

Innovating a new future

 Merchant Bank of
Sri Lanka & Finance PLC

Annual Report 2014

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Innovating a new future

Having spearheaded pioneering efforts 33 years ago that earned us the title of being the inaugural Investment Bank of Sri Lanka, we are now branching out to becoming a total business solution provider. With the unified strength of our abled parent we are expanding our expertise from finance to multiple business verticals, in pursuit of our quest for innovation. With a deep commitment to birthing entrepreneurs who would uphold the same level of ethics and integrity, we will foster a new era for the Company.

Our Vision

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

Our Mission

Our Commitment

Our Strategic Pillars

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

Build optimal client relationships

To enhance shareholder value upholding highest standards of corporate governance

Earnings growth

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

Build a multi-skilled satisfied staff pool

To foster mutually beneficial relationships with our business partners

Effective governance and risk management framework

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

Sustainability and CSR

Our Values

- Uphold the highest traditions of ethics, norms and best practices in all our endeavours
- Guide our principles with wisdom and prudence in search of excellence
- Foster intrapreneurship amongst our employees in creating an atmosphere of caring, sharing and integrity
- Ensure good governance and transparency
- Delight our clientele through service excellence, differentiation and innovation
- Unite and be courageous to face challenges

Our journey towards a new era

1982

Formed as a limited liability company, the first merchant bank in Sri Lanka

1980

Operated as a management consultancy division of BOC

1989

Formed Lanka Securities (pvt) Ltd, the first share brokering company in Sri Lanka

1991

Listed in the Colombo Stock Exchange

1992

Took over Colombo Credit Ltd

2000

Obtained license from CBSL to operate as a leasing company

Taiki Akimoto 5S Award (JASTECA)

2005

Alliance with SBI Capital Markets Ltd – India.

2015

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

2014

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

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

2012

30th Anniversary, opened up 16 new branches

2009

Took over MBSL Savings Bank and Insurance

2008

AA- Institutional Rating

2007

Annual Report Award

2006

Obtained ISO 9001:2000 & National Productivity Awards

About this Report

Every year, we strive to enhance the transparency and scope of our reporting and this year marks an important milestone in our reporting philosophy, as we transition to an Integrated Reporting Framework. Through this first Integrated Report, covering the period from 1st of January to 31st of December 2014 we will aim to provide our stakeholders with a comprehensive and clear view to how we create value. The report will provide an integrated view on our strategy, performance, governance and sustainability incorporating economic, social and environmental factors as appropriate. In addition to complying with the guidelines issued by the International Integrated Reporting Council (IIRC), the report also adopts the Global Reporting Initiative (GRI)-G4 Core criteria and Financial Service sector supplement for sustainability reporting.

The scope of this report covers the operations of Merchant Bank of Sri Lanka & Finance PLC (herein referred to 'MBSL' or 'the Company'). It excludes the activities of its subsidiaries, MBSL Savings Bank Ltd (herein referred to 'MSB'), MBSL Insurance Company Ltd (herein referred to as 'MBSL Insurance') and its associate companies Lanka Securities (Pvt) Ltd and MCSL Financial Services Ltd (here in referred to 'MCSL'). The material content included in the report have been defined in accordance with the Global Reporting Initiative (GRI) G4 standards, which have been prioritised by the management based on the requirements of our stakeholders, as well as our overall strategy, risks and opportunities and changes in our external environment.

The Report conforms to the requirements of the Companies Act No.7 of 2007, the Finance Leasing Act No 56 of 2000, the prudential regulations, directions and guidelines applicable to Registered Finance Leasing Establishments by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange. The financial statements have been prepared in accordance with the Sri Lanka Financial Reporting Standards, comprising the International Financial Reporting Standards bound volume 2014. External Assurance on the Financial Statements, Director's Statement on Internal controls and Corporate Governance and the Sustainability Reporting has been provided by SJMS Associates.

We understand that Integrated Reporting is an evolving discipline, and we welcome your comments, suggestions to further enhance the readability and meaningfulness of our report. Please address your feedback to,

DGM-Finance & Strategic Planning

Merchant Bank of Sri Lanka & Finance PLC,
BOC Merchant Tower,
No 28, St. Michael's Road,
Colombo 3

About our Business

MBSL is Sri Lanka's pioneer investment/merchant bank, with an illustrious history spanning over 33 years. MBSL is a 72.14% owned subsidiary of state-owned banking powerhouse, Bank of Ceylon, Sri Lanka's largest commercial bank. With a network of 29 branches, MBSL offers a diverse range of financial solutions to individuals, small and medium enterprises, corporates as well as rural micro businesses. MBSL is listed on the Main Board of the Colombo Stock Exchange. The Company has two subsidiaries, MBSL Savings Bank Ltd (licensed specialised bank) and MBSL Insurance Company (composite insurer) as well as two associate companies, Lanka Securities (Pvt) Ltd (registered stockbroker) and MCSL Financial Services Ltd (a licensed finance company). MBSL holds respective long- and short-term financial institution ratings of AA- and P1 by Lanka Rating Agency

LKR

15.53 billion
Assets

LKR

242.87 million
Profit

24,399
Customers

319
Employees

29
Branches

The key services we provide are;

Lending & Deposits

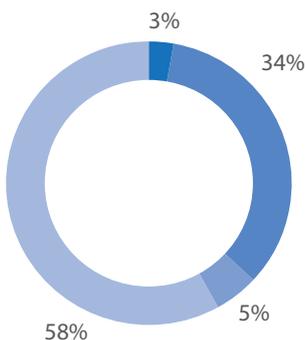
Finance Lease, Hire Purchase, Micro finance, Bills Discounting, Cheque Discounting, Term Loan, Project Loan, Bank Guarantee, Personal Loan
Fixed Deposits, Normal Savings, "Punchi" Minor Savings, "Punchi Star" Minor Savings, Bonus Savings, "Higher Saver" Savings

Capital Markets

Structuring and acting as managers to public share issues, Private placement of equity and debt, Mandatory offers, Underwriting, Listing of debentures and bonds, Portfolio Management/investment plans, Asset Securitisation, Trustee Services, Margin Trading

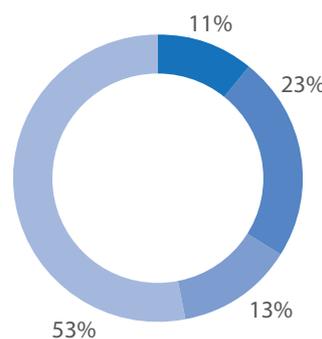
Corporate Advisory

Debt and Equity Syndication, Project Structuring, Feasibility Studies, Company/Business Valuations, Independent Opinions, Advisory on Mergers and Acquisitions, Management and Leverage buyouts, Employee Share option plans, Corporate/Business plans, Interactive Training Programmes



Revenue Breakdown

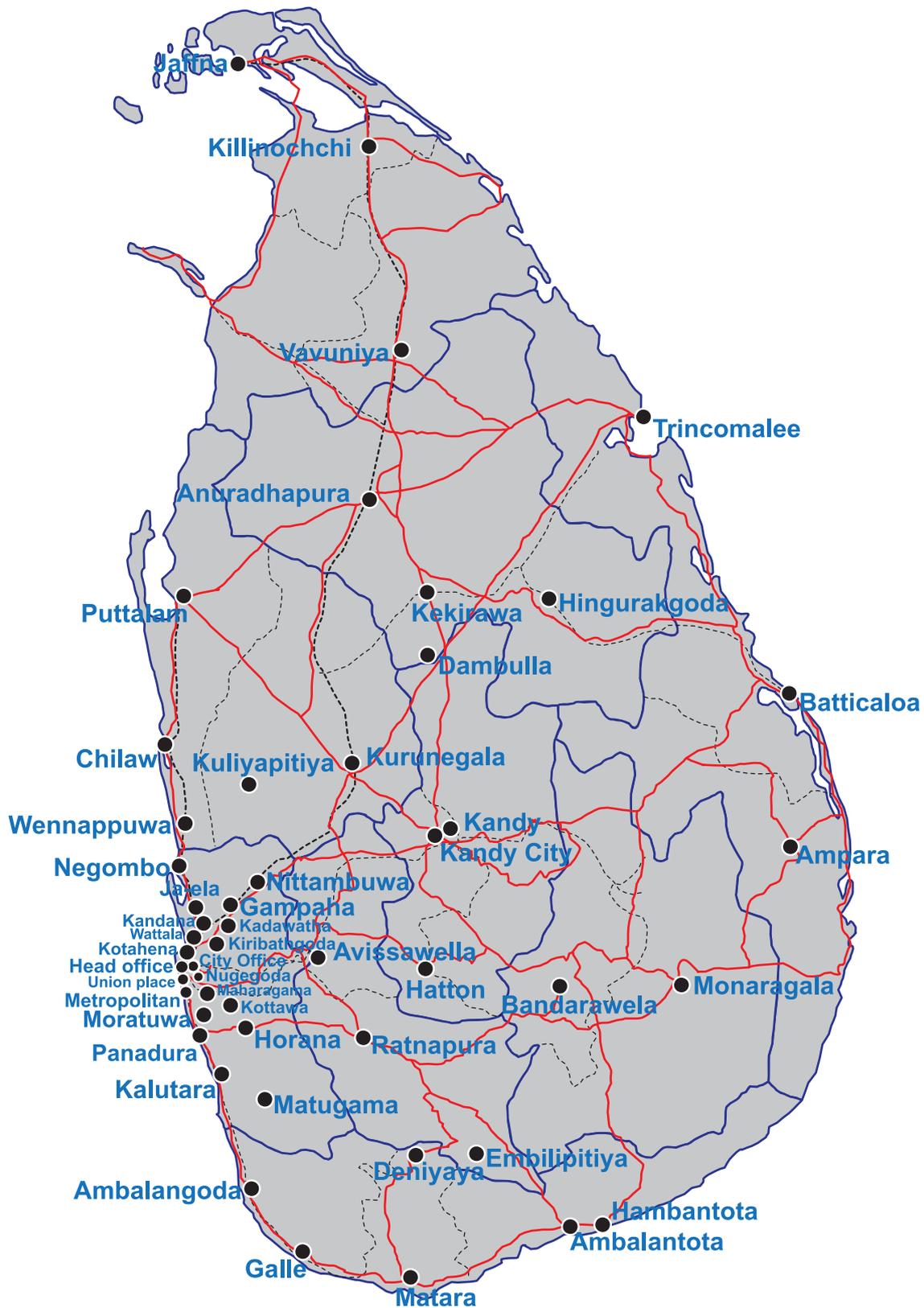
- Leasing
- Corporate Advisory and Capital Market
- Corporate & Retail Credit
- Other Operating Income



Earnings Breakdown

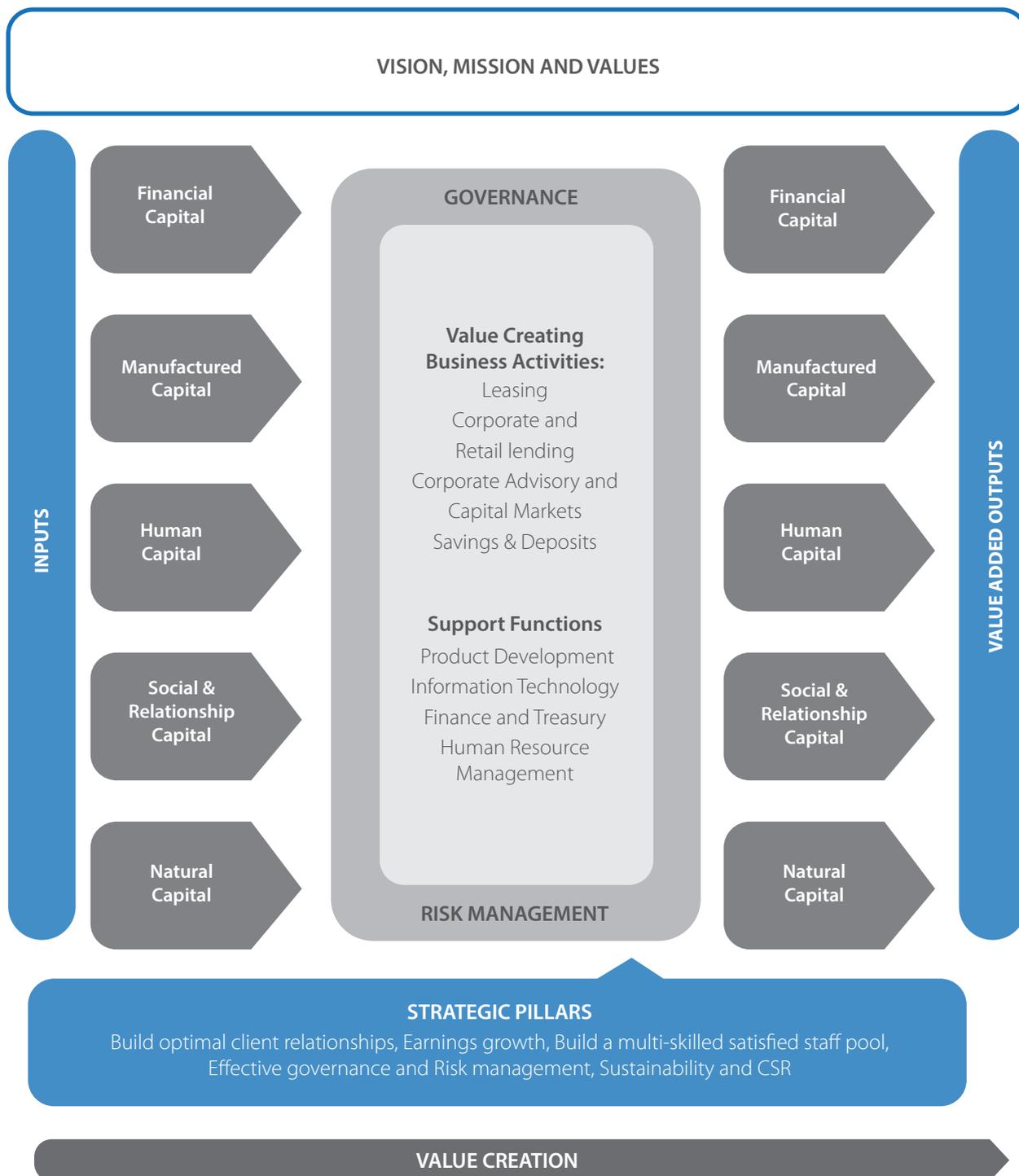
- Leasing
- Corporate Advisory and Capital Market
- Corporate & Retail Credit
- Other Operating Income

Map of Sri Lanka showing branch locations of the amalgamated entity



Our Value Creation Model

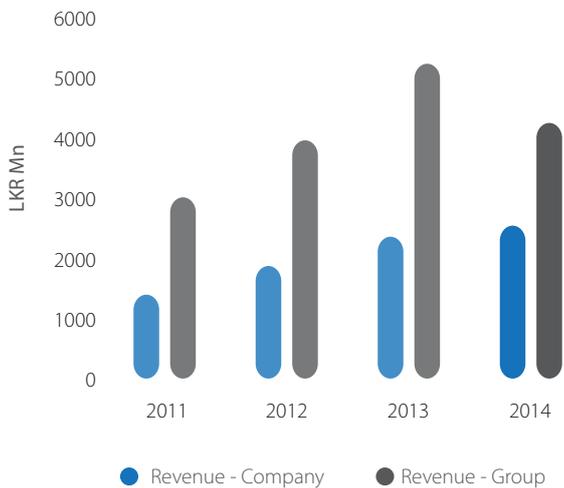
MBSL's value creation model is centred on the following;



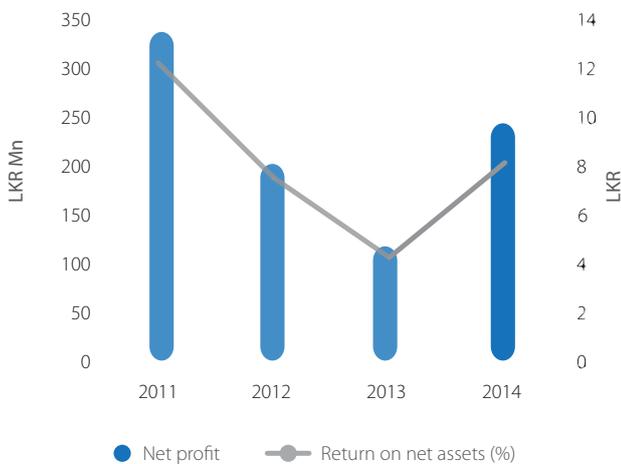
MBSL's clearly defined strategic pillars form the cornerstone of its value creation process, and are directed towards specifically creating value for each of the Company's capital inputs.

Performance Highlights of 2014

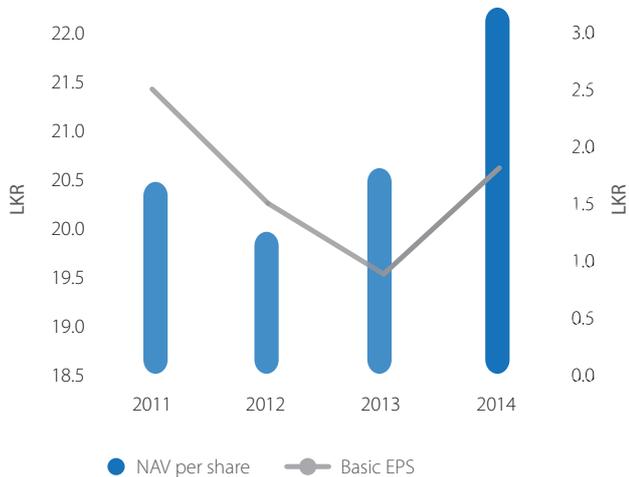
Financial Highlights



Revenue



Net Profit vs Return on Net Assets



NAV Per share vs Basic EPS



Non-Financial Highlights

Client wealth creation

Total customers
24,399 2014
18,070 2013

Customer touch points
29 2014
30 2013

Customers per staff officer
76 2014
55 2013

Hybrid MV finance
487 2014
296 2013

No of individuals supported (SME)
6,309 2014
4,973 2013

Social and National Development

Micro businesses beneficiaries
6,800 2014
5,900 2013

% of Loan portfolio outside WP
60.68% 2014
53.19% 2013

Micro finance disbursements (LKR)
375 Mn 2014
316 Mn 2013

Donations (LKR)
70,000 2014
36,195 2013

Contribution to Government (LKR)
122 Mn 2014
83 Mn 2013

Value creation to staff

Total staff
319 2014
323 2013

Investment in training (LKR)
5.7 Mn 2014
1.4 Mn 2013

Financial benefits to employees (LKR)
362 Mn 2014
310 Mn 2013

Training hours
108,568 2014
4,862 2013

% of Employees covered by the collective agreement
100% 2014
100% 2013



S T A B

Having spearheaded pioneering efforts 33 years ago that earned us the title of being the inaugural Investment Bank of Sri Lanka, we are now branching out to becoming a total business solution provider.





Chairman's Review

Dear Stakeholder,

Year 2014 signifies a pivotal milestone in your Company's illustrious history. It is with immense pleasure and pride that I welcome all of you, our valuable stakeholders to the 33rd Annual General Meeting of Merchant Bank of Sri Lanka and Finance PLC and present to you the Audited Financial Statements and Annual Report for the year ended 31st December 2014. Merchant Bank of Sri Lanka and Finance PLC has been built on a platform of strength, stability and security and continues to be a most vibrant entity as a sought after business solution provider to the nation.

Exceptional Performance in a Challenging year....

The year under review was one of endurance in which the entire financial services industry landscape was defined by multiple challenges, including weak credit demand, controlled interest rates and a deterioration in credit quality. It was undoubtedly a year in which our mettle was tested, highlighting a greater degree of resilience. It gives me immeasurable pride to report that despite the many adversities within a turbulent environment, your Company had achieved a remarkable performance, with a profit after tax of LKR 242.8 million and Earnings per Share of LKR 1.80.

The success of the year could be attributed to several reasons. Firstly, we adopted a focused and strategic approach towards

our value creation process. We carefully formulated five strategic pillars, which were designed to create sustainable value for our key stakeholder groups, namely our shareholders, customers, employees, regulators and the community. All our operations were guided by these pillars, and I am happy to report that we made significant progress towards achieving our strategic objectives, in financial, social and environmental performance. The shining beacon in our starry performance for the year was the assistance we provided in developing the livelihoods of rural families, primarily in the agriculture sector. Our micro finance initiative not only created employment opportunities but uplifted the overall living standards of our customer base through financial inclusion and regional development. Historically, we have endeavoured to serve the nation in ensuring business expansion and entrepreneurship contributing towards creating a sustainable economy. We are aware that the government is also a stakeholder and development related programmes such as micro finance play a crucial role in contributing towards reducing the country's poverty headcount and unemployment index. We remain fully committed to integrating the principles of sustainability to our daily business operations, and I am happy to report that we have made significant progress in this aspect. To achieve success and strive for continuous improvement is a team effort and the results achieved by our team is reflective of the contributions made by our skilled and committed workforce attuned with professionalism. We do

I am confident that the merger will result in sustainable value creation for all our stakeholders over the longer term, as it has accrued multiple benefits to us including lower cost of infrastructure, collation of human capital and provided us the opportunity to diversify our funding sources.

As the country's pioneer merchant bank, our products and services offering should be aligned to remain true to the principles upon which this Company was formed and strategies will be put in place to ensure that merchant banking opportunities will be pursued in an innovative and cohesive manner

Chairman's Review

believe in the wisdom of the well-known phrase that the 'biggest room in the world is the room for improvement'.

Strength of Unification

The year 2014 heralded a fresh approach by the regulator in the licensing of banking and financial institutions, with government policy focusing on creating a stronger and more resilient financial sector. Emphasis was placed on improving the stability of the financial sector institutions in order to ensure, perhaps a more secure outlook for customers and stakeholders.

Based on this principle, a process of mergers, amalgamations and acquisitions of financial institutions took place whilst the guidelines also made it mandatory for financial institutions within a limited group to be merged in order to ensure good governance and increased stability. The Consolidation Plan had a direct impact on MBSL as it required the unification of MSB and MCSL, which were previously subsidiaries of the former MBSL. I acknowledge that merger presented multiple challenges to the Group, as it comprised the unification of three entities which operated under different regulatory frameworks, organisational cultures, and operational processes. That said, I am confident that the merger will result in sustainable value creation for all our stakeholders over the longer term, as it has accrued multiple benefits to us including lower cost of infrastructure, collation of human capital and provided us the opportunity to diversify our funding sources. Globally, there has been increasing evidence

to demonstrate the value creation of unification, resulting from synergies and also its contribution to stability, strength and security. The concept of the merger was initiated by the regulator and I assure all stakeholders that we will leverage on the opportunities presented by this amalgamation to yield better results in the future. As promised, we absorbed all staff from the subsidiaries to the unified entity with zero redundancies.

Future Outlook-Innovative and Differentiated

The financial industry consists of numerous institutions and I believe, as the country's pioneer merchant bank, our product and service offering should be aligned to remain true to the principles upon which this Organisation was formed. I hope to put in place strategies that will ensure that merchant banking opportunities will be pursued in an innovative and cohesive manner. In this context, we hope to differentiate ourselves from the average NBFi by realigning ourselves as a total business solutions provider. In recent years, we have witnessed the collapse of a large number of SMEs and micro enterprises due to financial and operational constraints and lack of business acumen. We hope to facilitate the development of country's micro entrepreneurs to progress to small and medium enterprises and subsequently bloom into larger corporates. We are fully geared to provide support and advisory at each stage of their growth cycle. It is hoped that the new approach will stimulate entrepreneurship ultimately resulting in a positive growth in the

economy. We would always endeavour to not only abide by the regulations applicable but ensure good governance and transparency which would underline ethics based professionalism.

Gratitude and Appreciation

I would like to take this opportunity to extend my heartfelt gratitude to our long-standing customers, business partners and other stakeholders. I am thankful to the Chief Executive Officer and our team of dynamic employees who have been the driving force behind the Company's success over the years. My special appreciation also goes out to the Governor and officials of the Central Bank of Sri Lanka, particularly for their continued guidance and support during the amalgamation process. I am also thankful to all the Chairmen and Board Directors, past and present of MBSL who have contributed immensely to maintain the stability, strength and security of the future of this pioneering Merchant Banking institution and also the Chairman and Board of Directors of our parent, Bank of Ceylon for their vision and continued support at all times. Further, it is my duty to thank the Chairmen and Board of Directors of all related subsidiaries and their valuable staff members.

Finally, I wish to extend my gratitude to the Hon. Minister of Finance, Secretary of the Ministry of Finance and officials at the Ministry whose guidance ensures a prosperous tomorrow for Sri Lanka in formulating the nation's fiscal and monetary policy.

I am privileged to lead this organisation at this decisive juncture where landmark changes have been effected both within the Organisation and in the country's economic and political landscape. I am convinced and certain that we will be successful in inspiring the team to achieve better results given the positive environment, with substantial value creation for all our stakeholders.

May the Blessings of the Tripe Gem be with you!

A handwritten signature in black ink, appearing to read 'R P K Gallage', with a long horizontal flourish extending to the right.

R P K Gallage

Chairman

22 May 2015

Colombo

සභාපතිතුමාගේ සමාලෝචනය

හිතවත් පාර්ශවකරුවන් වෙත,

2014 වසර ඔබ සමාගමේ කීර්තිමත් ඉතිහාසය තුළ ප්‍රධාන සන්ධිස්ථානයක් සනිටුහන් කරයි. ශ්‍රී ලංකා මර්චන්ට් බැංකුව සහ ෆිනෑන්ස් පීඑල්සී හි 33 වැනි වාර්ෂික මහ සභා රැස්වීම සඳහා අපගේ වටිනා පාර්ශවකරුවන් වන ඔබ සියලු දෙනා ඉමහත් ගෞරවයෙන් පිළිගෙන, 2014 වසරේ දෙසැම්බර් 31 දිනෙන් අවසන් වන වර්ෂය සඳහා විගණනය කරන ලද මූල්‍ය ප්‍රකාශයන් සහ වාර්ෂික වාර්තාව ඉදිරිපත් කිරීමට ලැබීම මා හට ඉමහත් සතුටක් මෙන්ම අභිමානයකි. ශ්‍රී ලංකා මර්චන්ට් බැංකුව සහ ෆිනෑන්ස් පීඑල්සී ශක්තිමත්, ස්ථාවර සහ ආරක්ෂිත පරිසරයක ගොඩ නගා ජනතාව අතර ජනප්‍රිය වූ ව්‍යාපාර විසඳුම් සපයන්නෙක් ලෙස වඩාත් ඉහළ මට්ටමක ප්‍රතිස්ථාපනය වූ ව්‍යාපාර ආයතනයක් වශයෙන් අඛණ්ඩව ඉදිරියට යමින් සිටී.

අභියෝගාත්මක වසරක් තුළ විශේෂිත කාර්යසාධනයක්

සමාලෝචනයට ලක්වන වසර දුර්වල ණය ඉල්ලුම, පාලනයට ලක්වූ පොළී අනුපාත සහ ණය ගුණාත්මකභාවය තුළ පිරිහීමක් ඇතුළුව අනේකවිධ අභියෝගතා විසින් සමස්ත මූල්‍ය සේවා ක්ෂේත්‍රය පිඩනයට ලක්වූ වසරක් ලෙස නම් කල හැක. එම පසුතලය නිසැකයෙන්ම අපගේ ශක්තිය පරීක්ෂාවට භාජනය කරමින් අපගේ ස්ථාවරත්වය ඉහළ ප්‍රමාණයකින් ඉස්මතු කර දැක්වූ වසරක් විය, ව්‍යාකූල පරිසරයක් තුළ බොහෝ ආපදාවන් හමුවේ වුවද, ඔබගේ සමාගම රුපියල් මිලියන 242.8ක බදු පසු ලාභයක් සහ රුපියල් 1.80ක කොටසක ඉපයීමක්ද සමඟින් සැලකිය යුතු කාර්යසාධනයක් ලබාකරගත් බව ඔබට වාර්තා කිරීමට ලැබීම මා හට අපමණ සතුටක් ලබා දේ.

වසරේ සාර්ථකත්වය සඳහා හේතු කිහිපයක් උපුටා දැක්විය හැකිය. පළමුවෙන්ම, අපි අපගේ වටිනාකම් නිර්මාණය කිරීමේ ක්‍රියාවලිය දෙසට අවධානය යොමු

කරමින් උපායමාර්ගික ප්‍රවේශයක් භාවිතා කළෙමු. අපගේ ප්‍රධාන පාර්ශවකාර කණ්ඩායම් එනම් අපගේ කොටස් හිමියන්, ගනුදෙනුකරුවන්, සේවකයින්, නියාමකයින් සහ ප්‍රජාව සඳහා තිරසාර වටිනාකම ඇති කිරීමට සැලසුම් කරනු ලැබූ පස් වැදෑරුම් උපායමාර්ගික සැලැස්මක් සැලකිලිමත් ලෙස සකස් කරන ලදී. අපගේ සියලුම මෙහෙයුම් මෙම සැලැස්මේ විසින් මෙහෙයවනු ලැබූ අතර, මූල්‍යමය, සමාජීය සහ පාරිසරිකමය කාර්යසාධනය තුළ අපගේ උපායමාර්ගික පරමාර්ථයන් ලබාකර ගැනීම කරා සුවිශේෂී ක්‍රියාවලියක් අපි සකස් කළ බව වාර්තා කිරීමට ලැබීම පිළිබඳ මම සතුටු වෙමි. වසරේ කැපී පෙනෙන කාර්යසාධනය තුළ දීප්තිමත් පහන් ටැංකි වූයේ විශේෂයෙන් කෘෂිකාර්මික අංශය තුළ ග්‍රාමීය පවුල්වල ජීවනෝපායයන් සංවර්ධනය කිරීමට අපි ලබාදුන් සහයෝගයයි. අපගේ ක්ෂුද්‍ර මූල්‍ය ව්‍යාපාරික වැඩසටහනින් රැකියා අවස්ථාවන් නිර්මාණය කරදීම පමණක් නොව, මූල්‍ය අන්තර්ගතය සහ ප්‍රාදේශීය සංවර්ධනය තුළින් අපගේ පාරිභෝගික පදනමේ සමස්ත ජීවන තත්ත්වයන් නගා සිටුවීමද සිදුකරන ලදී. තිරසාර ආර්ථිකයක් නිර්මාණය කිරීම කරා ව්‍යාපාර පුළුල් කිරීම සහ ව්‍යවසායකත්ව දායකත්වය ලබාදීම සහතික කිරීම තුළ ජනතාවට සේවය කිරීම සඳහා වේතිහාසික වශයෙන් අපි උත්සාහ දරා ඇත. රජයේ පාර්ශවකරුවෙක් වන අප ආයතනය ක්ෂුද්‍ර මූල්‍ය වැනි සංවර්ධනයට අදාළ වන වැඩසටහන් රටෙහි දුප්පතුන්ගේ සංඛ්‍යාව සහ දරිද්‍රතා ප්‍රතිශතය අඩුකිරීම සඳහා වන දායකත්වය තුළ තීරණාත්මක භූමිකාවක් ඉටු කරයි. අපගේ දෛනික ව්‍යාපාර මෙහෙයුම් සඳහා තිරසාරත්වය පිළිබඳ මූලධර්ම එකතු කර ගැනීම සඳහා අපි තවදුරටත් සම්පූර්ණයෙන් බැඳී සිටින අතර, මෙම අංශය සම්බන්ධයෙන් සැලකිය යුතු ක්‍රියාවලියක් අප විසින් සිදු කර ඇති බව වාර්තා කිරීම මා හට සතුටකි. සාර්ථකත්වය ලබාකර ගැනීම සහ අඛණ්ඩ වර්ධනය කරා ගමන් කිරීම සාමූහික උත්සාහයක් වන අතර, අපගේ කණ්ඩායම විසින් අත් කරගත් ජයග්‍රහණ වෘත්තීමය දක්ෂතාවය හා බැඳුණු පුහුණු සහ කැපවුණු ශ්‍රම බලකාය විසින් දක්වන ලද දායකත්වයන් පිළිබිඹු කරයි. 'ලොව

විශාලතම අවකාශය, වර්ධනය සඳහා වන අවකාශයයි' යන සුප්‍රසිද්ධ වැකියෙහි අර්ථය අපි විශ්වාස කරමු.

ඒකාබද්ධවීමේ ශක්තිය

2014 වසර වඩාත් ශක්තිමත් සහ ප්‍රත්‍යස්ථ මූල්‍ය අංශයක් නිර්මාණය කිරීම කෙරෙහි අවධානය යොමු කරන රජයේ ප්‍රතිපත්තිය සමඟ, බැංකු සහ මූල්‍ය ආයතන සඳහා අවසර ලබාදීමේදී නියාමකය විසින් නව ප්‍රවේශයක් කරා රැගෙන ගිය වසරකි. ගනුදෙනුකරුවන් සහ පාර්ශවකරුවන් සඳහා වඩාත් ආරක්ෂිත දර්ශනයක් සහතික කිරීම පිණිස මූල්‍ය අංශයේ ආයතනයන්හි ස්ථාවරත්වය වර්ධනය කිරීම කෙරෙහි අවධානය යොමු කරන ලදී.

මෙම මූලධර්මය මත පදනම් වී, මූල්‍ය ආයතන ඒකාබද්ධ කිරීම, සංගත කිරීම සහ අත්පත්කර ගැනීම් පිළිබඳ ක්‍රියාවලියක් සිදු වූ අතර, යහපාලනය සහ වර්ධිත ස්ථාවරත්වය සහතික කිරීම පිණිස ඒකාබද්ධ කලහැකි සීමිත ආයතන කුලක තුළ මූල්‍ය ආයතන ඒකාබද්ධ කිරීම සඳහා මාර්ගෝපදේශ ලබාදීම සිදු කරන ලදී. ශ්‍රී ලංකා මර්චන්ට් බැංකුවේ පාලිත සමාගම් වූ සී/ස MBSL ඉතිරිකිරීමේ බැංකුව සහ සී/ස ශ්‍රී ලංකා මර්චන්ට් බ්‍රෙඩ්වි සමාගම මව් ආයතනයට ඒකාබද්ධ කිරීමේ අවශ්‍යතාවය අනුව ඒකාබද්ධ සැලැස්මට ශ්‍රී ලංකා මර්චන්ට් බැංකුව මත සෘජු බලපෑමක් ඇතිවී තිබුණි. එකිනෙකට වෙනස් නියාමන රාමු, සංවිධානමය සංස්කෘති සහ මෙහෙයුම් ක්‍රියාවලි යටතේ මෙහෙයවනු ලැබූ ආයතන තුනක් ඒකාබද්ධ කිරීම භාරදුර කාර්යයක් වන බැවින් ඒකාබද්ධ වීම තුළින් ආයතන සමූහයට විවිධ අභියෝග ඇති වූ බව මම පිළිගනිමි. එමෙන්ම, යටිතල පහසුකම් සඳහා අවම පිරිවැය, මානව ප්‍රාග්ධනය සම්පූර්ණය සහ අපගේ අරමුදල් මූලාශ්‍රයන් විවිධාංගීකරණය කිරීමේ අවස්ථාවන් ලබාදීම ඇතුළුව අප වෙත විවිධ ප්‍රතිලාභ අත්කරගත හැකි බැවින් දිගු කාලයක් පුරා අපගේ සියලුම පාර්ශවකරුවන් සඳහා තිරසාර වටිනාකම් නිර්මාණය කිරීමේදී ඒකාබද්ධවීම යහපත් ප්‍රතිඵල ඇති

කරන බවද මම විශ්වාස කරමි. ගෝලීය වශයෙන්ද, සහක්‍රියාවන්ගේ ස්ථාවරත්වය, ශක්තිය සහ ආරක්ෂාව සඳහා එහි දායකත්වය තුළින් ඇතිවන ඒකාබද්ධ කිරීම පිළිබඳ වටිනාකම් නිර්මාණය පෙන්නුම් කිරීම සඳහා අනේකවිධ සාක්ෂිවල වර්ධනයක් දැකිය හැකිය. ඒකාබද්ධ වීම පිළිබඳ සංකල්පය එහි නියාමකයන් වන මහබැංකුවේ අභිමතය මත ආරම්භ කරනු ලැබූ අතර, අනාගතයේදී යහපත් ප්‍රතිඵල අත්කර ගැනීමට මෙම ඒකාබද්ධ කිරීම විසින් ලබාදෙන අවස්ථාවන් අපි ධනාත්මකව යොදාගන්නා බවට සියලුම පාර්ශවකරුවන්ට මම සහතික වෙමි. පොරොන්දු වූ පරිදි, අපි ප්‍රමාණාධිකතාව හැකි කරමින් ඒකාබද්ධ කරන ලද ආයතනයට පාලිත සමාගම්වල සියලුම කාර්ය මණ්ඩලය අන්තර්ගතය කළෙමු.

අනාගත දැක්ම - නව්‍යකරණය සහ විවිධත්වය

මූල්‍ය ක්ෂේත්‍රය විවිධ ආයතනයන්ගෙන් සමන්විත වන අතර, රට තුළ පුරෝගාමී මට්ටමට බැංකුව ලෙස, අපගේ මූල්‍ය සහ සේවා ලබාදීම මෙම ආයතනය නිර්මාණය කරනු ලැබූ මූලධර්මයන්ට අනුකූලව පවත්නා බව මම විශ්වාස කරමි. මට්ටමට බැංකුකරණ අවස්ථාවන් නව්‍යකරණ සහ තිරසාර ආකාරයෙන් කරගෙන යනු ලබන හැවුම් උපායමාර්ගයන් ක්‍රියාත්මක කිරීමට මම අපේක්ෂා කරමි. මෙම අර්ථයෙන්, සම්පූර්ණ ව්‍යාපාර විසඳුම් සපයන්නෙක් ලෙස නැවත පෙළ ගැසෙමින් බැංකු නොවන මූල්‍ය ආයතන ක්ෂේත්‍රයේ ප්‍රමුඛ ආයතනයක් වීම අපගේ අභිප්‍රාය විය යුතුය. වසර කිහිපයක් තුළ, මූල්‍ය සහ මෙහෙයුම් සංරෝධක සහ ව්‍යාපාර නිපුණතාවයෙහි අඩුපාඩු හේතු කොට ගෙන කුඩා සහ මධ්‍ය පරිමාණ ව්‍යවසායකයින් සහ ක්ෂුද්‍ර ව්‍යවසායකයින්ගෙන් විශාල ප්‍රමාණයකගේ කඩා වැටීම අපි දැටුවෙමු. රට තුළ ක්ෂුද්‍ර ව්‍යවසායකයින්, කුඩා සහ මධ්‍ය පරිමාණ ව්‍යවසායකයින් බවටත් පසුකාලීනව විශාල සමාගම් බවටත් සංවර්ධනය කිරීම සඳහා පහසුකම් සැපයීමට අපි බලාපොරොත්තු වෙමු. ඔවුන්ගේ වර්ධන වකුගේ කුමන අවස්ථාවකදී වුවද සහය සහ උපදෙස් ලබාදීමට අප හට පහසුකම් සැපයිය හැක. නව ප්‍රවේශය මඟින් ආර්ථිකය තුළ ධනාත්මක වර්ධනයක් ඇති කරනු ලබන ව්‍යවසායකත්වයන් හඟා සිටුවීමට උත්සුක බව අපේක්ෂා කෙරේ. අපි නිරතුරුවම

මූල්‍ය ක්ෂේත්‍රයට අදාළ මහබැංකුවේ හා වෙනත් රෙගුලාසි පිළිපැදීමට පමණක් සීමා නොවී, වෘත්තීමය දැක්මක් මත පදනම් ආචාර ධර්ම පිළිපදින අතර යහ පාලනය සහ විනිවිදභාවය සහතික කරමු.

කෘතඥතා දැක්වීම සහ අගය කිරීම

අපගේ විරාගත ගනුදෙනුකරුවන්, ව්‍යාපාර හවුල්කරුවන් සහ අනෙකුත් පාර්ශවකරුවන් සඳහා මගේ හෘදයාංගම කෘතඥතා දැක්වීමට මෙය අවස්ථාව කර ගනිමි. පසුගිය වසර මුළුල්ලේ සමාගමේ සාර්ථකත්වය පසුපස ලුහුබැඳී බලකාය වන ප්‍රධාන විධායක නිලධාරී සහ අපගේ ක්‍රියාශීලී සේවක කණ්ඩායමට මම ස්තූතිවන්ත වෙමි. ශ්‍රී ලංකා මහ බැංකුවේ අධිපතිතුමා හා කාර්ය මණ්ඩලය විශේෂයෙන් ඒකාබද්ධ කිරීමේ ක්‍රියාවලිය තුළදී අපහට ලබාදුන් අඛණ්ඩ උපදෙස්, සහයෝගය සහ ලබාදුන් සේවය මා විශේෂයෙන්ම අගය කරමි. එමෙන්ම මෙම පුරෝගාමී මට්ටමට බැංකුවේ ස්ථාවරත්වය, ශක්තිය සහ අනාගත ආරක්ෂාව පවත්වාගෙන යාම වෙනුවෙන් අති මහත් දායකත්වයක් දැක්වූ ශ්‍රී ලංකා මට්ටමට බැංකුවේ හිටපු සහ දැනට සිටින සියලුම සභාපතිවරුන් සහ අධ්‍යක්ෂ මණ්ඩල සාමාජිකයින් වෙත මෙන්ම සෑම අවස්ථාවකදීම ඔවුන්ගේ දැක්ම සහ අඛණ්ඩ සහයෝගය වෙනුවෙන් අපගේ මව් සමාගම වන ලංකා බැංකුවේ සභාපති සහ අධ්‍යක්ෂ මණ්ඩලය දැක්වූ සුවිශේෂී දායකත්වය වෙනුවෙන් මාගේ ස්තූතිය පිරිනමමි. එමෙන්ම, අදාළ සියලුම පාලිත සමාගම්වල සභාපතිවරුන් සහ අධ්‍යක්ෂ මණ්ඩල සාමාජිකයින් මෙන්ම ඒවායේ අගනා කාර්ය මණ්ඩල සාමාජික සාමාජිකාවන් වෙතද ස්තූතිය පිරිනැමීම මාගේ යුතුකමකි.

අවසාන වශයෙන්, ජනතාවගේ පොදු ආදායම් සහ මූල්‍ය ප්‍රතිපත්ති සකස් කිරීමේදී ශ්‍රී ලංකාවට සෞභාග්‍යමත් හෙට දවසක් සහතික කරනු ලබන මාර්ගෝපදේශ ලබාදෙන ගරු මුදල් අමාත්‍යතුමාට, මුදල් අමාත්‍යාංශයේ ලේකම්තුමාට සහ අමාත්‍යාංශයේ කාර්ය මණ්ඩලයටද මාගේ සුභාශිංශන පිරිනැමීමි.

ආයතනය තුල පමණක් නොව, රටෙහි ආර්ථිකයේ සහ දේශපාලන පරිසරය තුල

වැදගත් වෙනස්වීම් රැසක් සිදුවන මෙම තීරණාත්මක අවස්ථාවේදී අප ආයතනය මෙහෙයවීම සඳහා ලැබූ අවස්ථාව මා ලද වරප්‍රසාදයකි. අපගේ සියලුම පාර්ශවකරුවන් සඳහා මෙම සුභවාදී පරිසරය තුල සැලකිය යුතු වටිනාකම් වර්ධනයක් නිර්මාණය කරමින් යහපත් ප්‍රතිඵල අත්කර ගැනීමට අපගේ කණ්ඩායම මෙහෙයවීමෙන් සාර්ථකත්වය ලඟා කරගත හැකි වනු ඇත.

ඔබ සැමට ක්‍රීඩිත රත්නයේ පිහිට ලැබේවා!



රුවන් ගාල්ලගේ සභාපති

2015 මැයි 22



Having identified the integral role played by our employees, the year under review saw us place much importance on developing the skills of our people and taking steps to build a satisfied and motivated staff cadre. Furthermore, efforts were taken to strengthen the Company's governance and risk management frameworks, particularly in view of the amalgamation.

Chief Executive Officer's Review

The year under review was an eventful one for your Company, characterised by multiple challenges presented by the operating environment as well as several internal changes and adjustments. Despite these circumstances, the Company and its people demonstrated remarkable resilience to showcase strong performance during the year, and it gives me great pride to report the outstanding results of the year.

A challenging industry environment....

Although interest rates were conducive for credit expansion for most part of the year, credit demand remained weak. This is partly attributed to the decline in pawning advances as well as adverse weather conditions which affected the country's agriculture sector. Meanwhile, credit quality too deteriorated resulting in most financial institutions facing rising non-performing-loans which in turn adversely impacted profitability. These trends compelled us to rethink our strategy and respond proactively in order to successfully withstand the adverse industry dynamics.

Our Strategy in 2014

Our thinking and action during the year were guided by five key strategic pillars, which were formulated taking into consideration our value proposition to our key stakeholders. Earnings growth was a key strategic priority during the year, and supported by the Company's wide geographical coverage, new lending products and effective advertising and promotional campaigns, MBSL achieved a loan portfolio growth of 18.55% during 2014 (2013: 6.58%). This coupled with timely and astute investment decisions on our share portfolio allowed us to achieve a near tripling of our bottom line; net profit for the year amounted to LKR 243 Mn in 2014.

Building optimal client relationships was also a priority during the year, and focus was placed on increasing customer touch points and enhancing service delivery. Having identified the integral role played by our employees, the year under review saw us place much importance on developing the skills of our people and taking steps to build a satisfied and motivated staff cadre. Furthermore, efforts were taken to strengthen the Company's governance and risk management frameworks, particularly given for the amalgamation. We have increasingly strived to integrate our sustainability philosophy with that of our business decisions, and during the year much emphasis was placed on supporting the communities we operate in through our micro financing initiative.

Our Performance during the year

MBSL's income expanded by 7.8% during the year, supported by both fee and fund based income. Despite lacklustre credit demand, particularly for leasing facilities which is the Company's mainstay, we were able to achieve substantial growth in the Company's micro financing and term loans portfolio. In recent years, we have strived to achieve more diversity in our portfolio and the year under review was one in which the benefits of this diversification were realised. Overall, MBSL's loan portfolio grew by 18.55% during the year, relatively faster than industry loan growth. Continuous efforts were made to enhance our operational efficiency, as reflected in the increase in MBSL's return on net assets ratio to 8.09% during 2014 (2013: 4.2%). Furthermore, significant gains were generated on the Company's equity investment portfolio supported by the upturn in the share market during the second half of the year, coupled with our timely investment decisions. Overall, MBSL's net profit more than doubled to LKR 243 Mn during the year (2013: LKR 117 Mn), translating to LKR 1.80 earnings per share (2013: LKR 0.87).

Outlook for 2015

I am very excited about the opportunities that your Company is presented with in 2015, particularly in lieu of the merger which came to effect on the 1st of January 2015. Gaining access to public deposits marks an important milestone in the Company's history, as it enables us to diversify our funding sources whilst attracting funds at relatively attractive rates. Furthermore, the merger would give us a wider geographical coverage with a total branch reach of around 50 allowing us to access new markets and enhance customer convenience. I also look forward to providing leadership and guidance to a larger employee base of over 750, who will all now function as one family within MBSL. I am certain that the upcoming year will bring about many exciting changes and look forward to taking the Company to newer heights, supported by our Board of Directors.

Acknowledgement

As the year draws to a close, I would like to extend my appreciation to the Chairman and Board of Directors for their continued guidance, vision and confidence in me. My appreciation also goes out to the officials of the Central Bank of Sri Lanka, particularly the Consolidation Unit which played an important role in ensuring the smooth amalgamation of our subsidiaries. Finally, my gratitude goes out to the executive management and all staff in MBSL, MSB and MCSL, who have continued to support me through the years.



T Mutugala

Chief Executive Officer

22 May 2015

Colombo

Board of Directors



Mr. Premalal

Mr. Samarasundera

Mr. Sinniah

Mr. Rahaman

Mr. Gunasekara



Mr. Gallage



Mr. De Silva



Mr. Gamage



Mr. Maharaja

Board of Directors

Mr. R P K Gallage

Chairman

Non-Executive/Independent Director

He is a Fellow member of the Chartered Institute of Management Accountants (UK). He had served at Prime Grameen Micro Finance Limited in the capacity of Director and also as the Audit Committee Chairman. Prime Grameen had been resurrected from a precarious position to be a vibrant NBFi within the period of more than three years during the period of his service. He had resigned from Prime Grameen Micro Finance Limited in November 2014 when Hatton National Bank acquired 51% of the shareholding under the consolidation programme originated by the Central Bank of Sri Lanka.

He had been appointed as a Justice of Peace and also serves the Organization of Professional Associations, the Apex Body of 44 Professional Associations in Sri Lanka as the General Secretary. Previously he had served the OPA as the Hony. Treasurer. He had been educated at Royal College, Colombo 7.

Previously he had been a Director of Public Institutions and had been also appointed to serve in Wages Boards of the Department of Labour. His corporate background extends to over three decades serving National and Foreign Institutions related to Private Sector and Governmental.

He is holding and had held office in voluntary organization relating to his Alma Mater, Alumni Associations, Religious Organizations and National Sports Associations.

Mr. D M Gunasekara

Non-Executive/ Non- Independent Director

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

He was appointed to the Board of Merchant Bank of Sri Lanka & Finance Plc as a Non-Executive Director on 12.02.2013.

Prior to his appointment in January 2013 as General Manager/Chief Executive Officer of Bank of Ceylon, 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 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. Overall he counts 31 years of experience in banking.

He is a Non-Executive nominee Director on the Boards of BoC Travels (Private) Ltd, BoC Property Development & Management (Pvt) Ltd., Property Development PLC, 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., Credit Information Bureau of Sri Lanka, Lanka Financial Services (Bureau) Limited, LankaClear (Private) Ltd., Sri Lanka Banks' Association (Guarantee) Ltd., The Financial Ombudsman Sri Lanka (Guarantee) Ltd. and Institute of Bankers of Sri Lanka.

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 and a Member of the Association of Professional Bankers.

Mr. L C De Silva

Non-Executive/Independent Director

Mr. De Silva is a planter by profession and is the proprietor of Wawalagala Estate, Ahungalla. He has been employed as a Consultant for Green Coatings, Australia and Green Coatings Lanka (Pvt) Ltd and as Head of Sales and Marketing for Colour Max Lanka (Pvt) Ltd. From 2003 to 2009, he has held the position Hony. Treasurer of DCI Switzerland & Sri Lanka (Defence for Children International). He has also served as a Special Investigation Officer to the Ministry of Commerce and Consumer Affairs from 2000 to 2003. Mr. De Silva is also endorsed with 17 years of experience as an Executive Officer at the Ceylon Petroleum Corporation in the field of Finance, Marketing, HR and Agro Chemical.

