



# Building the No.

**Merchant Bank of Sri Lanka & Finance PLC**

Annual Report 2015

# Annual Report 2015



Annual report online  
[www.mbslbank.com](http://www.mbslbank.com)



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# Building the No. 1

The year 2015 was a historic year not only for MBSL but also for our stakeholders as we forged a transformation through a merger and a change of name, with the ultimate aspiration of building the No. 1 finance company in Sri Lanka. As our plans to be the best unfold, we are now ready to share the fruits of our growth with our loyal stakeholders. Throughout our history, we have dedicated ourselves to support your growth, and today we are positioned to serve your needs better than ever before with a wider portfolio of products and services, better service infrastructure and an unmatched team of experts. Our aspiration of 'Building the No. 1' is dedicated to help you 'Become the No. 1', at whatever you do.

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The Group's total deposit base increased by 43% to Rs. 15.8 billion and now accounts for 58% of its total funding.

Chief Executive Officer's Review

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Chairman's Review

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Our Value Creation and Impacts

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# Our Vision

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

# Our Mission

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

To enhance shareholder value by upholding the highest standards of corporate governance

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

To foster mutually beneficial relationships with our business partners

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

# Our Values

Upholding the highest traditions of ethics, norms and best practices in all our endeavors

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

Operated as a management consultancy division of BOC

1980

Listed in the Colombo Stock Exchange

1991

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

- Obtained license from CBSL to operate as a leasing company
- Taiki Akimoto 5S Award (JASTECA)

1989

Formed as a limited liability company, the first Merchant Bank in Sri Lanka

Took over Colombo Credit Ltd

2000

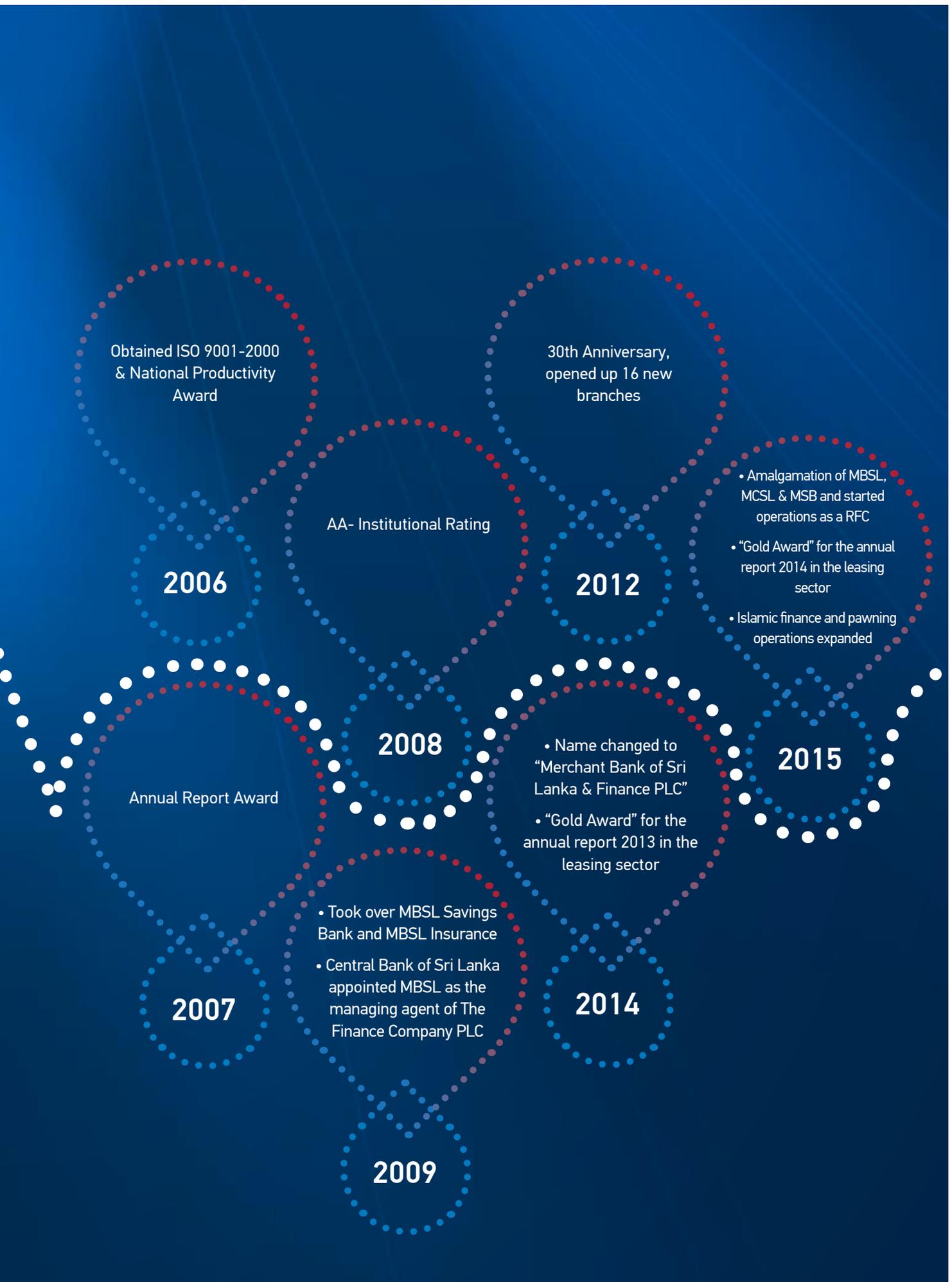
1982

1992

Alliance with SBI Capital Markets Ltd - India

2005

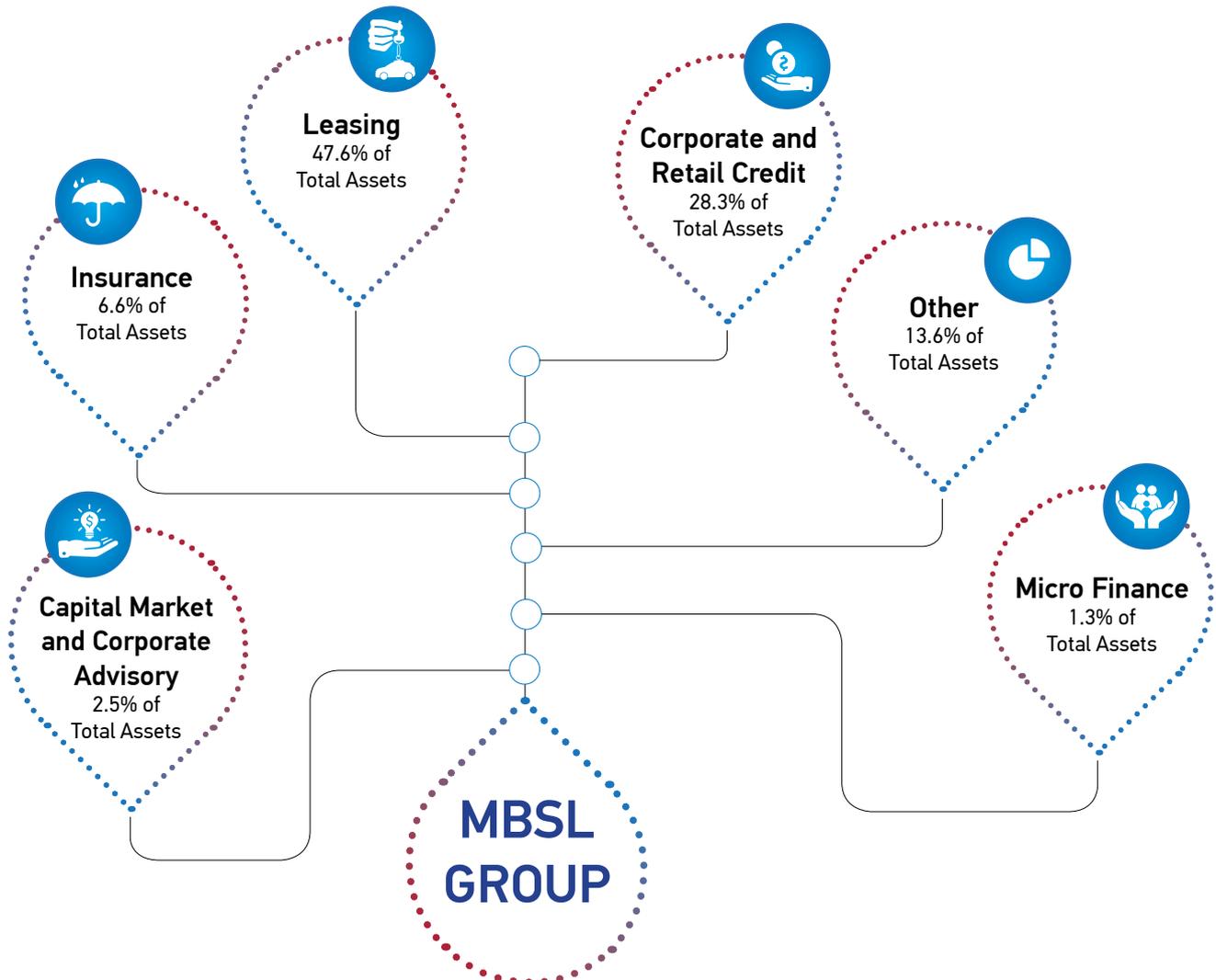
# Our Journey



# Our Company at a Glance

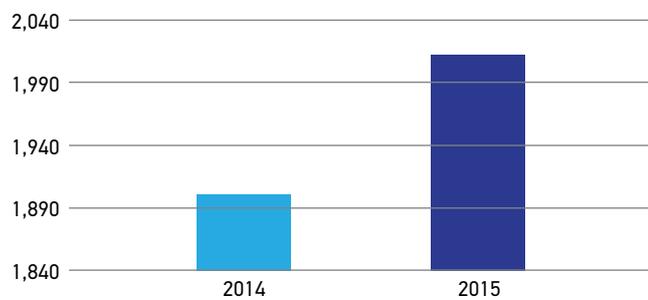
Merchant Bank of Sri Lanka & Finance PLC is a Licensed Finance Company governed by the Central Bank of Sri Lanka, and the country's pioneering investment/merchant bank. We offer a range of lending, investment and advisory solutions to individuals, small and medium enterprises, corporate as well as micro businesses. With a network of 49 customer touch points spanning 22 districts island-wide and a unified team of 866 employees, we create shared value for over 54,744 customers. MBSL is listed on the Main Board of the Colombo Stock Exchange and the Group's market capitalisation was Rs. 2.5 billion as at end-December 2015. In addition to its key businesses, the Group's subsidiary MBSL Insurance Company provides general and life insurance solutions while the Group's associate, Lanka Securities (Pvt) Ltd is a registered stockbroker. MBSL is a subsidiary of the state-owned Bank of Ceylon, Sri Lanka's largest licensed commercial bank in terms of assets, deposits and branch reach.

## OUR SERVICES

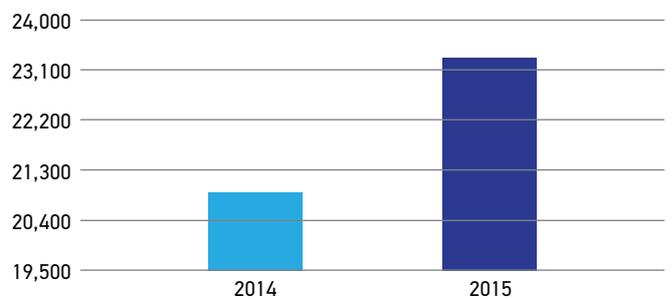


# Performance Highlights of 2015

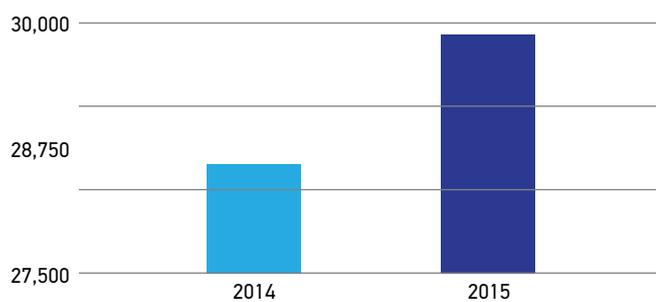
Net Interest Income Rs. Mn



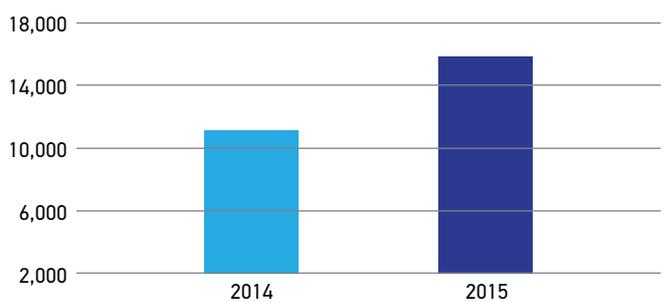
Total Lending Portfolio Rs. Mn



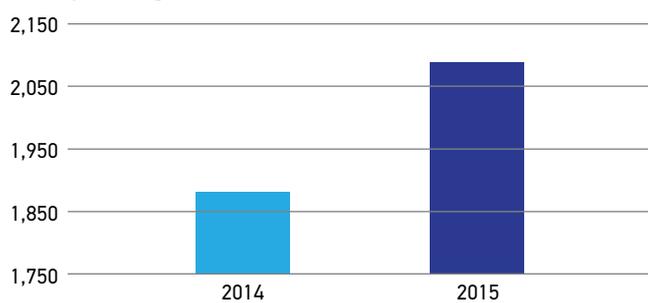
Total Assets Rs. Mn



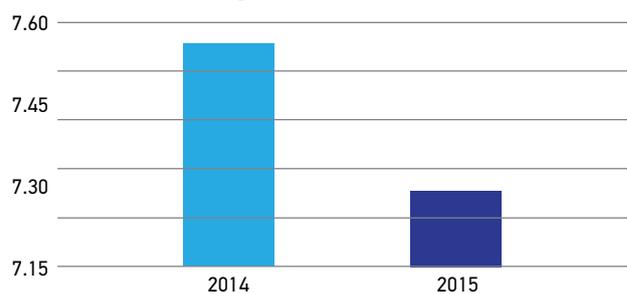
Savings & Deposits Rs. Mn



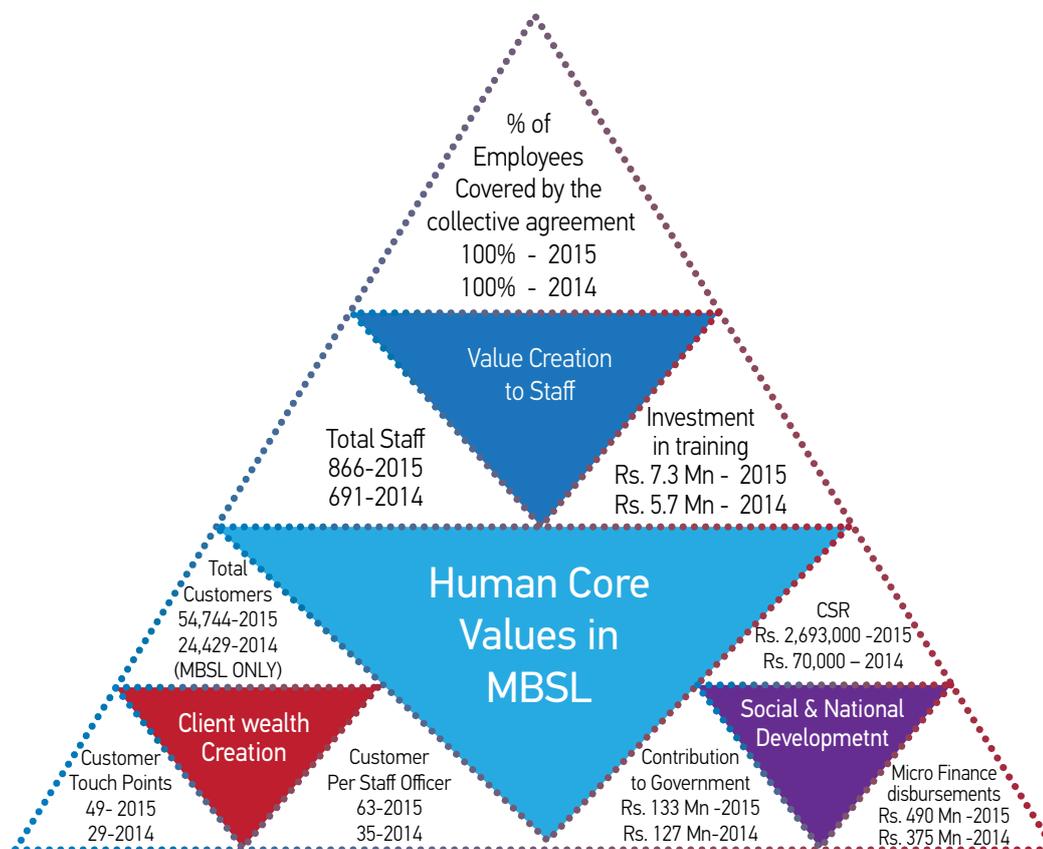
Net Operating Income Rs. Mn



Net Non Performing Loans (%)



# Performance Highlights of 2015



	2015	2014
<b>ECONOMIC PERSPECTIVE (Group)</b>		
Net Interest Income (Rs. '000)	2,011,774	1,901,069
Impairment Charges for Loans and Others (Rs. '000)	474,618	720,395
Net Operating Income (Rs. '000)	2,086,566	1,880,631
Profit Before Income Tax (Rs. '000)	38,067	15,483
Profit Attributable to Equity Share Holders (Rs. '000)	(709)	(61,147)
Net Lending Portfolio (Rs. '000)	23,324,201	20,911,940
Total Assets (Rs. '000)	29,882,158	28,591,799
Deposits (Rs. '000)	15,846,306	11,092,643
Operating Profit Margin	1.62%	0.7%
Cost to income ratio	77.31%	70.71%
Debt to Total Assets	0.82	0.8
Core Capital Ratio: Company	11.91%	15.91%
<b>SOCIAL PERSPECTIVE (Company)</b>		
Number of Customers served	54,744	24,429 (Mbsl Only)
Interest paid to Customers (Rs. '000)	1,145,128	1,270,894
Number of Employees	866	691
Total payments to Employees (Rs. '000)	670,740	637,932
Investment in training and development (Rs. '000)	7,300	5,700
Investment in CSR (Rs. '000)	2,693	70
Beneficiaries of our CSR initiatives	- School Children - Customers - Society	- School Children - Customers - Society
<b>ENVIRONMENTAL PERSPECTIVE (Company)</b>		
Energy Consumption	1,136,664 Units	450,545 Units (Mbsl Only)
Paper Consumption	11,808 Kg	Not Tracked
Waste Paper	Recycle 390 Kg	Not Tracked
Water Consumption	21 Units Per Employee	16 Units Per Employee

# About this Report

This year, we present our 2nd Integrated Report, building on the stakeholder feedback, insights and progress received during the year with a view to providing a yet balanced assessment of the Group's strategy, performance, governance, value creation and sustainability. Performance is discussed in relation to the Group's short, medium and long-term economic, social and environmental goals and impacts wherever possible. This Report also builds on the MBSL Group's 2015 Annual Report.

## Scope and Boundary

This Report covers the operations of Merchant Bank of Sri Lanka & Finance PLC and its subsidiary MBSL Insurance Company Ltd for

the period from 1st January to 31st December 2015. We follow an annual reporting cycle. The content included in the report has been selected through a structured and systematic process involving stakeholder engagement at multiple levels, and is a reflection of the key aspects of the Group's value creation activities and its impacts. We have enhanced the scope and coverage of report content in comparison to last year by combining aspects prescribed by the Global Reporting Initiative (GRI) and those specific to our industry and value creation process. We have also clearly identified how our material aspects correspond to the disclosures by GRI, on pages 217 to 220 of this Report. Restatements of any financial and non-financial information are duly noted.

## Reporting Principles

	Integrated Report	Annual Financial Statements	Corporate Governance & Risk Management Report	Sustainability Performance
Standards and Principles	<ul style="list-style-type: none"> <li>Integrated Reporting framework of the international Integrated Reporting Council (IIRC)</li> </ul>	<ul style="list-style-type: none"> <li>Sri Lanka Financial Reporting Standards</li> <li>The Finance Business Act. No 42 of 2011</li> <li>Companies Act. No 7 of 2007</li> <li>Prudential regulations, directions and guidelines applicable to Registered Finance Companies by the Central Bank of Sri Lanka</li> <li>Listing Requirements of the Colombo Stock Exchange</li> </ul>	<ul style="list-style-type: none"> <li>Listing requirements for listed companies issued by the Colombo Stock Exchange</li> <li>Corporate Governance rules for Registered Finance Leasing Establishments issued by CBSL</li> <li>Corporate Governance rules for Registered Finance companies issued by CBSL</li> </ul>	<ul style="list-style-type: none"> <li>GRI- G4 standards (Core)</li> </ul>
Assurance		Messrs. SJMS Associates, Chartered Accountants	Assurance on the Director's Statement on Internal Controls and Corporate Governance provided by Messrs. SJMS Associates, Chartered Accountants	Messrs. SJMS Associates, Chartered Accountants

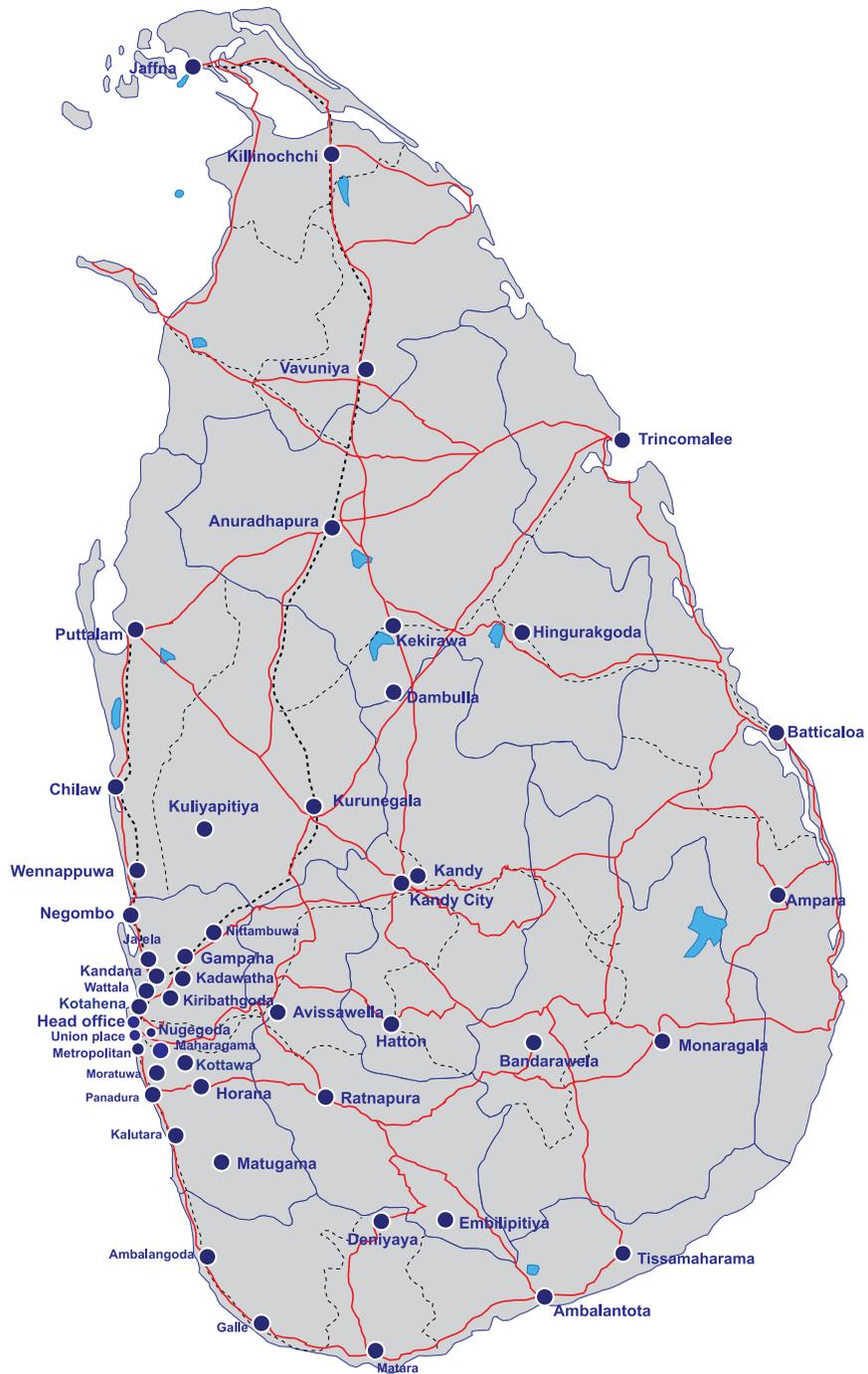
## Feedback

We seek to continuously improve the quality and readability of our Annual Report, and welcome your feedback, suggestions and queries. Please contact,

