billion. Loans and advances from the Corporate and Retail Credit division accounted for 30% of total lending portfolio, which accounted for Rs. 2.9 billion.

Micro credit disbursement surged ahead during the year, due to using a selected number of MBSL branches to channel micro credit into the market. This is in addition to disbursements by our micro credit partner Agro Development Credit Services (Pvt) Ltd (ADCS). During the year the micro credit segment saw 42% growth to reach a portfolio value of Rs. 362 million.

Profit after tax

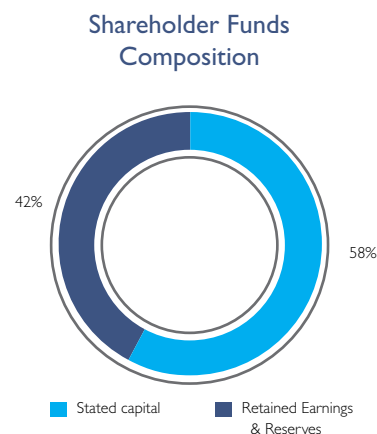
Overall profitability declined in 2013 to Rs. 117 million, compared to Rs. 201 million in 2012. This negative profit growth is due to the slower economic activities and lower demand for leasing products.

Operating expenses

Operating costs increased from Rs. 515 million in 2012, to Rs. 575 million in 2013. The Company also experienced losses due to disposal of re-possessed vehicles. As a result, the cost to income ratio deteriorated to 65.71% during the current year.

Shareholder funds

While the stated capital remained unchanged at Rs. 1.61 billion total equity increased to Rs. 2.78 billion as at 31 December 2013 against Rs. 2.69 billion as at 31 December 2012. The Net Asset Value per share increased from Rs. 19.95 to Rs. 20.60.



Looking to the future

In line with the national financial sector consolidation plans, the company has been proposed by the Central Bank to merge with its subsidiaries MSB and MCSL. As a result of the mergers our balance sheet will increase above Rs. 24 billion. The geographic coverage will double from 30 to 60 branches, and our workforce will increase to 750 personnel from the current 340.

The merger will also expand our business scope, to include savings products, and we will have access to public deposits, having a significant positive impact towards reducing cost of funds and enhancing company's assets.

Performance by division

Leasing

During the financial year 2013, the country's leasing market remained lackluster with demand for leasing products slowing further, causing our leasing portfolio to contract from Rs. 7.1 billion in 2012, to Rs. 6.9 billion by 31 December 2013. As leasing accounts for 60% of company's income, the stagnant leasing markets had an adverse impact on the overall income.

The higher taxes on vehicle imports since 2012, combined with the expansion of the market for vehicles imported through government permits, caused overall demand for second hand vehicles to drop significantly during 2013. This situation in turn, caused a sharp drop in demand for leasing products. The year 2013 recorded a 40% drop in vehicle registrations, lower returns on investment from construction related vehicles and rising NPL ratio in the leasing sector, which are indicative of the downturn of the leasing market. During the year, NPL ratio of company's leasing portfolio spiked to 7% from slightly over 4% in 2012, mainly due to difficulties faced by our corporate clients.

Faced with the above unfavourable external market conditions, the company responded swiftly by re-evaluating its market strategy for leasing and to contain the NPL ratio. Within the year, monitoring and collection systems were enhanced to contain further deterioration of the NPL and marketing efforts were strengthened to retain market share in the contracting leasing market.

Overall, despite the depressed market scenario, we are happy to report that leasing operations showed a stronger performance in the Eastern Province on the back of stronger economic developments.

While the division do not anticipate a dramatic change during the new financial year of 2014, we are confident of retaining the market share. Following the merger with MSB and MCSL, the company's market reach has been extended, with the branch network increasing from 30 to 60. During the new financial year the division will leverage this wider network to reach a wider market segment with high quality customized products. The division also examining avenues to capitalize upon the growing market for vehicle imports through government permits. The company could not enter the growing market for new vehicle imports through government permits, in 2013 due to technicalities related to securitizations. Therefore, the company has not been able to capitalize on this emerging segment. However, the division is currently in the process of implementing a new strategy for this segment. In addition, the division will continue to defend and aggressively expand market share in the traditional leasing segment through stronger marketing initiatives. The structural reorganization of the Company into a regional management model will facilitate more customized, region wise growth initiatives, while simultaneously enabling more stringent monitoring and oversight systems to strengthen the NPL ratio.

Micro finance

In addition to disbursements by Agro Development Credit Services (ADCS), the current financial year saw significant growth of the "Siyath Saviya" following the decision to channeled micro credit through nine MBSL branches. As a result "Siyath Saviya" is now available in the North and East through MBSL branches in Batticaloa, Ampara and Vavunia. The entry of MBSL branches into micro credit disbursement was facilitated through new recruitments and training of MBSL branch staff. During the year two training programmes were conducted for both MBSL staff and ADCS staff.

During the year, ADCS disbursed Rs. 230 million to 4,450 rural needy families. From May 2013 MBSL branches also

Management Discussion & Analysis

entered into the micro credit business, where they disbursed Rs. 84 million among 1,500 borrowers, within a short period. With the expansion of the "Siyath Saviya" programme, the division have now targeted rural dairy farming, in addition to traditional agriculture and fisheries. In the East through MBSL Batticaloa branch, the division has already disbursed about Rs. 31 million among 460 dairy farmers to purchase cattle. Dairy farmers in the Hatton region too, have received funding. In addition, the Siyath Saviya programme has been focusing on assisting rural women in the North and East. About 150 women in Vavunia and Batticaloa have accessed funds through a system of women's groups for a range of cottage businesses. Since May 2013 we have distributed about Rs. 28 million among 540 recipients in Ampara, including women entrepreneurs.

During the year, the division continued to ensure proper utilizations of Siyath Saviya loans and to develop staff capabilities. The division has introduced a mechanism of community cluster based loans, where the loans are also monitored at grass root level by community cluster leaders. This process has reduced lending risk and ensured credit-worthiness of loan recipients. Siyath Saviya loans range between Rs. 10,000 to Rs. 200,000 and have repayment periods ranging from 6 months to 30 months. Many of the recipients not only repay their loans but also return for fresh loans to expand their ventures.

Following the proposed merger, in addition to credit lines it would be possible to provide savings products to micro credit beneficiaries. Siyath Saviya will also continue to widen its reach and penetrate deeper into Sri Lanka's rural regions through the wider branch network. To ensure greater control and to harmonise operations between the company and ADCS, the company hopes to appoint two members to the Board of ADCS within the new financial year.

Corporate and Retail Credit

The company's branch expansion continued to show strong returns on investment with corporate and retail credit services accelerating during the year under review supported by increasing contributions from branches. With the expansion of the branch network from 14 branches to 30 branches in 2012/13 the branch outlets accounted for

66% of total disbursements in 2013, compared to less than 5% in 2011.

Cumulative disbursements for the year increased by 44% to reach Rs. 1.29 billion compared to Rs. 895.44 million in 2012. The total product portfolio increased from Rs. 1.74 billion to Rs. 2.48 billion in 2012, which is a portfolio expansion of 43%. Total incomes increased by 44% to Rs. 443 million, from Rs. 307 million in 2012. In addition, the overall NPL ratio increased slightly by about 0.4% to 15.96%.

During the 2013 financial year, greater emphasis was placed on developing the personal loan segment by leveraging the wider branch network. This process was enhanced through the new regional corporate management structure which enabled greater customization of products and services at regional level. During the year, personal loan disbursements through MBSL branches surged by over 200% to Rs. 484.5 million from Rs. 150 million in 2012. In 2011, total personal loans disbursed by MBSL branches stood at just Rs. 18.4 million, indicating the contribution made by the expansion of the MBSL branch network.

Disbursement of term loans too continued to grow during the year and recorded Rs. 337.8 million as at 31 December 2013 compared to Rs. 188.9 million in 2012.

During the current financial year, corporate and retail credit services contribute around 19% of company's total revenues. The division anticipate sustained growth in this segment in the new financial year with a 50% growth in disbursements, mainly in personal loans.

Corporate Advisory and Capital Markets

Corporate Advisory & Capital Markets division has successfully raised over Rs. 6 Billion for five (05) debenture issues and carried out a debenture listing of Rs. 1 Billion through an introduction in the year 2013. It includes two debenture issues, which reached immense success, indicating the confidence investors have placed on dependable rated organisations.

Commercial Credit and Finance PLC was the first debenture that was issued to debenture investors to take advantage

of the new tax concession from the 2013 Budget given for listed debenture issues. This trend continued with company's own debenture issues, L B Finance PLC and Arpico Finance Company PLC. The company's success stories in the past on equity issues such as Laugfs Gas PLC, Renuka Agri Foods PLC also had supported the success the division currently enjoy in the debt market. This has made company's Corporate Advisory & Capital Markets to be one of the dependable and innovative investment banks in the country. The division's success has been the win-win strategy for the investor as well as for the company that raise capital from the market place. These capital market projects increased our fee income from external customers to Rs. 21 million compared to Rs. 15 million in 2012, a 40% increase in the income.

During the year, the division's strategic decision to rationalise the company share portfolio to 25 – 40 shares made the share portfolio value to decline to Rs. 263 million at the end of the year compared to Rs. 312 million in 2012. This process coupled with the market downtrend yielded a 1.47% negative return compared to the All Share Price Index gaining 4.78% from 5,642.87 points to 5,912.78 points by the end of 2013. Nevertheless, during the year under review, additional provisioning was not required for market losses with the restructuring of the share portfolio.

During the year under review, the division conducted three seminars, which produced immense success. "Debt Instruments for Corporates and tax free return to Investors" was one of the seminars which had many participants from many fields. "How to overcome practical issues in implementing IFRS for small, medium and Large Companies" was another that concluded in June 2013. In addition, at the beginning of 2013, the seminar on "Three Perspectives of Managing Business" also was a grand success for the division's plan in organising seminars for the corporate world.

The divisions success is driven by their staff members who are experienced and professionally qualified to handle assignments of similar nature. The strength of having the right combination within the division has produced immense success in the strategies adopted for every client and every transaction.

The division anticipate a brighter year for capital market activities in 2014, with macro factors improving and interest rates seeing a decline. The interest rate decline will build renewed interest on capital market activities and in capital raising. On the other hand, the debentures issues in the previous years have built a space for margin trading using listed debentures as a collateral. In addition, the division would be looking forward to support management buyouts that are secured in nature.

Marketing and Product Development

MBSL being the pioneer investment/merchant Bank in Sri Lanka and as an institution with more than 30 years of proven track record, are always aspiring to go beyond the expectations of the customers as the company always believe that "customer is the king" at any given time.

According to the 5+1 Hub strategy introduced in "Mahinda Chintana", Sri Lanka's main focus towards sectors such as Energy, Commercial, Aviation, Tourism and Maritime & Knowledge where as a country, Sri Lanka is aspiring to become a "Hub" in those areas. Having identified the emerging concepts within the country and having critically analyzed the socio-demographic profiles of company's customers, the division has started introducing the unique products to cater for their individual needs in order to strengthen the way forward of the country. The rejuvenation of the product portfolio actually helped the company to attract new customers as well as extend the services to current customers and thereby expand the market.

The company's dynamic marketing team is constantly monitoring the rapid changes in the market place and takes immediate action to anticipate the opportunity at the earliest. Introduction of new leasing solutions such as "Budget Car Lease", which is a tailor made solution for young executives who are aspiring to be owners of cars has brought the company to new heights. As a new initiative, for the potential customers, we provide required assistance over the phone via Customer Advisory Service which also saves customers' valuable time.

With the expansion of the branch network in 2012 to many geographic locations in Sri Lanka, the company has been able

Management Discussion & Analysis

to increase the customer base by 5,515. Potential customers from remote corners of the country such as Batticaloa and Ampara were able to enjoy the benefits of MBSL products and services without visiting Head Office in Colombo.

Having understood the busy schedule and valuable time of the customers, the division established a “one-Stop-Shop” at the ground floor of the company's head office complex to experience all the required products and services under one roof. For potential customers, solutions are offered from obtaining a simple loan to investment banking solutions, where it's only a matter of visiting the “one stop shop” and meeting the customer representatives.

The modern customer does not like to unnecessarily waste time to fill documents and go through long processes. Having identified the value of the customer's time, the division has re-looked at the processes very critically and re-designed them in a customer-friendly manner where customers now can experience less documentation and leaner processes at MBSL.

According to local and international financial regulators and monitoring bodies such as Central Bank of Sri Lanka (CBSL) and the World Bank, Sri Lanka has been able to uplift its status from “Low Income Country” to a “Middle Income Country” despite the local and international obstacles during the last 3 decades. The company strongly believes that 5+1 Hub Strategy will definitely sustain “Middle Income Country” achieved by Sri Lanka. Therefore, the company strongly believes that it's role aiming at the development of the country is very critical and the company correctly identified the contribution made by Small and Medium Entrepreneurs towards the development of the country as they are the roots of the national growth. With the company's strongly established branch network across the country, the company was able to extend it's current micro finance facilities to Small and Medium Entrepreneurs in Badulla, Ampara & Batticaloa areas. The company provides financial assistance as well as non-financial assistance such as education to upgrade potential micro entrepreneurs to Small and Medium Entrepreneurs.

Knowledge-sharing between micro entrepreneurs and the company helped the company to understand the emerging trends and contributed immensely to upgrade micro entrepreneurs to their status as Small and Medium Entrepreneurs. Having understood the emerging trends in the area, the division was able to customize company's micro banking solutions to address the emerging customer needs while competing with numerous competitors in the trade. The company's Micro Financing strategy always look to offer tangible support to neglected communities in rural areas with the intention of upgrading them to a sustainable position.

The company's main focus towards Small and Medium Entrepreneurs involved in Agriculture and Farming sectors where, the company believes, development of rural entrepreneurship is the starting point of the sustainable growth.

With the sole objective of providing world class customer services to our valuable customers, Customer service unit was established in the Head Office with state-of-the-art facilities to provide a best service for walk-in customers. Further, a customer survey was conducted throughout 2013 to monitor satisfaction levels in line with service standards and to gather feedback. State-of-the-art Call Centre was expanded to handle customer complaints and to send notifications/reminders to customers for added convenience. The company's website was modified with added features such as ‘Rental Calculator’.

MBSL, as a profit-oriented commercial enterprise always exploring opportunities for profit maximization, never got rid of the responsibility towards society. All MBSL branches around the country have organized various Corporate Social Responsibility Campaigns such as blood donations, renovation of hospital wards and various construction activities in social institutions such as temples, orphanages etc. during the month of March 2013.

Information Technology

During the year 2013, the company took several measures to improve the efficiency of the current IT system with the view to providing hassle-free, convenient and safe transactional

facilities in order to enhance the customer service delivery in a competitive Business environment.

At present, the company is in the process of evaluating a Core Business Application System in order to replace the existing IT system to meet the requirements after the proposed merger with its subsidiaries. The new system will facilitate the merged entity to function on a common system to provide IT-enabled products and services to its customers.

Relevant to the monthly information submitted to the Credit Information Bureau of Sri Lanka (CRIB) on the lending portfolio, the company was rated as A++ on the accuracy of data in timely manner.

Company has upgraded to the latest version of centralized anti-virus solution to maintain a virus-free environment, while, continuously maintaining adequate firewall system to prevent unauthorized access to the network.

Also, technology driven Human Capital Management (HCM) system is in place enabling reduction of time lags in submission of leave, querying leave details and maintaining up-to-date employees' personal information.

Now, the division has taken steps to increase security awareness amongst staff to ensure compliance of IT security. As a part of this process, detailed guidelines on IT policy have been published on the company's intranet providing access to all users.

Corporate Secretarial Services

Corporate Secretarial Services Division relinquished functioning as Secretaries / registrars to external clients including its own subsidiaries and at present the division provides secretarial services only to the company.

Performance of our subsidiaries and associate companies

MBSL Savings Bank Ltd

MBSL Savings Bank Ltd (MSB) is one of few licensed Specialized Banks in Sri Lanka, established under the

provisions of the Banking Act and has the backing and stability of both MBSL and BOC. It is an established community bank that offers products and services that meet the deposit and financing needs of both consumers and businesses. MSB serves for retail as well as corporate banking sector of the country through its head office and twelve branches located islandwide.

Income

MSB earned an interest income of Rs. 461.6 million which is a 30% increase against last year. Income from leasing and hire purchase accounted for 46.4% of the total interest income. Further, net interest income increased by 49.4% from Rs. 93.5 million in 2012 to Rs. 139.7 Million in 2013.

Review of Operations

Finance leasing and hire purchase business remained the major areas of businesses of MSB, representing 47.1% of the total accommodation granted by end of 2013. In addition, loans contributed to 49.16% of the total accommodations. Though the MSB faces operational issues during the first half of 2013, business operation of MSB increased significantly in second half, which caused to increase lending and deposit bases of the Bank and decrease operational loss.

MBSL Insurance Company Limited

Financial Strength and Stability

MBSL Insurance Company Ltd (MBSLI) derives its financial stability and soundness from its corporate parent, the Merchant Bank of Sri Lanka PLC (MBSL), which in turn is backed financially by the country's largest bank, the Bank of Ceylon (BOC). The adequacy of an insurance company's capital base is fundamental to protecting its policyholders against extreme events and to meet the company's commitments to them. At the same time, a strong capital base is a signal to the market that maintains confidence in the company and underpins its long term growth and stability. The company currently has a capital base of Rs. 880 million, which exceeds the Insurance Board of Sri Lanka (IBSL) regulatory requirement.

Key Areas of Strategic Focus

MBSLI aims to be a global insurance player by 2020 through a strategy of growing its core businesses. In pursuing this

Management Discussion & Analysis

goal, MBSLI will balance the services and security that it offers to clients with the requirement to maximize returns for shareholders. The company will continue to offer affordable risk coverage to clients at all levels country-wide through a rapidly expanding branch network and expanding product lines. In 2013, the product initiatives implemented were the “MBSL Investment Plus” product for life insurance and “Suwadiyiya” product for general insurance.

In the Twenty-First century, information technology is fundamental to the efficient delivery of products, services and management information. The Company has recently updated its IT infrastructure with an enterprise-wide information management system that processes underwriting, claims management and administration tasks within a customer-oriented framework. Concurrently, cost containment and operational efficiencies continue to ensure that administrative ratios are commensurate with planned growth.

Advertising and sales are core activities in the insurance industry. The MBSLI advertising highlights the company's unique solutions for customers in risk transferrable and risk minimization. The year 2013 was remarkable for its cost effective advertising campaigns, promotional campaigns and corporate image building activities. The cross selling of life and general insurance also had a significant impact on increased sales.

The company's team of sales agents is developed through regular training so they can provide clients with maximum value through a full portfolio of financial solutions. This commitment to providing enhanced customer services through our agents is complemented by the continually expanding island-wide branch network. The success of this distribution strategy is evident in the growth in sales, culminating in Gross Written Premium (GWP) exceeding Rs. 1,400 Million in 2013.

Financial Results

Backed by the financial strength of both MBSL and BOC, we stand as a competitive player in the insurance industry. The company has recorded a constant growth in market share measured by GWP. The market share of GWP recorded a

gradual growth over the years and increased from 0.81% in 2009 to 2.11 % by end of 2012.

The net investment income rose to Rs. 145 million compared to Rs. 91 million in 2012, which was also a very satisfactory development. GWP increased by Rs. 148 million totaling to Rs. 1,420 million during 2013 from Rs. 1,272 million in 2012 as a result of growths in both the life and general insurance businesses by 30.6% and 36.22% respectively.

One of the company's key differentiations over the years has been our strong and diverse balance sheet. Total assets climbed by Rs. 281 million to Rs. 1,629 million, representing a 20.9% increase over total assets as at 31 December, 2012.

Performance in Life Insurance

MBSLI's life division offers a wide range of products: life and disability policies, savings and investments instruments, hospital cash and critical illness and concept of life planning products as well as group life products. These products provide higher protection at affordable premiums with unique features while accommodating the needs of even the less privileged niches of society.

The total revenue for life division in 2013 was Rs. 271 million, an increase of 32.9% over the prior year of Rs. 204 million, a remarkable increase in life GWP by Rs. 59 million to Rs. 252 million.

Following the trend, the company's flagship product, “Vinivida” made the largest contribution of 65.1% to the total life GWP in 2013 totaling Rs. 164 million. The second highest contribution of 23.8% to the life GWP was made by group life insurance accounting for Rs. 60 million, which is a remarkable improvement.

The life fund rose to Rs. 221 million in 2013 from Rs. 166 million in previous year.

Performance in General Insurance

While the general insurance industry is characterized by high GWP volatility and high levels of competition, the MBSLI's general insurance business recorded over Rs. 1 Billion in 2013 GWP for the second consecutive year. This resulted

in a total revenue of Rs. 1,190 million in 2013, an increase of 39.7 % over the previous year.

The GWP from motor insurance is Rs. 831 million, which makes the highest contribution (71.1%) to the total general GWP. The non-motor products of surgical, marine, travel, fire, engineering, bonds and other miscellaneous recorded a GWP of Rs. 338 million, also a substantial contribution to the total GWP. The growth in non-motor class was 2% over the previous year. In the non-motor class, performances of fire and miscellaneous insurance were notable. Contributions from fire and miscellaneous were 6.4% and 19.8% respectively for the total general GWP in 2013.

Similar to life insurance fund, general insurance fund also increased by Rs. 162 million over 2012 amounting to Rs. 733 million in 2013.

MCSL Financial Services Limited

During the year, MCSL focused on retaining and building consumer trust and in developing products that met consumer needs for security, despite shaken public confidence in finance institutions. In spite of such market difficulties, we are happy to report that MCSL surpassed the Rs. 1.5 billion income target for the first time, in 2013. Overall, MCSL recorded a moderate financial performance for the year, due to a decline in profitability, resulting from prevailing market conditions.

MCSL recorded a moderate pre-tax profit of Rs. 59.5 million for 2013 and profit after tax declined by 62%, to Rs. 49.6 million, against Rs. 129.6 million in 2012.

The hire purchase sector was the main contributor towards interest income, generating Rs. 456 million by end of December 2013, representing a 28% proportion of total income. Interest income from finance leases was Rs. 372 million, which is a significant improvement by 27%, despite the challenges posed by the higher import duty on motor vehicles.

Interest Expenses totalled Rs. 1,046 million by the end of the year. As a result of holding a substantial component of deposits maturing in the short term, in a declining interest

rates scenario, MCSL was in a position to reduce deposit interest costs considerably, as renewals were at lower rates.

Interest expenses decreasing at a lower pace than interest income, had an unfavourable impact on MCSL's Net Interest Margins which slid significantly and reached Rs. 559 million by the end of December 2013, which is an increase of 7%. This was mainly due to significant reduction in competitor rates due to the opportunity to borrow funds from foreign sources at a lower rate.

MCSL's total operating expenses increased by Rs. 168 million, or 44%, reaching Rs. 547 million, mainly due to expansion and new recruitments, that saw an increase of 17% in personnel costs. The total staff strength increased to 270 from 2013, in 2012, caused by merger with Ceylease Financial Services Ltd.

Loan Loss Provisioning

The impact of the deteriorating debt service ratio of borrowers, which is a trend in Licensed Finance Companies (LFC) lending, unlike in Licensed Commercial Banks (LCB), contributed significantly to the increasing trend in non performing assets. As a result, MCSL was required to make specific provisioning totalling Rs. 60 million, including disposal loss on vehicles, from last year.

In the context of a competitive economic environment, MCSL have taken steps to improve the portfolio quality of the company and credit monitoring procedures.

Performance on disbursements

MCSL's core business area has increased by a significant margin of Rs. 2 billion, or 35%, with the inclusion of Ceylease Financial Services Ltd from 21st of August 2013.

The asset and liability mismatch was addressed by promoting short term loans, on the short term cash flows requirements, in addition to term loans on a longer tenure.

Hire purchase became the largest single asset component of MCSL with Rs. 886 million in new lending, resulting in a 25% increase over 2012. New leasing disbursements recorded the highest single achievement with a 56% increase, or Rs. 1.1 billion.

Management Discussion & Analysis

Fixed Deposits

The total deposit base amounted to Rs. 7,505 million, which is the highest ever reached in the long history of MCSL, and gained by a massive 40% against 2012. The net growth of the deposit portfolio in real terms showed a growth of Rs. 2.15 billion.

New fixed deposits mobilised during the year amounted to Rs. 3,840 million, while deposits refunded were Rs. 1,685 million, which resulted in a net growth of Rs. 2,155 million. These figures indicate the commitment and hard work of our management and staff, in retaining consumer trust, in the face of mounting competition.

Shareholders' funds

Since MCSL had to undergo a significant structural change during the year due to the merger with Ceylease Financial Services Ltd, shareholder funds was affected to a great degree, although new shares were issued as per the Share SWAP approved by the Board of Directors.

We experienced a steep decline in shareholder funds, which reached Rs. 663 million by the conclusion of the accounting period ended 31 December 2012. During the year 22,726,594 new shares were issued, with a nominal value of Rs. 10.73, per share. Once again the significant source of shareholders funds were internally generated profits. MCSL has accumulated share holders funds through annual profits which created a strong capital position. During the latter part of the year, MCSL underwent another challenge in terms of Risk Weighted Capital Adequacy (RWCAR) reaching below the minimum regulatory level of 10%.

Branch Performance

With the opening of newest service centre in Wattala in the current financial year, MCSL has expanded the network to 12 fully fledged branches in various parts of the country and 8 service centres. Wennapuwa is the most prominent branch in terms of performance and has managed to maintain the NPA at the lowest levels, even after the asset portfolio surpassed Rs.1 billion in 2013. During the year MCSL has successfully resisted competition and withstood market pressures.

Lanka Securities (Pvt) Ltd

Introduction

Lanka Securities (Pvt) Ltd is a Joint Venture Stock broking firm between First Capital Securities Corporation (Pakistan) (FCSC), BOC and MBSL. MBSL has a 29% holding in LSL. It was established in June 1989 and will be celebrating 25 years of business in 2014. Lanka Securities is a licensed member of the Colombo Stock Exchange to operate in the Sri Lankan equity market. LSL is primarily engaged in share broking. In addition, it provides equity trading, strategic deals, privatization arrangements and corporate finance related services. It has a fully-fledged and versatile research division, backed by the corporate finance teams of both MBSL and FCSC.

Revenue and expenses

Revenue which mainly represented brokerage income charged from clients for shares bought and sold on their behalf, has increased by Rs. 274,312. This is due to the slight recovery gained by market compared to previous year.

Expenses

All expenses have decreased compared to last year except the tax expense. Administration & general expenses have decreased by 25% while selling and promotional expenses have decreased by 7%. Travelling and entertainment expenses have decreased by 33% mainly because of the cost cutting done by the company. In total, operating expenses decreased by Rs. 42 million.

Profitability

The gross profit of LSL has increased by Rs. 0.8 million against 2012. Further the company was able to reduce the net loss to Rs. 49 million from Rs. 66.8 million in 2013. This is mainly due to the decrease in expenses evolved from proper cost management strategies while ensuring a growth in revenue. As a result, loss per share decreased by 28.3%.

Assets

The total asset base of LSL has increased by 4% from Rs. 461 million in 2012, to Rs. 478 million in 2013. Short term investments have increased by Rs. 72 million.

The Future

In 2014, LSL will adopt strategies to reposition itself in the challenging business environment. Further development of the sales team through continuous training and guidance, improving quality of research and executing effective sales and marketing strategies will be given more emphasis this year. Necessary steps will be taken to dispense the benefit of capital markets to a wider clientele by expanding the local retail customer base via the branch network of Bank of Ceylon. To supplement these strategies, efforts will be taken to enhance the company brand image and publicity via print and electronic media. In 2014, LSL will further explore possibilities of establishing alliances with regional agencies to attract a wider foreign institutional and individual customer base. The above strategies may enable LSL to meet the future challenges and distinguish itself from the rest of the players in the industry.

Risk Management

Overview

Effective Risk Management is fundamental to business operations of the Company and its subsidiary companies. Risk Management is the systematic process of identifying, quantifying, and managing all risks and opportunities that can affect the achievement of the Company's strategic and financial goals. Risks are controlled at individual exposure level as well as in aggregate within and across all business lines, legal entities and risk types.

The Company has three major business lines:

- Leasing and Hire Purchase
- Corporate and Retail Credit
- Corporate Advisory and Capital Markets

Risk Management is to proactively assist the business in delivering superior shareholder value by ensuring an optimal trade-off between risks and returns. The Company's risk management policies are complied with directions for risk management which are issued by the Central Bank of Sri Lanka (CBSL) and Basel II and Basel III policy papers.

Risk Management Policy

“Embed best practices in identification, assessment, evaluation and report of risks and use effective strategy to mitigate risks, safeguard and effective utilization of Company assets”

Board Responsibility on Risk Management

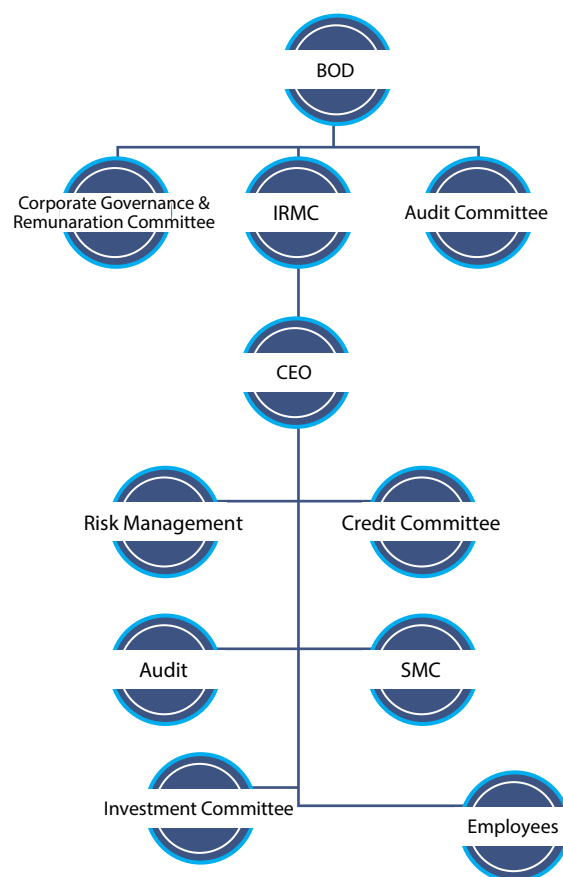
The Board of Directors (Board) has ultimate responsibility for proactive risk management practices in the Company. The Board has established Integrated Risk Management Committee (IRMC) within the governance structure to enable the board to evaluate risks faced by the Company and manage those risks effectively. The Board is responsible for:

- (I). Determining the appropriate risk appetite of the company
- (II). Establishing a risk awareness culture within the company
- (III). Reviewing the risk management policies and procedures of the company and approve the required amendments

- (IV). Taking necessary steps to mitigate risks and allocating adequate resources to manage the risk profile of the company

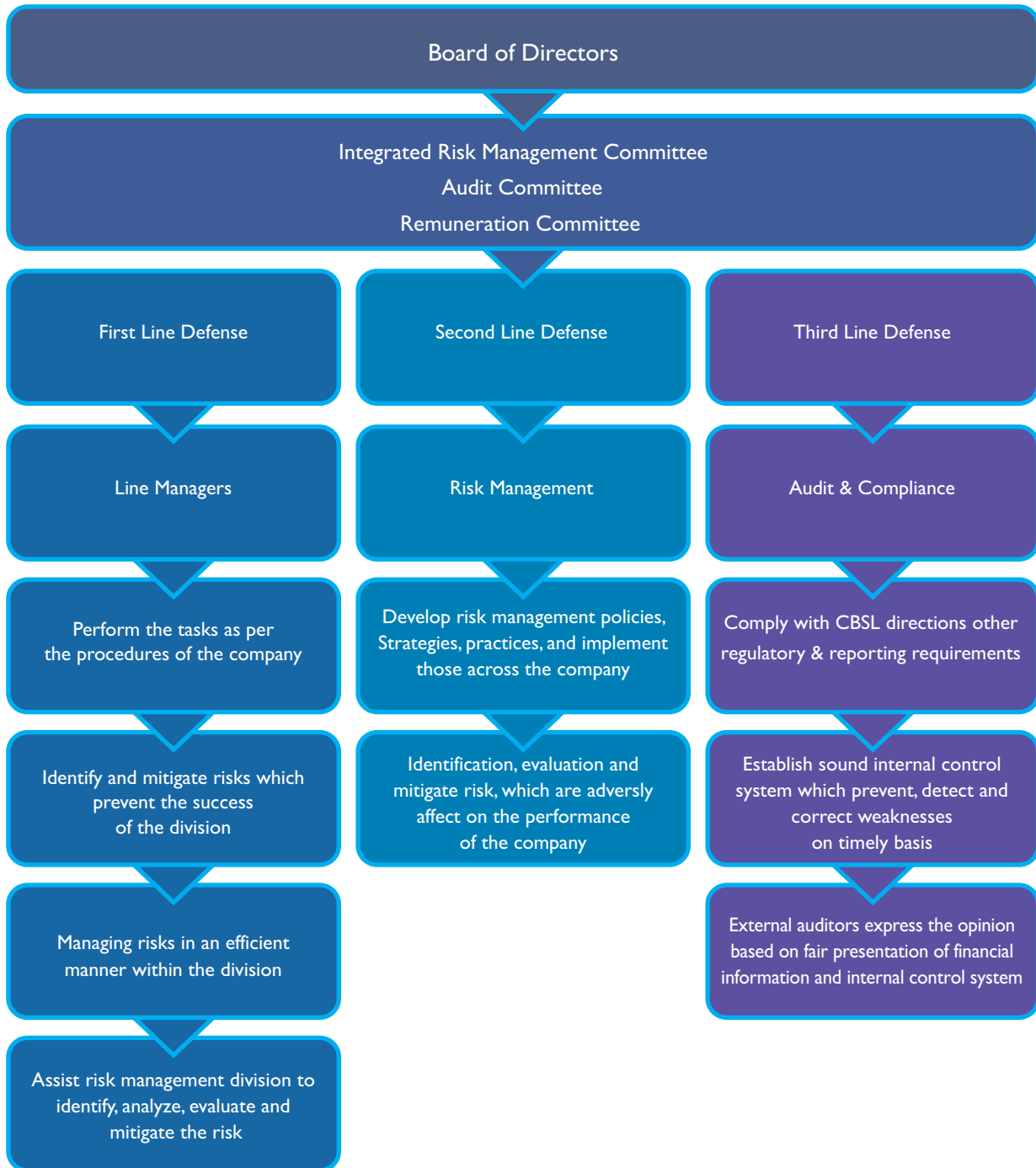
The risk management framework of the company is illustrated in figure 1.

Figure 1: MBSL Risk Management Framework



The Board relies on quarterly reports of IRMC and established three lines of defence model to ensure the effectiveness of identification, evaluation and management of risk faced by the company and the group. The three lines of defence model is illustrated in the figure 2.

Figure 2: MBSL Three Lines of Defence



Risk Management

Integrated Risk Management Committee (IRMC)

The Board of Directors has established the IRMC to implement smooth Risk Management practices within the company.

The primary purpose of the IRMC is to assist the company's Board in fulfilling its oversight responsibilities for all aspects of risk management practices adopted by the company.

The roles and responsibilities of IRMC:

- (I). IRMC assesses all risks that affect the company on a monthly basis and takes necessary actions to mitigate risks.
- (II). The committee reviews the adequacy and effectiveness of all management level committees to address specific risks and manage those risks within quantitative risk limits identified by the committee.
- (III). At least every quarter, the committee shall assess all aspects of risk management including updated business continuity plan.
- (IV). Take prompt corrective action to mitigate the effect of specific risks identified by the IRMC or Risk Management division.

Table 1: Composition of the IRMC

Mr. K.B.S Bandara	Director	Chairman
Mr.T. Mutugala	CEO	Member
Mr. Lakshman Kaluarachchi	DGM – Recoveries	Member
Ms. Shyamalie Amaratunga	DGM - Strategic Planning & Risk Management and Compliance Officer	Member
Mr. Ranjith Siriwardane	DGM – Corporate and Retail Credit & Information Technology	Member
Mr.A.M.A. Cader	DGM - Corporate Advisory & Capital Markets	Member
Mr. Jude Gamalath	DGM – Group Marketing	Member
Mr. Priyantha Herath	AGM–Finance & Treasury Management	Member
Mr. S. Uduwawala	Acting DGM - Leasing	Member
Mr. Himala Wijayatunga	Deputy Manager - Risk Management	Member
Ms. Karnika Jayatilake	DGM-Group Legal/ Company Secretary	Committee Secretary

* DGM - Deputy General Manager
AGM – Assistant General Manager

The Company Secretary acts as the Secretary to the Committee and other Senior Management Members are also invited for meetings when necessary.

Risk Management Process

The Risk Management division identifies, evaluates and takes proper measures to mitigate risks which affect the company's business operations and profitability. The division directly reports to IRMC and takes proactive measures to mitigate risks. The company has identified Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Strategic Risk, Regulatory and Compliance Risks as main types of risks, negatively affect the company's business operations. The Risk Management Division submits quarterly risk assessment reports to both the IRMC and the Board of the company.

Figure 3: Major Risk Types faced by the company



Credit Risk

What is Credit Risk

Credit risk is the risk of loss arising due to the failure of counterparties to meet their financial or contractual obligations when due, for any reason. The credit risk exposure predominantly arises through the company's

lending operations. The credit risk also includes country risk, transfer risk, replacement risk and settlement risk.

How does MBSL manage Credit Risk

The new facilities are assessed to ensure that credit quality and pricing align with the company's risk appetite. In addition to that new facilities are rated and categorised as per the credit policies, procedures and measures are continually improved and aligned to ensure best practices throughout the company.

The company follows CBSL and Basel guidelines to manage the Credit Risk in a prudent manner. To mitigate Credit Risk, the MBSL has implemented the following procedures.

- (I). Centralization of credit appraisal processes
- (II). Delegation of authorities to approve the credit facilities
- (III). Calculation of NPL ratio branch wise/ product wise and closely monitor the Non-Performing Loans
- (IV). Calculation of Probability of Default and Loss given default branch wise and sector wise
- (V). Manage loan concentration analysis and sector exposure
- (VI). Implemented the Credit Rating system to analyse the credit quality and creditworthiness of new facilities
- (VII). Risk-based pricing for the products and obtain adequate collaterals.
- (VIII). Calculation of concentration risk and maintain single borrower limit

Market Risk

What is Market Risk

Market risk is the risk of variation in the actual market value or expected future cash flows of a portfolio of financial instruments, including shares and commodities, caused by movements in market variables such as interest rates, foreign currency, money market activities, inflation rates, equity, bond and commodity prices.

How does MBSL manage Market Risk

The company has taken proactive actions to minimize Market Risk. Interest Rate Risk, Equity Risk and Currency Risk are being managed under Market Risk. The company uses various types of effective tools and methods to identify and assess the risks including stress testing.

The company uses following strategies to evaluate and mitigate the impact of Market Risk;

- (I). Calculation of Rate Sensitive Assets and Liabilities gap and identifying interest rate risk for the company and report to IRMC and ALCO
- (II). Matching the duration of assets and liabilities and reviewing by ALCO.
- (III). Identifying the potential fluctuations in future markets and adjusting the pricing strategy accordingly.
- (IV). Assess share portfolio performance and take required measures to mitigate the loss.
- (V). Maintaining both fund based and fee based portfolios within the company to minimize the risk exposure.

Liquidity Risk

What is Liquidity Risk?

Liquidity Risk is the possibility of loss arising from fluctuations in company's ability to sell or dispose the assets and settle the liabilities. Liquidity risk arises when the company is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due, or can only do so on materially disadvantageous terms.

How does MBSL manage Liquidity Risk

The company's Risk Management division and ALCO closely monitor the Liquidity Risk by using various tools. The company believes that effective management of Liquidity Risk is vital for continuing company's operations successfully. Accordingly, the company has implemented board approved Liquidity Risk Management policies to identify, evaluate and mitigate the said risk which is based on Basel III. The company is using below mentioned strategies to mitigate the impact of Liquidity Risk.

- (I). Monitor Balance Sheet liquidity and make improvements to maintain healthy gearing ratio and review by ALCO.
- (II). Regular review of Asset and Liability Yield Analysis by products monitoring by ALCO to ensure optimal Net Interest Margins.
- (III). Contingency funding arrangements with parent and other financial institutions.
- (IV). Developing strategies to attract long term financial instruments at lower interest rate.

Risk Management

(V). Reviewing the maturity gap and preparing cash flow statements on a regular basis to identify the Liquidity Risk.

(VI). Daily monitoring of disbursements and collections.

Operational Risk

What is Operational Risk

Operational risk is the 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.

Figure 4: Factors of Operational Risk



How does MBSL manage Operational Risk

Operational Risk is inherited with the company's operational environment. Inadequate internal controls, people, system failure and external events can create Operational Risk towards the company. Operational Risk cannot be eliminated and can be reduced to an acceptable level.

The company has introduced several strategies to minimize the adverse impact of Operational Risk.

- (I). Implemented business continuity plan and disaster recovery plan.
- (II). Established a sound internal control system within the company.

(III). Conduct continuous assessment by internal auditor in order to identify the failures in internal control system.

(IV). Implemented a board approved organizational IT policy.

(V). Introduced Whistle Blower Systems to identify fraudulent activities and reward the employees who inform of any malpractices.

(VI). Evaluate the branch operational risks on regular basis.

(VII). Ensuring the integrity and restorability of the company's information systems and resources.

(VIII). Reviewing whether Audit Committee and the Group Internal Auditor suggestions have been implemented within the the company.

Compliance Risk

What is Compliance Risk

The risk of losses is arising from failures to comply with regulatory or legal requirements imposed by the CBSL or other regulatory institutions. It also includes any losses which would arise from changes in regulatory requirements. Compliance risk may also result in legal and reputational risks.

How does MBSL manage Compliance Risk

The company has implemented following strategies to mitigate the Compliance Risk;

- (I). Appointed a compliance officer.
- (II). Performing compliance check list for every month and identify non-compliances and prompt actions.
- (III). Conducting assessment to identify the compliance breaches and report to the Board.
- (IV). Ongoing reviewing of Audit Committee to identify any non-compliances
- (V). Board of Directors monthly review of the company Non-compliance report and taking necessary measures.

Strategic Risk

What is Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from inaccurate business decisions, improper implementation of decisions, or lack of responsiveness to industry changes. This risk is a function

of the compatibility of an organization's strategic goals, the business strategies developed to achieve those goals, the resources deployed against these goals, and the quality of implementation.

How does MBSL manage Strategic Risk

Failure of strategies can result in failure of the entire organization. The Board of Directors of the company views that sound policies and strategies are required to manage the strategic risks of the company. The company has implemented following strategies to mitigate the Strategic Risk;

- (I). Review of strategic plan and budget for the financial year.
- (II). Conducting variance analysis by comparing budgeted against actual performance and recommending appropriate strategies.
- (III). Conducting competitor analysis, reviewing industry trends and taking prompt actions to prevent risks.
- (IV). Conducting risk assessment before any acquisition or investment.

Other Risks

Legal Risk

The risk of losses arising due to the litigation expenses of the company. Legal Risk primarily caused due to a defective transaction, breaches of the applicable law and change in law.

Reputational Risk

Reputation is the most valuable assets for any Bank or financial institution. Reputational risk results from damage to the company's image which may impair its ability to retain and generate business due to the negative public opinion about the company. Such damages may result from a breakdown of trust, confidence or business relationships.

Stress Testing

Stress testing will be used to identify and analyse the impact of Credit Risk, Market Risk, Operational Risk and Liquidity Risk under different scenarios.

Three different hypothetical scenarios will be used by the company for stress testing;

1. Major Level Shocks: It involves large shocks to all the risk factors and is also defined separately for each risk factor.
2. Moderate Level Shocks: It involves medium level shocks and the level is defined for each risk factor separately.
3. Minor Level Shocks: It involves small shocks to risk factors.

Risk Management

Risk Evaluation

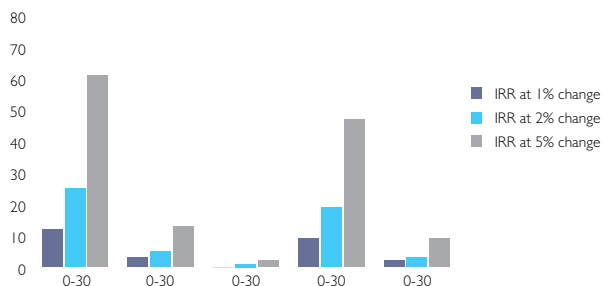
Risk Category	Risk Evaluation					
Credit Risk						
Stress Test	2013					
	Description	Exposure (Rs. Mn)	CAR as at 31 Dec 2013	5%	10%	20%
	Tier I Capital	2,329				
	Non Performing Advances	617	22.17%	21.88%	21.59%	21.00%
Loan Concentration During the year 2013, Loan concentration has shifted from agriculture sector to diversified sector	<p style="text-align: center;">Sector Wise Loan Concentration 2013</p> <p style="text-align: center;">Sector Wise Loan Concentration 2012</p>					
Market Risk						
Stress Test	Description	Exposure (Rs. Mn)	CAR as at 31 Dec 2013	5%	10%	20%
	Tier I Capital	2,329				
	Provision for fall in investment	106	22.17%	22.12%	22.07%	21.97%

Interest Rate Risk (IRR)

As at 31 Dec 2013 1% negative change in interest rates will increase interest expenses by Rs. 26 million. 2% and 5% change will increase interest expenses by Rs. 53 million and Rs. 132 million, respectively.

Description (Rs. Mn)	Change in interest Expenses (Rs. Mn)
IRR at 1% increase in interest rates	(26)
IRR at 2% increase in interest rates	(53)
IRR at 5% increase in interest rates	(132)

Interest Rate Risk Impact



Share Portfolio

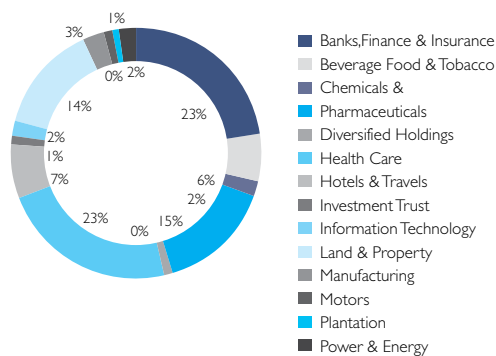
Adverse market conditions have impacted to the company negatively.