Mr. A H Samarasinghe

Non Executive - Independent Director

Mr. Samarasinghe earned his Master's Degree in Business Administration in Finance (MBA - Finance) and Bachelor of Science (BSc- Physical Science) from the University of Colombo. He has also obtained ACI Dealing Certificate from ACI - The Financial Markets Association, Diploma in Computer Programming from IDM Computer Studies (Pvt.) Ltd and Certification in Financial Markets – Derivatives Module from National Stock Exchange of India Limited.

Mr. Samarasinghe started his career as a Management Trainee- Risk Survey at Eagle Insurance Company Limited and there after joined Vanik Incorporation as an Assistant Manager in Fixed Income

Securities division where he commenced his career in Capital Markets. He rose to be a Senior Manager of the Division heading the trading activities of the Primary Dealer division of the company. After a short stint as a Consultant with Millennium IT, where he advised the company on the development of their debt trading platform, he joined Asia Capital PLC to restructure the Treasury Division and to set up a Primary Dealer Operation. He was a member of the management team that made a management buyout of Capital Alliance (formerly known as Capital Asia Markets Ltd) from Asia Capital PLC and was Capital Alliance's founder General Manager. Mr. Samarasundera then joined Assetline Capital Limited (formerly known as DP Capital Management Pvt. Limited) a licensed Margin Provider and Investment Manager by Securities Exchange Commission of Sri Lanka as its General Manager. He rejoined Asia Capital PLC group and was appointed as the Head of Treasury. Currently Mr. Samarasundera holds the position of Head of Treasury of Asia Securities (Pvt.) Ltd a registered Stock Broker appointed by the Securities Exchange Commission of Sri Lanka, handling their Fixed Income investment business. Mr. Samarasundera accounts for 19 years experience in the Capital Markets in Sri Lanka having being involved in Trading and investment in FIS products, Securitizations, Structuring and placement of debt, development of operational and Information systems, Margin trading and Investment management. He was also involved in Insurance Broking and Leasing businesses during his career at Assetline Capital.

Mr. Samarasundera has participated extensively in training programs conducted by Central Bank, Primary Dealers Association, EuroMoney Training program In Hong Kong in the field of Capital Markets.

Apart from his official duties Mr. Samarasundera is involved with the Diocese of Colombo of The Church Ceylon.

He is a member of the Finance Committee and Chairman of the Management Committee of The Samaritan Pledge - a fund raising project under the Bishop of Colombo.

Mr. B Premalal

Non-Executive/Non- Independent Director

Mr. Premalal is the Founder of Prime Lands (Pvt.) Ltd. He is a professionally qualified Accountant and has experience over 25 years in various industries. He is a fellow member of the Institute of Chartered Management Accountants (UK), Chartered Business Administrator (Canada), Member of Sri Lanka Institute of Marketing and a hold a Postgraduate Diploma in Marketing from University of Sri Jayewardenepura. He is a Deputy Chairman of Prime Grameen Micro Finance Limited and has vast experience in real estate industry and exposure on many other industries as an entrepreneur. Mr. Premalal is a winner of the UDC Entrepreneur of the year of 2011.

Mr. B J Sinniah

Non-Executive/Non Independent Director

Mr. Brian Jeyaranjit Sinniah is an experienced banker with more than 35 years experience in the industry of banking. He has held various senior positions in Branch Banking, Operations, Credit, Recoveries and Risk & Compliance areas at Hatton National Bank PLC; a leading private Commercial Bank in Sri Lanka. At the time of retirement, he held the position of Chief Manager – Risk & Compliance. He had retired from the Banking sector in the year 2009.

Mr. Sinniah has served as a Consultant to Sarvodaya Economic Enterprise Development Services (GTE) Ltd – SEEDS, the economic arm of the well-known Sarvodaya Movement for the floating of a finance company namely: Deshodaya Development Finance Company Ltd. for a period of four years.

In November 2013, he was appointed as the Chief Financial Officer of the Global Group of Companies. At present, he is serving as an Independent Director on the Board of Bank of Ceylon.

Mr. A P Maharaja

Non-Executive/Independent Director

Since 1995, Pradeep Maharaja has served as an Executive Group Director and Director of the Main Board of The Capital Maharaja Organisation Limited (TCMOL). TCMOL is a diversified private conglomerate whose business interests span manufacturing, marketing, exports, communications, media, information technology, packaging, entertainment, large scale investment projects and more. Mr. Maharaja has contributed to the development of and gained invaluable professional experience during his 20 year tenure at the firm, which he continues his commitment to today.

Mr. Maharaja was appointed as a Director of the Board of Merchant Bank of Sri Lanka & Finance PLC, as of March 2015.

Prior to his assignment to the Capital Maharaja Group, Mr. Maharaja gained professional experience in Australia, where he worked at the New Zealand Dairy Board (Melbourne) and Pepsi-Cola International (Melbourne). He has successfully completed courses in Business Management at the Indian Institute of Management, Ahmadabad, India (IIMA) and Massachusetts Institute of Technology (MIT), Boston.

He began his secondary education at the Royal College, Colombo and graduated from Trinity Grammar School in Melbourne. He holds a Bachelor of Business (Marketing) Degree from Royal Melbourne Institute of Technology (RMIT).

Mr. Maharaja also serves as a Trustee at the Sri Ponnambalawaneswarar Devasthanam (Sivam Temple) in Kotahena since 2009.

Board of Directors

Mr. S S Gamage

Non-Executive/Non- Independent Director

Mr. Sandun Gamage has received his Bachelor of Laws degree (LLB) from the University of Colombo in 1995 and has enrolled as an Attorney at Law of the Supreme Court in December 1996. He is a recipient of a scholarship to participate in the 33rd session of International Human Rights held in Strasbourg, France in 1999 conducted by the International Institute of Human Rights. He was also awarded another scholarship to follow a special training at the Hague Academy of International Law in the Hague the Netherlands on Public International Law in 2000. He has participated in three advanced training programmes on “perspective of liberalism”, “politics and leadership” and “lean government” in 1998, 2012 and 2013 respectively at the International Academy for leadership in Germany. Apart from the above he has followed number of training sessions on various aspects of Law, management and politics at different institutions around the world including United Nations High Commissioner for Refugees, International Committee of Red Cross, National Institute of Business Management of Sri Lanka and Fredrich Naumaan Foundation of Germany

He has held the following positions during 2001-2004

- Member of the Advisory Council of the Registrar of Companies
- Member of the Rent Board of Review
- Member of the Board of Review of Ceiling on Housing Property

Presently he is a Senior Partner of Continental Law Associates and has been engaged in civil and commercial practice since 1997.

Mr. S Rahaman

Non-Executive/Independent Director

Silhan Rahaman has been in the Mercantile Sector for over 29 years having worked in some of the leading business organizations in the capacity of Import/Export Manager. His duties broadly were those associated with the Import/Export functions such as Bank documentation and dealing with the Customs and Exchange Control Department. He was also the Personal Assistant to the Managing Director in a leading Mercantile Establishment.

For the past 14 years, he has been working for Hon. Ravi Karunanayake as his Coordinating Secretary. Besides handling various functions, his main duty is to oversee his parliamentary affairs.

He has a proven track record as an efficient coordinator and an excellent Public Relations Personality.

Mr. W P R P H Fonseka

Non Executive Director
(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 a 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 also been appointed as a Director of MBSL Insurance Company Limited since February 2014. He serves as an Alternate Director to Mr. D. M. Gunasekara on the Boards of LankaClear (Pvt) Ltd, Merchant Bank of Sri Lanka & Finance PLC and serves as an Observer on the Board of Sintesi Ltd, a BOI approved Private Limited Company. 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 & Finance PLC and also of MBSL Insurance Company Limited.

Graduated from the University of Sri Jayawardenepura, Sri Lanka, with a Bachelor of Science Special Degree in Business Administration and also holds a MBA from the University of Southern Queensland, Australia. He holds a Postgraduate Diploma in Management from the Postgraduate Institute of Management, University of Sri Jayawardenepura, Sri Lanka. 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.

Directorate as at 31st December 2014

Mr. M R Shah

Chairman/ Non Executive Director

Mr. Shah, the former 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 involved in trade union activities and 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 was the Chairman of MBSL Savings Bank Limited and a Director of MCSL Financial Services Limited and Lanka Securities (Private) Limited. He is also held the position of Executive Director of MBSL Insurance Co. 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 (WP). 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, MBSL Insurance Company Limited and Lanka Securities (Private) 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, PDCP & AIM of 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 Govt. Sector, the Provincial Councils and in the District Secretariat. He functioned as the Chief Accountant in several Ministries,

Board of Directors

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 hands on engagements with ADB, JBIC, World Bank Funded Development Projects of the State.

Mr. A B L A De Silva

Non Executive Director

Mr. Lalith De Silva holds a Diploma in Journalism from the University of Sri Jayawardenapura. 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 affairs analyst on the ITN Network.

He served 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. Lalith De Silva was a Director of MBSL Savings Bank Limited and MBSL Insurance Company Limited.

Mr. K B S Bandara

Non-Executive Director

Mr. Bandara was a nominee Director of Bank of Ceylon since March 2013. He has briefly served in the MBSL Board in 2010 as well. He chaired the Integrated Risk Management Committee and was 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, Digital Channels and Credit Cards Operations.

He counts over 25 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 as well. 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 Vice President of the Association of Professional Bankers (APB) of Sri Lanka.

Mr. Bandara is a Physical Science graduate from University of Kelaniya, Sri Lanka and holds a MBA with a Merit Pass from Postgraduate Institute of Management (PIM), University of Sri Jayawardenapura, 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. C R Jayawarna

Non Executive/ Independent Director

Chitral R 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. Chitral joined the Sri Lanka Ports Authority (SLPA) as a Senior Manager in the Marketing and Business Development Division and he is the youngest Senior Manager 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, Chitral worked at Youth Corps Headquarters 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.

Chitral 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 the Sri Lanka Institute of Marketing. In 1997 he completed the Diploma in International Relations at Bandaranaike Centre for International Studies.

Mr. A M P Amarakoon

Non Executive/ Independent
Director(Alternate Director to Mr. M S S
Paramananda)

Mr. Amarakoon was a Member of the Sri Lanka Accountants Service. He holds a Bachelor of Business Management from University of Sri Jayawardenapura. He is a Fellow Member of the Association of Public Finance Accountants of Sri Lanka. He is a Member of the Institute of Certified Professional Managers and a Member of the Associate Accounting Technicians, as well as a Certified Business Accountant of the Institute of the Chartered Accountants of Sri Lanka.

An Accountant by profession he has served in the Government and the Local Government Sector, the Municipal Councils and in the Provincial Councils and also in the Ministry of Science & Technology. He has functioned as the Chief Accountant in several Ministries, including the Procurement & Advisory Service Unit of Ministry of Finance & Agrarian Services Department and as the Chief Internal Auditor of Sri Lanka Customs Department.

Currently, he is the Chief Executive Officer of Amarakoon Associates (Auditors & Tax Consultants) and he is a Governing Council Member of the University of Kelaniya and the University of Visual & Performing Arts.

Mr. D M Gunasekara

Non Executive/ Non-Independent
Director(Refer page 22 for profile.)

Mr. W P R P H Fonseka

Non Executive Director (Alternate
Director to Mr. D M Gunasekara)

(Refer page 24 for profile.)

Corporate Management



Mr. T Mutugala

Chief Executive Officer

Mr. T Mutugala is a professional banker with more than 39 years experience in Commercial Banking, with a blend of skills in operational banking and audit as well as overseas branch operations. Prior to his present appointment, he led the Information Systems Audit Function at the Bank of Ceylon as AGM (Information Systems and Audit) and played a leading role in implementing IT System Security Strategy in the Bank. Mr. Mutugala is a Member of the Chartered Institute of Management Accountants (ACMA) and also a Certified Information Systems Auditor (CISA).

Mr. D Daluwatte

Chief Operating Officer

An experienced banking and finance professional, he counts over 27 years corporate management exposure in investment banking and corporate finance. He has previously held several senior positions at Hatton National Bank and was the group Joint Managing Director at the George Steuart & Company Ltd. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka, Fellow member of the Chartered Institute of Management Accountants UK and member of the Chartered Institute for IT, UK. He currently serves as the vice president of the Finance Houses Association of Sri Lanka.

Mr. L Kaluarachchi

Deputy General Manager
Support Services

With over 30 years experience in the financial sector, he brings with him a diverse array of skills in credit, leasing and credit risk management.

Making his entry into Merchant Banking in 1994, as the Manager Leasing, he subsequently progressed to hold the positions of DGM - Leasing, Acting CEO, DGM- Recoveries and presently holding the position of DGM - Support Services. He holds a B.Com (Special) Degree from the University of Kelaniya.



Mr. R Siriwardena

Deputy General Manager
Range 01

He counts over 23 years experience in MBSL which includes portfolio management, merchant banking, strategic planning, risk management and credit. He has held many key positions at MBSL such as Chief Internal Auditor, Assistant Director – Internal Audit, Deputy Director – Strategic Planning & Risk Management, Trade Finance and Information Technology. Mr. Siriwardena also served as the Deputy General Manager – Corporate & Retail Credit. He holds a B.Sc (Business Administration) degree from the University of Sri Jayawardenapura and is an Associate Member of the Institute of Chartered Accountants of Sri Lanka.

Ms. S Amaratunga

Deputy General Manager
Credit Administration & Compliance

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

Ms. Amaratunga has close to 25 years' experience and served as Head of several divisions of the company such as Treasury, Trade Finance, Strategic Planning & Risk Management and Compliance divisions. She also has extensive experience in Credit Management, Recoveries, Balanced Scorecard Performance Management System, Mergers & Acquisition processes, Restructuring, Finance & Cost Accounting and Human Resource.

Mr. A M A Cader

Deputy General Manager
Corporate Advisory, Capital Markets and Islamic Finance

His overall experience is 35 years of which 10 years in financial management ,management accounting and treasury management.

Counting over 24 years at MBSL, Mr.Cader is an expert in the fields of Share Issue Management, Fund/ Portfolio Management, Corporate Restructuring, Mergers/ Acquisitions, Corporate/ Business Valuations, Strategic Corporate Plans and Business Advising with exposure to multiple industry sectors. He is a Fellow member of the Chartered Institute of Management Accountants UK, and holds a MSc in Information Technology from SLIIT, Masters of Business Studies, Diploma in Marketing at the chartered institute of marketing and Postgraduate Diploma in Economics and Business Administration from the University of Colombo.

Corporate Management



Mr. J Gamalath

Deputy General Manager
Marketing & Product Development

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

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 24 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

Deputy General Manager
Range 02

Mr. Uduwawala accounts for over 33 years of experience in the Banking Industry, including three leading commercial banks with special exposure in Credit and Branch Operations. He is currently the Deputy General Manager – Range 02. Prior to taking over as DGM – Range 02 he was the Deputy General Manager of the Leasing Division, Branch Operations and also the Micro Finance Division.



Mr. P Herath

Deputy General Manager
Finance & Strategic Planning

Mr. Herath is a Fellow member of the Institute of Chartered Accountants of Sri Lanka and Associate member of the Certified Management Accountants of Sri Lanka. He also holds an MBA from the University of Colombo and a BSc in Business Administration (Special) from the University of Sri Jayewardenepura.

He counts over 15 years of experience in finance and treasury in multiple industry sectors.

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 16 years of experience in the field of internal auditing in local conglomerates, as well as multinational companies.

Mr. L Peiris

Assistant General Manager
Deposits

He has over 30 years' multi disciplinary experience in the banking industry (Local and Overseas), including corporate management, trade finance, branch banking, international trade and business development. He previously held several senior positions including Deputy General Manager/ Acting CEO at MBSL Savings Bank. Mr. Peiris holds a Bachelor of Arts in International Banking, Finance and Administration from the University of Spain.

Corporate Management



Mr. C Withanachchi

Assistant General Manager
Information Technology

He counts over 15 years of experience in IT, mainly in Software Development, System Administration and Delivery management, Core Banking Implementations and ATM switching primarily in the financial services sector. He holds a BSc in Information Technology and is currently reading for an MSc In Information Technology from the University of Phoenix. He has also been certified from the IBM Corporation as an iSeries Expert and an RPG Expert.

Mr. D Gunawardena

Assistant General Manager
Human Resources & Support Services

A Human Resource Management professional, Mr. Gunawardena has extensive experience in HR management in a variety of industry sectors. He is a Fellow Member of the The Institute of Chartered Business Administrators, Professional Member of Association of HR Professionals, and Associate Member in Institute of Management of Sri Lanka, Institute of Personnel Management (IPM), Institute of Certified Professional Managers among others. He holds a BSc in Business Administration from the University of Sri Jayawardenapura and a BMS.Sp. Degree (Second Class Upper Honors)(Special in Human Resources Management) from the Open University of Sri Lanka.

Mr. K Jayasundara

Assistant General Manager
Recoveries

He has exposure in multiple areas in financial services and has previously held senior management positions in operations and credit. He holds an MBA – Banking and Finance offered from the Post Graduate Institute of Management (PIM) – University of Sri Jayawardenepura and a B.Sc (Hons) degree with a specialization in agricultural economics.

The Merger

The Central Bank of Sri Lanka's Master Plan on the Consolidation of the Financial Sector, announced in January 2014 requires all subsidiaries operating within a financial services organisation to be amalgamated. The primary objective of

the proposed consolidation plan is to strengthen the domestic financial system through the creation of more stable and dynamic institutions. Accordingly, MBSL was required to merge with MSB and MCSL whereby the surviving entity

would be Merchant Bank of Sri Lanka and Finance PLC, which would function as a Licensed Finance Company under the Finance Business Act No 42 of 2011.

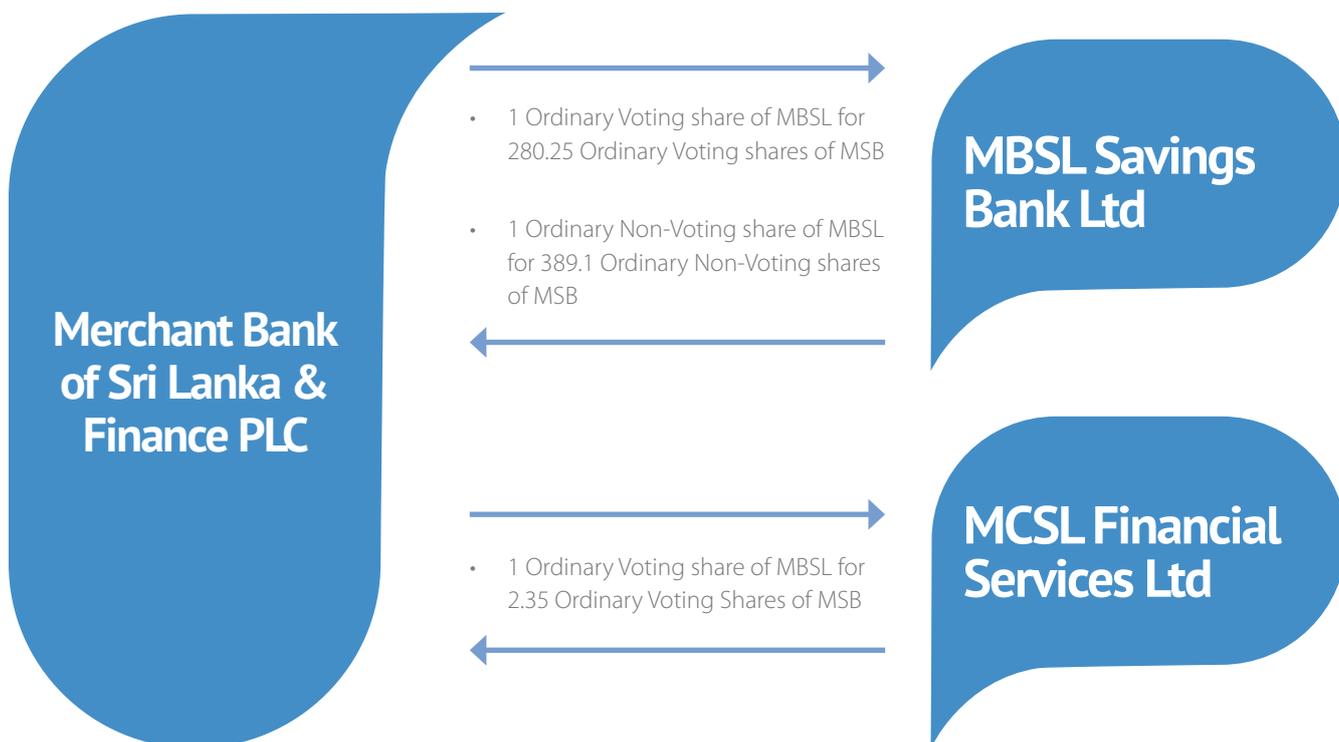
Merger Highlights

	Pre-Merger	Post-Merger
Group Structure	<pre> graph TD BC[Bank of Ceylon] --> MBSL[MBSL (72.14%)] MBSL --> MSB[MSB (75.19%)] MBSL --> MCSL[MCSL (41.6%)] MBSL --> MBSL_Ins[MBSL Insurance (84.12%)] MBSL --> LS[Lanka Securiteis (29%)] </pre>	<pre> graph TD BC[Bank of Ceylon] --> MBSL[MBSL (74.5%)] MBSL --> MBSL_Ins[MBSL Insurance (84.12%)] MBSL --> LS[Lanka Securities (29%)] </pre>
Legal Standing	<p>Merchant Bank of Sri Lanka PLC Registered Finance Leasing Establishment</p> <p>MBSL Savings Bank Ltd (MSB) Licensed Specialised Bank</p> <p>MCSL Financial Services Ltd (MCSL) Licensed Finance Company</p>	<p>The surviving entity, Merchant Bank of Sri Lanka & Finance PLC would operate as a Licensed Finance Company</p>
Subsidiaries	MSB, MBSL Insurance	MBSL Insurance
Associates	MCSL, Lanka Securities	Lanka Securities
Total Assets	LKR 15.53 billion	LKR 27.33 billion
Employees	319	752
Branches	29	50
Public Shareholding	21.32%	21.80%

The Merger

Transaction Highlights

The amalgamation was effected in a manner whereby MSB and MCSL were absorbed into MBSL. The minority shareholders of MSB and MCSL were issued ordinary voting shares in the amalgamated entity in lieu of their shareholdings.



Impact on Our key Stakeholders

The merger is anticipated to present a host of opportunities as well as challenges to all our key processes, with multiple impacts on our stakeholder universe. These impacts together with the Company’s strategic response in addressing these issues are detailed in the table below.

Stakeholder Group	Impacts, Opportunities and Risks	Our Strategic Response
Shareholders	Potential earnings growth resultant from the merger	<ul style="list-style-type: none"> The surviving entity will have a more extensive geographical coverage of around 50 branches and an employee cadre of around 750, thus providing much potential for growth. The Company will also gain access to low-cost public deposits, which will allow it to lend at more competitive rates and command wider margins. As a leasing establishment, the Company was limited in its ability to grow due to the regulatory cap on its gearing ratio. However, the access to deposits will now provide the Company ample opportunity to grow without requiring further capital infusions.

Stakeholder Group	Impacts, Opportunities and Risks	Our Strategic Response
	Funding Strategy	<ul style="list-style-type: none"> The access to public deposits will allow the Company to have a more diversified funding base, thus reducing its overall risk exposure.
	Capitalisation	<ul style="list-style-type: none"> Further capital infusions are unlikely to be needed over the short to medium term
	Share price	<ul style="list-style-type: none"> 2014 - LKR 17.50 2013 - LKR 13.60
Customers	New products	<p>Our customers will have access to a wider range of new products after merger such as;</p> <ul style="list-style-type: none"> Savings accounts for children, youth and senior citizens Fixed deposits Housing loans Revolving loans Islamic finance products Term mortgages Short term loans Pawning
	Reach	<ul style="list-style-type: none"> Increased customer touch points, including branches and access to an ATM network
	Service delivery	<ul style="list-style-type: none"> Staff skills will be developed with the objective of maintaining optimal client relationships, thus leading to better customer service.
Employees	Job security	<ul style="list-style-type: none"> All staff from the three merging entities will be retained within the surviving entity, with zero redundancies. As a larger and financially more stable entity than MSB and MCSL, the surviving entity is likely to offer increased job security to the employees of the subsidiaries.
	Skill development	<ul style="list-style-type: none"> Several training programmes have already been conducted with the aim of developing skills necessary for post-merger operations (refer to page 88 for more information)

The Merger

Stakeholder Group	Impacts, Opportunities and Risks	Our Strategic Response
	Organisational structure	<ul style="list-style-type: none"> • A regional management structure would be implemented, with all branches coming under six main regions. • Regional and branch managers will be empowered, resulting in a relative decentralisation of authority. • All employees will have equal opportunities for career advancement, depending on performance and merits.
	Cultural transition	<ul style="list-style-type: none"> • Several employee social gatherings and events were organised during the year to ensure the smooth integration of all staff members and build a sense of camaraderie.
Regulators	Regulatory framework	<ul style="list-style-type: none"> • As a Licensed Finance Company, the surviving entity will be regulated by a more stringent framework. Employees in the Compliance unit have undergone extensive training on the relevant regulatory requirements. • The Company's Risk Management Framework will be strengthened, particularly in the mitigation of Credit Risk and Operational Risk. • Recovery efforts have been strengthened, particularly with regards to the non-performing portfolio which experienced higher delinquencies last year.

Risk Management

Overview

Risk Management is the systematic process of identifying, quantifying, and managing all risks and opportunities that can affect the achievement of the Merchant Bank of Sri Lanka & Finance (MBSL) strategic and financial goals. Financial institutions face higher risks than other commercial organizations due to the complexity in macro and micro business environment.

MBSL believes that the identification and management of risk is vital to achieve the organization's corporate goals and objectives. Risk can present itself in many forms, has the potential to impact business, employees, customers, reputation, environment, regulatory and financial performance and thereby the achievement of the MBSL objectives.

Risk Management is embedded in our critical business activities, functions and processes. Materiality and tolerance for risk are key considerations in our decision-making.

Risks are identified, analysed and assessed in a consistent manner. Key Risk Indicators (KRI) and threshold limits exist for the identification, assessment, control and monitoring of material risk issues that could threaten our corporate purpose and business plans.

In identification, evaluation and managing of risks, MBSL ensures that we provide greater certainty and confidence for our shareholders, employees, customers, suppliers, and for the society where we operate. Successful risk management can be a source of competitive advantage.

Our Risk Management Policy is

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

The key objectives of the Risk Management at MBSL

- Establishing a risk based culture and sound risk management process for the company.
- Ensure that all relevant current and future potential material risk exposures are identified, assessed, quantified, mitigated and managed.
- Ensure that the MBSL complies with all the applicable rules, regulations and guideline issued by the regulated and other authorities.
- Protect stakeholders' wealth and protect MBSL's capital.
- Build a competitive advantage in order to achieve company's goals and objectives.
- Risk mitigation measures adopted by the company shall be effective in the long term and they should be embedded in the business processes of the company.
- Risk tolerance levels will be periodically reviewed and decided upon depending on the change in company's strategy.

Risk Management Process

The risk management process involves several steps including risk identification, analysing & estimation, managing and reporting the risk.



Risk Management Process

Risk Identification

Risk is the probability that actual return will be different from the expected results. In other word, risk includes the possibility of harmful or negative impact on the achievement of the organization's business

Key characteristics in identifying risks are:

- Adverse consequences of events or changed conditions.
- Their occurrence may be identified by the happening of trigger events.
- Their occurrence is uncertain and may have different extents of likelihood.

Risk Management

Risk Analysis and Estimation

MBSL estimates the risk exposure accurately by using various techniques including both quantitative and qualitative techniques. Analytical Review, Computation, Observation, Inquiry and Confirmation are used as risk identification and calculation methods of the company. MBSL uses historical data as well as forecasted data for identification and analysis of the risk exposure.

Risk Management Strategies

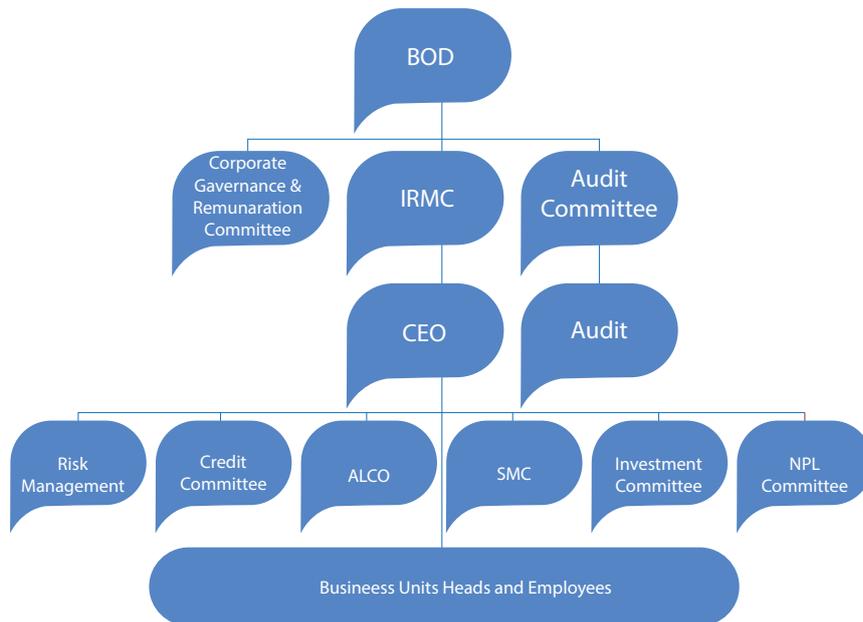
MBSL decides the appropriate risk strategy for the identified event or product after considering impact and probability of the event. MBSL has mainly four risk strategies; those are Exploiting, Accepting, Sharing and Avoiding.

Risk Monitoring and Reporting

Monitoring ensures that the risk management decision is executed appropriately and in a timely manner. The risk management division of the MBSL analyses continuously whether the company exceeds the risk limits established by the Board of Directors (BOD) of the company.

The Risk Management Division reports to the Integrated Risk Management Committee (IRMC) and BOD of the MBSL on any resulting negative or positive events relating to MBSL operations. The risk reports are submitted to IRMC on regular basis.

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



MBSL Governance Framework

risk assessment reports to both the IRMC and the Board of MBSL.

Risk Governance Framework

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

Credit Committee

This committee is empowered to approve credit within the delegated parameters (assigned by the BOD) subject to specific terms and conditions. They also recommend specific policies and procedures that require the attention of the BOD. The committee consists of corporate management personnel headed by the CEO

Assets and Liability Management Committee (ALCO)

The ALCO is the Board appointed management committee considered as a top-end advisory unit for the Board.



MBSL Three Lines of Defence

It is responsible for the management of Market Risk, Liquidity Risk and the management of balance sheet structures including Capital Risk. The committee consists of corporate management personnel headed by the CEO, and will also take decisions in relation to future business strategies.

Investment Committee

Investment committee is the management committee, headed by the CEO. The committee is responsible to make decisions to sell, buy or hold the company's investment portfolio.

NPL Committee

The committee is responsible to manage the NPL position of the company. The committee consists of corporate management members and headed by the CEO of the company.

IT Steering Committee

IT steering committee is headed by the CEO and each division represent by one officer. The committee analyses the requirements by respective divisions and accordingly makes decisions to align company IT strategy to the same.

Divisional Heads and Regional Mangers

Divisional heads are responsible to identify and mitigate the risks faced by their respective divisions. The regional managers are responsible to identify and manage the risks of branches in the region.

Integrated Risk Management Committee (IRMC)

IRMC is a Board appointed committee and consists of one non-executive director, CEO and key management personnel supervising risk categories, i.e., credit, market, liquidity, operational and strategic risks. The committee works with



Risk Types

key management personnel closely and makes decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.

Risk Management Division

The Risk Management Division is an independent division entrusted to, identify, analyse, evaluate, mitigate, monitor and report the risk to the BOD and management of the company. The risk management division submits quarterly risk assessment reports to the IRMC and BOD. In addition, the division produces risk management reports and risk analysis reports to the senior management and branch managers of the company.

Audit Committee

The Board Audit Committee reviews the company's internal financial controls to identify, assess, monitor and manage financial risks. The committee is headed by one non-executive director and the committee consisting of three non-executive directors.

Internal Audit Division

The internal audit division is headed by the Assistant General Manager (AGM) Group Internal Audit. The division has authority to audit all the branches and divisions of the company and report to Board Audit Committee.

Risk Review

The MBSL focuses on six primary risk types that are Credit Risk, Market Risk, Liquidity Risk, Operational Risk, Strategic Risk and Compliance Risk.

A. Credit Risk

Credit risk is the risk arising from financial losses if any of its customers, clients or market counterparties fails to fulfil their contractual obligations on due dates to MBSL. The credit risk of MBSL arises mainly from Leasing, Hire Purchases, Corporate & Retail Loans together with other advances provided to the clients.

B. Market Risk

Market risk is defined as the risk of losses in on and off-balance-sheet positions arising from movements in market prices. The risks subject to this requirement are:

- The risks pertaining to interest rate related instruments
- The risks pertaining to equities in the company's trading book
- Adverse movement in foreign exchange rates and commodities

Risk Management

C. Liquidity Risk

This refers to the losses arising from changes in the company's ability to sell or dispose assets and settle the liabilities.

Due to the liquidity issues, MBSL may not be able to meet its obligations as they fall due and resulting in an inability to support normal business activity. Additionally, it will lead to a failure in meeting regulated liquidity requirements and or changes to the credit rating of the company.

D. Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.

E. Strategic Risk

Strategic risk is the current and prospective impact on earnings or capital arising from adverse 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.

Strategic risk is defined as the risk associated with future business plans and strategies, including plans for entering new business lines, expanding existing services through mergers and acquisitions, enhancing infrastructure, etc.

F. Compliance Risk

The risk of losses arising from failure to comply with statutory and regulatory requirements imposed by the CBSL, SEC, CSE, IRD and or other regulatory institutions. Compliance risk also includes any losses that could arise from changes in regulatory requirements.

Risk Analysis & Risk Management

A. Credit Risk

The MBSL has established a pre-determined process to identify, analyse and mitigate credit risks faced by the company. The credit risk can be divided into three main risk categories

1. Default Risk - Medium

The default risk is the risk of potential losses arising from inability of customers to settle the loan in full on due dates. The MBSL conducts proper credit evaluations prior to granting credit facility to any customers in order to reduce the default risk faced by the bank. In addition, MBSL reviews the exposure to different sectors and customers to mitigate the default risk faced by the company. Further, in the year 2012, MBSL has introduced the credit rating system to analyse the credit quality of customers. The risk management division conducts independent risk assessment as well for this purpose.

The NPL ratios are monitored at Branch, Regional and Corporate levels. NPL committee has been established to monitor and manage the NPL ratios of branches. The NPL committee includes all senior management members except HR and IT. The bank was able to significantly reduce the NPL ratio compared with year 2013. The branch managers and staff are well trained and advice to reduce the NPL ratio on continuous basis.

Description	Exposure (Mn)	CAR as at 31 Dec 2014	Shock Level		
			5%	20%	50%
Tier 1 Capital	2,074	15.91%			
Credit Risk- Impairment Loss	(238)	15.91%	15.84%	15.60%	15.14%

Stress testing credit risk

Stress testing is a help full tool to analyse the impact of credit risk towards the MBSL. Three different hypothetical scenarios will be used by MBSL to measure the impact of the credit risk. According to the above table MBSL has ability to tolerate the high level shocks and maintain the capital adequacy ratio around 15%.

2. Credit Concentration Risk – Medium

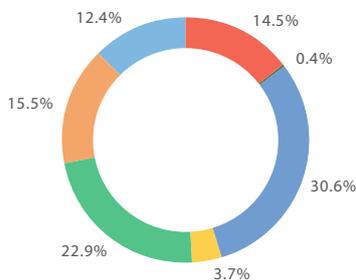
Credit Concentration risk is the degree of exposures in the MBSL credit portfolio, is an important aspect of credit risk. Concentration risk arises from two types of imperfect diversification.

The first type is named concentration, relates to imperfect diversification of individual risk in the MBSL portfolio either because of its small size or because of large exposures to specific individual obligors.

The second type is sector concentration, relates to imperfect diversification of sectors in the MBSL portfolio. The high exposure to one or few sectors will increase the concentration risk.

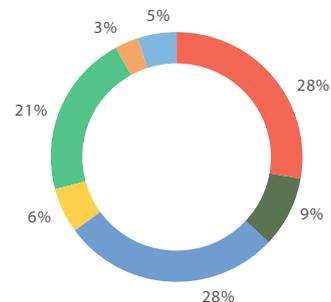
MBSL reviews the individual and sector concentration on timely basis in order to identify the risk. ALCO and finance division monitor the individual concentration of the portfolio and every quarter IRMC reviews the sector wise concentration in the MBSL portfolio.

As at 31December 2014



- Services
- Transport & Tourism
- Diversified and Construction
- Agriculture
- Commercial Trading
- Consumers
- Financial Services

As at 31December 2013



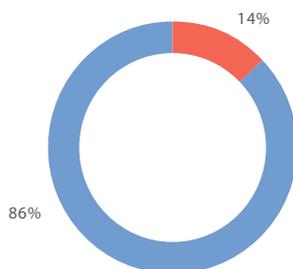
- Services
- Transport & Tourism
- Diversified and Construction
- Agriculture
- Commercial Trading
- Consumers
- Financial Services

Sector Wise Concentration Risk Year 2014 Vs. 2013

MBSL has reported the highest concentration on diversified and construction sector in both years 2014 and 2013 and it was 30% and 28% respectively. The second highest were reported from commercial trading sector.

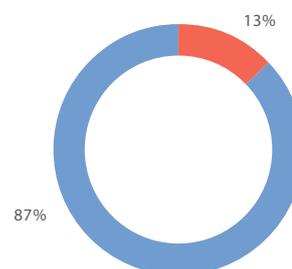
The exposures to top twenty customer is a key ratio in measuring the credit risk of finance company. MBSL concentration for top 20 customers for the year 2014 and 2013 were 14% and 13%.

Exposure to Top 20 Customers 2014



- Top 20 Customers
- Other Customers

Exposure to Top 20 Customers 2013

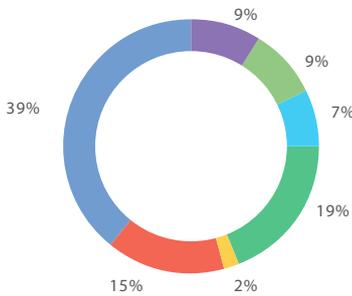


- Top 20 Customers
- Other Customers

Credit Exposure to Top 20 Customers 2014 Vs. 2013

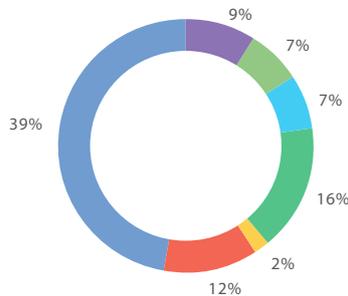
Risk Management

As at 31 December 2014



- Central
- Eastern & Uva
- North Central
- North Western
- North
- Southern & Sabaragamuwa
- Western

As at 31 December 2013



- Central
- Eastern & Uva
- North Central
- North Western
- North
- Southern & Sabaragamuwa
- Western

Geographical Concentration 2014 Vs. 2013

Western province has higher concentration than other provinces in both years 2014 and 2013.

B. Market risk

Market Risk can be arise due to adverse movement in interest rates, equity market, commodity market and exchange rates. The adverse movement in interest rates and equity market negatively impact on MBSL performance. Additionally, commodity market and exchange rates indirectly influence MBSL performance as well.

1. Interest Rate Risk –Medium

Interest rate risk is the key component in market risk. Interest rate risk arises due to adverse and unanticipated changes in market interest rates. The interest rate impacts on company profitability rather than the portfolio value. The interest rate directly

impacts the company's interest income and interest expense. The several factors result interest rate risk as company funding strategy, term structure risk and rate sensitive assets and liability mismatch to name a few.

The ALCO reviews the interest rate movement on regular basis and identifies the possible impact to the company. Based on the findings, ALCO takes necessary actions to reduce the interest rate risk.

The risk management division calculates the maturity mismatch and identifies the possible negative impact to the company earning. The IRMC reviews the short term and medium term interest rate risk and directs relevant departments to take actions.

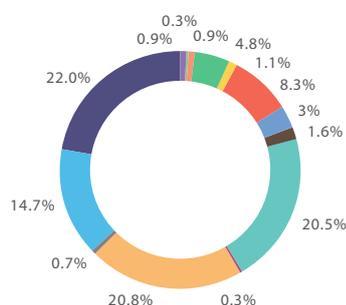
2. Equity Market Risk -Medium

Share price volatility impacts on market risk of the MBSL. The share price volatility affects on MBSL share investment and income.

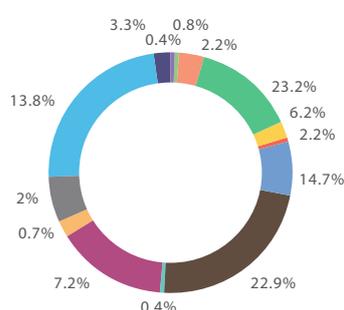
Therefore, MBSL has taken necessary measures to reduce the equity market risk. MBSL has appointed the investment committee to manage the share portfolio of the company and all selling and buying decision are made by the investment committee. Further, every quarter the IRMC reviews the performance and concentration of the share portfolio in order to mitigate the risk. The Value at Risk (VaR) model is used to calculate the possible impact on MBSL share portfolio.

MBSL has divided the share portfolio into two main categories as trading portfolio and investment portfolio. MBSL holds medium and long term profitable share under the investment portfolio category and short term profitable share under trading category. MBSL maintains a well-diversified portfolio in order to reduce the systematic risk. Moreover, MBSL has invested in different sectors and companies to further reduce the risk.

Share Portfolio 2014



Share Portfolio 2013



Sector Wise Share Portfolio 2014 vs. 2013

MBSL has reported the highest concentration on Banking Finance and Insurance sector in both years 2014 and 2013. The second highest was reported by the Hotel & travel sector.

Under stress testing, three hypothetical scenarios have used to measure the company ability to absorb the loss and maintain the capital adequacy in the changes in adverse market conditions. The company CAR will be 15.54% even in 50% adverse changes in provision/write back for investment. The MBSL CAR will be 11.76% even in 50% adverse change in interest cost of the company. In both situation MBSL will comply with the tier I and tier II capital adequacy ratios.

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

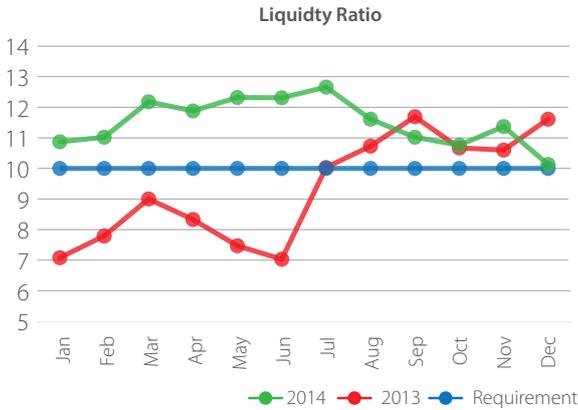
C. Liquidity Risk - Low

Liquidity Risk is the possibility of loss arising from fluctuations in MBSL's ability to sell or dispose the assets and settle the liabilities. Liquidity risk arises when MBSL 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. The MBSL's Risk Management and Treasury Management divisions along with ALCO closely monitor the Liquidity Risk by using various tools. MBSL believes that effective management of liquidity risk is vital for continuing MBSL's operations successfully. Accordingly, MBSL has implemented board approved liquidity risk management policies to identify, evaluate and mitigate the said risk which is based on Basel III.

Description	Exposure (Mn)	CAR as at 31 Dec 2014	Shock Level		
			5%	20%	50%
Tier 1 Capital	2,074	15.91%			
Market Risk-					
(a) Interest Rate Risk	(1,227)	15.91%	15.51%	14.30%	11.76%
(b) Provision/Write back for investment	113	15.91%	15.88%	15.77%	15.54%

Stress Testing - Market risk

Risk Management



Liquid Assets Ratio

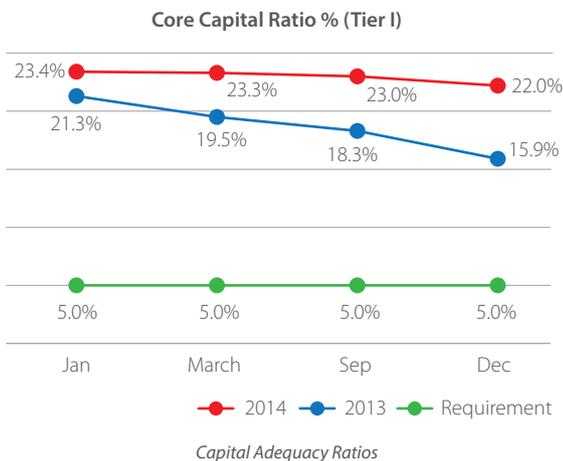
The liquidity ratio is a regulatory ratio, introduced by Central Bank of Sri Lanka (CSBL). As per the CBSL direction minimum liquidity ratio shall be 10% from 31 July 2013 prior to that minimum liquidity ratio was 5%. MBSL has maintained the minimum liquidity ratio in the both year 2013 and 2014.

D. Operational Risk –Medium

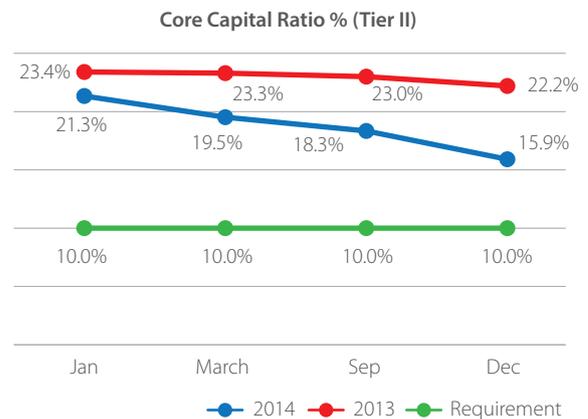
Operational Risk is inherited with MBSLs’ operational environment. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems, or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk.

Accordingly, MBSL has implemented the Business Continuity Plan in order to ensure the business continuity and minimise the failures in internal processes and systems. MBSL introduced Whistle Blower System to identify fraudulent activities. In addition, Group Internal Audit department conducts continuous assessment in order to identify failures in internal control systems. MBSL uses internally developed qualitative techniques to identify the operational risk of the company.

MBSL to be merge with its two subsidiary companies, MBSL Savings Bank Ltd (MSB) and MCSL Financial Services Ltd (MCSL) by January 2015. The BOD has appointed a merger integration committee to address all operational and process issues in order reduce the operational risk during the pre and post-



Capital Adequacy Ratios



MBSL has maintained the capital adequacy ratio well above the regulatory requirement. As per the CBSL directions, MBSL tier I & II capital adequacy ratio should be 5% and 10%. MBSL maintain capital adequacy ratio at 15% for both tiers at end of year 2014. The capital adequacy ratio decrease mainly due to increase in the company portfolio.

The operational risk is the most difficult risk to identify and the company have to use qualitative data than quantitative in order to assess the operational risk. Operational risk cannot be eliminated and can be reduced only to an acceptable level. MBSL has implemented several strategies to assess and mitigate the operational risk of the bank.

merger process. Further, MBSL has implemented the specific action plan to ensure the business continuity during the merger process. Merger integration committee and business continuity action plan will address the operational risk faced by MBSL during the merger process.

E. Strategic Risk -Low

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

- (I). Reviewing 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.

F. Compliance Risk –Low

The risk of losses arising from failures to comply with regulatory or legal requirements imposed by the CBSL or other regulatory institutions. MBSL has appointed a compliance officer to handle the compliance function of the company. Further, MBSL is performing compliance check list for every month and identifies non-compliances and take prompt actions. Any non-compliances will be immediately reported to the Audit Committee and the BOD. The Audit Committee or BOD may take necessary actions against any officer who violates the compliance requirement of the company.

Corporate Governance

1. Governance Framework:

Corporate governance is the framework within which the corporate direction and performance of a given company is determined. At the center of the Merchant Bank of Sri Lanka & Finance PLC's (the "Company's") governance stands its Board of Directors (the "Board"), whose actions are subject to laws, regulations and the Company's Articles of Association. The Company's corporate governance process encompasses four principal activities namely, Direction, Supervision, Executive Action and Accountability.

The Board of the Company is committed to maintaining good corporate governance, by fostering integrity, transparency and equity, while adopting the highest standards of business ethics to meet the aspirations of the Company's stakeholders, and to safeguard the interests of the Company's shareholders. The Board comprises of directors who have the appropriate balance of skills, experience, independence and knowledge, which enable them to discharge their responsibilities effectively.

The Board, which meets once a month, is the key decision making body for matters which are of significance to the Company, especially strategic, financial or reputational matters. The Board takes responsibility for determining the overall corporate governance policy of the Company and also oversees the implementation of the same. In order to ensure that there is a reasonable assurance of the achievement of corporate strategies and objectives, the Board monitors, on a regular basis, the effectiveness of the Company's governance processes.

The Directors' Code of Ethics, sets forth the policy and standards for ethical conduct of Directors. The Directors are bound to act in the best interest of the Company, and to perform their duties both efficiently and diligently, while adhering to the highest standards of professionalism.

In compliance with the regulatory requirements the Board has appointed three Board Sub-Committees namely, the Audit Committee, Integrated Risk Management Committee and Remuneration Committee, which report directly to the Board. Each of these Committees has specific terms of reference which are detailed in pages 118, 38 & 117 respectively.

The Audit Committee which meets once a month, continuously reviews and monitors the effectiveness of internal controls to ensure that the Company has sound financial discipline. The Audit Committee is responsible for ensuring the integrity of financial reporting, adequacy of disclosures in the financial statements and also the oversight of internal and external audit. The Audit Committee approves in advance the annual audit action plan of internal audit and monitors its execution and progress. The Audit Committee also ensures that the internal audit activities are carried out objectively and independently. The Audit Committee is directly responsible for reviewing the external auditors' proposed plan for undertaking the annual audit and the objectivity and effectiveness of the external audit process. The Audit Committee also makes recommendations to the Board with regard to the appointment of external auditors and the approval of their remuneration.

The Integrated Risk Management Committee ("IRMC") meets every quarter and is tasked with the responsibility of developing and implementing an effective risk management strategy to avoid and minimize applicable risks. The IRMC also monitors the adequacy of contingency plans to ensure business continuity in the event of any disaster and that appropriate precautionary measures are in place to protect assets, persons and the Company reputation. The IRMC also ensures that the Company is compliant with relevant legislation and regulations.

The Remuneration Committee is vested with the authority to determine and to make recommendations to the Board with regard to the remuneration payable to Executive Directors (if any) and the Chief Executive Officer. The Remuneration Committee meets as and when required.

The Board meets with the Senior Management Personnel on a quarterly basis to review performance and monitor progress towards achieving the Company's corporate objectives. The Corporate Management is responsible to provide appropriate and timely information to the Board to enable the Board to efficiently discharge their responsibilities.