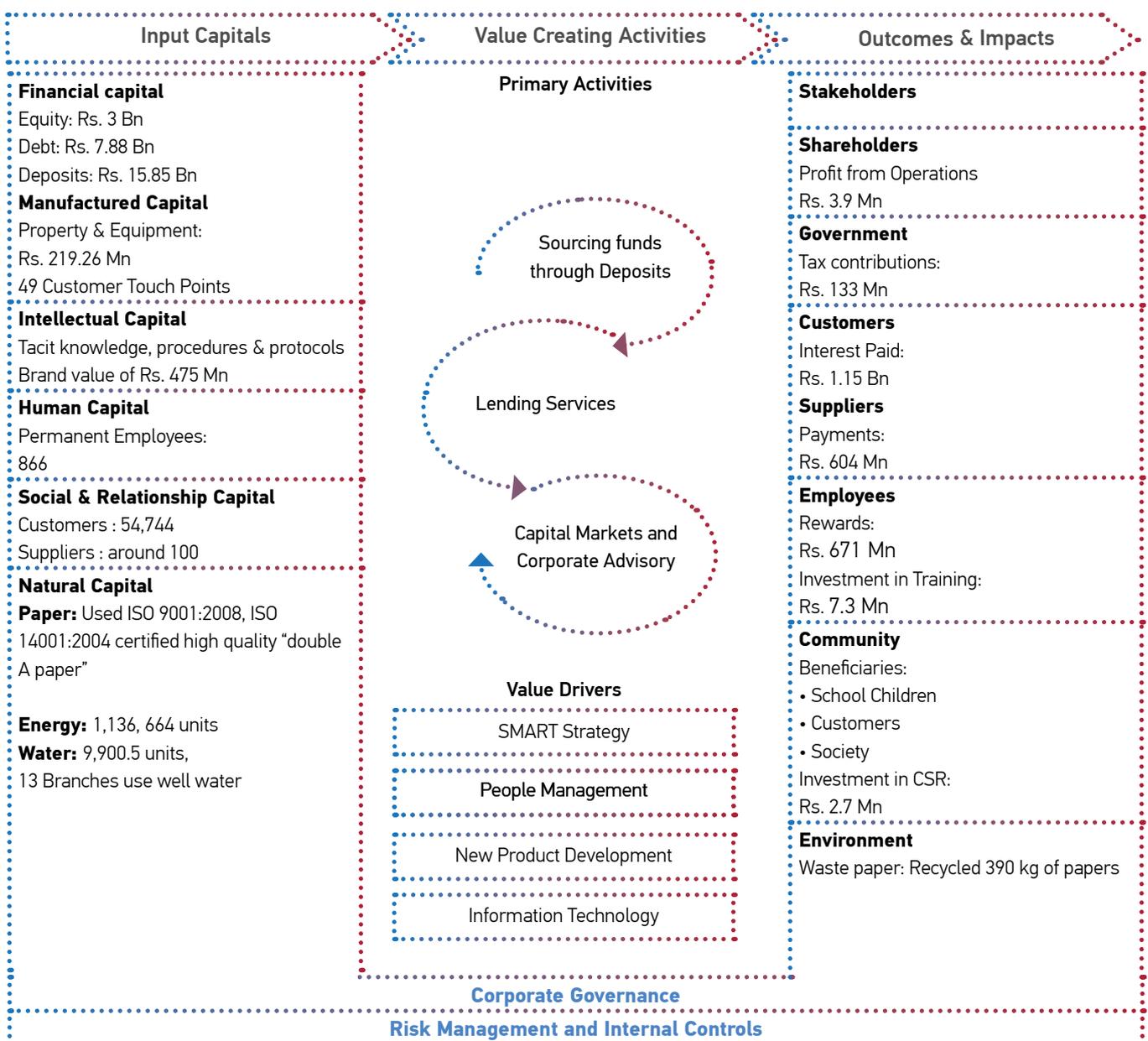
## DGM-Finance & Strategic Planning

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

# Branch Network



# Value Creating Business Model

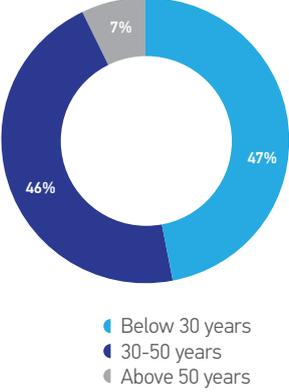


Company Figures Only

# Engaging with Our Stakeholders

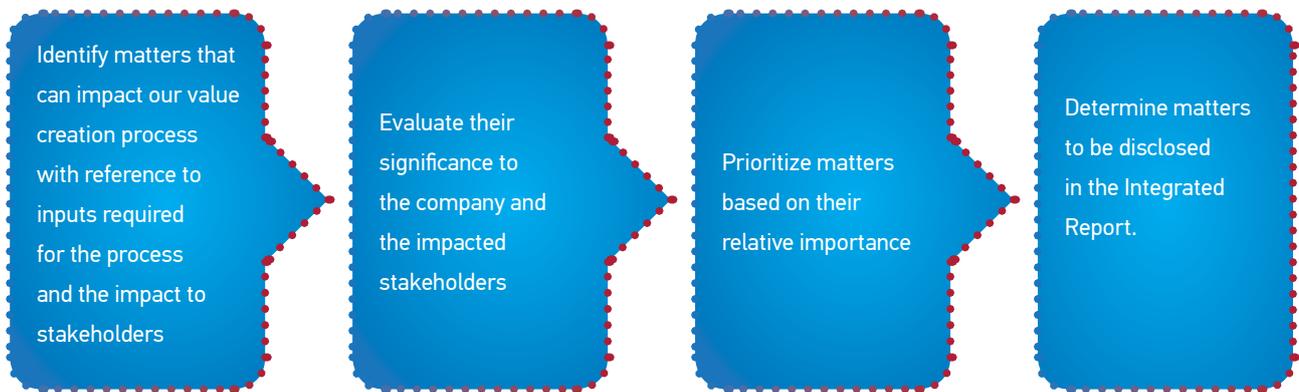
The Group's robust stakeholder engagement mechanisms allow us to clearly identify what stakeholder needs and concerns. Feedback thus obtained is crucial in determining material aspects which are a vital part of our strategy formulation, operations and corporate reporting. The primary stakeholders outlined 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	Methods of Engagement	Frequency of Engagement
<p><b>Shareholders</b></p> <p> <span style="color: #0070C0;">■</span> BOC  <span style="color: #003366;">■</span> Public                 </p>	<ul style="list-style-type: none"> <li>Adequate return commensurate to the risk undertaken</li> <li>Sustainable growth in earnings</li> <li>Effective governance and risk management frameworks</li> <li>Business expansion</li> <li>Brand recognition</li> <li>Ethical and socially responsible business practices</li> </ul>	<ul style="list-style-type: none"> <li>Annual General Meetings</li> <li>Annual Reports</li> <li>Quarterly financial statements</li> <li>Press Releases</li> <li>Investor presentations</li> <li>Corporate Website: <a href="http://www.mbslbank.com">www.mbslbank.com</a></li> </ul>	Annual Annual Quarterly Ongoing When required Ongoing
<p><b>Customers</b></p> <p>Our diverse customer base of 54,744 are spread across the entire country</p> <p> <span style="color: #0070C0;">■</span> Individual  <span style="color: #003366;">■</span> Micro  <span style="color: #999999;">■</span> Corporate                 </p>	<ul style="list-style-type: none"> <li>Financial solutions at competitive pricing</li> <li>Security of funds (particularly depositors)</li> <li>Superior customer service</li> <li>Convenience and accessibility</li> <li>Value added services</li> <li>Financial inclusion, education and advice</li> </ul>	<ul style="list-style-type: none"> <li>Face to face interactions at all customer touch points</li> <li>Customer surveys</li> <li>Complaint resolution</li> <li>Customer workshops</li> <li>Annual Reports</li> <li>Corporate Website</li> <li>E-mail</li> <li>Social Media</li> </ul>	Ongoing When required Ongoing Ongoing Annual Ongoing Ongoing Ongoing

Stakeholder Group	Key needs identified	Methods of Engagement	Frequency of Engagement
<p><b>Employees</b> Our total cadre consists of 866 dedicated and loyal employees</p> <p><b>Employee Age Analysis</b></p>  <p> <span style="color: #0070C0;">●</span> Below 30 years  <span style="color: #003366;">●</span> 30-50 years  <span style="color: #999999;">●</span> Above 50 years         </p>	<ul style="list-style-type: none"> <li>• Attractive financial and non-financial incentives</li> <li>• Ethical employment practices</li> <li>• Opportunities for career progression</li> <li>• Training and Development</li> <li>• Job Security</li> <li>• Work-life balance</li> </ul>	<ul style="list-style-type: none"> <li>• Performance appraisals</li> <li>• HR policy manual</li> <li>• Staff meetings on a monthly basis</li> <li>• Trade Union meetings</li> <li>• Social events</li> <li>• The MBSL intranet</li> </ul>	<p>Annual</p> <p>Ongoing</p> <p>Monthly</p> <p>When required</p> <p>Ongoing</p> <p>Ongoing</p>
<p><b>Government and Regulatory Authorities</b> MBSL falls under the regulatory purview of the Central Bank of Sri Lanka, Securities and Exchange Commission, Department of Inland Revenue, Colombo Stock Exchange and Ministry of Public Enterprise Development</p>	<ul style="list-style-type: none"> <li>• Compliance with applicable laws and regulations</li> <li>• Contributions towards policy discussions and forums affecting the industry</li> <li>• Responsible business practice</li> <li>• Compliance to rules and regulations</li> </ul>	<ul style="list-style-type: none"> <li>• Written communications such as directions and circulars</li> <li>• Face to face meetings when required</li> <li>• Press releases</li> <li>• Corporate Website</li> </ul>	<p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p> <p>Ongoing</p>
<p><b>Suppliers/Business Partners</b></p>	<ul style="list-style-type: none"> <li>• Responsible procurement opportunities</li> </ul>	<ul style="list-style-type: none"> <li>• On-site visits and meetings</li> <li>• Supplier relationship management</li> </ul>	<p>Ongoing</p> <p>Ongoing</p>
<p><b>Community</b> We have presence in 22 districts in the country, and strive to support the communities in the areas we operate in.</p>	<ul style="list-style-type: none"> <li>• Employment generation</li> <li>• Provision of financial solutions</li> <li>• Responsible business practices</li> <li>• Community development</li> </ul>	<ul style="list-style-type: none"> <li>• CSR initiatives</li> <li>• Sponsorships</li> <li>• Press releases</li> </ul>	<p>When requested</p> <p>Ongoing</p> <p>Ongoing</p>

# Determining Material Content

Through the stakeholder engagement processes detailed in the previous section, the Group is able to clearly identify matters which are most relevant to its stakeholders. The material issues also reflect the Group's strategic direction as well as contextual trends which could potentially impact its value creation process. In addition to the identified material aspects this report also provides disclosures pertaining to the Company's economic, social and environmental performance in line with the GRI G4 guidelines.



Based on the findings of the stakeholder engagement, materiality assessment table (Pages 15 & 16), was derived and the following matrix was developed.

Importance to Stakeholders	High			1,3,17,18,19,20,21, 24,26,27,28,29,30, 34,36,39,40,42,43, 44,45,46,47,48,49
	Moderate	12	6,11,23,32,35,41,50	2,22
	Low	5,7,8,9,10,13, 14,16,31,37	4,15,25,38	33
		Low	Moderate	High
		Importance to MBSL		



# Determining Material Content

No.	Aspect	Importance to Stakeholders				Importance to MBSL	Materiality
		Customers	Employees	Bussines Partners	Communities		
31	Indigenous rights	Low	Low	Low	Low	Low	<b>Low</b>
32	Assessments	Low	Moderate	Moderate	Low	Moderate	<b>Moderate</b>
33	Supplier human rights assessment	Low	Moderate	High	Low	Moderate	<b>Moderate</b>
34	Human rights grievance mechanisms	High	High	High	High	High	<b>High</b>
<b>Social: Society</b>							
35	Local communities	Low	Low	Moderate	High	Moderate	<b>Moderate</b>
36	Anti- corruption	High	High	High	High	High	<b>High</b>
37	Public policy	Low	Low	Low	Low	Low	<b>Low</b>
38	Anti- competitive behavior	Moderate	Low	High	Moderate	Low	<b>Moderate</b>
39	Compliance	High	High	High	High	High	<b>High</b>
40	Supplier assessment for impact on society	Moderate	Moderate	High	High	High	<b>High</b>
41	Grievance mechanism for impact on society	Low	Low	Moderate	Moderate	Moderate	<b>Moderate</b>
<b>Social: Product Responsibility</b>							
42	Customer health and safety	High	High	High	High	High	<b>High</b>
43	Product and service labeling	High	Moderate	High	High	High	<b>High</b>
44	Marketing communications	High	Moderate	High	High	High	<b>High</b>
45	Customer privacy	High	High	High	High	High	<b>High</b>
46	Compliance	High	High	High	High	High	<b>High</b>
47	product portfolio	High	High	High	High	High	<b>High</b>
48	Audit	High	High	High	High	High	<b>High</b>
49	Activity Ownership	High	High	High	Low	High	<b>High</b>
<b>Other Topics</b>							
50	Company's CSR activities	Moderate	Moderate	Moderate	High	Moderate	<b>Moderate</b>



5.8%

Increase in Net Interest Income



# Chairman's Review

Group's credit  
portfolio grew by

**11.5%**

"The Group's credit portfolio grew by 11.5% during the year, supported by expansions in all key lending products as we leveraged on our geographical reach and increased capacity."

## Chairman's Review

It is with pleasure that I present the Annual Report and Audited Financial Statements of the Merchant Bank of Sri Lanka & Finance PLC for the financial year ended 31st December 2015. This past year, despite numerous challenges faced by the Group, we achieved a reduction in net losses to Rs. 19.58 million, from a loss of Rs. 70.53 million in 2014.

It was a momentous year for the Group, as it marked the first full year of operation as a merged entity. The amalgamation of three entities diverse in its operations, organizational cultures and systems understandably presented multiple challenges and I am happy to report that full integration of information systems, human capital and physical infrastructure was successfully completed with zero retrenchment. In order to fulfill our growth aspirations and support the execution of our strategic plans we added 299 new recruits to our team during the year. The amalgamation presents substantial growth opportunities, given the widened scope and coverage of the Group's operations and we will pursue focused and proactive strategies to maximize this growth potential. On the other hand, we are aware that the amalgamation presents continued risks to the Group including delinquencies stemming from legacy portfolios and people-related challenges. Persistent efforts will be placed on addressing these issues to ensure the sustainable creation of value to our diverse stakeholder groups.

### Operating Context

Sri Lanka's Gross Domestic Product (GDP) grew by 4.8% in 2015, supported by broad based growth in all three sub-sectors. With a share of 57% of GDP, the Services sector continued to be the largest contributor to GDP and grew by 3.4% in 2015 led by strong expansion in financial, insurance and real estate related activities as well as wholesale and retail trade activity. On the monetary policy front, CBSL maintained its accommodative monetary policy stance resulting in market interest rates continuing to be benign for most part of the year, although edging up slightly towards latter 2015. For the Licensed Finance Company (LFC) and Specialised Leasing Company (SLC) sectors the year under review was a conducive one, as the prevalent low interest rate scenario resulted in a surge in credit demand. The sector's credit assets thus increased by 33.7% during the year, contributed by expansions in leasing and hire purchase 26.25% as well as other loans 45.5%.

### Our Performance

The Group's credit portfolio grew by 11.5% during the year, supported by expansions in all key lending products as we leveraged on our geographical reach and increased capacity. Net interest income increased by 5.8% while focus on strengthening underwriting standards allowed us to achieve a 34% reduction in impairment charges during the year. Pre-tax profits thus more than doubled to Rs. 38.07 million while net losses for the year reduced to Rs. 19.58 million from losses of Rs. 70.53 million the previous year. The Company's tier 1 and overall Risk weighted capital adequacy ratios clocked in at 11.91% and 11.68% respectively by end-December 2015.

### Sustainable Business Model

Sustainability is embedded to our business strategy and day to day operations and we strive to ensure sustainable value creation to all our stakeholders. Our pool of 866 employees have demonstrated resilience and loyalty throughout the amalgamation process and we will continue to support them through robust talent management systems, opportunities for training and development and competitive remuneration. Meanwhile, our micro financing initiative Siyath Saviya allows us to empower and contribute to the development of over 16,000 individuals through providing access to finance at competitive rates. As a services organization, the environmental impacts of our operations are limited; nevertheless we strive to consistently reduce the consumption of natural resources in our process.

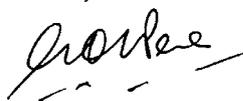
### Way Forward

Interest rates are likely to trend upwards given the indications of a tighter monetary policy by the CBSL, although we are optimistic that demand for credit will be sustained through the next year supporting top line growth. We will continue to maintain focus on our four strategic areas of Growth, Human Capital Development, nurturing customer relationships and sustainability. Leasing will continue to be our mainstay and we will focus on further developing our value proposition in this business line while seeking diversification into personal loans and micro financing, through leveraging on our extensive geographical reach. Deposit mobilization will be a key focus area and we hope to launch several innovative deposit products during the coming financial year. Meanwhile, implementation of a core banking system in 2016 will facilitate stronger portfolio and risk management while enabling us to further enhance our customer proposition through the issuance of ATM/debit cards. The longer term outlook for the country's capital markets is favorable and we hope to strengthen our Capital Markets and Corporate Advisory business through deepening relationships with customers and pursuing new avenues for growth.

### Acknowledgement

I would like to extend my gratitude to the Hon. Minister, Hon. Deputy Minister and other officials of the Ministries of Finance and Public Enterprise Development for their continued guidance and support. My special appreciation also goes out to the Governor and relevant officials of the Central Bank of Sri Lanka and the Board of Directors of Bank of Ceylon for their unwavering support. I also take this opportunity to thank the Chief Executive Officer, management staff and all employees of MBSL, together with all our customers and other stakeholders for your loyalty and support and who have successfully weathered the transition following the merger and I look forward to working with you all in taking this company to greater heights.

Thank you.



**Ronald C. Perera**  
President's Counsel  
Chairman

18 May 2016  
Colombo

## Chief Executive Officer's Review

Merchant Bank of Sri Lanka & Finance PLC demonstrated strong resilience in the wake of unprecedented challenges following the merger and it is my pleasant task to present to you, our stakeholders, a review of the Group's performance for the financial year ended 31st December 2015. Net interest income growth of 6%, together with strong expansion in fee income and a reduction in impairment charges, resulted in the Group's net losses for the year declining to Rs.19.58 million, compared to a loss of Rs. 70.53 million the year before.

### Operating Environment

Sri Lanka's economy grew by 4.8% during 2015, contributed by broad based growth across all three sub-sectors. The Services sector continued to be the largest contributor to GDP and grew by 5.3% in 2015 led by strong expansion in financial, insurance and real estate related activities as well as wholesale and retail trade activity. Meanwhile, market interest rates continued to be low for most part of the year although increasing slightly towards latter 2015 thereby inserting pressure on the profit margins of deposit taking financial institutions. The operating environment was conducive for the non-banking finance institutions which benefitted from the prevalent low interest scenario and the resulting surge in credit demand. As a result, the sector's total assets grew by 22.3% in 2015, led by 33.73% expansion in credit assets.

### Strategy in Action

During the year under review we devoted much time and effort in ensuring a smooth transition of operations following the amalgamation. The merger presented numerous operational, structural and people-related challenges, particularly given the diversity of the operations, organizational cultures and processes of the three entities. I am happy to report that through a high level of stakeholder engagement and systematic implementation of our strategy we were able to successfully complete the merger with zero retrenchment and amalgamation of all delivery channels, systems and processes. Our business strategy for the year focused on four strategic pillars designed to drive portfolio expansion and sustainable value creation to all key stakeholder groups; these strategic objectives were business growth, building optimum customer relationships, nurturing a multi-skilled staff pool and driving our sustainability agenda.

The Group's NIM increased by 7% during the year, underpinned by 6.41% growth in average interest earnings assets. Credit growth was driven by broad based portfolio expansion led by leasing and hire purchase 16.89%, corporate and retail credit 2.5% and micro finance 31.65%. Net fee and commission income nearly tripled to Rs. 97.76 million while impairment charges for loans and other losses decreased by 34.1% to Rs. 474.63 million underpinned by the Group's focus on strengthening credit granting standards and monitoring mechanisms as well as deploying increased resources towards recoveries. Overall, The Group's pre-tax profit more than doubled to Rs. 38.07 million (from Rs. 15.48 million the previous year) while net losses for the year declined to Rs. 19.58 million compared to losses of Rs. 70.53 million the previous year. As a merged entity the Group gained access to public deposits, and has achieved strong growth

in its deposit base supported by its established reputation and wide geographical presence. During the year, the Group's total deposit base increased by 43% to Rs. 15.8 billion and now accounts for 58% of its total funding.

### Our Employee Value Proposition

Our team of 866 individuals spread across 22 districts is a driving force behind our success and during the year, our efforts were directly towards achieving cultural integration, which necessitated the creation of new shared practices and understanding. We invested Rs. 7.3 million in training and development initiatives which were focused towards the three specific areas of enhancing product knowledge, systems and process knowledge and soft skills. Overall, our employees underwent 11,100 training hours, which translated to 13 hours per employee.

### Way Forward

We will continue to focus on driving growth and efficiencies, with emphasis on our strategic priorities. We hope to capitalize on growth opportunities in the North and Eastern region of the country with the addition of around 9 new branches; this will also support our community objective of driving financial inclusion and supporting entrepreneurship. The anticipated implementation of a core banking solution will enhance operational efficiencies, drive productivity improvements and enable better monitoring of the portfolio. Delinquencies stemming from MCSL and MBSL Savings Bank have impinged upon our overall asset quality and in 2016 we hope to aggressively pursue recoveries of these facilities while steps have already been taken to ensure the quality of new loans. The funding and capitalization position will also be strengthened with a debenture issue which will facilitate further credit expansion.

### Acknowledgements

I would like to extend my appreciation to the outgoing Chairman and Board of Directors, for their continued guidance, vision and confidence in me. I would also like to welcome the new Chairman and Board of Directors and look forward to working with you in the future years. My appreciation also goes out to Directors at Non Bank Supervision unit and Consolidation Unit and all the officials of the Central Bank of Sri Lanka, particularly which played an important role in ensuring the smooth amalgamation of our subsidiaries. My appreciation is extended to all the officers at the Securities & Exchange Commission of Sri Lanka, Colombo Stock Exchange, Registrar of Companies and Bank of Ceylon for the support they all have given to us. Finally, my gratitude goes out to the corporate management and all staff in MBSL, MSB and MCSL, who have continued to support me through the years.



**T Mutugala**  
Chief Executive Officer

18 May 2016  
Colombo



# Chief Executive Officer's Review

Total Deposit Base

15.8 Bn

"The Group's total deposit base increased by 43% to Rs. 15.8 billion and now accounts for 58% of its total funding."

# Board of Directors



**Mr. Ronald C. Perera**

**President's Counsel**

*Chairman, Non-Independent Non-Executive Director*

Mr. Perera is an experienced lawyer with a wide practice in the original courts as well as in the Court of Appeal and Supreme Court of Sri Lanka especially in the areas of civil and criminal litigation, negotiation and drafting of commercial and transport contracts and agreements. He has specialized in Commercial Law, Injunctions, Defamation, Election Petitions, Civil Appeals, Revision Applications, Writ Applications and Fundamental Rights Cases. Additionally he has appeared in several Commercial Arbitrations. Mr. Perera is a Bachelor of Laws (LLB) graduate from the University of Colombo and also holds a LLM in International Trade Law from Northumbria University, UK.

He is the Chairman of the Bank of Ceylon, Chairman of BOC (UK) Limited, Director of Mireka Capital Land (Private) Limited and Mireka Homes (Private) Limited.



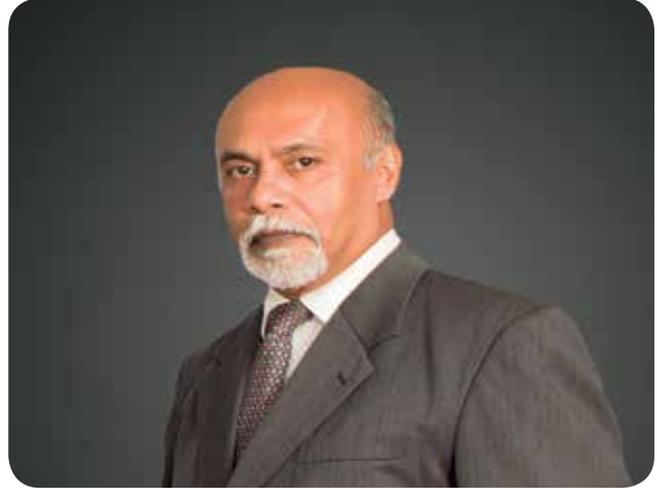
### Mr. Ranel T Wijesinha

*Non-Independent/ Non Executive Director*

Mr. Ranel T. Wijesinha is a Fellow of the Institute of Chartered Accountants of Sri Lanka (ICASL) and is an Independent Management Consultant. He is the holder of a Masters Degree in Business Administration from the University of Pittsburgh, in Pennsylvania USA. He has also studied Multinational Corporations and Political Risk Analysis at the University's Graduate School of Public and International Affairs. He is a Past President of the Institute of Chartered Accountants of Sri Lanka and a Past President of the 23 Nation Confederation of Asian and Pacific Accountant.

Mr. Wijesinha was appointed to the Board of Bank of Ceylon as a Non Executive Director in February 2015. He was appointed a Commissioner of the Securities and Exchange Commission of Sri Lanka in February 2015 and is a long serving, Non Executive Director, of a Sri Lanka and Maldives based, hotel chain comprising 11 properties, owned and operated by John Keells Hotels, public quoted company, where he served as Chairman of the Board Audit Committee since 2005.

Mr. Wijesinha worked at KPMG Sri Lanka and Deloitte Overseas and served as a partner and Head of Consulting with PricewaterhouseCoopers Sri Lanka. As an Independent International Consultant, he has performed advisory work in the public sector for foreign Governments in several countries on behalf of the Asian Development Bank. Mr. Wijesinha has extensive local and overseas experience in the private sector, in Strategic Advisory Work, Business Concept and Project Evaluation, Due Diligence, Corporate Turnarounds, Privatizations, Restructuring, Valuations, Mergers and Acquisitions. He has also served in many advisory and regulatory roles for the Government of Sri Lanka.