However, the company was able to manage the share portfolio prudently and concentrations on portfolio have not been changed significantly during the year 2013.

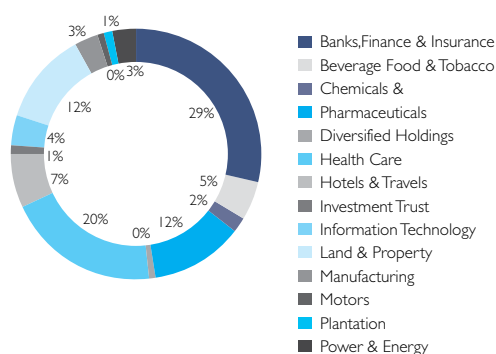
The company's investment in Diversified Holdings, Hotels & Travels and Manufacturing sectors have increased slightly compared to last year.

However, Banks, Finance & Insurance Land & Property sectors investment have decreased slightly compared to year 2012.

Share Portfolio 2013



Share Portfolio 2012



Risk Management

Liquidity Risk																																	
<p>Capital Adequacy</p> <p>Minimum capital requirement for tier I and tier II capitals are 5% and 10%.</p> <p>The company meets the both tier I and tier II capital requirements</p>	<p style="text-align: center;">Tier I Capital</p> <table border="1"> <caption>Tier I Capital Data</caption> <thead> <tr> <th>Month</th> <th>2012 (%)</th> <th>2013 (%)</th> </tr> </thead> <tbody> <tr> <td>Mar</td> <td>27</td> <td>23</td> </tr> <tr> <td>Jun</td> <td>28</td> <td>23</td> </tr> <tr> <td>Sep</td> <td>27</td> <td>23</td> </tr> <tr> <td>Dec</td> <td>24</td> <td>22</td> </tr> </tbody> </table> <p style="text-align: center;">Tier 2 Capital</p> <table border="1"> <caption>Tier 2 Capital Data</caption> <thead> <tr> <th>Month</th> <th>2012 (%)</th> <th>2013 (%)</th> </tr> </thead> <tbody> <tr> <td>Mar</td> <td>27</td> <td>23</td> </tr> <tr> <td>Jun</td> <td>28</td> <td>23</td> </tr> <tr> <td>Sep</td> <td>28</td> <td>23</td> </tr> <tr> <td>Dec</td> <td>24</td> <td>22</td> </tr> </tbody> </table>			Month	2012 (%)	2013 (%)	Mar	27	23	Jun	28	23	Sep	27	23	Dec	24	22	Month	2012 (%)	2013 (%)	Mar	27	23	Jun	28	23	Sep	28	23	Dec	24	22
Month	2012 (%)	2013 (%)																															
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<p>Risk Weighted Assets as at 31 December 2013 and 2012.</p>	<p>Description</p>	<p>2013</p>	<p>2012</p>																														
	<p>Risk Weighted Assets (Rs. Mn.)</p>	<p>10,504</p>	<p>9,795</p>																														
	<p>The above Risk weighted assets are based on CBSL directions.</p>																																

A close-up photograph of a large, gnarled tree trunk with deeply textured, brown bark. The tree is surrounded by a dense forest of vibrant green leaves and branches, creating a lush, natural background. The lighting is soft and even, highlighting the intricate details of the bark and the surrounding foliage.

Sustainability Report

Sustainability Supplement

Helping the needy: wealth creation for a wider population

Message from the Chairman

I believe that financial sustainability is intervened with social and environmental sustainability. Therefore, it is not possible to be financially sustainable over the long term, unless we are also supported by environmental and social sustainability altogether. Therefore, as an organisation policy, we have attempted to integrate sustainable principles from top to bottom in order to attempt to ensure a social, environmental and economic balance. What that means is, as a financial institution, we are not narrowly focused only on enhancing our financial performance. Instead, we have adopted a broader approach of creating wealth for all stakeholders through a commitment towards contributing to the national economy, our natural environment and society we live in. This holistic view of our role within the financial sector and broader society, has pushed us towards a sustainable business model that is built on the foundation of good governance and aims to create wealth for a wider segment of stakeholders.

Our growth strategy is based on this philosophy of sustainable business. The expansion of our branch network has increased our ability to help needy populations across the country, while also enlarging our market and generating new business opportunities. It also supports government development efforts aimed at uplifting rural communities and conflict-affected communities, through financial empowerment, employment creation and improvements to quality of life.

Fuelled by our physical expansion, Siyath Saviya, our micro credit programme reached more people than ever before, during the current year. I am pleased to announce that we have strengthened this conduit of rural financial support by

making the Siyath Saviya credit line available through some of our own branches, in addition to the distribution network of our partner, ADCS. We will continue to expand the reach of the Siyath Saviya programme in the new financial year, ensuring that a wider segment of the needy populations receive a helping hand to make their dreams come true, bearing in mind the principle, that 'people's money for people's welfare.'

We hope to continue to create wealth for our stakeholders by contributing actively towards overall economic growth and also individual financial empowerment, while being mindful of preserving our natural environment. This year too, our Sustainability Report has been compiled based on the guidelines of the Global Reporting Initiative (GRI) and presents an overview of our activities during the year, in line with our commitment towards a sustainable business model.



M. R. Shah
Chairman

30 April 2014

Building a sustainable institution

Message from the CEO

As an established financial institution dealing with public funds, I believe sustainability is an imperative and not a choice. Furthermore, financial sustainability alone is inadequate for long term sustainability. Therefore, we strive to build a business that is sustainable over the long term not just financially but also in the context of wider society and the natural environment we live in.

MBSL, as a financial institute, does not engage in any activity that is directly environmentally harmful. However, I believe it is vital for our future as a nation, to safeguard our natural environment and its resources for our future generations. Therefore, at MBSL our aim is to minimise adverse environmental impacts through the application of the 3R method of reducing, recycling and reusing. I believe this system contributes, even in a small way, towards the preservation of our natural environment. We also attempt to ensure compliance with environmental laws in doing our day today business. This attempt to conserve the environment which has direct and wider social impacts, as it help to create a better world for all of us to live in.

At MBSL we view sustainability as a means of creating wealth for wider society, either through our contributions to environmental conservation, or through community welfare projects in different parts of the country. We have built our business on a sustainable foundation by being sensitive to wider societal needs. Our products and services are designed with a wider aim of being socially beneficial and supporting people in need, while also balancing our commitments towards our shareholders and ensuring overall financial sustainability of the Company. Our employees too, are a vital element of our sustainable business model. Therefore, we invest in the development and welfare of our staff.

You will read more through the information given in this report about how we apply our philosophy of sustainable business. We will continue to improve our business model and make it more sustainable as we look to the future.



T. Mutugala
Chief Executive Officer

30 April 2014

Sustainability Supplement

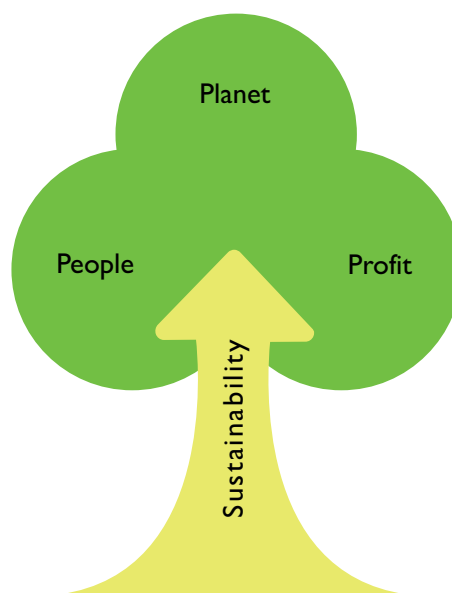
About this report

This report is a digest of the financial, social and environmental performance of MBSL, in the year 2013. We have been reporting on our commitment to go beyond our financial performance, for many years. MBSL has recognized its potential to promote the principles of sustainability from environment protection, employee wellbeing, to customer relationship and social wellbeing. We are aware of the importance of sustainability because it is the life blood of our operations as a business in the financial services industry. MBSL operates in the belief that we can play a constructive role in contributing towards economic, environmental and social sustainability.

In reporting both financial and non-financial matters, the Company complies with all the provisions stipulated by the Central Bank of Sri Lanka, as well as with those of the Institute of Chartered Accountants of Sri Lanka, the Companies Act No. 07 of 2007, the Finance Leasing Act No. 56 of 2000, and the Listing Rules of the Colombo Stock Exchange. The report has also suitably adopted the Global Reporting Initiative (GRI) Guidelines (Version G3.1) and GRI's Financial Services Sector Supplement, for sustainability reporting. Our disclosures have been drawn up to an Application Level "B" according to the criteria set out in the Guidelines.

We seek to present our business strategies, governance, risk management and other relevant factors that shape MBSL's performance, to enable our stakeholders to be better informed about their interactions with the Company. This is the Company's second sustainability report published according to the guidelines of the GRI (G3.1), which is published by the Global Reporting Initiative. Our previous sustainability report was published in the year ended 31 December 2012.

We believe that by compiling our report we are able to bring together information about our strategy, governance, financial and corporate responsibility performance, in a way that articulates how we create and sustain value for all our stakeholders.



Report parameters

Scope and boundary of this report

This report covers the operations of MBSL and excludes the activities of MBSL's subsidiaries, MBSL Savings Bank Ltd and MBSL Insurance Ltd and its associate companies, Lanka Securities (Pvt) Ltd and MBSL Financial Services Ltd. The report also does not contain information pertaining to our strategic partnership with SBI Capital Markets of India.

Date of most recent previous report

The Company commenced publishing sustainability reports from 2007 in our annual reports. This report and the 2012 annual report have been guided by the GRI reporting framework. We wish to standardise our sustainability reporting, demonstrate our commitment to our sustainable business practices and generate greater value to our stakeholders.

Inquiries and clarifications

Should you require further information regarding our sustainable operations, please address your queries to;

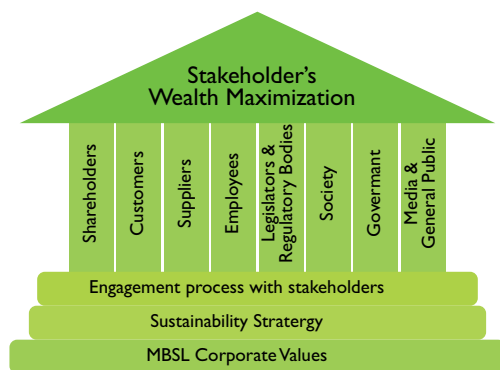
Finance and Treasury Management Division
Merchant Bank of Sri Lanka PLC
BOC Merchant Tower,
No.28, St. Michael's Road,
Colombo 03

Our strategy and profile

<p>Challenges</p> <ul style="list-style-type: none"> • Huge competition in the market • Decline in new vehicle registration impacted the overall leasing market share • Regulatory barriers impact on loan growth 	<p>Management action on challenges</p> <ul style="list-style-type: none"> • Becoming closer to customers • Introducing new products • Expanding Corporate and Retail Credit portfolio.
<p>Opportunities</p> <ul style="list-style-type: none"> • The government focuses more on inclusive development • Tax exemption for listed corporate bonds 	<p>Management action on opportunities</p> <ul style="list-style-type: none"> • Lending to rural areas through micro finance product. • Promoted corporate bond issue as managers to debenture issues

MBSL, as the pioneer merchant bank in the country provides a range of services to the government sector companies, private sector companies including retail, SME and individuals.

Our vision, mission and values are the guiding principles of our strategy development and daily operations. Our Company's corporate vision is "to be the most dependable and diversified merchant bank of the nation". It is guided by our corporate values that create the Company's corporate culture. MBSL performance is measured beyond profit and we are conducting our business to participate in the sustainable development of the nation. Therefore our corporate values focus on overall stakeholders wealth maximization.



Engagement of stakeholder activities and CSR are a vital part of the MBSL sustainable business strategy. Therefore we have paid more attention towards social and environmental activities. We encourage all our branches to do CSR activities. Accordingly our sustainable strategy is an ongoing and continuous process, with strategic decision making and long term success integrated with our vision, mission and corporate values.

MBSL has used an ongoing strategic reviewing process to ensure that the sustainable needs of our stakeholders are met since our stakeholders are concerned about our sustainable success. Members of the senior management committee take on the strategic reviewing process. This process considers macro and micro economic factors that affect the future of our business, the organization culture that is embedded within employees, the business processes of the organization etc., in making their decisions. The objective of our sustainable business strategy is to mitigate risks relating to social, economic and environmental factors.

Governance, Commitments and Engagement

MBSL's governance systems have been designed to ensure maximum transparency and accountability. We believe corporate governance is a pre-requisite for sustainable, long term survival. Therefore, our policies and processes have been designed to ensure suitable controls at all levels and to ensure monitoring of activities across the organisation. Our controls and monitoring systems are based on best practices and comply with all relevant national regulations. These include listing rules issued by the Colombo Stock Exchange, the Finance Leasing (Corporate Governance) Direction No.4 of 2009 issued by the Central Bank of Sri Lanka under section 34 of the Finance Leasing Act No.56 of 2000 as well as the Code of Best Practice on Corporate Governance issued jointly by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka.

Sustainability Supplement

Shareholder and employee engagement with the Board

• Communicating with shareholders

BOC which is our parent company is the largest shareholder of MBSL. The MBSL Board keeps BOC informed of all activities through regular reports and Board meetings. In addition, shareholders have the opportunity to interact with the Board at the Annual General Meeting. MBSL also communicates with shareholders through the Annual Report and Interim Financial Statements of the Company. The company's web site is a gateway for communication as well as the source for knowledge acquisition for all shareholders and general public.

• Communication with employees

Employees can communicate with the Board through the Chief Executive Officer. Monthly gatherings allow employees to raise their concern to the board through the chairman. At the same time chairman communicates the messages given by the BOD to all employees at monthly gatherings.

Linking compensation to performance

Members of the Board, key management personnel and all permanent employees are evaluated and remunerated based on their achievement of targets, which are set well in advance in mutual agreement.

Avoiding conflicts of interest

Mechanisms are in place to deter conflicts of interest, as a part of overall good governance. We also maintain open communications and transparency at all levels. Further information is found in the section of "Corporate Governance" on page 88 to 110.

Statement of commitment

The Company bears responsibility for the economic, environmental and social impacts of its transactions including financial risks, as well as economic, social and environmental impact on communities. The Company is committed to a number of external charters, codes of conduct, standards, rules and regulations.

Memberships in associations

We meet our governance, regulatory and social commitments through interactions and membership with regulatory agencies and established industry institutions such as:

- The Institute of Bankers of Sri Lanka
- The Institute of Chartered Accountants of Sri Lanka
- Colombo Stock Exchange
- Securities and Exchange Commission of Sri Lanka
- Leasing Association of Sri Lanka
- RAM Ratings (Lanka) Limited
- Department of Inland Revenue
- Ceylon Chamber of Commerce
- Central Bank of Sri Lanka
- Credit Information Bureau of Sri Lanka

Monitoring and evaluating risk management & precautionary actions

The Company is in the process of establishing an independent risk management unit in order to identify, assess, manage and mitigate risk as part of the Company's Strategic position. Maintaining statutory and regulatory compliance is an important part of monitoring risk and ensuring sustainable business. The following procedures and precautions are taken to monitor and evaluate the economic performance:

- Review of financial performance in each division with the participation of senior management.
- Asset & Liability Committee reviews and manages the best lending borrowing rates and cash flow requirements.
- Company's Integrated Risk Management Committee analyses and oversees all aspects of risk management practices adopted by the Company.
- The Company has a Disaster Recovery Plan for Information Technology.

Stakeholder engagement process

Stakeholder engagement is a key component of sustainable business. Stakeholders who are affected directly or indirectly, due to activities of the company, require an engagement process, to interact with the company and ensure sustainable relationships.

Understanding the different needs of our stakeholders and being proactive in satisfying these needs is central to our overall strategy. We recognize that early identification and addressing these needs give us a competitive advantage in business and it is the only foundation for sustainable growth of MBSL.

Stakeholders Group	Needs Identified	Mode of Engagement	Engagement Objectives
Shareholders and Investors	Growth in earnings and Stability of the company Wealth management Responsible business practices Tranceparent governance Communication in language of choice	Annual General meetings Annual Reports MBSL website:www.mbslbank.com Colombo Stock Exchange announcements Interim Financial Statements Press Releases	Create sustainable wealth for Shareholders whilst contributing towards the achievements of national macro environment objectives
Clients and Customers	Responsible business practices Customer service Convenience of transacting Improving financial inclusion, education and advice Communication in language of choice	Annual Reports Branches Customer service points/One stop shops MBSL website: www.mbslbank.com Relationship with corporate customers	Ensure that service excellence remains a fundamental in the delivery of superlative products and services while meeting customers' needs
Employees	Development Retention Responsible Business practices Performance enabling environment Social responsiveness	Staff monthly gatherings MBSL intranet Employee training workshop & seminars Ad hoc meetings with trade unions Managers' meetings Year end events: Sports day, Annual Get-together Policy & circular changes	Create two way relationship that inculcate team spirit within the MBSL family concept whilst consciously enhancing the tangible & intangible worth of employees.
Community	Responsible business practices Community development Community empowerment Employment	MBSL website:www.mbslbank.com CSR initiatives Branch network Sponsorships Press releases	Create sustainable Communities through education, entrepreneurial assistance & health.
Legislators & Regulatory Bodies	Comply with rules & regulations Responsible business practices Social Responsiveness	Directions and Circulars: CBSL, SEC, CSE MBSL website:www.mbslbank.com Press release Filling returns and provide information to IRD	Assure regulatory compliance to strengthen the relationship with legislators and regulators
Suppliers	Business Growth Responsible business practices Ease of transacting Strategic partnerships	Meetings Annual Reports MBSL website: www.mbslbank.com	Focus on long lasting partnership on qualitative platforms.
Media & General public	Corporate Social Responsiveness Responsible business practices Community Development	Press releases MBSL website:www.mbslbank.com Press conferences Annual Reports	Keep the public informed about our sustainable activities and other development

Sustainability Supplement

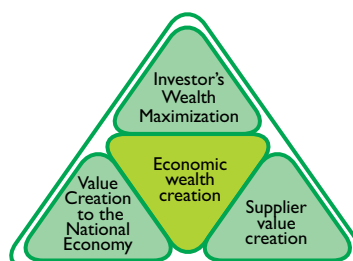
MBSL's approach to sustainability



MBSL approach to sustainability is based on our 3E model that balances our organizational goals with national priorities, needs of our stakeholders and best international practices. The sustainability principles are embedded within the organization through the strategy formulation process and communicated throughout the organization by way of meetings, emails, discussions and continuous training from top to bottom. We believe that creating a cultural awareness and be responsive to the needs of our stakeholders is key to our relevance and sustained growth, enabling the 'Power of We'. Our sustainability vision is aligned to our strategic goal to become the growing force in financial services and merchant banking activities. Corporate responsibility has changed from a philanthropic focus to a strategic approach where sustainability principles are integrated with business strategy, to take a long term view of issues that impact our key stakeholders, creating a competitive advantage for us in the long term. We never lose sight of our obligations to our wider society while we are maintaining our focus on our business goals. We hope to continue to improve the integration of sustainable business practices into our operations in the coming years.

Economic wealth creation

Our approach towards economic wealth creation is aimed at ensuring maximum benefits to the overall economy, while ensuring strong financial gains for our shareholders. Therefore, our approach to economic gains has a broader national perspective and is aligned with overall government development plans for the economy. In keeping with this policy, we support the government in its drive to empower rural communities and generate employment, through the provision of modern financial services at competitive rates.



Our goals and objectives are clearly presented in the annual corporate plan and budget while targets are set for all our business units. These targets and annual goals are continually monitored and corrective actions are taken when required.

MBSL economically handles its loans and advance portfolio while focussing on the necessity of rural areas as well as the Northern and Eastern provinces. Term loans, Personal loans, Agricultural loans, Micro Finance loans are the main categories of this portfolio.

Development of agricultural activities is a crucial part of developing the economy. MBSL has provided finances for agricultural development projects, through corporate lending and providing lease facilities to agricultural equipments and vehicles.

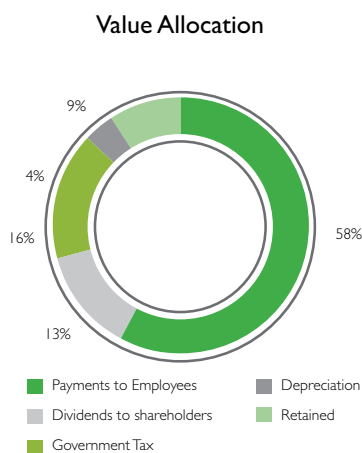
Three elements can be identified as the most relevant measurements of our Company's economic performance in the context of sustainability reporting. These are investor's wealth maximization, supplier value creation and value creation to the national economy. These account for a major share of our sustainable reporting framework, which is geared towards the economic wealth creation process.

Investor's wealth maximization

MBSL has been committed to deliver a sustainable benefit to shareholders by enhancing shareholder returns, while taking into account the organization's objectives.

Economic value added (EVA)

This method provides the most accurate calculation of economic value added by the Company against the accounting profit. The Company's economic value added during the year 2013, amounted to Rs. 531 million and details are found on page 231 of this annual Report.



Investors' ratios

Investors' ratio	2013	2012	2011
Net assets value per share - Rs.	20.60	19.95	20.46
Price earnings ratio - Times	15.70	13.35	15.90
Earning yield - %	06.37	7.49	06.29
Dividend per share - Rs.	0.50	1.25	1.25
Dividend Cover - Times	1.73	1.19	1.99
Dividend yield ratio - %	3.68	6.28	3.16
Retention ratio - %	42.12	16.15	49.72
Market value of a voting share - Rs.	13.60	19.90	39.60
Basic earnings per share - Rs.	0.87	1.49	2.49

Financial assistance from the state and donor agencies

MBSL did not receive any financial assistance from the government or donor agencies during the year.

Supplier value creation

In a sustainable business, suppliers are a base of sustainability, while being a strategic driver of the business. Equitable wealth creation and providing equal opportunities through a transparent procurement process rank high on our priorities. MBSL's procurement policy facilitates the procurement of goods and services at fair prices, accommodate credit for suppliers that require financial assistance and comprises of a review process for supplier complaints. An ongoing reviewing process has been established in addition to tender processes, to service our suppliers and enhance transparency.

There is a formal process to evaluate the new suppliers, and ensure that all suppliers have an equal opportunity to present their products and services.

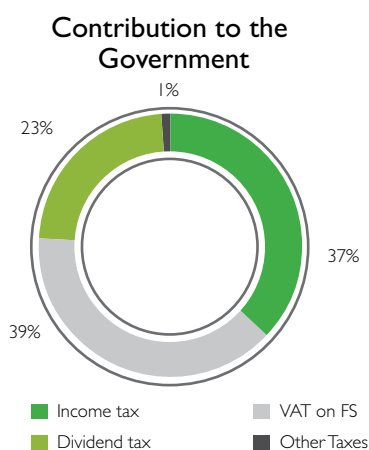
When choosing a supplier the following factors are taken into consideration.

- Price effectiveness
- Quality specification
- Performance history
- Proximity of location
- Scalability

Sustainability Supplement

Value creation to the national economy

As a part of our economic responsibilities, we have contributed to government income mainly via Income Tax, Value Added Tax on FS, Dividend Tax. At the same time MBSL supports the national economy by providing financial facilities through corporate lending in deferent economic sectors, such as agriculture, trade, and commerce etc.



Enhance Social Wellbeing

For the enhancement of social well being, our approach centres on employees, customers and Coporate Social Responsibility (CSR). These three aspects are the elements that have been mainly considered in evaluating the wellbeing of people.



Employee Wellbeing

Our approach to labour management and decent work responsibility

Our approach to labour management and decent work responsibility is based on the concepts of maintaining an open door policy and facilitating team work. We understand that participation and inclusivity is key to developing a sense

of ownership and a sense of belonging with the organisation and is vital to ensure equity. Therefore, we maintain an open door policy that allows employee voices to be heard. We also conduct monthly gatherings and have in place many other different forms of internal communications. In line with our concept of team spirit, we create a work environment that enables each department to work as a team, to attain predetermined goals.

With the expansion of our branch network, we have also expanded our workforce. Therefore, our full workforce grew from 296 in January 2013 to 323 in January 2014. As a policy, we try to recruit from all parts of the country, especially from areas where branches are located. We also assist rural youth with G C E A/L qualifications, by recruiting them to MBSL branches as Business Development Assistants, enabling them to be trained in the field of marketing.

Human Capital Development

We believe our human resources are the greatest asset and strength, which will add dynamic value to our services, to achieve a sustainable competitive advantage in the industry. Hence, MBSL strongly believes capitalising money on people's competency development is a potential investment to leverage business performance, while guiding and facilitating to achieve career objectives of people.

Therefore, the Company commits to rapid and continuous employee training and development interventions, including technical, behavioural, leadership & management competency development to empower its staff with the right mix of knowledge, skills and values, in order to achieve the expected individual and business performance goals. Internal, external and foreign training opportunities are provided to the employees based on the identified competency gaps.

Performance Driven Culture

The overall business performance of the Company is integrated with individual performance. Employees are the process owners of implementing corporate & business goals and strategies. Based on this philosophy, a new Performance Management System was introduced in 2013, to reward and motivate star performers of the Company, who exhibit above

average performance continuously. A career development interventions of employees have been integrated with the individual performance evaluation process.

Grooming Future Leaders

The continued success and survival of an organization depends on having the right talent in the right place, at the right time. Grooming future leaders to succeed to key leadership roles of the Company, is a fundamental strategic initiative to meet the potential leadership vacuum, which is created due to “Talent Bleeding and Talent Retirement”. The nature of the business of the Company requires highly specialized technical talent that generates critical impact for business growth. However, we have encountered difficulties in filling vacancies due to the deficiency of qualified talent in the job market. Therefore, MBSL has initiated a succession planning intervention and a leadership development intervention, to groom successors to key leadership roles of the Bank.

Grooming Future Managers

MBSL absorbed eight Management Trainees into the permanent cadre, as Assistant Managers, after they had successfully completed a two year, structured management Training programme. The Management Trainees were provided with both theoretical and practical exposure on Branch Operations and Branch Management, during their training period. We commit to rapidly developing these young professionals, to add value to MBSL, as potential Branch Managers in the future.

HR Policy Manual

The guiding light in our approach to management of our staff, is our Human Resource Policy. With the growth of our workforce, our HR Division has modified existing human resource policies to meet the greater human resources management requirements. The MBSL HR Policy Manual will be used as a tool to educate the fast growing MBSL workforce about the values and established procedures of the company, and also their responsibilities and obligations, to help inculcate the MBSL corporate culture across our growing branch network.

The manual sets out the vision, mission and values of MBSL and also explains recruitment selection procedures, promotion and career development planning, salary administration procedures, the training and development policy, dispute procedures, disciplinary procedures and grievance handling procedures. We also introduced a structured salary scheme for all levels of the organisational hierarchy, to ensure transparency and accountability in human resource management.

To ensure our core values are retained, together with our physical growth, all employees are expected to adhere to MBSL’s code of ethics.

- To display professional and personal integrity at all times
- Demonstrate mutual respect in all interactions
- Be passionate about whatever we do
- Be committed to be customer oriented
- Be courageous to change and be different positively

Wages Policy and Labour Management Relations

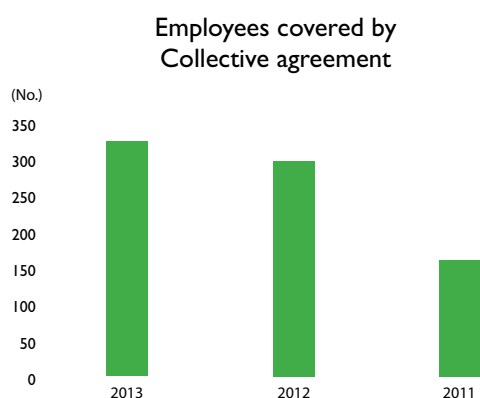
Our wage policy is centred on a performance based reward system that encourages our staff to strive to attain greater achievements. Performance evaluations are conducted annually for all employees, which facilitates close communications between employees and managers, and identify not only wage requirements of employees but also their training and development needs. Our performance based systems do not discriminate on gender, race, age or any other factor and ensures equity on the basis of merit.

We honour employee’s right to freedom of association and collective bargaining. Employees at MBSL are represented by the Merchant Bank branch of the Ceylon Bank Employees Union. Wages at MBSL are negotiated between management and trade union.

The wage policy adopted by the Company is based mainly on one of the collective bargaining agreement. It is developed by covering all employees under specified employee categories,

Sustainability Supplement

as well as market surveys carried out from time to time, which indicate the highest and the lowest range of wage structures in the industry. During the current financial year we increased allowances given to trainees.



Procedures for local hiring

As a policy, we try to recruit from all parts of the country, especially from areas where branches are located. Therefore, our branch expansion has created new employment opportunities even in rural areas.

Where there are specific needs such as language requirements, regional managers are authorised to recruit following the standard recruitment procedures of the company. Final board approval is required for recruitment.

Province/Departments and Other Business Units	2013	2012
	No. of Employees	No. of Employees
Central	21	20
Eastern	20	14
Northern	6	7
North-Central	15	15
North-Western	25	21
Sabaragamuwa	10	8
Southern	27	23
Uva	9	7
Western	56	53
Departments and Other Business Units	134	128
	323	296

Benefits and contribution plans

- **Defined contribution plans – Employees’ Provident Fund and Employees’ Trust Fund**
Our employees are eligible for Employees’ Provident Fund contributions and Employees’ Trust Fund contributions in line with respective statutes and regulations. The Company / Group and employees contribute 12% and 8% of gross emoluments of employees to Employees’ Provident Fund. The Company / Group contribute 3% of gross emoluments of employees to the Employees’ Trust Fund.
- **Defined benefit plans – Gratuity**
We provide gratuity payments at the time of retirement, for employees with five years of uninterrupted service.

The Company carried out actuarial valuations on retirement benefit obligations, as at 31 December 2013, valued under the projected unit credit method, by a Qualified Chartered Actuary Mr. M. Poopalanathan in Sri Lanka Accounting Standard LKAS 19 on Employee Benefits.

Key Performance Indicators(KPI) for Human Resource Management(HRM)

In line with our philosophy of continuous improvements we have introduced the concept of KPIs to enhance the HRM process. This has contributed towards the improvement of HR management within the organisation and also motivated our employees to perform better. Our KPI for HRM are linked to the Company’s Compensation and Benefit Strategy, employee welfare, occupational health and safety, diversity and equal opportunity and training and education. Under the KPI of training and education we strive to establish a culture of learning and knowledge sharing which will contribute towards future growth and sustainability of the organisation.

We have introduced a system of grading our branches on the basis of KPIs. We motivate our employees by various reward systems including foreign tours for employees of the best performing branch.

Human Resources Information System

A modern Human Resources Information System has been

introduced at MBSL for human resource management including monitoring leave and attendance of staff. The computerised system has increased human resource management efficiency, while saving time and enhancing accuracy of personnel records.

Recruitment methodology

All recruitments are made on the basis of merit. Recruitments for our branch offices are made from the same location, which has resulted in employment creation in these areas.

Occupational health and safety

MBSL makes every effort to ensure a safe work environment for our employees because we believe employee health and satisfaction are pre requisites to Company performance. Therefore, we consider both the physical and mental wellbeing of our staff. Towards achieving the objective of a healthy workforce the Company provides training to employees on how to react in an emergency situation. The proprietor of the MBSL Head office, PDML, provides guidelines & procedures to be followed, in case of emergencies. Smoke detectors, fire extinguishers and fire exists are available as safeguard measures.

Training and education

We believe in investing in our employees and developing their potential. Therefore we have introduced an employee retention plan with career planning, promotions and growth opportunities. The expansion of our branch network has also increased growth opportunities for our employees. Average hours of training is 15 hours per employee.

All our employees are given opportunities for career growth by developing their skills and expertise. Therefore, new recruits undergo both on-the-job training at work, and also specialised subject skills training to ensure their skill levels are on par with the highest industry standards, and in turn, to ensure our competitiveness in the industry. Management trainees will complete two years of training in July 2013, after which they will be absorbed into the permanent cadre as assistant managers at MBSL. They will be given placements in our branch network.

From last year we expanded our foreign training opportunities to include even back office staff, instead of only the front

office staff. In 2012 we selected three employees each, from our profit centres and service centres, for leadership training in India's National Institute of Bank Management in Pune.

Executive Summary of HRD Interventions implemented			
Training Category	Total Training Programmes	Total No of Staff Trained	Total Training Hours (No of Staff X Total No of Hours)
External Training Programmes	17	35	560
Internal Training Programmes	14	571	4288
Foreign Trainings	1	2	14
Total	32	608	4862
No of employees			323
Total Training Hours for the year			4862
Training Hours per employee			15.05

Employee productivity indicators

We have introduced a system of grading our branches on the basis of KPIs and selecting the best branch. We motivate our employees by various reward systems including foreign tours for employees of the best performing branch.

Productivity Indicator	Rs.
Revenue per employee	7,292,155
Net profit per employee	362,043
Total asset per employee	41,079,875

Staff Loan at concessionary interest rates

All our employees, regardless of job category, are eligible to benefit from housing loans of up to Rs. 3.5 million, after three years of service, and also vehicles loans up to Rs. 3 million. We also provide medical benefits even to new recruits from the date of joining the Company.

Employee welfare

The MBSL Welfare and Recreational Club is the central body involved in employee welfare and recreational activities. The Club has also been instrumental in assisting its members and their families, in meeting medical expenses in cases of critical illnesses, and in providing some kind of relief and assistance

Sustainability Supplement

during difficult times of their lives. During the year, the Club deviated from its traditional activities and got involved in many different events on behalf of MBSL employees. Some of the outstanding activities and achievements are described below.

- **Dental Clinic:** On 29 and 30 April a dental clinic was organised in partnership with Sensodine, for MBSL staff, to encourage oral health and wellbeing. Other, non-MBSL staff in the building, were also able to benefit from the dental clinic.



Dental clinic at MBSL

- **Governor's Trophy/ Merchantile Soft Ball Cricket Tournament:** The MBSL Cricket Team took part in above tournaments in 2013. The events saw much fun and enjoyment and helped build team spirit among staff.



MBSL Cricket Team

- **Eye and ear clinic :** MBSL conducted a mobile eye clinic, the Vision Care Eye Camp, on 17th and 18th of July 2013. The event also included audiometric testing facilities, which allowed MBSL staff to test their hearing capabilities. The vision and hearing tests conducted together were extremely beneficial to all staff.

- **Sports Day:** In line with the motto 'Leaping Towards the Horizon' a Sports Day was organised for the members of the staff, at the Malay Grounds, Colombo 02, on 03 August 2013. Over 250 employees from MBSL took part in the sport activities of the day and displayed their talents. The fun games featured during the day included cricket, tug-of-war, a fancy dress parade, feeding yoghurt, sack races and musical chairs. The highly successful sports day was telecast on the CSN sports channel.



Sports Day

- **Annual Christmas carol recital:** The annual Christmas carol recital was held on 19 December 2013 in celebration of the Christmas spirit. The colourful event uplifted the hearts and spirits of all participants.



MBSL Christmas Carol

Recognising achievements

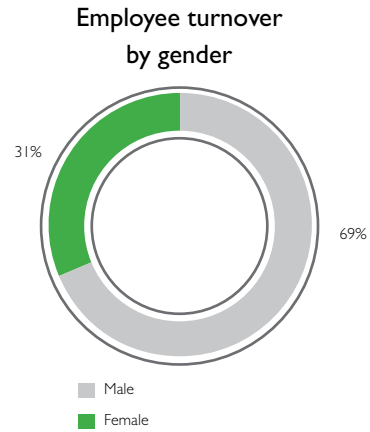
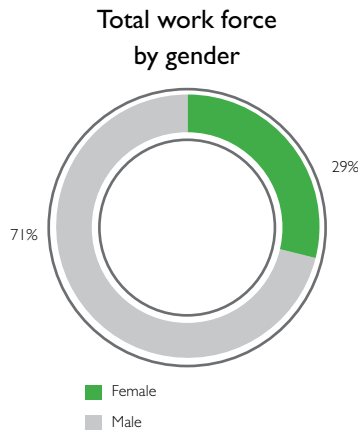
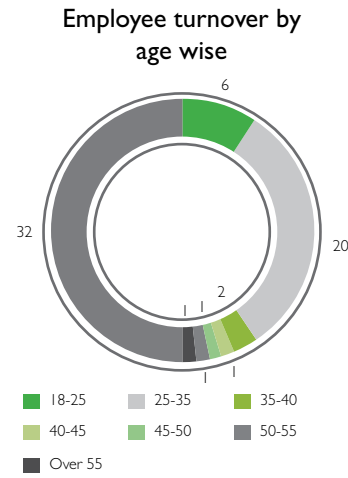
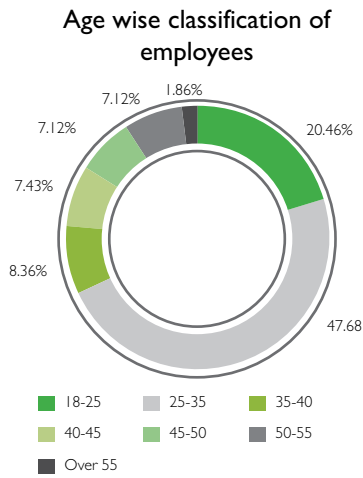
To encourage our employees we recognise achievements of children of employees. Last year we recognised children of employees who participated in the Olympiad and children who performed well at scholarship exams and rewarded these children.

Diversity and equal opportunity

MBSL is an equal opportunity employer and does not discriminate on the basis of race, religion, age or sex.

Gender and Wages

MBSL does not base the salaries and other benefits offered to men and women considering their gender. Basic salaries are dependent on the employment category and employee performance.



Total workforce by employment type and gender

Category	Corporate Management/ AGM and Above		Executive Officers/ Managers		Junior Executive Assistants/ Executives		Trainees		Staff Assistants/ & Office Assistants		Total 2013	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
18-25	-	-	-	-	4	1	12	1	24	24	40	26
25-35	1	-	23	10	60	8	1	-	32	19	117	37
35-40	1	-	15	1	6	3	-	-	1	-	23	4
40-45	1	-	5	5	4	4	-	-	5	-	15	9
45-50	-	1	6	7	3	2	-	-	4	-	13	10
50-55	4	1	7	3	0	2	-	-	6	-	17	6
Over 55	2	0	1	1	-	-	-	-	2	-	5	1
	9	2	57	27	77	20	13	1	74	43	230	93

Sustainability Supplement

Human rights responsibility

We are committed to upholding the human rights standards enshrined within the 10 principles of human rights responsibility that have been stipulated under the United Nation's Universal Declaration of Human Rights and the conventions of the International Labour Organisation (ILO). These cover:

- The Elimination of discrimination
- Freedom of association and the right to collective bargaining
- The elimination of all forms of compulsory labour
- The elimination of child labour
- The Elimination of sexual harassment in the workplace

All our policies and activities come within the boundary of these principles at all times. Today we have not experienced any cases of non compliance with regard to any of the above.

Corporate Social Responsibility

Our approach to Corporate social responsibility is based on the four pillars of education development, environmental protection, health & safety and entrepreneurship development. During the year we focused on a number of social welfare projects in these four focal areas, such as assisting schools and hospitals, raising awareness of environmental conservation and supporting entrepreneurs across the country.

In addition, as a financial institution dealing with public money, we believe accountability to our stakeholders and society at large, is an unquestionable duty. Therefore, our governance processes have been designed to ensure maximum accountability and transparency. In addition, we believe in ensuring social benefits through our core business activities. This includes conducting our business in an ethical and socially responsible manner, while complying with all relevant regulatory requirements of the country.

Siyath Saviya

We continued to give a helping hand to rural entrepreneurs through our micro credit programme Siyath Saviya by the end of 2013. We are happy to report that we had reached 12,805 rural entrepreneurs from underserved areas in the

Uva, Eastern, North Central, Vayamba, and Central Provinces. It gives us great pleasure to state that many of our recipients are now returning for fresh loans to expand their business activities. Given the visible benefits to rural communities through the project, we plan to expand Siyath Saviya to the Northern Province that is recovering to speed up economic revival in the North from the war.



Siyath Saviya Project at Hiruwalpola



Siyath Saviya project at Hiruwalpola

In addition, throughout the year, MBSL has also continued to support a number of philanthropic activities to ensure added benefits to society and build community relationships.

Decoration of Galle Road

As a part of "making Sri Lanka the wonder of Asia", the Colombo Municipal Council, together with the Sri Lanka Army, conducted a project to decorate the Galle Road. Companies located in the vicinity were invited to participate in the project, by providing donations. MBSL contributed towards this public road improvement project by contributing towards the supply of flower pots and their maintenance, to decorate the stretch of road from Galle Face to Kollupitiya junction.

To express the gratitude towards the community, MBSL decided to carryout thirty community projects islandwide, inpar with its' 32nd anniversary. Each branch was assigned to carryout atleast a one project, upon analyzing the importance of the project to the community around the branch location. All the projects have been completed and handed over with a small celebration.

Details of such projects are as follows.

Educational Development Related Projects

Branch	CSR project
Chilaw	Providing water facility to Welipelessa Kanishta Vidyalaya
Monaragala	Constructing the staircase of Sri Pemananda Maha Vidyalaya
Batticaloa	Facilitate sanitary facilities and repair pipeline at Kannaki Vidyalaya
Anuradhapura	Colour washing and repairing of school building at Narawila Maha Vidyalaya
Avissawella	Colour washing and reparing of poor school
Ambalangoda	Colour washing the Main Hall and Library at Galagoda Vidyalaya, Kuleegoda
Bandarawela	Providing school shoes and equipment for Watagamuwe Vidyalaya
Kekirawa	Provding books for the Library of Klelewa Sumana Vidyalaya
Panadura	Providing facilities to Sir Chandrasekara school of deaf
Puttalam	Providing water tanks to Kottukachchi Navodaya Maha Vidyalaya
Maharagama	Fixing a Notice Board - Presidents College
Mathugama	Providing water facilities to Yodadola kanishta Vidyalaya
Ampara	Providing water facilities to Helagampura Maha Vidyalaya
Deniyaya	Fixing name boards in Two schools
Galle	Painting the main building of Vijayananda Pririvena, Waliwatte, Galle
Kurunegala	Sponsor costumes for Volleyball team of Dodamgaslanda Rajakeeya Vidyalaya
Hingurakgoda	Grant books to primary library of Kumaragama Kanishta Vidyalaya

Help Related Projects

Branch	CSR project
Vavuniya	Blood Donation to Vavuniya General Hospital and colour washing up stare building of Koomankulam school.
Ambalanthota	Fixing a name board at Baragama Hospital
Negombo	Installing a weighing machine at a Maternity and Child Care centre - Katana
Embilipitiya	Providing bed sheets for Children's ward Embilipitiya Hospital
Hatton	Colour washing and providing sitting chairs to the Maternity clinic of a rural hospital at Welioya area in Hatton
Nittambuwa	Renovate Kalagedihena Medical centre

Other Social Contributions

Branch	CSR project
Kandana	Provide a permanent place to hoist 3 flags to Dharmaraja Kanishta Vidyalaya
City & Head Office	Donations to the Sangamitta Child Development Centre
Kandy & Mahaiyawa	Donation of 5 iron cabinets to Sarana Orphanage in Mavilmada Kandy
Rathnapura	Colouring house and repairing electricity of Wanasundara Sarana Sevana orphanage

Sustainability Supplement



Providing water facilities by Chilaw Branch

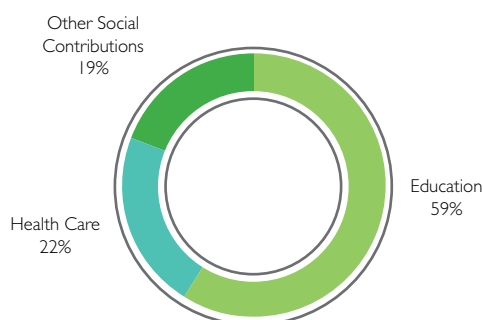


Blood donation campaign by Vavuniya Branch



Providing water tank by Puttalam Branch

CSR Projects



Customer wellbeing

MBSL offers a range of services to a diverse customer base located across the country and we are conscious of ensuring a high standard of service, which includes honesty and integrity, in the delivery of our services. As part of this process we have invested in state-of-the-art technology, which has enabled more efficient customer service and also better access for customers to our services. In addition, we ensure customers are fully informed about our services and costs when conducting transactions. All our marketing, distribution and sales activities are conducted in an ethical manner and in compliance with all relevant regulations.

Marketing and communications

We maintain ethical and legal standards for all marketing and public relations communications, including advertising and other promotional campaigns. We do not at any time condone any attempt to mislead customers.

New product development

At MBSL, all financial products are developed in compliance with regulatory guidelines. We have adopted ethical and consumer friendly methods of researching and designing new products. In addition, due diligence studies and other legalities involved in new product development are also followed. In testing a new concept, knowing where the marketing messages will work best is often the biggest part. Does the consumer understand, need or want the product or services.

- With regard to Identifying Consumer needs and rising opportunities within the market, MBSL has obtained primary and secondary information through ways such as utilizing the internal & external SWOT, Government Budget, Market surveys, CBSL Road Map, Emerging Social trends and Competitor strategies.
- Once identified, brainstorming sessions with other relevant departments will be carried out to analyse important factors such as, 'Feasibility of launching new Products, Target segments, Unique Selling Points, Similar Competitor products in markets, Government rules and regulations'. Upon decisions from SMT, poor product concepts would be discontinued or sent back for

further development whereas, approved new products will be continued to the next stage.

- Once the product is finalised, a communication strategy will be prepared with respect to the Product Objectives.
- Approval of the Board of Directors and other relevant Heads (Asset & Liability Management Committee) will be obtained through product papers that ensure important criterias such as 'Organisational Procedures and Processes are met. Further, the NPD process is reviewed for efficiency and for continued improvements.
- Once finalized, Managers' Briefs are prepared to educate all branch networks of new products.
- Consistent monitoring and Controlling is carried out for evaluation of success.