Section i

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2014
7.10.1	<p>Non-Executive Directors</p> <p>a. The Board shall include at least, two (2) non-executive directors; or such number of non-executive directors equivalent to one third (1/3) of the total number of directors, whichever 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>	<p>Complied. All seven (7) directors who comprise the Board are non-executive directors.</p>
7.10.2	<p>Independent Directors</p> <p>a. Where the constitution of the Board includes only two (2) non-executive directors in terms of Rule 7.10.1 above, both such non-executive directors shall be "independent." In all other instances two (2) or one third (1/3) of non-executive directors appointed to the Board, whichever 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>	<p>Complied. Three (3) out of the seven (7) directors are independent in terms of the criteria defined by CSE Rule 7.10.4.</p> <p>Complied. All non-executive Directors have submitted their declarations on independence/non –independence in conformity with Appendix 7A.</p>
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> <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> <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> <p>d. Upon appointment of a new director to its Board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.</p>	<p>Complied. The Board reviewed the declarations on independence of directors and determined their independence as at 31 December, 2014.</p> <p>Not applicable.</p> <p>Complied. Resume of each director is given on pages 22 to 27 of the Annual Report.</p> <p>Complied. The Company Secretary has provided the required information to the exchange upon appointment of new directors.</p>

Corporate Governance

CSE Rule No.	Governance Requirement	Extent of Compliance in 2014
7.10.5	<p>Remuneration Committee</p> <p>a. Composition</p> <p>The Remuneration Committee shall comprise;</p> <p>of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its Board);</p> <p>or</p> <p>of non-executive directors a majority of whom shall be independent, whichever is higher.</p> <p>One (1) non-executive director shall be appointed as chairman of the committee by the Board.</p> <p>b. Functions</p> <p>The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer (“CEO”) of the company and/or equivalent position thereof, to the Board of the company which will make the final determination upon consideration of such recommendations.</p> <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>	<p>Complied. Remuneration Committee consists of three (3) non-executive directors, two(2) of whom are independent.</p> <p>Complied. Please refer the Report of the Remuneration Committee on page 117 of the Annual Report.</p> <p>Complied. The names of the members of the Remuneration Committee are given in the report of the Remuneration Committee on page 117 Fees paid to directors are disclosed in the ‘Notes to Financial Statements’ on page 149 of the Annual Report.</p>
7.10.6	<p>Audit Committee</p> <p>a. Composition</p> <p>The Audit Committee shall comprise;</p> <p>of a minimum of two(2) independent non-executive directors (in instances where an entity has only two(2) directors on its board);</p> <p>or</p> <p>of non-executive directors, a majority of whom shall be independent, which ever shall be higher.</p> <p>One (1) non-executive director shall be appointed as the chairman of the Audit Committee by the Board.</p> <p>Unless otherwise determined by the Audit Committee, the CEO and the Chief Financial Officer (“CFO”) of the company shall attend Audit Committee meetings.</p> <p>The chairman or one (1) member of the Audit Committee should be a member of a recognized professional accounting body.</p>	<p>Complied. The Audit Committee consists of five (5) non- executive directors, three (3) 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 possesses experience and expertise in the banking and finance industry.</p>

CSE Rule No.	Governance Requirement	Extent of Compliance in 2014
	<p>b. Functions</p> <p>The Audit Committee's 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 the company, in accordance with Sri Lanka Accounting Standards. (ii) Overseeing of the company's compliance with financial reporting requirements, information requirements of the Companies Act No. 7 of 2007 and other relevant financial reporting related regulations and requirements. (iii) Overseeing the processes to ensure that the company's internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards. (iv) Assessment of the independence and performance of the company's external auditors. (v) To make recommendations to the Board pertaining to appointment, re-appointment and removal of the external auditors. 	<p>Complied. The functions of the Audit Committee and its report are given on page 118</p>
	<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 Audit 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 company in relation to the above, during the period to which the Annual Report relates.</p>	<p>Complied. The names of members of the Audit Committee and its report are given on page 118</p> <p>The Audit Committee reviews the performance of the external auditors and is of the view that they are independent and do not have any interest in contracts of the company or its subsidiaries and/or its associate companies.</p>

Corporate Governance

Section ii

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

Section	Governance Requirement	Extent of Compliance in 2014
<p>2</p> <p>2 (1)</p>	<p>The Responsibilities of the Board</p> <p>the Board is responsible for strengthening the safety and soundness of the company by-</p> <ul style="list-style-type: none"> a) approving and overseeing the company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the company; b) approving the overall business strategy of the company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years; c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently; d) approving policy of communication with all stake holders of the company, including lenders, creditors, shareholders and borrowers; e) reviewing the adequacy and the integrity of the company's internal control systems and management information systems; f) identifying and 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; g) defining the areas of authority and key responsibilities for the Board and for the key management personnel; h) ensuring that there is appropriate oversight of the affairs of the company by key management personnel, that is consistent with the company's policy; i) periodically assessing the effectiveness of its own governance practices including; <ul style="list-style-type: none"> (i) the selection, nomination and election of directors and appointment of key management personnel; (ii) the management of conflicts of interests; and <ul style="list-style-type: none"> (iii) the identification of weaknesses and implementation of changes where necessary. 	<p>Complied.</p> <p>The Board is responsible for formulating the overall strategies of the company, reviewing/ monitoring the risk management mechanisms and ensuring the adequacy and effectiveness of internal systems and controls.</p> <p>The Board has also established appropriate processes to cover the following:</p> <ul style="list-style-type: none"> (i) identification of key management personnel who could influence policy, direct initiatives , exercise control over business operations and activities and risk management. (ii) identification of authority and key responsibilities of the Board and those of the Senior Management. (iii) oversight of affairs of the company to assess the effectiveness of the company's governance practices. (iv) review of policy and progress towards corporate objectives. (v) adherence to regulatory requirements.

Section	Governance Requirement	Extent of Compliance in 2014
	<ul style="list-style-type: none"> j) ensuring that the company has an appropriate succession plan for key management personnel; k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives; l) understanding the regulatory environment; m) exercising due diligence in the hiring and oversight of external auditors. 	
2(2)	The Board shall appoint the Chairman and Chief Executive Officer (“CEO”) and define and approve their functions and responsibilities in line with paragraph 7 of these regulations.	Complied. Chairman and the CEO have been appointed by the Board in terms of the paragraph 7 of the Finance Leasing (Corporate Governance) Direction No. 4 of 2009.
2 (3)	The Board shall determine a procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company’s expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the company.	Complied. The company has obtained independent professional advice when necessary.
2 (4)	A director shall abstain from voting on any Board resolution in relation to matter to which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Not applicable. No such circumstances arose in the Board during the financial year under review.
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly under its authority.	Complied.
2 (6)	The Board shall, if it considers that the company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the company prior to taking any decision or action.	Not applicable. No such circumstances arose in the Board during the financial year under review.
2 (7)	The Board shall include in the company’s Annual Report, an annual corporate governance report setting out the compliance with this regulation.	Complied. Corporate Governance Report is included in the Annual Report in pages 46 to 63
2 (8)	The Board shall adopt a scheme of self –assessment to be undertaken by each director annually, and maintain records of such assessment.	Complied.
3	Meetings of the Board	
3 (1)	The Board shall meet at least 12 times a financial year at approximately monthly intervals. Obtaining the Board’s consent through the circulation of written or electronic resolution/papers shall be avoided as far as possible.	Complied. The Board met 28 times during the financial year under review.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2014
3 (2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the company.	Complied. 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 (3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied. Adequate notice is given to directors to attend regular meetings and reasonable notice is given for special meetings.
3 (4)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the director's meetings through an alternate director shall, however, be acceptable as attendance.	Complied. The attendance of directors at meetings has been regular.
3 (5)	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied. The Board has appointed a Company Secretary who provides secretarial services to the Board and shareholder meetings and other functions specified in the statutes and other regulations.
3 (6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied. The agenda for Board meetings are prepared by the Company Secretary under the advice of the Chairman.
3 (7)	All directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied. The Company Secretary provides all necessary assistance to directors.
3 (8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied. Minutes of Board meetings are available for inspection upon reasonable notice.
3 (9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of Board meeting shall clearly contain or refer to the following: <ul style="list-style-type: none"> (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the 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.

Section	Governance Requirement	Extent of Compliance in 2014
4	Composition of the Board	
4 (1)	The number of directors on the Board shall not be less than five (5) and not more than nine (9).	Complied. The Board including the Chairman comprises of seven (7) non –executive directors.
4 (2)	Subject to paragraph 5(1) the total period of service of a director other than a director who holds position of CEO or executive director shall be inclusive of total period of service served by such director up to the date of this direction.	Not Applicable.
4 (3)	An employee of the company may be appointed, elected or nominated as a director of the company (hereinafter referred to as an “executive director”) provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4 (4)	The number of independent non-executive directors of the Board shall be at least one fourth (1/4) of the total number of directors.	Complied. Please refer pages 22 to 27 of this report.
4 (5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Please refer pages 24 to 27 of this report.
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors qualifications and experience are given in pages 22 to 27
4 (7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one third (1/3) of the number of directors that constitute the quorum at such meeting are non-executive directors	Complied. Please refer page 63 for attendance of directors at Board meetings.
4 (8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the company. The company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer pages 109 to 115 of this report.
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied. All directors appointed to fill casual vacancies on the Board are subject to election by shareholders at the general meeting following their appointment.

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Section	Governance Requirement	Extent of Compliance in 2014
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Not applicable. No such circumstances arose in the Board during the financial year under review
5	Criteria to assess the Fitness and Propriety of Directors	
5 (1)	A person over the age of seventy (70) years shall not serve as a director of the company.	Complied. All Directors are below the age of seventy (70) years as at 31 December, 2014.
5 (2)	A director of the company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/ societies/ bodies corporate, including associate companies and subsidiaries of the company.	Complied
6	Management functions delegated to the Board	
6 (1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied. The Board regularly evaluates 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.
6 (2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the company.	
7	The Chairman and the Chief Executive Officer	
7 (1)	The roles of the Chairman and the CEO shall be separate and shall not be performed by one and the same person.	Complied. The roles of the Chairman and CEO are held by two different individuals.
7 (2)	The Chairman shall be a non-executive director. In the case where the Chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the "Senior Director" with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the company's Annual Report.	Complied. Since the chairman is a non-independent non-executive director, the Board has designated an independent non-executive director, as per this regulation, as the Senior Director.
7 (3)	The Board shall disclose in its corporate governance report, which shall be an integral part of its Annual Report, the name of the Chairman and the CEO and the nature of any relationship [including financial, business, family or other material /relevant relationship(s)], if any, between the Chairman and the CEO and the relationships among members of the Board.	Complied. The name of the Chairman and the CEO are stated in pages 20 to 32 of the Annual Report.

Section	Governance Requirement	Extent of Compliance in 2014
7 (4)	<p>The Chairman shall :</p> <p>(a) provide leadership to the Board;</p> <p>(b) ensure that the Board works effectively and discharges its responsibilities; and</p> <p>(c) ensure that all key issues are discussed by the Board in a timely manner.</p>	<p>Complied.</p> <p>The Chairman ensures that all important matters concerning the company are deliberated by the Board in a timely manner in order that the Board works effectively and discharges its responsibilities. The directors have continuous access to company 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.</p> <p>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.</p>
7 (5)	<p>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.</p>	
7 (6)	<p>The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.</p>	
7 (7)	<p>The Chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the company.</p>	
7 (8)	<p>The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.</p>	
7 (9)	<p>The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.</p>	<p>Complied. The Chairman does not engage in activities involving direct supervision of key management personnel or any other executive duties.</p>
7 (10)	<p>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.</p>	<p>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.</p>
7 (11)	<p>The CEO shall function as the apex executive-in-charge of day-to-day management of the company's operations and business.</p>	<p>Complied. The CEO is in charge of the company's day to day management, operations and business.</p>

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Section	Governance Requirement	Extent of Compliance in 2014
8	Board appointed Committees	
8 (1)	<p>Every company shall have at least two (2) Board committees set out in paragraph 8(2) and 8(3) of these regulations. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the committee.</p> <p>The Board shall present a report on the performances, duties and functions of each committee, at the AGM.</p>	Complied. The Audit committee, Remuneration committee and the Integrated Risk Management committee which are Board appointed sub committees, regularly report to the Board.
8 (2)	Audit Committee	
	<p>The following shall apply in relation to the Audit committee:</p> <p>(a) The Chairman of the Audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.</p>	Complied. The Chairman of the Audit committee is an alternate director to a non executive director with required qualifications & experience.
	<p>(b) The majority of the Board members appointed to the committee shall be non-executive directors.</p>	Complied. The Audit committee consists of five (5) non- executive directors, three (3) of whom are independent.
	<p>(c) The Audit committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) the appointment of the external auditors for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to external auditors from time to time, (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the external auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term. 	Complied. The functions of the Audit committee and its report are given on page 118.
	<p>(d) The Audit committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	Complied. Please refer the Audit committee report on page 118.
	<p>(e) The Audit committees shall develop and implement a policy with the approval of the Board on the engagement of external auditors to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Audit committee shall ensure that provision by an external auditor of non-audit services does not impair the external auditors' independence or objectivity. When assessing the external auditors independence or objectivity in relation to the provision of non-audit services, the Audit committee shall consider:</p>	Not Applicable. The external auditors do not provide any non-audit services to the company.

Section	Governance Requirement	Extent of Compliance in 2014
	<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 auditors. 	
	<p>(f) The Audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the company's compliance with directions issued under the Finance Leasing Act No. 56 of 2000 and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the coordination between auditors where more than one (1) auditor is involved.</p>	<p>Complied. Please refer the Audit committee report on page 118.</p>
	<p>(g) The Audit committee shall review the financial information of the company, in order to monitor the integrity of the financial statements of the company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the company's Annual Report and accounts and periodical reports before submission to the Board, the Audit Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p>	<p>Complied. The Audit committee reviews the company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.</p>
	<p>(h) The Audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	<p>Not applicable. Necessity has not arisen.</p>
	<p>(i) The Audit committee shall review the external auditors' management letter and the management's response thereto.</p>	<p>Complied. The external auditors' management letter and the management response thereto were discussed by the Audit committee with external auditors in attendance. Please refer the Audit Committee report on page 118 for further details.</p>

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Section	Governance Requirement	Extent of Compliance in 2014
	<p>(j) The Audit Committee shall take the following steps with regard to the internal audit function of the company:</p> <ul style="list-style-type: none"> (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the Audit Committee is apprised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care; 	<p>Complied.</p> <p>The Audit Committee reviews the scope, functions and resources of the internal audit division periodically. The Audit 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.</p>
	<p>(k) The committee shall consider the major findings of internal investigations and management’s responses thereto.</p>	<p>Complied. Significant findings of the internal audit are deliberated by the Audit committee with the management and recommendations are referred to the Board.</p>
	<p>(l) The CFO, the Chief Internal Auditor and a representative of the external auditors may normally attend Audit committee meetings. Other Board members and the CEO may also attend meetings upon the invitation of the Audit committee. However, at least once in six (6) months, the committee shall meet with the external auditors without the executive directors being present.</p>	<p>Complied. Please refer the Audit committee Report on page 118 for details.</p>
	<p>(m) The Audit 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>Complied.</p>

Section	Governance Requirement	Extent of Compliance in 2014
	(n) The Audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The Audit committee meets once a month with due notice of the agenda containing matters for discussion. Special meetings are also convened when required.
	(o) The Board shall, in the Annual Report, disclose in an informative way, (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 63 of this report for details of attendance of each individual member at Audit committee meetings.
	(p) The Secretary to the Audit committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Audit committee meetings.	Complied. The Company Secretary records and maintains the proceedings of committee meetings.
	(q) The Audit committee shall review arrangements by which employees of the company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the relevant establishment's relations with the external auditor.	Complied. The company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the company. In the event of any improprieties being reported, the Internal Audit Department is authorised to carry out an immediate inquiry into the matter and report its observations to the Chairman and the Audit committee.

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2014
8 (3)	<p>Integrated Risk Management Committee</p> <p>The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):</p> <ul style="list-style-type: none"> a) The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the IRMC. b) The IRMC shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the company basis and group basis. c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset –liability committee to address specific risks and to manage those risks within quantitative risk limits as specified by the IRMC. d) The IRMC shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the company's policies and regulatory and supervisory requirements. e) The IRMC shall, at least quarterly, assess all aspects of risk management including updated business continuity plans. f) The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka. g) The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions. h) The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically. 	<p>Complied. Please refer the report of the IRMC on pages 205 to 218 for details.</p>

Section	Governance Requirement	Extent of Compliance in 2014
<p>9.</p> <p>9 (1)</p>	<p>Related Party Transactions</p> <p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this direction:</p> <ul style="list-style-type: none"> a) A subsidiary of the company; b) Any associate company of the company; c) A director of the company; d) A key management personnel of the company; e) A relative of a director or a key management personnel of the company ; f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company; g) A concern in which a director of the company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company, has substantial interest. 	<p>Complied. Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>
<p>9 (2)</p>	<p>The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to an unrelated comparable counterparty of the company. For the purpose of this paragraph “more favourable treatment” shall mean:</p> <ul style="list-style-type: none"> a) Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the company’s share capital and debt instrument with a remaining maturity of five (5) years. b) Charging a rate of interest lower than the company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. c) Providing preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties. d) Providing or obtaining services to or from a related-party without a proper evaluation procedure. e) Maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for performance of legitimate duties and functions. 	<p>Complied. Please refer financial statements note no. 42 “Related Party Transactions”.</p>

Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2014
10.	Disclosures	
10 (1)	The Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	Complied. The financial statements for the year ended 31 December 2014, are in conformity with all the rules and regulatory requirements.
10 (2)	The Board shall ensure that at least following disclosures are made in the Annual Report:	
	(a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Please refer directors' responsibility for financial reporting on page 116
	(b) A report by the Board on the company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer pages 103 and 104 for the relevant report by the Board.
	(c) The external auditors certification on the effectiveness of the internal control mechanism.	Complied. Please refer page 105 for the external auditor's certification.
	(d) Details of directors, including names, transactions with the company.	Complied. Please refer pages 109 to 115 of the Annual report for details.
	(e) Fees/remuneration paid by the company to the directors in aggregate.	Complied. Please refer page 111 of the Annual report for details.
	(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 company.	Complied. Please refer note 42. under notes to the financial statements on pages 190 to 192 of the Annual Report.
	(g) The aggregate values of remuneration paid by the company to its key management personnel and the aggregate values of the transactions of the company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and borrowing through debt instruments or investments made in the company.	Complied. Please refer note 42 under notes to the financial statements on pages 190 to 192 of the Annual Report.
	(h) A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied. Please refer the Annual Report of the Board of Directors on the Affairs of the Company and the Statement of Directors' Responsibilities for financial reporting on pages 109 to 115 and 116 respectively for details.
	(i) The external auditors' certification of the compliance with the Finance Leasing Act No. 56 of 2000 and directions issued by the Director of Department of Supervision of Non-Bank Financial Institutions.	Complied. Please refer page 119 of the Annual Report for the external auditors' certification of compliance with the Finance Leasing Act No. 56 of 2000 and the directions thereunder.

Attendance at Meetings of the Board & Sub-committees

Meetings held during the Financial Year 2014 (As at 31st December 2014)

Name of Director	Directorship status	Board	Audit Committee	Remuneration Committee	Integrated Risk Management Committee
		No. of Meetings Held			
		28	16	01	04
Mr. M R Shah (Chairman) Resigned w.e.f.23.01.2015	Non Executive Director	28	N/A	01	N/A
Mr. M S S Paramananda	Independent Non Executive Director	23	14	N/A	N/A
Mr. P G Rupasinghe	Senior Independent Non Executive Director	28	16	01	N/A
Mr. A B Lalith A De Silva	Non Executive Director	22	N/A	N/A	N/A
Mr. D M Gunasekara	Non Executive Director	23	N/A	N/A	N/A
Mr. K B S Bandara	Non Executive Director	26	14	N/A	04
Mr. C R Jayawarna	Independent Non Executive Director	28	05	01	N/A
Mr. W P R P H Fonseka (Alternate Director to Mr. D M Gunasekara)	Non Executive Director	04	13	N/A	N/A
Mr. A M P Amarakoon (Alternate Director to Mr. M S S Paramananda)	Non Executive Director	03	02	N/A	N/A

Review of the Statement by the 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 22 May 2015 addressed to the Board are consistent with the matters disclosed above and did not identify any inconsistencies to those reported above by the Board.

Our Strategy

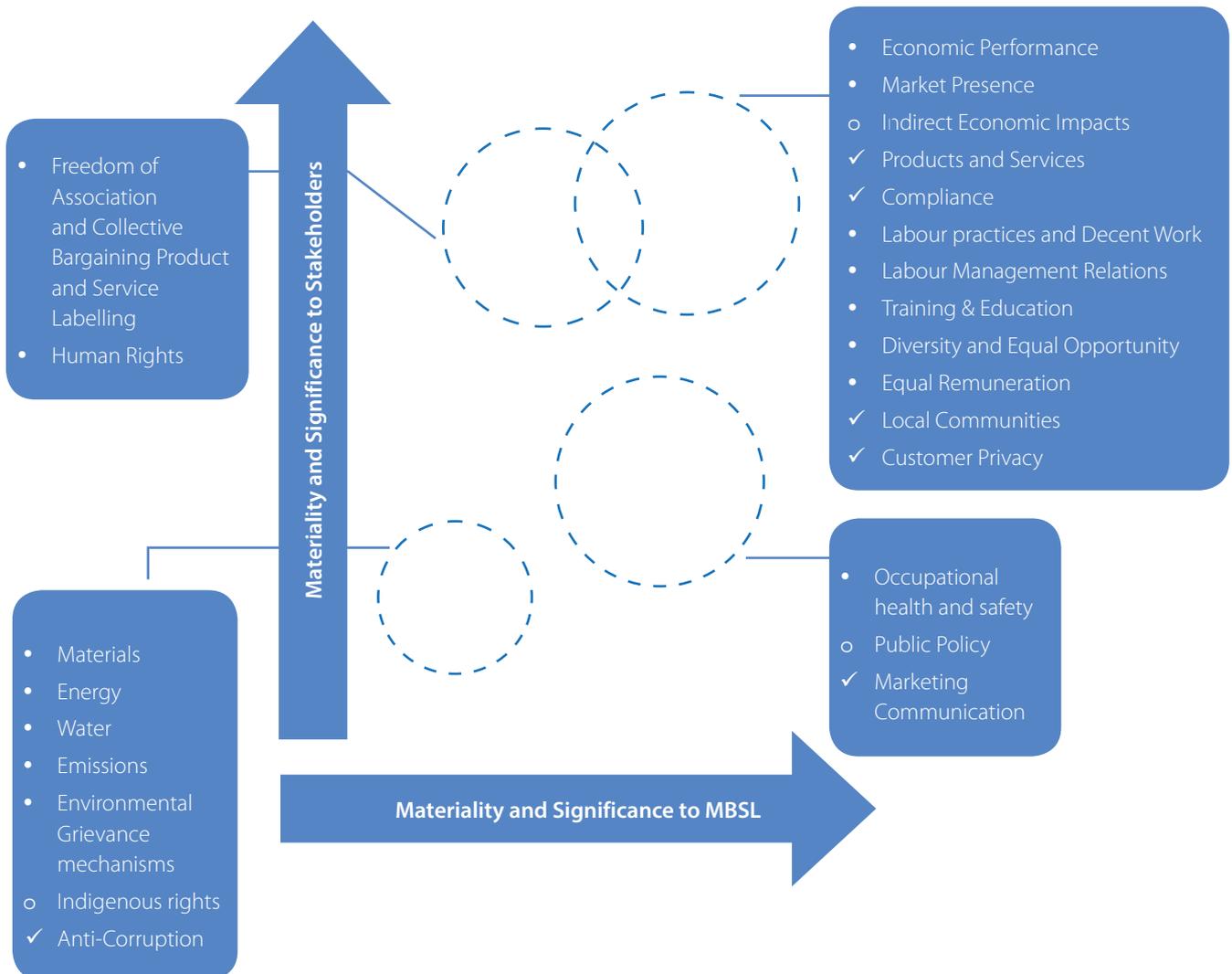
Identification of material aspects

Our materiality analysis demonstrates the aspects that can significantly affect MBSL's ability to generate value over the short, medium and long-term. Through this integrated report, we attempt to provide a comprehensive disclosure of all such material aspects, how it affects the Company's value creation process and what are strategic responses are.

The identification of material aspects is an ongoing process, and takes into consideration feedback from MBSL's stakeholder engagement process, opportunities and threats presented from the external environment, as well as the Company's strategic agenda. The aspects have been defined in line with the aspects and boundaries set out in the GRI G4

guidelines and have been rated based on the significance to MBSL's overall strategy as well as to its universe of stakeholders.

- Internal Boundary
- External Boundary
- ✓ Internal and External Boundary



Executing our Strategy

MBSL's strategy and strategic priorities are formulated taking into consideration the identified material aspects, which could potentially have an impact on the sustainability of the Company's

value creation process. The strategy is also aligned with the company's long-term vision and mission. The strategic priorities for the year, as embodied in MBSL's Strategic Plan for 2013-2016,

places specific emphasis on exploiting the advantages and successfully responding to the challenges posed by the merger.

Strategic Priority 1- Build Optimum Customer Relationships	
Customer Focus	<p>Our philosophy MBSL's approach towards Customer Relationship Management focuses on nurturing a relationship in which MBSL partners its customers, throughout the different stages of their progress. As a 'partner for life' the Company aims to support the financial needs of its customers as they pursue new entrepreneurial ventures, expand their businesses, and upgrade their standard of living.</p>
	<p>Progress made in 2014</p> <ul style="list-style-type: none"> • As we aggressively expanded our micro finance business, proactive measures were taken to identify financially underserved individuals in rural areas. Through the Company's widely dispersed branch reach collateral free credit lines were disbursed to rural entrepreneurs operating in a range of industries, including agriculture, dairy and fisheries. • Customer touch points were increased in order to improve convenience and access to customers. In addition to our own branches, customers will be able to settle their loans installments through the extensive branch network of our subsidiaries, MCSL & MSB. • Service delivery was improved through the skill development of our front line and back office staff members. Focus was placed on improving marketing and communication skills.
	<p>Forward focus</p> <ul style="list-style-type: none"> • In 2015 significant attention will be placed on positioning MBSL as a retail brand, with the objective of attracting deposits post-merger. Further investments will be made in equipping staff with the skills required to engage in cross selling products, canvassing deposits and attracting new customers. • Customer touch points will be further extended with the introduction of ATM cards; plans are currently underway to share the ATM network of a large private commercial bank. • MBSL will also enhance its service delivery through the introduction of mobile and online banking. • A 24-hour call centre will be established inclusive of a customer helpline.

Executing our Strategy

Strategic Priority 2-Earnings Growth	
Shareholder Focus	<p>Our philosophy</p> <p>MBSL aims to achieve sustainable growth in earnings through the expansion of its asset and liability base as well as through operational efficiency. Reduction and the effective management of credit losses is also an important element of this objective.</p>
	<p>Progress made in 2014</p> <ul style="list-style-type: none"> We aggressively expanded our existing loan products during the year, utilising our extensive branch network. Disbursements in all MBSL's key lending categories of leasing, corporate and retail credit and micro financing recorded an expansion over the previous year, despite the relatively challenging macro-economic conditions. Key areas of lending which recorded substantial growth were personal and vehicle loans to professionals, working capital loans for SMEs and micro financing loans. The entire industry saw an escalation of non-performing-loans during the year, MBSL not excluded. During the year, we focused on strengthening our monitoring and loan recovery framework, by setting up a dedicated recoveries division. Emphasis was also placed on improving loan origination standards, in order to guarantee good credit quality.
	<p>Forward focus</p> <ul style="list-style-type: none"> MBSL's deposit strategy comprises the introduction of deposit products catering to different segments of the market. The Company thus intends to introduce senior citizens deposits, minor savings as well as normal savings for its existing client base. Cross selling opportunities will also be pursued in order to support the anticipated growth in assets and liabilities.
Strategic Priority 3- Build a Multi-Skilled, Satisfied Staff Pool	
Employee Focus	<p>Our philosophy</p> <p>We understand the crucial role played by our dedicated staff in achieving our strategic objectives. Therefore we strive to create an engaging and satisfying work environment, in which our employees are given a host of opportunities for skill development as well as personal and professional growth.</p>
	<p>Progress made in 2014</p> <ul style="list-style-type: none"> Training programmes during the year were aimed towards preparing our staff for the post-merger transition. For front-line staff training was provided on multiple aspects including cross selling, and customer relationships management whilst focus was also placed on regulatory and compliance related changes and change management. The performance management system in place was enhanced to encourage a performance-based-culture with emphasis on performance based incentives. Increased opportunities for career progression.
	<p>Forward focus</p> <ul style="list-style-type: none"> Effective management of the possible human resource challenges arising post-merger will be a key priority in 2015. We intend to maintain an open dialogue with all our employees throughout the transition, whilst all efforts will be taken to effectively integrate the organisational cultures.

Strategic Priority 4-Strengthen Governance and Risk Management Frameworks

Our philosophy	We strive to maintain the highest standards of corporate governance practices within the Organisation, in compliance with all relevant regulatory requirements, guidelines and industry best practices. Policy frameworks go beyond legal requirements encompassing voluntary frameworks, international best practice
Progress made in 2014	In view of the increased operational risks stemming from the amalgamation during the year, steps were taken to strengthen capacity and capability of the Enterprise Risk Management Division. Structured processes and well articulated guidelines of the IT department also ensured that the systems integration was handled effectively and with minimum disruption to daily operations.
Forward focus	As a unified entity, we will continue to strengthen our risk management processes and corporate governance framework to effectively address internal and external risk exposures.

Strategic Priority 5- Sustainability and CSR

Community Focus	Our philosophy	Our sustainability strategy is built upon three key principles embodying our commitment to the community, the environment and the creation of economic wealth. Sustainability thinking and practices are integrated to our day to day activities and form a crucial input in all our business decisions.
	Progress made in 2014	<ul style="list-style-type: none"> In line with our thrust towards uplifting the economic conditions of the rural masses, MBSL's Siyath Saviya micro financing initiative saw significant expansion during the year. Total beneficiaries under this program now exceed 6,860, with total disbursements of around LKR 375 million. During the year, the company distributed coconut saplings to Micro Finance beneficiaries at Ampara District with a view to promote coconut plantation in the area. Officers from the Coconut Research Board were invited for this occasion and they explained the method of planting the saplings as how to take care of the plants for better crops.
	Forward focus	<ul style="list-style-type: none"> In 2015, we intend to promote savings deposits, in a bid to cultivate savings habits among our rural clientele. This will enable them to have financial stability during periods of irregular income and emergencies.

Our Performance

The Operating Context

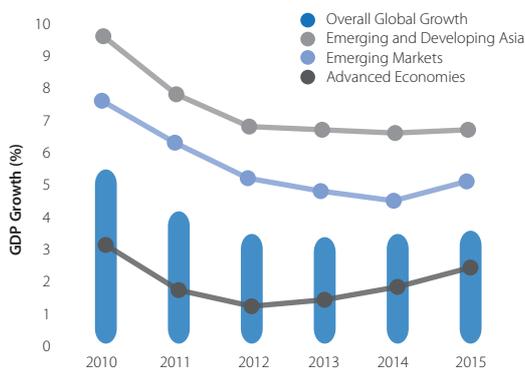
Global Economic Environment

The global economy continued to demonstrate signs of sluggish recovery in 2014, although at uneven paces of growth, reflecting a variety of country-specific factors. Overall, however, global activity was below expectations during the first half of the year, leading to growth forecasts being revised downwards for 2014 and 2015. Increasing geopolitical tensions, together with stagnation of potential growth in advanced economies and a fall in potential growth of emerging markets continued to impede stronger global recovery. For advanced economies, legacies of the crisis still prevail; Europe experienced weak investment and export performance during the first half of the year, whilst economic activity in the United States was far below anticipation, particularly during the first quarter of the

year. Meanwhile, persistently subdued demand conditions in emerging markets resultant from tightened financial conditions in most markets resulted in lower than anticipated economic growth.

The outlook for 2015 appears to be more promising, with the World Economic Forum forecasting global growth to recover to 3.8%. The rebound reflects an easing monetary policy stance in advanced economies, as well as a gradual reduction of geopolitical tensions. Increasing demand from advanced economies is anticipated to fuel growth in emerging economies, together with country specific factors such as structural reforms and fiscal consolidation.

Trends in Global Economic Growth (2010-2015F)

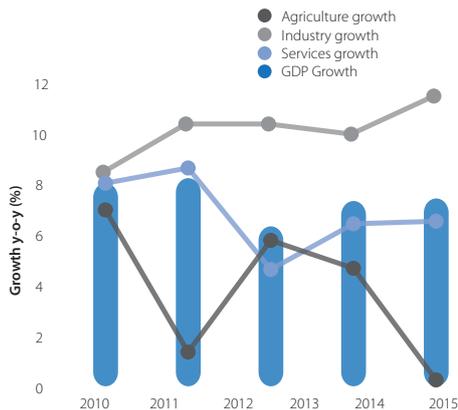


Source: World economic outlook

Industry Loan growth was relatively slow during the year, as demand for credit remained subdued for the major part of 2014. Vehicle financing, which is the sector's primary business line, grew by a mere 2% during the year

The Sri Lankan Economy in 2014

GDP Growth

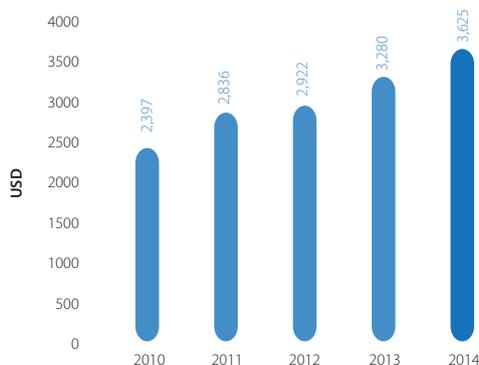


Source: Central Bank of Sri Lanka

Sri Lanka's economy performed commendably during 2014, achieving a growth rate of 7.8%, compared to 7.3% in 2013. Accommodative monetary policy measures together with a prudent fiscal stance facilitated the country's growth despite multiple challenges in the form of harsh weather conditions and a sluggish global economy.

The Industry sub-sector, once again continued to fuel overall growth led by the government led infrastructure drive and construction activities. Meanwhile, expansion in trade activities and the hotel and restaurant sector contributed towards the growth in the services sub-segment. The Agriculture sector, however, experienced a slowdown in growth compared to last year, as unfavourable weather conditions affected the country's paddy production.

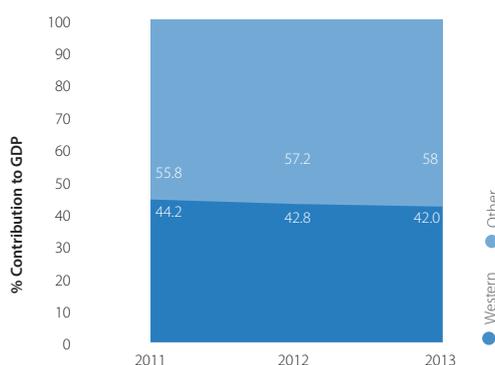
Per Capita Income



Source: Central Bank of Sri Lanka

Per capita income has continued to rise and been in line with the government's ambitious targets. The Central Bank of Sri Lanka anticipates per capita income to surpass USD 4000 in 2015, and will engage in proactive measures to avoid the middle income trap.

Regional Development



Source: Central Bank of Sri Lanka

The Government's efforts towards achieving broad based economic growth through financial inclusion continue to bear fruit with increased contributions to the GDP from peripheries of the economy. Resultantly, the relative contribution of the Western Province has diminished gradually over the years.

Our Performance

Inflation

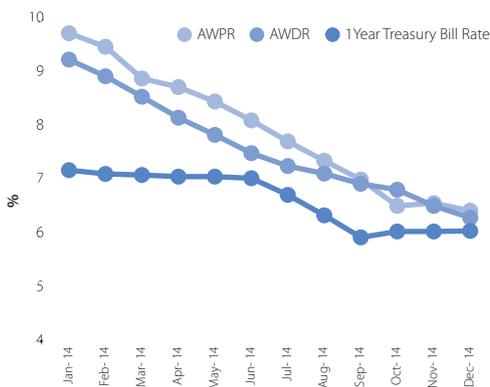


Source: Central Bank of Sri Lanka

The country's inflation rate has remained at single digit levels for more than five years, primarily reflecting prudent monetary management. Annual average inflation and core inflation declined in 2014, supported by

stable prices of commodities, improved domestic supply conditions and the reduction in energy prices.

Interest Rates

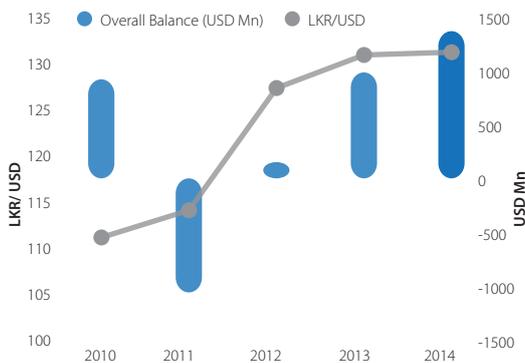


Source: Central Bank of Sri Lanka

The Central Bank continued to adopt a relatively relaxed monetary policy stance during the year, providing the required stimulus for economic expansion. The Standard Lending Facility Rate was reduced by 50

basis points in the beginning of the year, resulting in the Standard Rate Corridor being compressed to 150 basis points. This facilitated a downward adjustment of the commercial banks' lending rates.

External Sector



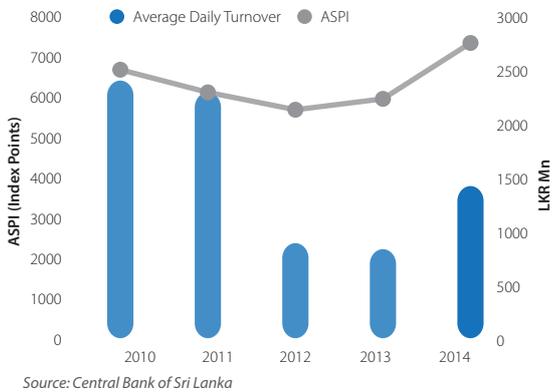
Source: Central Bank of Sri Lanka

The country's external sector also saw improvement during 2014, as service exports such as tourism, port and airport services and information technology recorded strong growth. The overall Balance of Payments was

also strengthened by Foreign Direct Investment and net inflows to the banking sector, stock exchange and government securities market.

In line with the steady foreign inflows, the Sri Lanka Rupee appreciated gradually throughout the year whilst on a policy front, exchange rate flexibility was allowed.

Share Market Performance



Despite a relatively slow start during the first half of the year, the country's share market saw a year of strong performance, with the ASPI index increasing 23% in 2014. Performance was supported by the relatively low interest rate scenario, increased

foreign inflows and expectations of strong corporate earnings during the year. Market capitalisation passed the LKR 3 trillion mark the first time during the year, whilst the average daily turnover increased 70%.

Industry Environment

The Licensed Finance Company (LFC) and Specialised Leasing Company (SLC) sector accounted for 7% of the country's financial sector assets by end-2014. Although still small in comparison to its banking counterparts, the sector continues to play a vital role in catering to the relatively risky segment of the market, a clientele which is generally underserved by the banking system. By end-2014, the sector consisted of 48 LFCs and 9 SLCs, operating a total branch network of 1085.

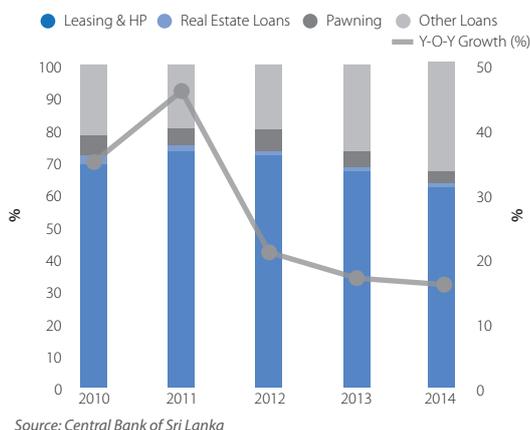
Financial sector Consolidation Plan: Consolidation of the financial sector was proposed by the Central Bank in January 2014, with the primary objective of strengthening the domestic financial system through the creation of stable and dynamic institutions. Within the Non-bank Financial Institution (NBFI) sector, this involves the creation of a smaller number of larger NBFIs through mergers, acquisitions and organic growth. Subsequent to the completion of the consolidation process, the NBFI sector is anticipated to comprise around 20 NBFIs, each with an asset base of over LKR 20.0 billion. This is anticipated to result in better loss absorption capabilities,

improve access to low cost long-term funding, strengthen governance and risk management frameworks and accrue a range of scale efficiencies among other benefits.

By end-2014, significant progress had been made in the consolidation process. Within the NBFI sector, 29 LFCs and SLCs had confirmed their mergers and acquisitions whilst others were in the process of finalising the consolidation plans. MSBL has remained fully committed to the Consolidation plan, with the amalgamation of MBSL and its two subsidiaries coming into effect on 1st January 2015.

Sector performance in 2014

Growth

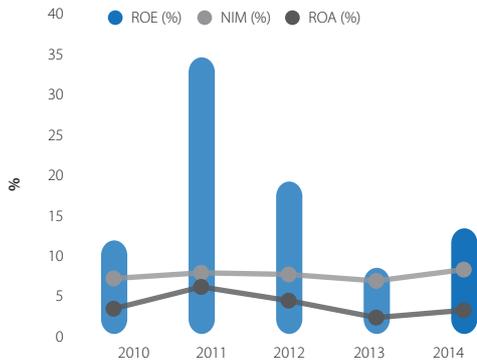


Loan growth was relatively slow during the year, as demand for credit remained subdued for the major part of 2014. Vehicle financing, which is the sector's primary business line, grew by a mere 2% during the year.

Our Performance

Sector performance in 2014

Performance

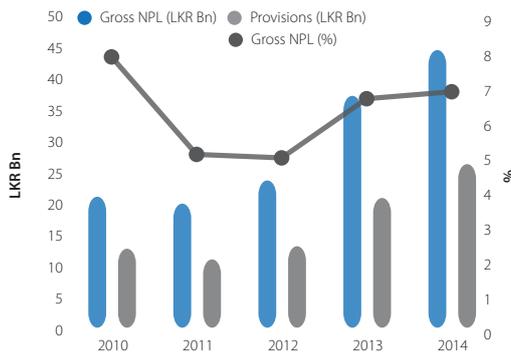


Source: Central Bank of Sri Lanka

Overall, the sector's performance was hampered by the relatively slow loan growth. However, the leasing interest rate scenario led to a widening of the sector's net interest margin (NIM) as deposits reprised faster, leading to a decline in interest costs. Accordingly, the sector's ROA and ROE improved marginally

during the year, reaching 2.5% and 10.2% respectively by end-December 2014.

Asset Quality

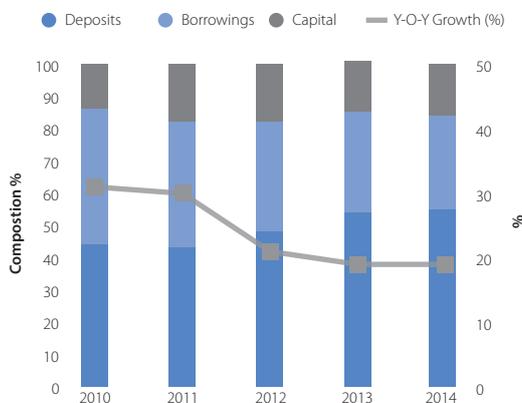


Source: Central Bank of Sri Lanka

The sector's asset quality weakened during the year; spillover effects of the preceding years high interest rates and gold price fluctuations continued to impact repayments. Translating to a gross NPL ratio of

7.6% compared to 6.7% the previous year.

Funding



Source: Central Bank of Sri Lanka

Deposits were the sector's main funding source, accounting for 55% of total funding during the year. Meanwhile, the sector's exposure to borrowings declined during 2014 as funding requirements fell in line with the slowdown in credit growth.

Meanwhile, despite the slowdown in loan growth, the sector's capital adequacy levels fell marginally, although still remaining well above the regulatory minimums.

Business Unit Review Leasing

Leasing continued to be the Company's key income generator, accounting for 53% of total earnings during the year. Demand for leasing remained lacklustre during the major part of the year, resulting in most industry operators recording a slowdown or contraction in the leasing portfolios. Despite the challenges posed by the macro environment, MBSL's leasing portfolio grew marginally by 5.7% in 2014, as the Company sought entry into new geographical markets and products.

During the year under review, MBSL sought to strengthen its presence in the hybrid leasing vehicle market, thus demonstrating the integration of its sustainability objectives to its business strategy. In 2014, MBSL financed a total of 1,461 motor cars compared to 889 the previous year.

Strengthening the Company's credit quality was a key priority in 2014, particularly within the leasing portfolio which experienced an influx of non-

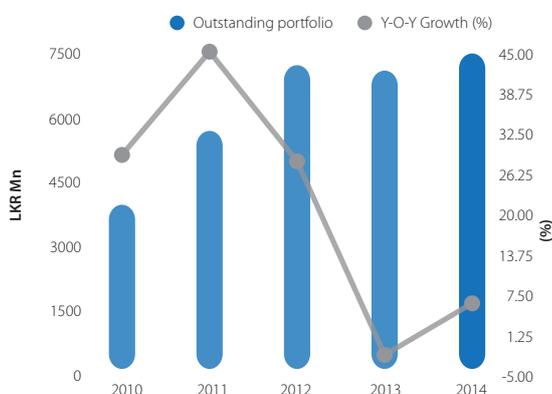
performing-loans during the first half of the year. MBSL took proactive measures to improve its loan origination standards, enhancing the stringency of its underwriting and evaluation criteria. Meanwhile a dedicated recoveries unit was established during the year, enabling the better post-disbursement monitoring of loans. This also facilitated the effective segregation of responsibility between credit marketing and administration. These efforts have begun to bear fruit with the Company witnessing a reduction in its NPL ratio during the latter part of the year.

With the amalgamation it is anticipated to further support the growth of the Company's leasing business by accessing the existing customer base of MSB and MCSL. Furthermore, the Company's shift to a regional management structure comprising of 6 regions is expected to facilitate more stringent post-credit monitoring and recovery, leading to better management of the Company's credit quality.

With the amalgamation, it is anticipated to further support the growth of the Company's leasing business by accessing the existing customer base of MSB and MCSL.

Since its introduction in 2010, Siyath Saviya has achieved exponential growth and supported the livelihoods of nearly 19680 entrepreneurs.

Performance Highlights-Leasing



	2014	2013
Outstanding portfolio(LKR Mn)	7,333	6,935
Revenue (LKR Mn)	1,651	1,624
No. of customers	10,303	5,931
Gross NPL ratio (%)	6%	7%
Customer Touch points-leasing	29	30
% of portfolio outside Western Province	77%	64%

Our Performance

Corporate and Retail Credit

MBSL's Corporate and Retail Credit loans contribute around 23% to its total earnings. The key lending categories within this segment consist of personal loans, term loans and bills discounting catering to individuals, small and medium enterprises and corporate clients.

Corporate and Retail Credit was the key growth driver during the year, somewhat offsetting the relatively low growth experienced by the Company's leasing division. The portfolio expanded by 48% during the year, and now accounts for 37% of MBSL's total loan portfolio. The year under review saw MBSL aggressively expanding its personal loan portfolio with the introduction of loans to professionals and other salaried employees. Increased lending to this relatively creditworthy segment, also enabled the Company to maintain the segment's credit quality at healthy levels.

We have consistently strived to align our business strategy with that of the country's national growth agenda. In line with the government's policy focus towards promoting broad based economic growth through financial inclusion, we too have sought to increase loan disbursements in peripheries of the economy. Supported by our widely dispersed branch reach, we continued to grow our personal loan portfolio in provinces outside the Western Province, the total personal loan portfolio has increased by 75% from 2013.

Looking ahead, the Corporate and Retail Credit portfolio is anticipated to be a key contributor to MBSL's loan expansion, with personal loans emerging as a growth driver. Additionally, synergies derived from the amalgamation is anticipated to further propel the expansion in this segment; for instance, the ability to accept deposits will facilitate further lending to salaried employees, whose salaries can be routed directly to the Company thus minimising potential default risk.

Performance Highlights-Corporate and Retail Credit



	2014	2013
Outstanding portfolio (LKR Mn)	3756	2430
Revenue (LKR Mn)	612	485
No. of customers	8,768	4,993
Customer Touch points	29	30
Gross NPL ratio (%)	13%	18%
% of portfolio outside Western Province	34%	28%

Micro Finance

MBSL's micro finance initiative, Siyath Saviya aims to support the financial requirements of rural entrepreneurs who have limited or no access to other avenues of financing. Through this initiative, MBSL has provided collateral free loans to rural families operating in multiple industries such as agriculture, fisheries, dairy and other cottage industries.

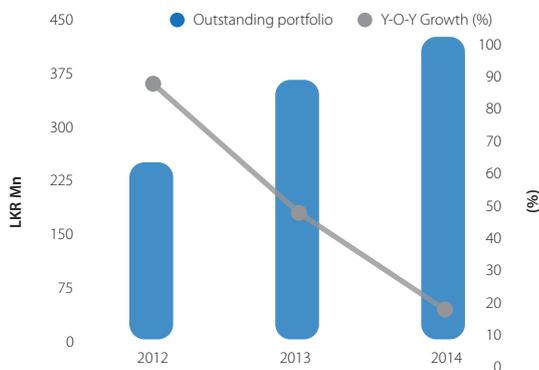
Since its introduction in 2010, Siyath Saviya has achieved exponential growth and supported the livelihoods of nearly 19680 entrepreneurs. With its portfolio expanding at a compound annual growth rate of 17% over the past four years, micro financing has rapidly emerged as an important contributor to the Company's earnings, accounting for Rs.107Mn of revenue and Rs. 422Mn of the outstanding loan portfolio during 2014.

The year under review saw MBSL further strengthening its presence in this segment, accessing customers in the most rural peripheries of the economy. Total disbursements during 2014 increased by 20%, whereas the outstanding loan portfolio as at end-December amounted

to LKR 422 million. Although commencing disbursements through an affiliate, Agro Development Credit Services (ADCS) in 2010, the Company has gradually shifted to disbursing loans through its own branches, thus enabling better monitoring of the portfolio. MBSL also engages in cluster based lending, in which borrowers in a cluster are mutually responsible for the repayment of the loan facility. As a result of these efforts, 12 branches provided micro finance facilities by the end of 2014.

The Company's focus towards micro financing is reflective of its strategic alignment with the country's regional development plans as well as its commitment to integrate sustainability to its business strategy. The Company's micro financing portfolio is widely dispersed through the rural districts of the country including the Northern and Eastern provinces. Looking ahead, MBSL intends to fortify its presence among its rural customers by providing additional services, including micro savings deposits.