### Mr. Charitha N Wijewardane

*Non-Independent Non-Executive Director*

Mr. Wijewardane is an Engineer by profession. His strength lies in effective channel operations in diverse cultures and sub-cultures. He holds a BSc. (Hons) Degree in Digital Electronics and Communications from the University of Hull, UK.

He is a Director of the Bank of Ceylon, Faceforward (Private) Limited, Lanka Iron-Ore Mining and Smelting Company Limited, Lio Quartz Processing (Private) Limited, Emjay Group Holdings Company (Private) Limited and Global Facilitators (Private) Limited. He is currently into other areas of business involving agriculture, engineering, power generation and mineral industry.

He was the Country General Manager for IBM, Sri Lanka. Headed mass marketing programmes in IBM's Asia Pacific Group Head Quarters in Hong Kong and IBM ASEAM operations in Singapore. Based in Sydney, Australia, worked as Regional Manager at Lexmark International's, Asia Pacific operations spearheading distribution and service operations in Pakistan, India, Bangladesh, Sri Lanka, Myanmar, the Maldives and New Zealand.



**Mr. Sanjaya Padmaperuma**

*Non-Independent Non-Executive Director*

Mr. Padmaperuma is a Co-founder and Chief Executive Officer of South Asian Technologies and has wide experience in the IT field. He holds a BSc. in Business Administration from Western Carolina University, North Carolina with a major in Computer Information Systems.

He is a Director of the Bank of Ceylon, Transcend Technologies (Private) Limited, Safe Project (Private) Limited, Curo Networks (Private) Limited, The Systems Workshop (Private) Limited (Maldives) and SAT Agro (Private) Limited.

Mr. Padmaperuma served as Director/ General Manager of Ceylinco Networking Technologies (Private) Limited.



**Mr. H P Ajith Gunawardana**

*Non-Independent Non-Executive Director*

Mr. Ajith Gunawardana brings to the board over 25 years experience in the financial sector being a Government Treasury Bond market specialist with experience in equity markets and fund management. He also brings Corporate Governance experience having sat on a number of listed company boards. He is a Director of the Bank of Ceylon.

Previously he served as a Director / Chief Executive Officer of Janashakthi Securities Limited. Mr. Gunawardana also served as a Director of Kshatriya Holdings PLC, First Capital Holdings PLC, Kelsey Homes PLC and Kotmale Holdings PLC.

He also worked at Ceylinco Shriram Securities Limited and Ceylinco Shriram Capital Management Services Limited as an Assistant General Manager. Mr. Gunawardana started his career at Ceylon Trading Company Limited and also served as an Executive at Bartleet Stock Brokers Limited.

# Strategic Focus and Vision



866

No of Employees

# Corporate Management



**Mr. T Mutugala**  
*Chief Executive Officer*



**Mr. D Daluwatte**  
*Chief Operating Officer*



**Mr. L Kaluarachchi**  
*Deputy General Manager  
Range 03*



**Mr. R Siriwardena**  
*Deputy General Manager  
Range 01*



**Ms. S Amaratunga**  
Deputy General Manager  
Credit Administration & Compliance



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



**Mrs. K Jayatilake**  
Deputy General Manager  
Group Legal/ Company Secretary



**Mr. S Uduwawala**  
Deputy General Manager  
Range 02



**Mr. P Herath**  
Deputy General Manager  
Finance & Strategic Planning



**Mr. L Peiris**  
Deputy General Manager  
Deposits



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



**Mr. C Withanachchi**  
Assistant General Manager  
Information Technology



**Mr. D Gunawardena**  
Assistant General Manager  
Human Resources & Support Services



**Mr. K Jayasundara**  
Assistant General Manager  
Recoveries

# Corporate Management

## Mr. T Mutugala

Chief Executive Officer

Mr. T Mutugala is a professional banker having nearly 40 years of experience in Commercial Banking.

He joined the Bank of Ceylon in March 1974. He has a fine blend of skills in operational banking and audit as well as overseas branch operations. Prior to his present appointment he has provided the leadership to Information Systems Audit function of the Bank for nearly 5 years as Assistant General Manager (Information Systems Audit). During this period, he has played a leading role in implementing IT System Security Strategy in the Bank.

Subsequently, as a Deputy General Manager (Support Services) he provided the leadership to Bank's Procurement Function, Business Process Re-engineering and Central Back Office operations from July 2012 to July 2013.

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

## Mr. D Daluwatte

Chief Operating Officer

An experienced banking and finance professional, he counts 28 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 of IT, UK. He currently serves as the vice president of the Finance Houses Association of Sri Lanka (FHA) He also represents the F. H. A. in the Ceylon Chamber of Commerce Committee.

## Mr. L Kaluarachchi

Deputy General Manager - Range 03

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, DGM - Support Services and presently holding the position of DGM - Range III. He holds a B.Com (Special) Degree from the University of Kelaniya.

## Mr. Ranjith Siriwardena

Deputy General Manager

Range 01

He counts over 24 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 26 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. 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 Professional Postgraduate 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 (commercial Laws) 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 25 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 34 years of experience in the Banking Industry. His area of specialty covers Credit and Branch Operations. He has worked for three leading Commercial Banks in Sri Lanka and has worked for Nepal Sri Lanka Merchant Bank Ltd on secondment as its Manager – Credit on an overseas appointment.

At present he is the Deputy General Manager – Range 02 (Merged Entity). 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 16 years of experience in finance and treasury in multiple industry sectors.

**Mr. Shalintha Fernando**

Assistant General Manager – Internal Audit

Mr. Fernando is a member of the Institute of Internal Auditors (U.S.A) and is a Certified Internal Auditor (U.S.A). He counts over 16 years of experience in the field of Internal Auditing in local conglomerates, as well as multinational companies.

**Mr. L Peiris**

Deputy General Manager

*Deposits*

He has over 31 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.

**Mr. C. Withanachchi**

Assistant General Manager – Information Technology

Count over 16 years of experience in the field of Information Technology, Mainly in Software Developments, Design, System Administration and Delivery Management. And having experience in Banking & Finance, ATM Implementation, Telecommunication and Manufacturing vertical market segments. Holds a BSc Degree in Information Technology and currently reading for MSc in Information Technology. Also being Certified from IBM Corporation as an iSeries Expert on ILE RPG Programmer.

Also Certified from Indian Institute of Management – Bangalore for Innovation and IT Management.

**Mr. D Gunawardena**

Assistant General Manager

*Human Resources & Support Services*

A Human Resources Management professional Mr. Gunawardena has extensive experience in HR management in a variety of industry sectors. He is a fellow member of the Institute of Chartered Business Administrators, Professional member of Association of HR Professionals and Associate member of Institute of Management of Sri Lanka, member of Institute of Personnel Management (IPM), Institute of Certified Professional Managers among the others. He holds a BSc in Business Administration from the University of Sri Jayewardenapura 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 position in operations and credit. He holds an MBA – Banking & Finance offered from the Post Graduate Institute of Management (PIM) – University of Sri Jayewardenepura and a B.Sc (Hons) degree with a specialization in Agricultural Economics.

# A Successful Merger

The year ending 31st December 2015 marked the Group's first full year of operations as a merged entity. In accordance with the CBSL's Master Plan on the Consolidation of the Financial Sector announced in January 2014, MBSL amalgamated with MBSL Savings Bank (a licensed specialised bank) and MCSL Financial Services Ltd (MCSL)

(a licensed finance company) with effect from the 1st January 2015. Despite numerous structural and operational challenges presented by the amalgamation of three diverse entities, MBSL was able to successfully complete the merger with zero retrenchment and amalgamation of all delivery channels, systems and processes.

	Pre-Merger	Post-Merger
<b>Group Structure</b>	<pre> graph TD     BC[Bank of Ceylon] --- MBSL_72.14[MBSL (72.14%)]     MBSL_72.14 --- MSB_75.19[MSB (75.19%)]     MBSL_72.14 --- MCSL_41.6[MCSL (41.6%)]     MBSL_72.14 --- MBSL_Insurance_84.12[MBSL Insurance (84.12%)]     MBSL_72.14 --- Lanka_Securities_29[Lanka Securities (29%)]           </pre>	<pre> graph TD     BC[Bank of Ceylon] --- MBSL_74.5[MBSL (74.5%)]     MBSL_74.5 --- MBSL_Insurance_84.12[MBSL Insurance (84.12%)]     MBSL_74.5 --- Lanka_Securities_29[Lanka Securities (29%)]           </pre>
<b>Legal Standing</b>	<p><b>Merchant Bank of Sri Lanka PLC</b> Registered Finance Leasing Establishment</p> <p><b>MBSL Savings Bank Ltd (MSB)</b> Licensed Specialised Bank</p> <p><b>MCSL Financial Services Ltd (MCSL)</b> Licensed Finance Company</p>	<p>The surviving entity, <b>Merchant Bank of Sri Lanka &amp; Finance PLC</b> operates as Licensed Finance Establishment.</p>
<b>Subsidiaries</b>	MSB, MBSL Insurance Company Ltd	MBSL Insurance Company Ltd
<b>Associates</b>	MCSL, Lanka Securities (Pvt) Ltd	Lanka Securities (Pvt) Ltd
<b>Total Assets</b>	Rs. 15.53 billion	Rs. 28.26 billion
<b>Employees</b>	319	866
<b>Customer Touchpoints</b>	29	49
<b>Customers</b>	24,399	54,744
<b>Public Shareholding</b>	21.32%	25.5%

The following table details the progress made in the Group's strategic responses to the opportunities and risks presented by the merger and the impacts on the Group's key stakeholder groups.

	Impacts, opportunities and risks	Planned response	Progress in 2015
<b>Shareholders</b>	Potential earnings growth	<ul style="list-style-type: none"> <li>Expansion of geographical reach</li> <li>Aggressive deposit mobilisation</li> <li>Stronger lending growth</li> </ul>	<input checked="" type="checkbox"/> Customer Touchpoints reach expanded to 49 <input checked="" type="checkbox"/> Deposit growth of 43% <input checked="" type="checkbox"/> Lending growth of 12%
<b>Customers</b>	Access to a wider customer based	<ul style="list-style-type: none"> <li>Develop new products to fulfil customer needs</li> <li>Increase customer touchpoints</li> <li>Develop staff skills pertaining to service delivery</li> </ul>	<input checked="" type="checkbox"/> Launch of minor savings, senior savings, Islamic Finance product and SME loans Ongoing - Branch network extended while access will be provided to an ATM network in 2016. Ongoing
<b>Employees</b>	Ensuring job security	<ul style="list-style-type: none"> <li>Zero redundancies from all three entities</li> </ul>	<input checked="" type="checkbox"/> Absorption of all employees to the merged entity
	Skills development	<ul style="list-style-type: none"> <li>Multi-disciplinary training initiatives targeting all employee levels</li> </ul>	Ongoing-multiple training programmes on developing product and systems knowledge and soft skills.
	Organisational structure	<ul style="list-style-type: none"> <li>Implementation of a regional management structure</li> </ul>	<input checked="" type="checkbox"/> Better engagement with stakeholders resulted growth in portfolio.
<b>Regulation</b>	Increased stringency of regulations	<ul style="list-style-type: none"> <li>Strengthening compliance and risk management functions</li> </ul>	<input checked="" type="checkbox"/> Follow best practices, Corporate Governance and comply with laws, rules and regulations.

### 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 and Exchange Commission of Sri Lanka
- Leasing Association of Sri Lanka
- ICRA Lanka Ltd
- Department of Inland Revenue
- Ceylon Chamber of Commerce
- Central Bank of Sri Lanka
- The Credit Information Bureau of Sri Lanka
- The Department of Registrar of Companies

# Corporate Governance

## 1. Governance Framework:

Strong corporate governance practices are the bedrock of stakeholder value creation and long-term sustainability. Merchant Bank of Sri Lanka & Finance PLC (the "Company") is committed to the highest standards of business ethics, accountability and transparency as evinced by its comprehensive policy frameworks and clear governance structures which facilitate an appropriate balance of power.

The Company's corporate governance framework has been designed in line with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange, the Company's Articles of Association and other relevant laws and regulations. The Company's corporate governance process encompasses four principal activities namely, Direction, Supervision, Executive Action and Accountability.

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 at least 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.

The Board is supported by several sub-committees in the discharge of its duties. The Board Level Sub-Committees hold responsibility for specific areas of insight while several Executive Level Sub-Committees are also in place.

In compliance with the regulatory requirements the Board has appointed three Board Level Sub-Committees namely, the Audit Committee, Integrated Risk Management Committee and Remuneration Committee, which report directly to the Board. Each of these Committees have has specific terms of reference which are detailed in pages 34,35,36 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 once in 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.

Specific responsibilities have also been delegated to seven Executive Level Sub-Committees namely, the Asset and Liability Committee, the Investment Committee, the NPL Committee, the IT Steering Committee, the Credit Committee, the HR Committee and the Real Estate Committee.

The 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 Requirements on the Content of the Annual Report in Rule 7.6 of the Listing Rules**

<b>CSE Rule No.</b>	<b>Governance Requirement</b>	<b>Extent of Compliance in 2015</b>
<b>7.6 (i)</b>	Names of persons who during the financial year were directors of the Company.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
<b>7.6 (ii)</b>	Principal activities of the Company and its Subsidiaries during the year and any changes therein.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
<b>7.6 (iii)</b>	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Please refer "Share and Debenture Information" for the 20 largest holders of voting shares. Company has not issued any non-voting shares.
<b>7.6 (iv)</b>	The public holding percentage.	Please refer "Share and Debenture Information".
<b>7.6 (v)</b>	Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year.	Please refer "Share and Debenture Information".
<b>7.6 (vi)</b>	Information pertaining to material foreseeable risk factors.	Please refer "Risk Management Report".
<b>7.6 (vii)</b>	Details of material issues pertaining to employees and industrial relations.	Please refer "Our Value Creation".
<b>7.6 (viii)</b>	Extents, locations, valuations and the number of buildings of the land holdings and investment properties.	Please refer "Note 27" to the "Financial Statements".
<b>7.6 (ix)</b>	Number of shares representing the stated capital.	Please refer "Note 39" to the "Financial Statements" on 'Capital'.
<b>7.6 (x)</b>	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Please refer "Share and Debenture Information".
<b>7.6 (xi)</b>	Ratios and market price information on: Equity 1. Dividend per share. 2. Dividend pay out. 3. Net asset value per share. 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year). Debt 1. Interest rate of comparable government security. 2. Debt/equity ratio. 3. Interest cover. 4. Quick asset ratio. 5. The market prices & yield during the year. 6. Changes in credit rating.	Not applicable. Not applicable. Please refer "Statement of Financial Position". Please refer "Share and Debenture Information".  Please refer "Note 33.1" to the "Financial Statements". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Note 33.1" to the "Financial Statements". Please refer "Annual Report of the Board of Directors".
<b>7.6 (xii)</b>	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Please refer "Note 28" to the "Financial Statements" on 'Property, Plant & Equipment'.
<b>7.6 (xiii)</b>	Details of funds raised through a public issue, rights Issue and a private placement.	The Company has not raised funds through public issue, rights issue or a private placement during the year 2015.
<b>7.6 (xiv)</b>	Information in respect of Employee Share Ownership or Stock Option Schemes.	The Company does not have any Employee Share Ownership or Stock Option Schemes at present.
<b>7.6 (xv)</b>	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of section 7 of the Listing Rules.	This report provides the disclosures referred to in Rules 7.10.3, 7.10.5 c and 7.10.6 c of section 7 of the Listing Rules.
<b>7.6 (xvi)</b>	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	The Company did not have any related party transactions exceeding this threshold during the year 2015.

# Corporate Governance

## Section ii

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2015
<b>7.10.1</b>	<b>Non-Executive Directors</b> a. The Board shall include at least, two (2) non-executive directors; or such number of non-executive directors equivalent to one third (1/3rd) of the total number of directors, whichever is higher. b. The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting. c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	Complied. All seven (7) directors who comprise the Board are non-executive directors, and have held office prior to and immediately preceding the Annual General Meeting.
<b>7.10.2</b>	<b>Independent Directors</b> a. Where the constitution of the board includes only two (2) non-executive directors in terms of Rule 7.10.1 above, both such non-executive directors shall be "independent" (as per the criteria set out in Rule 7.10.4 of the CSE Listing Rules). In all other instances two (2) or one third (1/3rd) of non-executive directors appointed to the board, whichever is higher, shall be "independent". b. The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.	Complied. Four (4) out of the seven (7) directors are independent in terms of the criteria defined by CSE Rule 7.10.4.  Mr. D. M. Gunasekara has submitted his declaration on independence/non –independence in conformity with Appendix 7A.
<b>7.10.3</b>	<b>Disclosure relating to Directors</b> (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." (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. (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. (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.	Not complied.  Not applicable.  Complied. Resume of each director is given on pages 22 to 24 of the Annual Report.  Complied. The company secretary has provided the required information to the Exchange upon appointment of new directors.
<b>7.10.5</b>	<b>Remuneration Committee</b> <b>a. Composition</b> The remuneration committee shall comprise;  of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its board);  or  of non-executive directors a majority of whom shall be independent, whichever is higher.  One (1) non-executive director shall be appointed as Chairman of the committee by the board.	Remuneration Committee consists of two (2) non-executive directors, one (1) of whom is independent.

CSE Rule No.	Governance Requirement	Extent of Compliance in 2015
	<p><b>b. Functions</b> 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>	Complied. Please refer the Report of the Remuneration Committee on Page 61 of the Annual Report.
	<p><b>c. Disclosure in the Annual Report</b> The annual report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate paid to executive and non-executive directors.</p>	Complied. The names of the members of the Remuneration Committee are given in the Report of the Remuneration Committee on Page 61 of the Annual Report. Fees paid to directors are disclosed in the 'Notes to Financial Statements' on page 123 of the Annual Report.
7.10.6	<p><b>Audit Committee</b></p> <p><b>a. Composition</b> 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); or 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 (period January 2015 to March 2015) and five (5) non executive directors, four (4) of whom are independent (period April 2015 to December 2015).</p> <p>Complied.</p>
	<p><b>b. Functions</b> The audit committee's functions shall include,</p> <p>(i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards.</p> <p>(ii) Overseeing of the company's compliance with financial reporting requirements, information requirements of the Companies Act No. 7 of 2007 and other relevant financial reporting related regulations and requirements.</p> <p>(iii) Overseeing the processes to ensure that the company's internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards.</p> <p>(iv) Assessment of the independence and performance of the company's external auditors.</p> <p>(v) To make recommendations to the board pertaining to appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.</p>	Complied. The functions of the audit committee and its Report are given on page 62.
	<p><b>c. Disclosure in the Annual Report</b> 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 62 of the annual report.</p> <p>The audit committee reviews the performance of the external auditors and is of the view that the external auditors 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 iii

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

Section	Governance Requirement	Extent of Compliance in 2015
<b>2 2(1)</b>	<p><b>The Responsibilities of the Board of Directors</b></p> <p>The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-</p> <ul style="list-style-type: none"> <li>a) approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;</li> <li>b) approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years;</li> <li>c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</li> <li>d) approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;</li> <li>e) reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;</li> <li>f) identifying and designating key management personnel, who are in a position to: <ul style="list-style-type: none"> <li>(i) significantly influence policy;</li> <li>(ii) direct activities; and</li> <li>(iii) exercise control over business activities, operations and risk management;</li> </ul> </li> <li>g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;</li> <li>h) ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;</li> <li>i) periodically assessing the effectiveness of its own governance practices, including: <ul style="list-style-type: none"> <li>(i) the selection, nomination and election of directors and appointment of key management personnel;</li> <li>(ii) the management of conflicts of interests; and</li> <li>(iii) the determination of weaknesses and implementation of changes where necessary;</li> </ul> </li> </ul>	<p>The Strategic Plan for 2012 - 2016 is available and the Strategic Plan for the next three years is being prepared.</p>

Section	Governance Requirement	Extent of Compliance in 2015
	<p>j) ensuring that the finance company has an appropriate succession plan for key management personnel;</p> <p>k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;</p> <p>l) understanding the regulatory environment;</p> <p>m) exercising due diligence in the hiring and oversight of external auditors.</p>	
<b>2(2)</b>	The Board shall appoint the chairman and the Chief Executive Officer ("CEO") and define and approve the functions and responsibilities of the chairman and the CEO in line with paragraph 7 of this Direction.	Complied.
<b>2(3)</b>	There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	Complied. Directors have obtained independent professional advice when necessary.
<b>2(4)</b>	A director shall abstain from voting on any Board resolution in relation to matter to which he or any of his relatives or a concern in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Not applicable. No such circumstance arose during the financial year under review.
<b>2(5)</b>	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied.
<b>2(6)</b>	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review.
<b>2(7)</b>	The Board shall include in the finance company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The Corporate Governance Report is included in the Annual Report in pages 32 to 60.
<b>2(8)</b>	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Mr. R. P. K. Gallage, Mr. A. H. Samarasundera, Mr. B. J. Sinniah, Mr. D. M. Gunasekara and Mr. W. P. R. P. H. Fonseka have complied.
<b>3</b>	<b>Meetings of the Board</b>	
<b>3(1)</b>	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Please refer page 60 of the Annual Report for details of attendance.
<b>3(2)</b>	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied.
<b>3(3)</b>	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.

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
<b>3(4)</b>	A director who has not attended at least two-thirds (2/3rd) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
<b>3(5)</b>	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.
<b>3(6)</b>	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.
<b>3(7)</b>	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.
<b>3(8)</b>	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.
<b>3(9)</b>	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.
<b>4</b>	<b>Composition of the Board</b>	
<b>4(1)</b>	The number of directors on the Board shall not be less than five (5) and not more than thirteen (13).	Complied. The Board including the chairman comprises of seven (7) non – executive directors.
<b>4(2)</b>	Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (9) years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
<b>4(3)</b>	An employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.

Section	Governance Requirement	Extent of Compliance in 2015
4(4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4th) of the total number of directors.	Complied. Please refer pages 22 to 24 of the Annual Report.
4(5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Please refer pages 22 to 24 of the Annual 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. Please refer pages 22 to 24 of the Annual Report.
4(7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half (1/2) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied. Please refer page 60 of the Annual Report.
4(8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer pages 94 to 99 of the Annual Report.
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied.
4(10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
4(11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.
<b>5</b>	<b>Criteria to assess the fitness and propriety of directors</b>	
5(1)	A person over the age of seventy (70) years shall not serve as a director of the finance company.	Complied.
5(2)	A director of the finance company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/societies/bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such director shall not hold office of a director or any other equivalent position in more than ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied.
<b>6.</b>	<b>Delegation of Functions</b>	
6(1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6(2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied.

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
<b>7</b> <b>7(1)</b>	<b>The Chairman and the Chief Executive Officer</b> The roles of the chairman and the CEO shall be separate and shall not be performed by one and the same person.	Complied.
<b>7(2)</b>	The chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied. Chairman is an independent non-executive director.
<b>7(3)</b>	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. Please refer pages 22 to 24 of the Annual Report.
<b>7(4)</b>	The chairman shall : (a) provide leadership to the Board;  (b) ensure that the Board works effectively and discharges its responsibilities; and  (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied.
<b>7(5)</b>	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.	
<b>7(6)</b>	The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	
<b>7(7)</b>	The chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	
<b>7(8)</b>	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	
<b>7(9)</b>	The chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Certain issues highlighted by CBSL has been rectified.
<b>7 (10)</b>	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.

Section	Governance Requirement	Extent of Compliance in 2015
<b>7 (11)</b>	The CEO shall function as the apex executive-in-charge of day-to-day management of the finance company's operations and business.	Complied.
<b>8 8(1)</b>	<p><b>Board appointed Committees</b></p> <p>Every finance company shall have at least the two (2) Board committees set out in paragraph 8(2) and 8(3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee.</p> <p>The Board shall present a report on the performances, duties and functions of each Committee, at the annual general meeting of the finance company.</p>	Complied. The Audit Committee, Remuneration Committee and the Integrated Risk Management Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 61, 62, 65 to 69 of the Annual Report.
<b>8(2)  8(2) (a)</b>	<p><b>Audit Committee</b></p> <p>The following shall apply in relation to the Audit Committee:</p> <p>The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.</p>	Complied.
<b>8 (2) (b)</b>	The Board members appointed to the audit committee shall be non-executive directors.	Complied. The Audit Committee consists of five (5) non- executive directors, three (3) of whom are independent (period January 2015 to March 2015) and five (5) non executive directors, four (4) of whom are independent (period April 2015 to December 2015).
<b>8 (2) (c)</b>	<p>The audit committee shall make recommendations on matters in connection with:</p> <p>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</p> <p>(ii) the implementation of the Central Bank guidelines issued to external auditors from time to time,</p> <p>(iii) the application of the relevant accounting standards; and</p> <p>(iv) the service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.</p>	Complied. The functions of the Audit Committee and its Report are given on pages 62 to 64 of the Annual Report.
<b>8 (2) (d)</b>	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.	Complied. Please refer the Audit Committee Report on pages 62 to 64 of the Annual Report.

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Section	Governance Requirement	Extent of Compliance in 2015
<b>8 (2) (e)</b>	<p>The audit committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the audit committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the audit committee shall consider:</p> <ul style="list-style-type: none"> <li>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;</li> <li>(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</li> <li>(iii) whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.</li> </ul>	Not Applicable. The external auditors do not provide any non-audit services to the Company.
<b>8 (2) (f)</b>	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with the Directions issued under the Finance Companies Act No. 78 of 1988 (the "Act") and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one (1) auditor is involved.</p>	Complied. Please refer the Audit Committee Report on pages 62 to 64 of the Annual Report.
<b>8 (2) (g)</b>	<p>The audit committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the audit committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p>	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.
<b>8 (2) (h)</b>	<p>The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	Not applicable. No such circumstance arose during the financial year under review.
<b>8 (2) (i)</b>	<p>The audit committee shall review the external auditor's management letter and the management's response thereto.</p>	Complied.