Superior Customer Service

To enhance customer satisfaction and establish direct links with our customers, a Customer Service Unit was established in the Head Office. The unit is equipped with state of the art facilities to provide a best in class service for walk-in customers. In establishing this service unit, a customer survey was conducted to obtain feedback on services and level of customer satisfaction. In addition, the MBSL Call Centre expanded to handle customer complaints and to send notifications/reminders to customers, for added convenience. As we fully understand the effectiveness of new technologies, the MBSL website was upgraded with added features such as a 'Rental Calculator' which will enhance customer convenience.

Technology to enhance service delivery

As a business dedicated towards providing cutting edge service standards MBSL understands the value of new technologies and is actively harnessing new technologies to

enhance productivity, convenience and service delivery. As part of this process a number of initiatives have been launch.

- A new InBank system is to be introduced and evaluations are currently progressing
- In order to cut down the turnaround time, approval processes are being carried out online. This has benefited consumers by reducing their waiting time and also cutting down on travel.
- Online self services are implemented for customer convenience.

Advanced features of MBSL services

At MBSL, we are constantly looking for new ways to enhance service delivery and improve customer satisfaction.

- Turnaround time for loan approvals are constantly monitored to ensure the fastest service possible
- More time is allocated for customer advisory services. This has helped customers maximize on our expertise while also ensuring a greater degree of customization and relationship building.

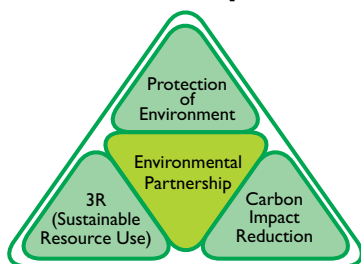
Initiatives to enhance financial literacy by type of beneficiary.

All MBSL products are clearly explained to customers and products and services are matched with customer requirements.

- In the provision of capital market services, customers are explained the legal process and customer cash flows are analysed to minimise risks for both customers and the company.
- In the micro financing sector where financial literacy is lower, customers are taught savings and cash management and MBSL officials guide beneficiaries through every step of the project.
- In the provision of leasing and hire purchase services, products and services are designed according to customer requirements.

Sustainability Supplement

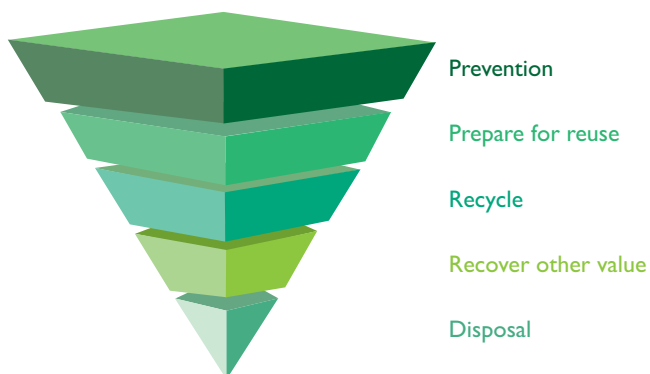
Environmental Partnership



3R (sustainable resource use)

As a financial services provider, MBSL does not have a significant environmental impact in terms of raw material and pollutants being released into the environment. However, we are acutely conscious of our environmental impacts through our daily operational activities. Therefore, we have attempted to incorporate the 3R principles of Reduce, Reuse and Recycle, to minimise our environmental impacts. These initiatives are practiced not only at our head office, but at all our branches, and employees are encouraged to think and act sustainably.

MBSL's approach to the environment is built on the 3R Strategy of Reduce, Reuse, Re-Cycle. Our focus is to reduce the waste during daily operations. For this purpose, we have formally built a committee for reduce waste and there is a separate process to reduce waste titled "Waste Pyramid". We take necessary action to prevent wasteful activities during our operations. If a prevention strategy is impossible, our focus is to reduce wasteful activities. If reducing is difficult we focus on a re-use strategy. At the same time, we are using recycle processes if there is no other alternative disposal is possible, specially for paper.



Reduce Strategy

Our Reducing Strategy mainly focuses on reducing energy consumption, minimising paper usage, and reducing water wastage.

MBSL ensures resource saving by reducing printing of paper, reducing wastage of paper and using telecommunications and E-mail whenever possible. Specially we provide our annual report in hard copies only if there are any requests for that format.

Energy savings

We have taken a number of initiatives to conserve energy during our day-to-day activities.

- Air conditioning units have been programmed to switch off automatically after office hours.
- Use only one set of lights in indoor and use double lighting panels at our offices.
- Switch off unwanted lights and use CFL lights at any time feasible.
- Our branch offices have been designed to be energy efficient, to ensure environmentally sustainable expansion of our activities.
- Reduce fuel consumption by sharing vehicles during outstation visits
- The IT department has been redesigned to house servers in a smaller room to save the electricity on air condition.
- By using server virtualization, during 2012, a total of 15 servers were combined in to 3 servers. This has resulted in more efficient use of floor space and electricity savings.
- We have reduced the use of paper by providing tablet computers for our Board of Directors and communicating through E-mail.

Reuse Strategy

Employees have been encouraged to switch from the paper based mentality to a paperless mode of operation, by actively discouraging unnecessary printing and photocopying.

- We have re-engineered some internal processes to reduce printing and the use of paper. This includes migrating business evaluations, employee payments and

different transactions, into computerized methodologies, from previous paper based methods.

- We reuse printed and photocopy paper whenever possible.

Recycle Strategy

We have made it a point to use only paper that can be recycled. This reduces the environmental impacts and also wastage. We encourage our employees to separate paper that cannot be reused, from other waste. Our janitorial staff sells such paper to a recycling firm and keep the income, which encourages recycling.

Carbon Impact Reduction

As part of our environmental sustainability efforts, we have embarked on a process of measuring our carbon footprint. In this context we have identified the main areas of carbon impact on electricity consumption, water and paper consumption, staff and business travel etc. Compared to 2012, MBSL has reduced petrol consumption significantly during 2013. In 2013 MBSL has used 8240 litres of petrol compared to 10082 litres of petrol consumed in 2012.

MBSL's business activities do not result in the emission of ozone reducing substances and CFC free gases are used for air conditioning. In addition, the following steps have been taken to reduce the carbon impact during the period of 2013.

- We have switched to a systems of bundling our deliveries and sending them through couriers in batches, instead of delivering each individual document separately. This has considerably reduced the amount of travelling and vehicle emissions into the atmosphere.
- Reducing energy consumption by using CFC free lighting and natural lighting systems.
- Conducting a staff awareness program on reducing carbon emissions.
- Branch Managers' meetings are conducted in the regions, reducing the need for managers to travel to head office. Thereby reducing fuel consumption.

Protection of environment

Encouraging greenery

MBSL distributed Teak plants to Siyath Saviya loan recipients, free of charge, as an environmental conservation activity of the Siyath Saviya programme. As a responsible business organisation MBSL believes in environmental conservation and encouraging the growth of trees that will contribute towards greening Sri Lanka. Therefore, MBSL has taken the initiative to encourage Siyath Saviya loan recipients to cultivate trees in their home gardens as part of our commitment to the environment.

Impact of climate change

MBSL has not been impacted by risks arising from climate change. However, we are conscious that our operations may be affected indirectly by climatic changes that affect our current and potential customers. Therefore, to mitigate the risk of such an event, we maintain limits on various operational sectors, to avoid undue exposure to any specific sector. A summary of industry wise credit risk concentration appears in the financial statements on page 214.

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF MERCHANT BANK OF SRI LANKA PLC ON THE SUSTAINABILITY REPORT - 2013

Introduction

SJMS Associates have been engaged by Merchant Bank of Sri Lanka PLC ("the Company") to review the Sustainability Report for 2013 ("The report"), against Global Reporting Initiative (GRI) Sustainability Guidelines version 3.1 (GRI G3.1). The report, including the identification of material issues, is the responsibility of the Company's management. Our responsibility is to issue an assurance on the sustainability report of the Company.

Context and scope

In the report the Company describes its efforts and the progress in relation to sustainability. Our engagement was designed to provide :

- Reasonable assurance on whether the data relating to financial performance are properly derived from financial statements of the Company for the year ended 31st December 2013.
- Limited assurance on whether the data relating to Key Performance Indicators for 2013 are fairly stated and other information is fairly stated.

'Fairly stated' represents that the reported information properly reflects information contained in the underlying sources such that it is consistent with the source information. Reasonable assurance is a higher level of assurance than limited assurance, which is reflected in the nature and depth of the work performed.

Standards and criteria

We conducted our engagement in accordance with Sri Lanka Standard on Review Engagements 2400: Engagements to Review Financial Statements and Sri Lanka Standard on Assurance Engagements 3000: Assurance Engagements other than Audits or Reviews of Historical Financial Information, issued by the Institute of Chartered Accountants of Sri Lanka. Amongst others, these standards require that:

- the assurance team members possess the specific knowledge, skills and professional competencies needed to understand and review the information in the report;
- when providing limited assurance, which is a lower level than reasonable assurance, a negative form of conclusion is used.

There are no generally accepted standards for reporting on sustainability. The Company applies its own internal sustainability reporting criteria, derived from Sustainability Reporting Guidelines of the Global Reporting Initiative and its stakeholder engagement process as detailed in the report.

Considerations and limitations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

To obtain a thorough understanding of the financial results and financial position of the Company, the reader should read in conjunction with the Company's audited financial statements for the year ended 31st December 2013 included in the Annual Report.

Work undertaken and conclusions

Key performance indicators

We have reviewed the reliability of the data on Key Performance Indicators for 2013 based on a review of:

- the systems used to generate, aggregate and report these data.
- the data reported by the relevant business units to corporate level;
- the data validation processes at corporate and business level;
- the data trends in discussions with management

Based on the above procedures performed, we conclude that nothing has come to our attention that causes us to believe that the data for Key Performance Indicators for 2013 presented in the report are not fairly presented, in all material respects.

Financial data

We have reconciled the data on financial performance (economic performance indicators) of the report with the audited financial statements of the Company for the year ended 31 December 2013.

Based on above, we conclude that the data on financial performance (economic performance indicators and valued added statement) are properly derived from the audited financial statements of the Company for the year ended 31 December 2013 for which the independent auditors issued an unqualified audit opinion on 30 April 2014.

Other information

We have reviewed other information in the report, using:

- an analysis of the systems and processes used to generate this information;
- examination of internal documentation and sources;
- Interviews with staff for the information;
- Our knowledge and understanding of the sector and the Company's business.

Based on the above procedures performed, we conclude that nothing has come to our attention that causes us to believe that the other information presented in the report are not fairly presented, in all material respects.

SJMS Associates

SJMS ASSOCIATES

Chartered Accountants

30 April 2014

Colombo

GRI index

GRI Index No.	Description	Report section	Page
1. Strategy and Analysis			
1.1	Statement from the most senior decision-maker of the organization.	Sustainability report-Chairman's Statement	58
1.2	Description of key impacts, risks, and opportunities.	Management Discussion and analysis, Risk management	34-56
2. Organization profile			
2.1	Name of the organization.	Merchant Bank of Sri Lanka PLC (MBSL)	132
2.2	Primary brands, products, and/or services.	Our products and services	6
2.3	Operational structure of the organization, including main divisions, operating companies, subsidiaries, and joint ventures.	Management Discussion and analysis	34-47
2.4	Location of organization's headquarters.	BOC Merchant Tower, No.28, St. Michael's Road, Colombo 03.	235
2.5	Number of countries where the organization operates, and names of countries with either major operations or that are specifically relevant to the sustainability issues covered in the report.	The Company only operates in Sri Lanka. The operating locations within Sri Lanka are given under contacts at MBSL.	235-236
2.6	Nature of ownership and legal form.	Corporate Information	132
2.7	Markets served (including geographic breakdown, sectors served, and types of customers/beneficiaries).	Contacts at MBSL and Management discussion and analysis.	39-47
2.8	Scale of the reporting organization.	Management discussion and analysis.	37
2.9	Significant changes during the reporting period regarding size, structure, or ownership.	Annual report of the Board of Directors on the affairs of the company	117
2.10	Awards received in the reporting period.	Certificate of compliance in Annual Reporting	125
3. Report parameters			
3.1	Reporting period	Year ended 31 December 2013.	60
3.2	Date of most recent previous report	Report parameters- Date of most recent previous report	60
3.3	Reporting cycle	Annually	-
3.4	Contact point for questions regarding the report or its contents.	Merchant Bank of Sri Lanka PLC Finance and Treasury Management Division BOC Merchant Tower No.28, St. Michael's Road Colombo 03	60

Sustainability Supplement

GRI Index No.	Description	Report section	Page
3.5	Process for defining report content.	MBSL's Approach to sustainability	64
3.6	Boundary of the report	Report parameters- scope and boundary of this report	60
3.7	State any specific limitations on the scope or boundary of the report	Report parameters- scope and boundary of this report	60
3.8	Basis for reporting on joint ventures, subsidiaries, leased facilities, outsourced operations, and other entities that can significantly affect comparability from period to period and/or between organizations.	Report parameters- scope and boundary of this report	60
3.9	Data measurement techniques and the basis of calculations, including assumptions and techniques underlying estimations applied to the compilation of the Indicators and other information in the report. Explain any decisions not to apply, or to substantially diverge from, the GRI Indicator Protocols.	About this report	60
3.10	Explanation of the effect of any re-statements of information provided in earlier reports, and the reasons for such re-statement (e.g., mergers/acquisitions, change of base years/periods, nature of business, measurement methods).	Notes to the financial statements	117
3.11	Significant changes from previous reporting periods in the scope, boundary, or measurement methods applied in the report.	No any significant changes from previous year reporting.	-
3.12	Table identifying the location of the Standard Disclosures in the report.	Global Reporting Index	79-87
3.13	Policy and current practice with regard to seeking external assurance for the report.	Independent assurance report from SJMS Associates	113
4. Governance, Commitment and Engagement			
4.1	Governance structure of the organization	Corporate governance report	61
4.2	Indicate whether the Chair of the highest governance body is also an executive officer.	Corporate governance report	88-110
4.3	Highest governance body that are independent and/or non-executive members.	Corporate governance report	88-110
4.4	Mechanisms for shareholders and employees to provide recommendations or direction to the highest governance body.	Shareholder and employee engagement with the Board	62
4.5	Linkage between compensation for members of the highest governance body, senior managers, and executives	Linking compensation to performance	62
4.6	Processes in place for the highest governance body to ensure conflicts of interest are avoided.	- Avoiding conflicts of interest - Corporate governance report	62

GRI Index No.	Description	Report section	Page
4.7	Process for determining the qualifications and expertise of the members of the highest governance body for guiding the organization's strategy on economic, environment, and social topics.	Profile of the Board of Directors	24-29
4.8	Internally developed statements of mission or values, codes of conduct, and principles relevant to economic, environmental, and social performance and the status of their implementation.	Vision and Mission statement of the company	01
4.9	Management of economic, environmental, and social performance.	Sustainability Report- Monitoring, evaluating risk management & precautionary actions.	62
4.10	Processes for evaluating the highest governance body's own performance, particularly with respect to economic, environmental, and social performance.	Corporate governance report	88-110
4.11	Precautionary approach or principle is addressed by the organization.	Sustainability Report- Monitoring, evaluating risk management & precautionary actions. Risk management report	62
4.12	Externally developed economic, environmental, and social charters, principles, or other initiatives	Sustainability report - Corporate Social Responsibility	66-75
4.13	Memberships in associations	Sustainability Report-membership in associations	62
4.14	List of stakeholder groups engaged by the organization.	Stakeholder engagement process	63
4.15	Basis for identification and selection of stakeholders with whom to engage.	Stakeholder engagement process	63
4.16	Approaches to stakeholder engagement, including frequency of engagement by type and by stakeholder group.	Stakeholder engagement process	63
4.17	Key topics and concerns that have been raised through stakeholder engagement.	Stakeholder engagement process	63
Economic			
Economic Performance			
EC1	Direct economic value generated and distributed payments to capital providers and governments.	Investor's wealth maximization	65
EC2	Financial implications and other risks and opportunities for the organization's activities due to climate change.	Environmental partnership - Impact of climate change	77
EC3	Coverage of the organization's defined benefit plan obligations.	Employee wellbeing Benefits and contribution plans	66-72
EC4	Significant financial assistance received from government.	None	-
Market Presences			
EC5	Range of ratios of standard entry level wage compared to local minimum wage at significant locations of operation.	Wages policy and labour management relations	67-68

Sustainability Supplement

GRI Index No.	Description	Report section	Page
EC6	Policy, practices, and proportion of spending on locally-based suppliers at significant locations of operation.	Supplier value creation	65
EC7	Procedures for local hiring and proportion of senior management hired from the local community at significant locations of operation.	Procedures for local hiring	68
Indirect Economic Impact			
EC8	Development and impact of infrastructure investments and services provided primarily for public benefit through commercial, in-kind, or pro bono engagement.	Corporate Social Responsibility	72-77
EC9	Understanding and describing significant indirect economic impacts, including the extent of impacts.	Corporate Social Responsibility.	72-77
Environmental			
Material			
EN1	Materials used by weight or volume.	Sustainability report - environmental partnership	76-77
EN2	Percentage of materials used that are recycled input materials.	3R (Sustainable Resource use)	76-77
Energy			
EN3	Direct energy consumption by primary energy source.	Energy savings	76-77
EN4	Indirect energy consumption by primary source.	Energy savings	76-77
EN5	Energy saved due to conservation and efficiency improvements.	Energy savings	76-77
EN6	Initiatives to provide energy-efficient or renewable energy based products and services, and reductions in energy requirements as a result of these initiatives.	Energy savings	76-77
EN7	Initiatives to reduce indirect energy consumption and reductions achieved.	Energy savings	76-77
Water			
EN8	Total water withdrawal by source.	Our core business does not utilize water	N/A
EN9	Water sources significantly affected by withdrawal of water.	Our core business does not utilize water	N/A
EN10	Percentage and total volume of water recycled and reused.	Our core business does not utilize water	N/A
Biodiversity			
EN11	Location and size of land owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas.	Our operation has no direct impact on bio diversity	N/A

GRI Index No.	Description	Report section	Page
EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas.	Our operation has no direct impact on bio diversity	N/A
EN13	Habitats protected or restored.	Not applicable	N/A
EN14	Strategies, current actions, and future plans for managing impacts on biodiversity.	Our operation has no direct impact on bio diversity	N/A
EN15	Number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk.	Not applicable	N/A
Emissions, Effluents and Wast			
EN16	Total direct and indirect greenhouse gas emissions by weight.	Carbon impact reduction	77
EN17	Other relevant indirect greenhouse gas emissions by weight.	Carbon impact reduction	77
EN18	Initiatives to reduce greenhouse gas emissions and reductions achieved.	Carbon impact reduction	77
EN19	Emissions of ozone-depleting substances by weight.	Not applicable	N/A
EN20	NO _x , SO _x , and other significant air emissions by type and weight.	Not applicable	N/A
EN21	Total water discharge by quality and destination.	Carbon impact reduction	77
EN22	Total weight of waste by type and disposal method.	3R Sustainable resource use	76
EN23	Total number and volume of significant spills.	None	-
EN24	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention Annex I, II, III, and VIII, and percentage of transported waste shipped internationally.	Not applicable	N/A
EN25	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the reporting organization's discharges of water and runoff.	Not applicable	N/A
Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation.	Not applicable	N/A
EN27	Percentage of products sold and their packaging materials that are reclaimed by category.	Not applicable	N/A
Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations.	None	-

Sustainability Supplement

GRI Index No.	Description	Report section	Page
Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organization's operations, and transporting members of the workforce.	Environmental partnership - Energy Savings	76
Overall			
EN30	Total environmental protection expenditures and investments by type.	Not reported	-
Labour Practices and Decent Work			
Employment			
LA1	Total workforce by employment type, employment contract, broken down by gender	Total workforce by employment type and gender	71
LA2	Total number and rate of employee turnover by age group, gender and region.	Employee turnover by agewise Employee turnover by gender	71
LA3	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by major operations.	Employee wellbeing	66
Labour management Relation			
LA4	Percentage of employees covered by collective bargaining agreements.	Wages policy and labour management relations	67-69
LA5	Minimum notice period(s) regarding significant operational changes, including whether it is specified in collective agreements.	Stated within the condition of employment	67-69
Occupational health and safety			
LA6	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs.	Occupational health and safety	70
LA7	Rates of injury, occupational diseases, lost days, and absenteeism, and number of work-related fatalities by region.	Not reported during the period	N/A
LA8	Education, training, counseling, prevention, and risk-control programs in place to assist workforce members, their families, or community members regarding serious diseases.	Employee welfare	69-70
LA9	Health and safety topics covered in formal agreements with trade unions.	Occupational health and safety	70

GRI Index No.	Description	Report section	Page
Training and education			
LA10	Average hours of training per year per employee by employee category.	Training and education	69
LA11	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings.	Training and education	69
LA12	Percentage of employees receiving regular performance and career development reviews.	Employee productivity indicators	69
Diversity and equal opportunity			
LA13	Composition of governance bodies and breakdown of employees per category according to gender, age group, minority group membership, and other indicators of diversity.	Diversity and equal opportunity Total workforce by employment type and gender	71
LA14	Ratio of basic salary of men to women by employee category.	Not reported	-
Social: Human Rights			
Investment Procurement Practice			
HR1	Percentage and total number of significant investment agreements that include human rights clauses or that have undergone human rights screening.	Not applicable	N/A
HR2	Percentage of significant suppliers and contractors that have undergone screening on human rights and actions taken.	Not applicable	N/A
HR3	Total hours of employee training on policies and procedures concerning aspects of human rights that are relevant to operations.	Not Reported	-
Non Discrimination			
HR4	Total number of incidents of discrimination and actions taken.	None in 2013	-
Freedom of association and collective bargaining			
HR5	Operations identified in which the right to exercise freedom of association and collective bargaining may be at significant risk, and actions taken to support these rights.	Human rights responsibilities	72
Child labor			
HR6	Measures taken to eliminate child labor	Avoided at recruitment level	67-68
HR7	Measures to the eliminate forced or compulsory labor	None in 2013	-
HR8	Percentage of security personnel trained in the organization's policies or procedures concerning aspects of human rights.	None in 2013	-

Sustainability Supplement

GRI Index No.	Description	Report section	Page
HR9	Total number of incidents of violations involving rights of indigenous people and actions taken.	None in 2013	-
Social: Society			
Community			
SO1	Percentage of operation which implemented local community engagement, impact assessment and development programs	Corporate Social Responsibility	72-77
Corruption			
SO2	Percentage and total number of business units analyzed for risks related to corruption.	All business units are analyzed	54-56
SO3	Percentage of employees trained in organization's anti-corruption policies and procedures.	HR policy manual	67-69
SO4	Actions taken in response to incidents of corruption.	Disciplinary actions initiated against the staff involved in such incidents	N/A
Public policy			
SO5	Public policy positions and participation in public policy development and lobbying.	No important involvement. In 2013	-
SO6	Total value of financial and in-kind contributions to political parties, politicians, and related institutions by country.	The Company did not fund or made contributions to political parties and politicians	N/A
Anti - Competitive behavior			
SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes.	No such significant incidents occurred	N/A
Compliance			
SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations.	No such significant incidents occurred	N/A
Social: Product Responsibility			
Customer Health and Safety			
PR1	Life cycle stages in which health and safety impacts of products and services are assessed for improvement, and percentage of significant products and services categories subject to such procedures.	Our products and services are not dependent on health and safety related categories	N/A
PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning health and safety impacts of products and services during their life cycle, by type of outcomes.	Not applicable	N/A
Product and Services Labelling			
PR3	Type of product and service information required by procedures, and percentage of significant products and services subject to such information requirements.	Not applicable	N/A

GRI Index No.	Description	Report section	Page
PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labeling, by type of outcomes.	Not reported	N/A
PR5	Practices related to customer satisfaction, including results of surveys measuring customer satisfaction.	Superior customer service	75
Marketing Communication			
PR6	Programs for adherence to laws, standards, and voluntary codes related to marketing communications, including advertising, promotion, and sponsorship.	Initiatives to enhance financial literacy by type of beneficiary.	N/A
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.	Not reported in 2013	N/A
Customer Privacy			
PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data.	Not reported in 2013	N/A
Compliance			
PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services.	No fines paid during 2013	N/A

Corporate Governance

I. Governance Framework:

Corporate Governance which is identified as an integral part of business operations encompasses key elements such as integrity, transparency, equity and adoption of highest standards of business ethics to benefit the interest of stakeholders. The company endeavours to observe and maintain highest standards of corporate governance in all business transactions to meet stakeholder aspirations.

The Board continuously emphasizes on strong financial discipline in the interest of long-term stability of the company on the one hand and towards building long-term shareholder value on the other. The Board believes that the company has a sound corporate governance framework, good processes for the accurate and timely reporting of the financial position and results of operations. The Board ensures that the internal controls are continuously monitored and improved in order to have an effective internal control system within the company. The Audit sub-Committee of the company lays down policies and procedure to assist the Board in fulfilling its oversight responsibilities. The Audit Committee approves the audit plan, scope and activities of the internal audit function and ensures that its activities are carried out objectively and independently.

The Directors' Code of Ethics sets forth the policy and standards for ethical conduct of Directors of the company. The Directors of the company are expected to act in a manner consistent with the highest standards of personal and professional conduct and to act in good faith and in the interest of the company whilst exercising powers or performing duties as Directors of the company.

The Board meets at least once a month to approve and oversee the attainment of strategic objectives and values and to ensure that such objectives and values are communicated

throughout the company. The Board also approves the overall risk policy and risk management procedures and mechanisms to ensure risk management procedures are in place. The Board ensures the implementation of appropriate systems to manage the risk prudently. In furtherance of these objectives, a dedicated Risk Management unit is in place. The Integrated Risk Management Committee (IRMC which is a sub committee of the Board) meets quarterly to assess whether the risk management mechanism is effectively in place and submits a report to the Board. Furthermore, a dedicated compliance function has also been established to assess the Company's level of compliance with laws, regulations, directions, rules, guidelines etc. and a Compliance Report is provided to the Board on a monthly basis.

The Board of Directors meets atleast once a quarter with the key Management personnel of the company to review performance and monitor progress towards achieving the corporate objectives.

The company complies with the requirements of the Companies Act No. 07 of 2007, Listing Rules issued by the Colombo Stock Exchange and the Finance Leasing Act No.56 of 2000, and any directions or regulations issued by the Central Bank of Sri Lanka there under.

Section 01

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

CSE Rule No.	Governance Requirement	Compliance Status	MBSL's Extent of Compliance in 2013
7.10.1	<p>Non-Executive Directors</p> <p>a. The Board of Directors of a Listed Entity shall include at least, two non-executive directors; or such number of non-executive directors equivalent to one third of the total number of directors which ever is higher</p> <p>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</p> <p>c. any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.</p>	Complied	All seven Directors who comprise the Board are Non-Executive Directors
7.10.2	<p>Independent Directors</p> <p>a. Where the constitution of the Board of Directors includes only two non-executive directors in terms of Rule 7.10.1 above, both such non-executive directors shall be "independent ".In all other instances two or 1/3rd of non-executive Directors appointed to the Board of Directors which ever is higher shall be "independent"</p> <p>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.</p>	Complied	Three out of the seven Directors are independent in terms of the criteria defined by CSE Rule 7.10.4 on Corporate Governance
7.10.3	<p>Disclosure relating to Directors</p> <p>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</p>	Complied	The Board reviewed the declarations on independence of Directors and determined their independence as at 31 st December 2013.

Corporate Governance

CSE Rule No.	Governance Requirement	Compliance Status	MBSL's Extent of Compliance in 2013
	<p>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.</p>	Not applicable	As the Board has adequate number of independent directors, there was no requirement to specify a Director as independent beyond the criteria set out by the CSE.
	<p>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.</p>	Complied	Resume of each Director is given on page 24 to 29 of the Annual Report.
	<p>d. Upon appointment of a new Director to its Board, the Entity shall forthwith provide to 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.</p>	Complied	The Company Secretary has provided the required information to the Exchange upon appointment of New Directors
7.10.5	<p>Remuneration Committee</p> <p>a. Composition</p> <p>The Remuneration Committee shall comprise ; of a minimum of two independent non-executive Directors (in instances where an Entity has only two Directors on its Board);</p> <p>or</p> <p>of non-Executive Directors a majority of whom shall be independent, which ever is higher.</p> <p>One non-Executive Director shall be appointed as Chairman of the committee by the Board of Directors</p>	Complied	Remuneration Committee consists of three Non-Executive Directors, two of whom are independent.
	<p>b. Functions</p> <p>The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer of the Listed Entity and/ or equivalent position thereof, to the board of the Listed Entity which will make the final determination upon consideration of such recommendations.</p>	Complied	Please refer the Report of the Remuneration Committee on Page 123 of the Annual Report

CSE Rule No.	Governance Requirement	Compliance Status	MBSL's Extent of Compliance in 2013
	<p>c. 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 paid to executive and non-executive directors.</p>	Complied	The names of the members of the Remuneration Committee are given in the Report of the Remuneration Committee on Page 123 Fees paid to Directors are disclosed in Notes to Financial Statements on page 118 of the Annual Report.
7.10.6	<p>Audit Committee</p> <p>a. Composition</p> <p>The Audit Committee shall comprise;</p> <p>of a minimum of two independent non-executive Directors (in instances where an Entity has only two directors on its board);</p> <p>or</p> <p>of Non-Executive Directors a majority of whom shall be independent, which ever shall be higher.</p> <p>One Non-Executive Director shall be appointed as the Chairman of the committee by the Board of Directors.</p> <p>Unless otherwise determined by the audit committee, the Chief Executive Officer and the Chief Financial Officer of the Listed Entity shall attend audit committee meetings.</p> <p>The Chairman or one member of the committee should be a Member of a recognized professional accounting body.</p>	Complied	<p>The Audit Committee consists of four non-Executive Directors, two of whom are independent.</p> <p>The Chairman of the Audit Committee is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka and also possess experience and expertise in the banking and finance industry.</p>

Corporate Governance

CSE Rule No.	Governance Requirement	Compliance Status	MBSL's Extent of Compliance in 2013
	<p>b. Functions shall include,</p> <ul style="list-style-type: none"> (i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of a Listed Company, in accordance with Sri Lanka Accounting Standards. (ii) Overseeing of Entity's compliance with financial reporting requirements, information requirements of the Companies Act and other relevant financial reporting related regulations and requirements. (iii) Overseeing the processes to ensure that the Entity's internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards. (iv) Assessment of the independence and performance of the Entity's external auditors. (v) To make recommendations to the Board pertaining to appointment, re-appointment and removal of the external auditors. 	Complied	The functions of the Audit Committee and its Report are given on page 124.
	<p>c. Disclosure in the Annual Report</p> <p>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.</p> <p>The Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the annual report.</p> <p>The annual report shall contain a report by the audit committee setting out the manner of compliance by the Entity in relation to the above, during the period to which the annual report relates.</p>	Complied	<p>The names of members of the Audit Committee and its Report are given on page 124.</p> <p>The Audit Committee reviews the performance of the external auditors and is of the view they are independent and do not have any interest in contracts of the Company or its subsidiaries and/or its associate Companies.</p>

Section 02

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

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
2.	<p>The Responsibilities of the Board</p> <p>(i) the Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the relevant establishment by-</p> <p>a) approving and overseeing the relevant establishment's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the relevant establishment;</p> <p>b) approving the overall business strategy of the relevant establishment, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;</p> <p>c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p> <p>d) approving policy of communication with all stakeholders, including lenders, creditors, shareholders and borrowers;</p> <p>e) reviewing the adequacy and the integrity of the relevant establishment's internal control systems and management information systems;</p> <p>f) identifying and designing key management personnel who are in a position to (i) significantly influence policy ;(ii) direct initiatives; and (iii) exercise control over business activities, operations and risk managements;</p> <p>g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;</p> <p>h) ensuring that there is appropriate oversight of the affairs of the relevant establishment by key management personnel, that is consistent with the relevant establishment's policy;</p> <p>i) periodically assessing the effectiveness of its governance practices, including</p> <p>(i) the selection, nomination and election of directors and appointment of key management personnel;</p> <p>(ii) the management of conflicts of interests; and</p> <p>(iii) the identification of weaknesses and implementation of changes where necessary;</p>	Complied	<p>The Board is responsible for formulating overall strategies of the Company, reviewing & updating risk management mechanisms and ensuring adequacy and effectiveness of internal systems & controls.</p> <p>The Board has also established appropriate processes to cover the following:</p> <p>(i) identification of key management personnel who could influence policy, direct initiatives , exercise control over business operations & activities and risk management.</p> <p>(ii) identification of authority and key responsibilities of the Board and those of Senior Management.</p> <p>(iii) oversight of affairs of the Company to assess the effectiveness of the Company' s governance practices.</p> <p>(iv) review of policy and progress towards corporate objectives.</p> <p>(v) importance of adhering to regulatory requirements.</p>

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>j) ensuring that the relevant establishment has an appropriate succession plan for key management personnel;</p> <p>k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;</p> <p>l) understanding the regulatory environment;</p> <p>m) exercising due diligence in the hiring and oversight of external auditors.</p>		
	(2) The Board shall appoint the Chairman and Chief Executive Officer (CEO) and define and approve the functions and responsibilities of the Chairman and CEO in line with paragraph 7 of the Direction.	Complied	Chairman and the Chief Executive Officer are appointed in terms of the paragraph 7 of the Direction.
	(3) There shall be procedures determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the relevant establishment'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 relevant establishment.	Complied	The Company obtains independent professional advice where necessary.
	(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 circumstances arose in the Board during the financial year under review.
	(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 relevant establishment is firmly under its authority.	Complied	
	(6) The Board shall, if it considers that the relevant establishment 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 relevant establishment prior to taking any decision or action.	Not applicable	No such circumstances arose in the Board during the financial year under review.
	(7) The Board shall include in the relevant establishment's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied	Corporate Governance Report is included in the Annual Report from page 88 to 110.

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	(8) The Board shall adopt a scheme of self –assessment to be undertaken by each director annually, and maintain records of such assessment.	Complied	
3.	Meetings of the Board		
	(1) The Board shall meet at least twelve 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	The Board met 25 times during the financial year under review.
	(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 relevant establishment.	Complied	Proposals on promotion of business and management of risk and other areas relevant to the progress of the Company are included where relevant in the agenda for regular meetings.
	(3) A notice of at least 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	Adequate notice is given to Directors to attend regular meetings and reasonable notice for special meetings.
	(4) A Director who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three 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	The attendance of Directors at meetings has been regular.
	(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	The Board has appointed the Company Secretary who carries out secretarial services to the Board and shareholder meetings and other functions specified in the statutes and other regulations.
	(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	The agenda for Board meetings are prepared by the Company Secretary under the advice of the Chairman.
	(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	The Company Secretary provides all necessary assistance to Directors.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	(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	Minutes of Board meetings are available for inspection upon reasonable notice.
	(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 relevant establishment is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied	The Board minutes contain all relevant information and data considered by the Board for deliberations, explanations and confirmations given by officers of the Company relating to compliance with relevant laws and regulations, views and opinions expressed by Directors on various aspects of matters which were deliberated including risk mitigation measures etc.
4.	Composition of the Board		
	(1) Subject to the transitional provisions contained herein, the number of directors on the Board shall not be less than 5 and not more than 9.	Complied	The Board including the Chairman, comprises of Seven Non-Executive Directors.
	(2) Subject to paragraph 5(1) and the transitional provisions contained herein, the total period of service of a Director other than a Director who holds position of Chief Executive Officer or executive Director shall be inclusive of total period of service served by such Director up to the date of this direction.	Not applicable	This situation has not arisen.
	(3) Subject to the transitional provisions contained herein, an employee of a relevant establishment may be appointed, elected or nominated as a Director of the relevant establishment (hereinafter referred to as an "Executive Director") provided that a number of executive directors shall not exceed one-half of the number of directors of the Board. In such an event, one of the executive directors shall be the chief executive officer of the company.	Not applicable	The Company has not appointed any Executive Directors.

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	(4) Commencing 01.01.2013, the number of independent non-executive Directors of the Board shall be at least one fourth of the total number of directors.	Complied	The Board including the Chairman, comprises of Seven Non-Executive Directors (one third of the Board).
	(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	This situation has not arisen.
	(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 on page 24 to 29.
	(7) Commencing 01.01.2013, 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 of the number of Directors that constitute the quorum at such meeting are non-executive Directors	Complied	At all Board meetings convened during the year the Directors present were all Non-Executive Directors.
	(8) The independent non-executive Directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the relevant establishment. The relevant establishment 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 116 to 121 of this report.
	(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	
	(10) All Directors appointment to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied	All Directors appointed to fill casual vacancies on the Board (except nominee Directors) are subject to election by shareholders at the general meeting following their appointment.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	(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 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	Prior approval from the Central Bank has been sought for all Directors Resignations
5.	Criteria to assess the fitness and propriety of directors (1) Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a relevant establishment.	Complied	All Directors are below the age of Seventy (70) years as at 31 December 2013.
	(2) A Director of a relevant establishment shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/ bodies/corporate, including associate companies and subsidiaries of the relevant establishment. Provided that such Director shall not hold office of a Director or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.	Complied	No Director holds office as a Directors in more than 20 Companies or any other equivalent position in more than 10 companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No.15 of 1995.
6.	Management functions delegated to the Board (1) The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied	The Board regularly evaluate the delegated authority process to ensure that the delegation of work does not materially affect the ability of the Board as a whole in discharging its functions.
	(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 relevant establishment.	Complied	The Board regularly reviews the delegation process.
7.	The Chairman and the Chief Executive Officer (1) The roles of the Chairman and the Chief Executive Officer shall be separated and shall not be performed by the one and the same person after three years commencing from January 1, 2010.	Complied	The roles of the Chairman and Chief Executive Officer are held by two different individuals.
	(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 relevant establishment's Annual Report.	Complied	Since Chairman is considered non -executive non independent Director, the Board has designated an independent non-executive Director as the Senior Director.

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	(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 Chief Executive Officer and the nature of any relationship [including financial, business, family or other material / relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	The name of the Chairman and the Chief Executive Officer are stated in page 24 to 33.
	(4) The Chairman shall : (a) provide leadership to the Board; (b) ensure that the Board works effectively and discharges its responsibilities; and (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied	The Chairman ensures that all important matters concerning the Company are deliberated by the Board of Directors in a timely manner in order that the Board works effectively and discharges its responsibilities.
	(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	The Directors have continuous access to Company's information from a variety of sources. All relevant information and documents required by the Directors are provided for deliberations. The Directors dedicate adequate time to discharge their duties and responsibilities. The agenda for Board meetings is prepared by the Company Secretary under the advice of the Chairman.
	(6) The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The Directors dedicate adequate time to discharge their duties and responsibilities. The agenda for Board meetings is prepared by the Company Secretary under the advice of the Chairman.
	(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 relevant establishment.	Complied	The Directors dedicate adequate time to discharge their duties and responsibilities. The agenda for Board meetings is prepared by the Company Secretary under the advice of the Chairman.
	(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	The Chairman briefs the Directors of all issues arising at Board meetings sufficiently and on time. There are no executive Directors on the Board at present.
	(9) Subject to the transitional provisions contained herein, the Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied	The Chairman is not engaging in activities involving direct supervision of key management personnel or any other executive duties.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	(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.
	(11) The Chief Executive Officer shall function as the apex executive-in-charge of day-to-day management of the relevant establishment's operations and business.	Complied	The Chief Executive Officer is in charge of the Company's day to day Management, operations and business.
8.	<p>Board appointed Committees</p> <p>(1) Every relevant establishment shall have at least two Board Committees set out in paragraph 8(2) and 8(3) hereof. Each Committee shall report directly to the Board. Each Committee shall appoint a Secretary to arrange its meetings, maintain minutes, records and carryout 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 relevant establishment.</p>	Complied	The Audit Committee, Remuneration Committee and the Integrated Risk Management Committee which are Board appointed sub Committees, regularly report to the Board
	<p>(2) Audit Committee</p> <p>The following shall apply in relation to the Audit Committee:</p> <p>a) The Chairman of the Committee shall be a non-executive Director who possesses qualifications and experience in accountancy and/or audit.</p> <p>b) The majority of the Board members appointed to the Committee shall be non-executive Directors.</p>	<p>Complied</p> <p>Complied</p>	<p>The Chairman of the Audit Committee is an alternate Director to a non-Executive Director with required qualifications & experience.</p> <p>The Audit Committee consists of Four non-Executive Directors, two of whom are independent.</p>

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>c) The Committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the 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 years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	Complied	The functions of the Audit Committee and its Report are given on page 124.
	d) The Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Complied	Please refer the Audit Committee Report on page 124.
	<p>e) The 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 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 auditors independence or objectivity in relation to the provision of non-audit services, the Committee shall consider:</p> <ul style="list-style-type: none"> (i) Whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) Whether the nature of the non-audit services, the related fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor. 	Complied	The external auditors do not provide any non audit services to the Company.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>f) The Committee shall, before the audit commences, discuss and finalize with the external auditors the nature and scope of the audit, including:</p> <ul style="list-style-type: none"> (i) an assessment of the relevant establishment's compliance with directions issued under the Act and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between auditors where more than one auditor is involved. 	Complied	Please refer the Audit Committee Report on page 124.
	<p>g) The Committee shall review the financial information of the relevant establishment, in order to monitor the integrity of the financial statements of the relevant establishment, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the relevant establishment's Annual Report and accounts and periodical reports before submission to the Board, the Committee shall focus particularly on:</p> <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements. 	Complied	The Committee reviews 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>h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	Not applicable	Necessity not arisen.
	<p>i) The Committee shall review the external auditor's management letter and the management's response thereto</p>	Complied	The external auditor's management letter and the management response thereto were discussed by the Committee with external auditors in attendance. Please refer the Audit Committee report on page 124.

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>j) The Committee shall take the following steps with regard to the internal audit function of the relevant establishment:</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 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	The Audit Committee reviews the scope, functions and resources of the internal audit division periodically. The Committee also monitors and reviews the coverage of the annual audit plan, follow up action taken on recommendation of the internal audit etc. The Committee endeavours to ensure that the internal audit functions independently, impartially and professionally.
	k) The 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 Committee with the Management and recommendations are referred to the Board.
	l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the external auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the external auditors without the executive Directors being present.	Complied	Please refer the Audit Committee Report on page 124.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>m) The Committee shall have:</p> <ul style="list-style-type: none"> (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary. 		
	<p>n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	Complied	The Committee meets once a month with due notice of the agenda containing matters for discussion. Special meetings are also convened when required.
	<p>o) The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> (i) details of the activities of the Audit Committee; (ii) the number of Audit Committee meetings held in the year; and (iii) details of attendance of each individual member at such meetings. 	Complied	Please refer page 124 of this report for details of attendance of each individual member at Committee meetings.
	<p>p) The Secretary to the Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Committee meetings.</p>	Complied	The Company Secretary records and maintain the proceedings of Committee meetings.
	<p>q) The Committee shall review arrangements by which employees of the relevant establishment may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for 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 relevant establishment's relations with the external auditor.</p>	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 Department is authorised to carry out an immediate inquiry into the matter and report its observations to the Chairman and the Audit Committee.
	<p>(3) Integrated Risk Management Committee</p> <p>The following shall apply in relation to the Integrated Risk Management Committee:</p> <p>a) The Committee shall consist of at least one non-executive Director, Chief Executive Officer and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>	Complied	Please refer the Risk Management report from page 50 to 56 for details.

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>b) The Committee shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the relevant establishment 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 relevant establishment basis and group basis.</p> <p>c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset and Liability Management Committee to address specific risks and to manage those risks within quantitative risk limits as specified by the committee.</p> <p>d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the Committee on the basis of the relevant establishment's policies and regulatory and supervisory requirements.</p> <p>e) The Committee shall, at least quarterly, assess all aspects of risk management including updated business continuity plans.</p> <p>f) The Committee shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p> <p>g) The Committee shall submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.</p> <p>h) The Committee shall establish a compliance function to assess the relevant establishment's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated Compliance Officer selected from key management personnel shall carry out the compliance function and report to the Committee periodically.</p>	Complied	Please refer the Risk Management report from page 50 to 56 for details.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
9.	<p>Related Party Transactions</p> <p>(1) The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the relevant establishment with any person, 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 relevant establishment; b) Any associate Company of the relevant establishment; c) A Director of the relevant establishment; d) A key management personnel of the relevant establishment; e) A relative of a Director or a key management personnel of the relevant establishment ; 	Complied	<p>The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties as per the definition of this Direction and Sri Lanka Accounting Standard 24(LKAS24).</p> <p>Related party transactions have been carried out in the ordinary course of business on an arms length basis.</p>
	<p>(2) The Board shall ensure that the relevant establishment does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to an unrelated comparable counterparty of the relevant establishment. 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 relevant establishment'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 relevant establishment's share capital and debt instrument with a remaining maturity of 5 years; b) Charging a rate of interest lower than the relevant establishment's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. Outstanding in respect of each category of related parties as a percentage capital funds of the relevant establishment; 	Complied	Please refer financial statements Note No. 43 on page 196 "Related party transactions".

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	<p>c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;</p> <p>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows between the relevant establishment 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	Please refer financial statements Note No. 43 on page 196 "Related party transactions".
10.	Disclosures		
	(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	The financial statements for the year ended 31 December 2013, are in conformity with all the rules and regulatory requirements.
	(2) The Board shall ensure that at least the following disclosures are made in the Annual Report:	Complied	Please refer Directors' responsibility for financial reporting on page 122.
	a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.		
	b) A report by the Board on the relevant establishment'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 page 112 for the relevant report by the Board.
	c) The external auditors certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published after January 01, 2011	Complied	Please refer page 113 for the external auditor's certification.
	d) Details of Directors, including names, transactions with the relevant establishment.	Complied	Please refer page 116 to 121 of the Annual Report for details.
	e) Fees/remuneration paid by the relevant establishment to the Directors in aggregate, in the Annual Reports published after January 01, 2011.	Complied	Please refer page 118 of the Annual Report for details.