Performance Highlights-Micro Finance

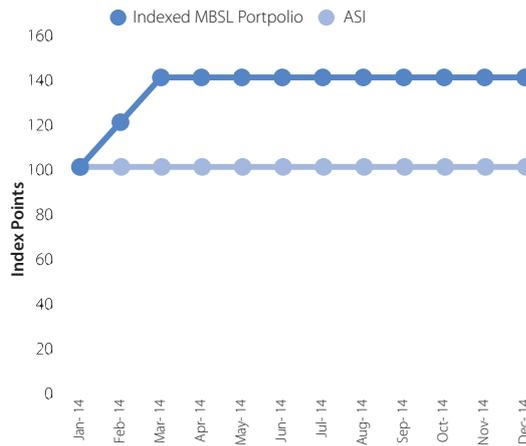


	2014	2013
Outstanding portfolio (LKR Mn)	422	362
Revenue(LKR Mn)	107	77
No. of beneficiaries	6,860	5,900
No. of Individuals supported	6,309	4,973
Gross NPL Ratio (%)	7%	4%

Our Performance

Capital Markets and Corporate Advisory

The operations of MBSL's Capital Markets and Corporate Advisory segment can be broadly classified into three main areas; Portfolio management, provision of Capital market related services including the structuring and management of equity and debt issues, private placements as well as Corporate Advisory services such as provision of independent opinions, advisory on mergers and acquisitions, and conducting training programmes etc. In recent years, the division has emerged as a significant earnings contributor to the Company, and has enabled MBSL to effectively diversify its earnings profile thereby reducing its reliance on the relatively volatile leasing market. The division comprises a team of dynamic young professionals, who have been a driving force behind the division's success.

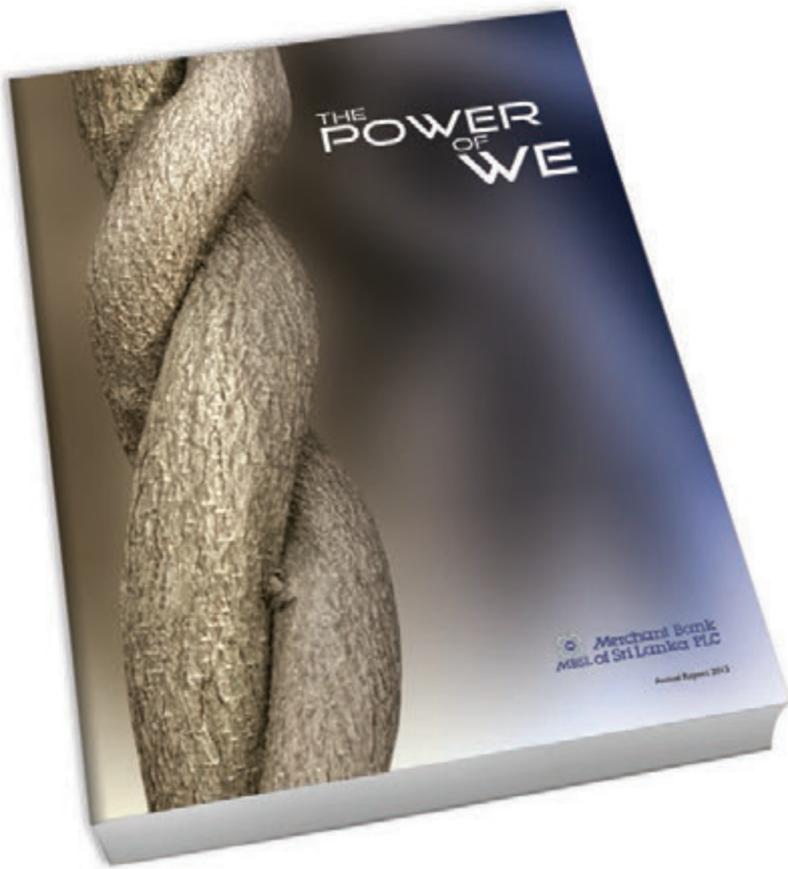


The year under review saw yet another year of strong performance by the segment. Sri Lanka's share market rebounded after June 2014, following a somewhat lacklustre start to the year; conversantly the value of MBSL's share portfolio increased to LKR 367.5 million in 2014 from LKR 262.8 million the previous year. MBSL's share portfolio thus outperformed the general market during the year; the ASPI increased by a 23% during 2014, compared to the 40% increase in MBSL's portfolio. The Company's investment portfolio is well diversified, and consists of fundamentally strong shares.

The division also continued to demonstrate its excellence in Capital Market activities with the successful completion of the initial public offering of Lucky Lanka Milk Processing Company Ltd. MBSL acted as Managers and Registrars to the issue, which consisted of the listing of 38 million ordinary voting shares and 24 million non-voting shares at a total consideration of LKR 300 million. In addition, MBSL also successfully concluded a private placement for a leisure sector operator during the year. Meanwhile the division successfully raised LKR 2.0 billion via a listed debenture for MBSL.

In 2014, the division also conducted a timely interactive training session on 'IFRS for financial instruments and tax related issues'. The seminar was attended by over 100 finance professionals and featured presentations by a panel of eminent experts.

In aligning itself with the Company's strategy of expanding its regional presence, the Capital Markets and Corporate Advisory division too intends to pursue growth opportunities outside Colombo. Accordingly, two initial public offerings of entities originating in the Sabaragamuwa Province and in the periphery of the Western Province is already in the pipeline



Our award
winning
Annual
Report 2013





Thus we are supremely confident of achieving our vision by standing united with our well abled parent.

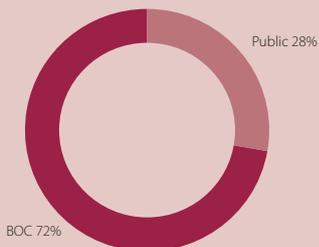
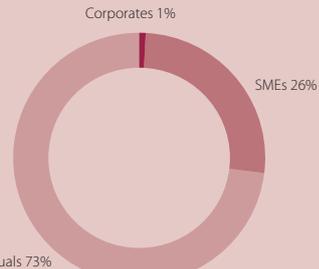


Delivering Sustainable Value

Stakeholder Engagement

Understanding and effectively responding to the needs of our stakeholders is central to sustainable value creation. Our decisions are enhanced by the relationships we have with our varied stakeholders, and our proactive engagement with them shapes

our strategy and business decisions. Our primary stakeholders as outlined in our mission statement are- shareholders, customers, employees, suppliers, the government and regulators and the communities that we operate in.

Stakeholder Group	Key Needs Identified	Method of Engagement
<p>Shareholders</p>  <p>BOC 72% Public 28%</p>	<ul style="list-style-type: none"> Adequate return commensurate to the risk undertaken Effective governance and risk management frameworks Brand recognition Ethical and socially responsible business practices 	<ul style="list-style-type: none"> Annual General Meetings Annual Reports Quarterly financial statements Press Releases Corporate Website
<p>Customers</p> <p>We serve a total customer base of over 24,399, spread among all provinces of the country.</p>  <p>Corporates 1% SMEs 26% Individuals 73%</p>	<ul style="list-style-type: none"> Financial solutions at competitive pricing Security of funds (particularly depositors) Superior customer service Convenience and accessibility Value added services 	<ul style="list-style-type: none"> Face to face interactions at all customer touch points Annual Reports Corporate Website E-mail Social Media

<p>Employees</p> <p>Our total cadre consists of 319 dedicated and loyal employees</p>	<p>Attractive financial and non-financial incentives</p> <p>Opportunities for career progression</p> <p>Training and Development</p> <p>Job Security</p> <p>Work-life balance</p>	<p>Performance appraisals</p> <p>HR policy manual</p> <p>Staff meetings on a monthly basis</p> <p>Trade Union meetings</p> <p>Social events</p> <p>The MBSL intranet</p>
<p>Government and regulatory authorities</p> <p>MBSL falls under the regulatory purview of the Central Bank of Sri Lanka, Securities and Exchange Commission, Department of Inland Revenue and Colombo Stock Exchange.</p>	<p>Compliance with applicable laws and regulations</p> <p>Contributions towards policy discussions and forums affecting the industry</p>	<p>Written communications such as directions and circulars</p> <p>Face to face meetings when required</p> <p>Press releases</p> <p>Corporate Website</p>
<p>Community</p> <p>We have presence in 18 districts in the country, and strive to support the communities in the areas we operate in.</p>	<p>Employment generation</p> <p>Provision of financial solutions</p> <p>Responsible business practices</p> <p>Community development</p>	<p>CSR initiatives</p> <p>Sponsorships</p> <p>Press releases</p>

Memberships of 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 Exchange Commission of Sri Lanka
- Leasing Association of Sri Lanka
- Lanka rating agencies
- Department of Inland Revenue
- Ceylon Chamber of Commerce
- Central Bank of Sri Lanka
- The Credit Information Bureau of Sri Lanka

Stakeholder Review

Creating Wealth for our Shareholders

Earnings per share Rs.

1.80 **0.87**
2014 2013

Net Asset Value per Share Rs.

22.24 **20.60**
2014 2013

Dividend per share Rs.

0.50 **0.50**
2014 2013

Share price Rs.

17.50 **13.60**
2014 2013

Return on Assets %

1.56 **0.88**
2014 2013

Return on Equity %

8.09 **4.21**
2014 2013

MBSL delivered a year of exceptional financial performance to its shareholders, generating earnings per share of LKR 1.80, a doubling of the previous year's achievement. Our shareholders were also paid a dividend of LKR 0.50 during the year, whilst the MBSL share price appreciated 29% during 2014, to close the year at LKR 17.50.

Income

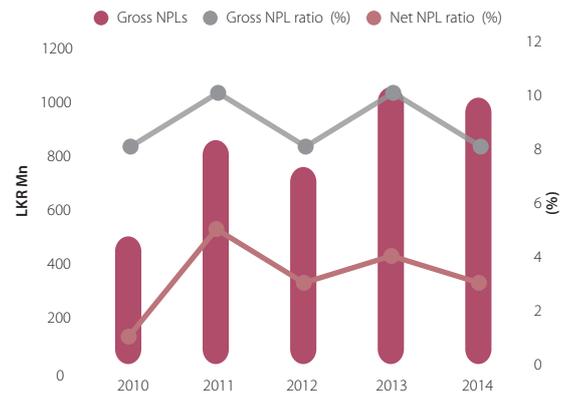
MBSL's total income expanded by 7.80% during the year, supported by growth in both its fee and fund based income. Interest income continues to be the largest contributor to the Company's income profile. The Company's other income consists primarily of fee and commission income and net trading income. Supported by the low interest rate scenario during the year, the Company's interest expenses declined, resulting in a 24.38% growth in the Company's Net Interest Income. Meanwhile, MBSL's Net Interest Margin widened to 8.3% in 2014 (2013: 7.8%) reflecting the Group's foray into higher yielding segments.

Overhead cost management

The Company's total overhead expenses also increased by 17.02% during the year driven by increases in both personnel and establishment expenses as together with expenses incurred for the merger. Resultantly the Company's cost to income ratio continued increased to 68.54% during the year (2013: 65.71%)

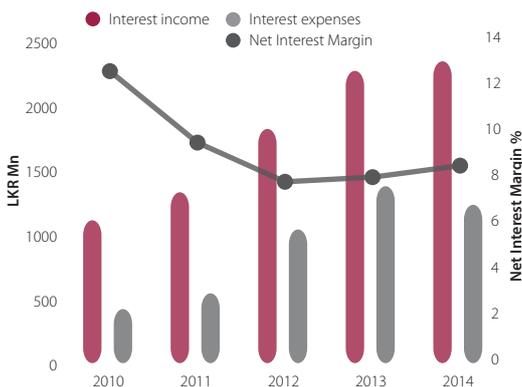
Impairment losses

Management of credit losses continued to pose a problem to the Company during the year under review. In a bid to stem the weakening the credit quality of its portfolio, MBSL took proactive steps to strengthen its recovery and monitoring procedures, whilst also placing more emphasis on quality at loan origination point.



Total Assets

MBSL's total assets grew by 17.02% during the year, reaching LKR 15.53 billion by end-December 2014. Asset expansion was supported primarily by growth in loans and advances, which grew by 18.55% during the period under review. MBSL's loan portfolio consists mainly of leasing facilities, followed by personal loans and micro financing facilities. The last few years have seen increased diversity in MBSL's portfolio, as reliance on leasing has declined in line with the expansion in other loan categories.



Funding Profile

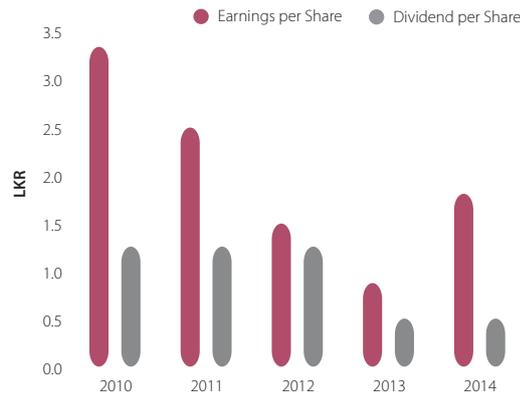
Overall, the Company's funding profile remained relatively unchanged during the year. The Company successfully raised LKR 2.0 billion through a listed debenture, thus taking advantage of the relatively low interest rate environment. The stronger profit performance during the year enabled the Company to strengthen its capital base through retained earnings; total equity grew by 7.97% to reach LKR 3.0 billion during the year. Meanwhile, MBSL's tier 1 and overall risk weighted capital adequacy ratios clocked in at 15.91% by end-December 2014.

Profitability

Despite a relatively challenging industry environment, MBSL's pre-tax profit grew by 85.82% to reach LKR 326.83 million during 2014. The strong earnings were driven by the Company's loan expansion, reduction in interest expenses as well as fair value gains generated on the Company's trading portfolio. The latter amounted to LKR 366 million during the year, reflecting MBSL's sound investment decisions. Overall, MBSL's Return on Assets (ROA) amounted to 1.56% during 2014, compared to 0.88% the previous year.

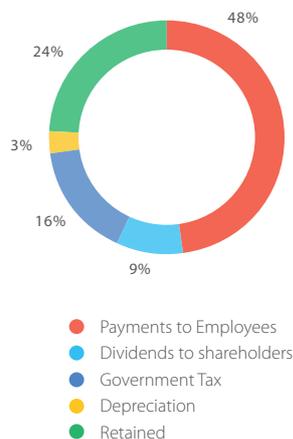
Share Performance

Earnings per share increased to LKR 1.80 during the year, reflecting a near doubling over the previous year's achievement. Net Asset Value per share also increased to LKR 22.24 from LKR 20.60 the previous year. Meanwhile, shareholders were paid a dividend per share of LKR 0.50 during the year. MBSL shares are listed on the Main Board of the Colombo Stock Exchange; the Company's share outperformed the general market by appreciating 29% during the reviewed period, thus reflecting positive investor sentiments.



Economic Value added (EVA)

EVA is an internal management performance measure that compares net operating profit to total cost of capital. The company's economic value added during the year, amounted to Rs. 749 million and details are found on page 229 of this annual report.

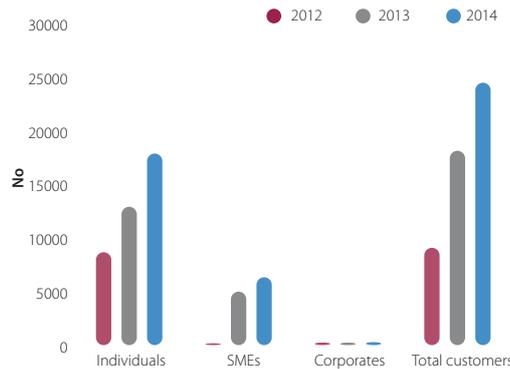


Partnering Our Customers

Customer profile

Our services are designed to cater to a wide range of customers, who can be broadly classified as individuals, micro enterprises, small and medium enterprises and corporate clients. As our loan portfolio tilts towards leasing facilities, individuals continue to dominate our customer profile. Our customers are also geographically well dispersed, with increasing numbers of customers acquired from non-urban areas over the recent years. Customers also vary in terms of their industry exposure, representing agriculture, fisheries, dairy, cottage industries among others. During 2014, we served a total of 24,399 customers (lending and deposits) which represents a y-o-y increase of 35% in comparison to 2013.

Type wise customer breakdown



to laws and regulations as well as environmental and social impact. MBSL's product spectrum is aimed to support our customers' financial and advisory needs throughout the different stages of their economic progression. During 2014, MBSL introduced 04 new products; namely Hybrid lease, MBSL danma cash, car Loan, MBSL buddy truck loan.

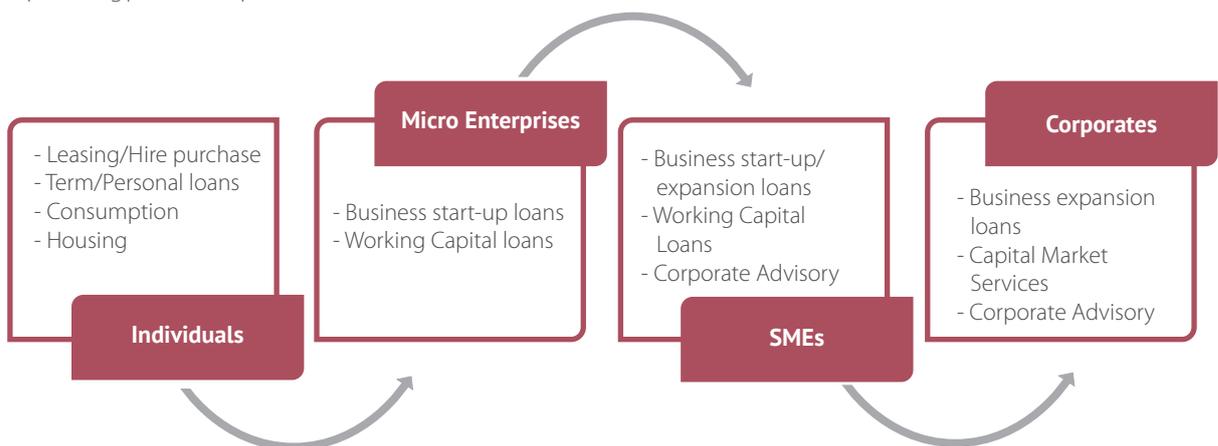
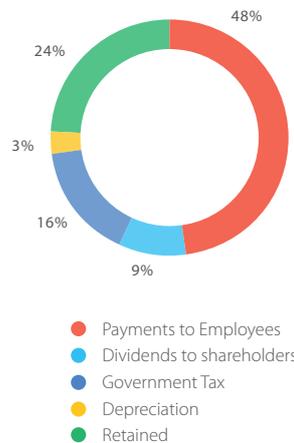
Accessibility and convenience

We have continued to invest in expanding our customer touch points to increase the accessibility of our services and convenience to our customers. We now operate our own branches in a total of 29 locations in all provinces of the country.

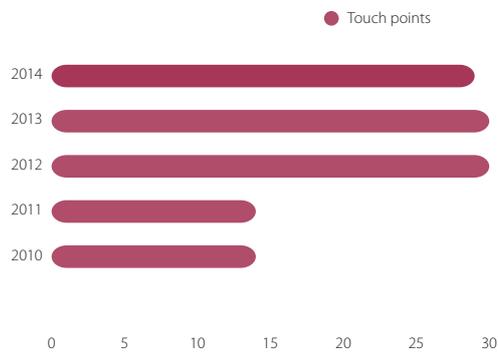
Our Product Development Strategy

Responding to customer needs forms the cornerstone of our product development strategy. Needs are identified through our decentralised customer engagement methods, particularly through face to face interaction with our front line staff at branch level. New product ideas are evaluated based on economic feasibility, competitive products in the market, potential unique selling points, compliance

Regional breakdown



Customer touch points



Serving the economically underprivileged

Aligning ourselves with the government's agenda of promoting regional development and financial inclusion, we have increased the accessibility of our services in economically underprivileged areas. Nearly 9% of our branches are located in regions where per capita income is less than LKR 10,000, half of the national average. Resultantly, disbursements in non-urban areas have continued to account for a larger proportion of our total disbursements, as reliance on the western province has continued to decline.

Province	Monthly Per capita income- (LKR)	Access Points	% outstanding loan portfolio
Western	16,124	9	39%
Central	10,104	2	9%
Southern & Sabaragamuwa	21,691	6	17%
Northern	8,339	1	4%
Eastern & Uva	17,004	5	16%
North-Western	11,596	3	10%
North-Central	9,877	3	5%

Web and social media presence

We have also enhanced the functionality and scope of our website; for instance, customers are now able to obtain rental calculations pertaining to existing and new facilities through the website. The website also allows for customers to obtain support, through a customer support platform. The Company also has a strong presence in social media, with Facebook and LinkedIn profiles allowing for convenient customer engagement.

Responsible product labelling

Detailed product brochures on the Company's key products and services are available to the Company's customers. These brochures and all other related information comply with all

relevant legislation and CBSL stipulated requirements. Meanwhile, marketing officers and relationships managers are responsible for explaining product characteristics, cost structures, benefits and any other relevant information to potential and existing customers

Supplier Value Creation

Procuring locally

The proportion of spending on local suppliers for purchasing goods and services on a corporate level is not available, because it is not currently tracked within the Inbank system.

Our top two spend categories were human resources related and Personnel expenses and Premises, equipment and establishment expenses.

-Staff represent more than 50% from operating expenses.

We have greater supplier relationship especially areas of Micro Finance - Value Creation to Agro Development Service Ltd (ADSL) from MBSL.

Equal opportunities for suppliers through transparent procurement process at fair price, accommodate credit for supplier (eg: Term loan has provided for (ADSL).

Measuring customer satisfaction

The MBSL call centre and Customer Service Unit track all customer complaints and feedback, which is subsequently analysed to identify areas for further improvement in service quality. Customer complaints have continued to gradually decline over the recent years, as the Company has focused on enhancing its service delivery.

Developing Our People

Our People Strategy

We understand the importance of keeping our committed pool of staff satisfied, and strive to create an environment which fosters teamwork and strong performance. Our team consists of 319 employees, spread across our extensive branch network. We are an equal opportunity employer, and do not discriminate based on gender, age or ethnicity. The structures and procedures for recruitment and attraction as well as retention, development and all other employee related matters are embodied in the Company's board approved HR Policy. Meanwhile, MBSL has in place a Code of Ethics in order to ensure that all employees conduct themselves in line with the Company's core values and principles.

Talent attraction and Recruitment

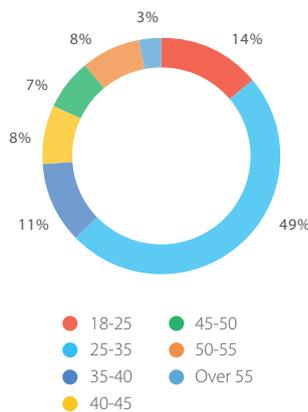
MBSL's recruitment and selection process follows multiple levels of evaluation, in order to ensure that the most suitable candidate is selected for the relevant position. Board approval is a requisite for middle and high level recruitment decisions. For branch level employment opportunities, MBSL makes best efforts to hire from the respective locality; this has helped to generate employment opportunities in these regions whilst ensuring staff's familiarity with consumer needs and local customs.

Retaining Talent

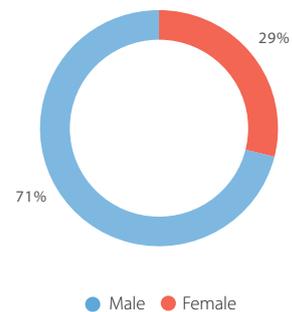
Incentives and benefits: MBSL offers an attractive remuneration package inclusive of both financial and non-financial incentives. The Company does not discriminate between gender, age or ethnicity when determining incentives. Employees are also eligible for housing and vehicle loans at concessionary rates, whilst health insurance is provided to all staff.

Staff Pool Analysis

Employees by Age



Employees by Gender

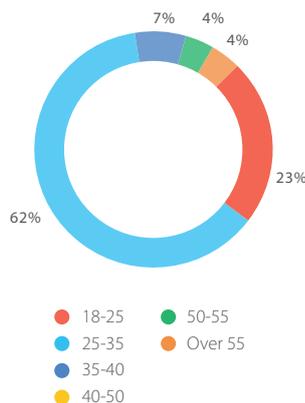


Regional breakdown of employees

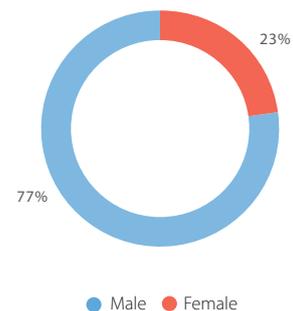
Workforce by Province

Province/Departments and Other Business Units	2014	2013
	No. of Employees	No. of Employees
Central	21	21
Eastern	20	20
Northern	6	6
North-Central	15	15
North-Western	24	25
Sabaragamuwa	10	10
Southern	26	27
Uva	9	9
Western	56	56
Departments and Other Business Units	132	134
	319	323

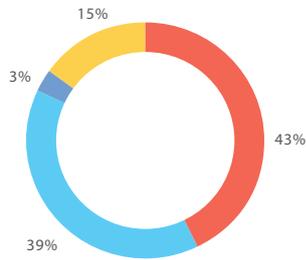
Employee turnover by age



Employee turnover by gender



Total workforce by employment type



- Corporate Management- AGM & above
- Senior Management/Managers/Deputy Managers
- Assistant Manager/Executives/Junior Executives
- Staff Assistants & Office Assistants

Additionally, MBSL employees are eligible for Employees' Provident Fund and Employees' Trust Fund benefits. MBSL contributes 12% and 8% as EPF and ETF contributions respectively. In addition, the Company provides gratuity payments at retirement, for all employees with over five years of uninterrupted service.

The Company's Performance Management System focuses on rewarding employees based on performance and merit. Individual, Departmental and Regional targets are assigned based on the Corporate Business Plan during the commencement of each year, and performance is assessed against these targets. All employees are appraised annually, allowing for a clear line of communication and enabling the identification of training needs.

Productivity indicator	Rs.
Revenue per employee	7,959,826
Net profit per employee	761,357
Total assets per employee	48,675,032

Employees covered by Collective Agreements



Labour Management Relations: Our employees are represented by the MBSL branch of the Ceylon Bank Employees Union. During the year, cordial relations were maintained between the trade union and the management. There is no any industrial disputes reported regarding human violation during the year.

Health and Safety: Proprietor of MBSL head office, PDML provides guidelines & procedures to be followed in case oemergencies such as smoke detectors, fire extinguishers & fire exist use as safeguard measures.

Listening to our People: An open door policy is maintained by all middle and corporate management, thus allowing for effective employee engagement. Staff meetings are also held on a regular basis. Furthermore, MBSL has in place a clearly structured employee grievance handling mechanism; during the year under review several number of employee grievances were raised and addressed effectively.

Work-life Balance: Multiple events including sports activities, health clinics and cultural events are organised for employees throughout the year in order to maintain the spirit of comradeship within the Organisation and improve staff satisfaction.



Staff annual get-together 2014

Developing Our People

Training and Development

Skill Development: All our employees are given the opportunity to further develop their skills through our comprehensive training and development programmes. In addition to thorough on-the-job training, MBSL facilitates the development of technical, behavioural and leadership competencies through external training programmes. The Company's Management Trainee program also enables dynamic, young professionals to further their skill base allowing for career progression. During the year under review, a total of 67 training programmes were carried out for our staff adding a total of 108,568 training hours during the year.

Career Development: The Company has in place a clear succession plan, providing ample opportunities for career development within the Organisation.



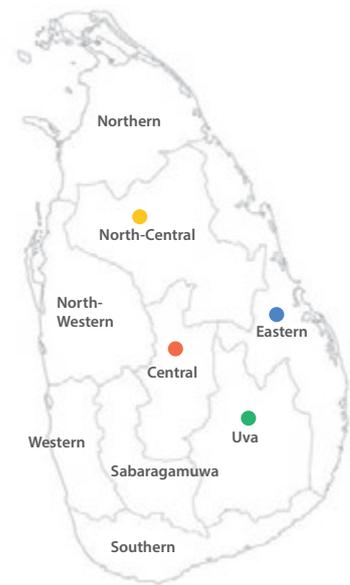
Change management training programme

Executive Summary of HRD Interventions implemented for the year 2014

Training Category	Total Training Programmes	Total No of Staff Trained	Total Training Hours (No of Staff X Total No of Training Hours)
External Training Programmes	33	64	21,632
Internal Training Programmes	16	266	32,984
Merger Based Internal Training Programme	16	447	53,640
Foreign Trainings	2	6	312
Total	67	783	108,568
No of staff as at 31/12/2014			319
Total Training Hours for the year			108,568
Training Hours per employee			340

Corporate Social Responsibility

As a responsible corporate citizen MBSL has continued to demonstrate its commitment towards uplifting the living standards of the communities it operates in. We proactively engage with communities in which we have a geographical presence in to contribute towards sustainable value creation. Our philosophy towards Corporate Social Responsibility is centred upon four key areas of focus; namely education development, environmental protection, health and safety and developing entrepreneurship. During the year under review however, our efforts were focused primarily towards developing entrepreneurship in rural communities, a goal towards which we made significant progress during the period.



Developing Entrepreneurship

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

The initiative has been designed to primarily benefit vulnerable groups, including women and entrepreneurs in the North Central and Eastern provinces of the country. Since inception in 2010 we have supported the livelihoods of over 19,680 entrepreneurs through financial assistance, technical support and other forms of guidance.

Education Development

In ongoing projects, MBSL supports the educational needs of school children, particularly in rural areas. During the year under review, the MBSL Welfare and Recreation Club with the assistance of staff members provided school bags to the school children of Walisinghe Harischandra Maha Vidyalaya - Anuradhapura



Distributing coconut saplings to micro finance beneficiaries



Providing school bags to the school children

Environment Report

As a financial services provider, MBSL's operations do not have a significant impact on natural resources. However, we remain cognisant that as consumers of natural resources all efforts should be made to minimise the inputs of natural capital and manage the adverse environmental impacts of our value creation process. Our Environmental Management policy highlights the importance of monitoring and tracking the performance of our material environmental aspects on a consistent basis.



Energy

The Group's energy management strategy is focused on optimising consumption of energy through a range of energy conservation initiatives in our daily operations. During the year under review, we consumed a total of 450,545 units of electricity. We engage all staff in our energy conservation activities and have made an organisation wide commitment to;

- Use energy efficient lighting systems
- Air conditioners switch off automatically after office hours
- Signages and staff engagement to conserve electricity
- Use of Double lighting panels
- Server virtualisation has resulted in saving floor space and electricity

Raw Materials- Paper

The key raw material consumed by the organisation is paper and our approach towards managing this input is modelled on the 3R strategy of Reduce, Reuse and Re-cycle. Employees are encouraged to use digital platforms for communication at all times with a view to minimising the use of printed paper. Annual reports are also provided in hard copies only in the

event of specific requests. We also actively discourage the use of unnecessary printing and photocopying. Meanwhile, waste paper is sent to a third-party recycler.

Reduced paper usage by 12,677 due to automation of personal loan activation process

Head office water consumption reduced by 11% compared to previous year

MBSL branches water consumption reported 2,951 units

Independent Assurance Report

SJMS

ASSOCIATES
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
Chartered Accountants
No. 02, Castle Lane,
Colombo 04, Sri Lanka.

Tel: +94(11) 2580409, 5444400

Fax: +94(11) 2582452

Restructure & Corporate Recovery
Tel: 5364293, 5444420 Fax: 5364295

E-mail: simsa@sjmsassociates.com

Website: www.sjmsassociates.lk

INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF MERCHANT BANK OF SRI LANKA & FINANCE PLC ON THE SUSTAINABILITY REPORTING UNDER THE INTEGRATED ANNUAL REPORT - FOR THE YEAR ENDED 31ST DECEMBER 2014

Introduction and scope of the engagement

SJMS Associates were engaged by the Merchant Bank of Sri Lanka & Finance PLC ("the Company") to provide an assurance on the following elements of the Sustainability Report ("the Report") for the year ended 31st December 2014.

- *Reasonable assurance* on the data relating to financial performance, as specified in page 229 of the Report
- *Limited assurance* on performance indicators and other information presented in the GRI Content Index Tool in pages 93 to 102 of the report prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' – Core guidelines.

Managements' responsibility and the criteria applied

Management is responsible for the preparation and presentation of the Report in accordance with the Sustainability Reporting Guidelines (G4) of the Global Reporting Initiative. These

responsibilities includes the identification of stakeholders and material aspects and for establishing such internal controls as management determines are necessary to enable the preparation of the reported performance information and other information in the report are free from material misstatements whether due to fraud or error.

Our responsibilities and compliance with SLSAE 3000

Our responsibility is to carry out a reasonable assurance and limited assurance engagement and to express a conclusion based on the work performed. We conducted our engagement in accordance with 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.

This Standard requires that we comply with applicable ethical requirements, including independence requirements, and plan and perform the engagement to obtain reasonable and limited assurance about whether the Report is free from material misstatement.

Summary of work performed

Financial data

A reasonable assurance engagement on the data relating to financial performance reported on page 229 involves verification that they were properly derived from the audited financial statements of the Company for the year ended 31st December 2014.

Performance indicators and the other information

A limited assurance engagement on performance indicators and other information in the Report consists of making enquiries, primarily of persons responsible for the preparation of information presented in the Report, and applying analytical and other evidence gathering procedures, as appropriate. These procedures included:

- Interviews with senior management and other relevant staff of the Company concerning sustainability strategy and policies for material issues, and the implementation of these across the business.

Independant Assurance Report

- Enquiries of management to gain an understanding of the Company's processes for determining the material issues for the Company's key stakeholder groups.
- Enquiries of relevant staff at corporate and business unit level responsible for providing the information in the Report.
- Enquiries about the design and implementation of the systems and methods used to collect and process the information reported, including the aggregation of data into information as presented in the Report.
- Comparing the information presented in the Report to relevant underlying sources on a sample basis to determine whether all the relevant information has been appropriately included in the Report.
- Reading the information presented in the Report to determine whether it is in line with our overall knowledge of, and experience with, the sustainability performance of the Company.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement or an audit conducted in accordance with Sri Lanka Standards on Auditing

and Assurance Engagements, and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit or reasonable assurance engagement. Accordingly, we do not express a reasonable assurance conclusion on the Performance Indicators and other information presented in the report.

Limitations and considerations

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

Our conclusion

Based on the above procedures performed, as described above, we conclude that:

- The data on financial performance as reported on page 229 of the Annual Report 2014 are properly derived from the financial statements of the Company for the year ended 31 December 2014.
- Nothing has come to our attention that causes us to believe that the performance indicators and other information specified in the GRI Content Index Tool in pages 93 to 102, have not in all material respects, been prepared and presented in accordance with the GRI (G4) – 'In accordance' Core Sustainability Reporting Guidelines.

Use of this report

Our assurance report is made solely to Merchant Bank of Sri Lanka & Finance PLC in accordance with the terms of our engagement. Our work has been undertaken so that we might state to Merchant Bank of Sri Lanka & Finance PLC those matters we have been engaged to state in this assurance report and for no other purpose. We do not accept or assume responsibility to anyone other than Merchant Bank of Sri Lanka & Finance PLC for our work, for this assurance report, or for the conclusions we have reached.



SJMS ASSOCIATES

Chartered Accountants

22 May 2015

Colombo

GRI Content Index Tool

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
Strategy and Analysis			
G4-1	Statement from the most senior decision maker of the Organisation about the relevance of sustainability to the organization and the organization's strategy for addressing sustainability.	Chairman's Review	13-15
Organisational Profile			
G4-3	Name of the organization	Merchant Bank of Sri Lanka & Finance PLC	126
G4-4	Primary brands, products, and services	About our Business	05
G4-5	The location of the organization's headquarters	Colombo, Sri Lanka	243
G4-6	Number of countries where the organization operates, and names of countries where either the organization has significant operations or that are specifically relevant to the sustainability topics covered in the report.	MBSL operates only within Sri Lanka. The operating locations within Sri Lanka are given under map of Sri Lanka showing branch locations of the amalgamated entity	06
G4-7	The nature of ownership and legal form	Corporate Information	126
G4-8	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Partnering our Customers	84-85
G4-9	The scale of the organization, including: Total number of employees Total number of operations Net sales (for private sector organizations) or net revenues (for public sector organizations) Total capitalization broken down in terms of debt and equity (for private sector organizations) Quantity of products or services provided	Delivering sustainable value	80-90
G4-10	The total number of employees by employment contract and gender. The total number of permanent employees by employment type and gender. The total workforce by employees and supervised workers and by gender. The total workforce by region and gender. Report whether a substantial portion of the organization's work is performed by workers who are legally recognized as self-employed, or by individuals other than employees or supervised workers, including employees and supervised employees of contractors. Report any significant variations in employment numbers (such as seasonal variations in employment in the tourism or agricultural industries).	Developing Our People	86-88

GRI Content Index Tool

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
G4-11	The percentage of total employees covered by collective bargaining agreements.	Developing Our People	87
G4-12	Describe the organization's supply chain.	Supplier Value Creation	85
G4-13	Any significant changes during the reporting period regarding the organization's size, structure, ownership, or its supply chain, including: Changes in the location of, or changes in, operations, including facility openings, closings, and expansions Changes in the share capital structure and other capital formation, maintenance, and alteration operations (for private sector organizations) Changes in the location of suppliers, the structure of the supply chain, or in relationships with suppliers, including selection and termination	The Merger	33-36
G4-14	Whether and how the precautionary approach or principle is addressed by the organization.	Risk Management	37-45
G4-15	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	Corporate social responsibility	89
G4-16	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is a member.	Memberships of associations	81
Identified Material Aspects and Boundaries			
G4-17	a. List all entities included in the organization's consolidated financial statements or equivalent documents. b. Report whether any entity included in the organization's consolidated financial statements or equivalent documents is not covered by the report.	Notes to the financial statements	126
G4-18	a. Explain the process for defining the report content and the Aspect Boundaries. b. Explain how the organization has implemented the Reporting Principles for Defining Report Content.	About this Report	04
G4-19	List all the material Aspects identified in the process for defining report content.	Our Strategy	64
G4-20	For each material Aspect, the Aspect Boundary within the organization	Our Strategy	64
G4-21	For each material Aspect, report the Aspect Boundary outside the organization	Our Strategy	64
G4-22	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Notes to the Financial Statements	196
G4-23	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	About this Report	04

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organization.	Stakeholder Engagement	80-81
G4-25	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder Engagement	80-81
G4-26	The organization's approach to stakeholder engagement	Stakeholder Engagement	80-81
G4-27	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder Engagement	80-81
Report Profile			
G4-28	Reporting period (such as fiscal or calendar year) for information provided.	Financial year ended 31st December 2014	04
G4-29	Date of most recent previous report (if any).	Financial year ended 31st December 2013	-
G4-30	Reporting cycle (such as annual, biennial)	Annually	04
G4-31	The contact point for questions regarding the report or its contents.	About this Report	04
G4-32	a. Report the 'in accordance' option the organization has chosen. b. Report the GRI Content Index for the chosen option c. Report the reference to the External Assurance Report, if the report has been externally assured.	About this Report	04
G4-33	a. Report the organization's policy and current practice with regard to seeking external assurance for the report. b. If not included in the assurance report accompanying the sustainability report, report the scope and basis of any external assurance provided. c. Report the relationship between the organization and the assurance providers. d. Report whether the highest governance body or senior executives are involved in seeking assurance for the organization's sustainability report.	Independent Assurance Report	91-92
Governance			
G4-34	The governance structure of the organization, including committees of the highest governing body.	Corporate Governance	46-62
Ethics and Integrity			
G4-56	The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Corporate Governance	46-62

GRI Content Index Tool

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
Economic			
Disclosures on Management Approach		Sustainability Report, Sustainability policy and framework	
Economic Performance			
G4-EC1	Direct economic value generated	Stakeholder review Statement of value added	82-83
G4-EC2	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	Environment Report Credit risk concentration	90 206
G4-EC3	Coverage of defined benefit plan obligations	Developing our people	86-88
G4-EC4	Financial Assistance received from government	None	N/A
Market Presence			
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Developing our people	86-88
G4-EC6	Proportion of senior management hired from the local community at significant locations of operation	Developing our people	86-88
Indirect Economic Impacts			
G4-EC7	Development and impact of infrastructure investments and services supported	Corporate social responsibility	89
G4-EC8	Significant indirect economic impacts, including the extent of impacts	Corporate social responsibility	89
Environmental			
Disclosures on Management Approach (Sustainability Report, Sustainability Policy and framework)			
Materials			
G4-EN1	Materials used by weight or volume	Environment report	90
G4-EN2	Percentage of materials used that are recycled input materials	Environment report	90
Energy			
G4-EN3	Energy consumption within the organization	Environment report	90
G4-EN4	Energy consumption outside of the organization	N/A	N/A
G4-EN5	Energy intensity	N/A	N/A
G4-EN6	Reduction of energy consumption	N/A	N/A
G4-EN7	Reductions in energy requirements of products and services	N/A	N/A
Water			
G4-EN8	Total water withdrawal by source	Our core operations do not utilise water	N/A
G4-EN9	Water sources significantly affected by withdrawal of water	Our core operations do not utilise water	N/A
G4-EN10	Percentage and total volume of water recycled and reused	Our core operations do not utilise water	N/A

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
Biodiversity			
G4-EN11	Operational sites owned, leased, managed in, or adjacent to, protected areas and areas of high biodiversity value outside protected areas	N/A	N/A
G4-EN12	Description of significant impacts of activities, products, and services on biodiversity in protected areas and areas of high biodiversity value outside protected areas	N/A	N/A
G4-EN13	Habitats protected or restored	N/A	N/A
G4-EN14	Total number of IUCN Red List species and national conservation list species with habitats in areas affected by operations, by level of extinction risk	N/A	N/A
Emissions			
G4-EN15	Direct greenhouse gas (GHG) emissions	Environment report	90
G4-EN16	Energy indirect greenhouse gas (GHG) emissions	N/A	N/A
G4-EN17	Other indirect greenhouse gas (GHG) emissions	N/A	N/A
G4-EN18	Greenhouse gas (GHG) emissions intensity	N/A	N/A
G4-EN19	Reduction of greenhouse gas (GHG) emissions	N/A	N/A
G4-EN20	Emissions of ozone-depleting substances (ODS)	N/A	N/A
G4-EN21	NOX, SOX, and other significant air emissions	N/A	N/A
Effluents and Waste			
G4-EN22	Total water discharge by quality and destination	Environment report	90
G4-EN23	Total weight of waste by type and disposal method	N/A	N/A
G4-EN24	Total number and volume of significant spills	N/A	N/A
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the Basel Convention ² Annex I, II, III, and VIII, and percentage of transported waste shipped internationally	N/A	N/A
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly affected by the organization's discharges of water and runoff	N/A	N/A
Products and Services			
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	N/A	N/A
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	N/A	N/A
Compliance			
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	N/A

GRI Content Index Tool

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
Transport			
G4-EN30	Significant environmental impacts of transporting products and other goods and materials for the organization's operations, and transporting members of the workforce	Not reported	N/A
Overall			
G4-EN31	Total environmental protection expenditures and investments by type	Not reported	N/A
Supplier environmental assessment			
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Not reported	N/A
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Not reported	N/A
Environmental grievance mechanism			
G4-EN34	Number of grievances about environmental impacts filed, addressed, and resolved through formal grievance mechanisms	Not reported	N/A
Social			
Disclosures on Management Approach (Sustainability Report, Sustainability Policy and Framework)			
Employment: Labour practices and Decent Work			
G4-LA1	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Developing our people	86-88
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Developing our people	86-88
G4-LA3	Return to work and retention rates after parental leave, by gender	Not reported	N/A
Employment: Labour management relations			
G4-LA4	Minimum notice periods regarding operational changes, including whether these are specified in collective agreements	Developing our people	86-88
Employment: Occupational health and safety			
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programs	Developing our people	86-88
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, and absenteeism, and total number of work-related fatalities, by region and by gender	Not Reported	N/A
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	Not Reported	N/A

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
G4-LA8	Health and safety topics covered in formal agreements with trade unions	Developing our people	86-88
Employment: Training and Education			
G4-LA9	Average hours of training per year per employee by gender, and by employee category	Developing our people	86-88
G4-LA10	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Developing our people	86-88
G4-LA11	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Employee productivity indicator	87
Employment: Diversity and Equal Opportunity			
G4-LA12	Composition of governance bodies and breakdown of employees per employee category according to gender, age group, minority group membership, and other indicators of diversity	Developing our people	86-88
Employment: Equal Remuneration for Men and Women			
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Developing our people	86-88
Employment: Supplier Assessment for Labour Practices			
G4-LA14	Percentage of new suppliers that were screened using labour practices criteria	Not Reported	N/A
G4-LA15	Significant actual and potential negative impacts for labour practices in the supply chain and actions taken	None	N/A
Employment: Labour Practices Grievance Mechanism			
G4-LA16	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Developing our people	80-88
Human Rights: Investment			
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	N/A	N/A
G4-HR2	Total hours of employee training on human rights policies or procedures concerning aspects of human rights that are relevant to operations, including the percentage of employees trained	Developing our people	86-88
Human Rights: Non-discrimination			
G4-HR3	Total number of incidents of discrimination and corrective actions taken	None	N/A

GRI Content Index Tool

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
Human Rights: Freedom of Association and Collective bargaining			
G4-HR4	Operations and suppliers identified in which the right to exercise freedom of association and collective bargaining may be violated or at significant risk, and measures taken to support these rights	Developing our people	80-88
Human Rights: Child Labour			
G4-HR5	Operations and suppliers identified as having significant risk for incidents of child labour, and measures taken to contribute to the effective abolition of child labour	N/A	N/A
Human Rights: Forced or Compulsory Labour			
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labor, and measures to contribute to the elimination of all forms of forced or compulsory labor	None	N/A
Human Rights: Security Practices			
G4-HR7	Percentage of security personnel trained in the organization's human rights policies or procedures that are relevant to operations	None	N/A
Human Rights: Indigenous Rights			
G4-HR8	Total number of incidents of violations involving rights of indigenous peoples and actions taken	None	N/A
Human Rights: Assessment			
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	None	N/A
Human Rights: Supplier Human Rights Assessment			
G4-HR10	Percentage of new suppliers that were screened using human rights criteria	None	N/A
G4-HR11	Significant actual and potential negative human rights impacts in the supply chain and actions taken	None	N/A
Human Rights: Human Rights Grievance Mechanism			
G4-HR12	Number of grievances about human rights impacts filed, addressed, and resolved through formal grievance mechanisms	Not Reported	N/A
Society: Local Communities			
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments, and development programs	Corporate social responsibility	89
G4-SO2	Operations with significant actual or potential negative impacts on local communities	Our operations do not have any significant negative impacts on local communities	N/A
G4-FS13	Access points in low-populated or economically disadvantaged areas by type	Partnering our customers	84-85

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
G4-FS14	Initiatives to improve access to financial services for disadvantaged people.	Not Reported	N/A
Society: Anti-corruption			
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Risk management	205-218
G4-SO4	Communication and training on anti-corruption policies and procedures	Developing our people	86-88
G4-SO5	Confirmed incidents of corruption and actions taken	Disciplinary actions initiated against such incidents	N/A
Society: Public Policy			
G4-SO6	Total value of political contributions by country and recipient/beneficiary	There have been no political contributions	N/A
Society: Anti-competitive Behaviour			
G4-SO7	Total number of legal actions for anti-competitive behavior, anti-trust, and monopoly practices and their outcomes	Not Reported	N/A
Society: Compliance			
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Not Reported	N/A
Society: Supplier Assessment for Impacts on Society			
G4-SO9	Percentage of new suppliers that were screened using criteria for impacts on society	None	N/A
G4-SO10	Significant actual and potential negative impacts on society in the supply chain and actions taken	None	N/A
Society: Grievance Mechanism for Impacts on Society			
G4-SO11	Number of grievances about impacts on society filed, addressed, and resolved through formal grievance mechanisms	None	N/A
Product Responsibility: Customer Health and Safety			
G4-PR1	Percentage of significant product and service categories for which health and safety impacts are assessed for improvement	Our services do not have a significant negative impact on health and safety.	N/A
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	N/A	N/A
Product Responsibility: Product and Service Labelling			
G4-PR3	Type of product and service information required by the organization's procedures for product and service information and labeling, and percentage of significant product and service categories subject to such information requirements	Partnering our customers	84-85

GRI Content Index Tool

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/Comments/Reasons for omission	Page
G4-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
G4-PR5	Results of surveys measuring customer satisfaction	None	N/A
Product Responsibility: Marketing Communications			
G4-PR6	Sale of banned or disputed products	None	N/A
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	Not reported	N/A
NGO-10	Adherence to standards for fundraising and marketing communication practices.	None	N/A
Product Responsibility: Customer Privacy			
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Not reported	N/A
Product Responsibility: Compliance			
G4-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 2014	N/A
Product Responsibility: Product Portfolio			
G4-FS6	Percentage of the portfolio for business lines by specific region, size (e.g. micro/sme/large) and by sector	Business unit review	73-76
G4-FS7	Monetary value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Risk management Industry analysis risk concentration	205-218
G4-FS8	Monetary value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Risk management	205-218
G4-FS9	Coverage and frequency of audits to assess implementation of environmental & social policies and risk management	Not reported	N/A

Directors' Statement on Internal Control

The Board of Directors is pleased to present the Directors' Statement on Internal Control over financial reporting 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 & Finance PLC's (MBSL) system of internal controls. However, such a system is designed to manage the MBSL's key areas of risk within an acceptable risk profile, rather than eliminate the risk of failure to achieve the policies and business objectives of MBSL. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

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

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

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced by MBSL and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

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 MBSL complies with policies and procedures, evaluate the effectiveness of the internal control system in place and highlights significant findings in respect of any non-compliance on an ongoing basis. Internal audits are carried out on all departments and branches, the frequency of which is determined by

the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.

- The Audit Committee of the company, review internal control issues identified by the internal audit division, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. Further it highlights the areas that need more internal controls while suggesting improvements to existing internal controls. The minutes of the Audit Committee meetings are tabled to the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the company are set out in the Audit Committee Report on page 118.
- 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 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 MBSL has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the statement by external Auditors

The external auditors have reviewed the above mentioned Directors' statement of internal controls over financial reporting 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 105 of this Annual Report.

For and on behalf of the Board,



R P K Gallage

Chairman



S S Gamage

Director



B Premalal

Chairman

Audit Committee

26 February 2015

Colombo

Independent Assurance Report

SJMS

ASSOCIATES
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**To the Board of Directors of Merchant
Bank of Sri Lanka & Finance PLC**

Introduction

We were engaged by the Board of Directors of Merchant Bank of Sri Lanka and Finance PLC (the "Company") to provide assurance on the Directors' Statement on Internal Control over Financial Reporting (the "Statement") included in the annual report for the year ended 31st December 2014.