Section	Governance Requirement	Extent of Compliance in 2015
<b>8 (2) (j)</b>	<p>The audit committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> <li>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</li> <li>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(v) Ensure that the audit committee is apprised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</li> <li>(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.</li> </ul>	Complied.
<b>8 (2) (k)</b>	The audit committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.
<b>8 (2) (l)</b>	The CFO, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the CEO may also attend meetings upon the invitation of the audit committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors being present.	Please refer the Audit Committee Report on pages 62 to 64 of the Annual Report for details.
<b>8 (2) (m)</b>	The audit committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
<b>8 (2) (n)</b>	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.
<b>8 (2) (o)</b>	<p>The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the audit committee;</li> <li>(ii) the number of audit committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual member at such meetings.</li> </ul>	Complied. Please refer page 60 of the Annual Report for details of attendance of each individual member at audit committee meetings.
<b>8 (2) (p)</b>	The secretary to the audit committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the audit committee meetings.	Complied. The Head of Internal Audit acts as secretary.

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
8 (2) (q)	<p>The audit committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.</p>	<p>Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Department is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.</p>
8 (3)	<p><b>Integrated Risk Management Committee</b></p> <p>The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):</p> <ol style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset – liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the IRMC.</li> <li>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.</li> <li>e) The IRMC shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</li> <li>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.</li> <li>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.</li> <li>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.</li> </ol>	<p>Please refer the Report on "Risk Management" pages 65 to 69 of the Annual Report for details. For the attendance details please refer page 60.</p>

Section	Governance Requirement	Extent of Compliance in 2015
<p><b>9.</b> <b>9(2)</b></p>	<p><b>Related Party Transactions</b></p> <p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>a) A subsidiary of the finance company;</li> <li>b) Any associate company of the finance company;</li> <li>c) A director of the finance company;</li> <li>d) A key management personnel of the finance company;</li> <li>e) A relative of a director or a key management personnel of the finance company ;</li> <li>f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company;</li> <li>g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company, has substantial interest.</li> </ul>	<p>Complied. Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>
<p><b>9(3)</b></p>	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>a) Granting accommodation,</li> <li>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</li> <li>c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company,</li> <li>d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</li> </ul>	

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
<b>9(4)</b>	<p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph "more favourable treatment" shall mean:</p> <p>a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of five (5) years or more.</p> <p>b) Charging a rate of interest lower than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.</p> <p>c) Providing preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;</p> <p>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows between the 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 Note 42 under "Notes to the Financial Statements" on page 175 of the Annual Report.
<b>10 10 (1)</b>	<p><b>Disclosures</b></p> <p>The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	Complied.
<b>10 (2)</b>	<p>The Board shall ensure that at least the following disclosures are made in the Annual Report:</p> <p>a) A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p>	Complied. Please refer directors' responsibility for financial reporting on page 100 of the Annual Report.

Section	Governance Requirement	Extent of Compliance in 2015
	b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer pages 91 to 92 of the Annual Report for the relevant report by the Board.
	c) The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 101.
	d) Details of directors, including names, transactions with the finance company.	Complied. Please refer pages 94 to 99 of the Annual report for details.
	e) Fees/remuneration paid by the finance company to the directors in aggregate.	Complied. Please refer page 97 of the Annual Report for details.
	f) Total net accommodation as defined in paragraph 9(4) of this Direction outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied. Please refer Note 42 under 'Notes to the Financial Statements' on pages 174 to 177 of the Annual Report.
	g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the finance company.	Complied. Please refer Note 42 under 'Notes to the Financial Statements' on pages 174 to 177 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-compliances.	Complied. Please refer the Annual Report of the Board of Directors on the Affairs of the Company and the Statement of Directors' Responsibilities for financial reporting on pages 94 and 99 respectively of the Annual Report for details.
	i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or non compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	No such issue has arisen during the Financial year under review.
	j) The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports.	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

# Corporate Governance

## Section iv

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

Section	Governance Requirement	Extent of Compliance in 2015
<b>2</b>	<b>The Responsibilities of the Board of Directors</b>	
<b>2 (1)</b>	<p>The Board is responsible for strengthening the safety and soundness of the company by-</p> <ul style="list-style-type: none"> <li>a) approving and overseeing the company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the company;</li> <li>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;</li> <li>c) identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</li> <li>d) approving policy of communication with all stakeholders of the company, including lenders, creditors, shareholders and borrowers;</li> <li>e) reviewing the adequacy and the integrity of the company's internal control systems and management information systems;</li> <li>f) identifying and designating key management personnel who are in a position to (i) significantly influence policy ;(ii) direct activities; and (iii) exercise control over business activities, operations and risk management;</li> <li>g) defining the areas of authority and key responsibilities for the Board and for the key management personnel;</li> <li>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;</li> <li>i) periodically assessing the effectiveness of its own governance practices, including <ul style="list-style-type: none"> <li>(i) the selection, nomination and election of directors and appointment of key management personnel;</li> <li>(ii) the management of conflicts of interests; and</li> <li>(iii) the identification of weaknesses and implementation of changes where necessary;</li> </ul> </li> </ul>	<p>The Strategic Plan for 2012 - 2016 is available and the Strategic Plan for the next three years is being prepared.</p>

Section	Governance Requirement	Extent of Compliance in 2015
	<p>j) ensuring that the company has an appropriate succession plan for key management personnel;</p> <p>k) meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;</p> <p>l) understanding the regulatory environment;</p> <p>m) exercising due diligence in the hiring and oversight of external auditors;</p>	
<b>2(2)</b>	The Board shall appoint the chairman and Chief Executive Officer ("CEO") and define and approve their functions and responsibilities in line with paragraph 7 of this Direction.	Complied.
<b>2 (3)</b>	The Board shall determine a procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the company.	Complied. The directors have obtained independent professional advice when necessary.
<b>2 (4)</b>	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Not applicable. No such circumstance arose during the financial year under review.
<b>2 (5)</b>	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.
<b>2 (6)</b>	The Board shall, if it considers that the company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review.
<b>2 (7)</b>	The Board shall include in the company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The Corporate Governance Report is included in the Annual Report in pages 32 to 60.
<b>2 (8)</b>	The Board shall adopt a scheme of self – assessment to be undertaken by each director annually, and maintain records of such assessment.	Mr. R. P. K. Gallage, Mr. A. H. Samarasundera, Mr. B. J. Sinniah, Mr. D. M. Gunasekara and Mr. W. P. R. P. H. Fonseka have complied.
<b>3</b>	<b>Meetings of the Board</b>	
<b>3 (1)</b>	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolution/papers shall be avoided as far as possible.	Please refer page 60 of the Annual Report for details of attendance.
<b>3 (2)</b>	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.
<b>3 (3)</b>	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.

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
<b>3 (4)</b>	A director who has not attended at least two-thirds (2/3rd) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the director's meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
<b>3 (5)</b>	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.
<b>3 (6)</b>	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.
<b>3 (7)</b>	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.
<b>3 (8)</b>	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.
<b>3 (9)</b>	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.
<b>4</b>	<b>Composition of the Board</b>	
<b>4 (1)</b>	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.
<b>4 (2)</b>	Subject to paragraph 5(1) of this Direction and the transitional provisions contained herein the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (9) years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
<b>4 (3)</b>	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.

Section	Governance Requirement	Extent of Compliance in 2015
4 (4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4th) of the total number of directors.	Complied. Please refer to pages 22 to 24 of the Annual Report.
4 (5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Please refer to pages 22 to 24 of the Annual 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 24 of the Annual Report.
4 (7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one third (1/3rd) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied.
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 94 to 99 of the Annual Report.
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied.
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.
<b>5</b>	<b>Criteria to assess the fitness and propriety of directors</b>	
5 (1)	A person over the age of seventy (70) years shall not serve as a director of the company.	Complied.
5 (2)	A director of the company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/societies/bodies corporate, including associate companies and subsidiaries of the company. Provided that such director shall not hold office of a director or any other equivalent position in more than ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied.
<b>6</b>	<b>Management functions delegated to the Board</b>	
6 (1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6 (2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the company.	
<b>7</b>	<b>The Chairman and the Chief Executive Officer</b>	
7 (1)	The roles of the chairman and the CEO shall be separated and shall not be performed by one and the same person.	Complied.

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
<b>7 (2)</b>	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. Chairman is an independent non-executive director.
<b>7 (3)</b>	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. .
<b>7 (4)</b>	The chairman shall : (a) provide leadership to the Board;  (b) ensure that the Board works effectively and discharges its responsibilities; and  (c) ensure that all key issues are discussed by the Board in a timely manner.	Complied.
<b>7 (5)</b>	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.	
<b>7 (6)</b>	The chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	
<b>7 (7)</b>	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.	
<b>7 (8)</b>	The chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	
<b>7 (9)</b>	The chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Certain issues highlighted by CBSL has been rectified.
<b>7 (10)</b>	The chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
<b>7 (11)</b>	The CEO shall function as the apex executive-in-charge of day-to-day management of the company's operations and business.	Complied.

Section	Governance Requirement	Extent of Compliance in 2015
<p><b>8</b></p> <p><b>8 (1)</b></p>	<p><b>Board appointed Committees</b></p> <p>Every company shall have at least two (2) Board committees set out in paragraph 8(2) and 8(3) of this Direction. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the Committee.</p> <p>The Board shall present a report on the performances, duties and functions of each Committee, at the AGM of the Company.</p>	<p>Complied. The Audit Committee, Remuneration Committee and the Integrated Risk Management Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 61,62,65 to 69 of the Annual Report.</p>
<p><b>8 (2)</b></p> <p><b>8 (2) (a)</b></p>	<p><b>Audit Committee</b></p> <p>The following shall apply in relation to the Audit Committee:</p> <p>The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.</p>	<p>Complied.</p>
<p><b>8 (2) (b)</b></p>	<p>The majority of the Board members appointed to the audit committee shall be non-executive directors.</p>	<p>Complied. The Audit Committee consists of five (5) non- executive directors, three (3) of whom are independent (period January 2015 to March 2015) and five (5) non executive directors, four (4) of whom are independent (period April 2015 to December 2015).</p>
<p><b>8 (2) (c)</b></p>	<p>The audit committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> <li>(i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;</li> <li>(ii) the implementation of the Central Bank guidelines issued to external auditors from time to time,</li> <li>(iii) the application of the relevant accounting standards; and</li> <li>(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.</li> </ul>	<p>Complied. The functions of the Audit Committee and its Report are given on pages 62 to 64 of the Annual Report.</p>
<p><b>8 (2) (d)</b></p>	<p>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>	<p>Complied. Please refer the Audit Committee Report on pages 62 to 64 of the Annual Report.</p>

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
<b>8 (2) (e)</b>	<p>The audit committees shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the audit committee shall ensure that provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditors independence or objectivity in relation to the provision of non-audit services, the audit committee shall consider:</p> <ul style="list-style-type: none"> <li>(i) whether the skills and experience of the auditor make it a suitable provider of the non-audit services;</li> <li>(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</li> <li>(iii) whether the nature of the non-audit services, the related fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.</li> </ul>	Not Applicable. The external auditors do not provide any non-audit services to the Company.
<b>8 (2) (f)</b>	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the company's compliance with Directions issued under the Finance Leasing Act No. 56 of 2000 and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one (1) auditor is involved.</p>	Complied. Please refer the Audit Committee Report on pages 62 to 64 of the Annual Report
<b>8 (2) (g)</b>	<p>The audit committee shall review the financial information of the company, in order to monitor the integrity of the financial statements of the company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the company's Annual Report and accounts and periodical reports before submission to the Board, the Audit Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p>	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.
<b>8 (2) (h)</b>	<p>The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	Not applicable. Necessity has not arisen
<b>8 (2) (i)</b>	<p>The audit committee shall review the external auditor's management letter and the management's response thereto.</p>	Complied.

Section	Governance Requirement	Extent of Compliance in 2015
<b>8 (2) (j)</b>	<p>The audit committee shall take the following steps with regard to the internal audit function of the company:</p> <ul style="list-style-type: none"> <li>(i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work;</li> <li>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(v) Ensure that the audit committee is apprised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;</li> <li>(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;</li> </ul>	Complied.
<b>8 (2) (k)</b>	The audit committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.
<b>8 (2) (l)</b>	The CFO, the Chief Internal Auditor and a representative of the external auditors may normally attend audit committee meetings. Other Board members and the CEO may also attend meetings upon the invitation of the Audit Committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors of the Company being present.	Please refer the Audit Committee Report on pages 62 to 64 of the Annual Report for details.
<b>8 (2) (m)</b>	The audit committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
<b>8 (2) (n)</b>	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.
<b>8 (2) (o)</b>	<p>The Board shall, in the Annual Report, disclose in an informative way,</p> <ul style="list-style-type: none"> <li>(i) details of the activities of the audit committee;</li> <li>(ii) the number of audit committee meetings held in the year; and</li> <li>(iii) details of attendance of each individual member at such meetings.</li> </ul>	Complied. Please refer page 60 of the Annual Report for details of attendance of each individual member at Audit Committee meetings.

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
8 (2) (p)	The secretary to the audit committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the Audit Committee meetings.	Complied. The Head of Internal Audit acts as secretary.
8 (2) (q)	The audit committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Department is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.
8 (3)	<p><b>Integrated Risk Management Committee</b></p> <p>The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):</p> <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>e) The IRMC shall meet, at least quarterly, to assess all aspects of risk management including updated business continuity plans.</li> <li>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.</li> <li>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.</li> </ul>	Please refer the Report of the Risk Management on pages 65 to 69 of the Annual Report for details. For the attendance details please refer page 60.

Section	Governance Requirement	Extent of Compliance in 2015
	<p>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>	
<p><b>9.</b> <b>9 (2)</b></p>	<p><b>Related Party Transactions</b></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"> <li>a) A subsidiary of the company;</li> <li>b) Any associate company of the company;</li> <li>c) A director of the company;</li> <li>d) A key management personnel of the company;</li> <li>e) A relative of a director or a key management personnel of the company ;</li> <li>f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company;</li> <li>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.</li> </ul>	<p>Complied. Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>
<p><b>9 (3)</b></p>	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> <li>(a) Granting accommodation,</li> <li>(b) Creating liabilities to the company in the form of borrowings or investments,</li> <li>(c) Providing financial or non-financial services to the company or obtaining those services from the company,</li> <li>(d) Creating or maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</li> </ul>	
<p><b>9 (4)</b></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 favorable treatment" than that is accorded to an unrelated comparable counterparty of the company. For the purpose of this paragraph "more favorable treatment" shall mean:</p>	<p>Complied. Please refer Financial Statements, Note 42 - "Related party Transactions" on pages 174 to 177 of the Annual Report.</p>

# Corporate Governance

Section	Governance Requirement	Extent of Compliance in 2015
	<p>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.</p> <p>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.</p> <p>c) Providing preferential treatment, such as favorable terms, covering trade losses and/or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties;</p> <p>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows between the 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>	
<b>10.</b>	<b>Disclosures</b>	
<b>10 (1)</b>	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.
<b>10 (2)</b>	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
<b>10 (2) (a)</b>	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 100 of the Annual Report.
<b>10 (2) (b)</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 91 to 92 of the Annual Report for the relevant report by the Board.
<b>10 (2) (c)</b>	The external auditor’s certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 92.
<b>10 (2) (d)</b>	Details of directors, including names, transactions with the company.	Complied. Please refer pages 94 to 99 of the Annual report for details.

Section	Governance Requirement	Extent of Compliance in 2015
<b>10 (2) (e)</b>	Fees/remuneration paid by the company to the directors in aggregate.	Complied. Please refer page 97 of the Annual Report for details.
<b>10 (2) (f)</b>	Total net accommodation as defined in paragraph 9(4) of this Direction outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of capital funds of the company.	Complied. Please refer 'Note 42' under 'Notes to the Financial Statements' on pages 174 to 177 of the Annual Report.
<b>10 (2) (g)</b>	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 174 to 177 of the Annual Report.
<b>10 (2) (h)</b>	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 94 and 100 respectively of the Annual Report for details.
<b>10 (2) (i)</b>	The external auditor's certification of the compliance with the Finance Leasing Act No. 56 of 2000 and directions issued by the Director of Department of Supervision of Non-Bank Financial Institutions in the annual corporate governance reports .	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

# Corporate Governance

## Attendance at the Meetings of the Board & Sub-Committees held during the financial year 2015

Name of the Director	Directorship Status	Board	Audit Committee	Remuneration Committee	Integrated Risk Management Committee
		No. of Meetings Held			
		21	09	01	03
Mr. M. R. Shah (Chairman) Resigned w.e.f.23.01.2015	Non Independent Non Executive Director	02	N/A	N/A	N/A
Mr. M. S. S. Paramananda Resigned w.e.f.13.03.2015	Independent Non Executive Director	05	01	N/A	N/A
Mr. P. G. Rupasinghe Resigned w.e.f.13.03.2015	Senior Independent Non Executive Director	05	01	N/A	N/A
Mr. A. B. Lalith A De Silva Resigned w.e.f.13.03.2015	Non Independent Non Executive Director	04	N/A	N/A	N/A
Mr. D. M. Gunasekara Resigned w.e.f.02.03.2016	Non Independent Non Executive Director	07	N/A	N/A	N/A
Mr. K. B. S. Bandara Resigned w.e.f.26.03.2015	Non Independent Non Executive Director	04	00	N/A	N/A
Mr. C. R. Jayawarna Resigned w.e.f.13.03.2015	Independent Non Executive Director	05	01	N/A	N/A
Mr. A. M. P. Amarakoon (Alternate Director to Mr. M. S. S. Paramananda) Resigned w.e.f.13.03.2015	Non Executive Director	00	N/A	N/A	N/A
Mr. R. Sivaraman Resigned w.e.f.13.03.2015	Non Independent Non Executive Director	04	N/A	N/A	N/A
Mr. W. C. K. Wickramarachchi Resigned w.e.f.13.03.2015	Non Independent Non Executive Director	05	N/A	N/A	N/A
Mr. R. P. K. Gallage (Chairman) Resigned w.e.f.02.03.2016	Independent Non Executive Director	16	N/A	01	N/A
Mr. S. S. Gamage Resigned w.e.f.02.03.2016	Non Independent Non Executive Director	16	N/A	01	N/A
Mr. A. H. Samarasundera Resigned w.e.f.02.03.2016	Independent Non Executive Director	14	08	N/A	03
Mr. S. L. Rahaman Resigned w.e.f.02.03.2016	Independent Non Executive Director	15	07	N/A	N/A
Mr. L. C. De Silva Resigned w.e.f.02.03.2016	Independent Non Executive Director	16	08	N/A	N/A
Mr. B. J. Sinniah Resigned w.e.f.02.03.2016	Non Independent Non Executive Director	13	08	N/A	N/A
Mr. A. P. Maharaja Resigned w.e.f.18.09.2015	Independent Non Executive Director	5	N/A	N/A	N/A
Mr. B. Premalal Resigned w.e.f.18.09.2015	Non Independent Non Executive Director	10	06	N/A	N/A
Mr. W. P. R. P. H. Fonseka (Alternate Director to Mr. D. M. Gunasekara) Resigned w.e.f.02.03.2016	Non Independent Non Executive Director	12	03	N/A	N/A

# Report of the Remuneration Committee

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

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

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

Effective from 29.04.2016 the Remuneration Committee comprises as follows:

- Mr. Ajith Gunawardana** - Chairman/ Non-Independent Non Executive Director
- Mr. A. S. Padmaperuma** - Member/ Non-Independent Non Executive Director
- Mr. C. N. Wijewardane** - Member/ Non-Independent Non Executive Director

The Committee is responsible for establishing a broad remuneration framework and is also responsible for recommending the remuneration that is paid to the Chief Executive Officer and or equivalent position thereof and the remuneration that is paid to the Directors and makes such recommendations to the Board of Directors for their approval and final determination upon consideration of such recommendations. Currently there are no Executive Directors on the Board.

The total Directors' emoluments are disclosed in Note. 42 e. on page 177 of the Financial Statement.



**Ajith Gunawardana**  
Chairman  
Remuneration Committee

18 May 2016  
Colombo

# Audit Committee Report

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

## Composition of Audit Committee

Prior to the reconstitution of the Board in March 2015, the Audit Committee comprised of the following Directors.

- Mr. W.P. Russel Fonseka – Chairman  
(Alternate Director to Mr. D M Gunasekara)  
(Resigned from the Audit Committee with effect from 07.04.2015)
- Mr. K.B.S Bandara - Member  
Non Independent/ Non Executive Director  
(Resigned from the Board of MBSL with effect from 26.03.2015)
- Mr. P.G. Rupasinghe – Member  
Independent Non Executive Director  
(Resigned from the Board of MBSL with effect from 13.03.2015)
- Mr. C.R. Jayawarna - Member  
Independent Non Executive Director  
(Resigned from the Board of MBSL with effect from 13.03.2015)
- Mr. M.S.S Paramananda - Member  
Independent Non Executive Director  
(Resigned from the Board of MBSL with effect from 13.03.2015)
- Mr. W.P. Russel Fonseka – Chairman  
(Alternate Director to Mr. D M Gunasekara)  
(Re-appointed on 14.09.2015 and resigned from the Board of MBSL with effect from 02.03.2016)
- Mr. B. J. Sinniah - Member  
Non-Independent/Non Executive Director  
(Appointed on 07.04.2015 and resigned from the Board of MBSL with effect from 02.03.2016)
- Mr. Silhan Rahuman - Member  
Independent/Non Executive Director  
(Appointed on 07.04.2015 and resigned from the Board of MBSL with effect from 02.03.2016)
- Mr. L.C. De Silva – Member  
Independent/Non Executive Director  
(Appointed on 07.04.2015 and resigned from the Board of MBSL with effect from 02.03.2016)
- Mr. A. H. Samarasundera – Member  
Independent/Non Executive Director  
(Appointed on 07.04.2015 and resigned from the Board of MBSL with effect from 02.03.2016)

Details of the members of the committee are given on page 60.

## The Committee Meetings

The Committee held 9 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors.

The Chief Executive Officer, Deputy General Manager - Finance & Strategic Planning, attend the meetings by invitation. The Heads of Divisions were invited to the meetings of the Committee at various times to get clarifications.

Assistant General Manager – Internal Audit is the Secretary to the Committee (appointed with effect from 07.04.2015).

## Key Responsibilities of the Committee

Audit Committee of the MBSL which functions as a subcommittee of the Main Board, assists the Main Board in fulfilling its oversight

Pursuant to the reconstitution of the Board in March 2015, the composition of the Audit Committee was as follows,

- Mr. B Premalal – Chairman  
Non-Independent/Non Executive Director  
(Appointed on 07.04.2015 and resigned with effect from 14.09.2015)

responsibilities and provides an independent review of the financial reporting process. The following areas come under the purview of the Audit Committee;

#### Financial reporting

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

#### Compliance

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

#### Internal Audit

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

#### External Audit

- a) Evaluates the independence and objectivity of the External Auditors and the effectiveness of the audit process.
- b) Reviews the External Auditor's audit scope and plan, its audit quality control/assurance processes.
- c) Coordination with Internal Audit.
- d) Reviews the performance of External Auditors and makes recommendations to the Board of Directors on their appointment, reappointment, discharge or rotation if necessary.
- e) Reviews the External Audit Report on the financial statements and Management Letter outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.

- f) The Committee meets the External Auditors separately to discuss any matters that the Committee or Auditors believe should be discussed privately.

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

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

#### Financial information

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

#### Compliance

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

#### Internal Audits

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

#### External Audit

- a. 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.
- b. The Committee reviewed the Management Letter issued by the External Auditors and the Management response thereto.

# Audit Committee Report

- c. The Committee also met with the External Auditors to discuss all audit issues/concerns and agreed on their treatment.
- d. 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 2016.

## Conclusion

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

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



**W.P. Russel Fonseka**  
Former Chairman  
Audit Committee

Colombo  
18 May 2016

# Risk Management

Sustainable growth is underpinned by effective risk management which ensures that growth and risk considerations are duly balanced in the Organisation’s strategy. At MBSL, risk considerations form a critical input in formulating strategy as well as in the day-to-day running of the Company as it has successfully created a risk management culture permeating all individuals and departments. The effectiveness of the Company’s risk management framework is facilitated by comprehensive policy frameworks, well-defined governance structures and appropriate tools and techniques to measure and manage risk.