Corporate Governance

Section	Governance Requirement	Compliance status	MBSL's Extent of Compliance in 2013
	f) Total net accommodation as defined in paragraph 9(7) 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 relevant establishment.	Complied	Please refer Note No. 43 under Notes to the Financial Statements on page 196 to 198.
	g) The aggregate values of remuneration paid by the relevant establishment to its key management personnel and the aggregate values of the transactions of the relevant establishment 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 relevant establishment.	Complied	Please refer Note No. 43 under Notes to the Financial Statements on page 196 to 198.
	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 page 122.
	i) The external auditor's certification of the compliance with the Act and directions issued by the Director of Department of Supervision of Non-Bank Financial Institutions in the annual corporate governance reports published after January, 2012.	Complied	Please refer page 125 of the Annual Report for the external auditor's certification of compliance with the Act and the Directions.

**Attendance at meetings of the Board & Sub-Committees
held during the year 2013**

Name of Director	Directorship status	Board	Audit Committee	Remuneration Committee	Risk Committee
		No. of Meetings Held			
		25	15	04	04
Mr. M. R. Shah (Chairman)	Non Executive Director	24	-	04	-
Mr. M. S. S. Paramananda	Independent Non Executive Director	20	12	-	-
Mr. P. G. Rupasinghe	Senior Independent Non Executive Director	24	13	04	-
Mr. A. B. Lalith A De Silva	Non Executive Director	20	-	-	-
Mr. D. M. Gunasekara (Appointed w.e.f. 12 February 2013)	Non Executive Director	17	-	-	-
Mr. K. B. S. Bandara (Appointed w.e.f. 07 March 2013)	Non Executive Director	18	11	-	04
Mr. Chitral R. Jayawarna (Appointed w.e.f. 30 December 2013)	Independent Non Executive Director	-	-	-	-
Mr. W. P. R. P. H. Fonseka (Alternate Director to Mr. D. M. Gunasekara, Appointed w.e.f. 12 August 2013)	Non Executive Director	03	04	-	-
Prof. R. V. T. M. Ranjith Bandara (Resigned w.e.f. 10 September 2013)	Non Executive Director	11	11	02	-
Mr. V. Kanagasabapathy (Resigned w.e.f. 26 February 2013)	Non Executive Director	01	-	-	-
Mr. K. Dharmasiri (Resigned w.e.f. 24 January 2013)	Non Executive Director	01	-	-	-
Mrs. K. A. D. Fernando (Alternate Director to Mr. K. Dharmasiri, Resigned w.e.f. 24 January 2013) (Alternate Director to Mr. D. M. Gunasekara, Appointed w.e.f. 07 March 2013, Resigned w.e.f. 26 June 2013)	Non Executive Director	-	-	-	-

Corporate Governance

Senior Management Committee

The Senior Management Committee (SMC) comprises of highly qualified professionals with vast experience in corporate and business affairs. Several sub-committees comprising members of the senior management team, operate under the delegated authority of the Board to oversee key functions of the Company.

The Senior Management Committee is responsible for developing and implementing strategy and policies to achieve both long term and short term objectives of the Company, for monitoring performance of departments against targets, reviewing the internal controls, HR policies, identifying business risks and evaluating return on investments. The Senior Management Committee is also responsible for preparing the annual financial plan and budget for approval of the Board.

Report from External Auditors

The external auditors have performed procedures set out in Sri Lanka Related Services Practice Statement 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLRSPS 4750), to meet the compliance requirement of the Corporate Governance directive. Their findings presented in their report dated 25 February 2014 addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.

Directors' Statement on Internal Control

The Board of Directors is pleased to present the Directors' Statement on Internal Control in line with the Finance Leasing Direction No. 4 of 2009, section 10 (2) (b).

Responsibility

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Merchant Bank of Sri Lanka PLC's ("Company") system of internal controls. However, such a system is designed to manage the company'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 the company. 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 the company 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 the company were assessed along with the key risk areas of the company.

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 the company and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

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.

Key features of the processes adopted in 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 include the following:

- Internal audit department established by the Board is to assist the Board to ensure that the company 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 124.
- 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. These committees include the Credit Committee, the Senior Management

Directors' Statement on Internal Control

Committee, the Purchasing Committee, the Investment Committee, and the Information Technology Steering Committee.

- 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 the company. These in turn were observed and checked by the Internal Audit department for effectiveness on an ongoing basis.

The confirmation by the Board

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

Review of the statement by External Auditors

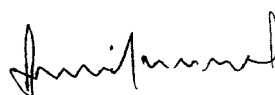
The external auditors have reviewed the above mentioned Directors' Statement on Internal Control in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE) 3050 – Assurance Report for Banks on Directors' Statement on Internal Controls issued by the Institute of Chartered Accountants of Sri Lanka.

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 the internal control system over financial reporting of the company. The Independent Assurance Report of the Auditors confirming the above is given on Page 113 of this Annual Report.

For and on behalf of the Board,



M. R. Shah
Chairman



M. S. S. Paramananda
Director



W. P. R. P. H. Fonseka
Chairman - Audit Committee

26 February 2014
Colombo

Independant Assurance Report

SJMS

ASSOCIATES
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
Chartered Accountants

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To the Board of Directors of Merchant Bank of Sri Lanka PLC

Introduction

We were engaged by the Board of Directors of Merchant Bank of Sri Lanka PLC ("Company") to provide assurance on the Directors' Statement on Internal Control ("Statement") included in the annual report for the year ended 31 December 2013.

Management's responsibility

Management is responsible for the sufficiency and reliability of internal controls in place at the company as specified in the Finance Leasing Direction No. 4 of 2009, section 10 (2) (b). Management is also responsible to prepare and present the Statement in accordance with the "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with the section 3(8)(ii)(b) of the Banking Act Direction No. 11 of 2007, by the Institute of Chartered Accountants of Sri Lanka.

Our responsibilities and compliance with SLSAE 3050

Our responsibility is to issue a report to the board on the Statement based on the work performed. We conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by the Institute of Chartered Accountants of Sri Lanka.

Summary of work performed

Our engagement has been conducted to assess whether the Statement is both supported by the documentation prepared by or for directors and appropriately reflects the process the directors have adopted in reviewing the system of internal controls for the Company.

To achieve this objective appropriate evidence has been obtained by performing the following procedures:

- a) Enquire from the directors to obtain an understanding of the process defined by the Board of Directors for their review of the design and effectiveness of internal control and compared their understanding to the Statement made by the directors in the annual report.

- b) Reviewed the documentation prepared by the directors to support their Statement.
- c) Related the Statement made by the directors to our knowledge of the Company obtained during the audit of the financial statements.
- d) Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees.
- e) Attended meetings of the audit committee at which the annual report is considered and approved for submission to the Board of Directors.
- f) Considered whether the Director's Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.
- g) Obtained written representations from directors on matters material to the Statement on Internal Control where other sufficient appropriate audit evidence cannot reasonably be expected to exist.

SLSAE 3050 does not require us to consider whether the Statement covers all risks and controls, or to form an opinion on the effectiveness of the Company's risk and control procedures. SLSAE 3050 also does not require us to consider whether the processes described to deal with material internal control aspects of any significant problems disclosed in the annual report will, in fact, remedy the problems.

Our conclusion

Based on the procedures performed, nothing has come to our attention that causes us to believe that the Statement included in the annual report is inconsistent with our understanding of the process the Board of Directors have adopted in the review of the design and effectiveness of internal control system over the financial reporting of the Company.

SJMS Associates

SJMS ASSOCIATES
Chartered Accountants

26 February 2014
Colombo

Financial Information

Annual Report of the Board of Directors on the Affairs of the Company	116
Directors' Responsibility for Financial Reporting	122
Report of the Remuneration Committee	123
Audit Committee Report	124
Independent Auditors' Report	125
Income Statement	126
Statement of Comprehensive Income	127
Statement of Financial Position	128
Statement of Changes in Equity	130
Statement of Cash Flows	131
Notes to the Financial Statements	132
Share & Debenture Information	221
Decade at a Glance	225
Statement of Value Added	231
Economic/ Financial Indicators	232

Financíal Information

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

The Directors have pleasure in presenting to the members their Report together with the Audited Financial Statements for the year ended 31 December 2013 of Merchant Bank of Sri Lanka PLC (MBSL), a public limited liability company incorporated on 04 March 1982 under the Companies Ordinance (Cap.145) and quoted in the Colombo Stock Exchange. The Company was re-registered on 04 May 2007 as required under the provisions of the Companies Act No.07 of 2007.

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.

RAM Ratings Lanka Limited has reaffirmed an AA- rating for the Company.

The Registered Office of the Company is at No. 28, BOC Merchant Tower, St. Michael's Road, Colombo 03 at which the Company's head office too is situated.

This Report provides the information as required by the Companies Act No.07 of 2007, 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 30 April 2014.

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report prepared for the year under review (i.e., for the year ended 31 December 2013).

Information required to be disclosed as per the Companies Act No. 07 of 2007		Reference to the Companies Act	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	Section 168 (I) (a)	Refer on page 132
ii	Signed Financial Statements of the Group and the Company for the accounting period completed	Section 168 (I) (b)	Refer on page 126 to 220
iii	Auditors' report on Financial Statements of the Group and the Company	Section 168 (I) (c)	Refer on page 125
iv	Accounting Policies and any changes therein (Group also included)	Section 168 (I) (d)	Refer on page 132 to 156
v	Particulars of the entries made in the Interest Register during the accounting period	Section 168 (I) (e)	Refer on page 196 to 198
vi	Directors' fee and other benefits paid to Directors of the Company and its Subsidiaries during the accounting period	Section 168 (I) (f)	Refer on page 118
vii	Information on donations made by the Company during the accounting period	Section 168 (I) (g)	Refer on page 72 to 74
viii	Information on Directorate of the Company and its subsidiaries during and at the end of the accounting period	Section 168 (I) (h)	Refer on page 24 to 29
ix	Separate disclosure on amounts payable to the Auditor as Audit Fees and Fees for other services rendered during the accounting period	Section 168 (I) (i)	Refer on page 159
x	Auditors' relationship or any interest with the Company and its Subsidiaries – Audit Fee / Non-Audit Fee	Section 168 (I) (j)	Refer on page 159
xi	Acknowledgement of the contents of this Report/Signatures on behalf of the Board	Section 168 (I) (k)	Refer on page 121

Principal Activities

MBSL is a registered finance leasing establishment under the provisions of the Finance Leasing Act No.56 of 2000. MBSL has two subsidiaries and two associate companies, namely, MBSL Insurance Company Limited, MBSL Savings Bank Limited, MCSL Financial Services Limited and Lanka Securities (Private) Limited respectively, which together constitute the Group.

The principal activities of the Company are Leasing & Hire Purchase, Trade Finance, Corporate Advisory and Capital Market activities. The Company has also diversified its business activities to cover lending to SMEs and Agriculture Sectors.

Changes to the Group Structure

MCSL Financial Services Limited merged with Ceylease Limited on 22 August 2013 and issued 22,726,594 numbers of ordinary shares to the shareholders of Ceylease Limited. As a result, MBSL's shareholding diluted from 51% to 41.6%. The controlling power of the MCSL Financial Services Limited was transferred to Bank of Ceylon, the parent of MBSL.

Review of Operations

A review of the operations of the Company during the financial year 2013 and results of those operations are contained in the Chairman's Review (page 08 to 11), the Chief Executive Officer's Report (page 20 to 23) and Management Discussion and Analysis (page 34 to 47). These reports form an integral part of the Annual Report.

Financial Statements of the Company and the Group

The Audited Financial Statements of the Company and of the Group for the year ended 31 December 2013 duly signed by the Assistant General Manager, Finance & Treasury Management, the Chief Executive Officer and approved by the Board of Directors of the Company, are given on page 126 to 220 and form an integral part of the Annual Report of the Board.

Directors' Responsibility for Financial Reporting

The Directors are responsible for the preparation of

the Financial Statements of the Group and the Company, which reflect a true and fair view of the state of its affairs. The Directors are of the view that the 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 page 126 to 220 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 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility for Financial Reporting' appearing on page 122 forms an integral part of this Report.

Auditors' Report

The Company's Auditors, Messrs SJMS Associates performed the audit on the Consolidated Financial Statements for the year ended 31 December 2013 and the Auditors' Report issued thereon is given on page 125 as required by the Section 168 (1) (c) of the Companies Act No. 07 of 2007.

Significant Accounting Policies and changes during the year

During the year under review, there were no changes in the accounting policies adopted, which were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standards No 01 (which is commonly known as LKAS 01 – Revised 2012) on 'Presentation of Financial Statements'. The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Company are given on page 132 to 156 of the Annual Report.

Interests Register

In terms of the Companies Act No.7 of 2007, an Interests Register is maintained by the Company. Directors have made general declarations as provided for in section 192(2) of the Companies Act No.7 of 2007. Arising from these, details of contracts in which they have an interest are given under Note No. 43 to the Financial Statements on page 196 to 198 of the Annual Report, dealing with related party disclosures.

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

Directors' Remuneration

Directors' remuneration paid during the year are as follows:

	Company Rs. 'Mn	Group Rs. 'Mn
Directors' fees and emoluments	4.14	14.09

Corporate Donations

During the year under review, the Company has made donations amounting to Rs. 36,000 (2012 – Rs. 53,000) in terms of the resolution passed at the last Annual General Meeting. This amount excludes contributions towards the Company's Corporate Social Responsibility initiatives.

Income & Profit

Provided below is a summary of the Consolidated Financial Results of the Group operations during the year ended 31 December 2013

	2013 Rs. 'Mn	2012 Rs. 'Mn
Income	4,285	3,956
Operating profit before taxation	(81)	250
Income tax expense	79	70
Profit for the year	(160)	180
Non-controlling interest	(58)	37
Profit attributable to equity holders of the parent	(102)	143

Taxation

The Company is liable for income tax at the rate of 28% and VAT on Financial Services at 12%.

Outstanding Litigation

In the opinion of the Directors and the Company's lawyers, pending litigation against the Company disclosed under Note 48 of the Financial Statements will not have a material impact on the financial position of the Company or on its future operations.

Reserves

A summary of the Group's reserves is given below.

	2013 Rs. 'Mn	2012 Rs. 'Mn
Statutory Reserve Fund	130	206
Available for Sale Reserve	5	(61)
Investment Fund Reserve	101	103
Retained Earnings	951	1,042

Information on the movement of reserves is given in the Statement of Changes in Equity on page 130 and in Note 41 respectively to the Financial Statements on page 193.

Property & Equipment

The details of property and equipment of the Company are given on page 183 under Notes 29.

Market Value of Freehold Properties

All freehold land and buildings of the Company were revalued by professionally qualified independent valuers. The Directors are of the opinion that the carrying amounts are not in excess of the current market values of such properties. The details of freehold properties owned by the Company are given in Note 28 to the Financial Statements on page 181 to 182.

Issue of Share & Debentures

The Company did not make any share issues but did debenture issues during the year. The details of the debenture issued by the Company are given in the table below.

Listed Debentures issued in 2013

	March	December
No. of Debentures issued	20,000,000	10,000,000
Consideration received (Rs.)	2,000,000,000	1,000,000,000

The details of the shares issued by the subsidiaries, MBSL Savings Bank Ltd and MBSL Insurance Co Ltd are given in the table below.

Details of the Preference share issue -

MBSL Savings Bank Ltd	Preference Shares
No. of shares issued	250,000,000
Consideration received (Rs.)	250,000,000

Details of the Rights issue -

MBSL Insurance Co Ltd	Ordinary shares
No. of shares issued	101,237,225
Consideration received (Rs.)	101,237,225

Stated Capital and Debentures

The Stated Capital as at 31 December 2013 was Rs.1,607 million, comprising of 135,000,000 ordinary voting shares. The details of the Stated Capital are given in Note 40 to the Financial Statements on page 193.

The details of debentures redeemed during the year 2013 and those outstanding as at 31 December 2013 are given in Note 34 to the Financial Statements on page 188 to 189.

Share Information

Information relating to earnings, net assets and market value per share is given in 'Financial Highlights' on page 4 to 5. 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 'Share & Debenture Information' on pages 221 to 224.

Substantial Shareholdings

Information on the 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 'Investor Relations' on pages 222.

Going Concern

After considering the Financial position, operating conditions, regulatory and other factors and such matters, required to be addressed in terms of the Finance Leasing (Corporate Governance) Direction No.04 of 2009 issued by the Central Bank of Sri Lanka, and the continuing Listing Rules of the Colombo Stock Exchange of Corporate Governance, the Directors have a reasonable expectation that the Company

possesses adequate resources to continue in operation for the foreseeable future. For this reason, they continue to adopt the going concern basis in preparing the Financial Statements.

Directors

The names of the Board of Directors of the Company as at 31 December 2013 are given below and their attendance at the board meetings during the year is given on page 109 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent /Non-Independent Status
Mr. M. R. Shah (Chairman)	Non Executive Director	Non-Independent
Mr. M. S. S. Paramananda	Non Executive Director	Independent
Mr. P. G. Rupasinghe	Non Executive Senior Director	Independent
Mr. D. M. Gunasekara	Non Executive Director	Non-Independent
Mr. K. B. S. Bandara	Non Executive Director	Non-Independent
Mr. Lalith De Silva	Non Executive Director	Non-Independent
Mr. C. R. Jayawarna	Non Executive Director	Independent
Mr. W. P. R. P. H. Fonseka	Alternate Director to Mr. D. M. Gunasekara	Non-Independent

Mr. K. Dharmasiri, Nominee Director of Bank of Ceylon resigned from the directorate with effect from 24 January 2013 and Mr. D. M. Gunasekara was appointed to the Board with effect from 12 February 2013 as a Nominee Director of Bank of Ceylon.

Mr. V. Kanagasabapathy, Non Executive/Non Independent Director has resigned from the Directorate with effect from 26 February 2013.

Mr. K. B. S. Bandara was appointed to the Board with effect from 07 March 2013 as a Nominee Director of Bank of Ceylon.

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

Ms. K. A. D. Fernando resigned from the Alternate Director to Mr. K. Dharmasiri with effect from 24 January 2013. Ms K. A. D. Fernando was appointed as the Alternate Director to Mr. D. M. Gunasekara with effect from 07 March 2013 and resigned from the Alternate Director to Mr. D. M. Gunasekara with effect from 26 June 2013

Mr. C. R. Jayawarna was appointed to the Board with effect from 30 December 2013 as a Non Executive Independent Director, being eligible offers himself for election in terms of Article 94 of the Articles of Association of the Company.

Mr. W. P. R. P. H. Fonseka was appointed as the Alternate Director to Mr. D. M. Gunasekara with effect from 12 August 2013.

Prof. R. W. T. M. Ranjith Bandara, Non Executive Senior Independent Director resigned from the directorate with effect from 10 September 2013.

In terms of Article 88 of the Articles of Association of the Company Mr. A B Lalith Abeya De Silva retires by rotation and being eligible, offers himself for re-election.

Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings namely Audit, Remuneration and Integrated Risk Management Committee are presented on page 109.

Directors' Interest in Shares of the Company

None of the Directors of the Board held shares of the Company as at 31 December 2013.

Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on page 196 to 198.

Environmental Projection

The Company has used its best endeavour 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.

Statutory Payments

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

Events after the Statement of Financial position date

No event of material significance that require adjustments to the Financial Statements, other than those disclosed in Note 45 to the Financial Statements on page 202 has occurred subsequent to the date of the Statement of Financial Position.

Appointment of Auditors

The retiring Auditors, M/s. SJMS Associates, Chartered Accountants, have expressed their willingness to continue in office for the financial year 2014.

A resolution to re-appoint M/s. SJMS Associates and to authorize the Directors to determine their remuneration will be proposed at the forthcoming Annual General Meeting.

Auditors' Remuneration and Interest in Contracts with the Company

The Auditors, M/s. SJMS Associates were paid Rs. 865,000 for the year ended 31 December, 2013 as audit fees by the Company. In addition, they were paid Rs. 605,000 by the Company, for permitted non-audit-related services.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company, or any of its Subsidiaries or Associates other than being the Auditors for Company's Subsidiaries and Associates.

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 page 48 to 56.

Corporate Governance

Directors' Declarations

The 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 endeavours have been made to ensure that shareholders category have been treated equitably in accordance with the original Terms of Issue.
- (d) The business is 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 Subsidiaries and Associates are prepared based on the going concern concept, and
- (e) 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, Securities and Exchange Commission of Sri Lanka, Colombo Stock Exchange and Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on page 88 to 110.

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.

Annual General Meeting

The Annual General Meeting will be held at the Galadari Hotel on 24 June 2014. The Notice of the Meeting relating to the Thirty Second Annual General Meeting is given on page 242.

Acknowledgement of the contents of the report

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

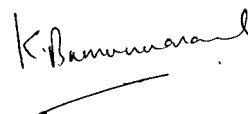
This Annual Report is signed for and on behalf of the Board of Directors by:



M. R. Shah
Chairman



D. M. Gunasekara
Director



Karnika Jayatilake
Company Secretary

30 April 2014
Colombo

Directors' Responsibility for Financial Reporting

This Statement sets out the responsibilities of the Directors in relation to the financial statements of the Company. The responsibilities of the auditors in relation to the financial statements are set out in the report of the Auditors on page 125 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 Group and the Company 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 2013, the Statement of 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 its subsidiaries and associates for the financial year ended 31 December 2013 have been prepared and presented based on new Sri Lanka Accounting Standards (SLFRS) which came to effect from 01 January 2012, Companies Act No. 07 of 2007, Sri Lanka Accounting & Auditing Standard Act No 15 of 1995, the Finance Leasing Act No 56 of 2000, the Finance Business Act No 42 of 2011, Banking Act No 30 of 1988, Listing Rules of the Colombo Stock Exchange, Directions issued by the Central Bank of Sri Lanka and generally accepted accounting policies.

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 ensuring year including

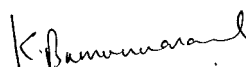
cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore has continued to adopt the going concern basis in preparing the Accounts.

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.

The Company's External Auditors, M/s SJMS Associates who were appointed in terms of the Section 158 of the Companies Act, the Directors have provided with every opportunity to carry out any reviews and inspections which they consider appropriate for the purpose of enabling them to form their opinion on the Financial Statements.

The Directors also confirm to the best of their knowledge, all taxes, statutory levies and financial obligations of the Company and the subsidiaries 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 ICASL and the SEC, the Directors have a reasonable expectation that the Company and its Subsidiaries 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 in this Statement.

By Order of the Board.



K. Jayatilake
Company Secretary

29 January 2014
Colombo

Report of the Remuneration Committee

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

Mr. M. R. Shah - Chairman/ Non Executive Director

Mr. P. G. Rupasinghe - Member/Non Executive
Independent Director

Mr. C. R. Jayawarna - Member/Non Executive
Independent Director

The Chairman of the Board of Directors is also functioning as the Chairman of the Remuneration Committee. During the Financial year ended 31 December 2013, four meetings are held. The attendance of the members of these meetings is given on page 109 of the Annual Report.

The Remuneration Committee is responsible in establishing a broad framework and in determining the remuneration paid to the Chief Executive Officer and or equivalent position thereof and the remuneration paid to the Directors and make its recommendation to the Board of Directors for final approval. Currently there are no executive Directors on the Board.

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 objectives of the Company.

The Board of Directors are paid fees for attendance at Board meetings and sub committee meetings per sitting and also a reimbursable travelling allowance. The total Directors' emoluments are disclosed in Note No. 13 on page 159 of the Financial Statements.



M. R. Shah

Chairman - Remuneration Committee

29 January 2014
Colombo

Audit Committee Report

The Audit Committee of the MBSL which functions as a sub-committee of the Board, assists the Main Board in fulfilling its oversight responsibilities. The Committee comprises of four Non Executive Directors, namely Mr. W.P.R.P.H Fonseka - Chairman, Mr. K.B.S Bandara, Mr. P.G Rupasinghe and Mr. M.S.S Paramananda. The profiles of the members of the committee are given on page 26 to 29. The Chief Executive Officer, Head of Finance and the Group Internal Auditor attend meetings by invitation. The Company Secretary is the Secretary to the Committee.

A total of 15 meetings were held during the year 2013. The attendance of the members of these meetings is shown in the Annual Report under Corporate Governance.

Key Responsibilities of the Committee

The key responsibilities of the committee are regulated by the scope of the Audit Committee Charter, the Board approved terms and reference incorporating the provisions of the regulatory bodies, standards and Acts. The following areas come under the provision of the Audit Committee.

- Reviewing and monitoring the adequacy and effectiveness of the internal control systems to ensure integrity of the financial statements
- Evaluation of the independence and objectivity of the External Auditors and the effectiveness of the audit process
- Review of performance of the Internal Audit Function, audit reports and follow up on recommendations
- Review and recommendation of interim and annual financial statements of the Company
- Ensuring Company's compliance with statutory and regulatory requirements

Activities of the Committee during the year

- Reports received from the Internal Audit Division covering audits and investigations were reviewed and discussed with the Management and the recommendations made were followed up and implemented.
- The quarterly and annual financial statements of the Company were reviewed and discussed with the Management and the External Auditors and recommended to the Board 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.

- The Committee regularly discussed the performance and future prospects of the Company with the Management.
- Risks attached to Company's business and operations were deliberated and where necessary, risk mitigation measures were recommended.
- The report submitted by the Management on the state of compliance with the relevant laws, regulations and settlement of statutory payments was reviewed and discussed.
- Follow up action on External Auditors Management Letter and Management responses thereto.

Internal Audit Function

During the year, the Committee reviewed the performance of the internal audit function, the findings of the audits completed during the year and the Divisions' resource requirements and also approved the Internal Audit Plan for the year 2014. The Committee has reviewed and approved the Audit Committee Charter and the Group Internal Audit Charter.

External Auditors

Prior to commencement of the Audit, the Audit Committee met with the External Auditors, M/s SJMS Associates to review and discuss the External Auditors' Letter of Engagement including the scope of the audit, process and procedures. The Committee also discussed the Management Letter issued by the External Auditors and the Management response thereto. The Committee also met with the External Auditors to discuss all audit issues/ concerns and agreed on their treatment.

The Audit Committee has recommended to the Board the extension of the period of engagement of the External Auditors by one year and their re-appointment for the financial year ending 31 December 2014.

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

29 March 2014
Colombo

Independent Auditors' Report



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Chartered Accountants
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Tel: 5364293, 5444420 Fax: 5364295
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TO THE SHAREHOLDERS OF MERCHANT BANK OF SRI LANKA PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Merchant Bank of Sri Lanka PLC, and the consolidated financial statements of the Company and its subsidiaries, which comprise the statement of financial position as at 31 December 2013, the statement of income, comprehensive income, changes in equity and the statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

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

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations, which to the best of our knowledge and belief were necessary for the purpose of our audit. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion - Company

In our opinion, so far as appears from our examination, the Company maintained proper accounting records for the year ended 31 December 2013, and the financial statements give a true and fair view of the financial position of the Company as at 31 December 2013, and of its financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards.

Opinion - Group

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Company and its subsidiaries dealt with thereby as at 31 December 2013 and the financial performance and cash flows for the year then ended, in accordance with Sri Lanka Accounting Standards, of the company and its subsidiaries dealt with thereby, so far as concerns the shareholders of the company.

Emphasis of matter - Group

Without qualifying our opinion, we draw your attention to note 46 in the financial statements regarding the going concern of MBSL Savings Bank Limited and MBSL Insurance Company Limited.

Report on Other Legal and Regulatory Requirements

These financial statements also comply with the requirements of Sections 151(2) and 153(2) to 153(7) of the Companies Act No. 07 of 2007 and present the information required by Finance Leasing Act No. 56 of 2000.

SJMS Associates

SJMS ASSOCIATES
Chartered Accountants

30 April 2014
Colombo

P. E. A. Jayewickreme, M. B. Ismail, Ms. A. M. J. Patrick, T. Krishnakumar, Ms. S. L. Jayasuriya, D. S. W. Andradi, G. J. David, Ms. F. M. Marikkar, Ms. M. S. J. Henry, Ms. A. U. M. Keppetipola, R. H. M. Minfaz, Ms. S. Y. Kodagoda

Income Statement

for the year ended 31 December	Note	Company		Group	
		2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Income	2	2,355,366	1,869,714	4,284,537	3,955,749
Interest and similar income	3	2,265,836	1,815,298	3,796,807	3,464,362
Interest and similar expenses	4	(1,371,937)	(1,035,739)	(2,364,151)	(1,989,101)
Net interest income		893,899	779,559	1,432,656	1,475,261
Fee and commission income	5	48,350	42,894	101,326	103,436
Fee and commission expenses	6	-	-	(139,836)	(103,740)
Net fee and commission income		48,350	42,894	(38,510)	(304)
Insurance premium income	7	-	-	1,236,163	902,557
Net claims and benefits		-	-	(942,778)	(515,484)
Net trading income/(loss)	8	(5,768)	5,275	(4,435)	(15,720)
Net gain/(loss) on financial assets designated at fair value through profit or loss	9	7,061	(45,055)	9,322	(28,158)
Other operating income	10	39,887	51,302	88,132	44,756
Total operating income		983,429	833,975	1,780,550	1,862,908
Impairment charges for loans and other losses	11	(208,683)	(50,468)	(251,792)	(106,431)
Net operating income		774,746	783,507	1,528,758	1,756,477
Personnel expenses	12	(310,122)	(270,787)	(697,986)	(658,276)
Retirement benefit expenses	39.1	(27,024)	(21,577)	(39,738)	(32,487)
Depreciation of property, equipment & investment properties		(19,231)	(16,563)	(70,957)	(62,392)
Amortisation of intangible assets		(1,908)	(1,054)	(7,702)	(2,789)
Other operating expenses	13	(216,365)	(205,425)	(749,363)	(684,142)
Total operating expenses		(574,650)	(515,406)	(1,565,746)	(1,440,086)
Operating profit /(loss) before Value Added Tax (VAT)		200,096	268,101	(36,988)	316,391
Value Added Tax on financial services		(24,214)	(24,698)	(43,308)	(48,432)
Share of associate companies' profit before tax	14.1	-	-	(606)	(17,486)
Profit /(loss) before income tax		175,882	243,403	(80,902)	250,473
Income tax expense	15	(58,942)	(42,156)	(78,851)	(70,256)
Profit /(loss) for the year		116,940	201,247	(159,753)	180,217
Profit for the year attributable to:					
Equity holders of the parent		116,940	201,247	(102,121)	143,493
Non controlling interest		-	-	(57,632)	36,724
Profit /(loss) for the year		116,940	201,247	(159,753)	180,217

Earnings per share:

Basic/diluted earnings per share (Rs.)	16	0.87	1.49	(0.76)	1.06
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The accounting policies and notes to the financial statements from page 132 to 220 form an integral part of the financial statements.

Statement of Comprehensive Income

for the year ended 31 December	Note	Company		Group	
		2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Profit /(loss) for the year		116,940	201,247	(159,753)	180,217
Other comprehensive income					
Actuarial gains/(losses) on defined benefit plans	39	1,029	(8,223)	637	(9,160)
Available for sale financial assets:					
Net change in fair value		40,261	(36,110)	75,687	(37,575)
Net amount transferred to profit or loss		(922)	-	(922)	-
Share of associates companies' other comprehensive income	14.2	-	-	2,014	-
Other comprehensive income before tax		40,368	(44,333)	77,416	(46,735)
Income tax charge relating to components of other comprehensive income	15	(2,591)	(5,933)	(2,591)	(5,933)
Other comprehensive income for the year, net of tax		37,777	(50,266)	74,825	(52,668)
Total comprehensive income for the year, net of tax		154,717	150,981	(84,928)	127,549
Attributable to:					
Equity holders of the parent		154,717	150,981	(35,759)	91,562
Non controlling interest		-	-	(49,169)	35,987
Total comprehensive income for the year, net of tax		154,717	150,981	(84,928)	127,549

The accounting policies and notes to the financial statements from page 132 to 220 form an integral part of the financial statements.

Statement of Financial Position

as at 31 December	Note	Company		Group	
		2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Assets					
Cash and cash equivalents	18	180,104	156,130	275,688	317,758
Placements with banks	19	784,480	140,242	1,186,017	485,954
Securities purchased under resale agreements	20.1	140,768	116,532	469,958	590,525
Financial assets designated at fair value through profit or loss	21	262,817	311,676	285,545	373,391
Non current assets held for sale	22	-	-	-	59,279
Bills receivable	23.1	627,283	525,741	627,283	525,743
Loans & advances to customers	23.2	2,342,414	1,698,280	3,640,429	4,458,095
Lease and hire purchase receivable	23.3	6,935,706	7,062,055	7,959,842	11,971,076
Financial investments - available for sale	24	667,855	695,868	1,427,400	1,161,481
Financial investments - held to maturity	25	-	-	100,957	507,737
Real estate stock		-	-	-	19,319
Investments in associate companies	26	102,002	81,084	438,234	106,228
Investments in subsidiaries	27	906,104	597,739	-	-
Investment properties	28	52,829	46,472	52,829	147,778
Property and equipment	29	86,356	100,499	223,180	285,370
Intangible assets	30	8,776	7,176	170,776	133,642
Other assets	31	171,306	351,817	734,473	1,019,501
Total assets		13,268,800	11,891,311	17,592,611	22,162,877
Liabilities					
Due to banks	32	99,118	138,239	152,338	272,994
Securities sold under repurchase agreements	20.2	-	419,462	-	435,558
Due to customers	33	-	-	2,824,918	7,546,297
Debt issued and borrowed funds	34	9,623,147	7,946,502	9,625,317	8,555,027
Insurance provision - life	35.1	-	-	220,748	166,086
Insurance provision - non life	35.2	-	-	733,060	571,068
Current tax liabilities	36	165,284	140,028	165,284	140,028
Deferred tax liabilities	37	64,757	60,558	64,757	60,558
Other liabilities	38	375,399	353,618	681,461	819,805
Retirement benefit obligation	39	160,219	139,245	183,176	193,008
Total liabilities		10,487,924	9,197,652	14,651,059	18,760,429

as at 31 December	Note	Company		Group	
		2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Equity					
Stated capital	40	1,607,000	1,607,000	1,607,000	1,607,000
Retained earnings	41.3	952,984	930,741	951,015	1,042,463
Available-for-sale reserve	41.4	(7,623)	(46,962)	5,000	(61,225)
Statutory reserves		228,515	202,880	231,250	309,286
Total equity attributable to equity holders of the parent		2,780,876	2,693,659	2,794,265	2,897,524
Non controlling interest		-	-	147,287	504,924
Total equity		2,780,876	2,693,659	2,941,552	3,402,448
Total liabilities and equity		13,268,800	11,891,311	17,592,611	22,162,877
Commitments and contingent liabilities	48	48,442	59,690	119,802	130,047
Net Assets Value per share (Rs.)		20.60	19.95	20.70	21.46

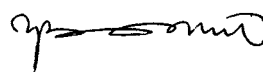
The accounting policies and notes to the financial statements from page 132 to 220 form an integral part of the financial statements.

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



P. Herath

Assistant General Manager - Finance & Treasury Management



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.



M. R. Shah

Chairman



K. B. S. Bandara

Director

30 April 2014

Colombo

Statement of Changes In Equity

Company	Stated capital Rs. '000	Investment fund Rs. '000	Statutory reserves Rs. '000	Available for sale reserve Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
Balance as at 01 January 2012 (Note 26.4)	1,607,000	55,978	114,526	(10,852)	943,932	2,710,584
Net profit for the year	-	-	-	-	201,247	201,247
Other comprehensive income	-	-	-	(36,110)	(14,156)	(50,266)
Dividends paid	-	-	-	-	(168,750)	(168,750)
Dividends write back	-	-	-	-	844	844
Transfers to investment fund	-	24,349	-	-	(24,349)	-
Transfers to statutory reserves	-	-	8,027	-	(8,027)	-
Balance as at 31 December 2012	1,607,000	80,327	122,553	(46,962)	930,741	2,693,659
Net profit for the year	-	-	-	-	116,940	116,940
Other comprehensive income	-	-	-	39,339	(1,562)	37,777
Transfers to investment fund	-	19,788	-	-	(19,788)	-
Dividends paid	-	-	-	-	(67,500)	(67,500)
Transfers to statutory reserves	-	-	5,847	-	(5,847)	-
Balance as at 31 December 2013	1,607,000	100,115	128,400	(7,623)	952,984	2,780,876

Group	Stated capital Rs. '000	Investment fund Rs. '000	Statutory reserves Rs. '000	Available for sale reserve Rs. '000	Retained earnings Rs. '000	Non controlling interest Rs. '000	Total equity Rs. '000
Balance as at 01 January 2012	1,607,000	68,163	184,784	(24,200)	1,139,571	461,072	3,436,390
Net profit for the year	-	-	-	-	143,493	36,724	180,217
Other comprehensive income	-	-	-	(37,025)	(14,906)	(737)	(52,668)
Right issue	-	-	-	-	-	19,059	19,059
Dividends paid	-	-	-	-	(168,750)	(9,800)	(178,550)
Dividends write back	-	-	-	-	844	-	844
Adjustments to retained earnings	-	-	-	-	(1,450)	(1,394)	(2,844)
Transfers to investment fund	-	35,107	-	-	(35,107)	-	-
Transfers to statutory reserves	-	-	21,232	-	(21,232)	-	-
Balance as at 31 December 2012	1,607,000	103,270	206,016	(61,225)	1,042,463	504,924	3,402,448
Net profit for the year	-	-	-	-	(102,121)	(57,632)	(159,753)
Adjustment from deemed disposal	-	(21,722)	(81,949)	-	103,671	(330,423)	(330,423)
Other comprehensive income	-	-	-	66,225	137	8,463	74,825
Rights Issue	-	-	-	-	-	21,955	21,955
Transfers to investment fund	-	19,788	-	-	(19,788)	-	-
Dividends paid	-	-	-	-	(67,500)	-	(67,500)
Transfers to statutory reserve fund	-	-	5,847	-	(5,847)	-	-
Balance as at 31 December 2013	1,607,000	101,336	129,914	5,000	951,015	147,287	2,941,552

The accounting policies and notes to the financial statements from page 132 to 220 form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 December	Note	Company		Group	
		2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Cash flows from operating activities					
Profit before income tax		175,882	243,403	(80,902)	250,473
Adjustments for :					
Change in operating assets	42.2	(611,415)	(1,870,204)	4,713,156	(2,707,529)
Change in operating liabilities	42.3	208,857	66,021	(4,455,993)	997,090
Share of associate companies' profit before tax		-	-	606	17,486
Contribution to defined benefit plans		27,024	21,577	39,738	32,487
Other non-cash items included in profit before tax	42.4	126,049	102,049	168,415	(155,402)
VAT on financial services		24,214	24,698	43,308	48,432
Dividends received		(9,535)	(23,104)	(12,424)	(7,639)
Deemed disposal of subsidiary (MCSL)		-	-	(658,654)	-
		(58,924)	(1,435,560)	(242,750)	(1,836,411)
Gratuity paid		(5,021)	(4,628)	(5,829)	(7,402)
Net cash used in operating activities before income tax		(63,945)	(1,440,188)	(248,579)	(1,843,813)
Income tax paid		(6,475)	(38,768)	(6,475)	(45,791)
Net cash used in operating activities		(70,420)	(1,478,956)	(255,054)	(1,889,604)
Cash flows from investing activities					
Purchase of financial assets designated at FVPL		(56,180)	(153,582)	(62,585)	(251,476)
Proceeds from disposal of financial assets designated at FVPL		96,794	77,770	152,644	213,835
Purchase of financial investments-AFS		(170,651)	(815,211)	(429,168)	(817,185)
Net proceeds from sale of financial investments-AFS		300,000	517,969	300,000	520,289
Purchase of financial investments-HTM		-	-	-	(396,310)
Sale of financial investments-HTM		-	-	406,780	860,215
Additions to investment properties		(7,000)	-	(7,000)	-
Purchase of property & equipment		(11,542)	(63,819)	(58,822)	(168,591)
Purchase of intangible assets		(3,508)	(6,447)	(47,186)	(13,520)
Proceeds from sale of investment properties and non current assets held for sale		-	1,500	47,524	201,366
Proceeds from sale of property & equipment		7,443	79	9,338	16,441
Dividend received		9,535	23,103	12,424	14,885
Net investment in subsidiary		(329,283)	(101,029)	-	-
Net cash generated used in investing activities		(164,392)	(519,667)	323,949	179,949
Cash flows from financing activities					
Net increase / (decrease) reverse repo and repo agreements		(443,698)	(177,667)	(314,991)	(533,342)
Net increase/ (decrease) in other borrowings		(1,316,657)	2,639,631	(1,699,710)	2,982,701
Proceeds from issue of shares		-	-	21,955	18,334
Proceeds from issue of debentures		3,000,000	-	3,000,000	-
Payments on redemption of debentures		(230,000)	(50,000)	(230,000)	(50,000)
Dividends paid		(67,500)	(168,750)	(67,500)	(178,550)
Net cash generated from financing activities		942,145	2,243,214	709,754	2,239,143
Net increase/ (decrease) in cash and cash equivalents during the year		707,333	244,591	778,649	529,488
Cash and cash equivalents at the beginning of year		158,133	(86,458)	530,718	1,230
Cash and cash equivalents at the end of year		865,466	158,133	1,309,367	530,718
Analysis of cash and cash equivalents	42.1				
Cash and short term funds		964,584	296,372	1,461,705	803,712
Dues to banks with original maturity less than three months		(99,118)	(138,239)	(152,338)	(272,994)
		865,466	158,133	1,309,367	530,718

The accounting policies and notes to the financial statements from page 132 to 220 form an integral part of the financial statements.

Notes to the Financial Statements

I. REPORTING ENTITY

I.1 Corporate information

Merchant Bank of Sri Lanka PLC (MBSL) is a public quoted company incorporated in 1982 and domiciled in Sri Lanka. It is a registered finance leasing establishment under the provisions of the Finance Leasing Act No. 56 of 2000. The company was re-registered under the Companies Act No. 07 of 2007. The registered office of the Company is located at the Bank of Ceylon Merchant Tower, No. 28, St Michael's Road, Colombo 03. The shares of the Company are listed in the Colombo Stock Exchange.

The staff strength of the Company and the group as at 31 December 2013 were 323 and 956. (296 and 1141 as at 31 December 2012)

I.1.1 Consolidated financial statement

The Consolidated Financial Statements of the Company as at and for the year ended 31 December 2013, comprise the Company (Parent Company) and its Subsidiaries (together referred to as the 'Group'), and the Group's interest in its Associates.

In the opinion of the directors, the Company's parent enterprise and its ultimate parent enterprise is Bank of Ceylon.

I.1.2 Principal activities and nature of operation of the company and its subsidiaries and associates

Entity	Principle business activities
Company Merchant Bank of Sri Lanka PLC	Leasing, hire purchase, corporate and retail credit, corporate advisory services, capital market operations, margin trading, micro financing and agricultural credit facilities.
Subsidiaries MBSL Savings Bank Limited	Licensed Specialized Bank and provides financial services including accepting deposits (Except current account), granting term and mortgage loans, lease financing, hire purchase financing, pawning etc.
MBSL Insurance Company Limited	Underwriting of all classes of life and general insurance
Associates MCSL Financial Services Limited	Acceptance of deposits, granting lease facilities, hire purchase, loans and other credit facilities, real estate developments and related services
Lanka Securities (Pvt) 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.

I.2 Basis of preparation

I.2.1 Statement of compliance

The consolidated financial statements of the Group and the separate financial statements of the Company, which comprise the components mentioned below (Refer page 126 to 220) have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/ LKAS) issued by the Institute of Chartered Accountants of Sri Lanka, and comply with the requirements of the Companies Act No. 07 of 2007, the Finance Leasing Act No. 56 of 2000, the 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. Further it provides appropriate disclosures as required by the Listing Rules of the Colombo Stock Exchange.

I.2.2 Responsibility for financial statements

The Board of Directors is responsible for the preparation and presentation of the financial statements of the company and its subsidiaries as per the provisions of the Companies Act No. 07 of 2007 and Sri Lanka Accounting Standards.

The Board of Directors acknowledges their responsibility as set out in the 'Annual Report of the Board of Directors', 'Statement of Directors' Responsibility' and in the statement following the Statement of Financial Position on page 117, 122 and 129 respectively, of this Annual Report.

These financial statements include the following components:

- A Statement of Comprehensive Income providing information on the financial performance of the Company and the Group for the year under review (Refer page 126 to 127)
- A Statement of Financial Position providing information on the financial position of the Company and the Group as at the year-end (Refer page 128 to 129)

- A Statement of Changes in Equity depicting all changes in shareholders' funds during the year under review of the Group and the Company (Refer page 130)
- A Statement of Cash Flows providing the information to the users, on the ability of the Group and the Company to generate cash and cash equivalents and the needs to utilize those cash flows (Refer page 131) and;
- Notes to the Financial Statements comprising Accounting Policies and other explanatory notes (Refer page 132 to 220)

1.2.3 Approval of financial statements by the board of directors

The Financial Statements of the Group and the Company for the year ended 31 December 2013 (including comparatives) were approved and authorized for issue by the Board of Directors on 30 April 2014.

1.2.4 Basis of measurement

The Financial Statements of the Group and 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 the Statement of Comprehensive Income.

Item and basis of measurement	Note no./s	Page reference
Available-for-sale financial assets are measured at fair value	24	177
Financial assets and liabilities held for trading and designated at fair value through profit or loss are measured at fair value	21	164
Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation	39	192

1.2.5 Functional and presentation currency

The Consolidated Financial Statements are presented in Sri Lanka Rupees, which is the company's functional currency. Financial information presented in Sri Lankan Rupees has been rounded to the nearest thousand unless indicated otherwise.

1.2.6 Presentation of financial statements

The assets and liabilities of the Company presented in its 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 (LKAS01) "Presentation of Financial Statements". Where appropriate, the accounting policies are disclosed in the succeeding notes.

1.2.7 Materiality and 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 01 on "Presentation of Financial Statements".

1.2.8 Significant accounting judgments, estimates and assumptions

The preparation of the Financial Statements of the Group and the Company in conformity with SLFRSs 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. Actual results may differ from these estimates. Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

Notes to the Financial Statements

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognized in the Financial Statements of the Group and Company is as follows.

1.2.8.1 Going concern

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

1.2.8.2 Fair value of financial instruments

The determination of fair values of financial assets and financial liabilities recorded on the Statement of Financial Position for which there is no observable market price are determined using a variety of valuation techniques that include the use of mathematical models. The inputs to these models are derived from observable market data where possible, but if this is not available, judgment is required to establish their fair values. The valuation of financial instruments is described in more detail in Note No. 44 on page 198 to 202.