Management's responsibility for the Statement on Internal Control

Management is responsible for the sufficiency and reliability of internal controls in place at the company as specified in the Financing Leasing Direction No. 04 of 2009 ("direction"), and to prepare and present the Statement as required by section 10 (2) (b) in accordance with the direction.

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

We conducted our engagement to assess whether the Statement is supported by the documentation prepared by or for Directors; and appropriately reflected the process the Directors have adopted in reviewing the system of internal control over financial reporting of the Company.

The procedures performed were limited primarily to inquiries of Company personnel and the existence of documentation on a sample basis that supported the process adopted by the Board of Directors.

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 financial reporting of the Company.



SJMS ASSOCIATES

Chartered Accountants

21 May 2015

Colombo



SYNNE

With the unified strength of our abled ally we are expanding our expertise from Finance to multiple business verticals, in pursuit of our quest for innovation.

A vertical photograph of a forest. Sunlight filters through the dense green canopy, creating a bright, hazy atmosphere. A stone path leads from the bottom left towards the center of the image. Large, moss-covered tree trunks are visible on the right side. The overall mood is peaceful and natural.

ENERGY

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

The Directors have pleasure in presenting to the shareholders their report together with the Audited Financial Statements for the year ended 31 December, 2014 of Merchant Bank of Sri Lanka & Finance PLC (formerly known as Merchant Bank of Sri Lanka PLC) 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.

Lanka Rating Agency Limited has reaffirmed an AA - rating for the company.

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

This report provides the information as required by the Companies Act No. 07 of 2007, 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 26 February 2015.

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, 2014)

Information required to be disclosed as per the Companies Act No. 07 of 2007		Reference (section of the Companies Act No. 7 of 2007)	Extent of compliance by the Company
i	The nature of the business of the group and the company together with any change thereof during the accounting period and the classes of business in which the company has an interest.	Section 168 (1) (a)	Refer on page 126
ii	Signed financial statements of the group and the company for the accounting period completed	Section 168 (1) (b)	Refer on page 120
iii	Auditors' report on financial statements of the group and the company	Section 168 (1) (c)	Refer on page 119
iv	Accounting policies and any changes therein (group also included)	Section 168 (1) (d)	Refer on page 126
v	Particulars of the entries made in the interest register during the accounting period	Section 168 (1) (e)	Refer on page 190
vi	Fees and other benefits paid to directors of the company and its subsidiaries during the accounting period	Section 168 (1) (f)	Refer on page 111
vii	Information on donations made by the company during the accounting period	Section 168 (1) (g)	Refer on page 89
viii	Information on directorate of the company and its subsidiaries during and at the end of the accounting period	Section 168 (1) (h)	Refer on pages 20 - 27
ix	Disclosure on amounts payable to the auditors as audit fees and a separate disclosure on amounts payable to the auditors as fees for other services rendered during the accounting period	Section 168 (1) (i)	Refer on page 149
x	Auditors' relationship with the company (other than in the capacity of the company's auditor) or any interest the auditors has in the company and/or its subsidiaries	Section 168 (1) (j)	Refer on page 149
xi	Acknowledgement of the contents of this report/signatures on behalf of the board by any two Directors and the Company Secretary	Section 168 (1) (k)	Refer on page 115

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

Principal Activities

Until the amalgamation which took effect on 1 January, 2015, Merchant Bank of Sri Lanka & Finance PLC (MBSL) was a registered finance leasing establishment under the provisions of the Finance Leasing Act No.56 of 2000, while today MBSL has been granted a license to carry on finance business by the Monetary Board of Central Bank of Sri Lanka under the Finance Business Act No 42 of 2011 (for more details, please see the segment below). Until the said amalgamation, MBSL had two subsidiaries, namely, MBSL Insurance Company Limited, MBSL Savings Bank Limited and two associate companies, namely, MBSL Financial Services Limited and Lanka Securities (Private) Limited, which together constituted the group.

The activities of the company, post-amalgamation, include Leasing and Hire Purchase, Corporate and Retail Credit, Paving, Real Estate, Deposit Mobilization, Corporate Advisory and Capital Market activities. The company has also diversified its business activities to cover lending to SMEs and Agriculture Sectors and the business activities of the company will be further diversified to cover the core areas permitted under the Finance Business Act No. 42 of 2011.

Changes to the Group Structure

Merger of MBSL Financial Services Limited and MBSL Savings Bank Limited with Merchant Bank of Sri Lanka & Finance PLC

Pursuant to the requirement imposed by the Central Bank of Sri Lanka (CBSL) in terms of the Master Plan on Consolidation of the Financial Sector, MBSL Savings Bank Limited (MSB) was requested to merge with MBSL Financial Services Limited (MBSL) and MBSL (which is the surviving entity) and to operate as a Licensed Finance Company.

Accordingly, the Shareholders of MBSL, MSB and MBSL approved, by way of Special Resolutions passed at the Extraordinary General Meetings of each respective company held on 13 October, 2014, in accordance with section 241 (5) of the Companies Act, the aforesaid amalgamation and the shareholders of MBSL also approved the change of its name from 'Merchant Bank of Sri Lanka PLC' to 'Merchant Bank of Sri Lanka & Finance PLC' in order to comply with the requirements contained in the Finance Business Act No 42 of 2011 with regard to names.

In view of the above, a name change certificate pursuant to Section 8 of the Companies Act No. 7 of 2007 and a Certificate of Amalgamation pursuant to Section 244 of the aforesaid Act was issued by the Registrar General of Companies on 21 November, 2014 and 1 January, 2015, respectively. Further, the amalgamated company was issued a license to carry on finance business by the Monetary Board of Central Bank of Sri Lanka under the Finance Business Act No 42 of 2011 on 1 January, 2015.

Review of Operations

A review of the operations of the MBSL during the financial year 2014 and results of those operations are contained in the Chairman's Review (pages 13 to 17), the Chief Executive Officer's Review (pages 18 to 19), and Our performance (pages 68 to 76). 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 2014 duly signed by the Deputy General Manager - Finance & Strategic Planning, the Chief Executive Officer and approved by the Board of Directors of the company are given on pages 120 to 218 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 company and the group, 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 pages 120 to 218 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these financial statements also comply with the requirements of the Finance Leasing Act No. 56 of 2000, Finance Business Act No 42 of 2011, Regulation of Insurance Industry Act No 43 of 2000 and Banking Act No 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility for Financial Reporting' appearing on page 116 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 31st December 2014, and the Auditors' Report issued thereon is given on page 119 as required by 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 company and group are given on pages 126 to 146 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 42 to the Financial Statements on pages 190 to 192 of the Annual Report, dealing with related party disclosures.

Directors' Remuneration

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

	Company Rs./Mn	Group Rs./Mn
Directors' Fees and Emoluments	5.43	8.91

Corporate Donations

During the year under review, the Company has made donations amounting to LKR 70,000 (2013 –LKR 36,000) 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 2014

	2014 Rs./Mn	2013 Rs./Mn
Income	4,244	5,227
Operating profit before taxation	145	(81)
Income tax expense	86	79
Profit for the year	59	(160)
Non-controlling interests	(21)	(58)
Profit attributable to equity holders of the parent	79	(102)

Taxation

The Company is liable for income tax at the rate of 28% (28% in 2013) and VAT on Financial Services at 12% (12% in 2013) and NBT on Financial Services at 2% which was introduced from January 2014.

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.

	2014 Rs./Mn	2013 Rs./Mn
Statutory Reserve Fund	142	130
Available for Sale Reserve	52	5
Investment Fund Reserve	-	101
Retained Earnings	1,024	924

Information on the movement of reserves is given in the Statement of Changes in Equity on page 124 and in note 40 to the Financial Statements on pages 187 and 188.

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

Property & Equipment

The details of property and equipment of the Company are given on pages 176 to 178 under note 28

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 177

Issue of Shares and Debentures

The Company did not issue any shares during the financial year but issued debentures during the year. The details of the debenture issued by the company are given in the table below.

Listed Debentures issued during the year 2014	November
No. of Debentures issued	20,000,000
Consideration received (Rs.)	2,000,000,000

The details of the shares issued by the subsidiary, MBSL Insurance Company Limited are given in the table below.

Details of the rights issue of shares issued by MBSL Insurance Company Limited	Voting Shares
No. of shares issued	158,565,801
Consideration received (Rs.)	198,207,251

Stated Capital and Debentures

The Stated Capital as at 31 December 2014 was LKR 1,607 Mn., comprising of 135,000,000 ordinary voting shares. The details of the Stated Capital are given in Note 39 to the Financial Statements on page 187.

The details of debentures redeemed during the year 2014 and those outstanding as at 31 December 2014 are given in Note 33 to the Financial Statements on pages 182 and 183.

Share Information

Information relating to earnings and net assets and market value per share, trading of the shares and movements in the number of shares represented by the stated capital of the Company is given in the section on 'Share & Debenture Information' on pages 219 to 222.

Substantial Shareholdings

Information on Top Twenty Shareholders

Details of the top twenty shareholders, percentages of their respective holdings and percentage holding of the public are given in the Section on Share and Debenture information on page 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 2014 are given below and their attendance at the board meetings during the year is given on page 63 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent /Non-Independent Status
Mr. M R Shah (Chairman) (Resigned w.e.f. 23.01.2015)	Non Executive Director	Non-Independent
Mr. M S S Paramananda (Resigned w.e.f. 13.03.2015)	Non Executive Director	Independent
Mr. P G Rupasinghe (Resigned w.e.f. 13.03.2015)	Non Executive Director	Senior Independent
Mr. D M Gunasekara	Non Executive Director	Non-Independent
Mr. K B S Bandara (Resigned w.e.f. 26.03.2015)	Non Executive Director	Non-Independent
Mr. A B Lalith A De Silva (Resigned w.e.f. 13.03.2015)	Non Executive Director	Non-Independent
Mr. C R Jayawarna (Resigned w.e.f. 13.03.2015)	Non Executive Director	Independent
Mr. W P R P H Fonseka	Alternate Director to Mr D M Gunasekara	Non-Independent
Mr. A M P Amarakoon (Resigned w.e.f. 13.03.2015)	Alternate Director to Mr. M S S Paramananda	Independent

Mr A M P Amarakoon was appointed as the Alternate Director to Mr. M S S Paramananda with effect from 29th September 2014.

Mr. Dassanayake Mudiyansele Gunasekara, Non Executive Non Independent Director retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.

Resignations after 1st January 2015

Mr. M R Shah has resigned from the Board of MBSL w.e.f. 23.01.2015.

Mr. P G Rupasinghe, Mr. M S S Paramananda, Mr. A B Lalith A De Silva, Mr. C R Jayawarna, Mr. Raju Sivaraman, Mr. W C K Wickramarachchi and Mr. A M P Amarakoon (Alternate Director to Mr. M S S Paramananda) resigned from the Board of MBSL w.e.f. 13.03.2015

Mr. K B S Bandara has resigned from the Board of MBSL w.e.f. 26.03.2015.

Appointments after 1st January 2015

Mr. Raju Sivaraman was appointed to the Board with effect from 01.01.2015 as a Non Executive Non Independent Director

Mr. Wickramarachchige Chandana Kumara Wickramarachchi was appointed to the Board with effect from 01.01.2015 as a Non Executive Non Independent Director

Mr. Ruwan Prithi Kumara Gallage (Chairman) was appointed to the Board with effect from 13.03.2015 as a Non Executive Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Mr. Sandun Sudhath Gamage was appointed to the Board with effect from 13.03.2015 as a Non Executive Non Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Mr. Ajith Hiran Samarasundera was appointed to the Board with effect from 13.03.2015 as a Non Executive Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Mr. Silhan Lazimo Rahaman was appointed to the Board with effect from 13.03.2015 as a Non Executive Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Mr. Arun Pradeep Maharaja was appointed to the Board with effect from 13.03.2015 as a Non Executive Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

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

Mr. Brahmanage Premalal was appointed to the Board with effect from 13.03.2015 as a Non Executive Non Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Mr. Laththuwahandi Chandrasiri De Silva was appointed to the Board with effect from 18.03.2015 as a Non Executive Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Mr. Brian Jeyaranjit Sinniah was appointed to the Board with effect from 26.03.2015 as a Non Executive Non Independent Director, being eligible offers himself for election in terms of Article 93 of the Articles of Association of the Company.

Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings namely Audit Committee, Integrated Risk Management Committee and Remuneration Committee are presented on pages 63.

Directors' Interest in Shares of the Company

None of the Directors of the Board held shares of the Company as at 31 December 2014.

Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on pages 190 to 192.

Environmental Protection

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 44 to the Financial Statements on page 196 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 2015.

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, Messrs SJMS Associates were paid LKR 860,000 for the year ended 31 December 2014 as audit fees by the Company. In addition, they were paid LKR 628,000 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 pages 37 to 45.

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, the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 46 to 63.

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, Colombo on 25th June 2015 at 10.00 a.m. The Notice of the Meeting relating to the Thirty Third Annual General Meeting is given on page 240.

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:



R P K Gallage
Chairman



D M Gunasekara
Director



K Jayatilake
Company Secretary

26 February 2015.
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 119 of the Annual Report.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that the company and the group keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Company and the Group as at end of each financial year and of the financial performance of the Company and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31 December 2014, 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 2014 have been prepared and presented based on new Sri Lanka Accounting Standards (SLFRS / LKAS), 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 financial statements.

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

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 Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission, 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.



Karnika Jayatilake

Company Secretary

26 February 2015
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 (Resigned w.e.f. 23.01.2015)

Mr. P G Rupasinghe - Member/ Non Executive Senior 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 2014, only one meeting has been held.

The attendance of the members of this meeting is given on page 63 of the Annual Report.

The Committee is responsible in establishing a broad remuneration 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 approval. Currently there are no executive Directors on the Board. The remuneration policy of the Company endeavors to attract, motivate and retain quality management in 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 Board sub committee meetings per sitting and also a reimbursable travelling allowance. The total Directors' emoluments are disclosed in Note 13 on page 149 of the Financial Statements.



R P K Gallage
Chairman
Remuneration Committee

26 February 2015

Colombo

Audit Committee Report

The Audit Committee of the MBSL which functions as a sub-committee of the Main Board, assists the Main Board in fulfilling its oversight responsibilities. The Committee comprises of five Non Executive Directors, namely Mr. W.P.R.P.H Fonseka - Chairman, Mr. K.B.S Bandara (resigned w.e.f 26.03.2015), Mr.P.G Rupasinghe (resigned w.e.f 13.03.2015), Mr.C.R. Jayawarna (resigned w.e.f 13.03.2015) and Mr. M.S.S Paramananda (resigned w.e.f 13.03.2015). The profiles of the members of the committee are given on pages 22 to 27. The Chief Executive Officer, Deputy General Manager - Finance & Strategic Planning, and the Assistant General Manager - Group Internal Audit attend meetings by invitation. The Company Secretary is the Secretary to the Committee. A total of 16 meetings were held during the year 2014.

Key Responsibilities of the 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, 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 mitigatory 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 2015. 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 approved the extension of the period of engagement of the External Auditors' by one year and recommended to the Board their re-appointment for the financial year ending 31 December 2015.

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.



B. Premalal
Chairman
Audit Committee

26 March 2015
Colombo

Independent Auditor's Report

SJMS

A S S O C I A T E S
Independent Correspondent Firm to
Deloitte Touche Tohmatsu

SJMS Associates
Chartered Accountants
No. 02, Castle Lane,
Colombo 04, Sri Lanka.

Tel: +94(11) 2580409, 5444400

Fax: +94(11) 2582452

Restructure & Corporate Recovery
Tel: 5364293, 5444420 Fax: 5364295

E-mail: simsa@sjmsassociates.com

Website: www.sjmsassociates.lk

TO THE SHAREHOLDERS OF MERCHANT BANK OF SRI LANKA & FINANCE PLC

Report on the Financial Statements

We have audited the accompanying financial statements of Merchant Bank of Sri Lanka & Finance PLC ("the Company"), and the consolidated financial statements of the Company and its subsidiaries ("the Group"), which comprise the statement of financial position as at 31st December 2014, and the statements of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Board's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the group as at 31st December 2014 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

As required by section 163(2) of the Companies Act No. 07 of 2007, we state the following:

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - The financial statements of the Company give a true and fair view of its financial position as at 31st December 2014, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
 - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act.

Further, we draw your attention to note 46 (a) in the financial statements regarding MBSL Insurance Company Limited's non compliance with the Solvency Margin (Long term Insurance) Rules, 2002, issued by the Insurance Board of Sri Lanka under section 26 (1) of Insurance Industry Act No. 43 of 2000.

SJMS ASSOCIATES

Chartered Accountants

14th May 2015

Colombo

Income Statement

for the year ended 31 December	Note	Company		Group	
		2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Income	2	2,539,185	2,355,366	4,244,244	5,227,315
Interest and similar income	3	2,339,084	2,265,836	2,849,003	3,796,807
Interest and similar expenses	4	(1,227,296)	(1,371,937)	(1,463,005)	(2,364,151)
Net interest income		1,111,788	893,899	1,385,998	1,432,656
Fee and commission income	5	43,893	48,350	89,792	101,326
Fee and commission expenses	6	-	-	(95,511)	(139,836)
Net fee and commission income		43,893	48,350	(5,719)	(38,510)
Insurance premium income	7	-	-	1,128,785	1,236,163
Net claims and benefits		-	-	(742,843)	(942,778)
Net gain / (loss) from trading	8	(1,361)	(5,768)	(994)	(4,435)
Net gain on financial assets designated at fair value through profit or loss	9	97,525	7,061	102,384	9,322
Other operating income	10	60,044	39,887	75,274	88,132
Total operating income		1,311,889	983,429	1,942,885	1,780,550
Impairment charges for loans and other losses	11	(238,078)	(208,683)	(276,244)	(251,792)
Net operating income		1,073,811	774,746	1,666,641	1,528,758
Personnel expenses	12	(362,301)	(310,122)	(600,609)	(697,986)
Retirement benefit expenses	38.1	(30,759)	(27,024)	(37,163)	(39,738)
Depreciation of property, equipment & investment properties		(17,966)	(19,231)	(51,900)	(70,957)
Amortization of intangible assets		(3,534)	(1,908)	(12,717)	(7,702)
Other operating expenses	13	(293,953)	(216,365)	(700,689)	(749,363)
Total operating expenses		(708,513)	(574,650)	(1,403,078)	(1,565,746)
Operating profit / (loss) before Value Added Tax (VAT)		365,298	200,096	263,563	(36,988)
Value Added Tax on financial services		(38,468)	(24,214)	(40,900)	(43,308)
Share of associate companies' loss before tax	14.1	-	-	(77,869)	(606)
Profit / (loss) before income tax		326,830	175,882	144,794	(80,902)
Income tax expense	15	(83,957)	(58,942)	(86,016)	(78,851)
Profit / (loss) for the year		242,873	116,940	58,778	(159,753)
Profit / (loss) for the year attributable to:					
Equity holders of the parent		242,873	116,940	79,359	(102,121)
Non controlling interests		-	-	(20,581)	(57,632)
Profit / (loss) for the year		242,873	116,940	58,778	(159,753)
Earnings per share:					
Basic/diluted earnings per share (Rs.)	16	1.80	0.87	0.59	(0.76)

The accounting policies and notes to the financial statements from pages 126 to 218 form an integral part of the financial statements.

Statement of Comprehensive Income

for the year ended 31 December	Note	Company		Group	
		2014 Rs:'000	2013 Rs:'000	2014 Rs:'000	2013 Rs:'000
Profit /(loss) for the year		242,873	116,940	58,778	(159,753)
Other comprehensive income					
Actuarial gains/(losses) on defined benefit plans	38	(6,938)	1,029	(1,548)	637
Available for sale financial assets:					
Net change in fair value		54,708	40,261	49,782	75,687
Fair value losses realized and recycled to the income statement on disposal		-	(922)	-	(922)
Recycling to the income statement for impairment		(3,600)	-	(3,600)	-
Share of associates companies' other comprehensive income	14.2	-	-	(688)	2,014
Other comprehensive income before tax		44,170	40,368	43,946	77,416
Income tax charge / (reversal) relating to components of other comprehensive income	15	2,231	(2,591)	2,231	(2,591)
Other comprehensive income for the year, net of tax		46,401	37,777	46,177	74,825
Total comprehensive income for the year, net of tax		289,274	154,717	104,955	(84,928)
Total comprehensive income attributable to:					
Equity holders of the parent		289,274	154,717	125,363	(35,759)
Non controlling interests		-	-	(20,408)	(49,169)
Total comprehensive income for the year, net of tax		289,274	154,717	104,955	(84,928)

The accounting policies and notes to the financial statements from pages 126 to 218 form an integral part of the financial statements.

Statement of Financial Position

as at 31 December	Note	Company		Group	
		2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Assets					
Cash and cash equivalents	18	171,537	180,104	281,324	275,688
Placements with banks	19	519,282	784,480	1,342,986	1,186,017
Securities purchased under resale agreements	20.1	465,211	140,768	1,313,486	469,958
Financial assets designated at fair value through profit or loss	21	367,530	262,817	419,224	285,545
Loans & advances to customers					
Bills receivable	22.1	644,625	627,283	644,625	627,283
Loans & advances	22.2	3,764,328	2,342,414	4,644,587	3,640,429
Lease and hire purchase receivable	22.3	7,333,505	6,935,706	7,921,146	7,959,842
Financial investments - available for sale	23	737,610	667,855	1,220,632	1,427,400
Financial investments - held to maturity	24	-	-	70,090	100,957
Investments in associate companies	25	102,002	102,002	341,295	438,234
Investments in subsidiaries	26	1,104,311	906,104	-	-
Investment properties	27	52,011	52,829	52,011	52,829
Property and equipment	28	85,124	86,356	197,127	223,180
Intangible assets	29	12,356	8,776	169,437	170,776
Other assets	30	167,903	171,306	650,923	700,434
Total assets		15,527,335	13,268,800	19,268,893	17,558,572
Liabilities					
Due to banks	31	181,110	99,118	198,583	152,338
Securities sold under repurchase agreements	20.2	442,170	-	442,170	-
Due to customers	32	-	-	2,453,539	2,824,918
Debt issued and borrowed funds	33	11,032,268	9,623,147	11,034,267	9,625,317
Insurance provision - life	34.1	-	-	349,901	220,748
Insurance provision - non life	34.2	-	-	607,307	733,060
Current tax liabilities	35	208,001	165,284	208,001	165,284
Deferred tax liabilities	36	91,403	64,757	91,403	64,757
Other liabilities	37	376,580	375,399	724,196	681,461
Retirement benefits obligations	38	193,153	160,219	213,468	183,176
Total liabilities		12,524,685	10,487,924	16,322,835	14,651,059

as at 31 December	Note	Company		Group	
		2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Equity					
Stated capital	39	1,607,000	1,607,000	1,607,000	1,607,000
Statutory reserves	40	140,544	228,515	142,058	231,250
Retained earnings	40	1,211,621	952,984	1,024,288	924,458
Available-for-sale reserve	40	43,485	(7,623)	52,225	5,000
Total equity attributable to equity holders of the parent		3,002,650	2,780,876	2,825,571	2,767,708
Non controlling interests		-	-	120,487	139,805
Total equity		3,002,650	2,780,876	2,946,058	2,907,513
Total liabilities and equity		15,527,335	13,268,800	19,268,893	17,558,572
Commitments and contingent liabilities	48	48,711	48,442	83,125	119,802
Net Assets Value per share (Rs.)		22.24	20.60	20.93	20.50

The accounting policies and notes to the financial statements from pages 126 to 218 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.



H M P B Herath

Deputy General Manager
Finance & Strategic Planning



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.



R P K Gallage

Chairman



B Premalal

Director

14 May 2015

Colombo, Sri Lanka

Statement of Changes in Equity

Company	Stated capital	Investment fund	Statutory reserves	Available for sale reserve	Retained earnings	Total equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January 2013	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, net of tax	-	-	-	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
Net profit for the year	-	-	-	-	242,873	242,873
Other comprehensive income, net of tax	-	-	-	51,108	(4,707)	46,401
Investment fund transfers to retained earnings	-	(100,115)	-	-	100,115	-
Dividends paid	-	-	-	-	(67,500)	(67,500)
Transfers to statutory reserves	-	-	12,144	-	(12,144)	-
Balance as at 31 December 2014	1,607,000	-	140,544	43,485	1,211,621	3,002,650

Group	Stated capital	Investment fund	Statutory reserves	Available for sale reserve	Retained earnings	Non controlling interest	Total equity
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Balance as at 01 January 2013	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, net of tax	-	-	-	66,225	137	8,463	74,825
Rights issue	-	-	-	-	-	21,955	21,955
Prior year adjustments	-	-	-	-	(26,557)	(7,482)	(34,039)
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	101,336	129,914	5,000	924,458	139,805	2,907,513
Net profit for the year	-	-	-	-	79,359	(20,581)	58,778
Other comprehensive income, net of tax	-	-	-	47,225	(1,221)	173	46,177
IFA transfers to retained earnings	-	(101,336)	-	-	101,336	-	-
Rights issue	-	-	-	-	-	1,090	1,090
Dividends paid	-	-	-	-	(67,500)	-	(67,500)
Transfers to statutory reserves	-	-	12,144	-	(12,144)	-	-
Balance as at 31 December 2014	1,607,000	-	142,058	52,225	1,024,288	120,487	2,946,058

The accounting policies and notes to the financial statements from pages 126 to 218 form an integral part of the financial statements.

Statement of Cash Flows

for the year ended 31 December	Notes	Company		Group	
		2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Cash flows from operating activities					
Profit before income tax		326,830	175,882	144,794	(80,902)
Adjustments for :					
Change in operating assets	41.2	(2,080,149)	(605,654)	(1,217,952)	4,718,804
Change in operating liabilities	41.3	1,181	208,857	(325,244)	(4,455,993)
Share of associate companies' loss before tax		-	-	77,869	606
Contribution to defined benefit plans		30,759	27,024	37,163	39,738
Other non-cash items included in profit before tax	41.4	88,627	120,288	163,994	162,768
Provision for VAT on financial services		38,468	24,214	40,900	43,308
Dividends received		(23,711)	(9,535)	(8,550)	(12,424)
Deemed disposal of a subsidiary (MCSL)		-	-	-	(658,654)
		(1,617,995)	(58,924)	(1,087,026)	(242,749)
Gratuity paid		(4,763)	(5,021)	(8,419)	(5,829)
Net cash used in operating activities before income tax		(1,622,758)	(63,945)	(1,095,445)	(248,578)
Income tax paid		(4,490)	(6,475)	(4,490)	(6,475)
Net cash used in operating activities		(1,627,248)	(70,420)	(1,099,935)	(255,053)
Cash flows from investing activities					
Purchase of financial assets designated at FVPL		(468,942)	(56,180)	(517,895)	(62,585)
Proceeds from disposal of financial assets designated at FVPL		453,005	96,794	477,056	152,644
Purchase of financial investments-AFS		(187,246)	(170,651)	(263,850)	(429,168)
Net proceeds from sale of financial investments-AFS		212,794	300,000	560,989	300,000
Proceeds from financial investments-HTM		-	-	30,867	406,780
Additions to investment properties		-	(7,000)	-	(7,000)
Purchase of property & equipment		(15,929)	(11,542)	(25,658)	(58,822)
Purchase of intangible assets		(7,114)	(3,508)	(11,378)	(47,186)
Proceeds from sale of investment properties and non current assets held for sale		-	-	-	47,524
Proceeds from sale of property & equipment		73	7,443	109	9,338
Dividends received		23,711	9,535	24,873	12,424
Net investment in subsidiary		(198,207)	(329,283)	-	-
Net cash generated from / (used in) investing activities		(187,855)	(164,392)	275,113	323,949
Cash flows from financing activities					
Net increase / (decrease) reverse repo and repo agreements		117,724	(443,698)	(401,358)	(314,992)
Net increase / (decrease) in other borrowings		172,842	(1,316,657)	172,670	(1,699,710)
Proceeds from issue of shares		-	-	1,090	21,955
Proceeds from issue of debentures		2,000,000	3,000,000	2,000,000	3,000,000
Payments on redemption of debentures		(763,720)	(230,000)	(763,720)	(230,000)
Dividends paid		(67,500)	(67,500)	(67,500)	(67,500)
Net cash generated from financing activities		1,459,346	942,145	941,182	709,753
Net increase / (decrease) in cash and cash equivalents during the year		(355,757)	707,333	116,360	778,649
Cash and cash equivalents at the beginning of the year		865,466	158,133	1,309,367	530,718
Cash and cash equivalents at the end of the year		509,709	865,466	1,425,727	1,309,367
Analysis of cash and cash equivalents, at the end of the year					
	41.1				
Cash and short term funds		690,819	964,584	1,624,310	1,461,705
Dues to banks with original maturity less than three months		(181,110)	(99,118)	(198,583)	(152,338)
		509,709	865,466	1,425,727	1,309,367

The accounting policies and notes to the financial statements from pages 126 to 218 form an integral part of the financial statements.

Notes to the Financial Statements

1.1 Corporate information

1.1.1 Reporting entity

Merchant Bank of Sri Lanka & Finance PLC (MBSL) is a public quoted company incorporated in 1982 and domiciled in Sri Lanka. It is 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 company changed its name as Merchant Bank of Sri Lanka & Finance PLC with effect from November 21, 2014 and it was formerly known as Merchant Bank of Sri Lanka PLC. The registered office of the Company is located at the Bank of Ceylon Merchant Tower, No. 28, St Michael's Road, Colombo 03.

The ordinary shares of the Company are listed in the Colombo Stock Exchange.

The staff strength of the Company and the group as at 31 December 2014 were 319 and 896. (323 and 956 as at 31 December 2013)

1.1.2 Consolidated financial statement

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC as at and for the year ended December 31, 2014, comprise the 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.

1.1.3 Approval of financial statements by the Board of Directors

The financial statements for the year ended December 31, 2014 were authorised for issue by the Board of Directors on 14 May 2015.

1.1.4 Principal activities and nature of operations

Entity	Principle business activities
Company	
Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit, corporate advisory services, capital market operations, margin trading, micro financing and agricultural credit facilities.
Subsidiaries	
MBSL Savings Bank Limited	Provides a comprehensive range of financial services encompassing accepting deposits (Except current accounts)
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.

1.2 Basis of preparation

1.2.1 Statement of compliance

The financial statements which comprise the income statement, statement of comprehensive income, statement of financial position, statement of changes in equity and the statement of cash flows together with the accounting policies and notes (the 'financial statements') have been prepared in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) as issued by the Institute of Chartered Accountants of Sri Lanka and 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 provides appropriate disclosures as required by the listing rules of the Colombo Stock Exchange.

1.2.2 Responsibility for financial statements

The Board of Directors acknowledges their responsibility in relation to the financial statements, as set out in the 'Annual Report of the Board of Directors on the affairs of the company', 'Directors' Responsibility for Financial Statements' and in the statement appearing with the Statement of Financial Position on pages 109, 116 and 123 respectively, of this Annual Report.

1.2.3 Basis of measurement

The financial statements of the company and 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 Statement of Comprehensive Income.

Item and basis of measurement	Note no./s	Page reference
Available-for-sale financial assets are measured at fair value	23	169 - 170
Financial assets and liabilities held for trading and designated at fair value through profit or loss are measured at fair value.	21	155 - 165
Liability for defined benefit obligations is recognized as the present value of the defined benefit obligation.	38	186 -187

1.2.4 Functional and presentation currency

The consolidated financial statements are presented in Sri Lanka Rupees, which is the Group's functional currency. The functional currency is the currency of the primary economic environment in which the entities of the Group operate.

1.2.5 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 LKAS

01 Presentation of Financial Statements. Where appropriate, the accounting policies are disclosed in the succeeding notes.

1.2.6 Use of materiality, offsetting and rounding

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'.

Assets and liabilities and income and expenses are not set off unless permitted by Sri Lanka Accounting Standards.

All values are rounded to the nearest rupees thousand (RS. '000) unless indicated otherwise.

1.2.7 Significant accounting judgments, estimates and assumptions

The preparation of the financial statements of the company and the group in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses.

Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence, actual experience and results may differ from these judgments and estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised prospectively.

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

- Impairment losses on non financial assets (Note No.27, 28 and 29 on pages 174 to 180)
- Deferred tax liabilities (Note No.36 on page 185)
- Provision for impairment of loans and advances (Note No.22 on pages 166 to 168)
- Retirement benefits obligation (Note No.38 on pages 186 to 187)
- Provision and contingent liabilities (Note No.48 on pages 200 to 204)

Notes to the Financial Statements

1.2.8 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.

1.2.9 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.44 on page 196.

1.3 Significant accounting policies – statement of financial position

1.3.1 Basis of consolidation

The consolidated financial statements comprise the financial statements of the company and its subsidiaries as at December 31, 2014. The financial statements of the subsidiaries are prepared in compliance with the Group's accounting policies unless otherwise stated.

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

The consolidated financial statements for the year ended December 31, 2014 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 companies. The Financial Statements of all companies in the Group have 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 interests.
- 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.

A listing of the company's subsidiaries is set out in Note 26 on page 173.

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 Associates'. 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 associate companies' profit / (loss)' 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 25 on pages 171 and 172.

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

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 transactions

All foreign exchange transactions are converted to functional currency, at the rates of exchange prevailing at the time the transactions are effected.

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

The gain or losses arising on translation of monetary items are recognized in the statement of comprehensive income.

1.3.3 Financial instruments

1.3.3.1 Date of recognition

Financial assets and financial liabilities are initially recognised when a group entity becomes a party to the contractual provisions of the instruments.

1.3.3.2 Initial measurement of financial instruments

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

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'.

Notes to the Financial Statements

1.3.3.3 Classification & subsequent measurement of financial assets

Financial assets are classified in to the following specified 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 classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the timeframe established by regulation or convention in the marketplace.

1.3.3.3.1 Effective interest rate (EIR) method

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

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as fair value through profit or loss (FVTPL).

1.3.3.3.2 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 circumstances. Financial assets held for trading include instruments such as Government and other debt securities and equity instrument that have been acquired principally for the purpose of selling or repurchasing in the near term and derivatives, including separated embedded derivatives explained below unless they are designated as effective hedging instruments.

b) Financial assets and liabilities designated at fair value through profit or loss

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

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

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets designated at fair value through profit or loss'. Interest

earned is accrued in 'Interest income', using the Effective Interest Rate (EIR), while dividend income is recorded in 'Net trading income' when the right to the payment has been established.

Details of Financial assets designated at fair value through profit or loss are given in Note 21 on pages 155 to 165.

c) Available-for-sale financial investments

Available-for-sale financial 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 under 'other operating 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 23 on pages 169 and 170

1.3.3.3.3 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 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 22 on pages 166 to 168.

1.3.3.3.4 Held to maturity financial investments

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates, which the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. Amortised cost is calculated by taking 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 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 24 on page 170.

1.3.3.3.5 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.

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

1.3.3.3.6 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 155.

The cash flow has been prepared by using the indirect method of preparing cash flows. For the purpose of the consolidated statement of 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 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.

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 43 on pages 193 to 195.

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 the 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

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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 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.

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 receivables 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.

1.3.6 Investment properties

Investment properties are properties held either to earn rental income or for capital appreciation or for both. But not for sale in the ordinary Course of business, used in the production or supply of goods or service or for administrative services.

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

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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 28 pages 176 to 178)

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 for the current and comparative years 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 limited 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 29 Pages 179 and 180)

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 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

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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 33 on pages 181 to 183.

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 37 on page 186.

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.

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 38 on pages 186 and 187.

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. (Note No 48 pages 200 to 204)

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. (Note 16 page 150)

1.3.17 Segment reporting

MBSL's operating segments were identified based on products and services since the Group management 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 and capital markets: Corporate finance, Merger and acquisitions advice, Specialized financial advice and trading
- Insurance: Life and non-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.

1.3.18 New accounting standards and interpretations

Application of new standards

In the current year, the Group has applied the following new accounting standards issued by the Institute of Chartered Accountants of Sri Lanka that are mandatorily effective for accounting periods that begin on or after 1 January 2014.

- SLFRS 10 - Consolidated Financial Statements
- SLFRS 11 – Joint Arrangements
- SLFRS 12 - Disclosure of Interests in Other Entities
- SLFRS 13 - Fair Value Measurement

The above new standards SLFRS 10, SLFRS 11 and SLFRS 12 do not have an impact on the Group's financial statements.

SLFRS 13 - Fair Value Measurement

The Group has applied SLFRS 13 for the first time in the current year. SLFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of SLFRS 13 is broad; the fair value measurement requirements of SLFRS 13 apply to both financial instrument items and non-financial instrument items for which other SLFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of SLFRS 2 Share-based Payment, leasing transactions that are within the scope of LKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

SLFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under SLFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, SLFRS 13 includes extensive disclosure requirements.

Notes to the Financial Statements

SLFRS 13 requires prospective application from 1 January 2014. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by SLFRS 13 for the 2013 comparative period (please see Note 27 for the 2014 disclosures). Other than the additional disclosures, the application of SLFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

New SLFRSs in issue but not yet effective

The Group has not applied the SLFRS 9 - Financial Instruments that have been issued but are not yet effective.

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 six 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 LKAS 23 – 'Borrowing cost'. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

1.5 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.

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.

Notes to the Financial Statements

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.

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

With holding 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 expire or when the contract is transferred to another party

1.6.3 Insurance contract liabilities

1.6.3.1 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.

Liability Adequacy Test (LAT)

At each reporting date, an assessment is made of whether the recognized life insurance liabilities are adequate, net of related Present Value of Interest Factor (PVIF) and Deferred Acquisition Cost (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.

1.6.3.2 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.

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Liability Adequacy Test (LAT)

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

1.6.3.3 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.

1.6.4 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 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 Insurance 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

Notes to the Financial Statements

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 contracts 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 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 of 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	
		2014	2013	2014	2013
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
2	Income				
	Interest and similar income	2,339,084	2,265,836	2,849,003	3,796,807
	Fee and commission income	43,893	48,350	89,792	101,326
	Insurance premium income	-	-	1,128,785	1,236,163
	Net gain / (loss) from trading	(1,361)	(5,768)	(994)	(4,435)
	Net gain on financial assets	97,525	7,061	102,384	9,322
	Other operating income	60,044	39,887	75,274	88,132
		2,539,185	2,355,366	4,244,244	5,227,315
3	Interest and similar income				
	Due from banks	-	-	21,000	42,975
	Loans and advances to customers	2,239,335	2,200,772	2,642,307	3,530,687
	Financial investments - available for sale	3,643	2,172	68,754	93,994
	Financial investments designated at fair value through profit or loss	99	99	99	99
	Financial investments - held to maturity	-	-	20,836	43,341
	Placements with banks	96,007	62,793	96,007	85,711
		2,339,084	2,265,836	2,849,003	3,796,807
4	Interest and similar expenses				
	Due to banks	77,817	172,731	78,186	204,952
	Due to customers	-	-	231,376	919,186
	Debt issued and other borrowed funds	1,116,284	1,166,676	1,119,062	1,196,050
	Other	33,195	32,530	34,381	43,963
		1,227,296	1,371,937	1,463,005	2,364,151
5	Fee and commission income				
	Trade & other related activities	43,091	47,309	41,310	47,247
	Reinsurance commission income	-	-	30,776	32,158
	Brokering services	802	1,041	802	7,397
	Others	-	-	16,904	14,524
		43,893	48,350	89,792	101,326
6	Fee and commission expenses				
	Fees	-	-	95,511	139,836
		-	-	95,511	139,836
7	Insurance premium income				
	Non-life insurance	-	-	967,492	1,168,433
	Life insurance	-	-	294,299	251,720
	Total gross written premium	-	-	1,261,791	1,420,153
	Change in unearned premium provisions	-	-	43,461	8,816
	Gross premium income	-	-	1,305,252	1,428,969
	Less: Premium ceded to reinsurers	-	-	176,467	192,806
	Net premium income	-	-	1,128,785	1,236,163

Notes to the Financial Statements

for the year ended 31 December		Company		Group	
		2014	2013	2014	2013
		Rs. '000	Rs. '000	Rs. '000	Rs. '000
8	Net gain / (loss) from trading				
	Dividend income	7,388	9,535	8,550	12,424
	Loss on disposal of quoted shares	(8,749)	(15,303)	(9,544)	(16,859)
	Net trading income	(1,361)	(5,768)	(994)	(4,435)
9	Net gain on financial assets				
	Financial assets designated at fair value through profit or loss (Note 9.1)	97,525	7,061	102,384	9,322
		97,525	7,061	102,384	9,322
9.1	Net gain 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	16,323	-	-	-
	Gains from sale of available for sale financial investments (Note 10.1)	59	1,788	59	1,788
	Profit/(loss) on sale of property & equipment including foreclosed properties	(483)	6,107	(1,063)	6,123
	Other income	44,145	31,992	76,278	80,221
		60,044	39,887	75,274	88,132
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	9,293	6,456	9,293	6,456
	Loans & advances to customers	34,108	63,501	62,824	86,981
	Lease and hire purchase rental receivables	190,117	138,726	199,567	158,158
	Available for sale	3,600	-	3,600	-
	Net written off during the year	960	-	960	197
		238,078	208,683	276,244	251,792
12	Personnel expenses				
	Staff emoluments	288,615	251,361	462,416	543,158
	Employers' contribution to defined contribution plans				
	Employees' Provident Fund	25,169	23,133	49,612	53,984
	Employees' Trust Fund	6,292	5,783	7,603	13,169
	Other personnel expenses	42,225	29,845	80,978	87,675
		362,301	310,122	600,609	697,986

	Company		Group	
	2014	2013	2014	2013
	Rs. '000	Rs. '000	Rs. '000	Rs. '000
for the year ended 31 December				
13 Other operating expenses				
Directors' emoluments	5,430	4,142	8,910	14,089
Auditors' remuneration				
Audit fees	860	865	3,914	3,297
Non audit fees	628	605	628	605
Professional & legal fees	27,401	21,166	33,599	37,025
Donations	70	36	70	36
Office administration & establishment expenses	98,538	83,697	158,422	144,073
Loss from deemed disposal (Note 25.3)	-	-	-	15,678
Other	161,026	105,854	495,146	534,560
	293,953	216,365	700,689	749,363

14 Share of associate companies' profit / (loss)

14.1 Share of associate companies' profit / (loss) before tax

	Holding %				
Lanka Securities (Pvt) Ltd	29.00	-	-	17,208	(11,491)
MCSL Financial Services Ltd	41.60	-	-	(95,077)	10,885
		-	-	(77,869)	(606)

14.2 Share of associate companies' other comprehensive income

	Holding %				
Lanka Securities (Pvt) Ltd	29.00	-	-	(928)	387
MCSL Financial Services Ltd	41.60	-	-	240	1,627
		-	-	(688)	2,014

15 Income tax expense

Current tax					
Current income tax	69,536	57,334	71,595	77,243	
Over provision of taxes in respect of prior years	(14,456)	-	(14,456)	-	
Deferred tax					
Relating to origination and reversal of temporary differences					
Income statement	28,877	1,608	28,877	1,608	
Other comprehensive income	(2,231)	2,591	(2,231)	2,591	
	81,726	61,533	83,785	81,442	
Tax charged to income statement	83,957	58,942	86,016	78,851	
Tax charged to other comprehensive income	(2,231)	2,591	(2,231)	2,591	
	81,726	61,533	83,785	81,442	

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	
	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Accounting profit before tax	326,830	175,882	144,794	(80,902)
Income tax expense calculated at 28%	91,512	49,247	40,542	(22,653)
Add : Effect on disallowable expenses	989,010	806,760	1,082,130	989,940
Less : Effect on allowable expenses and exempt income	951,068	803,286	993,218	892,239
Adjusted trade profit	129,454	52,721	129,454	75,048
Less : Effect on utilization of tax losses / qualifying payments	59,918	4,919	59,918	4,919
Add : Effect on tax losses on leasing business	-	9,532	-	9,532
Current tax on profit for the year	69,536	57,334	69,536	79,661
Income tax charged at 28%	69,536	57,334	69,536	79,661
Share of associate companies' current tax	-	-	2,059	(2,418)
Deferred tax charge / (reversal) to income statement	28,877	1,608	28,877	1,608
Deferred tax charge to other comprehensive income	(2,231)	2,591	(2,231)	2,591
Over provision in the previous years	(14,456)	-	(14,456)	-
Total income tax expense	81,726	61,533	83,785	81,442

16 Earnings / (loss) per share

16.1 Basic earnings / (loss) 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)	242,873	116,940	79,359	(102,121)
Number of ordinary shares used as denominator ('000)	135,000	135,000	135,000	135,000
Basic earnings / (loss) per ordinary share (Rs.)	1.80	0.87	0.59	(0.76)

16.2 Dividend per share

Declared and paid during the year

Dividends on ordinary shares (Rs.'000)	67,500	67,500	67,500	67,500
Dividend per share (Rs.)	0.50	0.50	0.50	0.50

17 Analysis of financial instruments by measurement basis

Company					Rs:'000
as at 31 December 2014	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Total
Assets					
Cash and cash equivalents	-	-	171,537	-	171,537
Placements with banks	-	-	519,282	-	519,282
Securities purchased under resale agreements	-	-	465,211	-	465,211
Financial assets designated at fair value through profit or loss	367,530	-	-	-	367,530
Bills receivable	-	-	644,625	-	644,625
Loans & advances to customers	-	-	3,764,328	-	3,764,328
Lease and hire purchase receivable	-	-	7,333,505	-	7,333,505
Financial investments - available for sale	-	737,610	-	-	737,610
Other assets	-	-	85,096	-	85,096
Total financial assets	367,530	737,610	12,983,584	-	14,088,724
Liabilities					
			Held for Trading (FVPL)	Others	Total
Due to banks			-	181,110	181,110
Securities sold under repurchase agreements			-	442,170	442,170
Debt issued and borrowed funds			-	11,032,268	11,032,268
Other liabilities			-	188,961	188,961
Total financial liabilities			-	11,844,509	11,844,509

Notes to the Financial Statements

17 Analysis of financial instruments by measurement basis (Contd.)

Company	Rs:000				
as at 31 December 2013	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
Liabilities					
			Held for Trading (FVPL)	Others	Total
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

Group					Rs:'000
as at 31 December 2014	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Total
Assets					
Cash and cash equivalents	-	-	281,324	-	281,324
Placements with banks	-	-	1,342,986	-	1,342,986
Securities purchased under resale agreements	-	-	1,313,486	-	1,313,486
Financial assets designated at fair value through profit or loss	419,224	-	-	-	419,224
Bills receivable	-	-	644,625	-	644,625
Loans & advances to customers	-	-	4,644,587	-	4,644,587
Lease and hire purchase receivable	-	-	7,921,146	-	7,921,146
Financial investments - available for sale	-	1,220,632	-	-	1,220,632
Financial investments - held to maturity	-	-	-	70,090	70,090
Other assets	-	-	107,346	-	107,346
Total financial assets	419,224	1,220,632	16,255,500	70,090	17,965,446

		Held for Trading (FVPL)	Others	Total
Liabilities				
Due to banks		-	198,583	198,583
Securities sold under repurchase agreements		-	442,170	442,170
Due to customers		-	2,453,539	2,453,539
Debt issued and borrowed funds		-	11,034,267	11,034,267
Other liabilities		-	199,411	199,411
Total financial liabilities		-	14,327,970	14,327,970

Notes to the Financial Statements

17 Analysis of financial instruments by measurement basis (Contd.)

Group as at 31 December 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
Liabilities					
			Held for Trading (FVPL)	Others	Total
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		Company		Group	
		2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
18	Cash and cash equivalents				
	Cash in hand	619	594	17,752	19,745
	Cash at bank	170,918	179,510	263,572	255,943
		171,537	180,104	281,324	275,688
19	Placements with banks				
	Banks in Sri Lanka - Local currency	519,282	784,480	1,342,986	1,186,017
		519,282	784,480	1,342,986	1,186,017
20	Repurchase agreements				
20.1	Assets				
	Reverse repurchased agreements	465,211	140,768	1,313,486	469,958
		465,211	140,768	1,313,486	469,958
20.2	Liabilities				
	Repurchase agreements	442,170	-	442,170	-
		442,170	-	442,170	-
21	Financial assets designated at fair value through profit or loss				
	Quoted equities (Note 21.1)	365,130	262,817	416,824	285,545
	Debt securities (Note 21.2)	2,400	-	2,400	-
		367,530	262,817	419,224	285,545

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company						
21.1 Quoted equities						
Bank, Finance and Insurance						
A I A Insurance Lanka PLC	78	-	23	-	24	-
Asia Asset Finance PLC	1,000,000	-	1,850	-	1,900	-
Citizens Development Business Finance PLC	30,000	50,000	435	452	423	450
Citizens Development Business Finance PLC -Non Voting	9,639	-	732	-	713	-
Commercial Bank of Ceylon PLC	-	52,095	-	5,504	-	6,272
Commercial Bank of Ceylon PLC-Non Voting	22,994	14,428	2,480	1,287	2,877	1,342
Development Finance Corporation of Ceylon PLC	55,000	16,868	10,430	2,277	12,045	2,176
Hatton National Bank PLC-Non Voting	-	102,300	-	13,886	-	12,174
HNB Assurance PLC	18,600	-	1,674	-	1,553	-
Janashakthi Insurance Company PLC	-	392,000	-	7,744	-	4,978
Lanka Orix Leasing Co. PLC	60,000	60,000	7,638	7,638	5,280	4,356
Lanka Ventures PLC	-	900	-	40	-	37
National Development Bank PLC	-	127,950	-	19,016	-	20,536
Nations Trust Bank PLC	-	113,940	-	8,206	-	7,087
Sampath Bank PLC	5,000	39,637	1,416	8,888	1,182	6,814
Sanasa Development Bank PLC	152,350	-	12,059	-	13,953	-
Seylan Bank PLC	89,036	101,220	7,732	8,762	8,458	6,498
Seylan Bank PLC-Non Voting	295,238	30,272	14,401	1,045	16,976	938
Softlogic Capital PLC	70,999	-	504	-	511	-
Union Bank of Colombo PLC	450,000	55,000	10,155	915	11,385	913
Vallibel Finance PLC	219,054	-	9,860	-	10,076	-
			81,389	85,660	87,356	74,571
Diversified Holdings						
Aitken Spence PLC	110,997	5,000	11,205	500	11,488	512
Browns Investment PLC	2,399,000	2,000,000	5,767	9,605	4,558	4,600
CT Holdings PLC	20,000	20,000	4,206	4,206	2,860	2,801
Expo Lanka Holdings PLC	157,041	600,000	1,508	5,002	1,351	4,500
Free Lanka Capital Holdings PLC	-	75,000	-	373	-	165
Hemas Holdings PLC	-	297,500	-	12,604	-	10,115
John Keells Holdings PLC - Warrant 0023	210,497	-	14,901	-	15,261	-
John Keells Holdings PLC	65,000	-	15,390	-	16,250	-
Softlogic Holdings PLC	107,653	100,000	1,837	908	1,776	840
The Colombo Fort Land & Building PLC	-	62,799	-	5,195	-	1,771
Vallibel One PLC	880,235	765,000	18,429	15,301	21,038	12,623
			73,243	53,694	74,582	37,927
Construction and Engineering						
Access Engineering PLC	93,000	-	2,192	-	2,985	-
Colombo Dockyard PLC	-	6,000	-	1,154	-	1,138
			2,192	1,154	2,985	1,138