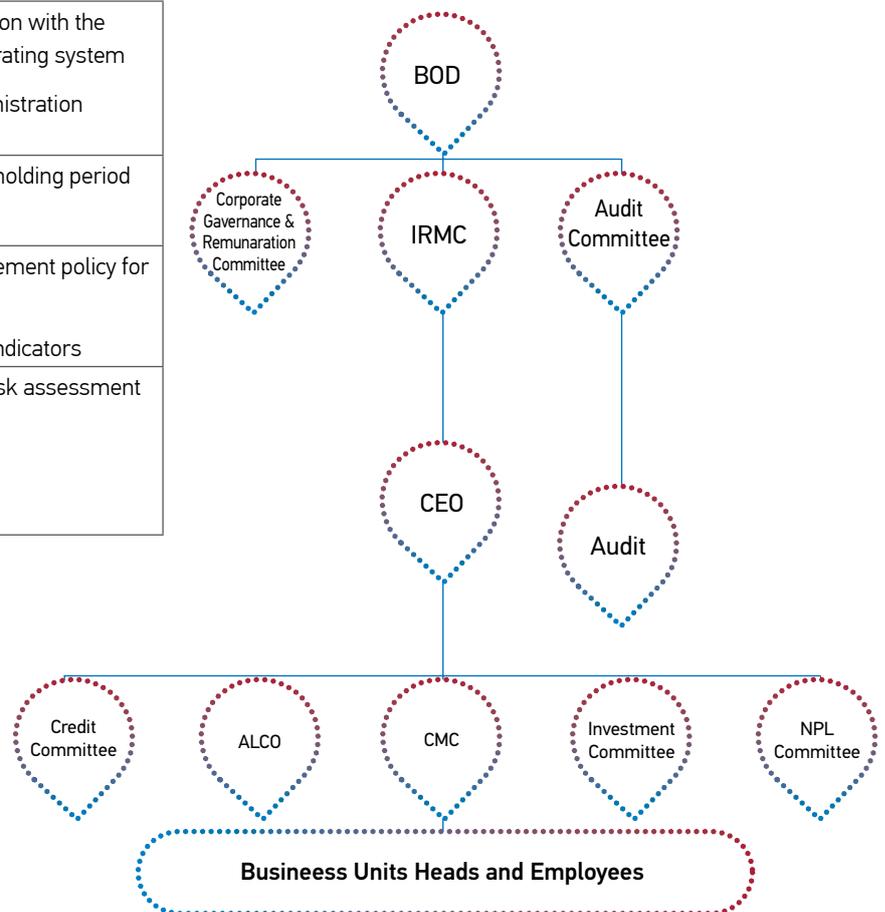
## Highlights of the year

<b>Credit Risk</b>	<ul style="list-style-type: none"> <li>Strengthening pre-credit evaluation with the introduction of an internal credit rating system</li> <li>Establishment of a Credit Administration division</li> </ul>
<b>Market Risk</b>	<ul style="list-style-type: none"> <li>Introduce a maximum limits for holding period based on portfolio classification</li> </ul>
<b>Liquidity Risk</b>	<ul style="list-style-type: none"> <li>Formalising liquidity risk management policy for the finance company.</li> <li>Introduction of key liquidity risk indicators</li> </ul>
<b>Operational Risk</b>	<ul style="list-style-type: none"> <li>Web based Branch operational risk assessment</li> <li>Post-merger BCP Plan</li> <li>Customer due diligence policy</li> <li>Anti-money laundering policy</li> </ul>

## Risk Governance

The Board holds apex responsibility for the Company’s risk management aspects and is supported by the Integrated RMC in discharging its risk management related responsibilities. In addition, other governance committees, both at Board and Executive levels operate with clearly defined roles and responsibilities pertaining to risk related aspects while a Board approved Risk Management Framework define tools, techniques and reporting structures for the effective identification, analysis and monitoring of risks within the Company.

## MBSL'S Risk Governance Structure



# Risk Management

Committee	Mandate
<b>Board level Committees</b>	
Integrated Risk Management Committee	Identify, monitor, measure and manage the Company's overall risk profile and develop policies for effective management of all key risks
Audit Committee	Review the Company's internal financial controls to identify, assess, monitor and manage financial risks
<b>Management Sub Committees</b>	
Corporate Management Committees	Corporate management committee is responsible to identify and mitigate the risks faced by their respective divisions.
Credit Committee	Empowered to approve credit within pre-defined parameters and recommend policies pertaining to credit risk management.
Asset and Liability Management Committee	Responsible for the management of liquidity and market risks while ensuring that balance sheet structures are maintained within the defined parameters.
Investment Committee	Responsible for all decisions pertaining to the management of the Company's investment portfolio, including buying and selling shares.
NPL Committee	Responsible for managing the Company's NPL exposures within the pre-defined limits
IT Steering Committee	Responsible for all aspects related to the Company's information technology infrastructure

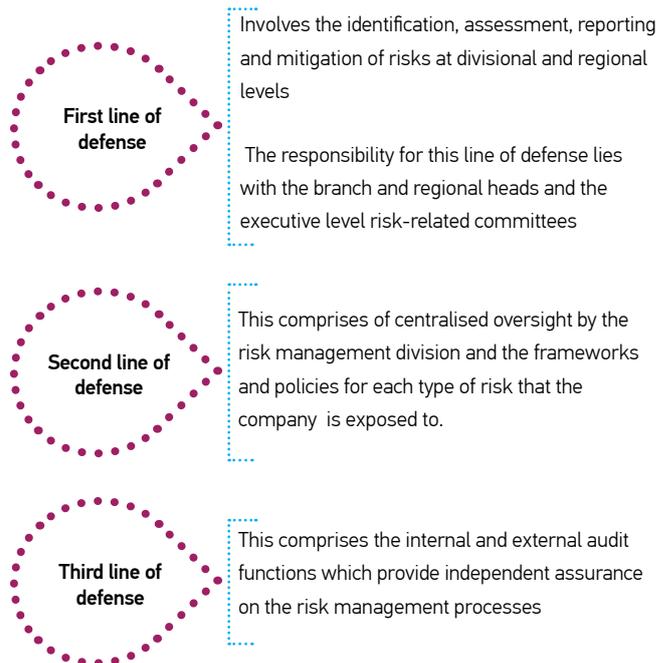
## Risk Management Division

The Risk Management Division functions independently from profit and volume targets and holds executive responsibility for identifying, analysing, evaluating, mitigating and monitoring of the Company's overall risk profile. The Division is headed by the Deputy General Manager – Credit Administration and Compliance and comprises of 3 personnel. Key responsibilities of the division include,

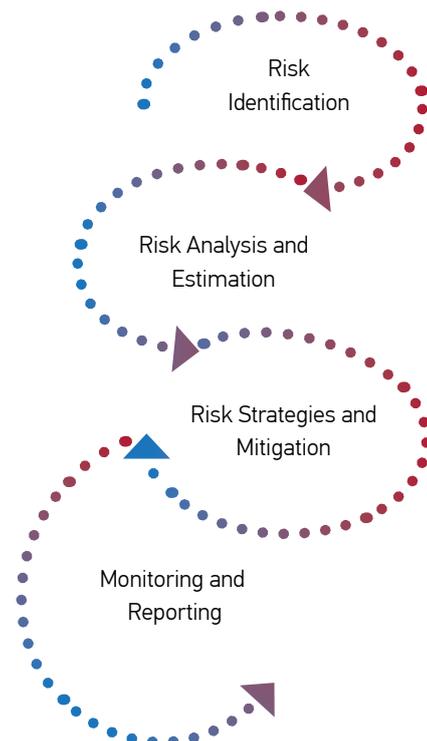
- Identify, analyse and assess all risks that affect the Company on timely manner and formulate strategies to mitigate such risks and submit reports to IRMC and BoD on quarterly basis.
- Establish risk management policies and procedures, develop guidelines and issue instructions and action plans to ensure risk management strategies have been properly implemented.
- Ensure risk management methodology have been effectively implemented throughout the company.
- Submission of quarterly reports to IRMC and the Board on the effectiveness of the risk management process of the company.

## Approach to Risk Management

MBSL's approach towards risk management is based on the three lines of defence governance model, which ensures clear risk identification and segregation of duties.



## Risk Management Process



**Risk Identification:** Potential risks are identified at business unit level by using risk based analysis .

**Risk Analysis and Estimation:** A range of quantitative and qualitative tools are used to measure the impact of the identified risk exposures. These methods include analytical review, stress testing, inquiry and confirmation among others.

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

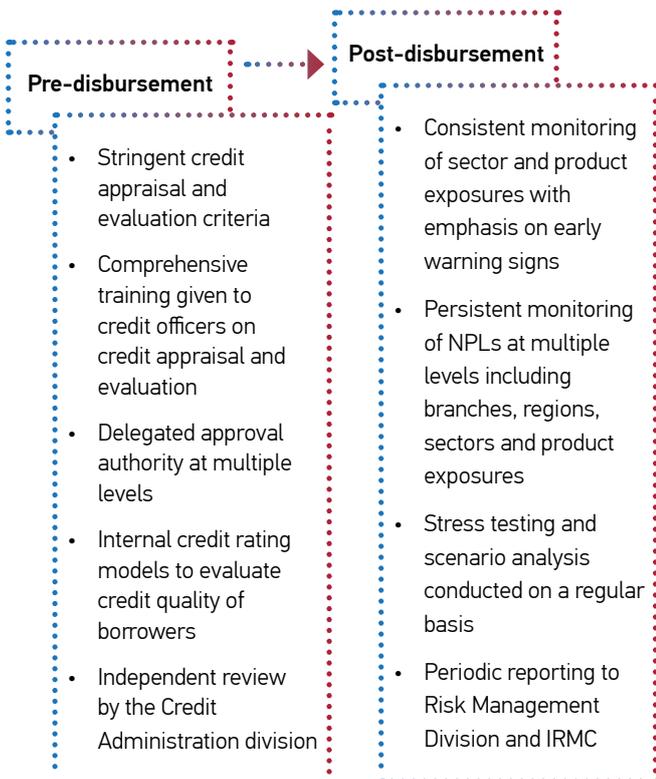
**Risk Monitoring and Reporting:** Quarterly report which details on the Company's overall risk profile is prepared by the Risk Management Division and reported to the IRMC at least on a quarterly basis. Additionally, the Risk Management division also compiles risk evaluation reports for the benefit of the branches and regions.

**Credit Risk**

Credit Risk is defined as the risk arising from financial losses if any of its customers, clients or market counterparties fails to fulfil their contractual obligations to MBSL. Credit Risk takes the form of default risk and concentration risk.

**Credit Risk Management**

Key aspects of the Company's credit risk management framework are as follows;



During the year under review, the following steps were taken to further strengthen the Company's credit risk management framework;

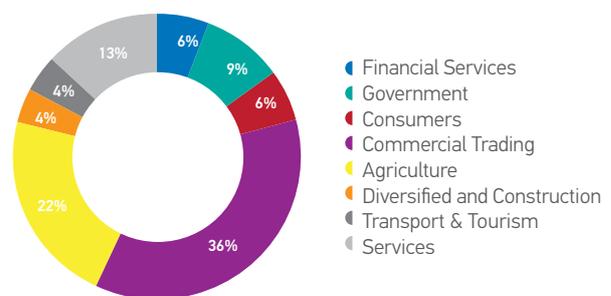
- Set up a dedicated unit for Credit Administration which provides independent assurance on compliance to all pre-disbursement underwriting standards and documentation.
- Set up a dedicated centralised recoveries unit, enabling more effective post-credit monitoring.
- Strengthened the credit risk reporting framework by providing more comprehensive credit risk related information to the IRMC.

**Credit Risk Evaluation in 2015**

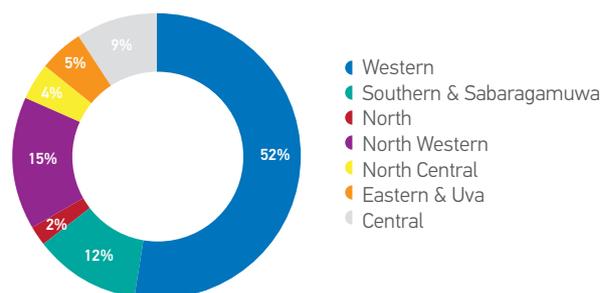
Default risk is the key component of credit risk and comprises of potential losses arising from the default of a borrower or counterparty. MBSL's credit portfolio grew by 11.5% during the year, relatively faster. During the year, MBSL's gross NPL ratio increased to 15.68% primarily due to delinquencies stemming from MBSL's loan portfolio.

Concentration risk stems from high lending exposure to a particular customer/Company, sector or product. The Company's portfolio continues to be well diversified regionally, with approximately 57% of loans and advances originating outside the Western Province. Meanwhile, exposure to large loans is also limited given the nature and granularity of the Company's lending products.

**Sector-Wise Financial Assets**



**Geographical Breakdown of the Financial Assets**



# Risk Management

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

	Low	Medium	High
Stressed CAR-2015 – for Credit Risk	11.83%	11.59%	11.09%
Stressed CAR-2014 For Credit Risk	15.84%	15.60%	15.14%

## Market Risk

Market risk is defined as the potential losses to earnings and/or capital arising from losses in on and off-balance sheet positions resultant from movements in market prices. The key elements of market risk are,

- **Interest rate risk**- Potential loss resulting from the Company's exposure to assets of which the value fluctuates in line with changes in interest rates
- **Equity risk**- This is the risk of loss arising from the adverse movement in the value of the equity portfolio held by the Company

## Market Risk Management

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

- **Interest Rate risk**  
The Company is exposed to interest rate risk through its lending activities, deposits and financial investments. The ALCO regularly monitors the movements in the market interest rates together with the Company's asset liability maturity mismatches and exposures are reported to the Board through the IRMC. In addition the Company regularly conducts stress testing analyses to gauge the potential impact of interest rate movements on its capital position.
- **Equity Risk**  
The Investment Committee holds overall responsibility for managing the Company's equity portfolio, including major

selling and buying decisions. Accordingly, the Committee regularly monitors movements in share prices, concentration risks of the portfolio as well as broader economic developments. Stress testing is also conducted using the Value at Risk (VAR) technique to measure the potential impact of adverse share price movements.

## Market Risk Evaluation in 2015

The Company's interest rate risk exposures were maintained within the pre-defined limits during the year. The net gap between the rate sensitive assets and liabilities amounted to 18% of rate sensitive assets in the short term, reflecting the inherent maturity mismatch of the Company's assets and liabilities.

	Less than 12 months	1-3 years	3-5 years	More than 5 years
<b>2015</b>				
Gap as a % of total assets	-18%	46%	33%	51%

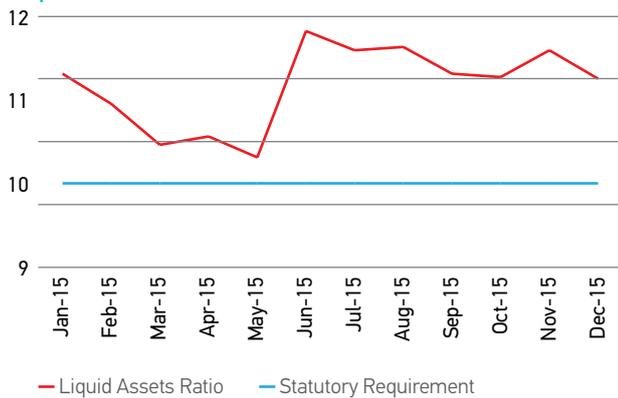
Meanwhile, the Company equity portfolio continues to be well diversified with balanced exposure across all industry sectors. The market value of the Company's equity portfolio declined by 31% during the year, attributed mainly to the downturn in the broad market. However, the Company's overall exposure to equity investments remained limited, accounting for less than 2.5% of its total assets as at end-December 2015.

## Liquidity Risk

Liquidity risk is the potential loss of earnings and/or erosion of capital arising from the inability to meet the Company's obligations in a timely manner as and when they are due.

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

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

**Liquid Assets Ratio (%)****Operational Risk**

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

**Operational Risk Management**

Key aspects of MBSL's operational risk management are,

- Implementation of a comprehensive business continuity plan to minimise interruptions to operations in the event of systems and process failures
- Whistle blower policy is in place to encourage reporting of potential and ongoing fraudulent activities
- Clear, well defined job responsibilities which ensure segregation of duties
- Ongoing assessments are carried out by the Group Internal Audit department to identify failures in internal control systems
- Web based branch operational risk assessment

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

**Strategic Risk**

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

**Strategic Risk Management**

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

- Implementation of a Board approved strategic plan which takes cognisance of industry trends, stakeholder needs and the strength and weaknesses of our value creation model
- Reviewing performance of the strategic plan against pre-defined performance indicators on a consistent basis

- Persistently monitoring industry trends including market dynamics, macro-economic changes and competitor behaviour

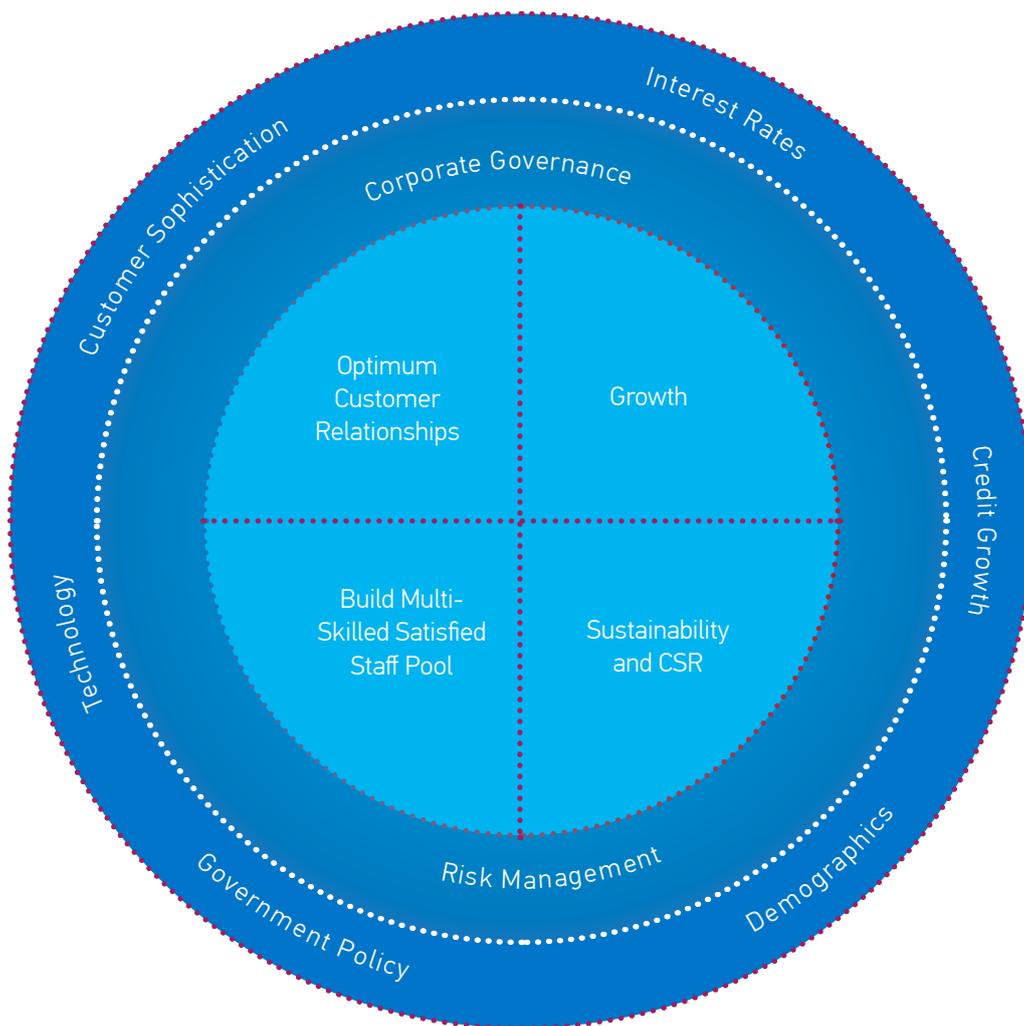
**Compliance Risk**

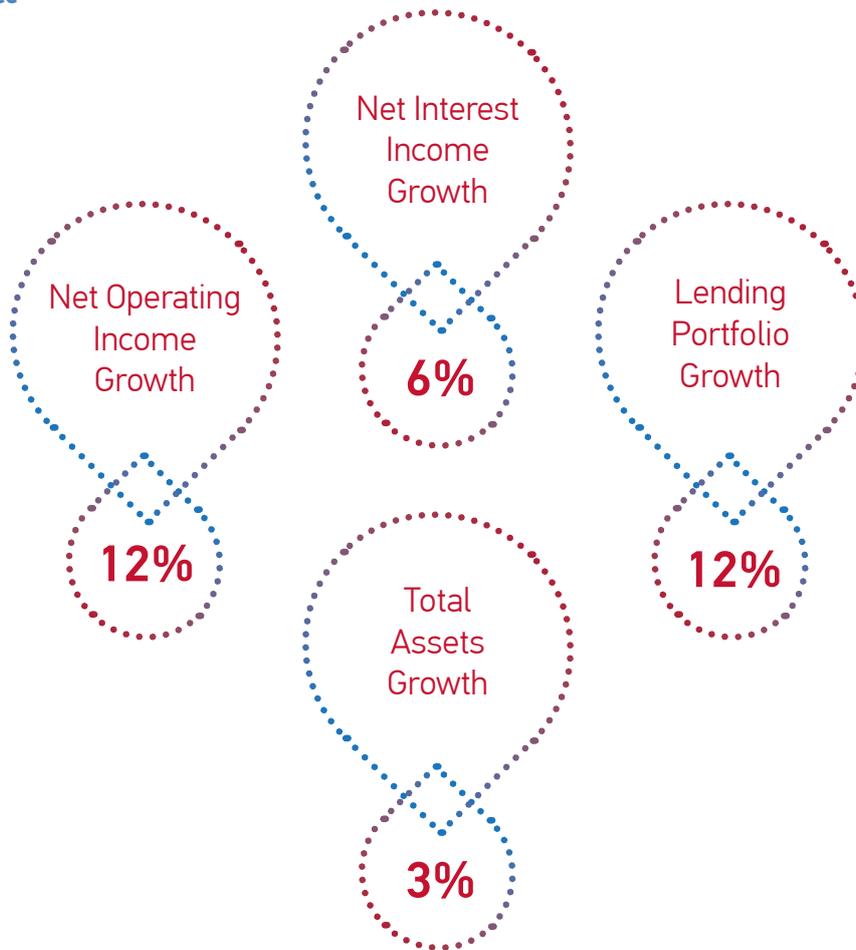
Compliance risk is the risk arising out of non-compliance with applicable laws, regulations, codes of conduct and standards of good practice culminating in financial loss, or loss to the Company's reputation.

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

# Our Strategy

The Group's Strategies were formulated with specific focus on responding to the opportunities and challenges presented by the merger. The five strategic priorities as detailed below also symbolize the Group's approach towards creating sustainable value for its shareholders. During the year the Group made commendable progress towards the achievement of its strategic objectives, despite multiple challenges presented by the internal and external industry environment.



**Strategic Performance**

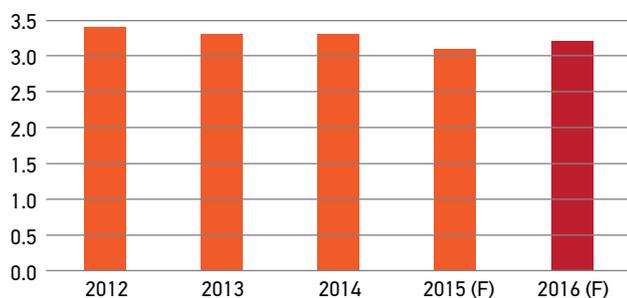
Strategic Priority	KPI	2015	2014 (Only MBSL)
Customer focus	No. of customers	54,744	24,429
	Customer touchpoints	49	29
Multi-skilled staff pool	Employee retention (%)	82%	93%
	Investment in training (Rs.)	7.3 Mn	5.7 Mn
	Total training hours	11,100	108,563
	No. of promotions	158	15
Sustainability and CSR	Energy consumption	1,136,664 units	450,545 units
	Paper usage	11,808 KG	Not Tracked
	Spend on CSR (Rs.)	2.7 Mn	70,000
	CSR beneficiaries	<ul style="list-style-type: none"> <li>• School Children</li> <li>• Customers</li> <li>• Society</li> </ul>	<ul style="list-style-type: none"> <li>• School Children</li> <li>• Customers</li> <li>• Society</li> </ul>

# The Operating Environment Performance

## Global Economic Conditions

Global economic activity continued to be relatively subdued in 2015 and posted moderate recovery to grow by 3.1% during the year. Growth in emerging markets although still accounting for 70% of global growth, moderated for the fifth consecutive year while advanced economies posted modest yet uneven recovery. For 2016, the IMF projects growth to increase marginally to 3.2%, driven by three key transitions; the rebalancing of economic activity in China, the sustained decline in commodity and energy prices and the United States' gradual exit from the accommodative monetary policy stance.

## Global GDP Growth (%)



Source: IMF, World Economic Outlook

Advanced economies are projected to grow by 1.9% in 2016 led by a resilient USA amid strengthening housing and labour markets while growth in Japan is also anticipated to stabilise supported by lower oil prices and an accommodative monetary policy stance. Emerging markets and developing economies are projected to grow by 4.1% in 2016, compared to 4% in 2015; growth in China is anticipated to slow to 6.5% in view of economic rebalancing while growth in India and the rest of emerging Asia is expected to be stronger.

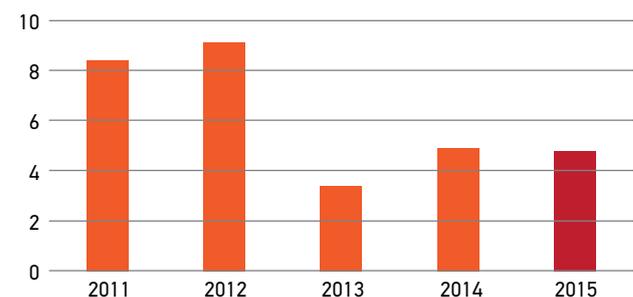
## Sri Lankan Economy

Sri Lanka's economy grew by 4.8% during 2015, contributed by broad based growth across all three sub-sectors. Performance of the Agriculture sector normalized from its weak performance last year, led by strong growth in paddy production while tea, rubber and

spices continued to be adversely affected by inclement weather. The Industry sector recorded a growth of 3.0% during the year, supported by the recovery in manufacturing activities which offset the contraction in the construction sub-sector. Meanwhile, the Services sector continued to be the largest contributor to GDP and grew by 5.3% in 2015 led by strong expansion in financial, insurance and real estate related activities as well as wholesale and retail trade activity. Overall economic activity during the year was driven by a boom in consumption against the backdrop of budget-mandated reductions in energy prices and several key consumable goods as well as a 40% increase in government sector salaries.