1.2.8.3 Impairment losses on loans and advances

The group reviews its individually significant loans and advances at each reporting date to assess whether an impairment loss should be provided for in the Statement of Comprehensive income. In particular, management judgment is required in the estimation of the amount and timing of future cash flows when determining the impairment loss. These estimates are based on assumptions about a number of factors and actual results may differ, resulting in future changes to the allowance made.

Loans and advances that have been assessed individually and found not to be impaired and all

individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence but whose effects are not yet evident. The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilization, loan to collateral ratios, etc.), and judgments to the effect of concentrations of risks and economic data.

The impairment loss on loans and advances is disclosed in more detail in Note 11 and Note 23 on page 158 & 174 to 176 respectively.

1.2.8.4 Impairment of available-for-sale investments

The group reviews its debt securities classified as available-for-sale investments at each statement of financial position date to assess whether they are impaired. This requires similar judgment as applied to the individual assessment of loans and advances.

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

1.2.8.5 Deferred tax assets

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

1.2.8.6 Defined benefit obligations

The cost of the defined benefit plan is determined using an actuarial valuation. The actuarial valuation

involves making assumptions about discount rates, future salary increases, mortality rates and future pension increases. Due to the long-term nature of these plans, such estimates are subject to significant uncertainty. Refer Note No. 39 on page 192 for the assumptions used.

1.2.8.7 Provisions for liabilities and contingencies

The Group receives legal claims against it in the normal course of business. Management has made judgments as to the likelihood of any claim succeeding in making provisions. The time of concluding legal claims is uncertain, as is the amount of possible outflow of economic benefits. Timing and cost ultimately depend on the due process in respective legal jurisdictions.

Information about significant areas of estimation uncertainty and critical judgments in applying accounting policies other than those stated above that have significant effects on the amounts recognized in the Consolidated Financial Statements are described in Notes 1.3.15 on page 147.

1.2.9 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. Refer Note No. 45 on page 202.

1.3 Significant accounting policies – statement of financial position

1.3.1 Basis of consolidation

The Group's Financial Statements comprise consolidation of the Financial Statements of the Company, its Subsidiaries in terms of the Sri Lanka Accounting Standard -LKAS 27 on 'Consolidated and Separate Financial Statements' and the Proportionate share of the profit or loss and net assets of its

Associates in terms of the Sri Lanka Accounting Standard - LKAS 28 on 'Investments in Associates'.

The consolidated financial statements for the year ended 31 December 2013 comprise the financial statements of the Company (Parent company) and its subsidiaries (together referred to as the "Group") and the Company's interest in associate company. The Financial Statements of all companies in the Group have a common financial year which ends on December 31 and use consistent accounting policies.

1.3.1.1 Investment in subsidiaries

Subsidiaries are fully consolidated from the date on which control is transferred to the company and continue to be consolidated until the date when such control ceases. Control is achieved where the group has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities.

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by MBSL. Losses within a subsidiary are attributed to the non-controlling interest even if that results in a deficit balance.

A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction. If the Group loses control over a subsidiary, it:

- Derecognizes the assets (including goodwill) and liabilities of the subsidiary.
- Derecognizes the carrying amount of any non-controlling interest.
- Recognizes the fair value of the consideration received
- Recognizes the fair value of any investment retained
- Recognizes any surplus or deficit in profit or loss
- Reclassifies the parent's share of components previously recognized in other comprehensive income to profit or loss or retained earnings, as appropriate.

Notes to the Financial Statements

Investment in subsidiaries is stated at cost in the Company's financial statements in accordance with the Sri Lanka Accounting Standard LKAS 27 – Consolidated and separate financial statements.

A listing of the company's subsidiaries is set out in Note 27 on page 180 to 181.

1.3.1.2 Investment in associates

Associates are those entities in which the Group has significant influence, but not control, over the financial and operating policies. Significant influence is presumed to exist when the Group holds between 20% and 50% of the voting power of another entity.

The group's investments in its associates are accounted for using the equity method and are initially recognized at cost. Subsequently, under the equity method, the investment in the associate is carried in the statement of financial position at cost plus post acquisition changes in the Group's share of net assets of the associate, in terms of Sri Lanka Accounting Standards-LKAS 28 on 'Investments in Association'. Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortized nor individually tested for impairment.

The income statement reflects the share of the results of operations of the associate. Where there has been a change recognized directly in the equity of the associate, the Group recognizes its share of any changes and discloses this, when applicable, in the statement of changes in equity. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognize further losses, unless it has incurred obligations or made payments on behalf of the associate.

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective

evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the income statement.

Upon loss of significant influence over the associate, the Group measures and recognizes any retaining investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retaining investment and proceeds from disposal is recognized in profit or loss.

Listings of the Group's Associates together with their fair values are set out Note 26 on page 178 to 180.

1.3.1.3 Loss of control

Upon the loss of control, the Group derecognizes the assets and liabilities of the subsidiary, any non-controlling interest and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is 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.

1.3.1.4 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.

1.3.2 Foreign currency

1.3.2.1 Foreign currency translation

The Group's Consolidated Financial Statements are presented in Sri Lankan Rupees, which is also the Company's functional currency. Transactions in foreign currencies are initially recorded at the functional currency, rate of exchange ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency spot rate of exchange at the statement of financial position date. All differences are taken to the income statement.

1.3.3 Financial instruments

1.3.3.1 Date of recognition

All financial assets and liabilities are initially recognized on the trade date, i.e., the date that the group becomes a party to the contractual provisions of the instrument.

1.3.3.2 Initial measurement of financial instruments

The classification of financial instruments at initial recognition depends on the purpose, characteristics and the management's intention for which the financial instruments were acquired them. (Refer 1.3.3.3) All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standards – LKAS 39 on Financial Instruments: 'Recognition and Measurement.'

1.3.3.2.1 'Day 1' profit or loss

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, the group amortizes the difference between the transaction price and fair value (a 'Day 1' profit or loss) over time on an appropriate basis in 'Interest income'.

1.3.3.3 Classification and subsequent measurement of financial assets

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

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

The subsequent measurement of financial assets depends on their classification. Please refer accounting policies 1.3.3.3.1, 1.3.3.3.2 and 1.3.3.3.3 on page 137, 138 and 139 respectively.

1.3.3.3.1 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. This category also includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard - LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

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

Notes to the Financial Statements

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.

The Group has not designated any Financial Asset upon initial recognition as Held for trading.

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.

Details of Financial assets designated at fair value through profit or loss are given in Note 21 on page 164.

c) Available-for-sale financial investments

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.

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 income statement 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 income statement 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 income statement in 'Impairment losses on financial investments' and removed from the 'Available-for-sale reserve'.

Details of Available-for Sale financial investments are given in Note No. 24 on page 177.

1.3.3.2 Loans and advances to customers

'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment.

Amortized 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 amortization is included in 'Interest income' in the income statement.

Loans and advances to customers that are six months or more in arrears of due capital and / or interest are classified as Non-Performing Loans and income is recognized on cash basis in accordance with the directions issued by the Central Bank of Sri Lanka.

The losses arising from impairment are recognized in the income statement in 'Impairment charges for loans and other losses'.

Details of Loans and advances to customers are given in Note 23 on page 174 to 176.

1.3.3.3 Held to maturity financial investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturities, which the Group has the intention and ability to hold to maturity. After initial measurement, held to maturity financial investments are subsequently measured at amortized cost using the EIR, less impairment. Amortized cost is calculated by taking into account 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 Comprehensive Income. The losses arising from impairment of such investments are recognized in the Income Statement 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 on '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.

Details of Held to Maturity Financial investments are given in Note 25 on page 178.

1.3.3.4 Financial liabilities at amortized cost

Financial instruments issued by the company 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.

1.3.3.5 Cash and cash equivalents

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.

Details of cash and cash equivalents are given in Note 18 on page 164.

The cash flow has been prepared by using the indirect method of preparing cash flows. For the purpose of the consolidated statement cash flows, cash and cash equivalents consist of cash and short-term deposits as defined above, net of outstanding bank overdrafts.

1.3.3.4 Derecognition of financial assets and financial liabilities

1.3.3.4.1 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 has transferred its rights to receive cash flows from the asset or has assumed an

Notes to the Financial Statements

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 has transferred substantially all the risks and rewards of the asset; or
- The Company has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (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 income statement.

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

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

1.3.3.4.2 Financial liabilities

A financial liability is derecognized 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 derecognition of the

original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognized in profit or loss.

1.3.3.5 Repurchase and reverse 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 an asset 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 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 (refer Note No. 20 on page 164).

1.3.3.6 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.

1.3.3.7 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.

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.

An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 44 on page 198 to 202.

1.3.3.8 Impairment of financial assets

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

Evidence of impairment may include indications that the borrower or a group of borrowers is experiencing significant financial difficulty, the

probability that they will enter bankruptcy or other financial reorganization, default or delinquency in interest or principal payments and where observable data indicates that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

1.3.3.8.1 Impairment of financial assets carried at amortized cost

For financial assets carried at amortized cost (such as deposits with banks, bills receivable, loans and advances to customers, lease and hire purchase rental receivable as well as held-to-maturity investments), the Group first assesses individually whether objective evidence of impairment exists for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognized are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the assets' carrying amount and the present value of estimated future cash flows (excluding future expected credit losses that have not yet been incurred). The carrying amount of the asset is reduced through the use of an allowance account and the amount of the loss is recognized in the income statement. Loans together with the associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the group. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognized, the previously

Notes to the Financial Statements

recognized impairment loss is increased or reduced by adjusting the allowance account. If a future write-off is later recovered, the recovery is credited to the 'Impairment charges for loans and other losses'.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current EIR.

For the purpose of a collective evaluation of impairment, financial assets are grouped considering credit risk characteristics such as asset type, geographical location, past-due status and other relevant factors. Statistical methods are used to determine impairment losses on a collective basis for loans with similar credit risks. Loans are grouped into ranges according to number of months in arrears and statistical analysis is used to estimate the likelihood that loans in each range will progress through the various stages of delinquency 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 date of the Statement of Financial Position is likely to be greater or less than that suggested by historical experience.

1.3.3.8.2 Impairment of available-for-sale financial investments

For available-for-sale financial investments, the group assesses at each statement of financial position 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 income statement. 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 income statement, the impairment loss is reversed through the income statement.

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. 'Significant' is evaluated against the original cost of the investment and 'prolonged' against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognized in the income statement – is removed from equity and recognized in the income statement. Impairment losses on equity investments are not reversed through the income statement; increases in the fair value after impairment are recognized in other comprehensive income.

1.3.3.9 Financial guarantees

Financial guarantee contracts issued by the Group are those contracts that require a payment to be made to reimburse the holder for a loss it incurs because the specified debtor fails to make a payment when due in accordance with the terms of a debt instrument. Financial guarantee contracts are recognized initially as a liability at fair value, adjusted for transaction costs that are directly attributable to the issuance of the guarantee. Subsequently, the liability is measured at the higher of the best estimate of the expenditure required to settle the present obligation

at the reporting date and the amount recognized less cumulative amortization. The commission received is recognized in the income statement in 'Net fees and commission income'.

1.3.3.10 Collateral valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, gold, real estate, receivables and other non-financial assets. The fair value of collateral is generally assessed, at a minimum, at inception and based on the guidelines issued by the Central Bank of Sri Lanka. Non-financial collateral, such as real estate, is valued based on data provided by third parties such as independent valuers and other independent sources.

Collateral repossessed

The Company's policy is to determine whether a repossessed asset is best used for its internal operations or should be sold. Assets determined to be useful for the internal operations are transferred to their relevant asset category at the lower of their repossessed value or the carrying value of the original secured asset.

1.3.4 Non-current assets held-for-sale

A non-current asset (or disposal group) is classified as held for sale if the Group will recover the carrying amount principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and these assets are available for immediate sale in its present condition. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification. Non-current assets and disposal groups classified as held for sale are measured at the lower of their carrying amount and fair value less costs to sell (refer Note 22 on page 174).

1.3.5 Leasing

The determination of whether an arrangement is a lease or it contains a lease, is based on the substance

of the arrangement and requires an assessment of whether the fulfillment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

1.3.5.1 Group as a lessor

Assets leased to customers, who transfer substantially all the risks and rewards associated with ownership other than legal title, are accounted as finance leases in accordance with Sri Lanka Accounting Standard – LKAS 17 Leases and reflected in the statement of financial position as lease receivable. After initial measurement, lease receivable are subsequently measured at amortized cost using the EIR, less allowance for impairment. The amortization is included in 'Interest and similar income' in the income statement. The losses arising from impairment are recognized in the income statement in 'Impairment charges for loans and other losses'.

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

1.3.5.2 Group as a lessee

Finance leases which transfer to the Group substantially all the risks and benefits incidental to ownership of the leased item, are capitalized at the commencement of the lease at the fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognized in Interest and similar expenses in the income statement.

A leased asset is depreciated over the useful life of the asset.

Notes to the Financial Statements

1.3.6 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both (refer Note 28 on page 181 to 182).

1.3.6.1 Basis of recognition

Investment property is recognized if it is probable that future economic benefits that are associated with the investment property will flow to the company and cost of the investment property can be measured reliably.

1.3.6.2 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 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.

1.3.6.3 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 income statement in the period of derecognition.

1.3.7 Property & equipment

The Group applies the requirements of the Sri Lanka Accounting Standard - LKAS 16 'Property, Plant & Equipment' in accounting for its assets which are held for and use in the provision of services or for administrative purposes and are expected to be used for more than one year (refer Note 29 on page 183 to 186).

1.3.7.1 Basis of recognition

Property & 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.

1.3.7.2 Basis of measurement

Property and equipment are stated at cost less accumulated depreciation and any accumulated impairment losses. Cost includes purchase price plus expenses directly attributable to the asset in order to bring it to the location & condition to be operated in the intended manner. Expenditure on low value noncurrent assets is written off in full in the year of acquisition.

1.3.7.3 Subsequent cost

These are costs that are recognized in the carrying amount of an item if it is probable that the future economic benefits embodied within that part of the cost will flow to the Group and it can be reliably measured. The costs of the day-to-day servicing of property and equipment are recognized in profit or loss as incurred.

The Group revalues land and building at least once in five years for disclosure purpose.

1.3.7.4 Derecognition

An item of Property & Equipment is derecognized upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognizing of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognized in 'Other Operating Income' in the income statement in the year the asset is derecognized.

1.3.7.5 Depreciation

Depreciation of an asset begins when it is available for use and ceases at the earlier of the date that the asset is classified as held for sale and the date that the asset is derecognized. Depreciation is calculated by using the straight-line method on the cost of all property and equipment, other than freehold land, in order to write off such amounts over the estimated useful economic lives of such assets.

The estimated useful lives are as follows:

Class of asset	Percentage per annum	Period
Motor vehicles	20% - 25%	04 - 05 years
Computers & accessories	20% - 25%	04 - 05 years
Building	05%	20 years
Other assets	10% - 50%	02 - 10 years

After the recognition of an impairment loss, the depreciation charge for the asset shall be adjusted in future periods to allocate the asset's revised carrying amount, less its residual value (if any), using a straight-line method over its remaining useful lives.

Useful lives, depreciation method and residual amounts of property and equipment are reviewed at each financial year end and adjusted prospectively if appropriate. Such a review takes into consideration the nature of the assets, their intended use including but not limitative to the closure of operations and the evolution of the technology and competitive pressures that may lead to technical obsolescence.

1.3.8 Intangible assets

1.3.8.1 Basis of recognition

An intangible asset is recognized if it is probable that future economic benefits that are attributable to the asset will flow to the entity and the cost of the asset can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 38 on 'Intangible Assets'. The company's intangible assets include computer software and goodwill (refer Note 30 on page 186 to 187).

Computer software

Purchased software which is not an integral part of the related hardware is treated as an intangible asset and measured on initial recognition at cost. The cost of internally generated software comprises all directly attributable costs incurred to prepare the software to be capable of operating in the manner intended by management. After initial recognition, intangible assets are carried at cost less any accumulated amortization and any accumulated impairment losses, if any.

Goodwill

Goodwill is initially measured at cost, being the excess of the aggregate of the consideration transferred and the amount recognized for non-controlling interest over the net identifiable assets acquired and liabilities assumed.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses.

Goodwill is tested for impairment annually (as at 31 December) and when circumstances indicate that the carrying value may be impaired. Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash generating unit is less than their carrying amount, an impairment loss is recognized. Impairment losses relating to goodwill cannot be reversed in future periods.

1.3.8.2 Amortization of intangible assets

The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are amortized over the useful economic life. The amortization period and the amortization method for an intangible asset with a finite useful life are reviewed at least at each financial year-end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset is accounted for by changing

Notes to the Financial Statements

the amortization period or method, as appropriate, and treated as changes in accounting estimates. The amortization expense on intangible assets with finite lives is recognized in the income statement in the expense category consistent with the function of the intangible asset.

Amortization is calculated using the straight-line method to write down the cost of intangible assets over their estimated useful lives as follows:

Class of Asset	% per Annum	Period
Computer Software	20% - 25%	4-5 Years

1.3.9 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 Income Statement.

1.3.10 Debt issued and other borrowed funds

Financial instruments issued by the group, that are not designated at fair value through profit or loss, are classified as liabilities under 'Debt issued and borrowed funds', where the substance of the contractual arrangement results in the group having an obligation either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortized cost using the EIR. Amortized cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. An analysis of the group's issued debt is disclosed in Note 34 on page 188 to 189.

1.3.11 Dividends payable

Dividends on ordinary shares are recognized as a liability and deducted from equity when they are recommended and declared by the Board of Directors and approved by the shareholders. Interim dividends are deducted from equity when they are declared and no longer at the discretion of the Company.

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

1.3.12 Other liabilities

Other Liabilities include accrued interest, accrued expenses and other provisions. These liabilities are recorded at amounts expected to be payable at the statement of financial position date.

Details of 'Other Liabilities' are given in Note 38 on page 191.

1.3.13 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 on '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 (refer Note 35 on page 190).

1.3.14 Employee benefits

1.3.14.1 Defined benefit plan – gratuity

Gratuity is a defined benefit plan. Provision has been made in the accounts for retiring gratuities. An actuarial valuation of the retirement benefit is performed by a qualified actuary as at the Statement of Financial Position date using the projected unit credit (PUC) method in terms of Sri Lanka Accounting Standards 19 - Employee Benefits. The provision is not externally funded.

Actuarial gains and losses are recognized in full in the period in which they occur in other comprehensive income. Such actuarial gains and losses are also immediately recognized in retained earnings and are not reclassified to profit or loss in subsequent periods. The past service cost is recognized as an

expense on a straight line basis over the period until the benefits become vested. Further details are disclosed in Note 39 on page 192.

However, as per the payment of Gratuity Act No.12 of 1983, the liability arises only upon completion of five years of continued service.

1.3.14.2 Defined contribution plan – employees' provident fund and employees' trust fund

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The 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.

1.3.15 Commitments and contingencies

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 (refer Note No. 48 on page 206).

1.3.16 Earnings per share (EPS)

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 (refer Note No. 16 on page 160).

1.3.17 Segment reporting

MBSL's operating segments were identified based on products and services since the Group management

Notes to the Financial Statements

primarily use information on products and services in order to make decisions about allocating resources and assessing performance.

MBSL's segmental reporting is based on the following operating segments:

- Leasing: Finance Leases, Hire Purchase and Micro finance facilities.
- Corporate and retail credit: Personal loans, Term loans, Bill discounting, Cheque discounting, Bank guarantees, and Real estate/ Property development
- Corporate advisory: Corporate finance, Merger and acquisitions advice, Specialized financial advice and trading
- Insurance: General and Life insurance

Segment performance is evaluated based on operating profit or loss which in certain respects is measured differently from operating profit or loss in the consolidated financial statement. Income tax and VAT on financial services are managed by individual companies and are not allocated to operating segment.

Measurement of segmental assets, liabilities, income and expenses are in accordance with the Group's accounting policies. There are no income and expenses transfer between segments.

1.3.18 New accounting standards and interpretations not yet effective as at reporting date

A number of new standards, amendments to standards and interpretations which have been issued but not yet effective as at the reporting date have not been applied in preparing these Consolidated Financial Statements. None of these is expected to have a significant effect on the Consolidated Financial Statements of the Group. The extent of the impact has not been determined.

The following SLFRS have been issued by the Institute of Chartered Accountants of Sri Lanka but not yet effective as at the reporting date.

- SLFRS 9 - Financial Instruments
- SLFRS 10 - Consolidated Financial Statements
- SLFRS 11 – Joint Arrangements
- SLFRS 12 - Disclosure of Interests in Other Entities
- SLFRS 13 - Fair Value Measurement

1.4 Significant accounting policies - 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 revenue can be reliably measured. The following specific recognition criteria must also be met before revenue is recognized.

1.4.1 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.

For personal loans and term loans, interest ceased to be taken into revenue when the recovery of interest and / or principal is in arrears for three months or more. Interest receivable on advances classified as non-performing is accounted for on cash basis. Interest falling due on non-performing advances is credited to interest in suspense account. In addition, interest accrued up to three months on such non-performing advances is also eliminated from the interest income and transferred to interest in suspense.

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.

1.4.2 Income from finance lease and hire purchase

The excess of aggregate lease contracts receivable over the cost of the leased assets constitutes the total unearned income at the commencement of the lease contract.

The unearned income is recognized as income over the term of the lease commencing from the month the lease is executed reflecting a constant periodic rate of return on the net investment outstanding in respect of the finance lease.

Non- performing leases are those where the rentals are overdue for 6 months or more. Lease income accrued is suspended from the date on which a lease is classified as non-performing and credited to the interest in suspense. Thereafter such income is recognized on cash basis.

Income from hire purchase is recognized in the same way income from finance lease is recognized.

1.4.3 Income from discounting of bills of exchange and cheques

Interest income from discounted trade bills and cheques is recognized proportionately from the date of discount to the maturity date.

1.4.4 Fee and commission income

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;

1.4.5 Dividend income

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

1.4.6 Net trading income

Results arising from trading activities include dividends from financial assets and gain on disposal of financial assets designated at fair value through profit or loss.

1.4.7 Overdue interests

Default charges for late payment of finance lease and hire purchase rentals, and for delayed redemption of bills of exchange, are recognized as income on collection.

1.4.8 Gain/ loss on sale of available-for-sale investments, PPE and investment properties

Gain/Loss on sale of available-for-sale investments, PPE and investment properties are accounted for in the income statement, after deducting the carrying amount of such assets from the net sales proceeds on disposal.

1.4.9 Expenditure recognition

Expenses are recognized in the income statement on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in running the business and in maintaining property and equipment in a state of efficiency are charged to the income statement.

1.4.10 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 23 – Borrowing cost. Borrowing costs consist of interest and other

Notes to the Financial Statements

costs that an entity incurs in connection with the borrowing of funds.

1.5 Significant accounting policies - tax expense

As per the Sri Lanka Accounting Standards - LKAS 12 on 'Income taxes', tax expense is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognized in the Income Statement except to the extent it relates to items recognized directly in Equity or in Other Comprehensive Income (OCI), in which case it is recognized in Equity or in OCI.

1.5.1 Current taxation

Current income tax is the tax expected to be payable on the taxable profit for the year, calculated using tax rates enacted or substantively enacted at the statement of financial position date, and any adjustment to tax payable in respect of previous years. Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate (refer Note 15 on page 160).

1.5.2 Deferred tax

Deferred tax is recognized using the liability method on temporary differences at the reporting date between the carrying amounts of assets and liabilities in the statement of financial position and the amounts attributed to such assets and liabilities for tax purposes. Deferred tax liabilities are generally recognized for all taxable temporary differences and deferred tax assets are recognized for all deductible temporary differences, carried forward unused tax credits and unused tax losses, to the extent that it is probable that taxable profits will be available against which the deductible temporary differences, and the carried forward unused tax credits and unused tax losses can be utilized.

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 utilized. Unrecognized deferred tax assets are reassessed at each reporting date and are recognized to the extent that it has become probable that future taxable profits will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date. Changes in deferred tax as a result of changes in tax rates are recognized in the income statement.

Deferred tax assets and liabilities are offset when they arise in the same tax reporting company and relate to income taxes levied by the same taxation authority, and when the company has a legal right to offset.

Deferred tax relating to actuarial gains and losses on post-employment benefits is recognized in other comprehensive income. Deferred tax relating to fair value re-measurements of available-for-sale investments which is charged or credited directly to other comprehensive income, is also charged or credited to other comprehensive income and is subsequently recognized in the income statement when the deferred fair value gain or loss is recognized in the income statement (refer Note No. 37 on page 191).

1.5.3 Value added tax on financial services

The base for the computation of value added tax on financial services is the accounting profit before emoluments of employees and income tax, which is adjusted for the economic depreciation computed on prescribed rates.

1.5.4 Withholding tax on dividends, distributed by the company, subsidiaries and associates

(i) Withholding tax on dividends distributed by the company

Withholding tax that arises from the distribution of dividends by the Company is recognized at the time the liability to pay the related dividend is recognized.

(ii) Withholding tax on dividends distributed by the subsidiaries and associates

Dividends received by the company from its subsidiaries and associates, have attracted a 10% deduction at source.

1.6 Significant accounting policies that are specific to the business of the subsidiary – MBSL Insurance Company Limited

1.6.1. Deferred expenses

1.6.1.1 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 comprehensive income.

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.

1.6.1.2 Reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized.

1.6.2 Reinsurance

The Company 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 company 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 company will receive from the reinsurer. The impairment loss is recorded in the statement of comprehensive income.

The company 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

Notes to the Financial Statements

expire or when the contract is transferred to another party

I. 6.3 Insurance contract liabilities

I. 6.3. 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 company. Adjustments to the liabilities at each reporting date are recorded in the statement of comprehensive income. Profits originated from margins of adverse deviations on run-off contracts are recognized in the statement of comprehensive income over the life of the contract, whereas losses are fully recognized in the statement of comprehensive income during the first year of run-off. The liability is derecognized when the contract expires, is discharged or is cancelled.

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

I.6.3.2 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 balance sheet 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 balance sheet 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.

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 comprehensive income by setting up a provision for liability adequacy.

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 company 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 income statement by setting up a provision for liability adequacy.

I. 6.3.3 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 comprehensive income. 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 statement of financial position date. The fund assets and fund liabilities used to determine the unit-prices at the statement of financial position 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.

I. 6.4 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

Notes to the Financial Statements

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.

1.6.5 Income recognition

1.6.5.1 Gross premiums

Gross recurring premiums on life and investment contracts with 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.

1.6.5.2 Reinsurance premiums

Gross reinsurance premiums on life and investment contracts are recognized as an expense when 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 into 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 statement of financial position 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.

1.6.6 Benefits, claims and expenses recognition

1.6.6.1 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.

1.6.6.2 Reinsurance claims

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

1.6.7 Significant accounting judgments, estimates and assumptions

1.6.7.1 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 company bases mortality, morbidity on standard of the industry. Mortality tables which reflect historical experience, adjusted when appropriate to reflect the company 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 company's historical experience of laps and surrenders.

Discount rates are based on current market risk rates, adjusted for the company own risk exposure.

1.6.7.2 Non-life insurance contract liabilities

For non-life insurance contract estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of the time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the statement of financial position.

The ultimate cost of outstanding claims is estimated by using the company's past claims experience. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

1.6.8 Insurance risk

The principal risk the Company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the Company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts, by careful selection and implementation of underwriting strategies and by use of reinsurance arrangements. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of

Notes to the Financial Statements

proportional reinsurance is quota-share reinsurance, which is taken out to reduce the overall exposure of the company to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the company's net exposure to catastrophe losses.

1.6.9. Reinsurance risk

The company arranges reinsurance as part of its risks mitigation program. Both proportional and non-proportional basis are used when placing reinsurance ceded. A proportional reinsurance arrangement includes both Quota Share and Facultative Treaty programs which is taken out to reduce the overall exposure of the company to certain classes of business. Non-proportional reinsurance programs, which are primarily excess-of-loss reinsurance arrangements, are designed to mitigate the Company's net exposure to large single and catastrophic losses. Retention limits on the excess-of-loss reinsurance programs vary by product line.

Premium ceded to the reinsurers is in accordance with the terms on the programs already agreed based on the risks written by the insurance companies. Recoveries from reinsurers on claims are based on the cession made in respect of each risk and is estimated in a manner consistent with the outstanding claims provisions made for the loss. Although we mitigate our exposures through prudent reinsurance arrangements, the obligation to meet claims emanating from policyholders rests with the Company. Default of reinsurers does not negate this obligation and in that respect the company carries a credit risk up to the extent ceded to each reinsurer.

All Non-Life Insurance reinsurance contracts are with companies holding credit ratings above the minimum stipulated by the Insurance Board of Sri Lanka. Some of the specific actions taken by the company to mitigate Reinsurance Risks are shown below:

- Outstanding reinsurance receivables are reviewed on a monthly basis to ensure that all dues are collected or set off against payables on time.
- A very close and professional relationship is maintained with all reinsurers.
- No cover is issued without a confirmed reinsurance in place.
- Only a globally trusted and stable portfolio of reinsurance companies is used.

for the year ended 31 December	Company		Group	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
2. Income				
Interest and similar income	2,265,836	1,815,298	3,796,807	3,464,362
Fee and commission income	48,350	42,894	101,326	103,436
Insurance premium income	-	-	1,236,163	902,557
Net claims and benefits	-	-	(942,778)	(515,484)
Net trading income/(loss)	(5,768)	5,275	(4,435)	(15,720)
Net gain/(loss) on financial assets	7,061	(45,055)	9,322	(28,158)
Other operating income	39,887	51,302	88,132	44,756
	2,355,366	1,869,714	4,284,537	3,955,749
3. Interest and similar income				
Due from banks	-	-	42,975	30,637
Loans and advances to customers	2,200,772	1,726,732	3,530,687	3,226,367
Financial investments - available for sale	2,172	88,160	93,994	184,668
Financial investments designated at fair value through profit or loss	99	406	99	406
Financial investments - held to maturity	-	-	43,341	40,062
Placements with banks	62,793	-	85,711	(17,778)
	2,265,836	1,815,298	3,796,807	3,464,362
4. Interest and similar expenses				
Due to banks	172,731	284,474	204,952	284,809
Due to customers	-	-	919,186	884,558
Debt issued and other borrowed funds	1,166,676	724,589	1,196,050	793,058
Other	32,530	26,676	43,963	26,676
	1,371,937	1,035,739	2,364,151	1,989,101
5. Fee and commission income				
Trade & other related activities	47,309	41,129	47,247	51,283
Reinsurance commission income	-	-	32,158	28,061
Brokering services	1,041	1,765	7,397	10,324
Others	-	-	14,524	13,768
	48,350	42,894	101,326	103,436
6. Fee and commission expenses				
Fees	-	-	139,836	103,740
	-	-	139,836	103,740
7. Insurance premium income				
Non-life insurance	-	-	1,168,433	1,079,639
Life insurance	-	-	251,720	192,780
Total gross written premium	-	-	1,420,153	1,272,419
Change in unearned premium provisions	-	-	8,816	(215,406)
Gross premiums	-	-	1,428,969	1,057,013
Less: Premium ceded to reinsurers	-	-	192,806	154,456
Net premiums	-	-	1,236,163	902,557

Notes to the Financial Statements

for the year ended 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
8. Net trading income/(loss)				
Dividend income	9,535	5,657	12,424	7,639
Gain/ (loss) on disposal of quoted shares	(15,303)	(382)	(16,859)	(23,359)
	(5,768)	5,275	(4,435)	(15,720)
9. Net gain/(loss) on financial assets				
Financial assets designated at fair value through profit or loss (Note 9.1)	7,061	(45,055)	9,322	(28,158)
	7,061	(45,055)	9,322	(28,158)
9.1	Net gain or (loss) on financial assets designated at fair value through profit or loss includes changes in the fair value of equity securities and debt securities.			
10. Other operating income				
Dividend received from non-trading investments	-	17,447	-	-
Gains from sale of available for sale financial investments (Note 10.1)	1,788	1,554	1,788	1,554
Profit/(loss) on sale of property & equipment including foreclosed properties	6,107	4,220	6,123	(1,684)
Other income	31,992	28,081	80,221	44,886
	39,887	51,302	88,132	44,756
10.1	Gains from sale of available for sale financial investments are the amounts transferred from equity to the statement of comprehensive income on the derecognition of investments classified as available for sale investments.			
11. Impairment charges for loans and other losses				
Bills receivables	6,456	(3,453)	6,456	(3,453)
Loans & advances to customers	63,501	(10,035)	86,981	17,481
Lease and hire purchase rental receivables	138,726	(11,739)	158,158	5,682
Net written off during the year	-	75,695	197	86,721
	208,683	50,468	251,792	106,431
12. Personnel expenses				
Staff emoluments	251,361	219,553	543,158	456,554
Employers' contribution to defined contribution plans				
Employees' Provident Fund	23,133	20,206	53,984	54,425
Employees' Trust Fund	5,783	5,052	13,169	9,612
Other personnel expenses	29,845	25,976	87,675	137,685
	310,122	270,787	697,986	658,276

for the year ended 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
13. Other operating expenses				
Directors' emoluments	4,142	5,393	14,089	14,931
Auditors' remuneration				
Audit fees	865	787	3,297	2,471
Non audit fees	605	561	605	1,192
Professional & legal fees	21,166	14,000	37,025	27,321
Donations	36	53	36	387
Office administration & establishment expenses	72,150	63,642	132,526	63,642
Loss from deemed disposal (Note 26.3)	-	-	15,678	-
Other	117,401	120,989	546,107	574,198
	216,365	205,425	749,363	684,142
14. Share of associate companies' profit				
14.1 Share of associate companies' profit before tax				
	Holding %			
Lanka Securities (Pvt) Ltd	29.00		(11,491)	(17,486)
MCSL Financial Services Ltd	41.60		10,885	-
			(606)	(17,486)
14.2 Share of associate companies' other comprehensive income				
	Holding %			
Lanka Securities (Pvt) Ltd	29.00		387	-
MCSL Financial Services Ltd	41.60		1,627	-
			2,014	-
15. Income tax expense				
Current tax				
Current income tax	57,334	55,799	77,243	83,861
Under provision of taxes in respect of prior year	-	-	-	38
Deferred tax				
Relating to origination and reversal of temporary differences				
Income statement	1,608	(13,643)	1,608	(13,643)
Other comprehensive income	2,591	5,933	2,591	5,933
	61,533	48,089	81,442	76,189
Tax charged to income statement	58,942	42,156	78,851	70,256
Tax charged to other comprehensive income	2,591	5,933	2,591	5,933
	61,533	48,089	81,442	76,189

Notes to the Financial Statements

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 31 December is as follows:

for the year ended 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
15. Income tax expense (Contd.)				
Accounting profit before tax	175,882	243,403	(80,902)	250,473
Add: Disallowed expenses	2,881,286	2,197,042	3,535,497	2,382,817
Less: Allowable expenses and exempt income	2,868,880	2,627,933	3,186,568	2,676,556
Adjusted trade profit	188,288	(187,488)	268,027	(43,266)
Less: Tax savings on the utilisation of tax losses/qualifying payments	17,567	185,170	17,567	185,170
Add: Tax loss on leasing business	34,044	571,940	34,044	521,463
Taxable income	204,765	199,282	284,504	293,027
Income tax charged at 28%	57,334	55,799	79,661	82,047
Share of associate companies' current tax	-	-	(2,418)	1,814
Deferred tax charge/ (reversal) to income statement	1,608	(13,643)	1,608	(13,643)
Deferred tax charge to other comprehensive income	2,591	5,933	2,591	5,933
Under provision of taxes in respect of previous years	-	-	-	38
Total income tax expense	61,533	48,089	81,442	76,189

16. Earnings per share

16.1 Basic earnings per share

Basic Earnings Per Share (EPS) has been calculated by dividing the profit/(loss) attributable to equity holders of the Company by the weighted average number of ordinary shares in issue during the year.

Profit/(loss) attributable to ordinary shareholders (Rs.'000)	116,940	201,247	(102,121)	143,271
Number of ordinary shares used as denominator ('000)	135,000	135,000	135,000	135,000
Basic earnings per ordinary share (Rs.)	0.87	1.49	(0.76)	1.06

16.2 Dividend per share

Declared and paid during the year

Dividends on ordinary shares (Rs.'000)	67,500	168,750	67,500	168,750
Dividend per share (Rs.)	0.50	1.25	0.50	1.25

Proposed dividends

The directors have recommended a final dividend of Rs. 0.50 per share to be paid for the financial year ended 31 December 2013. This dividend is to be approved at the Annual General Meeting to be held on 24 June 2014. In accordance with Sri Lanka Accounting Standard (LKAS) 10, 'Events after the reporting period', this proposed final dividend has not been recognised as a liability as at 31 December 2013. Final dividend payable for the year 2013 has been estimated at Rs. 67,500,000 (Actual final dividend for 2012 amounted to Rs. 67,500,000)

as at 31 December

Company - 2013

17. Analysis of financial Instruments by measurement basis

Rs.'000

	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Total
Assets					
Cash and cash equivalents	-	-	180,104	-	180,104
Placements with banks	-	-	784,480	-	784,480
Securities purchased under resale agreements	-	-	140,768	-	140,768
Financial assets designated at fair value through profit or loss	262,817	-	-	-	262,817
Bills receivable	-	-	627,283	-	627,283
Loans & advances to customers	-	-	2,342,414	-	2,342,414
Lease and hire purchase receivable	-	-	6,935,706	-	6,935,706
Financial investments - available for sale	-	667,855	-	-	667,855
Other assets	-	-	77,148	-	77,148
Total Financial assets	262,817	667,855	11,087,903	-	12,018,575

	Held for Trading (FVTPL)	Others	Total
Liabilities			
Due to banks	-	99,118	99,118
Debt issued and borrowed funds	-	9,623,147	9,623,147
Other liabilities	-	208,790	208,790
Total Financial liabilities	-	9,931,055	9,931,055

Company - 2012	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Total
Assets					
Cash and cash equivalents	-	-	156,130	-	156,130
Placements with banks	-	-	140,242	-	140,242
Securities purchased under resale agreements	-	-	116,532	-	116,532
Financial assets designated at fair value through profit or loss	311,676	-	-	-	311,676
Bills receivable	-	-	525,741	-	525,741
Loans & advances to customers	-	-	1,698,280	-	1,698,280
Lease and hire purchase receivable	-	-	7,062,055	-	7,062,055
Financial investments - available for sale	-	695,868	-	-	695,868
Other assets	-	-	161,120	-	161,120
Total Financial assets	311,676	695,868	9,860,100	-	10,867,644

Notes to the Financial Statements

as at 31 December

Company - 2012

17. Analysis of financial Instruments by measurement basis (Contd.)

	Held for Trading (FVPL)	Others	Rs.'000 Total
Liabilities			
Due to banks	-	138,239	138,239
Securities sold under repurchase agreements	-	419,462	419,462
Debt issued and borrowed funds	-	7,946,502	7,946,502
Other liabilities	-	153,233	153,233
Total Financial liabilities	-	8,657,436	8,657,436

Group - 2013

	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Rs.'000 Total
Assets					
Cash and cash equivalents	-	-	275,688	-	275,688
Placements with banks	-	-	1,186,017	-	1,186,017
Securities purchased under resale agreements	-	-	469,958	-	469,958
Financial assets designated at fair value through profit or loss	285,545	-	-	-	285,545
Bills receivable	-	-	627,283	-	627,283
Loans & advances to customers	-	-	3,640,429	-	3,640,429
Lease and hire purchase receivable	-	-	7,959,842	-	7,959,842
Financial investments - available for sale	-	1,427,400	-	-	1,427,400
Financial investments - held to maturity	-	-	-	100,957	100,957
Other assets	-	-	95,824	-	95,824
Total Financial assets	285,545	1,427,400	14,255,041	100,957	16,068,943

	Held for Trading (FVPL)	Others	Total
Liabilities			
Due to banks	-	152,338	152,338
Due to customers	-	2,824,918	2,824,918
Debt issued and borrowed funds	-	9,625,317	9,625,317
Other liabilities	-	257,493	257,493
Total Financial liabilities	-	12,860,066	12,860,066

as at 31 December

Group - 2012

17. Analysis of financial Instruments by measurement basis (Contd.)

	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Rs.'000 Total
Assets					
Cash and cash equivalents	-	-	317,758	-	317,758
Placements with banks	-	-	485,954	-	485,954
Securities purchased under resale agreements	-	-	590,525	-	590,525
Financial assets designated at fair value through profit or loss	373,391	-	-	-	373,391
Bills receivable	-	-	525,743	-	525,743
Loans & advances to customers	-	-	4,458,095	-	4,458,095
Lease and hire purchase receivable	-	-	11,971,076	-	11,971,076
Financial investments - available for sale	-	1,161,481	-	-	1,161,481
Financial investments - held to maturity	-	-	-	507,737	507,737
Other assets	-	-	373,749	-	373,749
Total Financial assets	373,391	1,161,481	18,722,900	507,737	20,765,509
			Held for Trading (FVPL)	Others	Total
Liabilities					
Due to banks			-	272,994	272,994
Securities sold under repurchase agreements			-	435,558	435,558
Due to customers			-	7,546,297	7,546,297
Debt issued and borrowed funds			-	8,555,027	8,555,027
Other liabilities			-	784,661	784,661
Total Financial liabilities			-	17,594,537	17,594,537

Notes to the Financial Statements

as at 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
18. Cash and cash equivalents				
Cash in hand	594	573	19,745	67,979
Cash at bank	179,510	155,557	255,943	249,779
	<u>180,104</u>	<u>156,130</u>	<u>275,688</u>	<u>317,758</u>
19. Placements with banks				
Banks in Sri Lanka				
-Local currency	784,480	140,242	1,186,017	485,954
	<u>784,480</u>	<u>140,242</u>	<u>1,186,017</u>	<u>485,954</u>
20. Repurchase agreements				
20.1 Assets				
Reverse repurchase agreements	140,768	116,532	469,958	590,525
	<u>140,768</u>	<u>116,532</u>	<u>469,958</u>	<u>590,525</u>
20.2 Liabilities				
Repurchase agreements	-	419,462	-	435,558
	<u>-</u>	<u>419,462</u>	<u>-</u>	<u>435,558</u>
21. Financial assets designated at fair value through profit or loss				
Quoted equities (Note 21.1)	262,817	310,291	285,545	372,006
Debt securities (Note 21.2)	-	1,385	-	1,385
	<u>262,817</u>	<u>311,676</u>	<u>285,545</u>	<u>373,391</u>

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Company						
21.1 Quoted equities						
Bank, Finance and Insurance						
Hatton National Bank PLC-Non Voting	102,300	102,300	13,886	13,886	12,174	11,509
National Development Bank PLC	127,950	141,700	19,016	21,060	20,536	19,540
Commercial Bank of Ceylon PLC	52,095	47,070	5,504	5,187	6,272	4,848
DFCC Bank PLC	16,868	5,000	2,277	554	2,176	565
Seylan Bank PLC	101,220	99,700	8,762	8,762	6,498	5,583
Pan Asia Banking Corporation PLC	-	5,066	-	94	-	96
Janashakthi Insurance Company PLC	392,000	392,000	7,744	7,744	4,978	4,116
People's Leasing Finance PLC	-	232,579	-	8,455	-	8,024
Nations Trust Bank PLC	113,940	113,940	8,206	8,206	7,087	6,381
BRAC Lanka Finance PLC	-	27,500	-	610	-	195
Sampath Bank PLC	39,637	26,000	8,888	6,234	6,814	5,213
Commercial Bank of Ceylon PLC-Non Voting	14,428	-	1,287	-	1,342	-
Lanka Orix Leasing Co. PLC	60,000	60,000	7,638	7,638	4,356	3,228
Lanka Ventures PLC	900	599,800	40	26,268	37	19,194
Seylan Bank PLC-Non Voting	30,272	10,000	1,045	354	938	351
SMB Leasing PLC - W2016	-	1,340,000	-	3,369	-	1,340
Asia Asset Finance PLC	-	200,000	-	1,052	-	580
Asian Alliance Insurance PLC	-	19,800	-	1,803	-	1,762
Union Bank of Colombo PLC	55,000	-	915	-	913	-
			85,208	121,276	74,121	92,525
Diversified Holdings						
Browns Investment PLC	2,000,000	2,321,800	9,605	11,149	4,600	9,055
Aitken Spence PLC	5,000	-	500	-	512	-
The Colomba Fort Land & Building PLC	62,799	92,899	5,195	7,685	1,771	3,214
Expo Lanka Holdings PLC	600,000	600,000	5,002	5,002	4,500	4,200
Hemas Holdings PLC	297,500	297,500	12,604	12,604	10,115	8,033
Vallibel One PLC	765,000	261,000	15,301	6,525	12,623	4,724
Free Lanka Capital Holdings PLC	75,000	300,000	373	1,489	165	720
CT Holdings PLC	20,000	20,000	4,206	4,206	2,801	2,480
Softlogic Holdings PLC	100,000	199,600	908	2,350	840	2,176
			53,694	51,010	37,927	34,602
Construction and Engineering						
Access Engineering PLC	-	25,000	-	503	-	450
Colombo Dockyard PLC	6,000	6,000	1,154	1,154	1,138	1,344
			1,154	1,657	1,138	1,794