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company						
21.1	Quoted equities (Contd.)					
Information and Technology						
PC House PLC	-	343,278	-	2,432	-	206
			-	2,432	-	206
Beverages, Food and Tobacco						
Bairaha Farms PLC	-	10,999	-	3,246	-	1,417
Distilleries Co of Sri Lanka PLC	156,616	81,000	29,760	13,951	32,888	15,633
Lucky Lanka Milk Processing PLC	2,525,022	-	15,060	-	12,373	-
Lucky Lanka Milk Processing PLC-Non Voting	134,700	-	404	-	377	-
Raigam Wayamba Salterns PLC	-	1,100,000	-	4,050	-	2,420
Renuka Agri Foods PLC	80,521	347,100	372	1,389	387	1,284
Renuka Shaw Wallace PLC -Non Voting	1,318	-	28	-	32	-
Three Acre Farms PLC	127,352	-	6,781	-	6,495	-
			52,405	22,636	52,552	20,754
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	63,219	14,000	5,795	1,586	4,963	979
Amaya Leisure PLC	-	16,700	-	2,006	-	1,236
Asian Hotels & Properties PLC	168,814	111,198	12,659	9,125	11,446	7,139
Beruwala Resorts PLC	108,992	-	205	-	207	-
Citrus Leisure PLC	-	110,900	-	3,275	-	1,619
Dolphin Hotels PLC	15,000	25,000	533	888	828	1,123
Eden Hotel Lanka PLC	127,743	113,250	3,677	3,312	3,283	3,284
Galadari Hotel PLC	230,926	-	3,351	-	3,348	-
John Keells Hotels PLC	30,941	-	519	-	526	-
Marawila Resorts PLC	177,610	-	1,130	-	1,066	-
Palm Garden Hotels PLC	36,868	24,020	4,845	3,971	2,949	1,504
Pegasus Hotels of Ceylon PLC	-	29,968	-	1,240	-	1,052
Serendib Hotels PLC-Non Voting	17,817	40,940	418	702	415	639
The Kingsbury PLC	1,914,030	2,671,800	41,450	57,910	34,453	35,268
			74,582	84,015	63,484	53,843

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company						
21.1	Quoted equities (Contd.)					
Manufacturing						
Abans Electricals PLC	67,941	7,320	8,508	1,576	8,051	769
ACL Cables PLC	22,500	300	1,742	27	1,719	19
ACME Printing & Packaging PLC	-	232,000	-	6,269	-	2,250
Central Industries PLC	26,271	52,567	1,950	3,810	2,259	2,916
Ceylon Grain Elevators PLC	83,610	48,610	4,192	2,682	3,428	1,726
Dankotuwa Porcelain PLC	173,753	-	2,521	-	2,519	-
Hayleys Fibre PLC	-	1,123	-	47	-	28
Hayleys Mgt Kinning Mills PLC	66,239	-	1,076	-	1,153	-
Kelani Tyres PLC	20,000	-	1,473	-	1,576	-
Lanka Aluminium Industries PLC	-	37,500	-	1,476	-	1,110
Lanka Cement PLC	-	55,450	-	1,932	-	366
Pelwatte Sugar Industries PLC	41,600	41,600	1,799	1,799	978	978
Piramal Glass Ceylon PLC	-	2,755,934	-	20,652	-	12,402
Printcare PLC	-	25,000	-	1,293	-	675
Royal Ceramic Lanka PLC	45,000	45,000	5,147	5,147	5,260	3,807
Textured Jersey PLC	200,000	-	3,869	-	4,120	-
Tokyo Cement Co.(Lanka) PLC - Non Voting	-	154,440	-	3,745	-	3,614
			32,277	50,455	31,063	30,660
Trading						
Brown & Company PLC	15,000	-	1,664	-	1,605	-
C.W.Mackie PLC	42,483	21,700	3,060	1,806	2,506	1,319
Ceylon & Foreign Trades PLC	-	594,010	-	6,112	-	3,802
Tess Agro PLC- Non Voting	165,570	-	215	-	215	-
			4,939	7,918	4,326	5,121
Power and Energy						
Hemas Power PLC	-	30,000	-	729	-	528
Laugfs Gas PLC - Non Voting	-	70,000	-	1,492	-	1,505
Vallibel Power Erathna PLC	-	100,000	-	570	-	580
			-	2,791	-	2,613
Health Care						
Asiri Hospitals PLC	50,000	-	1,150	-	1,080	-
Nawaloka Hospitals PLC	389,840	-	1,293	-	1,286	-
The Lanka Hospital Corporation PLC	-	30,000	-	1,557	-	1,215
			2,443	1,557	2,366	1,215

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company						
21.1	Quoted equities (Contd.)					
Land and Property						
Colombo Land PLC	228,583	47,500	9,178	3,036	8,412	1,862
East West Properties PLC	42,475	-	593	-	544	-
On'Ally Holdings PLC	-	1,282	-	105	-	61
Overseas Realty (Ceylon) PLC	60,000	160,050	1,316	2,640	1,578	2,929
			11,087	5,781	10,534	4,852
Chemical & Pharmaceuticals						
Chemanex PLC	-	1,000	-	159	-	85
CIC Holdings PLC	17,100	14,000	1,427	1,091	1,454	671
CIC Holdings PLC - Non Voting	19,829	21,335	1,349	1,454	1,317	736
Haycarb PLC	14,760	30,000	2,582	5,247	2,553	5,694
			5,358	7,951	5,324	7,186
Plantation						
Balangoda Plantations PLC	269,481	9,734	8,030	659	7,141	302
Elpitiya Plantations PLC	157,698	-	3,848	-	3,580	-
Kegalle Plantations PLC	13,000	-	1,301	-	1,222	-
Kotagala Plantations PLC	90,320	13,000	3,594	655	2,854	481
Talawakelle Tea Estates PLC	29,314	-	985	-	967	-
Watawala Plantations PLC	-	25,090	-	304	-	248
			17,758	1,618	15,764	1,031
Investment Trust						
Ceylon Guardian Investment Trust PLC	5,000	500	1,000	83	975	91
Ceylon Investment PLC	26,000	-	2,730	-	2,535	-
Lanka Century PLC	52,500	-	838	-	819	-
Renuka Holding PLC	36,541	343,946	1,894	26,448	1,151	10,525
			6,462	26,531	5,480	10,616
Motors						
CM Holdings PLC	16,000	1,428	2,111	249	2,066	119
Deisel and Motor Engineering PLC	-	1,000	-	1,112	-	481
Sathosa Motors PLC	4,648	14,980	1,746	5,626	1,139	3,881
United Motors Lanka PLC	-	40,000	-	5,015	-	4,548
			3,857	12,002	3,205	9,029
Telecommunication						
Dialog Telekom PLC	250,000	-	3,250	-	3,325	-
			3,250	-	3,325	-

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company						
21.1	Quoted equities (Contd.)					
	Unit Trusts					
Namal Acquity Value Fund	30,900	30,900	2,863	2,863	2,784	2,055
			2,863	2,863	2,784	2,055
Total gross carrying value of quoted equities			374,105	369,058	365,130	262,817
21.2	Other debt securities					
Commercial Credit & Finance PLC	20,000	-	2,141	-	2,400	-
Total net carrying value of listed debentures			2,141	-	2,400	-
Total gross carrying value of financial assets designated at fair value through profit or loss			376,246	369,058	-	-
Marked to market valuation loss (Note 9.1)			(8,716)	(106,241)	-	-
Fair value of financial assets designated at fair value through profit or loss			367,530	262,817	367,530	262,817

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Group						
21.1 Quoted equities						
Bank, Finance and Insurance						
A I A Insurance Lanka PLC	78	-	23	-	24	-
Asia Asset Finance PLC	1,020,000	-	1,889	-	1,938	-
Asia Capital PLC	-	4,200	-	202	-	71
Chilaw Finance PLC	4,753	4,753	110	110	129	59
Citizens Development Business Finance PLC	30,000	50,000	435	452	423	450
Citizens Development Business Finance PLC -Non Voting	9,639	-	732	-	713	-
Commercial Bank of Ceylon PLC	-	52,095	-	5,504	-	6,272
Commercial Bank of Ceylon PLC-Non Voting	22,994	14,428	2,480	1,287	2,877	1,342
Development Finance Corporation of Ceylon PLC	55,000	-	10,430	-	12,045	-
DFCC Bank PLC	-	26,868	-	3,672	-	3,466
First Capital Holdings PLC	-	147,696	-	2,688	-	2,585
Hatton National Bank PLC-Non Voting	-	102,300	-	13,886	-	12,174
HNB Assurance PLC	18,600	38,852	1,674	2,555	1,553	2,040
Janashakthi Insurance Company PLC	-	392,000	-	7,744	-	4,978
Lanka Orix Leasing Co. PLC	60,000	60,000	7,638	7,638	5,280	4,356
Lanka Ventures PLC	-	900	-	40	-	37
National Development Bank PLC	-	127,950	-	19,016	-	20,536
Nations Trust Bank PLC	50,000	113,940	4,804	8,206	4,850	7,087
Sampath Bank PLC	5,000	39,637	1,416	8,888	1,182	6,814
Sanasa Development Bank PLC	152,350	-	12,059	-	13,953	-
Seylan Bank PLC	149,037	141,221	12,670	12,619	13,409	9,066
Seylan Bank PLC-Non Voting	395,238	30,272	20,116	1,045	22,726	938
SMB Leasing PLC	-	712,740	-	889	-	570
Softlogic Capital PLC	70,999	-	504	-	511	-
Swarnamahal Financial Services PLC	25,831	25,831	143	143	54	54
Union Bank of Colombo PLC	470,000	55,000	10,618	915	11,891	913
Vallibel Finance PLC	219,054	-	9,860	-	10,075	-
			97,601	97,499	103,633	83,808

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Group						
21.1 Quoted equities (Contd.)						
Diversified Holdings						
Aitken Spence PLC	110,997	5,000	11,205	500	11,488	512
Browns Investment PLC	2,399,000	2,000,000	5,767	9,605	4,558	4,600
CT Holdings PLC	20,000	20,000	4,206	4,206	2,860	2,802
Expo Lanka Holdings PLC	157,041	600,000	1,508	5,002	1,351	4,500
Free Lanka Capital Holdings PLC	-	75,000	-	373	-	165
Hemas Holdings PLC	-	297,500	-	12,604	-	10,115
John Keells Holdings PLC	68,829	115	16,357	25	17,208	26
John Keells Holdings PLC - Warrant 0022	5	5	-	-	-	-
John Keells Holdings PLC - Warrant 0023	260,317	5	18,604	-	18,874	-
PCH Holdings PLC	1,000,000	-	2,730	-	2,400	-
Softlogic Holdings PLC	107,653	100,000	1,837	908	1,776	840
The Colombo Fort Land & Building PLC	-	62,799	-	5,195	-	1,771
Vallibel One PLC	880,235	1,015,000	18,429	19,888	21,038	16,748
			80,643	58,306	81,553	42,079
Construction and Engineering						
Access Engineering PLC	193,000	-	6,034	-	6,195	-
Colombo Dockyard PLC	-	6,000	-	1,154	-	1,138
Lankem Developments PLC	-	175,063	-	1,651	-	893
			6,034	2,805	6,195	2,031
Services						
Kalamazoo Systems PLC	135	109	172	194	153	113
			172	194	153	113
Information and Technology						
PC House PLC	-	343,278	-	2,432	-	206
			-	2,432	-	206
Beverages, Food and Tobacco						
Bairaha Farms PLC	-	10,999	-	3,246	-	1,417
Distilleries Co of Sri Lanka PLC	156,616	81,000	29,760	13,951	32,888	15,633
Lucky Lanka Milk Processing PLC	2,525,022	-	15,060	-	12,373	-
Lucky Lanka Milk Processing PLC-Non Voting	134,700	-	404	-	377	-
Raigam Wayamba Salterns PLC	-	1,100,000	-	4,050	-	2,420
Renuka Agri Foods PLC	80,521	347,100	372	1,389	387	1,284
Renuka Shaw Wallace PLC -Non Voting	1,318	-	28	-	32	-
Three Acre Farms PLC	127,352	25,876	6,781	1,160	6,495	955
			52,405	23,796	52,552	21,709

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000

Group

21.1 Quoted equities (Contd.)

Hotels and Travel

Aitken Spence Hotel Holdings PLC	63,219	14,000	5,795	1,586	4,963	979
Amaya Leisure PLC	-	16,700	-	2,006	-	1,236
Asian Hotels & Properties PLC	168,814	111,198	12,659	9,125	11,446	7,139
Beruwala Resorts PLC	108,992	-	205	-	207	-
Citrus Leisure PLC	-	110,900	-	3,275	-	1,619
Dolphin Hotels PLC	15,000	25,000	533	888	828	1,123
Eden Hotel Lanka PLC	127,743	113,250	3,677	3,312	3,283	3,284
Galadari Hotel PLC	230,926	-	3,351	-	3,348	-
John Keells Hotels PLC	30,941	-	519	-	526	-
Marawila Resorts PLC	177,610	-	1,130	-	1,066	-
Palm Garden Hotels PLC	36,868	24,020	4,845	3,971	2,949	1,504
Pegasus Hotels of Ceylon PLC	-	29,968	-	1,240	-	1,052
Serendib Hotels PLC-Non Voting	17,817	40,940	418	702	415	639
The Kingsbury PLC	1,914,081	2,683,800	41,451	58,124	34,454	35,426
The Lighthouse Hotel PLC	-	8,001	-	468	-	352
			74,583	84,697	63,485	54,353

Manufacturing

Abans Electricals PLC	67,941	7,320	8,508	1,576	8,051	769
ACL Cables PLC	22,500	300	1,742	27	1,719	19
ACME Printing & Packaging PLC	-	232,000	-	6,269	-	2,250
Bogala Grphite PLC	34,830	34,829	878	1,416	1,090	641
Central Industries PLC	26,271	52,567	1,950	3,810	2,259	2,916
Ceylon Grain Elevators PLC	83,610	48,610	4,192	2,682	3,428	1,726
Dankotuwa Porcelain PLC	173,753	-	2,521	-	2,519	-
Hayleys Fibre PLC	-	1,123	-	47	-	28
Hayleys Mgt Kinitting Mills PLC	66,239	-	1,076	-	1,153	-
Kelani Cables PLC	-	1,070	-	81	-	79
Kelani Tyres PLC	20,000	-	1,473	-	1,576	-
Lanka Aluminium Industries PLC	-	37,500	-	1,476	-	1,110
Lanka Cement PLC	-	55,450	-	1,932	-	366
Laxapana PLC	-	188,935	-	1,297	-	756
Pelwatte Sugar Industries PLC	68,400	68,400	2,925	2,925	1,608	1,608
Piramal Glass Ceylon PLC	-	2,755,934	-	20,652	-	12,402
Printcare PLC	-	25,000	-	1,293	-	675
Royal Ceramic Lanka PLC	45,000	45,000	5,147	5,147	5,260	3,807
Textured Jersey PLC	200,000	-	3,869	-	4,120	-
Tokyo Cement Co.(Lanka) PLC - Non Voting	-	154,440	-	3,745	-	3,614
			34,281	54,375	32,783	32,766

Notes to the Financial Statements

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Group						
21.1	Quoted equities (Contd.)					
Trading						
Brown & Company PLC	22,000	7,000	3,060	1,396	2,354	579
C.W.Mackie PLC	42,483	21,700	3,060	1,806	2,506	1,319
Ceylon & Foreign Trades PLC	-	594,010	-	6,112	-	3,802
Tess Agro PLC- Non Voting	165,570	-	215	-	215	-
			6,335	9,314	5,075	5,700
Power and Energy						
Hemas Power PLC	172,737	168,322	3,407	3,802	3,126	2,962
Lanka IOC PLC	100,000	-	6,000	-	6,000	-
Laugfs Gas PLC	1,090	1,090	24	24	41	23
Laugfs Gas PLC - Non Voting	-	70,000	-	1,492	-	1,505
Vallibel Power Erathna PLC	-	100,000	-	570	-	580
			9,431	5,888	9,167	5,070
Health Care						
Asiri Hospitals PLC	50,000	-	1,150	-	1,080	-
Nawaloka Hospitals PLC	389,840	-	1,293	-	1,286	-
The Lanka Hospital Corporation PLC	-	30,000	-	1,557	-	1,215
			2,443	1,557	2,366	1,215
Land and Property						
Colombo Land PLC	231,283	47,500	9,274	3,036	8,511	1,862
East West Properties PLC	42,475	-	593	-	544	-
On'Ally Holdings PLC	-	1,282	-	105	-	61
Overseas Realty (Ceylon) PLC	60,000	160,050	1,316	2,640	1,578	2,929
Seylan Development PLC	66	5,000	1	56	1	45
			11,184	5,837	10,634	4,897
Chemical & Pharmaceuticals						
Chemanex PLC	-	1,000	-	159	-	85
CIC Holdings PLC	17,100	14,000	1,427	1,091	1,454	671
CIC Holdings PLC - Non Voting	19,829	21,335	1,349	1,454	1,317	736
Haycarb PLC	14,760	30,000	2,582	5,247	2,553	5,694
PC Parma PLC	1,400,000	-	4,045	-	1,960	-
			9,403	7,951	7,284	7,186
Plantation						
Agalawatte Plantations PLC	7,230	7,229	217	256	196	173
Balangoda Plantations PLC	269,481	9,734	8,030	659	7,141	302
Elpitiya Plantations PLC	157,698	-	3,848	-	3,580	-
Kegalle Plantations PLC	13,000	-	1,301	-	1,222	-
Kotagala Plantations PLC	90,320	13,000	3,594	655	2,854	481
Talawakelle Tea Estates PLC	29,314	-	985	-	967	-
Watawala Plantations PLC	18,472	25,090	1,006	304	803	248
			18,981	1,874	16,763	1,204

as at 31 December	No of Shares		Cost		Fair Value	
	2014	2013	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Group						
21.1 Quoted equities (Contd.)						
Investment Trust						
Ceylon Guardian Investment Trust PLC	5,000	500	1,000	83	975	91
Ceylon Investment PLC	26,000	-	2,730	-	2,535	-
Equity One PLC	26,664	29,540	977	2,051	1,187	774
Guardian Capital Partners PLC	-	18,470	-	1,538	-	536
Lanka Century PLC	52,500	-	838	-	819	-
Renuka Holding PLC	36,541	343,946	1,894	26,448	1,151	10,525
Taprobane Holdings PLC	2,000,002	70,757	10,063	304	9,200	198
			17,502	30,424	15,867	12,124
Motors						
CM Holdings PLC	16,000	1,428	2,111	249	2,066	119
Deisel and Motor Engineering PLC	-	1,000	-	1,112	-	481
Sathosa Motors PLC	4,648	14,980	1,746	5,626	1,139	3,881
United Motors Lanka PLC	-	40,000	-	5,015	-	4,548
			3,857	12,002	3,205	9,029
Telecommunication						
Dialog Telekom PLC	250,000	-	3,250	-	3,325	-
			3,250	-	3,325	-
Unit Trusts						
Namal Acquity Value Fund	30,900	30,900	2,863	2,863	2,784	2,055
			2,863	2,863	2,784	2,055
Total gross carrying value of quoted equities			430,968	401,814	416,824	285,545
21.2 Other debt securities						
Commercial Credit & Finance PLC	20,000	-	2,141	-	2,400	-
Total net carrying value of listed debentures			2,141	-	2,400	-
Total gross carrying value of financial assets designated at fair value through profit or loss			433,109	401,814	-	-
Marked to market valuation loss (Note 9.1)			(13,885)	(116,269)	-	-
Fair value of financial assets designated at fair value through profit or loss			419,224	285,545	419,224	285,545

Notes to the Financial Statements

as at 31 December	Company		Group	
	2014	2013	2014	2013
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bills discounted	790,178	765,498	790,178	765,498
Deferred income	(2,759)	(4,714)	(2,759)	(4,714)
	787,419	760,784	787,419	760,784
Less: Allowance for impairment (Note 22.1.1)	142,794	133,501	142,794	133,501
	644,625	627,283	644,625	627,283

22 Loans & receivables to customers

22.1 Bills receivable

Bills discounted	790,178	765,498	790,178	765,498
Deferred income	(2,759)	(4,714)	(2,759)	(4,714)
	787,419	760,784	787,419	760,784
Less: Allowance for impairment (Note 22.1.1)	142,794	133,501	142,794	133,501
	644,625	627,283	644,625	627,283

22.1.1 Movement in allowance for individual and collective impairment during the year

Individual impairment charges

As at 01 January	123,926	109,536	123,926	109,536
Charge / (write back) to income statement	12,767	14,390	12,767	14,390
As at 31 December	136,693	123,926	136,693	123,926

Collective impairment charges

As at 01 January	9,575	17,509	9,575	18,009
Charge / (write back) to income statement	(3,474)	(7,934)	(3,474)	(7,934)
Adjustment from deemed disposal	-	-	-	(500)
As at 31 December	6,101	9,575	6,101	9,575
Total	142,794	133,501	142,794	133,501

22.2 Loans & advances to customers

Term loans	2,146,046	1,299,880	2,795,787	2,426,914
Personal loans	1,088,772	619,689	1,185,327	619,689
Cheque discounting	43,257	67,565	43,257	67,565
Staff loans	105,029	83,667	127,767	108,282
Textile debt recovery fund	1,735	1,726	1,735	1,726
Susahana loan scheme	1,359	1,359	1,359	1,359
Margin trading	148,613	68,207	148,613	68,207
Micro finance	425,866	362,562	425,866	362,562
Commercial papers and other placements	-	-	138,479	168,179
Pawning	-	-	22,800	60,523
Loans to life policy holders	-	-	4,479	2,891
Loans against fixed deposits	-	-	59,065	-
	3,960,677	2,504,655	4,954,534	3,887,897
Less: Allowance for impairment (Note 22.2.1)	196,349	162,241	309,947	247,468
Loans and advances after provision	3,764,328	2,342,414	4,644,587	3,640,429

22.2.1 Movement in allowance for individual and collective impairment during the year

as at 31 December	Company		Group	
	2014 Rs:000	2013 Rs:000	2014 Rs:000	2013 Rs:000
Individual impairment charges				
As at 01 January	129,579	72,979	209,496	159,862
Charge to income statement	15,697	56,600	40,985	88,217
Write off during the year	-	-	(345)	-
Adjustment from deemed disposal	-	-	-	(38,583)
As at 31 December	145,276	129,579	250,136	209,496
Collective impairment charges				
As at 01 January	32,662	25,761	37,972	249,673
Charge /(write back) to income statement	18,411	6,901	21,839	(1,236)
Adjustment from deemed disposal	-	-	-	(210,465)
As at 31 December	51,073	32,662	59,811	37,972
Total	196,349	162,241	309,947	247,468

22.3 Lease and hire purchase rental receivable

22.3.a Finance lease / hire purchase receivable within one year from the reporting date

Total lease rental receivable	9,657,376	9,433,936	10,515,218	10,916,821
Less: Lease rental receivable after one year	6,835,832	6,377,322	7,276,698	7,318,625
Lease rental receivable within one year from the reporting date	2,821,544	3,056,614	3,238,520	3,598,196
Less : Unearned lease income	1,782,526	1,106,470	1,868,097	1,279,749
	1,039,018	1,950,144	1,370,423	2,318,447

22.3.b Finance lease / hire purchase receivable after one year from the reporting date

Lease rental receivable after one year from the reporting date	6,835,832	6,377,322	7,276,698	7,318,625
Less : Unearned lease income	211,077	1,070,333	329,759	1,299,305
	6,624,755	5,306,989	6,946,939	6,019,320
Less : Allowance for impairment (Note 22.3.c)	330,268	321,427	396,216	377,925
Net investment in leases and hire purchase	7,333,505	6,935,706	7,921,146	7,959,842

Notes to the Financial Statements

as at 31 December	Company		Group	
	2014	2013	2014	2013
	Rs:'000	Rs:'000	Rs:'000	Rs:'000

22.3.c Movement in allowance for individual and collective impairment during the year

Individual impairment charges

As at 01 January	211,943	54,643	268,427	125,113
Charge to income statement	173,104	157,300	168,795	181,696
Write off during the year	(104,547)	-	(104,547)	-
Adjustment from deemed disposal	-	-	-	(38,382)
As at 31 December	280,500	211,943	332,675	268,427

Collective impairment charges

As at 01 January	109,484	128,058	109,498	211,413
Charge to income statement	17,013	(18,574)	30,772	(23,538)
Write off during the year	(76,729)	-	(76,729)	-
Adjustment from deemed disposal	-	-	-	(78,377)
As at 31 December	49,768	109,484	63,541	109,498
Total	330,268	321,427	396,216	377,925

22.4 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	234,816	235,741	234,816	235,741
Loans and advances	335,058	282,684	524,309	335,614
Lease / hire purchase receivable	421,660	512,139	560,639	572,440
Gross non-performing loans and advances	991,534	1,030,564	1,319,764	1,143,795
Less: Allowance for impairment	669,411	617,169	848,957	758,894
Net exposure	322,123	413,395	470,807	384,901
Percentage of gross non-performing loans	7.99%	9.79%	9.39%	8.81%
Percentage of net exposure	2.60%	3.93%	3.35%	2.96%

Collaterals given

The carrying amount of lease and hire purchase rentals pledge as collaterals as at 31 December 2014 was Rs. 112,500,000 (2013: Rs. 327,150,000).

Note : Non -performing loans and advances are categorized according to CBSL directions and impairment provision is based on LKAS 39- "Financial Instrument - Recognition & Measurement"

as at 31 December	Company		Group	
	2014	2013	2014	2013
	Rs.'000	Rs.'000	Rs.'000	Rs.'000

23 Financial investments - Available for sale

Government securities (Note 23.1)	717,826	644,441	1,193,447	1,397,347
Quoted investments	-	-	7,391	6,629
Unquoted investments (Note 23.2)	19,784	23,414	19,794	23,424
Total financial investments - Available for sale	737,610	667,855	1,220,632	1,427,400

23.1 Government securities

Treasury bills	195,793	180,005	195,793	306,964
Treasury bonds	522,033	464,436	997,654	1,090,383
	717,826	644,441	1,193,447	1,397,347

	No of Shares		2014	Cost		Fair Value	
	2014	2013	Holding %	2014	2013	2014	2013
				Rs.'000	Rs.'000	Rs.'000	Rs.'000

23.2 Unquoted investments

Company	2014	2013	2014 Holding %	2014	2013	2014	2013
				Rs.'000	Rs.'000	Rs.'000	Rs.'000
Mega Containers Limited	1,000,000	1,000,000	6.80	10,000	10,000	19,760	19,790
Ceylinco Investment Company Limited (Note 23.2.1.)	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	165,790	5.00	3,600	3,600	-	3,600
				18,624	18,624	19,784	23,414
Add: Adjustment for fair value changes				1,160	4,790	-	-
Total net investment in investment securities				19,784	23,414	19,784	23,414

Notes to the Financial Statements

	No of Shares		2014 Holding %	Cost		Fair Value	
	2014	2013		2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Group							
Mega Containers Limited	1,000,000	1,000,000	6.80	10,000	10,000	19,760	19,790
Ceylinco Investment Company Limited	500,000	500,000	46.35	5,000	5,000	-	-
Credit Information Bureau of Sri Lanka Limited	340	430	0.14	34	34	34	34
San Michele Limited	50,000	50,000		500	500	-	-
Ranwan Industries (Private) Limited	165,790	165,790	5.00	3,600	3,600	-	3,600
				19,134	19,134	19,794	23,424
Add: Adjustment for fair value changes				660	4,290	-	-
Total unquoted investments				19,794	23,424	19,794	23,424

	Company		Group	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Movements in fair value during the year				
Balance as at 01 January	4,790	4,900	4,290	4,400
Recycling to income statement for impairment	(3,600)	-	(3,600)	-
Reversal from AFS reserve for the year	(30)	(110)	(30)	(110)
Balance as at 31 December	1,160	4,790	660	4,290

23.2.1 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.

	Group	
	2014 Rs.'000	2013 Rs.'000

24 Financial investments - Held to maturity

Debt securities	70,090	100,957
	70,090	100,957

as at 31 December	Country of Incorporation	Principal Activity	No. of Shares	Holding %	Company			
					2014		2013	
					Cost	Directors' Valuation	Cost	Directors' Valuation
				Rs.'000	Rs.'000	Rs.'000	Rs.'000	

25 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	20,918	20,918
Balance at the end of the year					102,002	102,002	102,002	102,002

as at 31 December	Group					
	MCSL Financial Services Ltd		Lanka Securities (Pvt) Ltd		Total	
	2014	2013	2014	2013	2014	2013
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000

25.1 Carrying value on equity basis

Net assets at the beginning of the year	345,838	-	92,396	106,228	438,234	106,228
Fair value of retained interest from the deemed disposal	-	328,180	-	-	-	328,180
Profit / (loss) before tax accruing to the group	(95,077)	10,885	17,208	(11,491)	(77,869)	(606)
Income tax	-	5,146	(2,059)	(2,728)	(2,059)	2,418
Other comprehensive income for the year	240	1,627	(928)	387	(688)	2,014
Dividend received	(4,160)	-	(12,163)	-	(16,323)	-
Net assets at the end of the year	246,841	345,838	94,454	92,396	341,295	438,234

Notes to the Financial Statements

for the year ended 31 December	MCSL Financial Services Ltd		Lanka Securities (Pvt) Ltd	
	2014	2013	2014	2013
	Rs:'000	Rs:'000	Rs:'000	Rs:'000

25.2 Summarized financial information of associates

Income	1,774,636	707,842	186,479	99,379
Less : Expenses	2,003,187	681,677	127,140	139,002
Profit / (Loss) before taxation	(228,551)	26,165	59,339	(39,623)
Less : Income tax expense / (reversal)	-	(12,372)	7,102	9,408
Profit / (Loss) for the period	(228,551)	38,537	52,237	(49,031)
Other comprehensive income	578	3,911	(3,200)	1,336
Total comprehensive income for the period	(227,973)	42,448	49,037	(47,695)

as at 31 December

Total assets	9,743,809	9,510,821	501,451	477,862
Total liabilities	9,150,441	8,679,480	175,747	159,255

25.3 Investment in MCSL Financial Services Ltd

	2014		2013	
	No of Shares	Rs:'000	No of Shares	Rs:'000
Balance as at beginning of the year	50,099,800	20,918	-	-
Transfer to investment in associates	-	-	50,099,800	20,918
Balance as at end of the year	50,099,800	20,918	50,099,800	20,918

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:

as at	22-08-2013	
	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	(330,423)	(343,858)
Loss from deemed disposal	(15,678)	

26 Investments in subsidiaries

as at 31 December		2014		2014		2013		
	Country of incorporation	Principal activity	No. of Shares	Holding %	Cost Rs.'000	Directors' Valuation Rs.'000	Cost Rs.'000	Directors' Valuation Rs.'000
Unquoted								
MBSL Savings Bank Ltd (Note 26.a)	Sri Lanka	LSB*	624,371,040	75.19	588,215	588,215	588,215	588,215
MBSL Insurance Company Ltd (Note 26.b)	Sri Lanka	Insurance	475,697,403	84.12	516,096	516,096	317,889	317,889
Balance at the end of the year					1,104,311	1,104,311	906,104	906,104

LSB* - Licensed Specialized Bank

26 a. Investment in MBSL Savings Bank Ltd

	2014		2013	
	No of Shares	Rs.'000	No of Shares	Rs.'000
Balance as at 01 January				
Voting Shares	174,371,040	148,215	174,371,040	148,215
Non Voting Shares	200,000,000	190,000	200,000,000	190,000
Preference Shares	250,000,000	250,000	-	-
Investments in preference shares during the year	-	-	250,000,000	250,000
Balance as at 31 December	624,371,040	588,215	624,371,040	588,215

26 b. Investment in MBSL Insurance Company Ltd

Balance as at 01 January	317,131,602	317,889	237,848,702	238,606
Investments in voting shares during the year	158,565,801	198,207	79,282,900	79,283
Balance as at 31 December	475,697,403	516,096	317,131,602	317,889

Notes to the Financial Statements

27 Investment property

as at 31 December	Company		Group	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Cost as at 01 January	55,876	48,876	55,876	158,876
Add: Additions /improvements	-	7,000	-	7,000
Less: Deemed disposal of subsidiary	-	-	-	(110,000)
Cost as at 31 December	55,876	55,876	55,876	55,876
Accumulated depreciation as at 31 December	3,865	3,047	3,865	3,047
Net book value as at 31 December	52,011	52,829	52,011	52,829
Accumulated depreciation				
Balance as at 01 January	3,047	2,404	3,047	11,098
Charge for the year	818	643	818	2,475
Less: Deemed disposal of subsidiary	-	-	-	(10,526)
Balance as at 31 December	3,865	3,047	3,865	3,047
Rental income derived from investment property	Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that generated rental income during the period	Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that did not generate rental income during the period	495	766	495	766

27.1 Investment properties held by the company

as at 31 December										
Location	No of Buildings	Building sq.ft	Extent perches	Fair Value Hierarchy	Cost / Carrying amount			Fair Value		
					Land	Buildings	Total	Land	Buildings	Total
					Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000
No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya			16.61p	Level 3	1,750	-	1,750	13,000	N/A	13,000
No 300/8, Thalawathugoda Road, Madiwela, Kotte.	1	2,000	16.15p	Level 3	2,465	2,635	5,100	13,727	1,000	14,727
No 385/1, Kotte Road, Pitakotte.	1	2,896	19.01p	Level 3	2,958	1,730	4,688	3,343	1,955	5,298
No 116/4,116/7,116/25, 116/ 26, 116/27,116/29 1st Cross Street, Colombo 11.			12.35P	Level 3	1,249	-	1,249	2,602	N/A	2,602
No 43,45,47,49,51 & 53, Olcott Mawatha, Colombo 11.			7.5P	Level 3	9,950	-	9,950	75,000	N/A	75,000
No 102 & 104, Dam Street, Colombo 12.	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	213,000	20,000	233,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.			2.0A	Level 3	600	-	600	3,400	N/A	3,400
Mirissawelawatta hena; Thekkawatta, Dambadeniya			1A-0R-28.0P	Level 3	162	-	162	600	N/A	600
No 64, Gabadawa Estate, Pitipana, Homagama			20.80P	Level 3	1,427	-	1,427	2,900	N/A	2,900
No.2, Plan No.1206, Silverberst Estate, Pitipana, Homagama			0A-2R-20.70P	Level 3	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 2014 was based on market valuations carried out in the year 2010, 2011, 2013 & 2014 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 B.Sc (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 2014 and concluded that there was no impairment.

Notes to the Financial Statements

28 Property and equipment

28.a

	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 2013	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
Additions during the year	-	-	3,300	-	5,657	6,972	15,929
Disposals during the year	-	-	(134)	-	(2,867)	(996)	(3,997)
Balance as at 31 December 2014	9,961	2,943	18,649	8,572	87,835	88,245	216,205
Accumulated depreciation							
Balance as at 01 January 2013	-	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
Charge for the year	-	147	2,336	1,045	6,486	7,134	17,148
Disposals	-	-	(134)	-	(2,867)	(983)	(3,984)
Balance as at 31 December 2014	-	1,312	9,736	6,343	71,943	41,747	131,081
Net book value							
As at 31 December 2013							86,356
As at 31 December 2014							85,124

28 Property and equipment (Contd.)

28.b

	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Total
	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Group							
Cost							
Balance as at 01 January 2013	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
Additions during the year	-	202	6,300	-	8,047	11,109	25,658
Disposals during the year	-	(2,291)	(134)	-	(45,233)	(5,655)	(53,313)
Balance as at 31 December 2014	9,961	46,630	39,852	7,566	205,626	196,222	505,857
Accumulated depreciation							
Balance as at 01 January 2013	-	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
Charge for the year	-	4,493	5,382	1,045	17,939	22,223	51,082
Disposals	-	(2,012)	(134)	-	(45,187)	(5,351)	(52,684)
Balance as at 31 December 2014	-	17,095	21,307	6,001	161,393	102,934	308,730
Net book value							
As at 31 December 2013							223,180
As at 31 December 2014							197,127

Information on the freehold land and buildings of the company

Location	No. of Buildings	Extent (Perches)	Buildings (sq. ft.)	Fair Value Hierarchy	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	1,631	9,961	297%
					34,400	1,631	9,961	

Market value of the lands and buildings of the company as at 31 December 2014 was Rs. 34,400,000.00 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 2014 and concluded that there was no impairment.

Notes to the Financial Statements

28 Property and equipment (Contd.)

Title restriction on property & equipment

There were no restrictions existed on the title of the property & equipment of the Group as at the date of the statement of financial position.

Property & equipment pledged as security for liabilities

There were no items of property & equipment pledged as securities for liabilities except for lease hold assets.

Compensation from third parties for items of property & equipment

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

Fully depreciated property & equipment

The cost of fully-depreciated property & equipment of the group which are still in use as at the financial position date are as follows:

	Company		Group	
	2014 Rs:'000	2013 Rs:'000	2014 Rs:'000	2013 Rs:'000
Motor vehicles	1,143	482	1,143	482
Computer equipment	17,947	12,652	17,947	12,652
Equipment, furniture & fittings	6,373	2,478	6,373	2,478
Total	25,463	15,612	25,463	15,612

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 were retired from active use as at the financial position date

29 Intangible assets

29.a

	Computer Software	Total
	Rs.'000	Rs.'000
Company		
Cost		
Cost as at 01 January 2013	27,107	27,107
Additions and improvements during the year	3,508	3,508
Cost as at 31 December 2013	30,615	30,615
Additions and improvements during the year	7,114	7,114
Cost as at 31 December 2014	37,729	37,729
Accumulated amortization		
Accumulated amortization as at 01 January 2013	19,931	19,931
Amortization for the year	1,908	1,908
Accumulated amortization as at 31 December 2013	21,839	21,839
Amortization for the year	3,534	3,534
Accumulated amortization as at 31 December 2014	25,373	25,373
Net book value		
At 31 December 2013		8,776
At 31 December 2014		12,356

Notes to the Financial Statements

29.b

	Computer Software	Goodwill	Total
	Rs.'000	Rs.'000	Rs.'000
Group			
Cost			
Cost as at 01 January 2013	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
Additions and improvements during the year	11,378	-	11,378
Cost as at 31 December 2014	91,956	119,437	211,393
Accumulated amortization			
Accumulated amortization as at 01 January 2013	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
Amortization for the year	12,717	-	12,717
Accumulated amortization as at 31 December 2014	41,956	-	41,956
Net book value			
At 31 December 2013			170,776
At 31 December 2014			169,437

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;

	Company		Group	
	2014	2013	2014	2013
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Computer Software	3,059	1,550	3,059	1,550

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.

as at 31 December		Company		Group	
		2014	2013	2014	2013
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
30	Other assets				
	Claims and commission receivables	8,251	7,490	8,251	7,490
	Receivables	97,412	123,257	173,478	212,651
	Advances and pre payments	30,945	38,849	82,181	111,821
	Other accounts	31,295	1,710	93,587	67,009
	Reinsurance assets-insurance contracts	-	-	61,519	77,593
	Insurance receivables	-	-	231,907	223,870
		167,903	171,306	650,923	700,434
31	Due to banks				
	Bank overdraft	181,110	99,118	198,583	152,338
		181,110	99,118	198,583	152,338
32	Due to customers				
	Savings deposits	-	-	555,027	505,532
	Time deposits	-	-	1,887,136	2,305,879
	Certificates of deposit	-	-	11,376	13,507
		-	-	2,453,539	2,824,918
33	Debt issued and borrowed funds				
	Debentures (Note 33.1)	5,668,800	4,264,470	5,668,800	4,264,470
	Short term borrowings	5,288,378	5,140,210	5,290,377	5,142,380
	Long term borrowings	75,090	218,467	75,090	218,467
	Total debt issued and borrowed funds	11,032,268	9,623,147	11,034,267	9,625,317

Notes to the Financial Statements

33.1 Debentures

Company

	Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Market Values		
						Highest	Lowest	Period end
						LKR	LKR	LKR
Fixed Rate Debentures								
2011 / 2015 - 11.80% p.a.	listed	Nil	Bi Annually	16-Nov-11	16-Nov-15	Not traded during the period		
2013 / 2018 - 17.50% p.a.	listed	Nil	Annually	28-Mar-13	27-Mar-18	121.67	118.50	121.67
2013 / 2017 - 17.25% p.a.	listed	Nil	Annually	28-Mar-13	27-Mar-17	115.91	100.00	115.91
2013 / 2018 - 16.70% p.a.	listed	Nil	Quarterly	28-Mar-13	27-Mar-18	Not traded during the period		
2013 / 2018 - 16.50% p.a.	listed	Nil	Monthly	28-Mar-13	27-Mar-18	Not traded during the period		
2013 / 2017 - 14.25% p.a.	listed	Nil	Annually	17-Dec-13	16-Dec-17	111.42	110.07	111.42
2013 / 2016 - 13.50% p.a.	listed	Nil	Annually	17-Dec-13	16-Dec-16	Not traded during the period		
2013 / 2017 - 13.50% p.a.	listed	Nil	Quarterly	17-Dec-13	16-Dec-17	Not traded during the period		
2013 / 2017 - 13.25% p.a.	listed	Nil	Monthly	17-Dec-13	16-Dec-17	Not traded during the period		
2014 / 2019 - 9.00% p.a.	listed	Nil	Annually	13-Nov-14	12-Nov-19	Not traded during the period		
2014 / 2019 - 8.75% p.a.	listed	Nil	Bi Annually	13-Nov-14	12-Nov-19	Not traded during the period		
Debenture Redeemed During the Year								
Fixed Rate								
2011 / 2014 - 11.60% p.a.	listed	Nil	Bi Annually	16-Nov-11	16-Nov-14			
Floating Rate								
2010 / 2014 - 6 months TB rate (Gross) + 1.5%	Un-listed	Nil	Bi Annually	10-Jan-10	10-Jan-14			
2010 / 2014 - 6 months TB rate (Gross) + 1.6%	listed	Nil	Bi Annually	16-Nov-11	16-Nov-14			
2010 / 2014 - 6 months TB rate (Gross) + 1.5%	Un-listed	Nil	Bi Annually	31-Mar-10	31-Mar-14			
Total Debentures								

Outstanding number of debentures as at 31 December 2014, consisted of Rs. 52,680,800 Unsecured Redeemable debentures of Rs. 100/- each issued by the company

Six months Treasury Bill Rate (Gross)

Six months treasury bill rate (average of last 4 auctions) 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 the year. (2013: Nil)

The company has not had any default of principal, interest or other breaches with regard to all liabilities during 2014 and 2013.

	Interest rate of comparable Government Security %	Interest yield			Yield to Maturity			Interest rates		Value as at	
		Highest	Lowest	Last traded	Highest	Lowest	Last traded	2014	2013	2014	2013
										Rs:000	Rs:000
	6.02%	Not traded during the period			Not traded during the period			11.80%	11.80%	284,069	282,633
	6.97%	14.38%	14.77%	14.38%	9.39%	11.58%	9.39%	17.50%	17.50%	733,859	706,124
	6.76%	14.88%	17.25%	14.88%	10.77%	17.15%	10.77%	17.25%	17.25%	568,677	547,320
	6.97%	Not traded during the period			Not traded during the period			16.70%	16.70%	753,667	751,933
	6.97%	Not traded during the period			Not traded during the period			16.50%	16.50%	168,793	168,453
	6.85%	12.79%	12.95%	12.79%	10.15%	10.60%	10.15%	14.25%	14.25%	770,790	677,122
	6.57%	Not traded during the period			Not traded during the period			13.50%	13.50%	336,175	297,201
	6.85%	Not traded during the period			Not traded during the period			13.50%	13.50%	18,136	17,601
	6.85%	Not traded during the period			Not traded during the period			13.25%	13.25%	11,599	11,510
	7.21%	Not traded during the period			Not traded during the period			9.00%	-	920,382	-
	7.21%	Not traded during the period			Not traded during the period			8.75%	-	1,102,653	-
								11.60%	11.60%	-	771,040
								12.28%	12.28%	-	26,472
								10.81%	10.81%	-	42
								12.78%	12.78%	-	7,019
										5,668,800	4,264,470

Notes to the Financial Statements

- 34** 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.

34.1 Insurance provision - life

as at 31 December	Group	
	2014 Rs.'000	2013 Rs.'000
Balance as at 1 January	215,549	163,500
Increase in life fund	119,707	52,049
	335,256	215,549
Fair value reserve	1,091	1,150
	336,347	216,699
Unclaimed benefits	13,554	4,049
Balance as at 31 December	349,901	220,748

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.

34.2 Insurance provision - non life

as at 31 December	Group	
	2014 Rs.'000	2013 Rs.'000
Provision for reported claims by policy holders	111,264	193,844
Provision for claims IBNR	47,733	39,484
Outstanding claims provision	158,997	233,328
Provision for unearned premiums	448,310	499,732
Total non life insurance provision	607,307	733,060

35 Current tax liability

	Company		Group	
	2014	2013	2014	2013
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Balance at 01 January	165,284	140,028	165,284	140,028
Add : Provision for taxation	69,536	57,334	71,595	79,661
Less : Over provision of taxes in respect of prior years	14,456	-	14,456	-
Less : Paid / sett off during the year	12,363	32,078	14,422	54,405
Balance as at 31 December	208,001	165,284	208,001	165,284

36 Deferred tax liability

as at 31 December	Company		Group	
	2014	2013	2014	2013
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Deferred tax liability	91,403	64,757	91,403	64,757
	91,403	64,757	91,403	64,757

36.1 Reconciliation of deferred tax liability

as at 31 December	2014		2013	
	Temporary Difference	Tax Effect	Temporary Difference	Tax Effect
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
As at 01 January	231,276	64,757	216,278	60,558
Amount originating during the year	95,164	26,646	14,998	4,199
As at 31 December	326,440	91,403	231,276	64,757

Deferred tax liability/ (asset) consisted of the following:

Leased assets	854,603	239,289	835,739	234,007
Employee benefit - Income statement	(186,215)	(52,140)	(161,248)	(45,149)
Employee benefit - Other comprehensive income	(6,938)	(1,943)	1,029	288
Fixed assets	39,468	11,051	36,984	10,355
Tax losses	(374,478)	(104,854)	(481,228)	(134,744)
	326,440	91,403	231,276	64,757

The companies in the group have carried forward losses amounting to Rs. 943 million (2013 - Rs. 914 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. 264 million (2013 - Rs. 256 million).

Notes to the Financial Statements

as at 31 December	Company		Group	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
37 Other liabilities				
Accrued expenses	13,813	11,465	40,569	49,038
Payable to employees & suppliers	114,181	114,638	162,355	147,740
Insurance payable	289	23	70,158	35,737
Margin accounts	28,604	47,860	28,604	47,860
Lease creditors				
Within 12 months	1,992	2,262	5,850	55,134
Later than 12 months	1,328	3,320	19,189	3,320
Other liabilities	216,373	195,831	397,471	342,632
	376,580	375,399	724,196	681,461

38 Retirement benefits obligation

Balance as at 01 January	160,219	139,245	183,176	193,008
Expense recognized in the income statement (Note 38.1)	30,759	27,024	37,163	39,738
Payment made during the year	(4,763)	(5,021)	(8,419)	(5,829)
Expense recognized in other comprehensive income	6,938	(1,029)	1,548	(637)
Adjustment from deemed disposal	-	-	-	(43,104)
Balance as at 31 December	193,153	160,219	213,468	183,176

38.1 Expense recognized in the income statement

Current service cost	14,737	11,707	18,772	22,704
Interest cost	16,022	15,317	18,391	17,034
Total	30,759	27,024	37,163	39,738

As at 31 December 2014 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.

38.2 Actuarial assumptions

	2014	2013
Discount rate	9.00%	10.00%
Salary increase	10% on January 2015 and thereafter 12% p.a.	10% on January 2014 and thereafter 12% p.a.

The group will continue in business as a going concern

38.3 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 /(Decrease) in the Liability (Rs'000)
1%	**	(13.172)	(13.172)
(1%)	**	14.961	14.961
*	1%	14.556	14.556
*	(1%)	(13.053)	(13.053)

* Discount rate is fixed at;

2014 - 9%

** Salary Increment rates for;

2014 - 10% , 12%

39 Stated capital

as at 31 December	Company		Group	
	2014	2013	2014	2013
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Issued and fully paid ordinary shares	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

40 Reserves

40.1 Statutory reserves

as at 31 December	Company		Group	
	2014	2013	2014	2013
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 January	128,400	122,553	129,914	206,016
Adjustment from deemed disposal	-	-	-	(81,949)
Add: Transfers during the year	12,144	5,847	12,144	5,847
Balance as at 31 December	140,544	128,400	142,058	129,914

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.

Notes to the Financial Statements

as at 31 December	Company		Group	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000

40.2 Investment fund reserve

Balance as at 01 January	100,115	80,327	101,336	103,270
Adjustment from deemed disposal	-	-	-	(21,722)
Add: Transfers during the year	-	19,788	-	19,788
Less: Transfers to retained earnings	(100,115)	-	(101,336)	-
Balance as at 31 December	-	100,115	-	101,336

This reserve represented the investment fund account, which consisted 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. According to the guidelines on the operations of the Investment Fund Account (IFA) issued by CBSL, operations of IFA was ceased with effect from 1st October 2014. Accordingly the group transferred the remaining balance in IFA to retained earnings through the Statement of Changes in Equity.