Despite anticipated headwinds from a modest global economic climate, Sri Lanka's economic growth is expected to be driven by sustained consumption expenditure as well as clearer policy direction post general elections in August 2015 which will provide an impetus for the re-engagement of several large construction and infrastructure projects.

## GDP Growth (%)



Trends in several key macro-economic variables which had direct and indirect impacts on MBSL's performance is summarized in the following table;

Economic Indicator	Impact on MBSL
--------------------	----------------

**Interest rates**

CBSL maintained its accommodative monetary policy stance with the objective of stimulating credit growth to the private sector and encouraging investment. Accordingly, market interest rates continued to be low for most part of the year although edging up slightly towards latter 2015. Rising pressure on the Sri Lankan Rupee and the weakening of the country's balance of payments status is expected to lead to an inevitable tightening of monetary policy over the short to medium term.

Month	AWPLR (%)	AWDR (%)	T-Bills Yield(91 days) (%)
Jan-15	6.5	6.0	6.0
Feb-15	6.5	6.0	6.0
Mar-15	7.0	6.0	6.5
Apr-15	11.5	6.0	6.5
May-15	7.0	6.0	6.0
Jun-15	7.2	6.0	6.0
Jul-15	7.0	6.0	6.2
Aug-15	6.8	6.0	6.5
Sep-15	7.0	6.0	6.8
Oct-15	7.2	6.0	6.5
Nov-15	7.5	6.0	6.5
Dec-15	7.8	6.0	6.5

Source: Central Bank of Sri Lanka

Despite the prevalent low interest rates, credit demand was relatively lacklustre during the first half of the year, primarily due to policy uncertainty in the wake of significant changes in the country's political landscape. Credit demand picked up during the second half of the year, however the rising interest rate scenario inserted pressure on margins as short-tenured deposit liabilities reprised upwards.

**Inflation**

Inflation declined as a result of a fall in energy prices, downward revision of several key consumer items and low commodity prices in the global markets. Headline inflation was negative from July to September, before increasing gradually to 2.8% by end of 2015, a reflection of increasing demand pressures.

Month	Core Inflation (%)	Headline Inflation (%)
Jan-15	6.5	3.2
Feb-15	1.0	0.8
Mar-15	1.5	0.5
Apr-15	2.5	0.5
May-15	2.5	0.5
Jun-15	3.0	0.5
Jul-15	3.5	-0.2
Aug-15	4.0	-0.2
Sep-15	4.5	-0.2
Oct-15	4.5	1.8
Nov-15	4.5	3.2
Dec-15	4.5	2.8

Source: Central Bank of Sri Lanka

The low inflationary environment contributed towards boosting demand for credit during most part of the year.

**Exchange rates**

The Rupee depreciated by around 10% in 2015, as expectations of an interest rate hike in US and higher import demand prompted an outflow of funds.

Year	Exchange Rate (LKR / USD)
2011	115
2012	125
2013	130
2014	135
2015	145

Imported prices of vehicles increased in line with the depreciation of the Sri Lankan Rupee, thereby adversely affecting the demand for leasing.

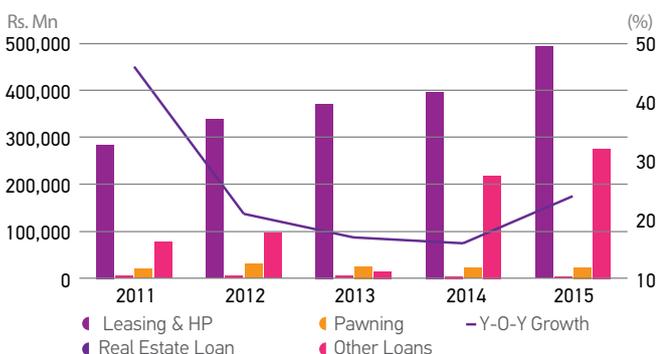
# The Operating Environment Performance

## Industry Environment

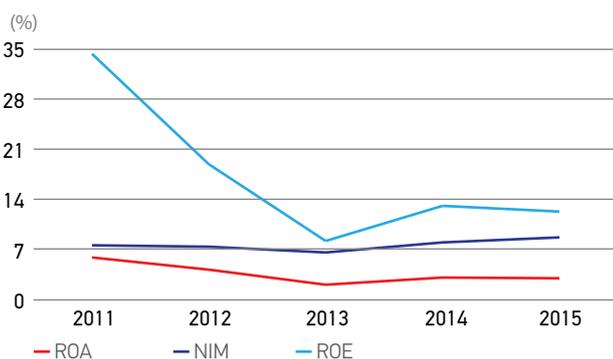
The Licensed Finance Company (LFC) and Specialized Leasing Company (SLC) sector consisted of 46 LFCs and 7 SLCs by end-December 2015, and accounted for 6.7% of the country's financial system assets. Although still relatively small in comparison to its banking counterparts, the sector continues to play a vital role in catering to the relatively risky segment of the market, a clientele which is generally underserved by the banking system. The year under review was conducive for the performance of the sector, which benefitted from the prevalent low interest scenario and the resultant surge in credit demand.

The Sector's total assets grew by 22.3% to Rs. 181.6 billion in 2015, led by strong growth in the sector's credit portfolio. Credit assets increased by 31.8% during the year, contributed by expansions in leasing and hire purchase (+24.3%) as well as other loans (+45.5%). Credit assets thus accounted for an increased 80% of the sector's total assets, compared to 75% in 2014.

## NBFI Sector Loan Growth (Net)



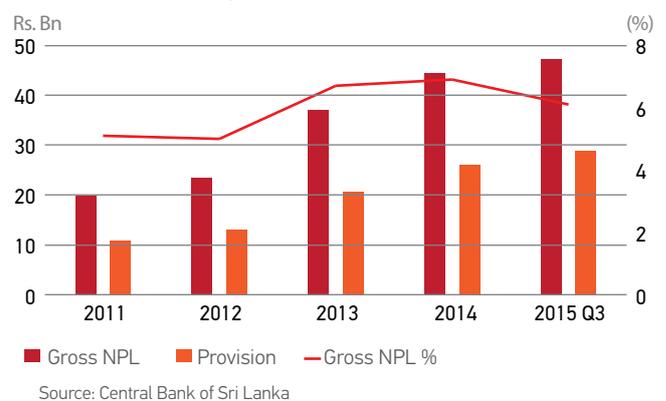
Sector profitability increased in line with strong credit growth and the resultant expansion in net interest income. Net interest income increased by 32% y-o-y as the downward reprising of deposit liabilities during the first half of the year allowed for wider interest margins. Accordingly, the sector's Net Interest Margin (NIM) widened to 8.7% by end-December 2015, compared to 8.0% the year before. Overall the sector's pre-tax profit increased 19.2% y-o-y to Rs. 28.50 billion during 2015, while Return on Assets (ROA) and Return on Equity clocked in at 3% and 12.3% respectively during the year.



Source: Central Bank of Sri Lanka

The sector's asset quality indicators also improved during the period, primarily due to credit expansion. The gross NPL ratio declined to 5.7% in December 2015 from 6.9% in 2014 while the net NPL ratio also improved to 1.6% from 2.30% during the same period. The volume of NPLs however increased by 7.5% to Rs. 47.4 billion stemming primarily from leasing and hire purchase.

## Sector Asset Quality Indicators



Source: Central Bank of Sri Lanka

The funding profile tilted more towards borrowings during the year, as the conducive interest rates encouraged players to increase exposure to debt instruments. On the other hand, intensifying competitive pressures from the banking industry for deposit mobilization resulted in the sector's reliance on deposits reducing marginally, although public deposits continue to be the sector's key funding source.

The Sector's liquidity position remained healthy, although liquid assets were channeled towards credit growth during the year under review. The liquid assets to total assets ratio thus declined to 7.6% by December 2015, from 9.6% in 2014, although the sector's overall liquid assets as at end-December 2015 was Rs. 13.7 billion in surplus of the statutory minimum requirement.

Capitalization levels were also good, supported by healthier profit retention of most industry players. Total capital funds increased by 5.8% to reach Rs. 92.8 billion by end-December 2015 while the Tier 1 and overall capital adequacy ratios dipped marginally to a respective 10.5% and 11.2% in view of strong loan growth.

**Regulatory measures:** In December 2015, the CBSL imposed a maximum loan to value ratio of 70% on all leasing facilities granted for the purchase/utilisation of motor vehicles resulting in a slowdown in demand for leasing facilities.

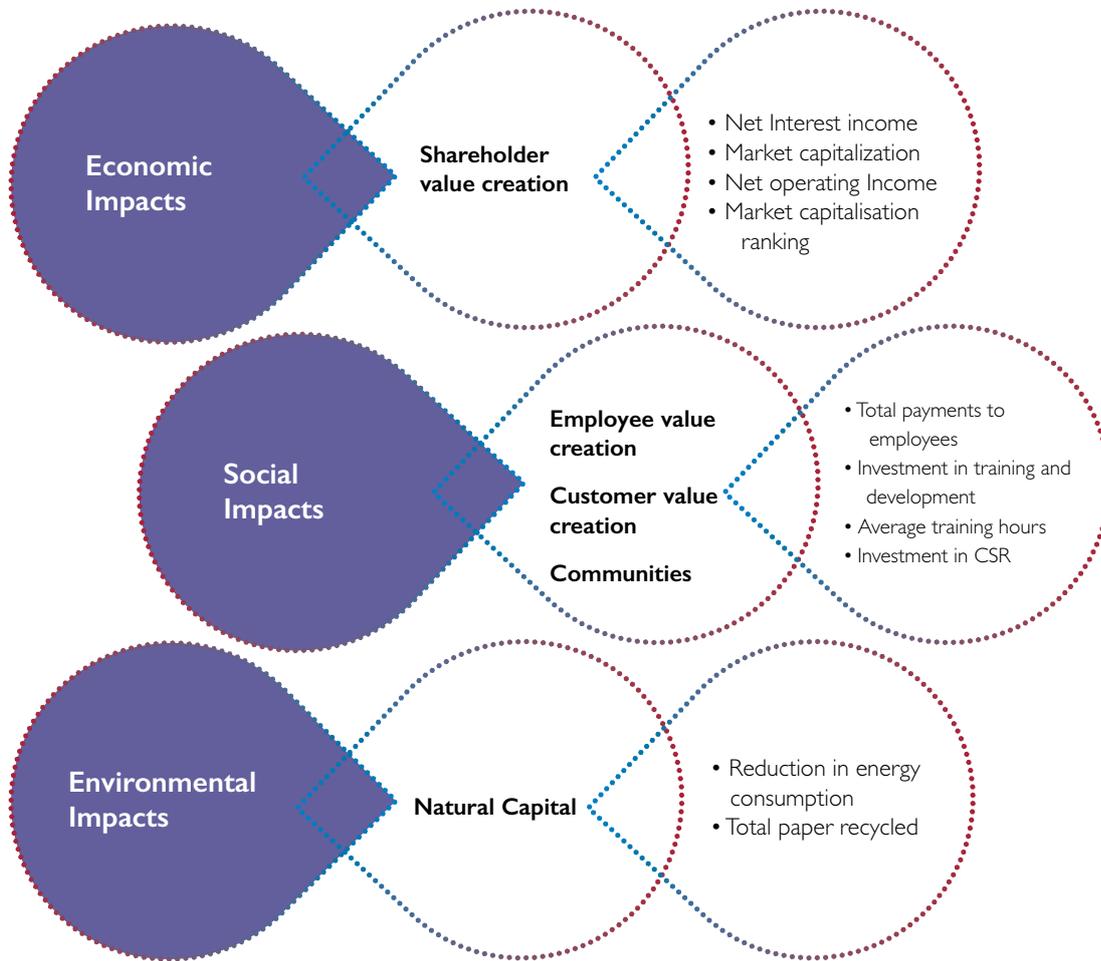
# Our Value Creation and Impacts



**12%**

Net Operating  
Income Growth

# Our Value Creation and Impacts



## Economic Impacts

### Shareholder value creation

#### Overview

The Group delivered a commendable improvement in performance as a merged entity, demonstrating resilience in a tougher than anticipated post-merger scenario. The Group's profit before income

tax almost doubled to Rs. 38.07 million during the year, while net losses for the year were trimmed to Rs. 19.58 million, from Rs. 70.53 million in the previous year.

Economic Impacts

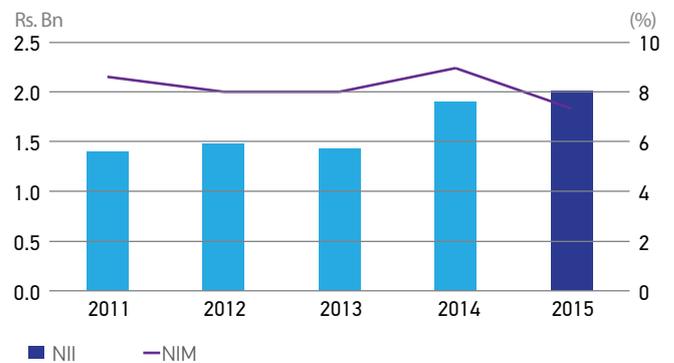


\* Only MBSL

Net Interest Income (NII)

The Group's NII increased by 5.8% to Rs. 2.01 billion, underpinned by 4.9% growth in average interest earnings assets. Net Interest Margin (NIM) is to 7.33% during the year, a combined result of diversification into high yielding credit assets and obtaining access to low-cost deposit funds. The anticipated tightening of the Government's monetary policy stance and resultant increase in market interest rates is expected to result in a slight narrowing of margins over the short term, as shorter tenured deposit liabilities reprice upwards.

The Group's NII trends



# Our Value Creation and Impacts

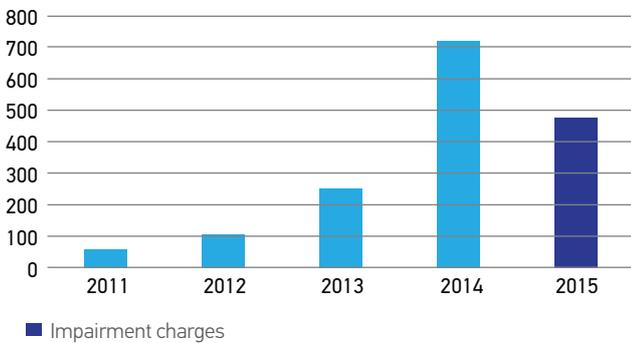
## Other Income

Net trading income, increased by 120.43% during the year under review. Net fee and commission income more than doubled to Rs. 97.76 million. While financial assets - held for trading incurred a net loss in view of the relatively subdued market conditions during the year. Insurance premium income (from the Group's subsidiary) also declined by around 20% as a result of intensifying competition and price undercutting the insurance industry.

## Impairment Charges on Loans and Advances

Impairment charges decreased by 34.1% to Rs. 474.63 million underpinned by the Group's focus on strengthening credit underwriting standards and monitoring mechanisms as well as deploying increased resources towards recoveries. Overall the Company's gross NPL ratio however, increased to 13.37% primarily due to delinquencies from MCSL, while the net NPL ratio clocked in at 7.32% by end-December 2015. Meanwhile, overall performance was also somewhat impacted by an impairment charge of Rs. 18.19 million on the Group's subsidiary, MBSL Insurance.

## Asset Quality Indicators Rs. Mn



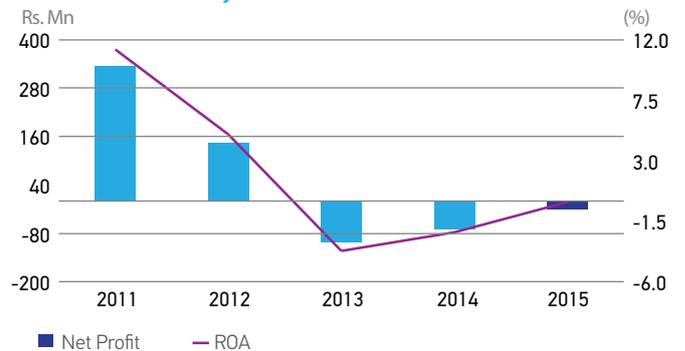
## Overhead Costs

Total operating expenses grew by 7.6%, driven by increased personnel expenses (+6.5%), as well as other operating expenses (+ 8.3%). Personnel costs grew in line with 25.3% increase in the average headcount and costs related to equalising the reward schemes of the merged entities. Other operating expenses consisting of Directors' emoluments, Auditors' remuneration, Professional & legal fees, Office administration & establishment expenses, Donations and Other expenses increased primarily due to increase in merger related operations. The Group has continued to place emphasis on increasing efficiency and managing costs, although the increase in head count during the year resulted in its cost to income ratio to 77.31%, compared to 70.71% the year before.

## Profitability

The Group's pre-tax profit more than doubled to Rs. 38.07 million (from Rs. 15.48 million the previous year) upheld by the growth in net interest income, improved quality of its portfolio as well as more disciplined cost management. Meanwhile, net losses for the year declined to Rs. 19.58 million compared to losses of Rs. 70.53 million the previous year.

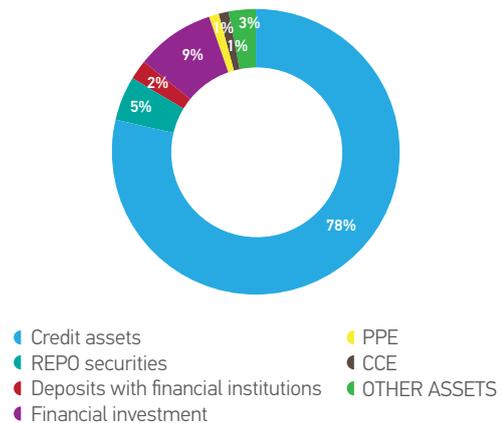
## MBSL's Profitability Trends



## Total Assets

The Group's total assets grew by 4.5% (or Rs. 1.29 billion) to Rs. 29.88 billion driven primarily by the growth in credit assets. Accordingly, the asset composition also tilted more towards credit assets as liquid assets were channelled towards loan growth; as such, the Group's loans and advances accounting for approximately 78% of MBSL's total assets.

## MBSL's Asset Composition

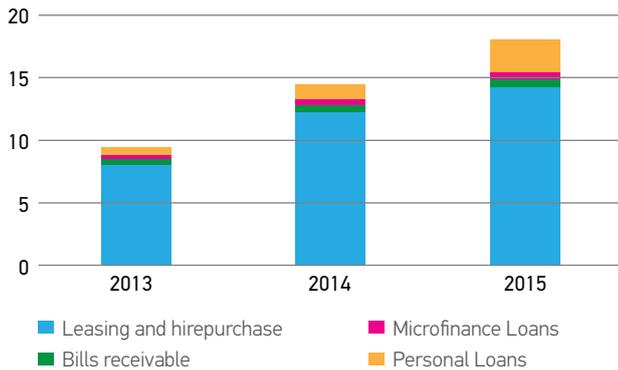


## Loans and Advances

Total loans and advances increased by 11.5% during the year to Rs. 23.32 billion, led by broad based growth in all lending products as a result of the Group's wider geographical presence and aggressive promotional drive. Leasing continues to be the Group's mainstay although the reliance on leasing has continued to diminish, in line with MBSL's efforts to diversify its portfolio to new products and market segments. During the year MBSL saw strong growth in its

personal loans and Micro Finance portfolio which now account for a respective growth rate of 119% and 46.3% of the Group's lending book.

### MBSL's Loan Composition Rs. Bn



### Funding Structure

As a merged entity the Group gained access to public deposits, and has achieved strong growth in its deposit base supported by its established reputation and wide geographical presence. During the year, the Group's total deposit base increased by 42.9% to Rs. 15.8 billion and now accounts for 59% of its total funding. The access to relatively-low cost deposit funding has also enabled the Group to widen its profitability margins. Other borrowings and shareholders' funds accounted for 11.6% and 29% of total funding respectively.

### Capitalisation

The Group's capitalisation levels remained healthy despite the relatively strong loan growth. Capital funds dipped marginally to Rs. 3.03 billion due to fair value losses on the Group's Available for Sale financial assets. Meanwhile, the Group's Tier 1 and overall Risk Weighted Capital Adequacy Ratios (RWCAR) clocked in at 11.91% and 11.68% respectively as at end-December 2015, comfortably above the regulated minimum.

### Liquidity

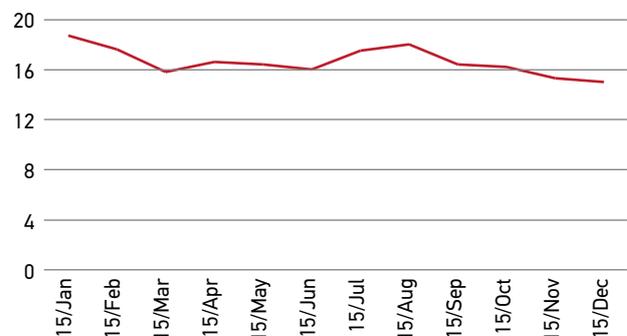
MBSL's statutory liquid asset ratio of 11.25% by end-December 2015 was well above the regulatory requirement of 10%, although liquid assets were channelled towards credit growth during the year under review.

### Creating Value for Shareholders

The Group's value proposition to its shareholders continued to improve during the year despite a tougher than expected post-merger scenario. Loss per share clocked in at Rs. 0.004, compared to losses of Rs. 0.37 the year before.

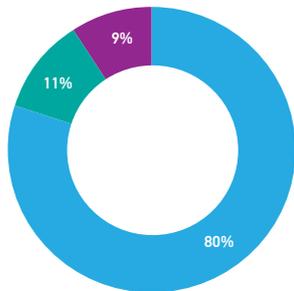
	2015	2014
Earnings Per Share (Rs.)	(0.004)	(0.37)
Net Assets Per Share (Rs.)	17.96	18.40
Share price (year-end)	15.00	17.50

### Share Price Rs.



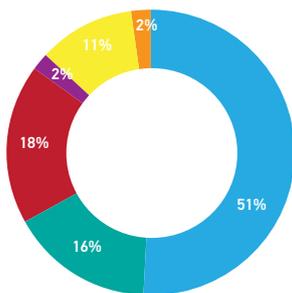
# Our Value Creation and Impacts

Value Allocation



- Payment to Employees
- Government Tax
- Depreciation

Utilization of Income



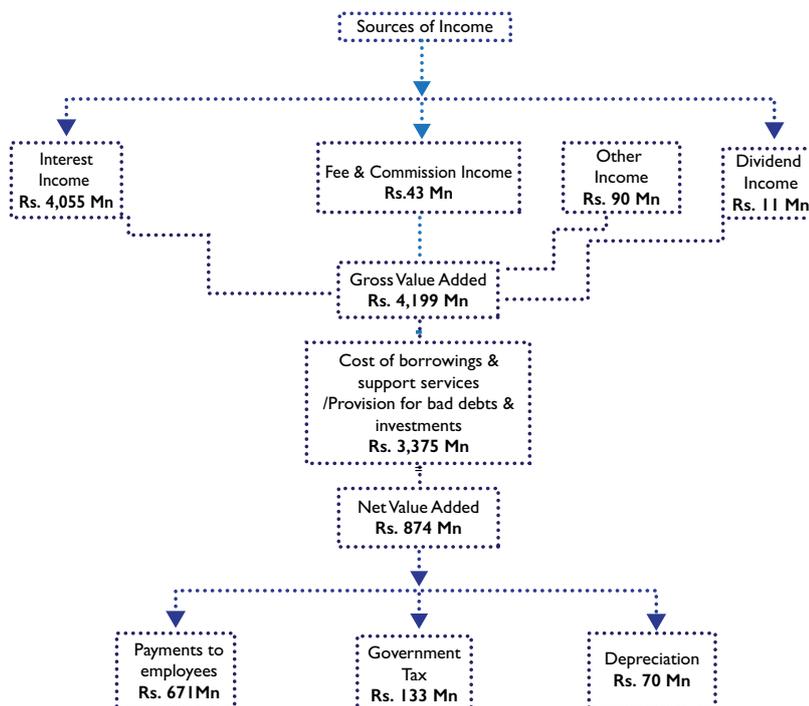
- Payment to lenders
- Payment to employees
- Support services
- Depreciation & Amortization
- Impairment charges for loans and other losses
- Government Taxes

## Economic value addition (Company)

Value Added	Year 2015 Rs. Mn	Year 2014 Rs. Mn
<b>Gross Value added</b>	<b>4,199</b>	<b>4,734</b>
Cost of borrowings & support services	(2,863)	(3,119)
Provision for bad debts & investments	(462)	(720)
	<b>874</b>	<b>894</b>
<b>Value Allocated</b>		
Payments to Employees	671	638
Government Tax	133	127
Dividends to shareholders	-	68
Depreciation	70	61
	<b>874</b>	<b>894</b>

## Sources & Utilization of Income

Sources of Income		
Interest Income	4,055	4,385
Fee & Commission income	43	93
Dividend Income	11	15
Other Income	90	241
	<b>4,199</b>	<b>4,734</b>
Utilization of Income		
Payment to lenders	2,133	2,579
Payments to employees	671	638
Support services	730	609
Depreciation & Amortization	70	61
Impairment charges for loans and other losses	462	720
Government Taxes	133	127
	<b>4,199</b>	<b>4,734</b>

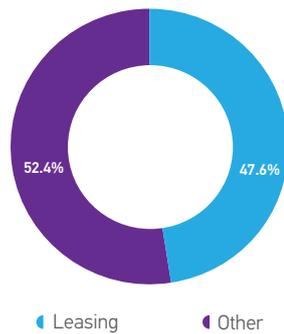


## Business Line Review

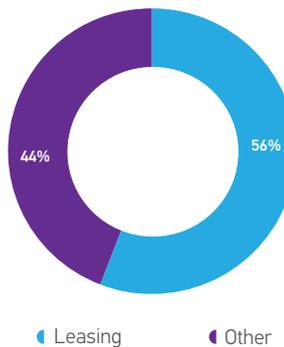
### Leasing

Leasing continues to be the Group's key income generator, contributing 56% to total interest income and 47.6% accounting for the group's total assets. Although reliance on leasing has continued to gradually diminish in line with the Group's diversification strategy. MBSL primarily provides leasing facilities for three- and four-wheeled vehicles and has a wide geographical reach in 22 districts.