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Company						
21.1 Quoted equities (Contd.)						
Information and Technology						
PC House PLC	343,278	343,278	2,432	3,836	206	1,854
			2,432	3,836	206	1,854
Beverages, Food and Tobacco						
Distilleries Co of Sri Lanka PLC	81,000	81,000	13,951	13,951	15,633	13,446
Bairaha Farms PLC	10,999	10,999	3,246	3,246	1,417	1,730
Renuka Agri Foods PLC	347,100	-	1,389	-	1,284	-
Raigam Wwayamba Salterns PLC	1,100,000	1,392,100	4,050	5,125	2,420	3,480
			22,636	22,322	20,754	18,656
Hotels and Travel						
Asian Hotels & Properties PLC	111,198	111,198	9,125	9,125	7,139	8,440
Dolphin Hotels PLC	25,000	117,264	888	4,251	1,123	4,280
Palm Garden Hotels PLC	24,020	17,972	3,971	3,310	1,504	2,516
Eden Hotel Lanka PLC	113,250	100,250	3,312	2,849	3,284	3,609
Amaya Leisure PLC	16,700	16,700	2,006	2,006	1,236	1,403
Aitken Spence Hotel Holdings PLC	14,000	14,000	1,586	1,586	979	1,023
The Kingsbury PLC	2,671,800	2,671,800	57,910	57,910	35,268	45,688
Citrus Leisure PLC	110,900	100,800	3,275	3,056	1,619	2,621
Pegasus Hotels of Ceylon PLC	29,968	19,968	1,240	848	1,052	799
Serendib Hotels PLC-Non Voting	40,940	25,598	702	478	639	448
			84,015	85,419	53,843	70,827
Manufacturing						
ACL Cables PLC	300	300	27	27	19	20
Abans Electricals PLC	7,320	285,545	1,576	1,576	769	592
Pelwatte Sugar Industries PLC	41,600	41,600	1,799	1,799	978	978
Hayleys Fibre PLC	1,123	2,400	47	100	28	67
Printcare PLC	25,000	25,000	1,293	1,293	675	730
Tokyo Cement Co.(Lanka) PLC						
- Non Voting	154,440	140,400	3,745	3,745	3,614	2,710
Royal Ceramic Lanka PLC	45,000	12,500	5,147	1,848	3,807	1,238
Lanka Cement PLC	55,450	60,400	1,932	2,106	366	574
Textured Jersey Lanka PLC	-	224,958	-	2,349	-	2,002
Piramal Glass Ceylon PLC	2,755,934	2,036,300	20,652	17,071	12,402	12,218
Central Industries PLC	52,567	28,500	3,810	2,211	2,916	1,967
ACME Priting & Packaging PLC	232,000	282,900	6,269	7,645	2,250	4,244
Ceylon Grain Elevators PLC	48,610	35,717	2,682	2,093	1,726	2,125
Regnis (Lanka) PLC	-	24,516	-	1,763	-	1,471
Lanka Aluminium Industries PLC	37,500	37,500	1,476	1,476	1,110	1,305
			50,455	47,102	30,660	32,241

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Company						
21.1 Quoted equities (Contd.)						
Trading						
Ceylon & Foreign Trades PLC	594,010	905,400	6,112	9,316	3,802	5,613
C.W.Mackie PLC	21,700	21,700	1,806	1,806	1,319	1,688
Tess Agro PLC	-	336,400	-	1,104	-	807
Radiant Gems International PLC	-	2,975	-	277	-	170
			7,918	12,503	5,121	8,278
Footwear & Textiles						
Ceylon Leather Products PLC	-	14,379	-	1,184	-	1,120
			-	1,184	-	1,120
Power and Energy						
Hemas Power PLC	30,000	45,300	729	1,100	528	992
Vallibel Power Erathna PLC	100,000	-	570	-	580	-
Laugfs Gas PLC - Non Voting	70,000	34,000	1,492	688	1,505	622
Pan Asian Power PLC	-	250,000	-	632	-	625
			2,791	2,420	2,613	2,239
Health Care						
The Lanka Hospital Corporation PLC	30,000	30,000	1,557	1,557	1,215	1,176
			1,557	1,557	1,215	1,176
Land and Property						
On'Ally Holdings PLC	1,282	8,700	105	714	61	473
Colombo Land PLC	47,500	105,852	3,036	6,766	1,862	3,758
CT Land Development PLC	-	5,000	-	125	-	121
Overseas Realty (Ceylon) PLC	160,050	483,500	2,640	7,976	2,929	6,962
Commercial Development PLC	-	28	-	2	-	2
Seylan Developments PLC	50,000	-	452	-	450	-
			6,233	15,583	5,302	11,316
Chemical & Pharmaceuticals						
CIC Holdings PLC	14,000	14,000	1,091	1,091	671	900
CIC Holdings PLC - Non Voting	21,335	10,000	1,454	908	736	552
Chemanex PLC	1,000	1,000	159	159	85	75
Haycarb PLC	30,000	30,200	5,247	5,282	5,694	5,167
Muller & Phipps (Ceylon) PLC	-	752,903	-	1,624	-	1,355
			7,951	9,064	7,186	8,049

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Company						
21.1 Quoted equities (Contd.)						
Plantation						
Balangoda Plantations PLC	9,734	22,800	659	1,545	302	903
Maskeliya Plantations PLC	-	4,000	-	130	-	51
Kotagala Plantations PLC	13,000		655		481	
Watawala Plantations PLC	25,090		304		248	
			1,618	1,675	1,031	954
Investment Trust						
Lanka Century Investments PLC	-	83,300	-	2,594	-	342
Renuka Holding PLC	343,946	356,446	26,448	27,410	10,525	12,867
Ceylon Guardian Investment Trust PLC	500	1,010	83	169	91	186
			26,531	30,173	10,616	13,395
Motors						
Sathosa Motors PLC	14,980	20,000	5,626	7,511	3,881	4,446
United Motors Lanka PLC	40,000	40,000	5,015	5,015	4,548	4,032
Deisel and Motor Enginerring PLC	1,000	1,000	1,112	1,112	481	602
CM Holdings PLC	1,428	1,000	249	249	119	146
			12,002	13,887	9,029	9,226
Unit Trusts						
Namal Acquity Value Fund	30,900	30,900	2,863	2,863	2,055	2,039
			2,863	2,863	2,055	2,039
Total gross carrying value of quoted equities			369,058	423,531	262,817	310,291
Other debt securities						
Bank of Ceylon Debenture 1	-	3,700	-	387	-	370
Seylan Bank Debenture - 2	-	3,400	-	364	-	340
Bank of Ceylon Debenture 2	-	5,000	-	696	-	675
Total net carrying value of listed debentures			-	1,447	-	1,385
Total gross carrying value of financial assets at fair value through profit or loss			369,058	424,978	-	-
Marked to market valuation loss (Note 9.1)			(106,241)	(113,302)	-	-
Fair value of financial assets designated at fair value through profit or loss			262,817	311,676	262,817	311,676

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013	2012	2013	2012
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group						
21.1 Quoted equities						
Bank, Finance and Insurance						
Hatton National Bank PLC-Non Voting	102,300	116,648	13,886	15,962	12,174	13,123
National Development Bank PLC	127,950	158,700	19,016	23,473	20,536	21,884
Commercial Bank of Ceylon PLC	52,095	62,070	5,504	6,866	6,272	6,393
DFCC Bank PLC	26,868	15,000	3,672	1,949	3,466	1,694
Seylan Bank PLC	141,221	208,966	12,619	19,145	9,066	11,702
Pan Asia Banking Corporation PLC	-	5,066	-	94	-	96
First Capital Holdings PLC	147,696	-	2,688	-	2,585	-
Janashakthi Insurance Company PLC	392,000	600,803	7,744	10,404	4,978	6,308
People's Leasing Finance PLC	-	232,579	-	8,455	-	8,024
Nations Trust Bank PLC	113,940	113,940	8,206	8,206	7,087	6,381
BRAC Lanka Finance PLC	-	27,500	-	610	-	195
Sampath Bank PLC	39,637	26,000	8,888	6,234	6,814	5,213
Commercial Bank of Ceylon PLC -Non Voting	14,428	-	1,287	-	1,342	-
Lanka Orix Leasing Co. PLC	60,000	60,000	7,638	7,638	4,356	3,228
Lanka Ventures PLC	900	631,800	40	27,596	37	20,217
Seylan Bank PLC-Non Voting	30,272	10,000	1,045	354	938	351
SMB Leasing PLC - W2016	-	1,340,000	-	3,369	-	1,340
Asia Asset Finance PLC	-	200,000	-	1,052	-	580
Asian Alliance Insurance PLC	-	19,800	-	1,803	-	1,762
Union Bank of Colombo PLC	55,000	202,940	915	4,188	913	2,801
Chilaw Finance PLC	4,753	4,500	110	110	59	65
HNB Assurance PLC	38,852	22,937	2,555	1,668	2,040	1,124
Asia Capital PLC	4,200	4,200	202	202	71	127
SMB Leasing PLC	712,740	700,998	889	879	570	701
Swarnamahala Financial Services PLC	25,831	25,831	143	143	54	80
Union Assurance PLC	-	180	-	17	-	15
Seylan Development PLC	5,000	-	56	-	45	-
			97,103	150,417	83,403	113,404

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013	2012	2013	2012
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group						
21.1 Quoted equities (Contd.)						
Diversified Holdings						
Browns Investment PLC	2,000,000	2,321,800	9,605	11,149	4,600	9,055
Aitken Spence PLC	5,000	-	500	-	512	-
The Colombo Fort Land & Building PLC	62,799	92,899	5,195	7,685	1,771	3,214
John Keells Holdings PLC	115	-	25	-	26	-
John Keells Holdings PLC - W1	5	-	-	-	-	-
John Keells Holdings PLC - W2	5	-	-	-	-	-
Expo Lanka Holdings PLC	600,000	600,000	5,002	5,002	4,500	4,200
Hemas Holdings PLC	297,500	337,500	12,604	14,522	10,115	9,113
Vallibel One PLC	1,015,000	346,000	19,888	8,199	16,748	6,263
Free Lanka Capital Holdings PLC	75,000	300,000	373	1,489	165	720
Richard Pieris & Company PLC	-	12,105	-	109	-	94
CT Holdings PLC	20,000	20,000	4,206	4,206	2,802	2,480
Softlogic Holdings PLC	100,000	305,790	908	3,604	840	3,333
			58,306	55,965	42,079	38,472
Construction and Engineering						
Access Engineering PLC	-	25,000	-	503	-	450
Colombo Dockyard PLC	6,000	12,805	1,154	2,843	1,138	2,868
Lankem Developments PLC	175,063	174,121	1,651	1,645	893	1,323
			2,805	4,991	2,031	4,641
Services						
Kalamazoo Systems PLC	109	-	194	-	113	-
			194	-	113	-
Information and Technology						
PC House PLC	343,278	343,278	2,432	3,836	206	1,854
			2,432	3,836	206	1,854
Beverages, Food and Tobacco						
Distilleries Co of Sri Lanka PLC	81,000	285,545	13,951	13,951	15,633	13,446
Bairaha Farms PLC	10,999	22,476	3,246	5,645	1,417	3,566
Renuka Agri Foods PLC	347,100	-	1,389	-	1,284	-
Raigam Wayamba Salterns PLC	1,100,000	1,392,100	4,050	5,125	2,420	3,480
Three Acre Farms PLC	25,876	3,293	1,160	247	955	177
			23,796	24,968	21,709	20,669

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Group						
21.1 Quoted equities (Contd.)						
Hotels and Travel						
Asian Hotels & Properties PLC	111,198	118,598	9,125	9,854	7,139	9,002
Dolphin Hotels PLC	25,000	137,264	888	4,994	1,123	5,010
Palm Garden Hotels PLC	24,020	17,972	3,971	3,310	1,504	2,516
Eden Hotel Lanka PLC	113,250	100,250	3,312	2,849	3,284	3,609
Amaya Leisure PLC	16,700	16,700	2,006	2,006	1,236	1,403
Aitken Spence Hotel Holdings PLC	14,000	14,000	1,586	1,586	979	1,023
The Kingsbury PLC	2,683,800	2,681,800	58,124	58,099	35,426	45,859
Citrus Leisure PLC	110,900	100,800	3,275	3,057	1,619	2,621
Pegasus Hotels of ceylon PLC	29,968	19,968	1,240	848	1,052	799
Serendib Hotels PLC-Non Voting	40,940	25,598	702	478	639	448
The Lighthouse Hotel PLC	8,001	8,000	468	468	352	425
Renuka Hotels PLC	-	55,000	-	4,085	-	1,986
			84,697	91,634	54,353	74,701
Manufacturing						
ACL Cables PLC	300	300	27	27	19	20
Abans Electricals PLC	7,320	21,219	1,576	3,554	769	2,059
Pelwatte Sugar Industries PLC	68,400	68,400	2,925	2,925	1,608	1,607
Kelani Cables PLC	1,070	-	81	-	79	-
Hayleys Fibre PLC	1,123	2,400	47	100	28	67
Printcare PLC	25,000	25,000	1,293	1,293	675	730
Tokyo Cement Co.(Lanka) PLC						
- Non Voting	154,440	140,400	3,745	3,745	3,614	2,710
Royal Ceramic Lanka PLC	45,000	12,500	5,147	1,848	3,807	1,238
Lanka Cement PLC	55,450	60,400	1,932	2,106	366	574
Textured Jersey Lanka PLC	-	224,958	-	2,349	-	2,002
Piramal Glass Ceylon PLC	2,755,934	2,036,300	20,652	17,071	12,402	12,218
Central Industries PLC	52,567	169,560	3,810	13,158	2,916	11,700
ACME Printing & Packaging PLC	232,000	282,900	6,269	7,645	2,250	4,244
Ceylon Grain Elevators PLC	48,610	35,717	2,682	2,093	1,726	2,125
Regnis (Lanka) PLC	-	24,516	-	1,762	-	1,471
Lanka Aluminium Industries PLC	37,500	37,500	1,476	1,476	1,110	1,305
Bogala Graphite PLC	34,829	26,833	1,416	1,267	641	636
Laxapana PLC	188,935	96,942	1,297	834	756	667
			54,375	63,253	32,766	45,373

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Group						
21.1 Quoted equities (Contd.)						
Trading						
Ceylon & Foreign Trades PLC	594,010	1,120,900	6,112	11,561	3,802	6,950
C.W.Mackie PLC	21,700	21,700	1,806	1,806	1,319	1,688
Tess Agro PLC	-	336,400	-	1,104	-	807
Brown & Company PLC	7,000	7,000	1,396	1,396	579	869
Radiant Gems International PLC	-	2,975	-	277	-	170
			9,314	16,144	5,700	10,484
Footwear & Textiles						
Ceylon Leather Products PLC	-	21,968	-	1,867	-	1,711
Odel PLC	-	9,910	-	256	-	199
			-	2,123	-	1,910
Power and Energy						
Hemas Power PLC	168,322	156,232	3,802	3,906	2,962	3,421
Vallibel Power Erathna PLC	100,000	-	570	-	580	-
Laugfs Gas PLC	1,090	16,000	24	665	23	410
Laugfs Gas PLC - Non Voting	70,000	34,000	1,492	688	1,505	622
Pan Asian Power PLC	-	250,000	-	632	-	625
			5,888	5,891	5,070	5,078
Health Care						
The Lanka Hospital Corporation PLC	30,000	30,000	1,557	1,557	1,215	1,176
			1,557	1,557	1,215	1,176
Land and Property						
On'Ally Holdings PLC	1,282	8,700	105	715	61	473
Colombo Land PLC	47,500	105,852	3,036	6,766	1,862	3,758
CT Land Development PLC	-	5,000	-	125	-	121
Overseas Realty (Ceylon) PLC	160,050	835,100	2,640	14,000	2,929	12,025
Commercial Development PLC	-	28	-	2	-	2
Seylan Developments PLC	50,000	-	452	-	450	-
			6,233	21,608	5,302	16,379
Chemical & Pharmaceuticals						
CIC Holdings PLC	14,000	23,007	1,091	1,805	671	1,479
CIC Holdings PLC - Non Voting	21,335	10,000	1,454	908	736	552
Chemanax PLC	1,000	1,000	159	159	85	75
Haycarb PLC	30,000	30,200	5,247	5,282	5,694	5,167
Muller & Phipps (Ceylon) PLC	-	902,903	-	1,958	-	1,625
			7,951	10,112	7,186	8,898

as at 31 December	No of Shares		Cost		Fair Value	
	2013	2012	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Group						
21.1 Quoted equities (Contd.)						
Plantation						
Balangoda Plantations PLC	9,734	22,800	659	1,545	302	903
Maskeliya Plantations PLC	-	4,000	-	130	-	51
Kotagala Plantations PLC	13,000	-	655	-	481	-
Watawala Plantations PLC	25,090	-	304	-	248	-
Agalawatte Plantations PLC	7,229	4,700	256	199	173	154
Horana Plantations PLC	-	40,002	-	1,552	-	980
			1,874	3,426	1,204	2,088
Investment Trust						
Lanka Century Investments PLC	-	83,300	-	2,594	-	342
Renuka Holding PLC	343,946	356,446	26,448	27,409	10,525	12,868
Equity One PLC	29,540	32,854	2,051	2,284	774	1,097
Ceylon Guardian Investment Trust PLC	500	1,010	83	169	91	186
Taprobane Holdings PLC	70,757	28,300	304	153	198	136
Guardian Capital Partners PLC	18,470	18,570	1,538	1,546	536	966
			30,424	34,155	12,124	15,595
Motors						
Sathosa Motors PLC	14,980	20,000	5,626	7,511	3,881	4,446
United Motors Lanka PLC	40,000	40,000	5,015	5,015	4,548	4,032
Deisel and Motor Engineering PLC	1,000	1,000	1,112	1,112	481	602
CM Holdings PLC	1,428	1,000	249	249	119	146
			12,002	13,887	9,029	9,226
Unit Trusts						
Namal Acquity Value Fund	30,900	31,191	2,863	2,891	2,055	2,058
			2,863	2,891	2,055	2,058
Total gross carrying value of quoted equities			401,814	506,858	285,545	372,006
21.2 Other debt securities						
Bank of Ceylon Debenture 1	-	3,700	-	387	-	370
Seylan Bank Debenture - 2	-	3,400	-	364	-	340
Bank of Ceylon Debenture 2	-	5,000	-	696	-	675
Total net carrying value of listed debentures			-	1,447	-	1,385
Total gross carrying value of financial assets at fair value through profit or loss			401,814	508,305		
Marked to market valuation loss (Note 9.1)			(116,269)	(134,914)		
Fair value of financial assets designated at fair value through profit or loss			285,545	373,391	285,545	373,391

Notes to the Financial Statements

as at 31 December	Group	
	2013 Rs.'000	2012 Rs.'000
22. Non current assets held for sale		
Cost/ Fair value as at 01 January	59,279	237,281
Disposals	(59,279)	(178,002)
Cost/ Fair value as at 31 December	-	59,279

Details of non-current assets held for sale

	2012	
	Extent (perches)	Cost/ Fair Value Rs.'000
Land and building at Hokandara	43	59,279
	43	59,279

	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
23. Loans & receivables to customers				
23.1 Bills receivable				
Bills discounted	765,498	655,891	765,498	656,393
Deferred income	(4,714)	(3,105)	(4,714)	(3,105)
	760,784	652,786	760,784	653,288
Less: Provision for impairment (Note 23.1.1)	133,501	127,045	133,501	127,545
	627,283	525,741	627,283	525,743
23.1.1 Movement in allowance for individual and collective impairment during the year				
Individual impairment charges				
As at 01 January	109,536	116,294	109,536	116,294
Charge/ (write back) to income statement	14,390	(6,758)	14,390	(6,758)
As at 31 December	123,926	109,536	123,926	109,536
Collective impairment charges				
As at 01 January	17,509	14,204	18,009	14,704
Charge/ (write back) to income statement	(7,934)	3,305	(7,934)	3,305
Adjustment from deemed disposal	-	-	(500)	-
As at 31 December	9,575	17,509	9,575	18,009
Total	133,501	127,045	133,501	127,545

as at 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
23.2 Loans & advances to customers				
Term loans	1,299,880	1,056,806	2,426,914	3,649,928
Personal loans	619,689	184,268	619,689	184,268
Cheque discounting	67,565	64,174	67,565	64,174
Staff loans	83,667	75,445	108,282	144,186
Textile debt recovery fund	1,726	1,735	1,726	1,735
Susahana loan scheme	1,359	1,360	1,359	1,360
Margin trading	68,207	157,364	68,207	157,364
Micro finance	362,562	255,868	362,562	255,868
Commercial papers and other placements	-	-	168,179	26,693
Pawning	-	-	60,523	203,319
Real estate loans	-	-	-	15,285
Loans to life policy holders	-	-	2,891	2,462
Loans against fixed deposits	-	-	-	160,988
	2,504,655	1,797,020	3,887,897	4,867,630
Less: Provision for impairment (Note 23.2.1)	162,241	98,740	247,468	409,535
Loans and advances after provision	2,342,414	1,698,280	3,640,429	4,458,095

23.2.1 Movement in allowance for individual and collective impairment during the year

Individual impairment charges

As at 01 January	72,979	63,397	159,862	161,855
Charge to income statement	56,600	9,582	88,217	(1,993)
Adjustment from deemed disposal	-	-	(38,583)	-
As at 31 December	129,579	72,979	209,496	159,862

Collective impairment charges

As at 01 January	25,761	45,378	249,673	230,199
Charge / (write back) to income statement	6,901	(19,617)	(1,236)	19,474
Adjustment from deemed disposal	-	-	(210,465)	-
As at 31 December	32,662	25,761	37,972	249,673
Total	162,241	98,740	247,468	409,535

23.3 Lease and hire purchase rental receivable

23.3.a Finance lease / hire purchase receivable within one year from the reporting date

Total lease rental receivable	9,433,936	9,593,054	10,916,821	16,204,963
Less Lease rental receivable after one year	6,377,322	6,587,636	7,318,625	10,737,149
Lease rental receivable within one year from the reporting date	3,056,614	3,005,418	3,598,196	5,467,814
Less : Unearned lease income	1,106,470	1,132,534	1,279,749	1,931,758
	1,950,144	1,872,884	2,318,447	3,536,056

Notes to the Financial Statements

as at 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000

23.3.b Finance lease / hire purchase receivable after one year from the reporting date

Lease rentals receivable after one year from the reporting date	6,377,322	6,587,636	7,318,625	10,737,149
Less : Unearned lease income	1,070,333	1,215,764	1,299,305	1,965,603
	5,306,989	5,371,872	6,019,320	8,771,546
Less : Provision for impairment (Note 23.3.c)	321,427	182,701	377,925	336,526
Net investment in leases and hire purchase	6,935,706	7,062,055	7,959,842	11,971,076

23.3.c Movement in allowance for individual and collective impairment during the year

Individual impairment charges

As at 01 January	54,643	19,615	125,113	91,099
Write back to income statement	157,300	35,028	181,696	34,014
Adjustment from deemed disposal	-	-	(38,382)	-
As at 31 December	211,943	54,643	268,427	125,113

Collective impairment charges

As at 01 January	128,058	174,825	211,413	239,745
Charge to income statement	(18,574)	(46,767)	(23,538)	(28,332)
Adjustment from deemed disposal	-	-	(78,377)	-
As at 31 December	109,484	128,058	109,498	211,413
Total	321,427	182,701	377,925	336,526

23.4 Non-performing loans and advances

Net exposure on non-performing loans and advances as at 31 December, before discounting the value of the securities obtained is given below:

Bills receivable	235,741	229,424	235,741	229,424
Loans and advances	282,684	205,023	335,614	553,782
Lease/ hire purchase receivable	512,139	299,088	572,440	491,768
Gross non-performing loans and advances	1,030,564	733,535	1,143,795	1,274,974
Less: Provision for impairment	617,169	408,486	758,894	873,606
Net exposure	413,395	325,049	384,901	401,368
Percentage of gross non-performing loans	9.79%	7.57%	8.81%	7.15%
Percentage of net exposure	3.93%	3.35%	2.96%	2.25%

Collaterals given

The carrying amount of lease and hire purchase rentals pledge as collaterals as at 31 December 2013 was Rs.327,150,000 (2012: Rs.1,526,192,983) and Micro finance pledge as collaterals as at 31 December 2013 was nil (2012: Rs.248,137,231) against borrowings.

Note: Non-performing loans and advances are categorised according to CBSL directions and impairment provision is based on LKAS 39- "Financial Instruments - Recognition & Measurement"

as at 31 December	Company		Group	
	2013	2012	2013	2012
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
24. Financial investments - Available for sale				
Government securities (Note 24.1)	644,441	675,944	1,397,347	1,135,037
Quoted investments	-	-	6,629	6,500
Unquoted investments (Note 24.2)	23,414	19,924	23,424	19,944
	667,855	695,868	1,427,400	1,161,481
24.1 Government Securities				
Treasury bills	180,005	270,192	306,964	270,192
Treasury bonds	464,436	405,752	1,090,383	864,845
	644,441	675,944	1,397,347	1,135,037

	No of Shares		2013 Holding %	Cost		Fair Value	
	2013	2012		2013	2012	2013	2012
				Rs.'000	Rs.'000	Rs.'000	Rs.'000
24.2 Unquoted investments							
Company							
Mega Containers Limited	1,000,000	1,000,000	6.80	10,000	10,000	19,790	19,900
Ceylinco Investment Company Limited (Note 24.2.1.)	500,000	500,000	46.35	5,000	5,000	-	-
Credit Information							
Bureau of Sri Lanka Limited	240	240	0.10	24	24	24	24
Ranwan Industries (Private) Limited	165,790	-	5.00	3,600	-	3,600	-
				18,624	15,024	23,414	19,924
Add: Adjustment for fair value changes				4,790	4,900	-	-
Total net investment in investment securities				23,414	19,924	23,414	19,924
Group							
Mega Containers Limited	1,000,000	1,000,000	6.80	10,000	10,000	19,790	19,900
Ceylinco Investment Company Limited	500,000	500,000	46.35	5,000	5,000	-	-
Credit Information Bureau of Sri Lanka Limited	430	440	0.17	34	44	34	44
San Michele Limited	50,000	50,000	-	500	500	-	-
Ranwan Industries (Private) Limited	165,790	-	5.00	3,600	-	3,600	-
				19,134	15,544	23,424	19,944
Add: Adjustment for fair value changes				4,290	4,400	-	-
Total unquoted investments				23,424	19,944	23,424	19,944

Notes to the Financial Statements

24.2.1 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.

as at 31 December	Group	
	2013 Rs.'000	2012 Rs.'000
25. Financial investments - Held to maturity		
Government debt securities (Note 25.1)	-	404,786
Other debt securities	100,957	102,951
	100,957	507,737

25.1 Government debt securities

Tresuary bills	-	367,000
Treasury bonds	-	37,786
	-	404,786

	Country of Incorporation	Principal Activity	No. of Shares	Holding %	Company			
					2013 Cost	Directors' Valuation	2012 Cost	Directors' Valuation
					Rs.'000	Rs.'000	Rs.'000	Rs.'000
26. Investments in associate companies								
Unquoted								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,067,750	29.00%	81,084	81,084	81,084	81,084
MCSL Financial Services Ltd	Sri Lanka	Registered Finance Company	50,999,800	41.60%	20,918	20,918	-	-
Balance at the end of the year					102,002	102,002	81,084	81,084

for the year ended 31 December	MCSL Financial Services Ltd		Group Lanka Securities (Pvt) Ltd		Total	
	2013	2012	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
26.1 Carrying value on equity basis						
Net assets at the beginning of the year	-	-	106,228	132,774	106,228	132,774
Fair value of retained interest from the deemed disposal	328,180	-	-	-	328,180	-
Add: Profit / (loss) before tax accruing to the group	10,885	-	(11,491)	(17,486)	(606)	(17,486)
Less: Income tax	5,146	-	(2,728)	(1,814)	2,418	(1,814)
Add: Other comprehensive income for the year	1,627	-	387	-	2,014	-
Less: Dividend received	-	-	-	(7,246)	-	(7,246)
Net assets at the end of the year	345,838	-	92,396	106,228	438,234	106,228

26.2 Summarized financial information of associates

for the year ended 31 December	MCSL Financial Services Ltd		Lanka Securities (Pvt) Ltd	
	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Income	707,842	-	99,379	123,427
Less : Expenses	681,677	-	139,002	183,724
Profit before taxation	26,165	-	(39,623)	(60,297)
Less : Income tax expense / (reversal)	(12,372)	-	9,408	6,254
Profit for the period	38,537	-	(49,031)	(66,551)
Other comprehensive income	3,911	-	1,336	-
Total comprehensive income for the period	42,448	-	(47,695)	(66,551)
as at 31 December				
Total assets	9,510,821	-	477,862	461,418
Total liabilities	8,679,480	-	159,255	95,115

	2013		2012	
	No of Shares	Rs.'000	No of Shares	Rs.'000

26.3 Investment in MCSL Financial Services Ltd

Balance as at the beginning of the year	50,099,800	20,918	50,099,800	20,918
Transfer to investment in associates	(50,099,800)	(20,918)	-	-
Balance at the end of the year	-	-	50,099,800	20,918

Notes to the Financial Statements

MCSL Financial Services Limited merged with Ceylease Limited on 22 August 2013 and issued 22,726,594 numbers of ordinary shares to the shareholders of Ceylease Limited. As a result, MBSL's shareholding diluted from 51% to 41.6%. The effect of this transaction is as follows:

	Rs.'000
Fair value of retained interest	328,180
Less:	
Net assets of the subsidiary at the date control is lost	674,281
Carrying value of Non-controlling interests at the date control is lost	<u>(330,423)</u> (343,858)
Loss from deemed disposal	<u>(15,678)</u>

- 26.4** Company previously followed equity method in accounting for investment in associates. During 2013 company determined to follow the cost method according to LKAS 28 Investment in associates. Changes have been applied retrospectively in accordance with LKAS 8 Accounting Policies, Changes in Accounting Estimates and Errors. As a result Investment in Associate companies and retained profit decreased by Rs. 51.69 million as at 01 January 2012. For the year ended 31 December 2012 other operating income and profit before income tax increased by Rs. 7.25 million and Rs. 17.49 million respectively while income tax expense decreased by Rs. 1.81 million. The effects on earnings per share related to restatement in 2012 was less than Rs. 0.20.

27. Investments in subsidiaries

as at 31 December

	Country of incorporation	Principal activity	2013		2013		2012	
			No. of Shares	Holding %	Cost	Directors' Valuation	Cost	Directors' Valuation
					Rs.'000	Rs.'000	Rs.'000	Rs.'000
Unquoted								
MCSL Financial Services Ltd	Sri Lanka	RFC*	-	-	-	-	20,918	20,918
MBSL Savings Bank Ltd (Note 27.a)	Sri Lanka	LSB*						
Voting shares			174,371,040	75.19	148,215	148,215	148,215	148,215
Non-Voting shares			200,000,000		190,000	190,000	190,000	190,000
Preference shares			250,000,000		250,000	250,000	-	-
MBSL Insurance Company Ltd (Note 27.b)	Sri Lanka	Insurance	317,131,602	78.02	317,889	317,889	238,606	238,606
Balance as at 31 December					906,104	906,104	597,739	597,739

RFC* - Registered Finance Company

LSB* - Licenced Specialised Bank

27 a. Investment in MBSL Savings Bank Ltd

	2013		2012	
	No of Shares	Rs.'000	No of Shares	Rs.'000
Balance as at 01 January				
Voting Shares	174,371,040	148,215	87,186,000	87,186
Non Voting Shares	200,000,000	190,000	100,000,000	150,000
Investments in voting shares	-	-	87,185,040	61,029
Investments in non-voting shares	-	-	100,000,000	40,000
Investments in preference shares of	250,000,000	250,000	-	-
Balance as at 31 December		588,215		338,215

27 b. Investment in MBSL Insurance Company Ltd

Balance as at 01 January	237,848,702	238,606	237,848,702	238,606
Investments in voting shares	79,282,900	79,283	-	-
Balance as at 31 December	317,131,602	317,889	237,848,702	238,606

as at 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000

28. Investment property

Cost as at 01 January	48,876	49,590	158,876	174,590
Add: Additions /improvements	7,000	-	7,000	-
Less: Transfer	-	-	-	(15,000)
Less: Disposals	-	(714)	-	(714)
Less: Deemed disposal of subsidiary	-	-	(110,000)	-
Cost as at 31 December	55,876	48,876	55,876	158,876
Accumulated depreciation as at 31 December	3,047	2,404	3,047	11,098
Net book value as at 31 December	52,829	46,472	52,829	147,778

Accumulated depreciation

Balance as at 01 January	2,404	1,936	11,098	8,714
Charge for the year	643	468	2,475	2,384
Less: Deemed disposal of subsidiary	-	-	(10,526)	-
Balance as at 31 December	3,047	2,404	3,047	11,098

Rental income derived from investment property	-	-	-	-
Direct operating expenses arising from investment property that generated rental income during the period	-	-	-	-
Direct operating expenses arising from investment property that did not generate rental income during the period	766	949	766	949

Notes to the Financial Statements

as at 31 December

28.1 Investment properties held by the company

Location	No of Buildings	Building (sq.ft)	Extent (perches)	2013			Fair Value		
				Cost / Carrying amount					
				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	1,750	-	1,750	13,000	N/A	13,000
No 300/8, Thalawathugoda Road, Madiwela, Kotte.	1	2,000	16.15p	2,465	2,635	5,100	13,727	1,000	14,727
No 385/1, Kotte Road, Pitakotte.	1	2,896	19.01p	2,958	1,730	4,688	3,343	1,955	5,298
No 116/4, 116/7, 116/25, 116/26, 116/27, 116/29 1st Cross Street, Colombo 11.			12.35P	1,249	-	1,249	2,602	N/A	2,602
No 43,45,47,49,51 & 53, Olcott Mawatha, Colombo 11.			7.5P	9,950	-	9,950	75,000	N/A	75,000
No 102 & 104, Dam Street, Colombo 12. Kumbuththukuliya watte, Bangadeniya Road, Puttalam. Mirissawelawatta hena; Thekkawatta Dambadeniya	1	20,368	1R-10.7P	17,970	11,989	29,959	213,000	20,000	233,000
No 64, Gabadawa Estate, Pitipana, Homagama			2.0A	600	-	600	3,400	N/A	3,400
No.2, Plan No.1206, Silverberst Estate, Pitipana, Homagama			1A-0R-28.0P	162	-	162	600	N/A	600
			20.80P	1,427	-	1,427	2,900	N/A	2,900
			0A-2R-20.70P	991	-	991	2,014	N/A	2,014
				39,522	16,354	55,876	329,586	22,955	352,541

The fair value of the investment properties as at 31 December 2013 was based on market valuations carried out in the year 2010, 2011 & 2013 by Mr. D N Dhammika Baranage RICS (UK), DIV AIS (SL) and Mr. H A W Perera B.Sc. Estate Mgt & Valuation (Special) and Mr. Samantha Kumara Madawan Arachchi Bs.(EMV), City Planning (JP), Dip (UPM) NI, AIREV, who are independent valuers not connected with the Company. The Directors have reviewed the values of the investment properties as at 31 December 2013 and concluded that there was no impairment.

as at 31 December

29. Property and equipment

	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
Company							
Cost							
Balance as at 01 January 2012	9,961	2,943	5,649	14,892	68,586	39,573	141,604
Additions during the year	-	-	10,576	-	14,863	38,380	63,819
Disposals during the year	-	-	(76)	-	(220)	-	(296)
Balance as at 31 December 2012	9,961	2,943	16,149	14,892	83,229	77,953	205,127
Additions during the year	-	-	5,300	-	1,816	4,426	11,542
Disposals during the year	-	-	(5,966)	(6,320)	-	(110)	(12,396)
Balance as at 31 December 2013	9,961	2,943	15,483	8,572	85,045	82,269	204,273
Accumulated depreciation							
Balance as at 01 January 2012		871	3,120	3,215	57,832	24,148	89,186
Charge for the year		147	3,017	2,629	5,329	4,973	16,095
Disposals		-	(76)	-	(220)	-	(296)
SLFRS Adjustment (Note 29.1)		-	-	-	(50)	(307)	(357)
Balance as at 31 December 2012		1,018	6,061	5,844	62,891	28,814	104,628
Charge for the year		147	3,799	2,322	5,433	6,887	18,588
Disposals		-	(2,326)	(2,868)	-	(105)	(5,299)
Balance as at 31 December 2013		1,165	7,534	5,298	68,324	35,596	117,917
Net book value							
As at 31 December 2012							100,499
As at 31 December 2013							86,356

Notes to the Financial Statements

as at 31 December

29. Property and equipment (Contd.)

	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 01 January 2012	9,961	29,519	47,667	13,886	223,822	143,081	467,936
Additions during the year	-	18,491	21,624	-	46,933	81,543	168,591
Disposals during the year	-	(2,850)	(3,509)	-	(220)	(816)	(7,395)
Balance as at 31 December 2012	9,961	45,160	65,782	13,886	270,535	223,808	629,132
Additions during the year	-	3,759	10,885	-	14,959	29,219	58,822
Disposals during the year	-	(200)	(15,857)	(6,320)	(928)	(216)	(23,521)
Deemed disposal of subsidiary	-	-	(27,124)	-	(41,754)	(62,043)	(130,921)
Balance as at 31 December 2013	9,961	48,719	33,686	7,566	242,812	190,768	533,512
Accumulated depreciation							
Balance as at 01 January 2012	-	8,948	25,209	2,873	176,600	75,941	289,571
Charge for the year	-	2,230	12,231	2,629	23,133	19,785	60,008
Disposals	-	(1,274)	(3,307)	-	(220)	(659)	(5,460)
SLFRS Adjustment (Note 29.1)	-	-	-	-	(50)	(307)	(357)
Balance as at 31 December 2012	-	9,904	34,133	5,502	199,463	94,760	343,762
Charge for the year	-	4,714	11,368	2,322	26,606	23,472	68,482
Disposals	-	(4)	(11,541)	(2,868)	(122)	(123)	(14,658)
Deemed disposal of subsidiary	-	-	(17,901)	-	(37,306)	(32,047)	(87,254)
Balance as at 31 December 2013	-	14,614	16,059	4,956	188,641	86,062	310,332
Net book value							
As at 31 December 2012							285,370
As at 31 December 2013							223,180

29. Property and equipment (Contd.)

Information on the freehold land and buildings of the company

Location	No. of Buildings	Extent (perches)	Buildings (sq.ft.)	Revalued	Net Book	Net Book	As a % of Total NBV
				Amounts Land/Buildings Rs.'000	Value Buildings Rs.'000	Value Land Rs.'000	
470, Hendala Road, Wattala	1	64	2,200	34,400	1,778	9,961	293%
				34,400	1,778	9,961	

Market value of the lands and buildings of the company as at 31 December 2013 was Rs. 34,400,000 as per the valuation carried out in the year 2010 by Mr. D N Baranage RICS (UK), DIV AIV (SL). The Directors have reviewed the values of the land & buildings as at 31 December 2013 and concluded that there was no impairment.

Title restriction on property & equipment

There were no restrictions existed on the title of the property & equipment of the Group as at the financial position date.

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 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Motor vehicals	482	-	482	-
Computer equipments	12,652	113	12,652	113
Equipment, furniture & fittings	2,478	7,406	2,478	7,406
Total	15,612	7,519	15,612	7,519

Temporarily idle property & equipment

There were no property & equipment of the Group that were temporarily idle as at the financial position date

Property & equipment retired from active use

There were no property & equipment of the Group that were retired from active use as at the financial position date

Notes to the Financial Statements

29.1 SLFRS adjustment

The Management has identified that the depreciation rates adopted by the company since inception needs to be changed to reflect the actual useful life of the assets. Accordingly the Company changed its depreciation rates to reflect the actual useful life of the assets with effect from 01 January 2012.

The effect of this change has been accounted as per SLFRS 1 - "First-time Adoption of Sri Lanka Financial Reporting Standards" and LKAS 8 - "Accounting policies, changes in Accounting Estimates and Errors". The effect of this restatement was a reduction of depreciation charge by Rs. 4,439,982 in 2012.

30. Intangible assets

	Computer Software Rs.'000	Total Rs.'000
Company		
Cost		
Cost as at 01 January 2012	20,660	20,660
Additions and improvements during the year	6,447	6,447
Cost as at 31 December 2012	27,107	27,107
Additions and improvements during the year	3,508	3,508
Cost as at 31 December 2013	30,615	30,615
Accumulated amortization		
Accumulated amortization as at 01 January 2012	18,877	18,877
Amortization for the year	1,054	1,054
Accumulated amortization as at 31 December 2012	19,931	19,931
Amortization for the year	1,908	1,908
Accumulated amortization as at 31 December 2013	21,839	21,839
Net book value		
As at 31 December 2012		7,176
As at 31 December 2013		8,776

	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
Group			
Cost			
Cost as at 01 January 2012	34,472	119,437	153,909
Additions and improvements during the year	13,520	-	13,520
Cost as at 31 December 2012	47,992	119,437	167,429
Additions and improvements during the year	47,186	-	47,186
Less: Deemed disposal of subsidiary	(14,600)	-	(14,600)
Cost as at 31 December 2013	80,578	119,437	200,015
Accumulated amortisation			
Accumulated amortization as at 01 January 2012	30,998	-	30,998
Amortization for the year	2,789	-	2,789
Accumulated amortization as at 31 December 2012	33,787	-	33,787
Amortization for the year	7,702	-	7,702
Less: Deemed disposal of subsidiary	(12,250)	-	(12,250)
Accumulated amortization as at 31 December 2013	29,239	-	29,239
Net book value			
As at 31 December 2012			133,642
As at 31 December 2013			170,776

Impairment testing of goodwill

Based on the annual impairment test, Board of Directors is of the view that a provision for impairment of goodwill is not required.

Fully amortized intangible assets

Gross carrying amount of intangible assets which have been fully amortized that are still in use as follows;

as at 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
Computer Software	1,550	969	1,550	969

There were no restrictions existed on the title of the intangible assets of the group as at the financial position date. Further, there were no items pledged as securities for liabilities.

Notes to the Financial Statements

as at 31 December	Company		Group	
	2013 Rs. '000	2012 Rs. '000	2013 Rs. '000	2012 Rs. '000
31. Other assets				
Claims and commission receivables	7,490	6,940	7,490	234,763
Receivables	123,257	185,457	212,651	185,457
Advances and pre payments	38,849	62,057	111,821	151,816
Other accounts	1,710	97,363	67,009	97,361
Reinsurance assets-insurance contracts	-	-	77,593	46,105
Insurance receivables	-	-	257,909	303,999
	<u>171,306</u>	<u>351,817</u>	<u>734,473</u>	<u>1,019,501</u>
32. Due to banks				
Bank overdraft	99,118	138,239	152,339	272,994
	<u>99,118</u>	<u>138,239</u>	<u>152,338</u>	<u>272,994</u>
33. Due to customers				
Savings deposits	-	-	505,532	456,402
Time deposits	-	-	2,305,879	7,202,800
Certificates of deposit	-	-	13,507	10,095
	<u>-</u>	<u>-</u>	<u>2,824,918</u>	<u>7,546,297</u>
34. Debt issued and borrowed funds				
Debentures (Note 34.1)	4,264,470	1,325,888	4,264,470	1,325,888
Short term borrowing	5,140,210	5,328,728	5,142,380	5,371,742
Long term borrowing	218,467	1,066,307	218,467	1,256,818
Micro finance re-finance loan	-	225,579	-	600,579
Total debt issued and borrowed funds	<u>9,623,147</u>	<u>7,946,502</u>	<u>9,625,317</u>	<u>8,555,027</u>

34.1	Debt Instruments	Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Interest rates		Company/Group Value as at	
							2013	2012	2013	2012
									Rs.'000	Rs.'000
34.1 Debentures										
Fixed Rate Debentures										
2011 / 2014 - 11.60% p.a.	Listed	Nil	Bi Annually	16-Nov-11	16-Nov-14	11.60%	11.60%	771,040	771,040	771,102
2011 / 2014 - 11.80% p.a.	Listed	Nil	Bi Annually	16-Nov-11	16-Nov-15	11.80%	11.80%	282,633	282,633	282,676
2013 / 2018 - 17.50% p.a.	Listed	Nil	Annually	28-Mar-13	27-Mar-18	17.50%	-	706,124	-	-
2013 / 2017 - 17.25% p.a.	Listed	Nil	Annually	28-Mar-13	27-Mar-17	17.25%	-	547,320	-	-
2013 / 2018 - 16.70% p.a.	Listed	Nil	Quarterly	28-Mar-13	27-Mar-18	16.70%	-	751,933	-	-
2013 / 2018 - 16.50% p.a.	Listed	Nil	Monthly	28-Mar-13	27-Mar-18	16.50%	-	168,453	-	-
2013 / 2017 - 14.25% p.a.	Listed	Nil	Annually	17-Dec-13	16-Dec-17	14.25%	-	677,122	-	-
2013 / 2016 - 13.50% p.a.	Listed	Nil	Annually	17-Dec-13	16-Dec-16	13.50%	-	297,201	-	-
2013 / 2017 - 13.50% p.a.	Listed	Nil	Quarterly	17-Dec-13	16-Dec-17	13.50%	-	17,601	-	-
2013 / 2017 - 13.25% p.a.	Listed	Nil	Monthly	17-Dec-13	16-Dec-17	13.25%	-	11,510	-	-
Debt Instruments Redeemed During the Year										
2010 / 2013 - 13.00% p.a.	Un-listed	Nil	Bi Annually	31-Mar-10	31-Mar-13	-	13.00%	-	-	82,569
2010 / 2013 - 13.00% p.a.	Un-listed	Nil	Bi Annually	31-Aug-10	31-Aug-13	-	13.00%	-	-	103,220
Floating Rate Debentures										
2010 / 2014 - 6 months	Un-listed	Nil	Bi Annually	10-Jan-10	10-Jan-14	12.28%	15.69%	26,472	26,472	26,418
TB rate (Gross) + 1.5%										
2010 / 2014 - 6 months	Listed	Nil	Bi Annually	16-Nov-11	16-Nov-14	10.81%	11.03%	42	42	42
TB rate (Gross) + 1.6%										
2010 / 2014 - 6 months	Un-listed	Nil	Bi Annually	31-Mar-10	31-Mar-14	12.78%	13.07%	7,019	7,019	7,025
TB rate (Gross) + 1.5%										
Debt Instruments Redeemed During the Year										
2010 / 2013 - 6 months	Un-listed	Nil	Bi Annually	10-Jan-10	10-Jan-13	-	15.69%	-	-	26,418
TB rate (Gross) + 1.5%										
2010 / 2013 - 6 months	Un-listed	Nil	Bi Annually	10-Jan-10	10-Jul-13	-	15.69%	-	-	26,418
TB rate (Gross) + 1.5%										
									33,533	86,321
Total Debentures									4,264,470	1,325,888

Outstanding number of debentures as at 31 December 2013, consisted of 42,644,698 Unsecured Redeemable debentures of Rs. 100/- each issued by the company

Six months Treasury Bill Rate (Gross)

Six months Treasury Bill rate (average last 4 auction) before deducting 10% Withholding Tax as published by the Central Bank of Sri Lanka immediately prior to the commencement of each interest period.