40.3 Retained earnings

Balance as at 01 January	952,984	930,741	924,458	1,042,463
Add: Profit for the year	242,873	116,940	79,359	(102,121)
Other comprehensive income	(4,707)	(1,562)	(1,221)	137
Adjustment from deemed disposal	-	-	-	103,671
Transfers from investment fund	100,115	-	101,336	-
Less: Dividend paid	67,500	67,500	67,500	67,500
Prior year adjustments	-	-	-	26,557
Transfers to statutory reserves	12,144	5,847	12,144	5,847
Transfers to investment fund	-	19,788	-	19,788
Balance as at 31 December	1,211,621	952,984	1,024,288	924,458

40.4 Available for Sale Reserve

Balance as at 01 January	(7,623)	(46,962)	5,000	(61,225)
Add: Gains available for sale financial assets	51,108	39,339	47,225	66,225
Balance as at 31 December	43,485	(7,623)	52,225	5,000

as at 31 December	Company		Group	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000

41 Additional cash flow information

41.1 Analysis of cash and cash equivalents

Cash and short term funds	690,819	964,584	1,624,310	1,461,705
Due to banks with original maturity less than three months	(181,110)	(99,118)	(198,583)	(152,338)
	509,709	865,466	1,425,727	1,309,367

41.2 Change in operating assets

Loans and advances given to customers	(1,837,599)	(613,565)	(983,347)	4,733,008
Other operating assets	(4,472)	216,594	41,639	237,588
Adjustment for impairment	(238,078)	(208,683)	(276,244)	(251,792)
	(2,080,149)	(605,654)	(1,217,952)	4,718,804

41.3 Change in operating liabilities

Due to customers	-	-	(371,379)	(4,721,379)
Other operating liabilities	1,181	208,857	46,135	265,386
	1,181	208,857	(325,244)	(4,455,993)

41.4 Other non-cash items included in profit before tax

Loss on disposal of quoted shares	8,749	15,303	9,544	16,859
Gain on sale of AFS financial investments	(59)	(1,788)	(59)	(1,788)
Interest accrued on government securities	(47,731)	(85,667)	(47,731)	(135,756)
Gain on sale of investment properties and non current assets held for sale	-	-	-	11,755
Gain on sale of property & equipment including foreclosed properties	483	(6,107)	1,063	(6,123)
Net (gain)/loss on financial assets designated at FVPL	(97,525)	(7,061)	(102,384)	(9,322)
Provision on unquoted shares	3,600	-	3,600	-
Provision on VAT on financial services	(38,468)	(24,214)	(40,900)	(43,308)
Loan impairment charges	238,078	208,683	276,244	251,792
Depreciation and amortization	21,500	21,139	64,617	78,659
	88,627	120,288	163,994	162,768

Notes to the Financial Statements

42 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.

42.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.

42.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, Mr. W.P.R.P.H.Fonseka (Alternate Director to Mr. D.M.Gunasekara) & Mr.A.M.P.Amarakoon (Alternate Director to Mr. M S S Paramananda) were Directors of the Company as at 31 December 2014.

42.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 Director & Position	Nature of Transactions	Income/ (Expenses) recognized during the year		Assets / (Liabilities) as at 31 December	
			2014	2013	2014	2013
			Rs:'000	Rs:'000	Rs:'000	Rs:'000
Transactions with parent company						
Bank of Ceylon	Mr.D.M.Gunasekara - GM/CEO	Overdraft facility	-	-	(181,106)	(99,118)
		Debenture	-	-	(1,626,020)	-
		Secretarial fee received	60	-	-	-
		Staff training	(108)	-	-	-
		Reimbursable expenses	-	(52)	-	-
		Interest received	899	-	-	-
		Interest paid	(102,294)	(46,661)	-	-
		Registrars fee for BOC Debenture issues 2008/2013	-	360	-	-
Transactions with subsidiaries						
MBSL Savings Bank Limited	Mr M R Shah - Chairman	Salary payment	(4,000)	-	-	-
	Mr Lalith De Silva - Director	Reimbursable expenses	1,675	-	(3,785)	-
		Lease rentals paid	(2,517)	4,357	-	-
		Interest on CP & PN	-	(311)	-	-

	Name of the Director & Position	Nature of Transactions	Income/ (Expenses) recognized during the year		Assets / (Liabilities) as at 31 December	
			2014	2013	2014	2013
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
MBSL Insurance Company Limited	Mr M R Shah - Executive Director	Secretarial fee	-	180	-	-
	Mr Lalith De Silva - Director	Insurance agency commission	10,755	11,776	-	-
	Mr. K.B.S.Bandara - Director	Reimbursable expenses	4,981	64	268	-
	Mr. W.P.R.P.H Fonseka - Director	Interest paid	-	(3,238)	-	-
	Mr.T.Mutugala - Director	Interest on CP & PN	(36)	1,179	-	-
Transactions with associates						
Lanka Securities (Pvt) Ltd	Mr M R Shah - Director	Secretarial fee received	-	93	-	-
		Dividend received	5,245	-	-	-
		Lease rental received	1,176	879	5,071	11,296
		Secretarial fee received	-	(36)	-	-
		Net accommodation as a % of the company's regulatory capital funds	-	-	0.17%	0.40%
MCSL Financial Services Limited	Mr. Lalith De Silva - Chairman	Management fee	825	825	-	-
	Mr M R Shah - Director	Secretarial fee	-	177	-	-
		Reimbursable expenses	2,616	(45)	4,380	-
Transactions with other companies						
Credit Information Bureau of Sri Lanka	Mr. D.M.Gunasekara - Director	Dividend received	36	-	-	-
		CRIB charges	(658)	(5,317)	-	-
BOC Travels (Pvt) Ltd	Mr. D.M.Gunasekara - Director	Secretarial fee received	-	97	-	-
		Reimbursable expenses	-	(38)	-	-
Hotels Colombo (1963) Limited	Mr. D.M.Gunasekara - Director	Secretarial fee received	-	151	-	-
		Reimbursable expenses	-	(67)	-	-
		Staff training cost	(68)	95	-	-
		Meeting expenses	(47)	163	-	-

Notes to the Financial Statements

42. Related party transactions

	Name of the Director & Position	Nature of Transactions	Income/ (Expenses) recognized during the year		Assets / (Liabilities) as at 31 December	
			2014	2013	2014	2013
			Rs:'000	Rs:'000	Rs:'000	Rs:'000
BOC Property Development and Management Company Limited	Mr. D.M.Gunasekara - Director	Secretarial fee received	-	47	-	-
		Reimbursable expenses	-	(20)	-	-
		Rent paid	(24,665)	(21,310)	-	-
		Electricity,water,office maintenance, rates	(7,139)	-	-	-
Sri Lanka Foundation Institute	Prof Ranjith Bandara - Chairman (Resigned w.e.f. 10/09/2013)	Staff training	-	312	-	-
Ceybank Asset Management	Mr. D.M.Gunasekara - Director	Commercial paper interest	(52)	-	-	-
Lanka Clear	Mr. D.M.Gunasekara - Director	Commercial paper	-	-	(24,658)	-
	Mr. W.P.R.P.H Fonseka - Alternate Director / Chairman - Audit Committee		-	-	-	-

42.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 facility obtained from BOC. Such loans & overdraft 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 2014, the company has not made any provision for impairment relating to amounts owed by related parties.

42.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	
	2014	2013	2014	2013
	Rs:'000	Rs:'000	Rs:'000	Rs:'000
Short term benefit	11,824	5,842	15,304	15,789

Chairman and CEO are provided with company maintained vehicles.

43 Fair value of financial instruments

A. 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.

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

as at 31 December	Company							
	2014				2013			
	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
Financial assets								
Financial assets designated at FVPL	367,530	-	-	367,530	262,817	-	-	262,817
	367,530	-	-	367,530	262,817	-	-	262,817
Financial investments available for sale								
Government securities	717,826	-	-	717,826	644,441	-	-	644,441
Unquoted investments	-	-	19,784	19,784	-	-	23,414	23,414
	717,826	-	19,784	737,610	644,441	-	23,414	667,855
	1,085,356	-	19,784	1,105,140	907,258	-	23,414	930,672

as at 31 December	Group							
	2014				2013			
	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
Financial assets								
Financial assets designated at FVPL	419,224	-	-	419,224	285,545	-	-	285,545
	419,224	-	-	419,224	285,545	-	-	285,545
Financial investments available for sale								
Government securities	1,193,447	-	-	1,193,447	1,397,347	-	-	1,397,347
Quoted investments	-	7,391	-	7,391	-	6,629	-	6,629
Unquoted investments	-	-	19,794	19,794	-	-	23,424	23,424
	1,193,447	7,391	19,794	1,220,632	1,397,347	6,629	23,424	1,427,400
	1,612,671	7,391	19,794	1,639,856	1,682,892	6,629	23,424	1,712,945

Notes to the Financial Statements

43 Financial instruments recorded at fair value (Contd.)

Financial instruments recorded at fair value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques incorporating group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial instruments carried at fair value

The fair value is the amount for which a financial asset could be exchanged between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, which is the case for a number of financial assets and liabilities, a discounted cash flow or generally accepted estimation and valuation techniques based on market conditions at the reporting date are used to calculate an estimated value.

Financial investments available for sale

Available-for-sale financial assets valued using valuation techniques or pricing models primarily consist of government debt securities and unquoted equity securities.

These assets are valued using models that use both observable and 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 amortize 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 recognized when financial instruments were initially recognized ('Day 1 profit').

as at 31 December	Company		Group	
	2014 Rs.'000	2013 Rs.'000	2014 Rs.'000	2013 Rs.'000
Balance as at 1 January	27,784	26,830	27,784	26,830
Reduction due to passage of time	(15,261)	(14,492)	(15,261)	(14,492)
Deferral of profit on new transactions	28,266	17,263	28,266	17,263
Derecognition of the instruments	(9,302)	(1,817)	(9,302)	(1,817)
Balance as at 31 December	31,487	27,784	31,487	27,784

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			
	2014		2013		2014		2013	
	Rs:'000 Carrying Amount	Rs:'000 Fair value						
Financial assets								
Placements with banks	519,282	519,282	784,480	784,480	1,342,986	1,342,986	1,186,017	1,186,017
Bills receivable	644,625	644,625	627,283	627,283	644,625	644,625	627,283	627,283
Loans & advances to customers	3,764,328	3,764,328	2,342,414	2,342,414	4,644,587	4,644,587	3,640,429	3,640,429
Lease and hire purchase rental receivable	7,333,505	7,333,505	6,935,706	6,935,706	7,921,146	7,921,146	7,959,842	7,959,842
Financial investments - held to maturity	-	-	-	-	70,090	70,090	100,957	100,957
Other assets	85,096	85,096	77,148	77,148	107,346	107,346	95,824	95,824
Total	12,346,836	12,346,836	10,767,031	10,767,031	14,730,780	14,730,780	13,610,352	13,610,352
Financial liabilities								
Due to customers	-	-	-	-	2,453,539	2,453,539	2,824,918	2,824,918
Debt issued and borrowed funds	11,032,268	11,032,268	9,623,147	9,623,147	11,034,267	11,034,267	9,625,317	9,625,317
Other liabilities	188,961	188,961	208,790	208,790	199,411	199,411	257,493	257,493
Total	11,221,229	11,221,229	9,831,937	9,831,937	13,687,217	13,687,217	12,707,728	12,707,728

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 amortized cost are estimated by comparing market interest rates when they were first recognized with current market rates for similar financial instruments.

Notes to the Financial Statements

44 Events after the reporting period

Following material events took place in the company and group since 31 December 2014, that require disclosure in these financial statements.

Merchant Bank of Sri Lanka & Finance PLC amalgamated with MBSL Savings Bank Limited (MSB) and MCSL Financial Services Limited (MCSL) with effect from 01st January 2015 and will operate as a finance company registered under the Finance Business Act No.42 of 2011. The amalgamation was effective by way of a share swap, whereby the shareholders of MSB and MCSL offered ordinary voting shares in MBSL in the following manner.

- 1) One ordinary voting share in MBSL for every 280.25 ordinary shares and one ordinary voting share in MBSL for every 389.10 ordinary non-voting shares held in MSB.
- 2) One ordinary voting share in MBSL for every 2.35 ordinary voting shares held in MCSL.

Accordingly, MBSL allotted Thirty Million Eight Hundred and Seventy Four Thousand Five Hundred and Forty One ordinary voting shares to the shareholders of MSB and MCSL (other than MBSL) and that ordinary voting shares shall rank equal and pari passu in all respect with the existing ordinary voting shares issued by MBSL.

45 Comparative Information

The following comparative figure has been reclassified in the 2014 Financial Statements to maintain comparability of financial statements in order to provide a better presentation.

	Group			
	As disclosed	Reclassified	Adjustment	
	Rs.'000	Rs.'000	Rs.'000	
Income Statement				
Income	4,284,537	5,227,315	942,778	Net claims and benefits were removed from income
Statement of Financial Position				
Retained earnings	951,015	924,458	(26,557)	} The cancellation of gross written premium which were recognized through previous financial performances were now recognized through the accumulated losses, in accordance with LKAS 8 in MBSL Insurance
Non controlling interests	147,287	139,805	(7,482)	
Other assets	734,473	700,434	(34,039)	

46 Going concern of subsidiaries

a. Solvency margin of MBSL Insurance Company Limited

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 2014. 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 2014 are 1.25 (Previous year 0.58).

b. Going concern of MBSL Insurance Company Limited

The MBSL Insurance Company Limited has incurred a loss of Rs. 42,851,000 for the year ended 31 December 2014 (2013 loss of Rs. 170,792,000) and accumulated losses of Rs.622,814,000 as at 31 December 2014 (2013 - Rs. 550,197,000). The company's net assets and stated capital as at 31 December 2014 are Rs. 459,736,000 and Rs. 1,080,022,000 respectively.

As per the regulation of Insurance Industry (Amendment) Act No. 3 of 2011, the company is in the process of negotiating with the IBSL to obtain license for the life division to operate as a separate company.

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 & Finance PLC, as the controlling shareholders of MBSL Insurance Company Limited holding 84.12% of the issued capital of the MBSL Insurance Company, to infuse capital in to MBSL Insurance Company Limited as and when required.

c. MBSL Savings Bank Limited

The MBSL Savings Bank Limited has incurred a loss of Rs. 44,994,293 for the year ended 31 December 2014 and the accumulated losses of Rs.876,685,379 as at 31 December 2014. 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 per the master plan of Central Bank of Sri Lanka on the consolidation of finance sector, Merchant Bank of Sri Lanka & Finance PLC amalgamated with MBSL Savings Bank Limited (MSB) and MCSL Financial Services Limited (MCSL) with effect from 01st January 2015 and will operate as a finance company registered under the Finance Business Act No.42 of 2011.

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 2014.

Notes to the Financial Statements

47 Segment Information

The following table presents income, and profit and certain assets and liabilities information regarding the group's operating segments for the year ended 31 December 2014 and comparative figures for the year ended 31 December 2013.

Company	Leasing		Corporate & Retail Credit		Corporate Advisory & Capital Markets		Eliminations / Unallocated		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
For the year ended 31 December	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	1,640,275	1,600,312	564,665	416,006	41,762	22,470	92,382	227,048	2,339,084	2,265,836
Interest and similar expenses	859,107	983,530	294,551	351,890	49,092	8,526	24,546	27,991	1,227,296	1,371,937
Net interest income	781,168	616,782	270,114	64,116	(7,330)	13,944	67,836	199,057	1,111,788	893,899
Other income	11,120	24,665	48,024	69,727	119,560	25,321	21,397	(30,183)	200,101	89,530
Inter-segment transactions	-	-	-	-	10,900	22,616	(10,900)	(22,616)	-	-
Total operating income	792,288	641,447	318,138	133,843	123,130	61,881	78,333	146,258	1,311,889	983,429
Impairment charges for loans & other losses	(190,117)	(138,727)	(47,355)	(42,343)	(606)	(27,613)	-	-	(238,078)	(208,683)
Net operating income	602,171	502,720	270,783	91,500	122,524	34,268	78,333	146,258	1,073,811	774,746
Depreciation of property, equipment & investment properties	8,605	8,590	1,792	1,721	513	448	7,056	8,472	17,966	19,231
Amortization of intangible assets	375	120	225	120	255	168	2,679	1,500	3,534	1,908
Segment results	194,156	223,325	82,993	20,784	47,801	(81,451)	40,348	37,438	365,298	200,096
Value added tax (VAT) on financial services									(38,468)	(24,214)
Profit/(Loss) before income tax									326,830	175,882
Income tax expense									(83,957)	(58,942)
Profit/(Loss) for the year									242,873	116,940
Assets										
Capital expenditures										
Property and equipment	11,151	8,409	3,823	159	319	142	636	2,832	15,929	11,542
Intangible assets	1,703	919	703	252	582	337	4,126	2,000	7,114	3,508
Total assets	7,806,455	6,972,496	4,265,276	3,025,436	1,255,134	265,673	2,200,470	3,005,195	15,527,335	13,268,800
Total liabilities	136,444	56,370	78,259	65,393	31,106	-	12,278,876	10,366,161	12,524,685	10,487,924

47 Segment Information (Contd.)

Group

For the year ended 31 December	Leasing		Corporate & Retail Credit		Corporate Advisory & Capital Markets		Insurance		Eliminations / Unallocated		Total	
	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000	Rs:000
Revenue from external customers												
Interest and similar income	1,805,772	2,399,766	653,535	868,510	41,762	118,127	100,136	143,674	247,798	266,730	2,849,003	3,796,807
Interest and similar expenses	870,322	1,390,416	352,354	562,916	55,974	10,995	4,265	33,629	180,090	366,195	1,463,005	2,364,151
Net interest income	935,450	1,009,350	301,181	305,594	(14,212)	107,132	95,871	110,045	67,708	(99,465)	1,385,998	1,432,656
Other income	13,844	34,256	54,175	92,216	124,419	27,161	328,336	239,562	36,113	(45,301)	556,887	347,894
Inter-segment transactions	-	-	-	-	10,900	22,616	-	-	(10,900)	(22,616)	-	-
Total operating income	949,294	1,043,606	355,356	397,810	121,107	156,909	424,207	349,607	92,921	(167,382)	1,942,885	1,780,550
Impairment charges for loans & other losses	(199,567)	(173,427)	(76,071)	(46,371)	(606)	1,923	-	-	-	(33,917)	(276,244)	(251,792)
Net operating income	749,727	870,179	279,285	351,439	120,501	158,832	424,207	349,607	92,921	(201,299)	1,666,641	1,528,758
Depreciation of property, equipment & investment properties	11,878	8,590	5,618	1,721	513	448	21,313	17,708	12,578	42,490	51,900	70,957
Amortization of intangible assets	605	120	494	120	255	168	6,351	4,799	5,012	2,495	12,717	7,702
Segment results	187,486	343,414	64,281	130,478	47,558	(4,307)	(38,578)	(170,049)	2,816	(336,524)	263,563	(36,988)
Value added tax (VAT) on financial services											(40,900)	(43,308)
Share of associate companies' profit before tax											(77,869)	(606)
Profit/(loss) before income tax											144,794	(80,902)
Income tax expense											(86,016)	(78,851)
Profit/(Loss) for the year											58,778	(159,753)
Assets												
Capital expenditures												
Property and equipment	13,151	13,120	4,823	4,941	319	4,055	7,087	32,034	278	4,672	25,658	58,822
Intangible assets	1,703	2,439	703	1,794	582	1,599	4,264	38,607	4,126	2,747	11,378	47,186
Total assets	8,771,516	7,962,593	4,457,880	4,064,855	1,388,813	1,116,282	1,762,406	1,629,451	2,888,278	2,785,391	19,268,893	17,558,572
Total liabilities	139,889	56,370	78,429	65,393	31,106	-	1,304,633	-	14,768,778	14,529,296	16,322,835	14,651,059

Notes to the Financial Statements

48 Commitments and contingencies

The table below shows the group's maximum credit risk exposure for commitments and guarantees.

as at 31 December	Company		Group	
	2014 Rs:'000	2013 Rs:'000	2014 Rs:'000	2013 Rs:'000
Guarantees to the customers	48,711	48,442	58,432	59,604
Financial commitments	-	-	24,693	60,198
Total commitments and contingencies	48,711	48,442	83,125	119,802

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 Litigation

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	43156/MR Colombo	This action has been filed against MBSL for releasing the lease article to the third party who was authorized in writing by the lessee to receive the certificate of registration etc. from MBSL. Following the full settlement of the lease facility by the third party, MBSL released the vehicle and the lessee thereafter filed this action against MBSL claiming damages thus disputing his own letter of authority. The lessee is fighting a losing battle as his own signature has now been referred to the Examiner into Questioned Documents (EQD) by Court. EQD report issued in favour of MBSL in December 2014 and the case was dismissed due to the non-appearance of the Plaintiff and his Lawyer on the last date of Trial 5th December 2015.
2	421/05 Kandy	This action has been filed challenging the repossession of the lease articles. However, the repossession has been effected in strict conformity with the provisions of the lease agreement. Therefore, no liability could be passed down to MBSL and this action will not be successful.
3	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.
4	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 provisions of the Lease Agreement and matter is presently preceding in Trial.
5	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 Purchas facility.

No	Case No.	Remarks
6	3330/ Special DC Panadura	This action was maliciously filed against the MBSL by the Lessee to secure the repossessed lease article. However, the Lessee had a weak case and was compelled to withdraw the case at the beginning of 2014. MBSL disposed of the repossessed vehicle and recovered Rs.207,000/- and are presently contemplating instituting action against the Lessee and the guarantors for the shortfall sum of Rs.600,000/-.
7	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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
8	DMR/8204/12 DC - Kandy	This action has been filed by the Plaintiff against the Registered Owner, the Driver, the Insurer 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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
9	13436/M DC - Kurunegala	This action has been filed by Anthony Pillei Jesurathnam and two others against the Registered Owner, the Driver, the Insurer and MBSL for causing the death of the Plaintiff's wife 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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
10	13434/M DC - Kurunegala	This action has been filed by Anthony Pillei Jeyarasa against the Registered Owner, the Driver, the Insurer and MBSL for causing the death of the Plaintiff's wife 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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
11	13435/M. DC - Kurunegala	This action has been filed by Anthony Pillei Jesurathnam against the Registered Owner, the Driver, the Insurer and MBSL for causing serious injuries to the Plaintiffs 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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
12	13437/M DC - Kurunegala	This action has been filed by the Mrs.J V Rajarathnam against the Registered Owner, the Driver, the Insurer and MBSL for causing the death of the Plaintiff's father 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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.

Notes to the Financial Statements

No	Case No.	Remarks
13	912/M DC - Pugoda	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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
14	917/M DC - Pugoda	The Plaintiff has filed this action against the registered owner of the vehicle, the Driver, the Ceylinco Insurance PLC 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. However as per the terms and conditions incorporated in the Lease Agreement the liability falls entirely on the registered owner and the Insurer.
15	DCL/00013/13 DC Kandy	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/906/2006 against D G S H M Aththas (KULE 13502057). MBSL is required to file objections to this action on 23/04/15. The Petitioner is seeking the release of lease articles.
16	H.C.06/2013 (Claim-01/2013) HC Hambantota	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2237/2010 against S A P S Shantharatne. The Petitioner is seeking the release of lease articles.
17	Claim- 01/2014 HC Hambantota	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/313/2011 against S A I P Sanjeeva. The Petitioner is seeking the release of lease articles.
18	H.C. 22/2013 (MC-5508) H.C Tangalle	This action was instituted to secure the release of the cash bond deposited with the Tangalle MC in case No.MC Tangalle/5508 instituted by H B T Pearson who was a customer of MBSL. Though MBSL has been made a party to this action no relief has been claimed from MBSL. As such we did not take part in these proceedings on the advise of Senior Counsel.
19	HC/Civil/MR/67/2014 HC(Civil)-Colombo	This action was filed by our customer N S Lankas Pvt Ltd seeking damages for wrongful repossession as well as a permanent injunction preventing MBSL from dealing with the lease article. However, the Court has now dismissed the application for a permanent injunction and has refixed this case for Trial on 12/5/15.
20	HC/Civil/MR/68/2014 HC(Civil)-Colombo	This action was filed by our customer N S Lankas Pvt Ltd seeking damages for wrongful repossession as well as a permanent injunction preventing MBSL from dealing with the lease article. However, the Court has now dismissed the application for a permanent injunction and has refixed this case for Trial on 12/5/15.
21	HC/Civil/MR/69/2014 HC(Civil)-Colombo	This action was filed by our customer N S Lankas Pvt Ltd seeking damages for wrongful repossession as well as a permanent injunction preventing MBSL from dealing with the lease article. However, the Court has now dismissed the application for a permanent injunction and has refixed this case for Trial on 12/5/15.

No	Case No.	Remarks
22	HC/Civil/MR/70/2014 HC(Civil)-Colombo	This action was filed by our customer N S Lankas Pvt Ltd seeking damages for wrongful repossession as well as a permanent injunction preventing MBSL from dealing with the lease article. However, the Court has now dismissed the application for a permanent injunction and has refixed this case for Trial on 12/5/15.
23	DMR/02150/13 DC- Colombo	The Plaintiff has filed this action claiming damages from the registered owner, MBSL (the absolute owner) seeking damages for causing the death of one A D M Safreen. The matter presently stand fixed for Trial on 29/4/15.
24	Claim -2 HC Galle	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010 against G V Hector and Priyankara. In this matter writ was executed by MBSL and seized immovable properties belonging to the Lessee. However, at the instance of the Lessee a certain 3rd party has filed this case seeking the release of the seizure.
25	Claim -3 HC Galle	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010 against G V Hector and Priyankara. In this matter writ was executed by MBSL and seized immovable properties belonging to the Lessee. However, at the instance of the Lessee a certain 3rd party has filed this case seeking the release of the seizure.
26	Claim -4 HC Galle	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010 against G V Hector and Priyankara. In this matter writ was executed by MBSL and seized immovable properties belonging to the Lessee. However, at the instance of the Lessee a certain 3rd party has filed this case seeking the release of the seizure.
27	Appeal No.134/2009 (F) Civil Appellate Court Gampaha	This is an appeal instituted by N L A R Wijewardena against the order made by DC Gamapaha in favour of MBSL in case No.426/L filed by her in the DC Gamapaha seeking to have the Mortgage bond executed by her to secure a lease facility in 1998 declared a nullity. However, the said action was dismissed by Court and she filed this appeal bearing No.134/2009F following the dismissal. Even this appeal has been hear to a conclusion and the judgement is reserved for delivery.
28	DMR/000578/13 DC Kandy	The Plaintiff has filed this action against the registered owner of the vehicle 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. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.
29	L.T. Application for reinstatement by ex- cashier (HC/1676/2004)	This is an action filed by an ex. Employee of MBSL in the Labour Tribunal seeking reinstatements and the payment of back wages. However, in view of the termination of his employment by MBSL due to a financial fraud the Colombo Fraud Bureau has instituted legal action bearing No.HC/16762004 in the Criminal High Court of Colombo, the Trial of which is being heard at present. In the event that this criminal action is decided against this employee the question of reinstatement and payment of back wages would not arise.
30	DC Colombo 19426/L	Owner of the property denies the signature on the Mortgage Bond.

Notes to the Financial Statements

No	Case No.	Remarks
31	DC Colombo 19433/L	Plaintiff denies the transfer of the property to MBSL. His value of the property is claimed.
32	DC Embilipitiya 9473/L	Plaintiff seeks a declaration of title on the property that was mortgaged to the Bank and owned by the Bank through Court auction.
33	CA 198/07 HC(CIVIL) 145/98/1	A Restitution - Integrum Action to set aside the judgment of Commercial High court dated 01.09.2003 which was in favour of the Bank and to set aside the Auction held on 17/01/2005.
34	DC Negombo 7300/L	Declaration of Title sought by the Petitioner
35	Mt. Lavinia 2357/07/L (L/18/08) DC Nugegoda 8/08 Connected to DC Col 17451/MB	Third party seeks a declaration of title on the property that was mortgaged to the Bank by the Borrower where judgment has been entered in favour of the Bank.
36	DC Chilaw 4145/L	The Plaintiff seeks a Declaration of Title.
37	DC Galle L16855	Third Party seeks a declaration of title in respect of the Property Mortgaged to MBSL and purchased by MBSL at the Auction held on 21 March 2014 in respect of DC Colombo Case No. 0082/MB (MBSL Vs Sarath Paranavitharana)
38	DLM 108/2014	Third Party (Previous Owner) claimed for the Title on Constructive trust, Subject to the our mortgage Bond.
39	HC/CIVIL/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 Share Sale and Purchase Agreement entered in March 2012 in respect of the sale of MBSL's shareholding in MBSL Savings Bank Limited at that time to a consortium of Investors led by the Plaintiff and a Mandatory Injunction in this connection. Company has filed its objections and answer. Fixed for Trial.

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 Merchant Bank of Sri Lanka & Finance PLC strategic and financial goals. Merchant Bank of Sri Lanka & Finance PLC has established a sound risk management framework to identify and mitigate the risk exposure.

The Board of Directors (BOD) is primarily responsible for overall risk management of Merchant Bank of Sri Lanka & Finance PLC. Hence the BOD has established Integrated Risk Management Committee (IRMC) for prudent risk management. IRMC of the company is responsible for:

- Assessing all risks that affect to Merchant Bank of Sri Lanka & Finance PLC and taking necessary actions to mitigate risks.
- Reviewing the adequacy and effectiveness of all management level committees to address specific risks and managing those risks within quantitative risks limits identified by the committee.
- Assessing all aspects of risk management including updated business continuity plan.
- Take prompt corrective actions to mitigate the effects of specific risks identified by the IRMC or Risk Management division.

Merchant Bank of Sri Lanka & Finance PLC has identified four critical types of risk which can affect on MBSL's operations adversely as Credit, Market, Liquidity and Operational risks.

Risk mitigation

Merchant Bank of Sri Lanka & Finance PLC has established IRMC, Assets Liability Committee (ALCO), Investment, NPA, IT Steering and Credit committees for mitigating the risk exposure, faced by the company. Credit committee is responsible to mitigate the credit risk while ALCO is responsible to mitigate the liquidity risk of Merchant Bank of Sri Lanka & Finance PLC by managing assets and liabilities of the company. All the other committees report to the IRMC. The IRMC is responsible to manage the overall risk of Merchant Bank of Sri Lanka & Finance PLC and headed by a board member. The Merchant Bank of Sri Lanka & Finance PLC uses accepted methods to mitigate risks faced by the company.

Risk measurement systems

Merchant Bank of Sri Lanka & Finance PLC measures the expected and unexpected losses using various accepted models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. Merchant Bank of Sri Lanka & Finance PLC is developing exposure limits, forecasting, ratios and risk assessment forms to identify and measure the risk.

Credit risk

Credit Risk is the potential that a company borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Financial institutions need to manage the credit risk inherent in the entire portfolio as well as the risks associated with individual credits or transactions. Merchant Bank of Sri Lanka & Finance PLC has established a credit committee to ensure the credit quality of the company. Credit committee makes necessary amendments to collateral requirement, interest rates and exposure limits by analyzing creditworthiness of the counterparties. At present Merchant Bank of Sri Lanka & Finance PLC has developed a credit rating system to analyze the clientele. Exposure, repayment capacity, collateral value and purpose are used as criteria of credit ratings. Merchant Bank of Sri Lanka & Finance PLC analyzes the concentration to loan portfolio to mitigate the credit risk. Concentration is measured based on industry sector and geographical spread.

Notes to the Financial Statements

49 Risk Management (Contd.)

Concentration risk

Concentration risk can arise from uneven distribution of exposures to its borrowers. Concentration risk can create in several ways:

- (a). Individual counterparties
- (b). Groups of individual counterparties or related entities
- (c). Counterparties in specific geographical locations
- (d). Industry sectors
- (e). Specific products

Sector wise concentration and geographical concentration is considered to assess the concentration risk of the company. Merchant Bank of Sri Lanka & Finance PLC focuses to maintain a diversified portfolio to reduce the concentration risk.

Market risk

Market risk is the risk of losses in on and off-balance-sheet positions arising from movements in market prices. Market risk can arise due to variations in interest rates, exchange rates, equity prices and commodity market prices. Interest rate risk and equity price risk mainly affect on Merchant Bank of Sri Lanka & Finance PLC business activities. Merchant Bank of Sri Lanka & Finance PLC uses sensitivity analysis, discounted cash flows and maturity gap analysis to calculate the market risk.

Liquidity risk

Liquidity risk is the possibility of loss arising from fluctuations in group's ability to sell or dispose the assets and settle the liabilities.

The company believes that effective management of liquidity risk is vital for continuing company's operations successful. Accordingly, Merchant Bank of Sri Lanka & Finance PLC has implemented the board approved Liquidity Risk Management policy and established an Assets and Liability Committee (ALCO). Merchant Bank of Sri Lanka & Finance PLC uses ratios and maturity gap analysis to identify the liquidity risk of the company.

Maturity analysis

The table below summarizes the maturity portfolio of the undiscounted cash flows of the group's financial assets and liabilities as at 31 December 2014

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.

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	171,537	-	-	-	-	-	171,537
Placements with banks	-	418,145	-	101,137	-	-	519,282
Securities purchased under resale agreements	-	465,211	-	-	-	-	465,211
Financial assets designated at fair value through profit or loss	-	367,530	-	-	-	-	367,530
Bills receivable	-	644,625	-	-	-	-	644,625
Loans & advances to customers	-	714,434	770,226	1,702,693	525,812	51,163	3,764,328
Lease and hire purchase receivable	-	1,089,144	1,896,864	3,491,956	848,526	7,015	7,333,505
Financial investments - available for sale	-	148,447	47,346	209,807	129,758	202,252	737,610
Other assets	-	46,468	6,051	8,458	11,400	12,719	85,096
Total financial assets	171,537	3,894,004	2,720,487	5,514,051	1,515,496	273,149	14,088,724
Non Financial Assets							
Investment in associate companies	-	-	-	-	-	102,002	102,002
Investments in subsidiaries	-	-	-	-	-	1,104,311	1,104,311
Investment properties	-	-	-	-	-	52,011	52,011
Property and equipment	-	-	-	-	-	85,124	85,124
Intangible assets	-	-	-	-	-	12,356	12,356
Other assets	-	21,684	61,123	-	-	-	82,807
Total non-financial assets	-	21,684	61,123	-	-	1,355,804	1,438,611
Total assets	171,537	3,915,688	2,781,610	5,514,051	1,515,496	1,628,953	15,527,335

Notes to the Financial Statements

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
Liabilities							
Financial liabilities							
Due to banks	181,110	-	-	-	-	-	181,110
Debt issued and borrowed funds	-	3,066,208	1,200,536	2,399,953	3,669,641	695,930	11,032,268
Securities sold under repurchase agreements		442,170					442,170
Other financial liabilities	-	134,185	54,776	-	-	-	188,961
Total financial liabilities	181,110	3,642,563	1,255,312	2,399,953	3,669,641	695,930	11,844,509
Non Financial Liabilities							
Current tax liabilities	-	-	208,001	-	-	-	208,001
Deferred tax liabilities	-	-	-	-	-	91,403	91,403
Other liabilities	-	184,440	3,179	-	-	-	187,619
Employee benefits obligation	-	-	-	-	-	193,153	193,153
Total non financial liabilities	-	184,440	211,180	-	-	284,556	680,176
Total liabilities	181,110	3,827,013	1,466,492	2,399,953	3,669,641	980,486	12,524,685
Equity							
Stated capital	-	-	-	-	-	1,607,000	1,607,000
Retained profits	-	-	-	-	-	1,211,621	1,211,621
Available-for-sale reserve	-	43,485	-	-	-	-	43,485
Statutory reserves	-	-	-	-	-	140,544	140,544
Total equity	-	43,485	-	-	-	2,959,165	3,002,650
Total liabilities and equity	181,110	3,870,488	1,466,492	2,399,953	3,669,641	3,939,651	15,527,335

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
Assets							
Financial assets							
Cash and cash equivalents	281,324	-	-	-	-	-	281,324
Placements with banks	-	1,241,849	-	101,137	-	-	1,342,986
Securities purchased under resale agreements	-	949,535	363,951	-	-	-	1,313,486
Financial assets designated at fair value through profit or loss	-	404,771	14,453	-	-	-	419,224
Bills receivable	-	644,625	-	-	-	-	644,625
Loans & advances to customers	-	807,917	1,053,504	1,968,729	664,957	149,480	4,644,587
Lease and hire purchase receivable	-	1,146,175	2,016,327	3,790,206	958,425	10,013	7,921,146
Financial investments - available for sale	-	587,209	58,286	209,807	163,079	202,251	1,220,632
Financial investments - held to maturity	-	70,090	-	-	-	-	70,090
Financial other assets	-	55,060	12,755	11,004	11,972	16,555	107,346
Total financial assets	281,324	5,907,231	3,519,276	6,080,883	1,798,433	378,299	17,965,446
Non financial assets							
Investment in associate companies	-	-	-	-	-	341,295	341,295
Investment properties	-	-	-	-	-	52,011	52,011
Property and equipment	-	-	-	-	-	197,127	197,127
Intangible assets	-	-	-	-	-	169,437	169,437
Other assets	-	312,861	103,981	18,112	105,950	2,673	543,577
Total non-financial assets	-	312,861	103,981	18,112	105,950	762,543	1,303,447
Total assets	281,324	6,220,092	3,623,257	6,098,995	1,904,383	1,140,842	19,268,893

Notes to the Financial Statements

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
Financial liabilities							
Due to banks	191,119	7,464	-	-	-	-	198,583
Securities sold under repurchase agreements	-	442,170	-	-	-	-	442,170
Due to customers	-	1,104,093	858,739	122,677	196,283	171,747	2,453,539
Debt issued and borrowed funds	-	3,066,209	1,202,534	2,399,953	3,669,641	695,930	11,034,267
Other financial liabilities	-	134,185	65,226	-	-	-	199,411
Total financial liabilities	191,119	4,754,121	2,126,499	2,522,630	3,865,924	867,677	14,327,970
Non financial liabilities							
Insurance provision - life	-	-	-	-	-	349,901	349,901
Insurance provision - non life	-	607,307	-	-	-	-	607,307
Current tax liabilities	-	-	208,001	-	-	-	208,001
Deferred tax liabilities	-	-	-	-	-	91,403	91,403
Other liabilities	-	510,864	13,921	-	-	-	524,785
Employee benefits obligation	-	-	-	-	-	213,468	213,468
Total non liabilities	-	1,118,171	221,922	-	-	654,772	1,994,865
Total liabilities	191,119	5,872,292	2,348,421	2,522,630	3,865,924	1,522,449	16,322,835
Equity							
Stated capital	-	-	-	-	-	1,607,000	1,607,000
Retained profits	-	-	-	-	-	1,024,288	1,024,288
Available-for-sale reserve	-	43,485	-	-	-	8,740	52,225
Statutory reserves	-	-	-	-	-	142,058	142,058
Non controlling interest	-	-	-	-	-	120,487	120,487
Total equity	-	-	-	-	-	2,902,573	2,946,058
Total liabilities and equity	191,119	5,915,777	2,348,421	2,522,630	3,865,924	4,425,022	19,268,893

49 Risk Management (Contd.)

Maturity of the Group's contingent liabilities and commitments

The table below shows the contractual expiry by maturity of the group's contingent liabilities and commitments.

For issued guarantees to customers the maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called.

Company (Rs.'000)	On Demand	Less than 3 months	3 - 12 months	1-3 years	3-5 years	Over 5 years	Total as at 31-12-2014
Guarantees to the customers	48,711	-	-	-	-	-	48,711
Financial commitments	-	-	-	-	-	-	-
Total commitments and guarantees	48,711	-	-	-	-	-	48,711

Group (Rs.'000)	On Demand	Less than 3 months	3 - 12 months	1-3 years	3-5 years	Over 5 years	Total as at 31-12-2014
Guarantees to the customers	48,711	-	3,300	6,421	-	-	58,432
Financial commitments	12,436	2,408	9,849	-	-	-	24,693
Total commitments and guarantees	61,147	2,408	13,149	6,421	-	-	83,125

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

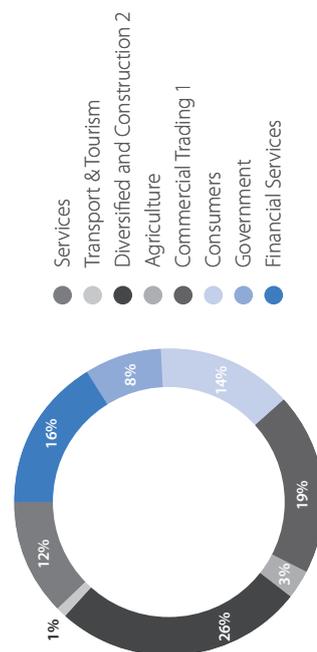
The company's concentrations of risk are managed by industry sector.

As at 31 December 2014
(Rs.000)

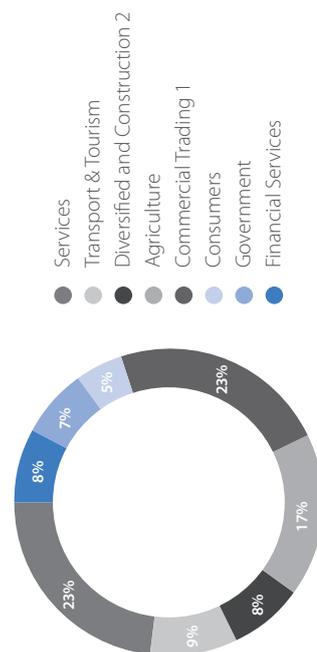
	Diversified and						Total
	Financial Services	Government	Consumers	Commercial Trading 1	Agriculture	Construction 2	
Financial assets							
Cash and cash equivalents	171,537	-	-	-	-	-	171,537
Placements with banks	519,282	-	-	-	-	-	519,282
Securities purchased under resale agreements	-	465,211	-	-	-	-	465,211
Financial assets designated at fair value through profit or loss	132,068	-	61,080	4,327	15,764	74,582	367,530
Bills receivable	-	-	-	191,898	7,107	248,329	644,625
Loans & advances to customers	1,267,092	-	233,812	120,721	422,410	1,219,502	3,764,328
Lease and hire purchase rental receivable	191,915	-	1,590,673	2,378,744	-	2,119,683	7,333,505
Financial investments - available for sale							
Government debt securities	-	717,826	-	-	-	-	717,826
Other securities	24	-	-	-	-	19,759	19,784
Other assets	4,968	-	31,651	12,074	-	16,497	85,096
Total financial assets	2,286,886	1,183,037	1,917,216	2,707,764	445,281	3,698,352	14,088,724

- Commercial Trading includes Industry, Trade, Import & Export, Power, Retail and Wholesale and Margin Trading
- Diversified and Construction includes Diversified Holdings, Manufacturing and Property Development
- Services include IT, Health Care, Telecommunication and Others

2014 - Company



2013 - Company



Risk Management (Contd.)

Group

Industry analysis risk concentration

The company's concentrations of risk are managed by industry sector.

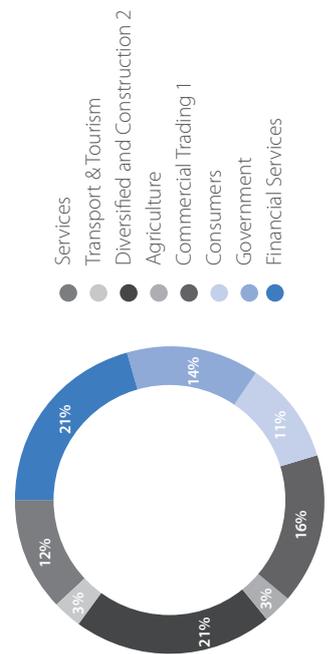
	Diversified and						Total	
	Financial Services	Government	Consumers	Commercial Trading 1	Agriculture	Construction 2		Transport & Tourism
As at 31 December 2014 (Rs.'000)								
Financial assets								
Cash and cash equivalents	281,324	-	-	-	-	-	-	281,324
Placements with banks	1,342,986	-	-	-	-	-	-	1,342,986
Securities purchased under resale agreements	-	1,313,486	-	-	-	-	-	1,313,486
Financial assets designated at fair value through profit or loss	147,577	-	66,250	4,327	15,764	95,259	73,822	16,225
Bills receivable	-	-	-	191,898	7,107	248,329	-	197,291
Loans & advances to customers	1,729,315	-	327,097	120,721	422,410	1,219,502	52,592	772,950
Lease and Hire purchase rental receivable	191,915	-	1,593,788	2,465,068	9,520	2,207,477	339,245	1,114,133
Financial investments - available for sale								
Government debt securities	-	1,193,747	-	-	-	-	-	-
Other debt securities	34	-	-	-	-	26,851	-	-
Financial investments - held to maturity	70,090	-	-	-	-	-	-	-
Other assets	10,530	-	39,438	12,074	-	23,172	-	22,132
Total financial assets	3,773,771	2,507,233	2,026,573	2,794,088	454,801	3,820,590	465,659	2,122,731

1. Commercial Trading includes Industry, Trade, Import & Export, Power, Retail and Wholesale and Margin Trading

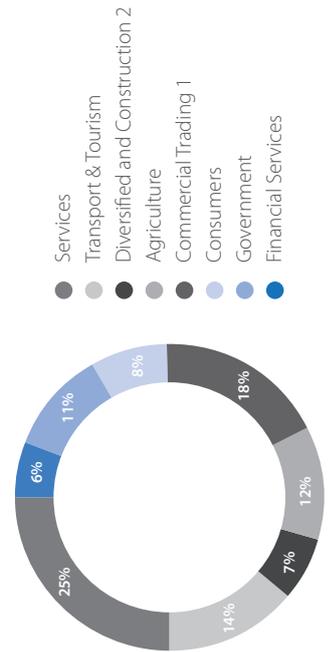
2. Diversified and Construction includes Diversified Holdings, Manufacturing and Property Development

3. Services include IT, Health Care, Telecommunication and Others

2014 - Group



2013 - 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 2014 together with comparative figures for the year ended 31 December 2013.

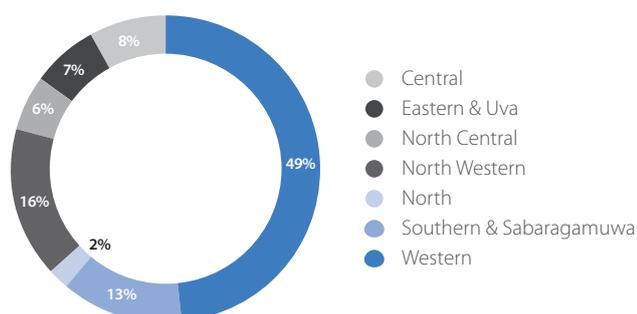
Company as at 31 December	Western		Southern & Sabaragamuwa		North	
	2014	2013	2014	2013	2014	2013
Financial assets						
Cash and cash equivalents	52,041	46,581	14,534	4,052	23,003	5,141
Placements with banks	519,282	784,480	-	-	-	-
Securities repurchased under resale agreements	465,211	140,768	-	-	-	-
Financial assets designated at FVTPL	367,530	262,817	-	-	-	-
Bills receivable	560,712	545,838	15,755	13,395	-	-
Loans & advances to customers	2,356,531	1,584,040	553,508	211,612	46,557	42,825
Lease and hire purchase rental receivable	1,699,728	2,506,354	1,249,533	932,108	179,377	157,947
Financial investments - available for sale						
Government debt securities	717,826	644,441	-	-	-	-
Other securities	19,784	23,414	-	-	-	-
Other assets	77,381	42,707	448	8,337	371	2,235
Total assets	6,836,026	6,581,440	1,833,778	1,169,504	249,308	208,148

Group

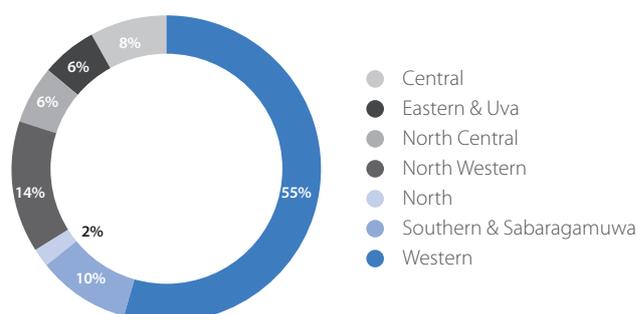
Financial assets

Cash and cash equivalents	161,829	142,165	14,534	4,052	23,003	5,141
Placements with banks	1,342,986	1,186,017	-	-	-	-
Securities repurchased under resale agreements	1,313,486	469,958	-	-	-	-
Financial assets designated at FVTPL	419,224	285,545	-	-	-	-
Bills receivable	560,712	545,838	15,755	13,395	-	-
Loans & advances to customers	3,157,128	2,882,053	603,508	211,614	46,557	42,825
Lease and hire purchase rental receivable	2,256,569	3,530,491	1,262,073	932,107	179,377	157,947
Financial investments - available for sale						
Government debt securities	1,193,748	1,397,347	-	-	-	-
Other debt securities	26,884	30,053	-	-	-	-
Financial investments - held to maturity	70,090	100,957	-	-	-	-
Other assets	92,811	61,382	4,002	8,338	3,189	2,235
Total assets	10,595,467	10,631,806	1,899,872	1,169,506	252,126	208,148

2014 - Company



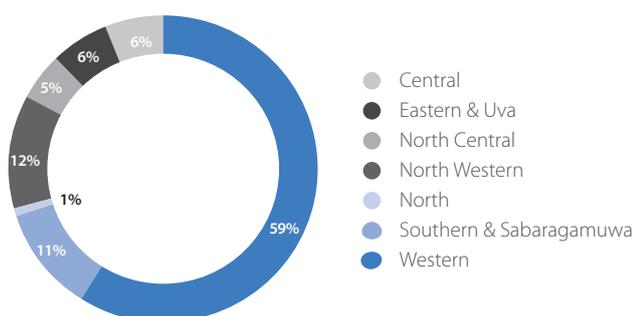
2013 - Company



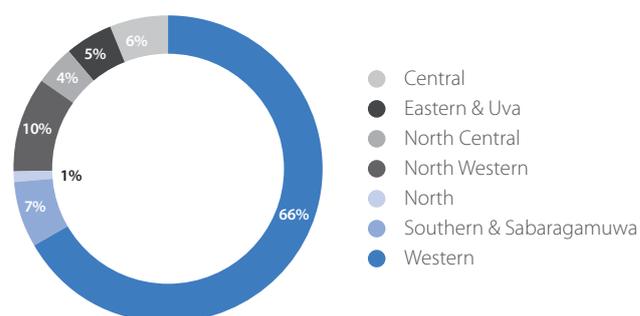
North Western		North Central		Eastern & Uva		Central		Total	
2014	2013	2014	2013	2014	2013	2014	2013	2014	2013
15,654	36,918	20,120	11,476	22,262	25,724	23,923	50,212	171,537	180,104
-	-	-	-	-	-	-	-	519,282	784,480
-	-	-	-	-	-	-	-	465,211	140,768
-	-	-	-	-	-	-	-	367,530	262,817
29,116	17,681	1,151	1,477	9,007	12,703	28,884	36,189	644,625	627,283
229,488	138,418	141,908	102,363	275,706	169,399	160,630	93,757	3,764,328	2,342,414
1,938,211	1,439,847	636,173	588,768	745,652	522,757	884,831	787,925	7,333,505	6,935,706
-	-	-	-	-	-	-	-	717,826	644,441
-	-	-	-	-	-	-	-	19,784	23,414
4,187	9,903	367	2,013	926	9,540	1,416	2,413	85,096	77,148
2,216,656	1,642,767	799,719	706,097	1,053,553	740,123	1,099,684	970,496	14,088,724	12,018,575

15,653	36,918	20,120	11,476	22,262	25,724	23,923	50,212	281,324	275,688
-	-	-	-	-	-	-	-	1,342,986	1,186,017
-	-	-	-	-	-	-	-	1,313,486	469,958
-	-	-	-	-	-	-	-	419,224	285,545
29,116	17,681	1,151	1,477	9,007	12,703	28,884	36,189	644,625	627,283
240,688	138,418	148,408	102,363	283,156	169,399	165,142	93,757	4,644,587	3,640,429
1,942,737	1,439,847	640,735	588,768	750,238	522,757	889,417	787,925	7,921,146	7,959,842
-	-	-	-	-	-	-	-	-	-
-	-	-	-	-	-	-	-	1,193,748	1,397,347
-	-	-	-	-	-	-	-	26,884	30,053
-	-	-	-	-	-	-	-	70,090	100,957
263	9,903	1,413	2,013	3,524	9,540	2,144	2,413	107,346	95,824
-	2,228,457	1,642,767	811,827	706,097	1,068,187	740,123	1,109,510	970,496	17,965,446
-	-	-	-	-	-	-	-	-	16,068,943

2014 - Group



2013 - Group



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

Merchant Bank of Sri Lanka & Finance PLC assesses the impairment allowances for each individually significant loan or advance on an individual basis, include any overdue payments of interests, breaching of the debt covenant or credit rating downgrades. Items considered when determining allowance amounts include projected receipts and the expected payout should bankruptcy ensue, the counterparty's business plan, availability of financial support to the counter party, realizable value of the collateral and the timing of the expected cash flows. Merchant Bank of Sri Lanka & Finance PLC assesses the impairment allowances at each reporting date, unless unexpected negative circumstances require more attention.