#### Contribution to Total Asset Base



#### Contribution to Interest Income



### Operating Environment

The second half of the year was a challenging one of the leasing industry, as the imposition of loan-to-value exposure limits, upward revisions on vehicle import taxes and the sharp depreciation of the Sri Lankan Rupee impacted demand for leasing facilities. Although interest rates were conducive during the first half of the year, the rising interest rates towards the second half of the year and intensifying competitive pressures impacted yields.

### Strategy and Performance

	2015	2014	% y-o-y
Net Operating Income (Rs.'000)	1,086,229	880,976	23.3
Portfolio (Rs.'000)	14,946,678	12,787,728	9.4
No. of customers	20,130	18,148	10.9
Impairment charge (Rs.'000)	221,456	482,451	54.0
Gross NPL ratio (%)	9.61	11.4	1.79
Portfolio outside Western Province (%)	64.58	59.81	4.77
Profit per employee (Rs.)	1,254.30	1,274.93	-1.61

The leasing portfolio expanded by 9.4% during the year, while net operating income from the segment also increased by 23.3%. This growth was achieved through deepening customer relationships with existing clients and leveraging on the Group's extensive geographical reach. We also focussed on enhancing the quality of the leasing portfolio by strengthening underwriting criteria and up skilling staff on credit appraisal mechanisms. Resultantly, impairment charges on the leasing portfolio declined by 54%, allowing the segment to record an 23.3% growth in earnings during the year.

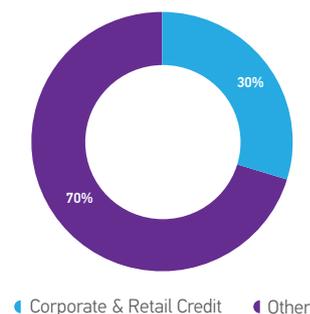
### Way Forward

We will continue to drive portfolio growth through our branch network, while maintaining focus on preserving the quality of the portfolio. Leasing will continue to be the Group's key lending product over the short to medium term, although increased diversification into other customer segments is anticipated to reduce the reliance on leasing over the longer term.

### Corporate and Retail Credit

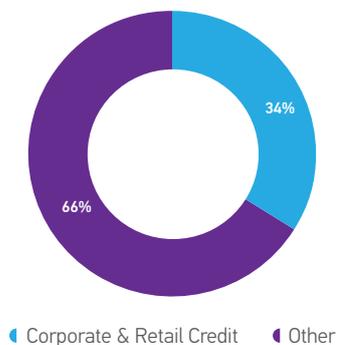
A key growth area for the Group, the Corporate and Retail credit segment consists of personal loans, term loans and bill discounting catering to individuals, small and medium enterprises (SME) as well as corporate clientele.

#### Contribution to Total Asset Base



# Our Value Creation and Impacts

Contribution to Interest Income



### Operating Context

The interest rate environment was conducive for corporate and retail credit growth during most part of the year. However, policy instability arising from significant changes in the country's political landscape affected demand, particularly from the corporate and SME sectors.

### Strategy and Performance

	2015	2014	% y-o-y
Income (Rs.'000)	454,407	299,899	51.52
Portfolio (Rs.'000)	8,252,888	7,320,172	12.74
No. of customers	22,588	16,582	36.2
Impairment charge (Rs.'000)	226,394	234,142	3.30
Gross NPL ratio (%)	19.7	19.5	-0.2
Portfolio outside Western Province (%)	65.57	64.68	0.89
Profit per employee (Rs.)	524.72	434.01	20.9

Portfolio expansion was 12.74% in 2015, driven primarily by strong growth in personal lending to professionals and salaried employees, mainly in the government sector. Growth in this segment was achieved through regional expansion and broadening the number of government institutions covered. The Personal Loan portfolio also grew by 117% during the year, underpinned by customer acquisition and expansion to new geographical areas. During the year, the Group also ventured into Islamic Banking with the launch of three Sharia-compliant products for lending, leasing and deposit mobilisation. The initial response for this line of business has been extremely encouraging and we hope to further fortify our position in this market segment.

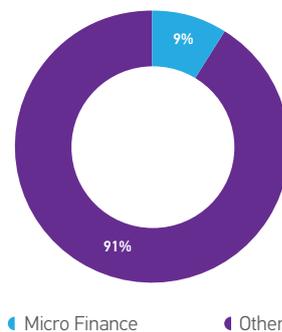
### Way Forward

We intend to pursue aggressive growth in the retail market through focussing on the salaried employees segment, which is anticipated to propel growth of this segment. The SME proposition will also be enhanced through increased customer engagement. Focus on these segments is also expected to enhance the quality of the portfolio, thereby supporting profitability through reduced impairment charges.

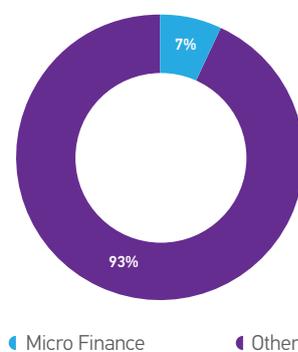
### Micro Finance

MBSL's micro financing and rural empowerment initiative, "Siyath Saviya" is reflective of the Group's strategic alignment with the country's rural development plans. Through "Siyath Saviya", MBSL distributes small-ticket, collateral free financing to rural entrepreneurs operating in multiple industries such as agriculture, fisheries, dairy and other cottage industries.

Contribution to Interest Income



Contribution to Total Assets



## Operating Context

Need further information on micro demand during the year

## Strategy and Performance

	2015	2014	% y-o-y
Income (Rs.'000)	121,918	107,310	13.6
Portfolio (Rs.'000)	610,116	420,032	45
No. of customers	16543	13595	21.7
Gross NPL ratio (%)	5.54	9.13	3.59
Portfolio outside Western Province (%)	47.9	32.71	15.19

The Group's micro finance portfolio grew by 45% to reach Rs. 622 million while income from the segment also increased by 13.6% during the year. MBSL has focussed on increasing disbursements through its own branches, as opposed to using its affiliate Agro Development Credit Services (ADCS), through which it commenced micro financing in 2010. This has enabled better monitoring of the portfolio, which has allowed MBSL to achieve recovery rates of over 98%.

Since its launch, the Group has supported over 16,434 micro-entrepreneurs in over 20 districts across the island. During 2015, we widened the coverage of our offering by expanding to several districts in the Northern and Eastern Province. MBSL engages in cluster based lending, in which borrowers in a cluster are mutually responsible for the repayment of the loan facility.

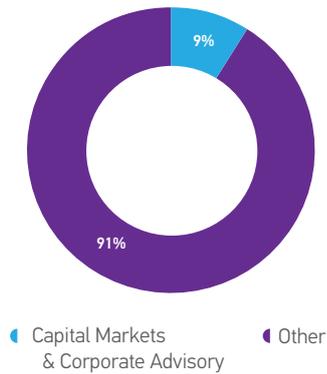
## Way Forward

The Group hopes to pursue aggressive growth in this segment, further refining its existing operating model and leveraging on its branch reach. We also hope to widen our product offering to this segment through the introduction of micro savings deposits and varied loan products.

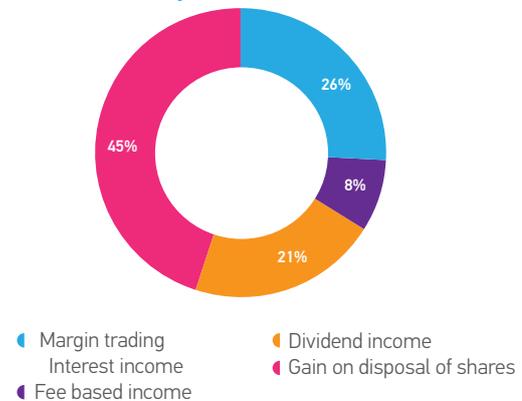
## Capital Markets and Corporate Advisory

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 and Corporate Advisory services such as the provision of independent opinions, advisory on mergers and acquisitions, and conducting training programmes. Strategically, the segment is a focus area for the Group, as it has enabled diversification of earnings while reducing exposure to the relatively volatile leasing industry.

## Contribution to Total Assets



## Capital Markets and Corporate Advisory Division's Income



## Operating Context

The year under review was a challenging one of the segment, primarily due to the sharp downturn in the share market as well as the lack of clear policy direction which affected investor sentiments. The ASI and daily average turnover declined by 5.4% and 25.1% respectively in 2015, dampening the prospects of the IPO market, while the rising interest rates towards the latter part of the year impacted the corporate debt market.

## Strategy and Performance

	2015	2014	% y-o-y
Gain on disposal of quoted shares (Rs.'000)	30,067	6,066	544
Value of share portfolio (Rs.'000)	750,144	525,121	43
No of customers	52	44	18

The segment's performance for the year was affected by marked to market losses on its share portfolio, stemming from the downturn in the broad market. The segment recorded a net loss of Rs. 44 million during the year, compared to a profit of Rs. 133 million the previous year, primarily due to marked to market losses of Rs. 5.4 million arising from the Group's share portfolio. On the other hand, the Group successfully grew its margin trading customer base through increased client acquisition.

# Our Value Creation and Impacts

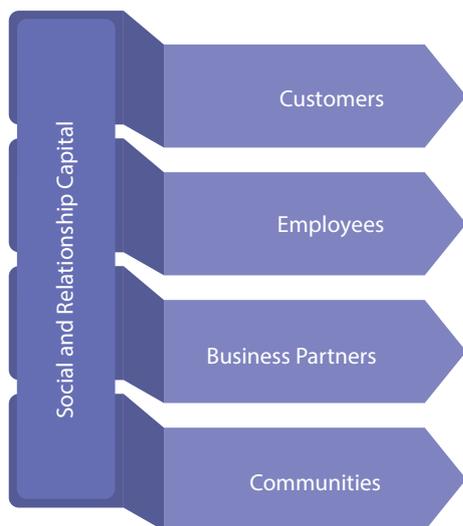
In Capital markets, MBSL successfully completed an Rs. 2.5 billion debenture issue for the Regional Development Bank, acting as the Manager and Registrar to the issue. In addition, the Group raised Rs. 250 million for Singhe Hospitals through an Initial Public Offering of 100 million ordinary shares. The division also successfully concluded a private placement for a farming community network and several debt and share option restructuring programmes during the year.

During the year, we also conducted a training session themed 'The benefits of paying taxes', addressing the impacts of the proposed changes tax regulations. The seminar was attended by over 100 professionals and featured presentations by several industry/tax experts.

### Way Forward

The protracted slump in the country's share market against the backdrop of policy instability, the anticipated tightening of monetary policy coupled with global economic woes, will continue to impinge on the growth prospects of the Capital Markets and Corporate Advisory business line. Our strategy will be directed towards engaging with existing and potential customers to enhance our value proposition through the provision of tailored solutions and advisory services.

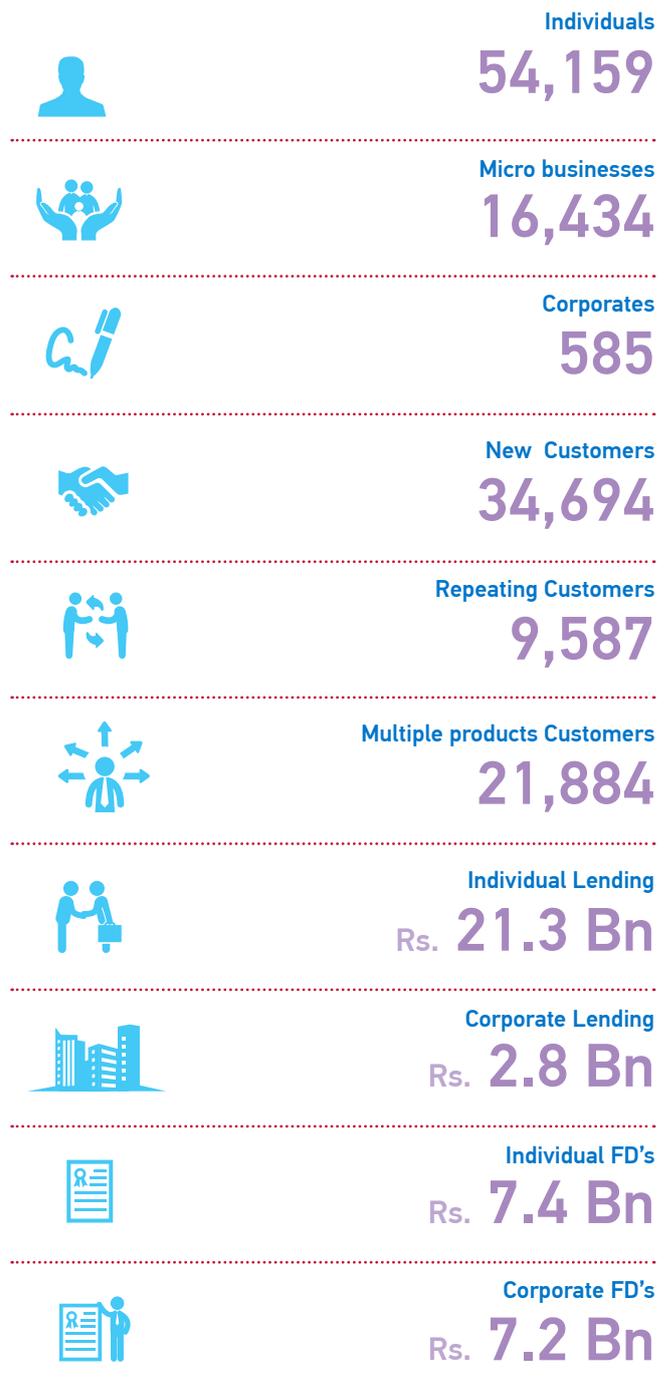
### Social Impacts



### Our Customers

Our services are designed to cater to a wide range of customers, who are also geographically well dispersed. Customers also vary in terms of their industry exposure, representing agriculture, fisheries, dairy, and cottage industries among others. During the year, we served a total of 54,744 customers, which represents an 124% increase in comparison to the previous year. This growth was facilitated by the post-merger expansion in our geographical

reach, which resulted in the addition of several new districts in the Northern Province to our network enabling better engagement with our customers.



## Customer Engagement

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

## Accessibility



The Group has placed strategic importance on making MBSL more accessible through continued investments in our customer touchpoints. Over the past few years, we have continued to widen our geographical footprint and by end-2015 our network comprised of 49 customer touchpoints. With the rollout of our deposit products, we also hope to partner with Commercial Bank of Sri Lanka to enable our customers to access funds through Commercial Bank's extensive ATM network. Our customers are also able to obtain a limited range of our services such as loan repayments, Cash - Cheque deposits & Slip Account transfers through our parent's extensive customer touchpoints reach, which consists of 646 island-wide branches.

## Service Quality

Enhancing the quality and reliability of customer service was a key focus area during the year and multiple training programmes and process reengineering exercises were carried out to achieve this goal. Accordingly the turnaround time of executing a lease facility was reduced by 40% during the year, facilitating increased customer satisfaction and process efficiencies.

## Customer Education

Having identified that high level of financial literacy can stimulate economic growth and uplift the socio economic status of our

vulnerable customer segments, the Group has launched formalised and structured customer education initiatives to improve financial literacy and knowledge. In 2015, we conducted 3 such programmes targeting our micro finance customers with a total participant base of over 290.

Location	No. of participants
Minuwangoda	100
Ja-Ela	100
Kurunegala	90

The "SME Vyaaparika Hamuwa" was also launched during the year, a unique SME education programmed conducted in collaboration with regional trade associations. During the year we conducted two such forums with the participation of over 200 SME clients focusing on knowledge dissemination on multiple aspects of enterprise management, including working capital management, financial literacy and cash management.

## Grievance Handling

A formalized grievance handling procedure is in place for all customer complaints. All grievances received by the MBSL call centre are recorded and routed to the Customer Service Unit for feedback. Grievance data is subsequently analyzed to identify areas for process and quality improvements. During the year, customer grievances were properly resolved. The MBSL call centre and Customer Service Unit track all customer complaints and feedback, which is subsequently analyzed to identify areas for further improvement in service quality. Customer complaints have continued to gradually decline over the recent years, as the Company has focused on enhancing its service delivery.

## Customer Privacy

We understand the importance of preserving the confidentiality of personal client information and formalised policies and processes are in place to secure and manage all client related information.

## Product Responsibility and Information

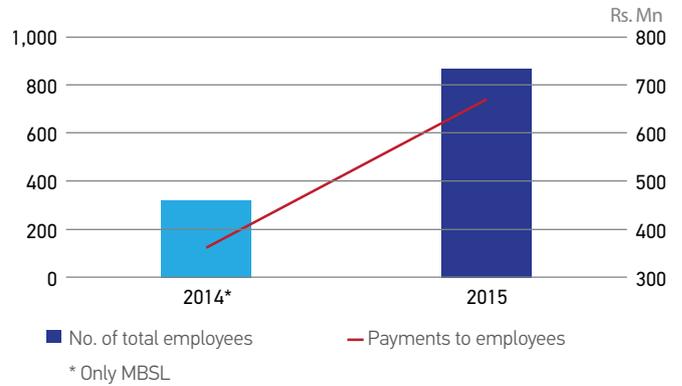
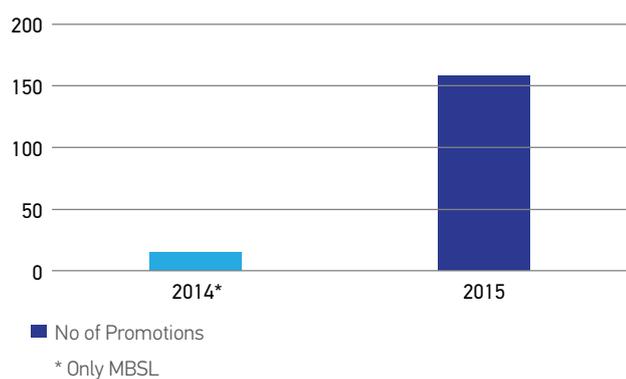
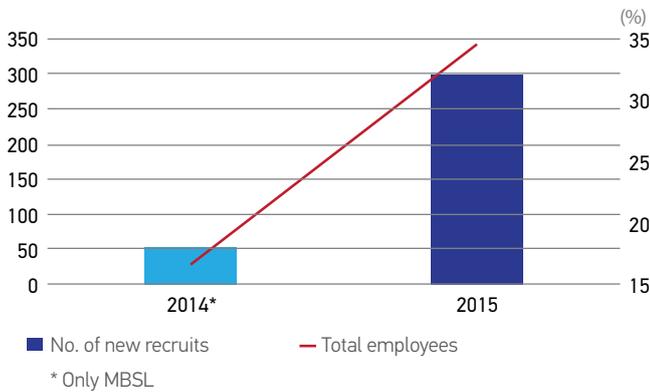
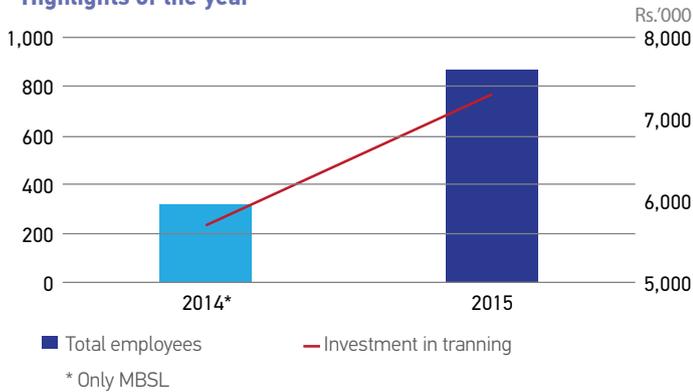
Detailed product brochures which comply with CBSL requirements and other relevant legislation are made available to all customers. Marketing officers and branch managers are also responsible for explaining product characteristics, cost structures, benefits and any other relevant information to potential and existing customers. During the year, there were no incidents of non-compliance relating to product responsibility, information or marketing communications.

# Our Value Creation and Impacts

## Our People

Effective resolution of people related issues is crucial to the eventual success of a merger. Each organisation's processes, values, expectations, culture and work ethics are hard-wired through tradition and are not easily re-learned in a short time span. During the year, our efforts were mainly directed towards achieving cultural integration, which necessitated the creation of new shared practices and understanding. We successfully achieved our goal of zero redundancies during the merger, and the Group's value creation is now driven by a team of 866 individuals, spread over 22 districts.

### Highlights of the year

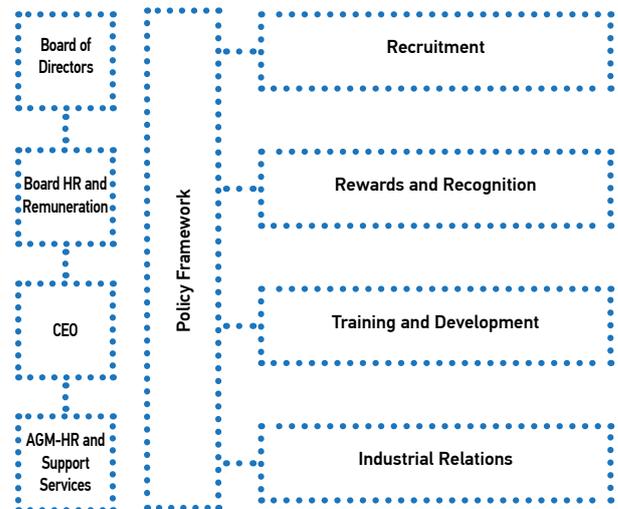


### Our Approach to Managing our People

The Group's approach towards human capital management has been formulated to create an environment which fosters teamwork, a learning culture and strong performance. We are an equal opportunity employer, and do not discriminate based on gender, age or ethnicity. The Group also strives to promote diversity at all levels of its operations.

### HR Governance

Robust governance structures, comprehensive policy frameworks and formalised systems and processes ensure that the Group's HR framework is operationalised as all levels within the Organisation. The policy framework of the Group covers multiple aspects of HR management including recruitment, equal opportunity, rewards and recognition, training and development, grievance mechanisms and industrial relations among others.

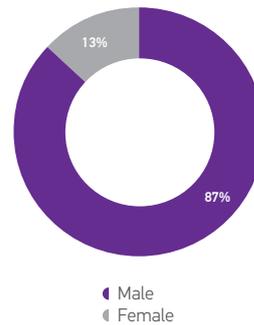


Our diverse and self-motivated team comprises of 866 employees, who drive our value creation process and facilitate the overall customer experience. The team is diversified in terms of age, gender and regional representation, with the female participation rate of 36%, higher than that of the national average. During the year under review, we added 299 new employees to the team whilst natural labour turnover was 18%.

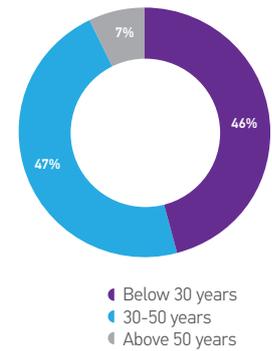
**Team Profile**

Workforce by Region and Gender	Male	Female	Total
Western	323	221	544
Central	41	19	60
North Central	16	7	23
Eastern	27	7	34
Southern	47	25	72
North Western	51	21	72
Uva	10	3	13
Sabaragamuwa	15	2	17
Northern	24	7	31
<b>TOTAL</b>	<b>554</b>	<b>312</b>	<b>866</b>

**Employee Turnover By Gender**



**Employee Turnover by Age**



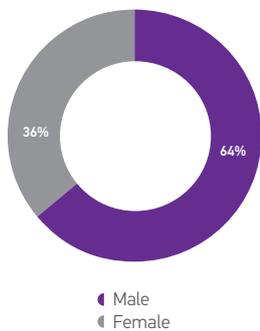
Employee grade	Male	Female	Total
Managerial	60	17	77
Executive Officers	222	138	360
Others	272	157	429
<b>TOTAL</b>	<b>554</b>	<b>312</b>	<b>866</b>

**HR implications of the Merger**

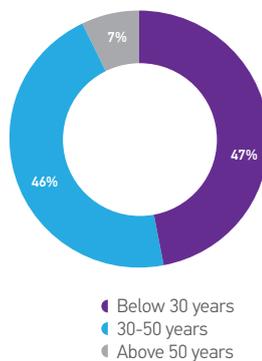
The HR implications of the merger were substantial, given the three distinctly different corporate cultures, values and processes of the three merged entities. The following table highlights a few of the key implications and the Group's response in addressing these challenges.

HR Challenge	Strategic response
Competency gaps	Substantial investments were made in re-skilling employees, with focus on developing competencies in product knowledge, soft skills as well as processes.
Alignment of systems and procedures	Adopted a structured process in resolving salary anomalies and conducted comprehensive training programmes on integrating systems and processes as well as change management
Unification of cultures and attitudes	Ongoing attitude and behavioural training under the theme of One Vision-One Family
Organisational structure	Implementation of a regional management structure enabling better engagement with employees

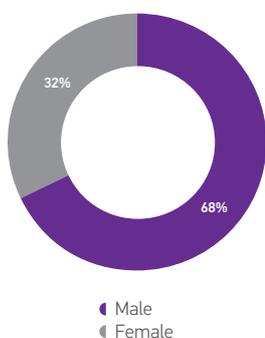
**Employee Gender Analysis**



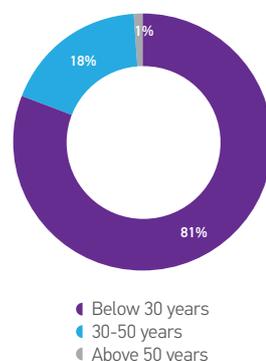
**Employee Age Analysis**



**New Recruits By Gender**



**New Recruits By Age**



**Employee Engagement**

Multiple formal and informal employee engagement mechanisms are in place to effectively identify employee concerns. Performance appraisals are held for all staff at least on an annual basis while staff meetings are held at departmental and regional level regularly. An open door policy is maintained by all middle and corporate management, thus allowing for effective employee engagement. Engagement also occurs through trade unions and the respective collective agreements while a formalised grievance mechanism is also in place to respond to employee concerns effectively.