Company has not repurchased any of its own debt during 2013 and 2012.

The company has not had any default of principal, interest or other breaches with regard to all liabilities during 2013 and 2012.

Notes to the Financial Statements

35. 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 statement of financial position date.

as at 31 December	Group	
	2013 Rs.'000	2012 Rs.'000
35.1 Insurance provision - life		
Balance as at 01 January	163,500	118,942
Increase in life fund	52,049	44,558
	215,549	163,500
Fair value reserve	1,150	(565)
	216,699	162,935
Unclaimed benefits	4,049	3,151
Balance as at 31 December	220,748	166,086

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.

as at 31 December	Group	
	2013 Rs.'000	2012 Rs.'000
35.2 Insurance provision - non life		
Provision for reported claims by policy holders	193,844	46,432
Provision for claims IBNR	39,484	16,089
Outstanding claims provision	233,328	62,521
Provision for unearned premiums	499,732	508,547
Total non life insurance provision	733,060	571,068

36. Current tax liability

	Company		Group	
	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance at 01 January	140,028	125,871	140,028	125,871
Add: Provision for taxation	57,334	55,799	79,661	82,085
Less : Paid/ set off during the year	32,078	41,642	54,405	67,928
Balance as at 31 December	165,284	140,028	165,284	140,028

as at 31 December	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
37. Deferred tax liability				
Deferred tax liability	64,757	60,558	64,757	60,558
	64,757	60,558	64,757	60,558

37.1 Reconciliation of deferred tax liability

	Company			
	2013		2012	
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000
As at 01 January	216,278	60,558	336,804	68,268
Amount originating/(reversing) during the year	14,998	4,199	(120,526)	(7,710)
As at 31 December	231,276	64,757	216,278	60,558
Deferred tax liability/ (asset) consisted of the following:				
Leased assets	835,739	234,007	1,072,380	300,266
Employee benefit - Income statement	(161,248)	(45,149)	(131,022)	(36,686)
Employee benefit - Other comprehensive income	1,029	288	(8,223)	(2,302)
Fixed assets	36,984	10,355	21,856	6,120
Tax losses	(481,228)	(134,744)	(738,713)	(206,840)
	231,276	64,757	216,278	60,558

The companies in the group have carried forward losses amounting to Rs. 914 million (2012 - Rs. 980 million) which are available to set-off against the future tax profits of those companies. Deferred tax assets not accounted on these losses amounts to Rs. 256 million (2012 - Rs. 274 million).

	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
38. Other liabilities				
Accrued expenses	11,465	12,659	49,038	233,015
Payable to employees & suppliers	114,638	105,143	147,740	108,449
Insurance payable	23	4,316	35,737	53,516
Margin accounts	47,860	57,681	47,860	57,681
Lease creditors				
Within 12 months	2,262	4,814	55,134	4,814
Later than 12 months	3,320	8,070	3,320	8,070
Other liabilities	195,831	160,935	342,632	354,260
	375,399	353,618	681,461	819,805

Notes to the Financial Statements

as at 31 December	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
39. Retirement benefits obligation				
Balance as at 01 January	139,245	114,073	193,008	158,763
Expense recognised in the income statement (Note 39.1)	27,024	21,577	39,738	32,487
Payment made during the year	(5,021)	(4,628)	(5,829)	(7,402)
Expense recognised in other comprehensive income	(1,029)	8,223	(637)	9,160
Adjustment from deemed disposal	-	-	(43,104)	-
Balance as at 31 December	160,219	139,245	183,176	193,008
39.1 Expense recognised in the income statement				
Current service cost	11,707	9,599	22,704	16,018
Interest cost	15,317	11,978	17,034	16,469
Total	27,024	21,577	39,738	32,487

As at 31 December 2013 the Group's gratuity liability was actuarially valued under the projected unit credit method by Chartered Actuary Mr. M. Poopalanathan. The liability is not externally funded.

39.2 Actuarial assumptions

	2013	2012
Discount rate	10.00%	11.00%
Salary increase	10% on January 2014 and thereafter 12% p.a.	10%

The group will continue in business as a going concern.

39.3 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 Income Statement and Statement of Financial Position is the effect of the assumed changes in discount rate and salary increment rate on the profit or loss and employment benefit obligation for the year.

	Increase/ (Decrease) in Discount Rate	Increase/ (Decrease) in Salary Increment	Sensitivity effect on Income statement Increase / (Reduction) in results for the year (Rs'000)	Sensitivity effect on Employment Benefit Obligation Increase (Rs'000)
	1%	**	(10,456)	(10,456)
	(1%)	**	11,795	11,795
	*	1%	11,530	11,530
	*	(1%)	(10,389)	(10,389)

* Discount rate is fixed at;
2013 - 10%

** Salary Increment rates for;
2013 - 10% , 12%

as at 31 December	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
40. Issued capital and reserves				
Stated capital				
Issued and fully paid	1,607,000	1,607,000	1,607,000	1,607,000
No of shares in issue ('000)	135,000	135,000	135,000	135,000

41. Reserves

41.1 Statutory reserves

Balance as at 01 January	122,553	114,526	206,016	184,784
Adjustment from deemed disposal	-	-	(81,949)	-
Add: Transfers during the year	5,847	8,027	5,847	21,232
Balance as at 31 December	128,400	122,553	129,914	206,016

Statutory reserves represent the reserve fund of the company in terms of Direction No. 5 of 2006 issued by the Central Bank of Sri Lanka under section No. 34 of the Finance Leasing Act No. 56 of 2000 and the statutory reserve of the subsidiary, MCSL Financial Services Ltd represents its reserve fund created in terms of Direction No. 01 of 2003 applicable to registered finance companies issued by the Central Bank of Sri Lanka.

41.2 Investment fund reserve

Balance as at 01 January	80,327	55,978	103,270	68,163
Adjustment from deemed disposal	-	-	(21,722)	-
Add: Transfers during the year	19,788	24,349	19,788	35,107
Balance as at 31 December	100,115	80,327	101,336	103,270

This reserve represents the investment fund account, which consist of 8% of the profit calculated for the payment of Value Added Tax on Financial Services and 5% of the profit before tax calculated for the payment of income tax during the year.

Utilization of investment fund reserve

Long term government securities maturity period over 7 years

	Maturity Value	Date of Maturity	Rate of Interest
Treasury Bond	200,000,000	1-Jan-22	8%

Notes to the Financial Statements

as at 31 December	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
41.3 Retained earnings				
Balance as at 01 January (Note 26.4)	930,741	943,932	1,042,463	1,139,571
Add: Dividend write back	-	844	-	844
Profit for the year	116,940	201,247	(102,121)	143,493
Other comprehensive income	(1,562)	(14,156)	137	(14,906)
Adjustment from deemed disposal	-	-	103,671	-
Less: Adjustments to retained profits	-	-	-	1,450
Dividend paid	67,500	168,750	67,500	168,750
Transfers to statutory reserves	5,847	8,027	5,847	21,232
Transfers to investment fund	19,788	24,349	19,788	35,107
Balance as at 31 December	952,984	930,741	951,015	1,042,463
41.4 Available for Sale Reserve				
Balance as at 01 January	(46,962)	(10,852)	(61,225)	(24,200)
Add: Gains/(losses) available for sale financial assets	39,339	(36,110)	66,225	(37,025)
Balance as at 31 December	(7,623)	(46,962)	5,000	(61,225)
42. Additional cash flow information				
42.1 Analysis of cash and cash equivalents				
Cash and short term funds	964,584	296,372	1,461,705	803,712
Due to banks with original maturity less than three months	(99,118)	(138,239)	(152,338)	(272,994)
	865,466	158,133	1,309,367	530,718
42.2 Change in operating assets				
Loans and advances given to customers	(619,327)	(1,780,070)	4,727,360	(2,725,123)
Other operating assets	216,595	(39,666)	237,588	(179,277)
Adjustment for impairment	(208,683)	(50,468)	(251,792)	(106,431)
	(611,415)	(1,870,204)	4,713,156	(3,010,831)
42.3 Change in operating liabilities				
Due to customers	-	-	(4,721,379)	562,405
Other operating liabilities	208,857	66,021	265,386	434,685
	208,857	66,021	(4,455,993)	997,090

as at 31 December	Company		Group	
	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
42.4 Other non-cash items included in profit before tax				
Loss on disposal of quoted shares	15,303	382	16,859	23,359
Capital (gain) /loss on sale of AFS Financial Investments	(1,788)	(1,554)	(1,788)	(1,554)
Interest accrued on government securities	(85,667)	(9,054)	(135,756)	(375,195)
Gain on sale of investment properties and Non current assets held for sale	-	(786)	11,755	(786)
Gain on sale of property and equipment	(346)	(79)	(476)	5,825
Net (gain)/loss on financial assets designated at FVPL	(7,061)	45,055	(9,322)	28,158
Provision on VAT on Financial Services	(24,214)	-	(43,308)	-
Loan impairment charges	208,683	50,468	251,792	106,431
Depreciation and amortisation	21,139	17,617	78,659	58,360
	126,049	102,049	168,415	(155,402)

43. Related party transactions

The Company carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard 24 (LKAS 24) - Related Party Disclosures.

43.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 (including executive and non-executive directors), Chief Executive Officer and their immediate family members have been classified as KMP of the Company.

43.b Directors interest in contracts/ transactions with related parties

Mr. M R Shah, Mr. M S S Paramananda, Mr. P G Rupasinghe, Mr. A.B.L.A.De Silva, Mr. K.B.S.Bandara, Mr. D.M.Gunasekara Mr. C.R.Jayawarna and Mr. W.P.R.P.H.Fonseka (Alternative Director to Mr. D.M.Gunasekara) were Directors of the Company as at 31 December 2013.

Notes to the Financial Statements

43. Related party transactions (Contd.)

43.c 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.

Name of the Company	Name of the Director & Position	Nature of Transactions	Income/ (expenses) recognized during the year		Assets / (Liabilities) as at 31 December	
			2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Transactions with parent company						
Bank of Ceylon	Mr. D.M.Gunasekara - GM/CEO	Term loan	-	(93,121)	-	(673,826)
		Overdraft facility	-	(4,697)	(99,118)	(57,039)
		Debenture issue fee	-	360	-	-
		Reimbursable expenses	(52)	(382)	-	-
		Interest paid	(46,661)	(104,205)	-	-
		Registrars fee for BOC Debenture issues 2008/2013		360	-	-
Transactions with subsidiaries						
MBSL Savings Bank Limited	Mr. M R Shah - Chairman	Management fee	-	300	-	-
	Mr. Lalith De Silva - Director	Fixed deposits	-	-	-	123,000
		Interest received	-	21,048	-	-
		Commercial papers	-	-	-	(35,741)
		Lease rentals paid	4,357	-	-	-
		Interest on CP & PN	(311)	-	-	-
MBSL Insurance Company Limited	Mr. M R Shah	Secretarial fee	180	407	-	-
	Mr. Lalith De Silva - Director (Appointed w.e.f 14/10/2013)	Insurance agency commission	1,776	12,489	-	1,082
		Reimbursable expenses	64	(67)	-	-
	Mr. K.B.S.Bandara - Director (Appointed w.e.f 14/10/2013)	Interest paid	(3,238)	(5,844)	-	-
		Bank guarantee commission	-	582	-	-
	Mr.T.Mutugala - Director (Appointed w.e.f 14/10/2013)	Commercial papers	-	-	-	(38,415)
	Interest on CP & PN	1,179	-	-	-	

	Name of the Director & Position	Nature of Transactions	Income/ (expenses) recognized during the year		Assets / (Liabilities) as at 31 December	
			2013	2012	2013	2012
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Transactions with associates						
Lanka Securities (Pvt) Ltd	Mr. M R Shah - Director	Secretarial fee received	93	125	-	-
		Dividend received	-	6,522	-	-
		Lease received	879	-	11,296	-
		Secretarial fee received	(36)	(28)	-	-
		Net accomadition as a % of the company's regulatory capital funds	-	-	0.40%	-
MCSL Financial Services Limited	Mr. Lalith De Silva - Chairman Mr. M R Shah -Director	Management fee	825	1,500	-	-
		Secretarial fee	177	269	-	-
		Dividend received	-	10,200	-	-
		Reimbursable expenses	(45)	(39)	-	-
Transactions with other companies						
Credit Information Bureau of Sri Lanka	Mr. D.M.Gunasekara - Director (Appointed w.e.f 12/02/2013)	Dividend received	-	18	-	-
		CRIB charges	(5,316)	(4,015)	-	-
BOC Travels (Pvt) Ltd	Mr. D.M.Gunasekara - Director (Appointed w.e.f 12/02/2013)	Secretarial fee received	97	146	-	-
		Reimbursable expenses	(38)	(39)	-	-
Hotels Colombo (1963) Limited	Mr. D.M.Gunasekara - Director (Appointed w.e.f 12/02/2013)	Secretarial fee received	151	213	-	-
		Reimbursable expenses	(67)	(101)	-	-
		Staff training cost	95	-	-	-
		Meeting expenses	163	-	-	-
BOC Property Development and Management Company Limited	Mr. D.M.Gunasekara - Director (Appointed w.e.f 12/02/2013)	Secretarial fee received	47	85	-	-
		Reimbursable expenses	(20)	(10)	-	-
		Rent paid	(21,310)	(37,332)	-	-
Sri Lanka Foundation Institute	Prof Ranjith Bandara - Chairman (Resigned w.e.f. 10/09/2013)	Staff training	312	1,780	-	-

Notes to the Financial Statements

43.d Terms and conditions of transactions with related parties

The above mentioned transactions 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 term loan & overdraft (OD) facility obtained from BOC. 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 31 December 2013, the company has not made any provision for impairment relating to amounts owed by related parties.

43.e Compensation paid to Key Management Personnel (KMP)

The following is the compensation paid to Key Management Personnel.

for the year ended 31 December	Company		Group	
	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Short term benefit	4,142,000	5,392,750	14,089,000	14,930,750

Chairman and CEO are provided with company maintained vehicles.

44. Fair value of financial instruments

Determination of fair value and fair value hierarchy

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

Level 1 : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

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

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

44. Fair value of financial instruments (Contd.)

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

as at 31 December	2013				2012			
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
	Level 1	Level 2	Level 3	Total	Level 1	Level 2	Level 3	Total
Company								
Financial assets								
Financial assets								
designated at FVPL	262,817	-	-	262,817	311,676	-	-	311,676
Financial investments								
available for sale								
Government securities	644,441	-	-	644,441	675,944	-	-	675,944
Unquoted investments	-	-	23,414	23,414	-	-	19,924	19,924
	644,441	-	23,414	667,855	675,944	-	19,924	695,868
	907,258	-	23,414	930,672	987,620	-	19,924	1,007,544
Group								
Financial assets								
Financial assets								
designated at FVPL	285,545	-	-	285,545	373,391	-	-	373,391
Financial investments								
available for sale								
Government securities	1,397,347	-	-	1,397,347	1,135,037	-	-	1,135,037
Quoted investments	-	6,629	-	6,629	-	6,500	-	6,500
Unquoted investments	-	-	23,424	23,424	-	-	19,944	19,944
	1,397,347	6,629	23,424	1,427,400	1,135,037	6,500	19,944	1,161,481
	1,682,892	6,629	23,424	1,712,945	1,508,428	6,500	19,944	1,534,872

Notes to the Financial Statements

44. Fair value of financial instruments (Contd.)

Financial instruments recorded at fair value

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 non-observable data. The non-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.

as at 31 December	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Balance as at 01 January	26,830	21,101	26,830	21,101
Reduction due to passage of time	(14,492)	(8,679)	(14,492)	(8,679)
Deferral of profit on new transactions	17,263	16,526	17,263	16,526
Recognised in the income statement during the year:				
Derecognition of the instruments	(1,817)	(2,118)	(1,817)	(2,118)
Balance as at 31 December	27,784	26,830	27,784	26,830

44. Financial instruments recorded at fair value (Contd.)

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 31 December	Company				Group			
	2013		2012		2013		2012	
	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	784,480	784,480	140,242	140,242	1,186,017	1,186,017	485,954	485,954
Bills receivable	627,283	627,283	525,741	525,741	627,283	627,283	525,743	525,743
Loans & advances to customers	2,342,414	2,342,414	1,698,280	1,698,280	3,640,429	3,640,429	4,458,095	4,458,095
Lease and Hire purchase rental receivable	6,935,706	6,935,706	7,062,055	7,062,055	7,959,842	7,959,842	11,971,076	11,971,076
Financial investments - HTM	-	-	-	-	100,957	100,957	507,737	507,737
Other assets	77,148	77,148	161,120	161,120	95,824	95,824	373,749	373,749
Total	10,767,031	10,767,031	9,587,438	9,587,438	13,610,352	13,610,352	18,322,354	18,322,354
Financial liabilities								
Due to customers	-	-	-	-	2,824,918	2,824,918	7,546,297	7,546,297
Debt issued and Borrowed funds	9,623,147	9,623,147	7,946,502	7,946,502	9,625,317	9,625,317	8,555,027	8,555,027
Other liabilities	208,790	208,790	153,233	153,233	257,493	257,493	784,661	784,661
Total	9,831,937	9,831,937	8,099,735	8,099,735	12,707,728	12,707,728	16,885,985	16,885,985

Notes to the Financial Statements

44. Financial instruments (Contd.)

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.

45. Events after the reporting period

There were no material events that took place since 31 December 2013, that require disclosure in these financial statements other than those disclosed below.

- a. The directors have recommended a final dividend of Rs. 0.50 per share to be paid for the financial year ended 31 December 2013. This dividend is to be approved at the Annual General Meeting to be held on 24 June 2014. In accordance with Sri Lanka Accounting Standard (LKAS) 10, 'Events after the reporting period', this proposed final dividend has not been recognised as a liability as at 31 December 2013.
- b. Subsequent to the reporting date, Merchant Bank of Sri Lanka PLC has made an announcement to the Securities and Exchange Commission of Sri Lanka by an letter dated the 3 March 2014, the Merchant Bank of Sri Lanka PLC will not proceed with its earlier decision to merge with the MBSL Savings Bank Limited and obtain the licensed specialized banking status for Merchant Bank of Sri Lanka PLC, instead it is to be amalgamated with MBSL Savings Bank Limited and MCSL Financial Services Limited and operate as a licensed finance company.

46. Going concern of subsidiaries

a. MBSL Savings Bank Limited

The MBSL Savings Bank Limited has incurred a loss of Rs.103,057,464 for the year ended 31 December 2013 and the accumulated losses of Rs.834,430,417 as at 31 December 2013. Further, the Bank's 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.

However, as disclosed above in Note 45b subsequent to the reporting date, Merchant Bank of Sri Lanka PLC has informed the Securities and Exchange Commission of Sri Lanka that Merchant Bank of Sri Lanka PLC has decided to proceed to obtain necessary approval for the amalgamation of the MBSL Savings Bank with the Merchant Bank of Sri Lanka PLC and MCSL Financial Services Limited and operate as a licensed finance company.

The decision was made having considered the direction given to the Merchant Bank of Sri Lanka PLC under the master plan of the Central Bank of Sri Lanka on consolidation of the financial sector.

Considering the above, the Board of Directors is of the view that it is appropriate to adopt the going concern assumption in the preparation of financial statements for the year ended 31 December 2013.

b. MBSL Insurance Company Limited

The MBSL Insurance Company Limited has incurred a loss of Rs.170,179,000 for the year ended 31 December 2013 and accumulated losses of Rs.550,196,000 as at 31 December 2013. The company's net assets and stated capital as at 31 December 2013 are Rs. 339,399,000 and Rs. 880,724,000 respectively.

The MBSL Insurance Company Limited's solvency margin as stipulated in the regulation of Insurance Industry Act No. 43 of 2000 rules 2004 and rules 2002, are not met as at 31 December 2013. According to the statement of solvency prepared by the management of MBSL Insurance Company Limited, solvency ratios of General Insurance business and Life Insurance business as at 31 December 2013 are -0.39 and -0.40.

However, financial statements of the company are prepared on assumption that the company is a going concern on a written undertaking given by the parent company Merchant Bank of Sri Lanka PLC, as the controlling shareholder of MBSL Insurance Company Limited, to infuse capital in to MBSL Insurance Company Limited as and when required.

Notes to the Financial Statements

47. Segment Information

The following table presents income, profit, certain assets and liabilities information regarding the group's operating segments for the year ended 31 December 2013 and comparative figures for the year ended 31 December 2012.

Company	Leasing		Corporate & Retail Credit		Corporate Advisory		Eliminations / Unallocated		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue from external customers										
Interest and similar income	1,600,312	1,373,298	416,006	291,283	22,470	34,330	227,048	116,387	2,265,836	1,815,298
Interest and similar expenses	983,530	827,474	351,890	222,237	8,526	21,244	27,991	(35,216)	1,371,937	1,035,739
Net interest income	616,782	545,824	64,116	69,046	13,944	13,086	199,057	151,603	893,899	779,559
Other income	24,665	36,021	69,727	1,736	25,321	(55,429)	(30,183)	72,088	89,530	54,416
Inter-segment transactions	-	-	-	-	22,616	-	(22,616)	-	-	-
Total operating income	641,447	581,845	133,843	70,782	61,881	(42,343)	146,258	223,691	983,429	833,975
Impairment charges for loans & other losses	(138,727)	(62,785)	(42,343)	12,317	(27,613)	-	-	-	(208,683)	(50,468)
Net operating income	502,720	519,060	91,500	83,099	34,268	(42,343)	146,258	223,691	774,746	783,507
Depreciation of property, equipment & investment properties	8,590	9,320	1,721	2,182	448	504	8,472	4,557	19,231	16,563
Amortisation of intangible assets	120	391	120	68	168	97	1,500	498	1,908	1,054
Segment result	223,325	297,046	20,784	28,638	(81,451)	(108,929)	37,438	51,346	200,096	268,101
Value added tax (VAT) on financial services									(24,214)	(24,698)
Profit / (loss) before income tax									175,882	243,403
Income tax expense									(58,942)	(42,156)
Profit / (Loss) for the year									116,940	201,247
Assets										
Capital expenditures										
Property and equipment	8,409	46,497	159	882	142	786	2,832	15,654	11,542	63,819
Intangible assets	919	2,808	252	369	337	553	2,000	2,717	3,508	6,447
Total assets	6,972,496	7,219,976	3,025,436	2,334,064	265,673	332,485	3,005,195	2,004,786	13,268,800	11,891,311
Total liabilities	56,370	289,309	65,393	55,322	-	1,030	10,366,161	8,851,991	10,487,924	9,197,652

47. Segment Information (Contd.)

Group

for the year ended 31 December	Leasing		Corporate & Retail Credit		Corporate Advisory		Insurance		Eliminations / Unallocated		Total	
	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	2013	2012
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue from external customers												
Interest and similar income	2,399,766	2,431,081	868,510	742,488	118,127	37,490	143,674	56,947	266,730	196,356	3,796,807	3,464,362
Interest and similar expenses	1,390,416	1,491,374	562,916	428,775	10,995	21,235	33,629	7,405	366,195	40,312	2,364,151	1,989,101
Net interest income	1,009,350	939,707	305,594	313,713	107,132	16,255	110,045	49,542	(99,465)	156,044	1,432,656	1,475,261
Other income	34,256	26,801	92,216	(10,313)	27,161	(22,082)	239,562	334,115	(45,301)	59,126	347,894	387,647
Inter-segment transactions	-	-	-	-	22,616	-	(22,616)	-	-	-	-	-
Total operating income	1,043,606	966,508	397,810	303,400	156,909	(5,827)	326,991	383,657	(144,766)	215,170	1,780,550	1,862,908
Impairment charges for loans & other losses	(173,427)	(143,551)	(46,371)	36,530	1,923	-	-	-	(33,917)	590	(251,792)	(106,431)
Net operating income	870,179	822,957	351,439	339,930	158,832	(5,827)	326,991	383,657	(178,683)	215,760	1,528,758	1,756,477
Depreciation of property, equipment & investment properties	8,590	32,811	1,721	8,601	448	504	17,708	12,186	42,490	8,290	70,957	62,392
Amortisation of intangible assets	120	796	120	256	168	97	4,799	1,113	2,495	527	7,702	2,789
Segment result	343,414	375,422	130,478	125,343	(4,307)	(77,131)	(170,049)	10,878	(336,524)	(118,121)	(36,988)	316,391
Value added tax (VAT) on financial services											(43,308)	(48,432)
Share of associate companies profit before tax											(606)	(17,486)
Profit / (loss) before income tax											(80,902)	250,473
Income tax expense											(78,851)	(70,256)
Profit/(Loss) for the year											(159,753)	180,217
Assets												
Capital expenditures												
Property and equipment	13,120	70,548	4,941	18,382	4,055	9,540	32,034	47,222	4,672	22,899	58,822	168,591
Intangible assets	2,439	5,208	1,794	573	1,599	554	38,607	4,469	2,747	2,716	47,186	13,520
Total assets	7,996,632	11,654,513	4,064,855	5,369,526	1,116,282	379,535	1,629,451	1,348,080	2,785,391	3,411,223	17,592,611	22,162,877
Total liabilities	56,370	3,906,317	65,393	4,086,124	-	113,786	-	948,923	14,529,296	9,705,279	14,651,059	18,760,429

Notes to the Financial Statements

48. Commitments and contingencies

The table below shows the group's maximum credit risk exposure for commitments and guarantees.

for the year ended 31 December	Company		Group	
	2013 Rs.'000	2012 Rs.'000	2013 Rs.'000	2012 Rs.'000
Guarantees to the customers	48,442	59,690	59,604	79,088
Financial commitments	-	-	60,198	50,959
Total commitments and contingencies	48,442	59,690	119,802	130,047

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.

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	Case No.	Remarks
1	Colombo DC 17969/MR	The Plaintiff claims damages alleging unlawful re-possession of a Vehicle by the Company.
2	Kandy DC 487 / SPL	Declaration of Title sought to set aside the judgment on the Title Deed in favour of MBSL-(company has already disposed the property)
3	Colombo DC 19426/L	Owner of the property denies having placed the signature on the Mortgage Bond
4	Embilipitiya DC 9473 / L	Plaintiff seeks a declaration of title on the property that was mortgaged to the company and owned by the company through Court auction.
5	CA Res 198 / 07	Restitio-in-Integrum Action to set aside the judgment of Commercial High Court dated 01 /09 /2003 which was in favour of the company. Restraining order against the company in operation - Argument.
6	Negombo DC 7300 / L	Declaration of Title sought by petitioner though injunction. Enjoining Order agreed the company to dissolved - Argument
7	Mt.Lavinia 2357 /07/L (L/18/08)	Third party seeks a declaration of title on the property that was mortgaged to the company by the Borrower where judgment has been entered in favour of the company.
8	Colombo DC 19433/L	Plaintiff Denies the transfer of the property to MBSL (his value of the property claimed) Judgment in favour of the company. Plaintiff has Appealed.
9	Chilaw DC 4145/L	The Plaintiff seeks a Declaration of Title.

No	Case No.	Remarks
10	43156 / MR Colombo	This Case has been filed against MBSL for releasing the leasing article to the third party who was authorized in writing by the lessee to receive the certificate of registration etc. from MBSL. After releasing the vehicle the lessee filed this case against MBSL claiming damages thus disputing his own letter of authority. The lessee is fighting a losing battle as his own signature has now been referred to the Examiner in to Questioned Documents by Court.
11	421/05 Kandy	This action has been filed challenging the repossession of the lease articles.
12	4124 / M 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.
13	23840 /M DC-Anuradhapura	The lessee / Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle and a declaration that the MBSL has violated the provision of the Lease Agreement and matter is presently at trial stage.
14	DMR/3675/11 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.
15	3330/ Special DC - Panadura	This action has been filed against the MBSL by the Lessee seeking the release of the lease article which was voluntarily handed over to MBSL by her. The interim injunction sought by the Plaintiff was refused by Court and only issued notice on MBSL.
16	4894/M DC – Gampaha	The Plaintiff has filed this action against the registered owner of the vehicle, the MBSL Insurance and MBSL for causing injuries to the Plaintiff in an accident involving the above vehicle. As the MBSL is the absolute owner the MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability.
17	CHC/06/2013/MR	The Plaintiff is seeking, inter alia, the refund of the advance payment made by the Plaintiff to MBSL, in connection with a Shares 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. Company has filed its objections and answer.
18	Ceylon Bank Employees' Union Vs MBSL LTD Case No: 13/305/02 High Court (Criminal) Action bearing No: 1676/2004	Reinstatement with back wages plus compensation & legal fees High Court Criminal Action Proceeding

Notes to the Financial Statements

49. 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 company's strategic and financial goals. Company 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 the company. Hence the BOD has established Integrated Risk Management Committee (IRMC) for prudent risk management. IRMC of the company is responsible for:

- Assessing all risks that affect to the company 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

The Company has identified 4 critical types of risk which can affect on company's operations adversely as Credit, Market, Liquidity and Operational risks.

Risk mitigation

The Company has established IRMC, 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 the company 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 the company and headed by a board member. The company uses accepted methods to mitigate risks faced by the company.

Risk measurement systems

The company 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. The company 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. The company 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 creditworthiness of the counterparties. At present the company 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. The company 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 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 PLC business activities. Merchant Bank of Sri Lanka PLC uses sensitivity analysis, discounted cash flows and maturity gap analysis to calculate the market risk.

Interest rate risk

Interest rate risk arises from the possibility that variations in interest rates will affect future cash flows or the fair values of financial instruments.

Liquidity risk

Liquidity risk is the possibility of loss 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 PLC has implemented the board approved Liquidity Risk Management policy and established an Assets and Liability Committee (ALCO). Merchant Bank of Sri Lanka PLC uses ratios and maturity gap analysis to identify the Liquidity Risk of the group.

Maturity gap

The table below summarises the maturity portfolio of the undiscounted cash flows of the group's financial assets and liabilities as at 31 December 2013.

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.

Notes to the Financial Statements

49. Risk Management (Contd.)

Maturity analysis

Company	On Demand Rs.'000	Up to 03 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
Assets							
Financial assets							
Cash and cash equivalents	180,104	-	-	-	-	-	180,104
Placements with banks	-	257,397	527,083	-	-	-	784,480
Securities purchased under resale agreements	-	140,768	-	-	-	-	140,768
Financial assets designated at FVPL	-	262,817	-	-	-	-	262,817
Bills receivable	-	604,597	22,686	-	-	-	627,283
Loans & advances to customers	-	194,791	322,742	1,043,013	757,602	24,266	2,342,414
Lease and hire purchase receivable	-	658,584	1,291,560	3,732,760	668,426	584,376	6,935,706
Financial investments - AFS	-	99,941	80,063	48,157	164,244	275,450	667,855
Other assets	-	42,410	7,022	5,058	12,820	9,838	77,148
Total financial assets	180,104	2,261,305	2,251,156	4,828,988	1,603,092	893,930	12,018,575
Non financial assets							
Investment in associate companies	-	-	-	-	-	102,002	102,002
Investments in subsidiaries	-	-	-	-	-	906,104	906,104
Investment properties	-	-	-	-	-	52,829	52,829
Property and equipment	-	-	-	-	-	86,356	86,356
Intangible assets	-	-	-	-	-	8,776	8,776
Other assets	-	14,263	79,895	-	-	-	94,158
Total non-financial assets	-	14,263	79,895	-	-	1,156,067	1,250,225
Total assets	180,104	2,275,568	2,331,051	4,828,988	1,603,092	2,049,997	13,268,800
Financial liabilities							
Due to banks	99,118	-	-	-	-	-	99,118
Debt issued and borrowed funds	-	2,851,509	3,428,559	639,300	2,703,779	-	9,623,147
Other Financial liabilities	-	121,643	87,147	-	-	-	208,790
Total financial liabilities	99,118	2,973,152	3,515,706	639,300	2,703,779	-	9,931,055

49. Risk Management (Contd.)

Maturity analysis (Contd.)

Company	On Demand Rs.'000	Up to 03 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
Non financial liabilities							
Current tax liabilities	-	-	165,284	-	-	-	165,284
Deferred tax liabilities	-	-	-	-	-	64,757	64,757
Other liabilities	-	164,155	2,454	-	-	-	166,609
Retirement benefits obligation	-	-	-	-	-	160,219	160,219
Total Non financial liabilities	-	164,155	167,738	-	-	224,976	556,869
Total liabilities	99,118	3,137,307	3,683,444	639,300	2,703,779	224,976	10,487,924
Equity							
Stated capital	-	-	-	-	-	1,607,000	1,607,000
Retained earnings	-	-	-	-	-	952,984	952,984
Available-for-sale reserve	-	(7,623)	-	-	-	-	(7,623)
Statutory reserves	-	-	-	-	-	228,515	228,515
Total equity	-	(7,623)	-	-	-	2,788,499	2,780,876
Total liabilities and equity	99,118	3,129,684	3,683,444	639,300	2,703,779	3,013,475	13,268,800

Notes to the Financial Statements

49. Risk Management (Contd.)

Maturity analysis (Contd.)

Group	On Demand	Up to 03 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	275,688	-	-	-	-	-	275,688
Placements with banks	-	518,784	647,647	-	4,069	15,517	1,186,017
Securities purchased under resale agreements	-	469,958	-	-	-	-	469,958
Financial assets designated at FVPL	11,531	274,014	-	-	-	-	285,545
Bills receivable	-	604,597	22,686	-	-	-	627,283
Loans & advances to customers	-	337,198	535,930	1,448,270	1,140,634	178,397	3,640,429
Lease and hire purchase receivable	-	764,873	1,553,574	4,251,922	857,403	532,070	7,959,842
Financial investments - AFS	-	99,941	214,762	487,148	221,519	404,030	1,427,400
Financial investments - HTM	-	100,957	-	-	-	-	100,957
Financial other assets	-	61,086	7,022	5,058	12,820	9,838	95,824
Total financial assets	287,219	3,231,408	2,981,621	6,192,398	2,236,445	1,139,852	16,068,943
Non financial assets							
Investment in associate companies	-	-	-	-	-	438,234	438,234
Investments in subsidiaries	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	52,829	52,829
Property and equipment	-	-	-	-	-	223,180	223,180
Intangible assets	-	-	-	-	-	170,776	170,776
Real estate stock	-	-	-	-	-	-	-
Other assets	488,243	25,349	88,544	3,285	739	32,489	638,649
Non current assets held for sale	-	-	-	-	-	-	-
Total non-financial assets	488,243	25,349	88,544	3,285	739	917,508	1,523,668
Total assets	775,462	3,256,757	3,070,165	6,195,683	2,237,184	2,057,360	17,592,611
Financial liabilities							
Due to banks	143,644	8,694	-	-	-	-	152,338
Securities sold under repurchase agreements	-	-	-	-	-	-	-
Due to customers	-	1,217,925	1,154,642	112,229	173,376	166,746	2,824,918
Debt issued and borrowed funds	-	2,853,679	3,428,559	639,300	2,703,779	-	9,625,317
Other financial liabilities	-	121,643	87,147	-	-	48,703	257,493
Total financial liabilities	143,644	4,201,941	4,670,348	751,529	2,877,155	215,449	12,860,066

49. Risk Management (Contd.)

Maturity analysis (Contd.)

Group	On Demand Rs.'000	Up to 03 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
Non financial liabilities							
Insurance provision - life	-	-	-	-	-	220,748	220,748
Insurance provision - non life	-	733,060	-	-	-	-	733,060
Current tax liabilities	-	-	165,284	-	-	-	165,284
Deferred tax liabilities	-	-	-	-	-	64,757	64,757
Other liabilities	-	415,543	6,620	-	-	1,805	423,968
Retirement benefits obligation	-	-	-	-	-	183,176	183,176
Total non financial liabilities	-	1,148,603	171,904	-	-	470,486	1,790,993
Total liabilities	143,644	5,350,544	4,842,252	751,529	2,877,155	685,935	14,651,059
Equity							
Stated capital	-	-	-	-	-	1,607,000	1,607,000
Retained earnings	-	-	-	-	-	951,015	951,015
Available-for-sale reserve	-	-	-	-	-	5,000	5,000
Statutory reserves	-	-	-	-	-	231,250	231,250
Non controlling interest	-	-	-	-	-	147,287	147,287
Total equity	-	-	-	-	-	2,941,552	2,941,552
Total liabilities and equity	143,644	5,350,544	4,842,252	751,529	2,877,155	3,627,487	17,592,611

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.

	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years	Total
Rs. '000							
Company							
Guarantees to the customers	48,442	-	-	-	-	-	48,442
Financial Commitments	-	-	-	-	-	-	-
Total commitments and guarantees	48,442	-	-	-	-	-	48,442
Group							
Guarantees to the customers	48,442	2,756	8,406	-	-	-	59,604
Financial Commitments	9,457	11,242	39,499	-	-	-	60,198
Total commitments and guarantees	57,899	13,998	47,905	-	-	-	119,802

The group expects that not all the contingent liabilities and commitments will be drawn before expiry of the commitments.

Notes to the Financial Statements

49. Risk Management (Contd.)

Company

Industry analysis risk concentration

The company's concentrations of risk are managed by industry sector:

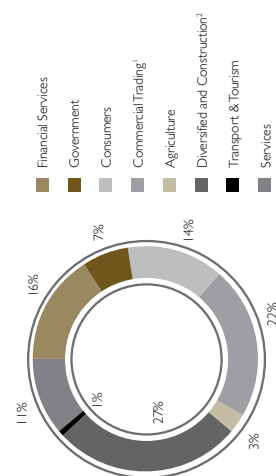
as at 31 December 2013	Financial Services	Government	Consumers	Commercial Trading ¹	Agriculture	Diversified and Construction ²	Transport & Tourism	Services ³	Total
Financial assets									
Cash and cash equivalents	180,104	-	-	-	-	-	-	-	180,104
Placements with banks	784,480	-	-	-	-	-	-	-	784,480
Securities purchased under resale agreements	-	140,768	-	-	-	-	-	-	140,768
Financial assets designated at FVPL	74,572	-	18,334	5,121	1,031	84,183	53,843	25,733	262,817
Bills receivable	-	-	-	183,044	7,541	229,587	-	207,111	627,283
Loans & advances to customers	672,030	-	149,219	122,093	361,313	761,002	34,355	242,402	2,342,414
Lease and Hire purchase rental receivable	201,481	-	1,445,414	2,296,869	-	2,111,513	-	880,429	6,935,706
Financial investments AFS	-	644,441	-	-	-	-	-	-	644,441
Government securities	24	-	-	-	-	23,390	-	-	23,414
Other securities	4,056	-	27,944	1,050	-	25,649	-	18,449	77,148
Other Assets	1,916,747	785,209	1,640,911	2,608,177	369,885	3,235,324	88,198	1,374,124	12,018,575

1 Commercial Trading includes Industry, Trade, Import & Export, Power, Retail and Wholesale and Margin Trading

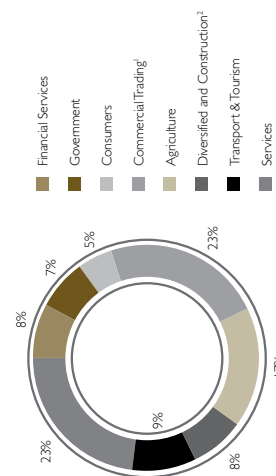
2 Diversified and Construction includes diversified holdings, Manufacturing and Property Development

3 Services include IT, Health care, Telecommunication and others

2013 - Company



2012 - Company



49. Risk Management (Contd.) Group

Industry analysis risk concentration

The company's concentrations of risk are managed by industry sector.

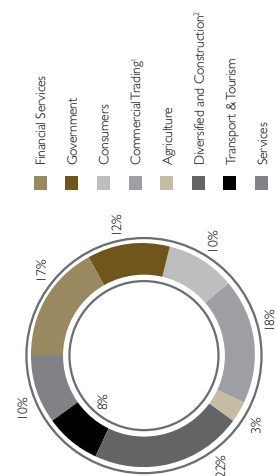
as at 31 December 2013	Financial Services	Government	Consumers	Commercial Trading ¹	Agriculture	Diversified Construction ²	Transport & Tourism	Services ³	Total
Financial assets									
Cash and cash equivalents	275,688	-	-	-	-	-	-	-	275,688
Placements with banks	1,186,017	-	-	-	-	-	-	-	1,186,017
Securities purchased under resale agreements	-	469,958	-	-	-	-	-	-	469,958
Financial assets designated at FVPL	96,671	-	18,357	5,121	1,031	84,789	53,843	25,733	285,545
Bills receivable	-	-	-	183,044	7,541	229,587	-	207,111	627,283
Loans & advances to customers	843,101	-	155,269	287,738	379,656	929,440	684,959	360,266	3,640,429
Lease and Hire purchase rental receivable	201,481	-	1,450,912	2,447,403	16,669	2,264,585	591,252	987,540	7,959,842
Financial investments AFS									
Government securities	-	1,397,347	-	-	-	-	-	-	1,397,347
Other securities	24	-	-	-	-	30,019	-	10	30,053
Financial investments - held to maturity	100,957	-	-	-	-	-	-	-	100,957
Other assets	22,732	-	27,944	1,050	-	25,649	-	18,449	95,824
Total financial assets	2,726,671	1,867,305	1,652,482	2,924,356	404,897	3,564,069	1,330,054	1,599,109	16,068,943

¹ Commercial Trading includes Industry, Trade, Import & Export, Power, Retail and Wholesale and Margin Trading

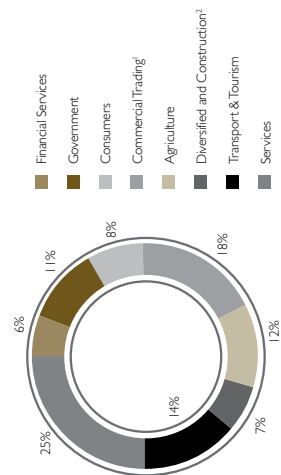
² Diversified and Construction includes diversified holdings, Manufacturing and Property Development

³ Services include IT, Health care, Telecommunication and others

2013 - Group



2012 - Group



Notes to the Financial Statements

49. 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 31 December 2013 together with comparative figures for the year ended 31 December 2012.

Company

as at 31 December	Western		Southern & Sabaragamuwa		North	
	2013	2012	2013	2012	2013	2012
Financial assets						
Cash and cash equivalents	46,581	58,418	4,052	4,922	5,141	5,113
Placements with banks	784,480	140,242	-	-	-	-
Securities repurchased under resale agreements	140,768	116,532	-	-	-	-
Financial assets designated at FVPL	262,817	311,676	-	-	-	-
Bills receivable	545,838	480,583	13,395	5,339	-	-
Loans & advances to customers	1,584,040	1,378,254	211,612	47,482	42,825	16,897
Lease and hire purchase rental receivable	2,506,354	2,834,634	932,108	783,697	157,947	194,730
Financial investments - AFS	-	-	-	-	-	-
Government securities	644,441	675,944	-	-	-	-
Other securities	23,414	19,924	-	-	-	-
Other assets	42,707	139,601	8,337	6,823	2,235	509
Total financial assets	6,581,440	6,155,808	1,169,504	848,263	208,148	217,249

Group

Financial assets						
Cash and cash equivalents	142,165	180,051	4,052	6,776	5,141	16,887
Placements with banks	1,186,017	485,954	-	-	-	-
Securities repurchased under resale agreements	469,958	590,525	-	-	-	-
Financial assets designated at FVPL	285,545	373,391	-	-	-	-
Bills receivable	545,838	480,585	13,395	5,340	-	-
Loans & advances to customers	2,882,053	2,357,030	211,614	290,444	42,825	230,814
Lease and hire purchase rental receivable	3,530,490	5,276,821	932,107	1,307,850	157,947	387,717
Financial investments - AFS	-	-	-	-	-	-
Government securities	1,397,347	1,135,037	-	-	-	-
Other securities	30,053	26,444	-	-	-	-
Financial investments - HTM	100,957	507,737	-	-	-	-
Other assets	61,383	352,230	8,338	6,823	2,235	509
Total financial assets	10,631,806	11,765,805	1,169,506	1,617,233	208,148	635,927

									Rs.'000	
North Western		North Central		Eastern & Uva		Central		Total		
2013	2012	2013	2012	2013	2012	2013	2012	2013	2012	
36,918	28,881	11,476	8,881	25,724	6,825	50,212	43,090	180,104	156,130	
-	-	-	-	-	-	-	-	784,480	140,242	
-	-	-	-	-	-	-	-	140,768	116,532	
-	-	-	-	-	-	-	-	262,817	311,676	
17,681	4,312	1,477	-	12,703	-	36,189	35,507	627,283	525,741	
138,418	82,774	102,363	38,881	169,399	83,917	93,757	50,075	2,342,414	1,698,280	
1,439,847	1,488,682	588,768	558,089	522,757	422,035	787,925	780,188	6,935,706	7,062,055	
-	-	-	-	-	-	-	-	644,441	675,944	
-	-	-	-	-	-	-	-	23,414	19,924	
9,903	8,775	2,013	2,387	9,540	629	2,413	2,396	77,148	161,120	
1,642,767	1,613,424	706,097	608,238	740,123	513,406	970,496	911,256	12,018,575	10,867,644	
36,918	54,984	11,476	8,913	25,724	6,883	50,212	43,264	275,688	317,758	
-	-	-	-	-	-	-	-	1,186,017	485,954	
-	-	-	-	-	-	-	-	469,958	590,525	
-	-	-	-	-	-	-	-	285,545	373,391	
17,681	4,312	1,477	-	12,703	-	36,189	35,506	627,283	525,743	
138,418	876,793	102,363	153,084	169,399	198,185	93,757	351,745	3,640,429	4,458,095	
1,439,847	2,865,196	588,768	558,089	522,757	422,035	787,926	1,153,368	7,959,842	11,971,076	
-	-	-	-	-	-	-	-	-	-	
-	-	-	-	-	-	-	-	1,397,347	1,135,037	
-	-	-	-	-	-	-	-	30,053	26,444	
-	-	-	-	-	-	-	-	100,957	507,737	
9,903	8,775	2,013	2,387	9,540	629	2,412	2,396	95,824	373,749	
1,642,767	3,810,060	706,097	722,473	740,123	627,732	970,496	1,586,279	16,068,943	20,765,509	

Notes to the Financial Statements

49. Risk management (Contd.)

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 company 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

The group 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. The group assesses the impairment allowances at each reporting date, unless unexpected negative circumstances require more attention.