Collectively assessed allowances

Merchant Bank of Sri Lanka & Finance PLC assesses the impairment allowance for loans and advances and held to maturity debt instruments that are not individually significant and for individually significant loans and advances that have been assessed individually and determined not to be impaired. The collective assessment is computed for groups of lending assets with similar risk characteristics and Merchant Bank of Sri Lanka & Finance PLC assesses the collective allowances based on historical information.

As at 31 December 2014 the value of collateral that the company holds relating to loans individually determined to be impaired amounts to Rs. 1,663.13 Mn. The collateral consists of cash, securities and properties.

Credit quality by class of financial assets

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk.

49 Risk management (Contd.)

Company	Past due but not impaired *							Total 31-12- 2014
	Neither past due nor impaired*	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12	Individually impaired	
Rs:000								
Financial Assets								
Cash and cash equivalents	171,537	-	-	-	-	-	-	171,537
Placements with banks	519,282	-	-	-	-	-	-	519,282
Securities purchased under resale agreements	465,211	-	-	-	-	-	-	465,211
Financial assets designated at fair value through profit or loss	367,530	-	-	-	-	-	-	367,530
Bills receivable	251,819	274,254	23,077	8,237	2,154	15,167	69,917	644,625
Loans & advances to customers	807,618	2,247,793	135,833	48,823	37,249	76,700	410,312	3,764,328
Lease and hire purchase receivable	30,435	6,131,388	711,318	38,546	37,039	117,986	266,793	7,333,505
Financial investments - available for sale								
Government debt securities	717,826	-	-	-	-	-	-	717,826
Other securities	19,784	-	-	-	-	-	-	19,784
Other assets	85,096	-	-	-	-	-	-	85,096
Total	3,436,138	8,653,435	870,228	95,606	76,442	209,853	747,022	14,088,724

Group	Past due but not impaired *							Total 31-12- 2014
	Neither past due nor impaired*	Less than 3 months	3 to 6 months	6 to 9 months	9 to 12 months	More than 12	Individually impaired	
Financial Assets								
Cash and cash equivalents	281,324	-	-	-	-	-	-	281,324
Placements with banks	1,342,986	-	-	-	-	-	-	1,342,986
Securities purchased under resale agreements	1,313,486	-	-	-	-	-	-	1,313,486
Financial assets designated at fair value through profit or loss	419,224	-	-	-	-	-	-	419,224
Bills receivable	251,819	274,254	23,077	8,237	2,154	15,167	69,917	644,625
Loans & advances to customers	1,226,708	2,331,551	180,222	96,603	85,029	76,700	647,774	4,644,587
Lease and hire purchase receivable	30,435	6,188,419	749,662	79,106	77,598	529,133	266,793	7,921,146
Financial investments - available for sale								
Government debt securities	1,193,748	-	-	-	-	-	-	1,193,748
Other securities	26,884	-	-	-	-	-	-	26,884
Financial investments - held to maturity	-	70,090	-	-	-	-	-	70,090
Financial other assets	107,346	-	-	-	-	-	-	107,346
Total	6,193,960	8,864,314	952,961	183,946	164,781	621,000	984,484	17,965,446

* 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 that risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Integrated Risk Management Committee and Risk Management division has taken necessary actions to identify and manage the company operational risk prudently and effectively.

The company recognizes 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. (2013: 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	Core Capital	Total Capital	Total Capital
	Ratio (%)	Ratio (%)	Ratio (%)	Ratio (%)
	2014	2013	2014	2013
31-Mar	21.34	23.38	21.34	23.38
30-Jun	19.52	23.32	19.52	23.32
30-Sep	18.34	22.98	18.34	22.98
31-Dec	15.91	22.17	15.91	22.17

Share and Debenture Information

1. Stock Exchange Listing

The issued ordinary shares of Merchant Bank of Sri Lanka & Finance PLC (Formerly known as Merchant Bank of Sri Lanka PLC) are listed on the Colombo Stock Exchange.

2. Ordinary Shareholders as at 31 December 2014

Range of Share Holding	INDIVIDUAL			COMPANY			TOTAL		
	No. of Holders	No. of Shares	% of Holders	No. of Holders	No. of Shares	% of Holder	No. of Holders	No. of Shares	% of Holder
1 - 1,000	6,991	1,734,329	1.28	150	29,668	0.02	7,141	1,763,997	1.31
1,001 - 10,000	1,811	6,102,143	4.52	98	450,669	0.33	1,909	6,552,812	4.85
10,001 - 100,000	345	9,209,237	6.82	52	2,056,274	1.52	397	11,265,511	8.34
100,001 - 1,000,000	25	4,861,066	3.60	19	4,338,484	3.21	44	9,199,550	6.81
1,000,001 & Above	-	-	0.00	2	106,218,130	78.68	2	106,218,130	78.68
TOTALS	9,172	21,906,775	16.23	321	113,093,225	83.77	9,493	135,000,000	100.00

Range of Share Holding	RESIDENT			NON - RESIDENT			TOTAL		
	No. of Holders	No. of Shares	% of Holders	No. of Holders	No. of Shares	% of Holder	No. of Holders	No. of Shares	% of Holder
1 - 1,000	7,114	1,756,821	1.30	27	7,176	0.01	7,141	1,763,997	1.31
1,001 - 10,000	1,896	6,501,491	4.82	13	51,321	0.04	1,909	6,552,812	4.85
10,001 - 100,000	379	10,489,634	7.77	18	775,877	0.57	397	11,265,511	8.34
100,001 - 1,000,000	42	8,597,851	6.37	2	601,699	0.45	44	9,199,550	6.81
1,000,001 & Above	2	106,218,130	78.68	-	-	0.00	2	106,218,130	78.68
TOTALS	9,433	133,563,927	98.94	60	1,436,073	1.06	9,493	135,000,000	100.00

- The percentage and number of shares held by the public as at 31 December 2014 was 21.32% and 28,781,870 respectively. (31 December 2013 - 21.80% and 29,421,998 respectively)
- The Total Number of Shareholders as at 31 December 2014 was 9,493 (31 December 2013 -9,749)
- The number of Shares in issue as at 31 December 2014 were 135,000,000

3. Book Value (as at 31 December 2014)

Net Asset per share (Rs.)	22.24	20.60
---------------------------	-------	-------

Share and Debenture Information

	2014	2013
4. Share Prices (Rs.)		
Lowest	13.20 (26/02/2014)	12.10 (05/09/2013)
Highest	19.90 (10/10/2014)	22.10 (18/01/2013)
Last Transaction	17.50 (31/12/2014)	13.60 (31/12/2013)

5. Share Trading

No. of Transactions	11,399	7,720
No. of Shares traded	26,056,267	9,463,257
Value of Shares traded	442,744,089.30	159,674,048.40

6. Earnings as at 31 December (Rs.)

Earnings per share	1.80	0.87
Price earnings ratio	9.73	15.70

7. Performance at the Colombo Stock Exchange

(a) Market Capitalization of MBSL

Value (Rs.)	2,362,500,000	1,836,000,000
Rank	137	137

(b) Price Movement

All Share price Index	7,298.95	5,912.78
S&P Sri Lanka 20 Price Index	4,089.14	3,263.87
MBSL Midcap Index	11,058.93	7,225.49

8. Debentures as at 31 December 2014

Type	Interest Payment Details	Amount (Rs.) '000
1. Debentures issued in November 2011		
Type B	Unsecured Redeemable 4 Year Debentures of Rs. 100 each carrying a Fixed Interest Rate of 11.80% per annum on the principal sum, payable bi-annually.	268,080
2. Debentures issued in March 2013		
Type A	Unsecured Redeemable 5 Year Debentures of Rs. 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 Rs. 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	Interest Payment Details	Amount (Rs.) '000
Type C	Unsecured Redeemable 5 Year Debentures of Rs. 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 Rs. 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

3. Debentures issued in December 2013

Type A	Unsecured Redeemable 4 year Debentures of Rs. 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 Rs. 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 Rs. 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 Rs. 100/- each bearing Interest at a fixed rate of 13.25% per annum (before any tax) on the principal sum, payable monthly.	11,470

4. Debentures issued in November 2014

Type A	Unsecured Redeemable 5 year Debentures of Rs. 100/- each bearing Interest at a fixed rate of 9.00% per annum (before any tax) on the principal sum, payable annually.	909,770
Type B	Unsecured Redeemable 5 year Debentures of Rs. 100/- each bearing Interest at a fixed rate of 8.75% per annum (before any tax) on the principal sum, payable bi-annually.	1,090,230

9. Directors Shareholding

The number of Shares held by the Directors as at	31/12/2014	31/12/2013
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	Nil	Nil
Mr. K B S Bandara	Nil	Nil
Mr. C R Jayawarna	Nil	Nil
Mr. W P R P H Fonseka (Alternate Director to Mr. D M Gunasekara)	Nil	Nil
Mr. A M P Amarakoon (Alternate Director to Mr. M S S Paramananda, appointed with effect from 29/09/2014)	Nil	Nil

10. Shares held by the Chief Executive Officer

Mr. T Mutugala	Nil	Nil
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Share and Debenture Information

11. Major Shareholders as at 31 December 2014

	Name of the Shareholder	2014	%	2013	%
1	Bank of Ceylon No. 1 Account	97,392,136	72.14	97,392,136	72.14
2	Bank of Ceylon A/C Ceybank Unit Trust	8,825,994	6.54	8,185,866	6.06
3	Merrill J Fernando & Sons (Pvt) Limited	526,165	0.39	526,165	0.39
4	Mr. N. Balasingam	381,400	0.28	381,400	0.28
5	People's Leasing & Finance PLC/Mr.D.M.P.Disanayake	346,500	0.26	-	-
6	Mr. A. Chelliah (Deceased)	333,800	0.25	333,800	0.25
7	Mr. A.M. Weerasinghe	305,583	0.23	127,950	0.09
8	Chemanex PLC A/C No 1	300,000	0.22	300,000	0.22
9	People's Leasing & Finance PLC/L.P.Hapangama	300,000	0.22	-	-
10	Mr. C.R.D. Fernando	300,000	0.22	862,914	0.64
11	Bartleet Produce Marketing (Pvt) Limited	300,000	0.22	300,000	0.22
12	Seylan Bank Limited/Dinesh Nagendra Sellamuttu	286,301	0.21	286,301	0.21
13	Mr. B.T. Prathapasinghe	274,595	0.20	225,058	0.17
14	Asha Financial Services Limited/Mr.C.N.Pakianathan	273,713	0.20	-	-
15	D.S.L. Investments (Private) Ltd	269,603	0.20	109,603	0.08
16	Mr. K.C. Vignarajah	263,296	0.20	128,586	0.10
17	Mr. W.L.T. Anandawansa	257,431	0.19	2,421	0.00
18	Sithlanka (Private) Limited	235,000	0.17	235,000	0.17
19	Mrs. N.H. Abdul Husein	230,613	0.17	154,000	0.11
20	Sandwave Limited	220,299	0.16	220,299	0.16

Decade at a Glance

Based on Financial Statements prepared in compliance with SLAS

Company						
For the year ended 31 December	2010	2009	2008	2007	2006	2005
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Operating Results						
Income	1,522,980	1,155,731	1,035,227	872,598	704,355	539,001
Interest expenses	419,041	584,247	547,386	333,204	189,017	185,914
Operating expenses & provisions	535,870	345,720	300,898	273,261	257,190	188,207
Share of associate company	82,639	28,500	16,471	7,136	11,033	22,450
Profit before income tax	650,708	254,264	203,414	273,269	269,181	187,330
Income tax on profit	201,037	53,286	(1,664)	34,799	59,638	28,903
Profit after income tax	449,671	200,978	205,078	238,470	209,543	158,427
Net profit for the year	449,671	200,978	205,078	238,470	209,543	158,427
As at 31 December						
	2010	2009	2008	2007	2006	2005
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance Sheet Information						
Assets						
Government treasury bills and bonds	279,765	387,847	131,084	41,735	-	193,516
Investments on securities & properties	622,900	511,217	395,616	410,456	185,641	121,930
Loans and advances	1,567,034	1,143,361	807,469	570,618	485,594	629,908
Lease receivable	3,816,504	2,958,996	3,128,124	3,154,198	2,628,564	2,117,444
Property & equipment	44,047	37,844	30,519	24,517	26,344	29,232
Investments in associate & subsidiary companies	568,327	354,546	103,895	95,543	51,944	55,365
Other assets	284,024	185,114	171,421	107,015	125,610	125,501
Total assets	7,182,601	5,578,925	4,768,128	4,404,082	3,503,697	3,272,896
Liabilities						
Debentures	716,800	1,074,160	1,144,160	1,327,510	1,260,600	1,400,600
Borrowings	3,179,712	1,658,985	1,553,949	1,079,083	400,370	242,000
Other liabilities & deferred taxation	606,896	515,008	390,225	432,773	426,481	356,092
Total liabilities	4,503,408	3,248,153	3,088,334	2,839,366	2,087,451	1,998,692
Net assets	2,679,193	2,330,772	1,679,794	1,564,716	1,416,246	1,274,204
Capital employed						
Stated capital	1,607,000	1,607,000	1,067,000	1,067,000	1,067,000	1,067,000
Retained profit/(loss) & reserve fund	1,072,193	723,772	612,794	497,716	349,246	207,204
	2,679,193	2,330,772	1,679,794	1,564,716	1,416,246	1,274,204

Decade at a Glance

Ratios and Related Information

Company						
For the year ended 31st December						
	2010	2009	2008	2007	2006	2005
Operating ratios						
Return on net assets	16.78%	8.62%	12.21%	15.24%	14.80%	12.43%
Net profit	29.53%	17.39%	19.81%	27.33%	29.75%	29.39%
Cost to income ratio	42.58%	54.95%	53.30%	41.14%	42.32%	46.73%
Income growth	31.78%	11.64%	18.64%	23.89%	30.68%	23.92%
Profit growth	123.74%	-2.00%	-14.00%	13.80%	32.26%	26.98%
Assets growth	28.75%	17.00%	8.27%	25.70%	7.05%	32.21%
Net assets growth	14.95%	38.75%	7.35%	10.48%	11.15%	71.97%
Gearing ratios						
Debt to equity - times	1.45	1.17	1.61	1.54	1.17	1.29
Interest cover - times	2.55	1.44	1.37	1.82	2.42	2.01
Liquidity ratios						
Quick ratio - times	0.93	1.04	1.19	1.57	0.91	1.61
Investors ratios						
Market value of a voting share - Rs.	45.80	19.50	7.25	14.25	16.25	14.25
Basic earnings per share - Rs.	3.33	1.49	2.28	2.65	2.33	1.76
Net assets value per share - Rs.	19.85	17.26	18.66	17.39	15.74	14.16
Price earnings ratio - times	13.75	13.09	3.18	5.38	6.97	8.10
Earning yield	7.27%	7.64%	31.45%	18.60%	14.33%	12.35%
Dividend per share - Rs.	1.25	0.75	1.00	1.00	1.00	0.75
Dividend cover - times	2.66	1.98	2.28	2.65	2.33	2.35
Dividend yield ratio	2.73%	3.85%	13.79%	7.02%	6.15%	5.26%
Dividend payout ratio	37.54%	50.34%	43.86%	37.74%	42.92%	42.61%

Based on Financial Statements prepared in compliance with SLAS

Group						
For the year ended 31 December	2010	2009	2008	2007	2006	2005
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Operating Results						
Income	2,595,680	2,332,321	1,647,537	1,443,925	1,163,678	905,927
Interest expenses	850,177	1,274,896	921,486	658,647	440,614	368,701
Operating expenses & provisions	1,032,534	727,000	494,628	464,824	429,735	332,336
Share of associate company	82,639	28,500	16,471	7,136	11,033	22,450
Profit before income tax	795,608	358,925	247,894	327,590	304,362	227,340
Income tax on profit	233,700	73,592	4,908	38,134	59,737	30,037
Profit after income tax	540,977	285,333	242,986	289,456	244,625	197,303
Minority interest	48,632	55,771	18,574	24,984	19,693	21,050
Net profit for the year	492,345	229,562	224,412	264,472	224,932	176,253
As at 31 December						
	2010	2009	2008	2007	2006	2005
	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000	Rs.000
Balance Sheet Information						
Assets						
Government treasury bills and bonds	1,626,575	1,291,653	446,084	362,499	323,054	485,110
Investments on securities & others	892,052	768,975	430,929	452,165	230,839	183,766
Loans and advances	3,960,576	3,435,815	1,672,491	887,570	805,632	725,016
Lease receivable	6,554,698	5,035,167	4,660,299	4,814,920	4,471,315	3,615,485
Property & equipment	145,426	150,924	44,466	37,360	43,528	49,446
Investments in associate & subsidiary companies	121,617	95,022	82,977	74,625	31,026	34,447
Other assets	1,123,406	1,054,916	251,782	173,608	185,807	349,255
Total assets	14,424,350	11,832,472	7,589,028	6,802,747	6,091,201	5,442,525
Liabilities						
Deposits from customers	5,676,955	4,897,367	2,199,270	1,813,329	2,142,949	1,848,626
Debentures	734,684	1,169,644	1,144,160	1,327,510	1,260,600	1,400,600
Borrowings	3,311,089	1,733,170	1,682,372	1,240,575	490,384	242,000
Other liabilities & deferred taxation	1,514,540	1,307,202	553,314	564,407	539,798	466,051
Total liabilities	11,237,268	9,107,383	5,579,116	4,945,821	4,433,731	3,957,277
Minority interest	288,683	207,823	172,208	153,634	128,650	113,859
Net assets	2,898,399	2,517,266	1,837,704	1,703,292	1,528,820	1,371,389
Capital employed						
Stated capital	1,607,000	1,607,000	1,067,000	1,067,000	1,067,000	1,067,000
Retained profit/(loss) & reserve fund	1,291,399	910,266	770,704	636,292	461,820	304,389
Total equity	2,898,399	2,517,266	1,837,704	1,703,292	1,528,820	1,371,389

Decade at a Glance

Ratios and Related Information

Group						
For the year ended 31st December	2010	2009	2008	2007	2006	2005
Operating Ratios						
Return on net assets	16.99%	9.12%	12.21%	15.53%	14.71%	12.85%
Net profit	20.84%	12.23%	14.75%	20.05%	21.02%	21.78%
Cost to income ratio	52.50%	70.44%	55.15%	45.21%	46.64%	53.93%
Income growth	11.29%	41.56%	14.10%	24.08%	28.45%	16.60%
Profit growth	96.93%	17.43%	-16.05%	18.33%	23.98%	42.06%
Assets growth	21.90%	55.92%	11.56%	11.68%	11.92%	26.18%
Net assets growth	15.14%	36.98%	7.89%	11.41%	11.48%	67.18%
Gearing Ratios						
Debt to equity - times	3.34	3.10	2.73	2.57	2.55	2.55
Interest cover - times	1.94	1.28	1.27	1.50	1.69	1.62
Liquidity Ratios						
Quick ratio - times	0.69	0.85	0.87	1.00	0.70	0.87
Investors Ratios						
Market value of a voting share - Rs.	45.80	19.50	7.25	14.25	16.25	14.25
Basic earnings per share - Rs.	3.65	1.70	2.49	2.94	2.50	2.80
Net assets value per share - Rs.	21.47	18.65	20.42	18.93	16.99	21.74
Price earnings ratio - times	12.55	11.47	2.91	4.85	6.50	5.09
Earning yield	7.97%	8.72%	34.34%	20.63%	15.38%	19.65%
Dividend per share - Rs.	1.25	0.75	1.00	1.00	1.00	1.07
Dividend cover - times	2.92	2.27	2.49	2.94	2.50	2.61
Dividend yield ratio	2.73%	3.85%	13.79%	7.02%	6.15%	7.53%
Dividend payout ratio	34.25%	44.12%	40.16%	34.01%	40.10%	38.30%

Based on Financial Statements prepared under SLFRS

For the year ended 31st December	Company				Group			
	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000
Operating Results								
Income	2,539,185	2,355,366	1,869,714	1,393,526	4,244,244	5,227,315	3,955,749	3,009,426
Interest expenses	1,227,296	1,371,937	1,035,739	541,370	1,463,005	2,364,151	1,989,101	1,234,716
Operating expenses & provisions	985,059	807,547	590,572	483,141	2,558,576	2,943,460	1,698,689	1,344,174
Share of associate company	-	-	-	60,248	(77,869)	(606)	(17,486)	60,248
Profit before income tax	326,830	175,882	243,403	429,263	144,794	(80,902)	250,473	490,784
Income tax on profit	83,957	58,942	42,156	92,992	86,016	78,851	70,256	125,318
Profit after income tax	242,873	116,940	201,247	336,271	58,778	(159,753)	180,217	365,466
Non controlling interests	-	-	-	-	(20,581)	(57,632)	36,724	30,703
Net profit for the year	242,873	116,940	201,247	336,271	79,359	(102,121)	143,493	334,763
As at 31st December								
	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000	2014 Rs.000	2013 Rs.000	2012 Rs.000	2011 Rs.000
Statement of Financial Position Information								
Assets								
Cash in hand and cash at bank	171,537	180,104	156,130	97,260	281,324	275,688	317,758	247,625
Deposits with banks	519,282	784,480	140,242	-	1,342,986	1,186,017	485,954	274,243
Reverse repurchase agreement	465,211	140,768	116,532	450,000	1,313,486	469,958	590,525	552,218
Financial assets designated at FVTPL	367,530	262,817	311,676	280,815	419,224	285,545	373,391	387,609
Bills receivable	644,625	627,283	525,741	527,022	644,625	627,283	525,743	527,024
Loans & advances to customers	3,764,328	2,342,414	1,698,280	1,452,314	4,644,587	3,640,429	4,458,095	4,382,575
Lease and hire purchase rental receivable	7,333,505	6,935,706	7,062,055	5,534,145	7,921,146	7,959,842	11,971,076	9,316,466
Financial investments - available for sale	737,610	667,855	695,868	424,127	1,220,632	1,427,400	1,161,481	1,238,225
Financial investments - held to maturity	-	-	-	-	70,090	100,957	507,737	308,216
Investment in associate & subsidiary companies	1,206,313	1,008,106	678,823	629,484	341,295	438,234	106,228	132,774
Property, plant & equipment and intangible assets	97,480	95,132	107,675	54,201	366,564	393,956	419,012	301,276
Other assets	219,914	224,135	398,289	378,374	702,934	753,263	1,245,877	1,299,234
Total assets	15,527,335	13,268,800	11,891,311	9,827,742	19,268,893	17,558,572	22,162,877	18,967,485
Liabilities								
Due to banks	181,110	99,118	138,239	183,718	198,583	152,338	272,994	520,638
Cash collateral on securities lent and repurchase agreements	442,170	-	419,462	930,597	442,170	-	435,558	930,597
Due to customers	-	-	-	-	2,453,539	2,824,918	7,546,297	6,983,892
Debt issued and borrowed funds	11,032,268	9,623,147	7,946,502	5,356,872	11,034,267	9,625,317	8,555,028	5,622,322
Other liabilities & deferred taxation	869,137	765,659	693,449	594,280	2,194,276	2,048,486	1,950,552	1,473,646
Total liabilities	12,524,685	10,487,924	9,197,652	7,065,467	16,322,835	14,651,059	18,760,429	15,531,095
Non controlling interests	-	-	-	-	120,487	139,805	504,924	461,072
Total equity attributable to equity holders of the parent	3,002,650	2,780,876	2,693,659	2,762,275	2,825,571	2,767,708	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	1,607,000	1,607,000
Retained earnings & reserves	1,395,650	1,173,876	1,086,659	1,155,275	1,218,571	1,160,708	1,290,524	1,368,318
	3,002,650	2,780,876	2,693,659	2,762,275	2,825,571	2,767,708	2,897,524	2,975,318

Decade at a Glance

Ratios and Related Information	Company				Group			
	2014	2013	2012	2011	2014	2013	2012	2011
Operating Ratios								
Return on net assets	8.09%	4.21%	7.47%	12.17%	2.81%	-3.69%	4.94%	11.25%
Net profit	9.56%	4.96%	10.76%	24.13%	1.38%	-3.06%	4.56%	12.14%
Return on assets	1.56%	0.88%	1.69%	3.42%	0.31%	-0.91%	0.81%	1.93%
Cost to income ratio	68.54%	65.71%	55.03%	34.19%	87.53%	96.98%	77.62%	59.82%
Income growth	7.80%	25.97%	34.17%	-8.50%	-18.81%	32.14%	31.45%	15.94%
Profit growth	107.69%	-41.89%	-40.15%	-25.22%	-139.47%	-188.64%	-50.69%	-32.44%
Assets growth	17.02%	11.58%	21.00%	37.62%	9.74%	-20.77%	16.85%	31.95%
Net assets growth	7.97%	3.24%	-2.48%	5.09%	2.09%	-4.48%	-2.62%	4.01%
Gearing Ratios								
Debt to equity - times	3.88	3.50	3.16	2.34	4.13	3.53	3.20	2.38
Interest cover - times	1.27	1.13	1.24	1.79	1.10	0.97	1.13	1.40
Liquidity Ratios								
Quick ratio - times	1.25	0.69	0.75	1.15	1.20	0.69	0.63	0.85
Investors Ratios								
Market value of a voting share - Rs.	17.50	13.60	19.90	39.60	17.50	13.60	19.90	39.60
Basic earnings per share - Rs.	1.80	0.87	1.49	2.49	0.59	(0.76)	1.06	2.48
Net assets value per share - Rs.	22.24	20.60	19.95	20.46	20.93	20.50	21.46	22.04
Price earnings ratio - times	9.73	15.70	13.35	15.90	29.77	(17.98)	18.72	15.97
Earning yield	10.28%	6.37%	7.49%	6.29%	3.36%	-5.56%	5.34%	6.26%
Dividend per share - Rs.	0.50	0.50	1.25	1.25	0.50	0.50	1.25	1.25
Dividend cover - times	3.60	1.73	1.19	1.99	1.18	(1.51)	0.85	1.98
Dividend yield ratio	2.86%	3.68%	6.28%	3.16%	2.86%	3.68%	6.28%	3.16%
Dividend payout ratio	27.79%	57.72%	83.85%	50.18%	85.06%	166.10%	117.60%	50.41%

Statement of Value Added

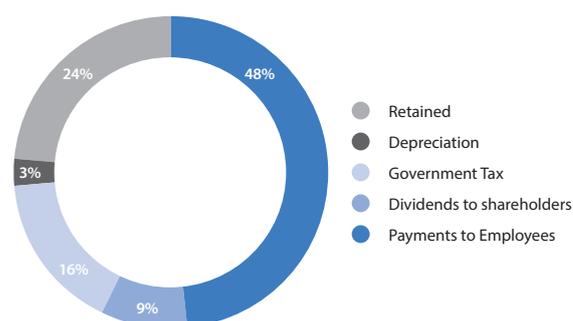
Value Added	Year 2014	Year 2013
	Rs. Mn	Rs. Mn
Gross value added	2,539	2,355
Cost of borrowings & support services	(1,552)	(1,615)
Provision for impairment and other losses	(238)	(209)
	749	531

Value Allocated		
Payments to employees	362	310
Dividends to shareholders	68	68
Government tax	122	83
Depreciation	22	21
Retained	175	49
	749	531

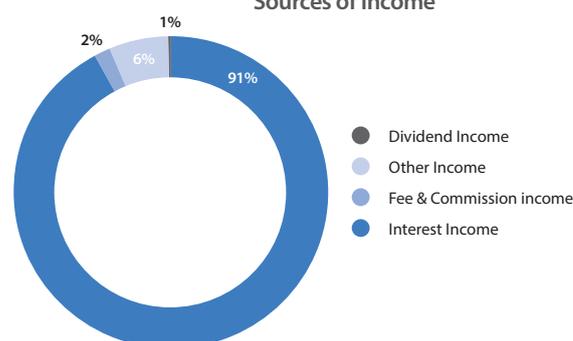
Sources of Income		
Interest income	2,339	2,266
Fee & commission income	44	48
Other income	149	31
Dividend income	7	10
	2,539	2,355

Utilization of Income		
Payment to lenders	1,227	1,372
Payments to employees	362	310
Support services	325	243
Depreciation & amortization	22	21
Impairment charges for loans and other losses	238	209
Government taxes	122	83
Dividends	68	68
Retained profit	175	49
	2,539	2,355

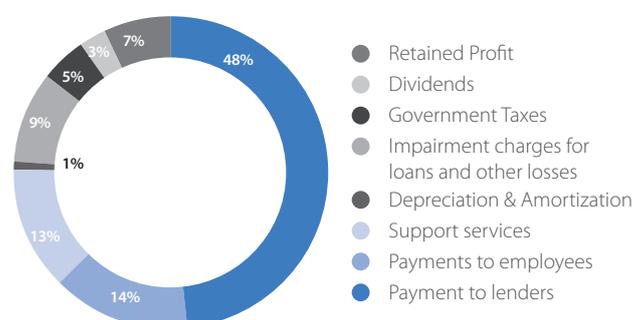
Value Allocation



Sources of Income



Utilization of Income



Economic / Financial Indicators

	2014	2013
GDP growth rate	7.4	7.3
Inflation - annual average rate	3.3	6.9

Exchange Rate

US \$	131.05	130.75
Yen	1.10	1.24
S. Pound	204.04	216.77
Euro	159.42	179.92

Rate of Change against LKR %

US \$	-0.23	-2.86
Yen	11.88	19.48
S. Pound	5.35	-4.68
Euro	11.65	-6.95

Interest Rate

T-Bills Rate :

3-Months	5.74%	7.54%
6-Months	5.84%	7.85%
12-Months	6.00%	8.29%

Overnight repurchase rate	6.50%	6.97%
Commercial Bank AWDR *	6.20%	11.78%
Commercial Bank AWLR **	11.91%	15.18%

Stock Market (as at year end)

ASPI	7,299	5,912.78
S & P SL 20	4,089.1	3,263.87
MBSL Midcap	11,058	7,225.49
Change in ASPI %	23%	5%
Change in S & P SL 20%	25%	-36%
Change in MIDCAP %	53%	1%
Market capitalization LKR (Billion)	3,104.90	2,459.90
Annual Turnover LKR (Billion)	341	200.48

AWDR * Average Weighted Deposit Rate

AWLR ** Average Weighted Lending Rate

Contact Information

HEAD OFFICE DETAILS

Department	Direct Line	Fax Line	E-mail
CHAIRMAN'S OFFICE (18th FLOOR)			
Mr. Ruwan Gallage Chairman	011-4711717	011-4711718	chairman@mbslbank.com
CEO'S OFFICE (18th FLOOR)			
Mr. T Mutugala Chief Executive Officer	011-4711700	011-4711704	mutugalat@mbslbank.com
COO'S OFFICE (14th FLOOR)			
Mr. Duleep Daluwatta Chief Operating Officer	011-4711708		duleep@mbslbank.com
COMPANY SECRETARIAL (18th FLOOR)			
Ms. Karnika D Jayatilake Deputy General Manager	011-4711766	011-4711704	karnikaj@mbslbank.com
CORPORATE ADVISORY & CAPITAL MARKETS (18th FLOOR)			
Mr. A M A Cader Deputy General Manager	011-4711769	011-4711741	cader@mbslbank.com
Ms. F F Ishar Senior Manager	011-4711747		fahimat@mbslbank.com
Ms. V L Goonawardene Manager	011-4711746		lalangig@mbslbank.com
Mr. W M Hemendra P Wijekoon Manager	011-4711761		hemendraw@mbslbank.com
Mr. M H A Dilshard Manager	011-4711711		dilshard@mbslbank.com
HUMAN RESOURCES (18th FLOOR)			
Mr. Dhammika Kumara Gunawardhana Assistant General Manager	011-4711712		dgunawardhana@mbslbank.com
Ms. Harshani Nisansala Silva Manager	011-4711724		harshanin@mbslbank.com
Mr. M D K L P Samaratunga Manager	011-4711724		keerthis@mbslbank.com
TREASURY MANAGEMENT (14th FLOOR)			
Mr. Janaka Fernando Manager	011-4711753		janakaf@mbslbank.com
RANGE 01 (14th FLOOR)			
Mr. T D R Siriwardena Deputy General Manager	011-4711762		ranjiths@mbslbank.com
Mr. D A Athulathmudali Senior Manager	011-4711709		amithaa@mbslbank.com
Mr. G M D A Wijesekera Banda Manager	011-4711794		danushkaa@mbslbank.com
Mr. Osanda Buddhika Weerasekara Manager	011-4711794		osandaw@mbslbank.com

Contact Information

HEAD OFFICE DETAILS

Department	Direct Line	Fax Line	E-mail
Mr. Viraj De Silva Manager	011-4711795		virajd@mbslbank.com
RANGE 02 (14th FLOOR)			
Mr. W M S D Uduwawala Deputy General Manager	011-4711751		senakau@mbslbank.com
Mr. B L S A Fernando Senior Manager	011-4711789		amalf@mbslbank.com
Mr. J S B Miranda Manager	011-4711789		jeromym@mbslbank.com
SUPPORT SERVICES (14th FLOOR)			
Mr. K A D G L Kaluarachchi Deputy General Manager	011-4711703	011-4711716	lakshmank@mbslbank.com
Ms. Acushla Divulwewa Manager	011-4711711		acushlad@mbslbank.com
CREDIT ADMINISTRATION (11th FLOOR)			
Ms. W L S R Amaratunga Deputy General Manager	011-4711706	011-4711714	shyamalia@mbslbank.com
Ms. Melani de Silva Senior Manager	011-4711711		melanid@mbslbank.com
Mr. S Ediriarachchi Manager	011-4711733		sarathe@mbslbank.com
FINANCE & STRATEGIC PLANNING (11th FLOOR)			
Mr. H M P B Herath Deputy General Manager	011-4711749	011-4711765	priyanthah@mbslbank.com
Mr. H M P Herath Senior Manager	011-4711732		priyanthahe@mbslbank.com
Ms. Udeni Indika Manager	011-4711711		udenii@mbslbank.com
RISK MANAGEMENT & COMPLIANCE (11th FLOOR)			
Mr. Himala Nalinda Wijayatunga Manager	011-4711711		himalaw@mbslbank.com
LEGAL (10th FLOOR)			
Ms. T T K Attanayake Senior Manager	011-4711711		theranjaniam@mbslbank.com
Ms. Kamini Dissanayake Manager	011-4711711		kaminid@mbslbank.com
Mr. K V Sivapalan Manager	011-4711787		sivapalank@mbslbank.com
Mr. A M A Attanayake Manager	011-4711750		anandaa@mbslbank.com
RECOVERIS (10th FLOOR)			
Mr. J A K S W Jayasundara Assistant General Manager	011-4711711		kumuduj@mbslbank.com
Mr. Shanaka Mendis Senior Manager	011-4711711		shanakam@mbslbank.com

HEAD OFFICE DETAILS

Department	Direct Line	Fax Line	E-mail
INFORMATION TECHNOLOGY (08 th FLOOR)			
Mr. Chamara Withanachchi Assistant General Manager	011-4711707	011-2565654	chamaraw@mbslbank.com
Mr. K S Senthilkumar Manager	011-4711770		senthilk@mbslbank.com
Mr. D C S Elvitigala Manager	011-4711771		chinthakae@mbslbank.com
Mr. A G K Gunawardane Manager	011-4711711		kingslyg@mbslbank.com
Mr. D Weeratunga Manager	011-4711711		dushmanthaw@mbslbank.com
MARKETING & PRODUCT DEVELOPMENT (MEZZANINE FLOOR)			
Mr. G M J A R Gamalath Deputy General Manager	011-4711726		juddeg@mbslbank.com
Mr. Lasantha Udaya Kumara Senior Manager	011-4711711		lasanthau@mbslbank.com
Mr. Manik Senanayaka Manager	011-4711711		maniks@mbslbank.com
DEPOSITS (MEZZANINE FLOOR)			
Mr. M L P Peiris Assistant General Manager	011-4711711		lloydpe@mbslbank.com
Mr. Prasan Fernando Manager	011-4711711		prasanf@mbslbank.com
Mr. N M P K Nissanka Manager	011-4711711		manjulan@mbslbank.com
PAWNING (MEZZANINE FLOOR)			
Mr. N L Perera Manager	011-4711411		nlp@mbslbank.com

Contact Information

BRANCH OFFICE

BRANCH OFFICES	ADDRESS	TELEPHONE	FAX
Ambalangoda	No.43, Station Road, Ambalangoda	091-4943759 091-4943765	091-2256675
Ambalantota	No:133, Main street, Ambalanthota	047-4933660/1	047-2225610
Ampara	No.6, D S Senanayake Mw, Ampara	063-4923540 063-4923541	063-2224260
Anuradhapura	No: 82, Main Street, Anuradhapura	025-4580507/8 025-2234485	025-2236313
Avissawella	No.89/1/1, Ratnapura Road, Avissawella	036-4928208 036-4928209	036-2232030
Bandarawela	No.11, Thanthiriya, Badulla Road, Bandarawela	057-4926910 057-4926911	057-2233807
Batticaloa	No:28, Bar Road, Batticaloa	065-4926799 065-4926787	065-2228575
Chilaw	No: 04, Ebert Silva Estate, Colombo Road, Chilaw	032-2224414/15	032-2224033
City	No: 153, Union Place, Colombo 02	011- 4361571 011- 4361581	011- 2328688
Dambulla	1/690, Anuradhapura Road, Dambulla.	066-2284205	066-2284204
Deniyaya	No.153/1, Hospital Road, Deniyaya	041-4935173 041-4935174	041-2273731
Embilipitiya	No.132 B, New Town Road, Embilipitiya	047-4931992 047-4931993	047-2261735
Galle	No:34, Wakwella Road, Galle	091-2234751 091-4924912 091-4924913	091-2234750
Gampaha	49, Yakkala Road, Gampaha.	033-2248443	033-2248442
Hambantota	33/L/1, Tissa Road, Hambantota.	047-2222711/12	047-2222712
Hatton	No: 263, Dimbula Road, Hatton	051-4924641 051-4924642	051-2224375
Hingurakgoda	No.1, Air-Port Road, Damana Kumbura, Hingurakgoda	027-4924761 027-4924762	027-2245483
Horana	212, Panadura Road, Horana.	034-2265699 034-2262973 113075075	034-2262973
Ja-Ela	No.270/1, Negombo Road, Thudalla, Ja-Ela	011-2249292	
Jaffna	No.317,Clock Tower Road, Jaffna.	021-2220380	021-2220381
Kadawatha	No 2,1246/B1, Kandy Road, Kadawatha	011-2901542 011-2920399	011-2920335
Kalutara	426, Galle Road, Kalutara South.	034-2224245	034-2229482
Kandana	N0.310, Colombo Road, Kandana	011- 4344072 011 -4344073	011 - 4544177
Kandy - City Office	No.88, "Ceybank House", Dalada Veediya, Kandy.	081-2237378	081-2237378
Kandy	No.284, Katugasthota Road, Kandy	081-4481702 081-2224818 081-2224819	081-2213880

BRANCH OFFICE

BRANCH OFFICES	ADDRESS	TELEPHONE	FAX
		081-4951786	
		081-4951787	
		081-4481701	
		081-4481702	
Kekirawa	No.24, Yakalla Road, Kekirawa	025-4928951 025-4928952	025-2264799
Kilinochchi	No.6, Kandy Road, Karadipokku, Kilinochchi.	021-2280078	021-2280079
Kirithbathgoda	276 A, Nawajeevana Place, Kandy Road, Kiribathgoda.	011-2910772	011-2910771
Kotahena	174, George R. De Silva Mawatha, Kotahena, Colombo 13.	011-2388377	011-2432088
		011-4062161	
Kottawa	262/2, High Level Road, Pannipitiya, Kottawa.	011-2782099	011-2783389
Kuliyapitiya	No.413/1/1, Madampe, Kuliyapitiya.	037-2281730/1	037-2281731
Kurunegala	No: 44, Kandy Rd, Kurunegala	037-4692006 037-2223916	037-2223916
Maharagama	No: 159, Awissawella Rd, Maharagama	0114-306096 0114-306097	0112-745451
		0112-745431	
Matara	49 1/1, Nilmini Building Dharmapala Mawatha, Matara	041-2233886	041-2233889
Mathugama	No.92/4, Agalawatta Road, Mathugama	034-4947811 034-4947812	034-2249992
Metropolitan	67/1, Mahinda Place, Kirulapona, Colombo 06.	011-2358000 011-2358002	011-2358090
Monaragala	No.280, Wellawaya Road, Monaragala	055-4929361 055-4929362	055-2276087
Moratuwa	731, Galle Road, Idama, Moratuwa.	011 -2641420	011- 2642120
Negombo	No:329/16, Main Street, Negombo	031-4933922 031-4932230	031-2228466
Nittambuwa	No.101, Kandy Road, Nittambuwa.	033-4937564 033-4937565	033-2288842
Nugegoda	No. 196, High Level Road, Nugegoda.	011 -2768453	011- 2815535
Panadura	No.159/2, Galle Road, Panadura.	038-4927941 038-4927942	038-2236889
Puttalam	No.126, Kurunagala Road, Puttalam.	032-4928795 032-4928796	032-2267776
Rathnapura	NO.231, Main Street, Rathnapura.	045-4928089 045-4928093	045-2232524
Trincomalee	No: 53 North Coast Road, Trincomalee.	026-4928888	026-2226784
Union Place	519, T B Jayah Mawatha, Colombo 10.	011-2374000	011-2374044
Vavunia	No: 99, station Road, Vavuniya	024-4925475 024-4588685	024-2226108
Wattala	No.500/B/C, Negambo Road, Wattala.	011-2931761 011-4062586	011-2931762
Wennappuwa	No.197, 1st Floor, Colombo Road, Wennappuwa.	031-2245664/5	031-2249979

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 that does not fall into any of the three categories, namely, held to maturity, Fair Value through Profit or Loss and Loans & Receivable. It is a residual category - does not mean that the entity stands ready to sell these all the time.

C

Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective impairment provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commercial paper

An unsecured short term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and to meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Consolidated financial statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

Contingencies

A condition or situation existing on the statement of financial position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost / Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

Cost method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Corporate governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Credit risk

Credit risk or default risk is the potential that a borrower or counterparty failing to meet its obligations in accordance with agreed terms and conditions.

Credit ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

D

Deferred taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Dividend cover

Profit attributable to shareholders divided by gross dividends. This ratio measures the number of times dividend is covered by current year's attributable profits.

Dividend yield

Dividend per share as a percentage of its market value.

E

Earnings Per Ordinary Share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares issued.

Economic Value Added (EVA)

A measure of productivity that takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective tax rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Equity method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

F

Fair value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

Financial asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial liability

A contractual obligation to deliver cash or another financial asset to another entity.

Finance lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

G

Gearing

Long term borrowings divided by the total funds available for shareholders.

Group

A group is a parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Held-to-Maturity (HTM) Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

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.

Glossary of Financial Terms

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 are 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 the 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.

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 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 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 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 Third Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Thursday, 25 June 2015 at 10:00 am for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 December 2014 together with the Report of the Auditors thereon.
2. To re-elect as a Director Mr. Dassanayake Mudiyansele Gunasekara who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To elect as a Director Mr. Ruwan Prithi Kumara Gallage who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
4. To elect as a Director Mr. Sandun Sudhaththa Gamage who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
5. To elect as a Director Mr. Ajith Hiran Samarasundera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
6. To elect as a Director Mr. Silhan Lazimo Rahaman who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
7. To elect as a Director Mr. Arun Pradeep Maharaja who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
8. To elect as a Director Mr. Brahmanage Premalal who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
9. To elect as a Director Mr. Laththuwahandi Chandrasiri De Silva who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
10. To elect as a Director Mr. Brian Jeyaranjit Sinniah who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
11. To re-appoint 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.
12. To authorize the Directors to determine donations for the financial year 2015.

By Order of the Board of

MERCHANT BANK OF SRI LANKA & FINANCE PLC



Company Secretary

28 May 2015

Colombo

NOTES:

1. A Form of Proxy is attached hereto, for use if necessary, in which event, it should be completed and returned to the Registered Office of the Company – Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.
3. The instrument appointing a proxy may be in writing under the hand of the appointer or of his/her Attorney, 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.

Form of Proxy

I/We.....
of.....beingashareholder/shareholders
of the Merchant Bank of Sri Lanka & Finance PLC, hereby appoint
of.....
whom failing.....
of.....
whom failing any one of the Directors as *my/our Proxy, to represent * me/us, and to speak and to vote on *my/our behalf at the Annual General Meeting of the Company to be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Thursday, 25 June 2015 at 10:00 am and at any adjournment thereof and at every poll which may be taken in consequence thereof.
*I/We the undersigned hereby authorize my/our Proxy to vote on *my/our behalf in accordance with the preference indicated below:

	For	Against
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 2014 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as a Director Mr. Dassanayake Mudiyansele Gunasekara who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect as a Director Mr. Ruwan Prithi Kumara Gallage who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To elect as a Director Mr. Sandun Sudhaththa Gamage who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To elect as a Director Mr. Ajith Hiran Samarasinghe who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
6. To elect as a Director Mr. Silhan Lazimo Rahaman who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
7. To elect as a Director Mr. Arun Pradeep Maharaja who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>

- | | | |
|--|--------------------------|--------------------------|
| 8. To elect as a Director Mr. Brahmanage Premalal who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 9. To elect as a Director Mr. Laththuwahandi Chandrasiri De Silva who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 10. To elect as a Director Mr. Brian Jeyaranjit Sinniah who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company. | <input type="checkbox"/> | <input type="checkbox"/> |
| 11. To re-appoint 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"/> |
| 12. To authorize the Directors to determine donations for the financial year 2015. | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this.....day of.....Two Thousand and Fifteen.

.....
Signature

Notes:

1. Please delete the inappropriate words.
2. If no indications are given and /or there is in the view of the proxy holder doubt (by reason of the way in which the instructions contained in the proxy form have been completed) as to the way in which the proxy holder should vote, the proxy holder shall vote as he /she thinks fit.
3. A proxy holder need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the Meeting.
4. Instructions as to completion of the form of proxy is given below.

INSTRUCTIONS AS TO THE COMPLETION OF THE FORM OF PROXY

1. Kindly perfect the form of proxy after filling legibly your full name and address by signing in the space provided and filling in the date of signature.
2. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given the proxy in his / her discretion may vote as he / she thinks fit.
3. The instrument appointing a proxy may be in writing under the hand of the appointer or of his/her Attorney, duly authorized in writing, or if such appointer is a corporation under its common seal or the hand of its Attorney or duly authorized person. If the form of proxy is signed by an Attorney, the relative Power of Attorney should also accompany the completed form of proxy, if it has not already been registered with the Company.

Corporate Information

Name of Company :

Merchant Bank of Sri Lanka & Finance PLC
(Formerly known as 'Merchant Bank of Sri Lanka PLC')

Company Registration No : PQ10

Legal Form : A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 on 4th March 2007 and quoted on the Colombo Stock Exchange. A Registered Finance Leasing Establishment in terms of Finance Leasing Act No. 56 of 2000. Registered as a Finance Company under the Finance Business Act No. 42 of 2011 with effect from 01st January 2015 subsequent to the amalgamation of Merchant Bank of Sri Lanka & Finance PLC with MCSL Financial Services Ltd and MBSL Savings Bank Ltd, which took effect on 01st January 2015.

Stock Exchange Listing : 25th April 1991

Registered Office :

Bank of Ceylon Merchant Tower,
No. 28, St. Michael's Road, Colombo 03
Tel. 011 4711711
Fax. 011 2565666
web. www.mbslbank.com

Tax Payer Identification No. : 124011426

VAT Registration No. : 124011426 7000

Central Bank Registration No. : 050

Financial Year End : 31st December

Directors:

Mr. M R Shah (Chairman) - Resigned w.e.f 23.01.2015
Mr. M S S Paramananda - Resigned w.e.f 13.03.2015
Mr. P G Rupasinghe - Resigned w.e.f 13.03.2015
Mr. A B Lalith A De Silva - Resigned w.e.f 13.03.2015
Mr. D M Gunasekara - Appointed w.e.f. 12.02.2013
Mr. K B S Bandara - Resigned w.e.f 26.03.2015
Mr. C R Jayawarna - Resigned w.e.f 13.03.2015
Mr. W P R P H Fonseka (Alternate Director to Mr. D M Gunasekara)
Mr. A M P Amarakoon (Alternate Director to Mr. M S S Paramananda) - Resigned w.e.f 13.03.2015
Mr. R Sivaraman - Appointed w.e.f. 01.01.2015 and resigned w.e.f. 13.03.2015
Mr. W C K Wickramarachchi - Appointed w.e.f. 01.01.2015 and resigned w.e.f. 13.03.2015

Mr. R P K Gallage - Appointed w.e.f. 13.03.2015
Mr. B J Sinniah - Appointed w.e.f. 26.03.2015
Mr. S S Gamage - Appointed w.e.f. 13.03.2015
Mr. A H Samarasundera - Appointed w.e.f. 13.03.2015
Mr. S L Rahaman - Appointed w.e.f. 13.03.2015
Mr. A P Maharaja - Appointed w.e.f. 13.03.2015
Mr. B Premalal - Appointed w.e.f. 13.03.2015
Mr. L C De Silva - Appointed w.e.f. 18.03.2015

Chief Executive Officer:

Mr. T Mutugala
Tel: 4711700 Fax: 4711704
e-mail : mutugalat@mbslbank.com

Deputy General Manager - Legal / Company Secretary

Ms. Karnika Jayatilake
Tel: 4711766
e-mail : karnikaj@mbslbank.com

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

Ceased to exist w.e.f. 01.01.2015 subsequent to the amalgamation with MBSL PLC.
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
Ceased to exist w.e.f. 01.01.2015 subsequent to the amalgamation with MBSL PLC.
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@sltnet.lk
Web : www.lsl.lk

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



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