Collectively assessed allowances

The group 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 the group assesses the collective allowances based on historical information.

As at 31 December 2013 the value of collateral that the company holds relating to loans individually determined to be impaired amounts to Rs. 484.14 million. 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.

49. Risk management (Contd.)

Rs.'000

Company	Neither past due nor impaired*	Past due but not impaired *						Individually impaired	Total
		Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12 months			
Financial assets									
Cash and cash equivalents	180,104	-	-	-	-	-	-	180,104	
Placements with banks	784,480	-	-	-	-	-	-	784,480	
Securities purchased under resale agreements	140,768	-	-	-	-	-	-	140,768	
Financial assets designated at FVPL	262,817	-	-	-	-	-	-	262,817	
Bills receivable	412,305	86,740	16,763	17,527	2,658	8,830	82,460	627,283	
Loans & advances to customers	957,665	1,035,971	103,407	33,398	25,111	46,454	140,408	2,342,414	
Lease and hire purchase receivable	3,485,680	2,158,970	695,990	54,377	80,964	198,455	261,270	6,935,706	
Financial investments - AFS									
Government securities	644,441	-	-	-	-	-	-	644,441	
Other securities	23,414	-	-	-	-	-	-	23,414	
Other financial assets	77,148	-	-	-	-	-	-	77,148	
Total	6,968,822	3,281,681	816,160	105,302	108,733	253,739	484,138	12,018,575	

Rs.'000

Group	Neither past due nor impaired*	Past due but not impaired *						Individually impaired	Total
		Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12 months			
Financial assets									
Cash and cash equivalents	275,688	-	-	-	-	-	-	275,688	
Placements with banks	1,186,017	-	-	-	-	-	-	1,186,017	
Securities purchased under resale agreements	469,958	-	-	-	-	-	-	469,958	
Financial assets designated at FVPL	274,348	11,197	-	-	-	-	-	285,545	
Bills receivable	412,305	86,740	16,763	17,527	2,658	8,830	82,460	627,283	
Loans & advances to customers	957,665	1,186,040	184,716	120,169	111,882	939,549	140,408	3,640,429	
Lease and hire purchase receivable	4,177,077	2,159,993	697,526	56,426	84,036	202,551	582,233	7,959,842	
Financial investments - AFS									
Government debt securities	1,397,347	-	-	-	-	-	-	1,397,347	
Other securities	30,043	-	-	-	-	10	-	30,053	
Financial investments - HTM	-	100,957	-	-	-	-	-	100,957	
Other financial assets	95,824	-	-	-	-	-	-	95,824	
Total	9,276,272	3,544,927	899,005	194,122	198,576	1,150,940	805,101	16,068,943	

* Collective impairment allowances are made for 'neither past due nor impaired' and 'past due but not impaired' loans.

Notes to the Financial Statements

49. Operational risk

Operational risk refers to the 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's 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.

50. 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. (2012: 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 shareholder 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 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 CBSL despite substantial increase in loans and advances.

Month	Core capital		Total capital	
	Ratio (%)	Ratio (%)	Ratio (%)	Ratio (%)
	2013	2012	2013	2012
31-Mar	23.38	26.95	23.38	26.95
30-Jun	23.32	27.63	23.32	27.63
30-Sep	22.98	26.78	22.98	27.55
31-Dec	22.17	24.36	22.17	24.36

Share and Debenture Information

1. Stock exchange listing

The issued ordinary shares of Merchant Bank of Sri Lanka PLC are listed on the Colombo Stock Exchange

2. Ordinary shareholders as at 31 December 2013

Range of shareholding	Individual			Company			Total		
	No. of shareholders	No. of shares	% of shareholding	No. of shareholders	No. of shares	% of shareholdings	No. of shareholders	No. of shares	% of shareholding
1 - 1,000	7,300	1,847,633	1.37	162	33,985	0.03	7,462	1,881,618	1.39
1,001 - 10,000	1,786	5,905,793	4.37	114	496,801	0.37	1,900	6,402,594	4.74
10,001 - 100,000	283	7,269,080	5.38	49	1,889,924	1.40	332	9,159,004	6.78
100,001 - 1,000,000	31	6,736,203	4.99	22	5,242,579	3.88	53	11,978,782	8.87
1,000,001 & Above	0	0	0.00	2	105,578,002	78.21	2	105,578,002	78.21
Total	9,400	21,758,709	16.12	349	113,241,291	83.88	9,749	135,000,000	100.00

Range of shareholding	Individual			Company			Total		
	No. of shareholders	No. of shares	% of shareholding	No. of shareholders	No. of shares	% of shareholdings	No. of shareholders	No. of shares	% of shareholding
1 - 1,000	7,300	1,847,633	1.37	162	33,985	0.03	7,462	1,881,618	1.39
1,001 - 10,000	1,786	5,905,793	4.37	114	496,801	0.37	1,900	6,402,594	4.74
10,001 - 100,000	283	7,269,080	5.38	49	1,889,924	1.40	332	9,159,004	6.78
100,001 - 1,000,000	31	6,736,203	4.99	22	5,242,579	3.88	53	11,978,782	8.87
1,000,001 & Above	0	0	0.00	2	105,578,002	78.21	2	105,578,002	78.21
Total	9,400	21,758,709	16.12	349	113,241,291	83.88	9,749	135,000,000	100.00

- The percentage of shares held by the public as at 31 December 2013 was 21.80% (31 December 2012 - 22.47%)
- The Total Number of Shareholders as at 31 December 2013 was 9,749 (31 December 2012 – 10,020)
- The number of Shares in issue as at 31 December 2013 were 135,000,000

	2013	2012
3. Book value (as at 31 December)		
Net asset value per share (Rs.)	20.60	19.95
4. Share prices (Rs.)		
Lowest	12.10 (05/09/2013)	18.00 (07/06/2012)
Highest	22.10 (18/01/2013)	41.00 (17/01/2012)
Last transaction	13.60 (31/12/2013)	19.90 (31/12/2012)
5. Share trading		
No. of transactions	7,720	6,684
No. of shares traded	9,463,257	7,889,581
Value of shares traded (Rs.)	159,674,048	203,732,332
6. Earnings as at 31 December (Rs.)		
Earnings per share	0.87	1.49
Price earnings ratio	15.70	13.35

Share and Debenture Information

	2013	2012
7. Performance at the colombo stock exchange		
(a) Market capitalization of MBSL		
Value (Rs.)	1,836,000,000	2,686,500,000
Rank	137	111
(b) Price movement		
All Share price Index	5,912.78	5,643.00
Milanka Price Index	3,263.87	5,119.10
MBSL Midcap Index	7,225.49	7,175.37

8. Debentures as at 31 December 2013

Type	Interest payment details	Amount (Rs.) '000
Debentures issued in November 2011		
Type A	Unsecured Redeemable 3 Year Debentures of LKR 100 each carrying a Fixed Interest Rate of 11.60% per annum on the principal sum, payable bi-annually.	731,880
Type B	Unsecured Redeemable 4 Year Debentures of LKR 100 each carrying a Fixed Interest Rate of 11.80% per annum on the principal sum, payable bi-annually.	268,080
Type C	Unsecured Redeemable 3 Year Debentures of LKR 100 each carrying a Floating Interest Rate on the principal sum payable bi-annually.	40
Debentures issued in March 2013		
Type A	Unsecured Redeemable 5 Year Debentures of LKR 100/- each bearing Interest at a fixed rate of 17.50 % per annum (before any tax) on the principal sum, payable annually as at 31 December each year from the date of allotment until the date of Maturity/Redemption.	625,110
Type B	Unsecured Redeemable 4 Year Debentures of LKR 100/- each bearing Interest at a fixed rate of 17.25 % per annum (before any tax) on the principal sum, payable annually as at 31 December each year from the date of allotment until the date of Maturity/Redemption.	485,240
Type C	Unsecured Redeemable 5 Year Debentures of LKR 100/- each bearing Interest at a fixed rate of 16.70% per annum (before any tax) on the principal sum, payable quarterly as at 30 June, 30 September, 31 December and 31 March, each year from the date of allotment until the date of Maturity/Redemption.	723,190
Type D	Unsecured Redeemable 5 year Debentures of LKR 100/- each bearing Interest at a fixed rate of 16.5 % per annum (before any tax) on the principal sum, payable monthly as at the last day of each and every calendar month from the date of allotment until the date of Maturity/Redemption.	166,460

Type	Interest payment details	Amount (Rs.) '000
Debentures Issued in December 2013		
Type A	Unsecured Redeemable 4 year Debentures of LKR 100/- each bearing Interest at a fixed rate of 14.25% per annum (before any tax) on the principal sum, payable annually.	674,770
Type B	Unsecured Redeemable 3 year Debentures of LKR 100/- each bearing Interest at a fixed rate of 13.50% per annum (before any tax) on the principal sum, payable annually.	296,220
Type C	Unsecured Redeemable 4 year Debentures of LKR 100/- each bearing Interest at a fixed rate of 13.50% per annum (before any tax) on the principal sum, payable quarterly.	17,540
Type D	Unsecured Redeemable 4 year Debentures of LKR 100/- each bearing Interest at a fixed rate of 13.25% per annum (before any tax) on the principal sum, payable monthly.	11,470

Unlisted debenture details as at 31 December 2013

2010/2014	Unsecured Redeemable 4 year Debentures of LKR 100/- each carrying a floating interest rate calculated and renewed bi-annually.	6,800
2010/2014	Unsecured Redeemable non-transferable 4 year Debentures of LKR 100/- each carrying a floating interest rate calculated and renewed bi-annually.	25,000

9. Directors shareholding

The number of Shares held by the Directors as at	31/12/2013	31/12/2012
Mr. M R Shah	Nil	Nil
Mr. M S S Paramananda	Nil	Nil
Mr. P G Rupasinghe	Nil	Nil
Mr. A B Lalith A De Silva	Nil	Nil
Mr. D M Gunasekara (Appointed with effect from 12/02/2013)	Nil	Nil
Mr. K B S Bandara (Appointed with effect from 07/03/2013)	Nil	Nil
Mr. Chitral R Jayawarna (Appointed with effect from 30/12/2013)	Nil	Nil
Mr. W P R P H Fonseka	Nil	Nil
(Alternate Director to Mr. D M Gunasekara, Appointed with effect from 12/08/2013)		
Prof. R W T M Ranjith Bandara (Resigned with effect from 10/09/2013)	Nil	Nil
Mr. V Kanagasabapathy (Resigned with effect from 26/02/2013)	Nil	Nil
Mr. K Dharmasiri (Resigned with effect from 24/01/2013)	Nil	Nil
Mrs. K A D Fernando	Nil	Nil
(Alternate Director to Mr. K Dharmasiri, Resigned with effect from 24/01/2013)		
(Alternate Director to Mr. D M Gunasekara, Appointed with effect from 07/03/2013)		
(Alternate Director to Mr. D M Gunasekara, Resigned with effect from 26/06/2013)		

10. Shares held by the Chief Executive Officer

Mr. T Mutugala	Nil	Nil
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Share and Debenture Information

II. Major shareholders as at 31 December 2013

Name of the shareholder		2013	%	2012	%
1	Bank of Ceylon No. I Account	97,392,136	72.14	97,392,136	72.14
2	Bank of Ceylon A/C Ceybank Unit Trust	8,185,866	6.06	7,273,622	5.39
3	Mr. C. R. D. Fernando	862,914	0.64	645,689	0.48
4	Environmental Resources Investment PLC	785,889	0.58	970,250	0.72
5	Dr. S.Yaddehige	739,400	0.55	739,400	0.55
6	Merrill J Fernando & Sons (Pvt) Limited	526,165	0.39	526,165	0.39
7	Mr. M. Premjayanth	400,000	0.30	480,001	0.36
8	Mr. N. Balasingam	381,400	0.28	381,400	0.28
9	Mr. C P De Silva	335,000	0.25	335,000	0.25
10	Mr.A Chelliah (Deceased)	333,800	0.25	333,800	0.25
11	Seylan Bank Limited / Priyani Dharshini Ratnagopal	305,900	0.23	238,100	0.18
12	Bartleet Produce Marketing (Pvt) Limited	300,000	0.22	300,000	0.22
13	Waldock Mackenzie Limited/ Mr. L. P. Hapangama	300,000	0.22	300,000	0.22
14	Chemanex PLC A/C No I	300,000	0.22	300,000	0.22
15	Seylan Bank Limited / Dinesh Nagendra Sellamuttu	286,301	0.21	286,301	0.21
16	Commercial Bank of Ceylon PLC / W. L. T. Anandawansa	255,010	0.19	255,010	0.19
17	Sithlanka (Private) Limited	235,000	0.17	235,000	0.17
18	Mr. B T Prathapasinghe	225,058	0.17	31,158	0.02
19	Sandwave Limited	220,299	0.16	75,000	0.06
20	Gnanam Imports (Pvt) Ltd	219,867	0.16	261,967	0.19

Decade at a Glance

Based on Financial Statements Prepared in compliance with SLAS

For the year ended 31 December

	2010	2009	2008	2007	2006	2005	2004
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000

Company

Operating results

Income	1,522,980	1,155,731	1,035,227	872,598	704,355	539,001	434,969
Interest expenses	419,041	584,247	547,386	333,204	189,017	185,914	148,969
Operating expenses & provisions	535,870	345,720	300,898	273,261	257,190	188,207	163,370
Share of Associate Company	82,639	28,500	16,471	7,136	11,033	22,450	5,340
Profit before income tax	650,708	254,264	203,414	273,269	269,181	187,330	127,970
Income tax on profit	201,037	53,286	(1,664)	34,799	59,638	28,903	3,204
Profit after income tax	449,671	200,978	205,078	238,470	209,543	158,427	124,766
Net profit for the year	449,671	200,978	205,078	238,470	209,543	158,427	124,766

Balance sheet information

Assets

Government treasury bills and bonds	279,765	387,847	131,084	41,735	-	193,516	2,214
Investments on securities & properties	622,900	511,217	395,616	410,456	185,641	121,930	76,655
Loans and advances	1,567,034	1,143,361	807,469	570,618	485,594	629,908	461,447
Lease receivable	3,816,504	2,958,996	3,128,124	3,154,198	2,628,564	2,117,444	1,764,896
Property & equipment	44,047	37,844	30,519	24,517	26,344	29,232	31,361
Investments in associate & subsidiary companies	568,327	354,546	103,895	95,543	51,944	55,365	40,213
Other assets	284,024	185,114	171,421	107,015	125,610	125,501	98,655
Total assets	7,182,601	5,578,925	4,768,128	4,404,082	3,503,697	3,272,896	2,475,441

Liabilities

Debentures	716,800	1,074,160	1,144,160	1,327,510	1,260,600	1,400,600	1,303,350
Borrowings	3,179,712	1,658,985	1,553,949	1,079,083	400,370	242,000	157,735
Other liabilities & deferred taxation	606,896	515,008	390,225	432,773	426,481	356,092	273,398
	4,503,408	3,248,153	3,088,334	2,839,366	2,087,451	1,998,692	1,734,483
Net assets	2,679,193	2,330,772	1,679,794	1,564,716	1,416,246	1,274,204	740,958

Capital employed

Stated capital	1,607,000	1,607,000	1,067,000	1,067,000	1,067,000	1,067,000	617,000
Retained profit/(loss) & reserve fund	1,072,193	723,772	612,794	497,716	349,246	207,204	123,958
	2,679,193	2,330,772	1,679,794	1,564,716	1,416,246	1,274,204	740,958

Decade at a Glance

Ratios and Related Information

For the year ended 31st December	2010	2009	2008	2007	2006	2005	2004
Company							
Operating Ratios							
Return on Net Assets - %	16.78	8.62	12.21	15.24	14.80	12.43	16.84
Net Profit - %	29.53	17.39	19.81	27.33	29.75	29.39	28.68
Cost to Income Ratio - %	42.58	54.95	53.30	41.14	42.32	46.73	51.36
Income Growth - %	31.78	11.64	18.64	23.89	30.68	23.92	12.50
Profit Growth - %	123.74	(2.00)	(14.00)	13.80	32.26	26.98	74.51
Assets Growth - %	28.75	17.00	8.27	25.70	7.05	32.21	16.32
Net Assets Growth - %	14.95	38.75	7.35	10.48	11.15	71.97	20.25
Gearing Ratios							
Debt to Equity - Times	1.45	1.17	1.61	1.54	1.17	1.29	1.97
Interest Cover - Times	2.55	1.44	1.37	1.82	2.42	2.01	1.86
Liquidity Ratios							
Quick Ratio - Times	0.93	1.04	1.19	1.57	0.91	1.61	2.62
Investors Ratios							
Market value of a voting share - Rs.	45.80	19.50	7.25	14.25	16.25	14.25	9.25
Basic earnings per share - Rs.	3.33	1.49	2.28	2.65	2.33	1.76	2.08
Net assets value per share - Rs.	19.85	17.26	18.66	17.39	15.74	14.16	12.35
Price earnings ratio - Times	13.75	13.09	3.18	5.38	6.97	8.10	4.45
Earning yield - %	7.27	7.64	31.45	18.60	14.33	12.35	22.49
Dividend per share - Rs.	1.25	0.75	1.00	1.00	1.00	0.75	0.50
Dividend Cover - Times	2.66	1.98	2.28	2.65	2.33	2.35	4.16
Dividend yield ratio - %	2.73	3.85	13.79	7.02	6.15	5.26	5.41
Dividend Payout ratio - %	37.54	50.34	43.86	37.74	42.92	42.61	24.04

Based on Financial Statements Prepared in compliance with SLAS

For the year ended 31 December

	2010	2009	2008	2007	2006	2005	2004
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000

Group**Operating Results**

Operating Results

Income	2,595,680	2,332,321	1,647,537	1,443,925	1,163,678	905,927	776,966
Interest expenses	850,177	1,274,896	921,486	658,647	440,614	368,701	316,227
Operating expenses & provisions	1,032,534	727,000	494,628	464,824	429,735	332,336	320,244
Share of Associate Company	82,639	28,500	16,471	7,136	11,033	22,450	5,340
Profit before income tax	795,608	358,925	247,894	327,590	304,362	227,340	145,835
Income tax on profit	233,700	73,592	4,908	38,134	59,737	30,037	6,945
Profit after income tax	540,977	285,333	242,986	289,456	244,625	197,303	138,890
Minority interest	48,632	55,771	18,574	24,984	19,693	21,050	7,116
Net profit for the year	492,345	229,562	224,412	264,472	224,932	176,253	131,774

Balance Sheet Information**Assets**

Government Treasury Bills and Bonds	1,626,575	1,291,653	446,084	362,499	323,054	485,110	239,041
Investments on Securities & Others	892,052	768,975	430,929	452,165	230,839	183,766	143,860
Loans and advances	3,960,576	3,435,815	1,672,491	887,570	805,632	725,016	742,370
Lease receivable	6,554,698	5,035,167	4,660,299	4,814,920	4,471,315	3,615,485	2,994,126
Property, Plant & Equipment	145,426	150,924	44,466	37,360	43,528	49,446	47,342
Investments in associate & Subsidiary companies	121,617	95,022	82,977	74,625	31,026	34,447	19,295
Other Assets	1,123,406	1,054,916	251,782	173,608	185,807	349,255	127,360
Total Assets	14,424,350	11,832,472	7,589,028	6,802,747	6,091,201	5,442,525	4,313,394

Liabilities

Deposits from customers	5,676,955	4,897,367	2,199,270	1,813,329	2,142,949	1,848,626	1,587,357
Debentures	734,684	1,169,644	1,144,160	1,327,510	1,260,600	1,400,600	1,303,350
Borrowings	3,311,089	1,733,170	1,682,372	1,240,575	490,384	242,000	157,735
Other liabilities & Deferred Taxation	1,514,540	1,307,202	553,314	564,407	539,798	466,051	347,907
	11,237,268	9,107,383	5,579,116	4,945,821	4,433,731	3,957,277	3,396,349

Minority Interest	288,683	207,823	172,208	153,634	128,650	113,859	96,728
Net Assets	2,898,399	2,517,266	1,837,704	1,703,292	1,528,820	1,371,389	820,317

Capital Employed

Stated Capital	1,607,000	1,607,000	1,067,000	1,067,000	1,067,000	1,067,000	617,000
Retained Profit/(Loss) & Reserve fund	1,291,399	910,266	770,704	636,292	461,820	304,389	203,317
	2,898,399	2,517,266	1,837,704	1,703,292	1,528,820	1,371,389	820,317

Decade at a Glance

Ratios and Related Information

For the year ended 31st December	2010	2009	2008	2007	2006	2005	2004
Group							
Operating Ratios							
Return on Net Assets - %	16.99	9.12	12.21	15.53	14.71	12.85	16.06
Net Profit - %	20.84	12.23	14.75	20.05	21.02	21.78	17.88
Cost to Income Ratio - %	52.50	70.44	55.15	45.21	46.64	53.93	51.27
Income Growth - %	11.29	41.56	14.10	24.08	28.45	16.60	2.35
Profit Growth - %	96.93	17.43	(16.05)	18.33	23.98	42.06	50.52
Assets Growth - %	21.90	55.92	11.56	11.68	11.92	26.18	3.88
Net Assets Growth - %	15.14	36.98	7.89	11.41	11.48	67.18	(19.14)
Gearing Ratios							
Debt to Equity - Times	3.34	3.10	2.73	2.57	2.55	2.55	3.72
Interest Cover - Times	1.94	1.28	1.27	1.50	1.69	1.62	1.46
Liquidity Ratios							
Quick Ratio - Times	0.69	0.85	0.87	1.00	0.70	0.87	1.03
Investors Ratios							
Market value of a voting share - Rs.	45.80	19.50	7.25	14.25	16.25	14.25	9.25
Basic earnings per share - Rs.	3.65	1.70	2.49	2.94	2.50	2.80	2.63
Net assets value per share - Rs.	21.47	18.65	20.42	18.93	16.99	21.74	13.67
Price earnings ratio - Times	12.55	11.47	2.91	4.85	6.50	5.09	3.52
Earning yield - %	7.97	8.72	34.34	20.63	15.38	19.65	28.43
Dividend per share - Rs.	1.25	0.75	1.00	1.00	1.00	1.07	0.60
Dividend Cover - Times	2.92	2.27	2.49	2.94	2.50	2.61	4.39
Dividend yield ratio - %	2.73	3.85	13.79	7.02	6.15	7.53	6.49
Dividend Payout ratio - %	34.25	44.12	40.16	34.01	40.10	38.30	22.81

Based on Financial Statements Prepared in compliance with SLFRS

For the year ended 31 December	Company			Group		
	2013 Rs.000	2012 Rs.000	2011 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000
Operating Results						
Income	2,355,366	1,869,714	1,393,526	4,284,537	3,955,749	3,009,426
Interest Expenses	1,371,937	1,035,739	541,370	2,364,151	1,989,101	1,234,716
Operating Expenses & Provisions	807,547	590,572	483,141	2,000,682	1,698,689	1,344,174
Share of Associate Company	-	-	60,248	(606)	(17,486)	60,248
Profit before income tax	175,882	243,403	429,263	(80,902)	250,473	490,784
Income tax on profit	58,942	42,156	92,992	78,851	70,256	125,318
Profit after income tax	116,940	201,247	336,271	(159,753)	180,217	365,466
Non controlling interests	-	-	-	(57,632)	36,724	30,703
Net profit for the year	116,940	201,247	336,271	(102,121)	143,493	334,763
Balance Sheet Information						
Assets						
Cash in hand and cash at bank	180,104	156,130	97,260	275,688	317,758	247,625
Deposits with banks	784,480	140,242	-	1,186,017	485,954	274,243
Reverse Repurchase Agreement	140,768	116,532	450,000	469,958	590,525	552,218
Financial assets designated at FVPL	262,817	311,676	280,815	285,545	373,391	387,609
Bills receivable	627,283	525,741	527,022	627,283	525,743	527,024
Loans & advances to customers	2,342,414	1,698,280	1,452,314	3,640,429	4,458,095	4,382,575
Lease and Hire purchase rental receivable	6,935,706	7,062,055	5,534,145	7,959,842	11,971,076	9,316,466
Financial investments - available for sale	667,855	695,868	424,127	1,427,400	1,161,481	1,238,225
Financial investments - Held to maturity	-	-	-	100,957	507,737	308,216
Investment in Associate & Subsidiary Companies	1,008,106	678,823	629,484	438,234	106,228	132,774
Property, Plant & Equipment and Intangible Assets	95,132	107,675	54,201	393,956	419,012	301,276
Other Assets	224,135	398,289	378,374	787,302	1,245,877	1,299,234
Total Assets	13,268,800	11,891,311	9,827,742	17,592,611	22,162,877	18,967,485
Liabilities						
Due to banks	99,118	138,239	183,718	152,338	272,994	520,638
Cash collateral on securities lent and repurchase agreements	-	419,462	930,597	-	435,558	930,597
Due to customers	-	-	-	2,824,918	7,546,297	6,983,892
Debt issued and Borrowed funds	9,623,147	7,946,502	5,356,872	9,625,317	8,555,028	5,622,322
Other liabilities & Deferred taxation	765,659	693,449	594,280	2,048,486	1,950,552	1,473,646
	10,487,924	9,197,652	7,065,467	14,651,059	18,760,429	15,531,095
Non controlling interest	-	-	-	147,287	504,924	461,072
Net Assets	2,780,876	2,693,659	2,762,275	2,794,265	2,897,524	2,975,318
Capital Employed						
Stated Capital	1,607,000	1,607,000	1,607,000	1,607,000	1,607,000	1,607,000
Retained Earnings & Reserves	1,173,876	1,086,659	1,155,275	1,187,265	1,290,524	1,368,318
	2,780,876	2,693,659	2,762,275	2,794,265	2,897,524	2,975,318

Decade at a Glance

Ratios and Related Information

For the year ended 31 December	Company			Group		
	2013 Rs.000	2012 Rs.000	2011 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000
Operating Ratios						
Return on Net Assets - %	4.21	7.47	12.17	(3.65)	4.94	11.25
Net Profit - %	4.96	10.76	24.13	(3.73)	4.56	12.14
Return on Assets - %	0.88	1.69	3.42	(0.91)	0.81	1.93
Cost to Income Ratio - %	65.71	55.03	34.19	95.50	77.62	59.82
Income Growth - %	25.97	34.17	(8.50)	8.31	31.45	15.94
Profit Growth - %	(41.89)	(40.15)	(25.22)	(188.65)	(50.69)	(32.44)
Assets Growth - %	11.58	21.00	37.62	(20.62)	16.85	31.95
Net Assets Growth - %	3.24	(2.48)	5.09	(3.56)	(2.62)	4.01
Gearing Ratios						
Debt to Equity - Times	3.50	3.16	2.34	3.5	3.20	2.38
Interest Cover - Times	1.13	1.24	1.79	0.97	1.13	1.40
Liquidity Ratios						
Quick Ratio - Times	0.69	0.75	1.15	0.69	0.63	0.85
Investors Ratios						
Market value of a voting share - Rs.	13.60	19.90	39.60	13.60	19.90	39.60
Basic earnings per share - Rs.	0.87	1.49	2.49	(0.76)	1.06	2.48
Net assets value per share - Rs.	20.60	19.95	20.46	20.70	21.46	22.04
Price earnings ratio - Times	15.70	13.35	15.90	(17.98)	18.72	15.97
Earning yield - %	6.37	7.49	6.29	(5.56)	5.34	6.26
Dividend per share - Rs.	0.50	1.25	1.25	0.50	1.25	1.25
Dividend yield ratio - %	3.68	6.28	3.16	3.68	6.28	3.16
Dividend Payout ratio - %	57.72	83.85	50.18	166.10	117.60	50.41

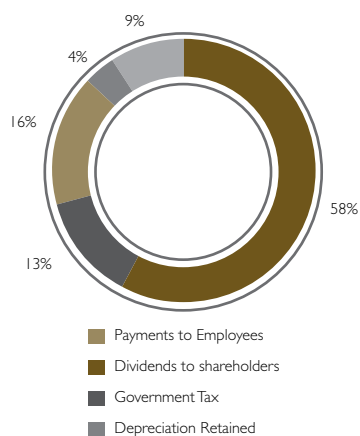
Statement of Value Added

	Year 2013	Year 2012
	Rs. Mn	Rs. Mn
Value Added		
Gross Value added	2,355	1,870
Cost of borrowings & support services	(1,615)	(1,263)
Provision for bad debts & investments	(209)	(50)
	531	557
Value Allocated		
Payments to Employees	310	271
Dividends to shareholders	68	169
Government Tax	83	67
Depreciation	21	18
Retained	49	32
	531	557

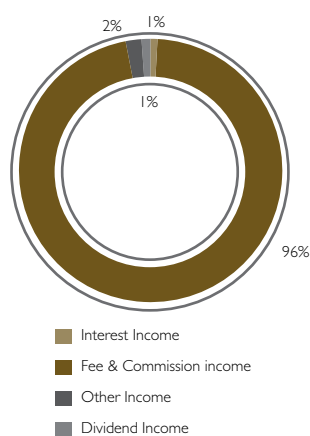
Sources & Utilization of Income

	Year 2013	Year 2012
	Rs. Mn	Rs. Mn
Sources of Income		
Interest Income	2,266	1,815
Fee & Commission income	48	43
Other Income	31	(11)
Dividend Income	10	23
	2,355	1,870
Utilization of Income		
Payment to lenders	1,372	1,036
Payments to employees	310	271
Support services	243	227
Depreciation & Amortization	21	18
Impairment charges for loans and other losses	209	50
Government Taxes	83	67
Dividends	68	169
Retained Profit	49	32
	2,355	1,870

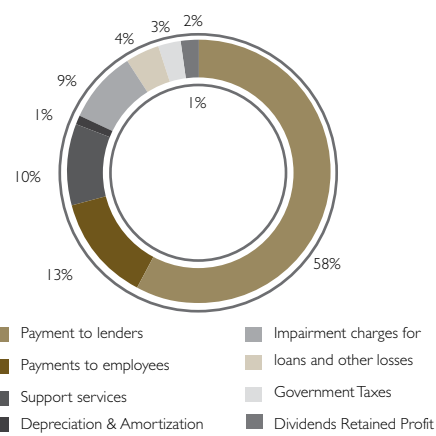
Value Allocation



Sources of Income



Utilization of Income



Economic/ Financial Indicators

	2013	2012	
GDP Growth Rate	7.3	6.4	
Inflation- Annual Average Rate	6.9	7.6	
Exchange Rate			
	US \$	130.8	127.16
	Yen	1.24	1.54
	S. Pound	216.77	207.07
	Euro	179.92	168.23
Rate of Change against Rs. %			
	US \$	(2.86)	(11.64)
	Yen	19.48	(4.7)
	S. Pound	(4.68)	(14.2)
	Euro	(6.95)	(10.8)
Interest Rate	T-Bills Rate :		
	3-Months	7.73%	10.00%
	6-Months	8.19%	11.32%
	12-Months	8.53%	11.69%
Overnight repurchase rate		6.97%	7.50%
Commercial Bank AWDR *		11.78%	10.10%
Commercial Bank AWLR **		15.18%	15.98%
Stock Market (as at year end)			
ASPI		5,912.78	5,643.00
MPI		3,263.87	5,119.10
MBSL Midcap		7,225.49	7,175.37
Change in ASPI %		5%	(7.10%)
Change in MPI %		(36%)	(2.10%)
Change in MIDCAP %		1%	(29.18%)
Market capitalization Rs. (Billion)		2,459.90	2,167.60
Annual Turnover Rs. (Billion)		200.48	213.83
AWDR * Average Weighted Deposit Rate			
AWLR ** Average Weighted Lending Rate			

Contact Information

HEAD OFFICE DETAILS

DEPARTMENT	TELEPHONE	FAX	E-MAIL
Chairman's Office Mr. M R Shah Chairman	011-4711717	011-4711718	shah@mbslbank.com
CEO's Office Mr. T Mutugala Chief Executive Officer	011-4711700	011-4711704	mutugalat@mbslbank.com
Recovery -Leasing Mr. Lakshman Kaluarachchi Deputy General Manager	011-4711703	011-4711759	lakshmank@mbslbank.com
Mr. K.V Sivapalan Consultant -Recoveries	011-4711787	011-4711759	sivapalank@mbslbank.com
Strategic Planning / Risk Management & Compliance Ms. Shyamalie Amaratunga Deputy General Manager	011-4711706	011-4711765	shyamalia@mbslbank.com
Corporate Advisory & Capital Markets Mr.A MA Cader Deputy General Manager	011-4711769	011-4711741	cader@mbslbank.com
Ms. Lalangi Goonawardena Manager	011-4711746	011-4711741	lalangig@mbslbank.com
Ms. Fahima Ishar Manager	011-4711747	011-4711741	fahimat@mbslbank.com
Mr. Hemendra Wijekoon Manager	011-4711761	011-4711741	hemendraw@mbslbank.com
Corporate & Retail Credit Mr. Ranjith Siriwardena Deputy General Manager	011-4711762	011-4711739	ranjiths@mbslbank.com
Mr. Amitha Athulathmudali Senior Manager	011-4711709	011-4711739	amithaa@mbslbank.com
Mr. Danushka Wijesekera Manager	011-4711794	011-4711739	danushkaa@mbslbank.com
Marketing & Product Development Mr. Jude Gamalath Deputy General Manager	011-4711726	011-4711765	juddeg@mbslbank.com
Legal / Corporate Secretarial Services Ms. Karnika Jayathilake Deputy General Manager	011-4711766	011-4711704	karnikaj@mbslbank.com

Contact Information

HEAD OFFICE DETAILS

DEPARTMENT	TELEPHONE	FAX	E-MAIL
Leasing			
Mr. Senaka Uduwawala Deputy General Manager (Acting)	011-4711751	011-4711714	senakau@mbslbank.com
Mr. Ananda Attanayake Manager	011-4711750	011-4711759	anandaa@mbslbank.com
Mr. Sarath Ediriarachchi Manager	011-4711733	011-4711714	sarathe@mbslbank.com
Mr. Priyalal Pathirana Manager	011-4711797	011-4711714	priyalalp@mbslbank.com
Finance & Treasury Management			
Mr. Priyantha Herath Assistant General Manager	011-4711749	011-4711765	priyanthah@mbslbank.com
Mr. Ruwan Piyadasa Manager	011-4711732	011-4711765	ruwanp@mbslbank.com
Human Resources & Operations			
Mr. Kithsiri Perera Assistant General Manager	011-4711712	011-4711716	kithsirip@mbslbank.com
Ms. Harshani Silva Manager	011-4711724	011-4711716	harshanin@mbslbank.com
Group Internal Audit			
Mr. Shalintha Fernando Assistant General Manager	011-4711764	011-4711715	shalinthaf@mbslbank.com
Mr. Lakshman Perera Manager	011-4711763	011-4711715	lakshmanp@mbslbank.com
Information Technology			
Mr. K S Senthilkumar Manager	011-4711770	011-2565654	senthilk@mbslbank.com
Mr. Chinthaka Elvitigala Manager	011-4711771	011-2565654	chinthakae@mbslbank.com

BRANCH/ BUSINESS PLACES

BRANCH/ BUSINESS PLACE	ADDRESS	TELEPHONE	FAX	E-MAIL
Ambalangoda				
Mr.W.W.A Dharmendra Branch Manager	No.43, Station Road, Ambalangoda	091-4943759 091-4943765	091-2256675	dharmendra@mbslbank.com
Ambalantota				
Mr.Kishan Keerthi Actg.Officer in Charge	No.133, Main Street, Ambalanthota	047-4933660 047-4933661	047-2225610	keerthid@mbslbank.com
Ampara				
Mr.Krishantha Bandara Branch Manager	No.06, D S Senanayake Mawatha, Ampara	063-4923540 063-4923541	063-2224260	krishanthab@mbslbank.com
Anuradhapura				
Mr.Amila Mawathawewa Branch Manager	No.7B, Maithripala Senanayake Mawatha, Anuradhapura	025-4580507 025-2234485	025-4580508	amilaw@mbslbank.com
Avissawella				
Mr.Amal Geekiyanage Branch Manager	No.89/1/1, Ratnapura Road,Avissavella	036-4928208 036-4928209	036-2232030	amals@mbslbank.com
Bandarawela				
Mr.Sumith Karunaratne Branch Manager	No.11,Thanthiriya, Badulla Road, Bandarawela	057-4926910 057-4926911	057-2233807	sumiths@mbslbank.com
Batticaloa				
Mr.P Nivaraj Branch Manager	No.28, Bar Road, Batticaloa	065-4926799 065-4926787	065-2228575	nivarajp@mbslbank.com
Chilaw				
Mr.Shyaman Karunanayake Branch Manager	No.79G, Kurunegala Road, Chilaw	032-4928790 032-4928791 032-4928793	032-2224033	shyamank@mbslbank.com
City				
Ms. Mega Fernando Manager	No.153, Union Place, Colombo 02	011-4361571 011-4361581	011-2328688	megaf@mbslbank.com
Deniyaya				
Mr.Roshan Thotagamuwa Branch Manager	No.153/1, Hospital Road, Deniyaya	041-4935173 041-4935174	041-2273731	roshant@mbslbank.com
Embilipitiya				
Mr.Priyajith Subasinghe Officer - In Charge	No.132 B, New Town Road, Embilipitiya	047-4931992 047-4931993	047-2261735	priyajiths@mbslbank.com
Galle				
Mr.Rathnasiri Mayakaduwa Senior Manager	No.34,Wakwella Road, Galle	091-2234751 091-4924912 091-4924913	091-2234750	ratnasirim@mbslbank.com
Hatton				
Branch Manager	No.263, Dimbula Road, Hatton	051-4924641 051-4924642	051-2224375	
Hingurakgoda				
Mr.Chaminda Batagoda Branch Manager	No.1,Air-Port Road, Damana Kumbura, Hingurakgoda	027-4924761 027-4924762	027-2245483	kumarab@mbslbank.com
Head Office				
Mr.Sanjaya Ranathunga Senior Manager	No.28, St. Michael's Road, Colombo 03.	011-4711734 011-4711711	011-4711714	sanjayar@mbslbank.com

Contact Information

BRANCH/ BUSINESS PLACE	ADDRESS	TELEPHONE	FAX	E-MAIL
Kandana				
Ms. Anoma Van Hoff Manager	No. 310, Colombo Road, Kandana	011- 4344072 011 -4344073	011 - 4344077	anomav@mbslbank.com
Kandy				
Mr. Keerthi Ramanayake Senior Manager	No. 132, I/I, D.S Senanayake Weediya, Kandy	081-2224820 081-4481702 081-2224818 081-2224819	081-4481701	keerthir@mbslbank.com
Kandy 2nd City				
Mr. Keerthi Ramanayake Senior Manager /ROIC	No. 213/B, Katugasthota Road, Kandy	081-4951786 081-4951787	081-2213880	keerthir@mbslbank.com
Kekirawa				
Mr. Buddhika Mallawa Arachchi Officer - In Charge	No. 24, Yakkala Road, Kekirawa	025-4928951 025-4928952	025-2264799	buddikas@mbslbank.com
Kurunegala				
Mr. Saman Pathmadeera Senior Manager	No. 40, Kandy Road, Kurunegala	037-4692006 037-2224215 037-4939836	037-2223916	samanp@mbslbank.com
Maharagama				
Mr. Vajira Ratnayaka Branch Manager	No. 159, Awissawella Road, Maharagama	0114-306096 0114-306097 0112-745431	0112-745451	vajirar@mbslbank.com
Mathugama				
Mr. Emil Cooray Branch Manager	No. 92/4, Agalawatta Road, Mathugama	034-4947811 034-4947812	034-2249992	emilc@mbslbank.com
Monaragala				
Mr. Surinda Ratnayake Branch Manager	No. 280, Wellawaya Road, Monaragala	055-4929361 055-4929362	055-2276087	jayalathr@mbslbank.com
Negombo				
Mr. Udaya Sivasooriya Manager	No. 616, Colombo Road, Kurana, Negombo	031-4933922 031-4932230	031-2228466	udayas@mbslbank.com
Nittambuwa				
Mr. Osanda Weerasekara Manager	No. 101, Kandy Road, Nittambuwa.	033-4937564 033-4937565	033-2288842	osandaw@mbslbank.com
Panadura				
Mr. Janaka Fernando Manager	No. 159/2, Galle Road, Panadura.	038-4927941 038-4927942	038-2236889	janakaf@mbslbank.com
Puttalam				
Mr. Udesh Manjula Branch Manager	No. 1, Stadium Complex, Kurunagala Road, Puttalam.	032-4928795 032-4928796	032-2267776	udeshm@mbslbank.com
Rathnapura				
Mr. Chinthaka Athukorala Branch Manager	No. 231, Main Street, Rathnapura.	045-4928089 045-4928093	045-2232524	chinthakaa@mbslbank.com
Trincomalee				
Mr. Samson Varapragasam Branch Manager	No. 53 North Coast, Trincomalee	026-4928888 026-4595151	026-2226784	samsonv@mbslbank.com
Vavunia				
Mr. R Saravanan Manager	No. 99, station Road, Vavuniya	024-4925475 024-4588685	024-2226108	saravananr@mbslbank.com

Glossary of Financial Terms

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 not in 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 those 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 meeting 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.

Glossary of Financial Terms

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 will fail 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

Is 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

Is 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 to maturity.

I**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

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.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Impairment Allowances

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

Interest cover

A ratio showing the number of times interest charges is covered by earnings before interest and tax.

Interest Margin

Net interest income expressed as a percentage of average interest earnings assets.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

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.

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.

K**Key Management Personnel (KMP)**

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

Glossary of Financial Terms

L

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.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loans and Receivables

Conventional loan assets that are unquoted (originated or acquired).

M

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

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.

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.

N

Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

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.

Non-Controlling Interest

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

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 Average 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.

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.

Return on Average Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

S**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 capital and revenue 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.

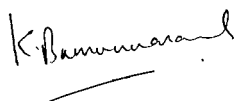
Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty Second Annual General Meeting of Merchant Bank of Sri Lanka PLC will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on 24 June 2014 at 10:00 a.m 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 31 December 2013 together with the Report of the Auditors thereon.
2. To declare a final dividend of Cents Fifty (Rs. 0.50) per ordinary share for the year ended 31 December 2013 as recommended by the Directors.
3. To re-elect Mr. A B Lalith Abeya De Silva as a Director pursuant to his retirement by rotation in terms of article 88 of the Articles of Association of the Company.
4. To elect Mr. C R Jayawarna as a Director who has been appointed to the Board since the last Annual General Meeting, in terms of article 94 of the Articles of Association of the Company.
5. To re-appoint M/s SJMS Associates, Chartered Accountants, as the Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.
6. To authorize the Directors to determine donations for the financial year 2014.

By Order of the Board of

MERCHANT BANK OF SRI LANKA PLC



Company Secretary

28 May 2014

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 meeting.
2. A Shareholder entitled to attend and vote 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, 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. The instrument appointing a proxy should be deposited together with the proxy at the Registered Office of the Company.

Form of Proxy

I/We.....

of.....

being a member/members of the Merchant Bank of Sri Lanka PLC, hereby appoint

.....

ofor

failing him/her any one of the Directors as *my/our Proxy, to represent * me/us, 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 24 June 2014 at 10:00 a.m 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
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 31 December 2013 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To declare a final dividend of Cents Fifty (Rs. 0.50) per ordinary share for the year ended 31 December 2013 as recommended by the Directors.	<input type="checkbox"/>	<input type="checkbox"/>
3. To re-elect Mr.A B Lalith Abeya De Silva as a Director pursuant to his retirement by rotation in terms of article 88 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To elect Mr. C R Jayawarna as a Director who has been appointed to the Board since the last Annual General Meeting, in terms of article 94 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To re-appoint M/s. SJMS Associates, Chartered Accountants as the Auditors of the Company for the ensuing year and to authorize the Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
6. To authorize the Directors to determine donations for the financial year 2014.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of..... Two Thousand and Fourteen.

.....

Signature

Notes

- * Please delete the inappropriate words.
- 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

Corporate Information

Name of Company

Merchant Bank of Sri Lanka PLC
Company Registration No - PQ10

Legal Form

A public quoted company with limited liability incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007

Registered Office

BOC Merchant Tower,
No. 28, St. Michael's Road, Colombo 03
Tel. 011 4711711
Fax. 011 4711716
web. www.mbslbank.com

Directors

Mr. M R Shah (Chairman)
Mr. M S S Paramananda
Mr. P G Rupasinghe
Mr. A B Lalith A De Silva
Mr. D M Gunasekara
Mr. K B S Bandara
Mr. Chitral R Jayawarna
Mr. W P R P H Fonseka
(Alternate Director to Mr. D M Gunasekara)

Chief Executive Officer

Mr. T Mutugala
Tel: 4711700
Fax: 4711704
e-mail : mutugalat@mbslbank.com

Deputy General Manager - Group Legal/Company Secretary

Ms. Karnika Jayatilake
Tel: 4711766
e-mail : karnikaj@mbslbank.com

Auditors

SJMS Associates
(Independent Correspondent Firm to
Deloitte Touche Tohmatsu)
Chartered Accountants
No. 2, Castle Lane,
Colombo 04

Lawyers

Julius & Creasy
Attorneys-at-Law, Solicitors & Notaries Public
No. 41, Janadhipathi Mawatha,
Colombo 01

Principal Banker

Bank of Ceylon

Subsidiary Companies

MBSL Insurance Company Ltd

No. 122, Kew Road,
Colombo 02
Tel : 2 304500
Fax: 2 300499
e-mail : info@mbslinsurance.lk
web : www.mbslinsurance.lk

MBSL Savings Bank Ltd

No. 519, T B Jayah Mawatha,
Colombo 10
Tel : 2374000
Fax: 2374044
e-mail : savingsbank@mbslsavingsbank.com
web : www.mbslsavingsbank.com

Associate Companies

MCSL Financial Services Ltd

11th Floor, Bank of Ceylon Merchant Tower
28, St. Michael's Road,
Colombo 03
Tel : 2301501/2356700
Fax: 4627850
e-mail : mcsl@mcsl.lk
web: www.mcsl.lk

Lanka Securities (Pvt) Ltd

228/1, Galle Road,
Colombo 04
Tel : 4706757
Fax: 4706767
e-mail : lankasec@slt.net.lk
web : www.lsl.lk



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