# Our Value Creation and Impacts

## Rewards and Recognition

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.

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.

## Talent Development

In 2015, the Group's training agenda was formulated with the objective of achieving effective integration of skills, practices and corporate cultures and focussed on several key areas;



Additionally, the One Family-One Vision programme was launched during the year, with the objective of aligning the values and corporate cultures of people. An ongoing initiative, this programme comprises of multiple workshops, presentations and outbound training exercises geared towards unifying employees post-merger.

Training Method	No of Participants	Total Training hours
Internal	1,121	9,940
External	86	952
Foreign	6	208
Total	1,213	11,100

## Industrial Relations

Around 42% of our employees are represented by the MBSL branch of the Ceylon Bank Employees Union. Continuous engagement and effective communication enabled us to maintain cordial relations with the trade union, during the time of the merger. There were no disruptions to work resulting from industrial disputes during the year.

## Health and Safety

During the year occupational injuries and diseases were not reported.

## Grievance Mechanisms

The Group has in place a formalized employee grievance mechanism which ensures anonymity and defines specific roles and responsibilities for handling employee grievances. During the year, one such grievances were pending, other all addressed are successfully resolved.

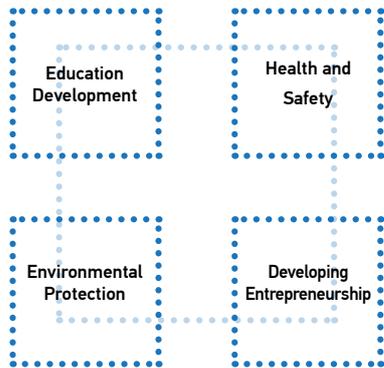
## Communities

As a responsible corporate citizen we have continued to demonstrate our 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. Mainly focused community, the company organized an ice cream and bread dansal on "Wesak Poya" day at an investment of Rs. 1.49 million.



### Our Approach towards Community Engagement

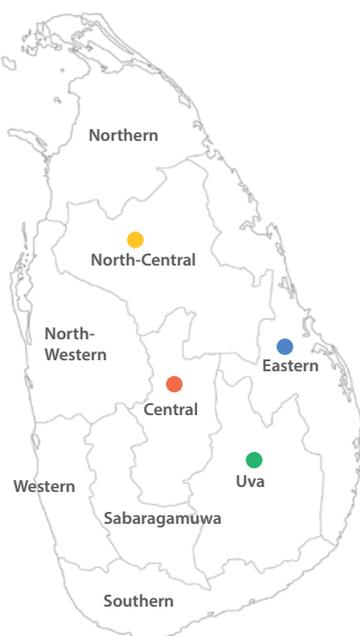
Our philosophy towards Corporate Social Responsibility is centered upon four key areas of focus; namely education development, environmental protection, health and safety and developing entrepreneurship. During the year under review however, our efforts were focused primarily towards developing entrepreneurship in rural communities.



### Developing Entrepreneurship

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

The initiative has been designed to primarily benefit vulnerable groups, including women and entrepreneurs in the North Central and Eastern provinces of the country. Since inception in 2010 we have supported the livelihoods of over 19680 entrepreneurs through financial assistance, technical support and other forms of guidance.



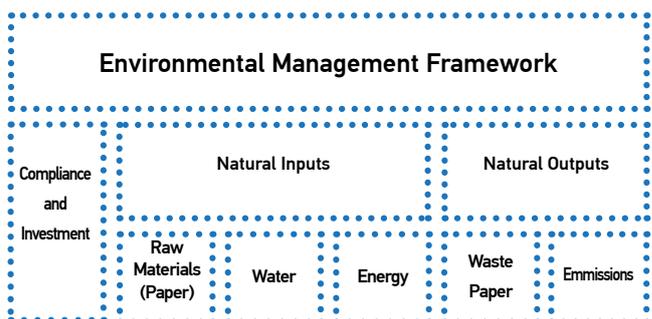
### Supporting Education

As an approved training partner for several professional accounting institutes, we provide opportunities for students to obtain practical training through facilitating internship opportunities and placements. During the year, we provided training to 09 such students, of which four were absorbed into the Group's permanent cadre. During the reviewed period, we also invested Rs. 1.0 million in engagement activities and donations in celebrating World Children's Day. In addition to that we have introduced a loan facility to the university students to purchase laptops which is essential to their educational activities.



### Environmental Impacts

As a responsible corporate citizen, we remain cognizant of the potential environmental impact of our operations. As a financial services provider, the consumption of natural resources is limited to the use of paper, energy and water while key environmental outputs are waste paper and emissions. The Group's Environmental Management policy highlights the importance of monitoring and tracking the performance of these environmental impacts on a consistent basis.



# Our Value Creation and Impacts

## Compliance and Investment

Responsibility for ensuring compliance to all environmental regulations lies with the compliance division and monthly compliance reports are provided to the Board of Directors through the internal audit committee. During the year, there were no incidences of non-compliance to environmental regulations. The Group also invested Rs. 20 million in renewable energy through the LVL Energy Fund, which holds one of Sri Lanka's largest portfolios of power sector investments.

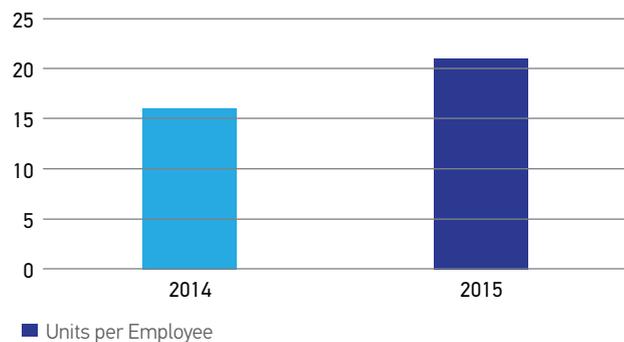
## Raw Materials

The key raw materials consumed in our operations are paper and our approach towards managing this input is modeled 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 minimizing 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 (Such as an example One janitorial staff member collect the paper, toner, cartridges and he collects money from a shop which buy those waste). In addition to that company introduced the automated employee attendance system for all employees, promoting a paperless leave applying and attendance system. Appraisal of the facilities are automated leading to minimize the usage of papers and increase the effectiveness by saving paper moving time. Specialy "Save paper - think before you print" was initiated during the year by including that term underneath the email messages. During the year, our total paper consumption was 11,808 Kgs reflecting an increase in operational activities.

## Water

Water is used primarily for staff consumption and during the year total water consumption increased by 31.25% reflecting the increased head count.

## Water Consumption



## Energy

The Group sources its energy requirements from the national grid and during the year, energy consumption was 450,545 units in 2014 (only MBSL) and 1,136,664 Units in the 2015 reflecting increases in the branch network and operational activity. Energy intensity however, declined by 34% to Rs. 3,694 per unit during the year, reflecting our consistent efforts to improve energy efficiency. We engage all staff in our energy conservation activities and have made an organization wide commitment to;



## Waste

The primary waste generated from the Group's operations is waste paper. This is collected at branch level and sent to an approved third party recycler. During the year, 3.3% of our paper usage was sent for recycling, amounting to 390 kg.



## Emissions

During the year company initiated to measure the carbon footprint and as an initial measure fuel consumption of the vehicles used by head office is tracked. In 2015 the calculated carbon footprint is 58,879 kgs.

# Directors' Statement on Internal Control

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

## Responsibility

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

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

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

The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes is in accordance with relevant accounting principles and regulatory requirements.

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

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

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting 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 62.
- Operational committees are established by the Board with appropriate empowerment to assist the Board in ensuring the effectiveness of the company's daily operations and that the company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- In assessing the internal control system, identified officers of the company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of company. These in turn were observed

# Directors' Statement on Internal Control

and checked by the Internal Audit department to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.

Since the adoption of new Sri Lanka Accounting Standards comprising SLFRSs and LKASs in 2012, processes that are required to comply with new requirements of recognition, measurement, presentation and disclosures were introduced and implemented in 2013. Continuous monitoring is in progress and steps are being taken to make improvements to the processes where required, to enhance effectiveness and efficiency.

## 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 Directors' Statement on Internal Controls 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 company.

For and on behalf of the Board,



**Ronald C. Perera, P. C.**  
Chairman



**H A Gunawardana**  
Director

18 May 2016  
Colombo

## Financial Information

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Statement of Financial Position /104

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Statement of Cash Flows /107

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

## General

The Directors have pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31st December, 2015 of Merchant Bank of Sri Lanka & Finance PLC (formerly known as Merchant Bank of Sri Lanka PLC).

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

The Audited Financial Statements included in this Annual Report have been prepared and presented with the relevant disclosures in accordance with Sri Lanka Accounting Standards and other applicable regulatory requirements.

ICRA Lanka Limited has assigned the Issuer rating of "[SL] A (stable)" to 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, the Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on 18th May 2016.

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report and is disclosed hereunder in respect of the year under review (i.e., for the year ended 31st December, 2015).

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 there of during the accounting period and the classes of business in which the Company has an interest.	Section 168 (1) (a)	Refer on page 108
ii Signed Financial Statements of the Group and the Company for the accounting period completed	Section 168 (1) (b)	Refer on page 102
iii Auditors' Report on Financial Statements of the Group and the Company	Section 168 (1) (c)	Refer on page 101
iv Accounting Policies and any changes there in (Group also included)	Section 168 (1) (d)	Refer on page 108
v Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on page 174 to 176
vi Director's fee and other benefits paid to Directors of the Company and its Subsidiaries during the accounting period	Section 168 (1) (f)	Refer on page 97
vii Information on donations made by the Company during the accounting period	Section 168 (1) (g)	Refer on page 1 23
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 page 22 to 24
ix Disclosure on amounts payable to the Auditor as Audit Fees and a separate disclosure on amounts payable to the Auditor as Fees for other services rendered during the accounting period	Section 168 (1) (i)	Refer on page 123
x Auditors' relationship with the Company (other than in the capacity of the Company's Auditor) or any interest the Auditor has in the Company and/or its Subsidiaries	Section 168 (1) (j)	Refer on page 99
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 99

### Vision, Mission & Corporate Conduct

The Company's Vision & Mission statements are provided on page 3 of this annual report. In achieving its vision & mission, all directors and employees conduct their activities in accordance with the highest level of ethical standards and integrity as set out in the code of business conduct and ethics.

### Principal Activities

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

The principal activities of the Company are leasing and hire purchase, corporate and retail credit, corporate advisory, capital market activities, lending to SMEs and Agriculture Sectors, deposit mobilization and the provision of other related financial services.

### Changes to the Group Structure

#### Merger of MCSL Financial Services Limited and MBSL Savings Bank Limited with Merchant Bank of Sri Lanka PLC

Merchant Bank of Sri Lanka PLC (MBSL) amalgamated with MBSL Savings Bank Limited (MSB) and MCSL Financial Services Limited (MCSL) with effect from 01st January 2015. The amalgamation was effective by way of a share swap, whereby the shareholders of MSB and MCSL were 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 issued up to maximum of 30,874,541 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.

### Review of Operations

A review of the operations of the MBSL during the financial year 2015 and results of those operations are contained in the Chairman's Review (pages 18 to 19), the Chief Executive Officer's Report (pages 20 to 21), and our value creation impacts (pages 75 to 80). These reports form an integral part of the Annual Report.

### Branch Network & future development

Total customer touch points of the company as at 31st December, 2015 was 49 and the company seeks to expand them up to 58 by opening another 9 branches in the coming year.

### Financial Statements of the Company and the Group

The Audited Financial Statements of the Company and of the Group for the year ended 31st December 2015 duly signed by the Deputy General Manager-Finance and Strategic Planning, the Chief Executive Officer and approved by the Board of Directors of the Company are given on pages 102 to 204 and form an integral part of the Annual Report of the Board.

### Directors' Responsibility for Financial Reporting

The Board of Directors are responsible for the preparation of the Financial Statements of the Group and the Company, which reflects a true and fair view of the state of affairs of the Company and of the Group. The Directors are of the view that the Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flow, Significant Accounting Policies and Notes thereto appearing on pages 102 to 204 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Finance Leasing Act No. 56 of 2000, Finance Business Act No 42 of 2011, Regulation of Insurance Industry Act No 43 of 2000 and the Listing Rules of the Colombo Stock Exchange. The Statement of Director's Responsibility for Financial Reporting on page 100 forms an integral part of this report.

### Auditors' Report

The Company's Auditors, Messrs SJMS Associates, Chartered Accountants, audited the Company's Financial Statements as well as the Consolidated Financial Statements for the year ended 31st December 2015, and their Auditors' Report issued thereon is given on page 101 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 on 'Presentation of Financial Statements'. Significant accounting policies together with the notes adopted in preparation of the Financial Statements of the Group and the Company is given on the pages 108 to 117. This year the Company used the alternative format in presenting Accounting Policies to minimize the disclosure overload and clutter in the financial statements.

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

## Financial Results & Appropriations

### Income & Profit

Provided below is a summary of the Consolidated Financial Results of the Group operations for the year ended 31st December 2015 (and for the year ended 31st December 2014):

	2015 Rs. Mn	2014 Rs. Mn
Income	5,411	6,023
Operating profit before taxation	38	15
Income tax expense	58	86
Profit for the year	(19.6)	(70.5)
Non-controlling interest	(18.9)	(9.4)
Profit attributable to equity holders of the parent	(0.7)	(61.1)

### Taxation

The Company was liable for income tax at the rate of 28% and VAT on Financial Services at 11%.

### Property & Equipment

The details of property, plant and equipment of the Company are given on page no. 156 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 157.

### Stated Capital and Debentures

The Company's Stated Capital as at December 31, 2015 was 2,124 Mn, comprising of 165,874,541 ordinary voting shares. The details of the Stated Capital are given in Note 39 to the Financial Statements on page 171.

The details of debentures redeemed during the year ended December 31st, 2015 and those outstanding as at December 31st, 2015 are given in Note 33.1 to the Financial Statements on page 164 to 165.

### Reserves

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

	2015 Rs. Mn	2014 Rs. Mn
Statutory Reserve Fund	141	141
Available for Sale Reserve	(9)	44
Retained Earnings	723	743

Information on the movement of reserves is given in the Statement of Changes in Equity on page 106 and in Note 40 respectively to the Financial Statements on page 172.

### Issue of Shares and Debentures

The Company issued 30,874,541 ordinary shares to the shareholders of MSB and MCSL (other than MBSL) by way of a share swap and that ordinary voting shares ranked equal and pari passu in all respect with the existing ordinary voting shares issued by MBSL.

The Company did not issue any Debentures during the financial year under review.

### Capital Adequacy

The Company ensures that it maintains the statutory requirement on core capital and supplementary capital, to mitigate the liquidity risk and safe guard the depositors, thus ensuring the sustainability of the Company and the industry as a whole. Core capital and total risk rated capital adequacy ratios of the company stood at 11.91 percent and 11.68 percent respectively as at 31st, December 2015. The information on minimum capital requirement is given on page 204.

### Share Information

Information relating to earnings, net assets and market value per share is given in Income Statement, Statement of Financial Position and Share and Debenture Information on page 102, 104 and 205 respectively. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given in the Section on 'Share & Debenture Information' on pages 205 to 208.

### 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 208.

## Directors

The names of the Directors who comprised the Board of Directors of the Company as at 31st December, 2015 are given below and their attendance at the board meetings during the year is given on page 60 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent /Non- Independent Status
Mr. Ruwan Prithi Kumara Gallage (Chairman)	Non Executive Director	Independent
Mr. D M Gunasekara	Non Executive Director	Non-Independent
Mr. Sandun Sudhaththa Gamage	Non Executive Director	Non Independent
Mr. Ajith Hiran Samarasundera	Non Executive Director	Independent
Mr. Silhan Lazimo Rahaman	Non Executive Director	Independent
Mr. Lathuwahandi Chandrasiri De Silva	Non Executive Director	Independent
Mr. Brian Jeyaranjit Sinniah	Non Executive Director	Non-Independent
Mr. W P R P H Fonseka	Alternate Director to Mr. D M Gunasekara	Non-Independent

## Resignations during the year under review

Mr. Shah 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 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 resigned from the Board of MBSL w.e.f. 26.03.2015.

Mr. A P Maharaja and Mr. B Premalal resigned from the Board of MBSL w.e.f. 18.09.2015.

## Resignations after 1st January 2016

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

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

## Appointments after 1st January 2016

The following directors were appointed to the directorate of MBSL with effect from 2nd March 2016 in terms of the direction issued by the Monetary Board of the Central Bank of Sri Lanka under section 12(6) of the Finance Business Act No. 42 of 2011.

- (1) Mr. Eluppitimudiyanselage Ronald Chithranjan Perera (Non Executive/Non Independent Director)

- (2) Ms. Swarna Pushpa Wellappili (Non Executive/Non Independent Director) – (Resigned w.e.f 17.05.2016)
- (3) Mr. Ranel Tissa Wijesinha (Non Executive/ Non Independent Director)
- (4) Mr. Charitha Nissanka Wijewardane (Non Executive/ Non Independent Director)
- (5) Mr. Asela Sanjaya Padmaperuma (Non Executive/ Non Independent Director)
- (6) Mr. Hetti Pathirannehelage Ajith Gunawardana (Non Executive/ Non Independent Director)

## Recommendations for election

Mr. E Ronald C. Perera, Mr. R T Wijesinha, Mr. C N Wijewardane, Mr. A S Padmaperuma and Mr. H P A Gunawardana retire in terms of article 93 of the Articles of Association of the Company and being eligible for election have each offered themselves for election at the forthcoming Annual General Meeting and are so recommended by the Board of Directors.

## Interests Register

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

The Company's Directors have made general declarations in relation to their respective interests in transactions/ proposed transactions with the Company as provided for in section 192(2) of the Companies Act No. 7 of 2007. Arising from these, details of contracts in which the Directors' have an interest are given under Note 42 to the Financial Statements on page No. 175 to 176 of the Annual Report, dealing with related party disclosures.

## 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 60.

## Directors' Remuneration

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

	Company Rs. Mn	Group Rs. Mn
Directors' Fees and Emoluments	6.30	13.35

## Directors' Interest in Shares of the Company

None of the Directors of the Board held shares in the Company as at 31st December 2015.

## Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on page 174 to 177.

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

## Corporate Donations

During the year under review, the Company has made donations amounting to Rs. 230,737 (2014 Rs. 70,000). In terms of the resolution passed at the last Annual General Meeting. This amount excludes contributions made towards the Company's Corporate Social Responsibility initiatives.

## 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 Integrated Risk Management Committee. Specific steps taken by the Company in managing risks are detailed in the Risk Management Report on pages 65 to 69.

## Corporate Governance

### Directors' Declarations

The Board of Directors declare that :-

- (a) The Company complied with all applicable laws and regulations in conducting its business and have not engaged in any activity contravening the relevant laws and regulations;
- (b) The Directors have declared all material interests in contracts involving the Company;
- (c) All endeavours have been made to ensure that the Company's shareholders have been treated equitably in accordance with the original Terms of Issue;
- (d) The business operates as a going concern with supporting assumptions or qualifications as necessary, and that the Board of Directors has reviewed the Company's Corporate/Business plans and is satisfied that the Company has adequate resources to continue its operations in the foreseeable future. Accordingly, the Financial Statements of the Company, its Subsidiary and Associate Company are prepared based on the going concern concept; and
- (e) The Directors have conducted a review of internal controls covering financial, operational and compliance controls and risk management and have obtained a reasonable assurance of their effectiveness and successful adherence herewith.

The measures taken and the extent to which the Company has complied with the Codes of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 32 to 60.

## 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.

## Outstanding Litigation

In the opinion of the Board of 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.

## Compliance with Laws & Regulations

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

## Environmental Protection

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

## Statutory Payments

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

## Events after the Statement of Financial Position Date

No event of material significance that requires adjustments to the Financial Statements, other than those disclosed in Note 44 to the Financial Statements on page 180 has occurred subsequent to the date of the Statement of Financial Position set out on page 104.

## 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 for registered finance establishments issued by the Central Bank of Sri Lanka, Finance Companies (Corporate Governance) Direction No. 03 of 2008 for Licensed Finance Companies issued by the Central Bank of Sri Lanka and the Listing Rules of the Colombo Stock Exchange of Corporate Governance, the Board of Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, the Board of Directors continue to adopt the going concern basis in preparing the Financial Statements.

### Appointment of Auditors

In pursuance of subsection (1)(1) of Section 36 of the 19th amendment (Amendment to the Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka) the Auditor General shall be the auditor of the Company for the financial year 2016. The Audit Fees for the audit shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.10.2016.

### Auditors' Remuneration and Interests in the Company / Group

The Auditors, Messrs SJMS Associates, Chartered Accountants were paid Rs.. 1,568,000 for the year ended December 31st, 2015 as audit fees by the Company. In addition, they were paid Rs.. 711,000 by the Company, for permitted non-audit-related services.

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

### Annual General Meeting

The Thirty Fourth Annual General Meeting of the Company will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Tuesday 28th June 2016 at 10:00 am. The Notice convening the Thirty Fourth Annual General Meeting is given on page 232.

### Acknowledgement of The Contents of the Report

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

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



**Ronald C. Perera, P. C.**  
Chairman



**H A Gunawardana**  
Director



**K Jayatilake**  
Company Secretary

18 May 2016  
Colombo

# Directors' Responsibility for Financial Reporting

This Statement sets out the responsibilities of the Directors in relation to the financial statements of the Company and the Group. The responsibilities of the auditors in relation to the financial statements are set out in the 'Independent Auditor's Report' on page 101 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 31st December 2015, Income Statement and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

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

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

The Directors are required to ensure that the financial statements of the Company and the Group for the financial year ended 31st December 2015 have been prepared and presented based on the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting & Auditing standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereto, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The Directors have also taken reasonable measures to safeguard the assets of the Company and of the Group and to prevent and detect frauds and other irregularities. In that regard, the Directors have established appropriate systems of internal control with the view to preventing and detecting fraud and other irregularities. The Directors have reasonable expectations, after making enquiries and following a review of the Company's Budget for the 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.

## Compliance Report

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

By Order of the Board.



**Karnika Jayatilake**  
Company Secretary

18 May 2016  
Colombo

# Independent Auditor's Report



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Chartered Accountants  
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Restructure & Corporate Recovery  
Tel: 5364293, 5444420 Fax: 2504008  
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## 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 subsidiary ("the Group"), which comprise the statement of financial position as at 31 December 2015, 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 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 31 December 2015 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### Emphasis of matter

Without qualifying our opinion, we draw your attention to the Note 46 (a) in the financial statements regarding the going concern of the MBSL Insurance Company Limited.

### Report on Other Legal and Regulatory Requirements

As required by section 163(2) of the Companies Act No. 07 of 2007, 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 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company and the Group comply with the requirements of sections 151 and 153 of the Companies Act No. 7 of 2007.

Further, we draw your attention to note 46 (b) in the financial statements regarding MBSL Insurance Company Limited's non-compliance with the Solvency Margin (Non-life insurance), segregation of life and non-life business and the listing requirements under section 26 (1), 53 and 15A of Insurance Industry Act No. 43 of 2000.

**SJMS ASSOCIATES**  
Chartered Accountants

18 May 2016  
Colombo

## SECTION 01

# Income Statement

for the year ended 31st December	Note	Company			Group		
		2015 Rs.'000	2014 Rs.'000 Restated *	2014 Rs.'000 **	2015 Rs.'000	2014 Rs.'000 Restated *	2014 Rs.'000 **
Income	4	4,199,057	4,734,641	2,539,185	5,411,561	6,023,040	4,244,244
Interest and similar income		4,055,225	4,384,629	2,339,084	4,146,125	4,484,729	2,849,003
Interest and similar expenses		(2,133,325)	(2,579,431)	(1,227,296)	(2,134,351)	(2,583,660)	(1,463,005)
<b>Net interest income</b>	5	<b>1,921,900</b>	<b>1,805,198</b>	<b>1,111,788</b>	<b>2,011,774</b>	<b>1,901,069</b>	<b>1,385,998</b>
Fee and commission income		42,640	92,792	43,893	197,659	129,718	89,792
Fee and commission expenses		-	(2,654)	-	(99,898)	(95,511)	(95,511)
<b>Net fee and commission income</b>	6	<b>42,640</b>	<b>90,138</b>	<b>43,893</b>	<b>97,761</b>	<b>34,207</b>	<b>(5,719)</b>
Insurance premium income	7	-	-	-	903,910	1,128,785	1,128,785
Net claims and benefits		-	-	-	(616,128)	(742,843)	(742,843)
Net trading income	8	41,288	21,163	(1,361)	42,957	19,488	(994)
Net gain/ (loss) on financial assets - held for trading	9	(54,137)	132,900	97,525	(55,336)	137,172	102,384
Other operating income	10	114,041	103,157	60,044	176,246	123,148	75,274
Total operating income		2,065,732	2,152,556	1,311,889	2,561,184	2,601,026	1,942,885
Impairment charges for loans and other losses	11	(462,151)	(720,395)	(238,078)	(474,618)	(720,395)	(276,244)
<b>Net operating income</b>		<b>1,603,581</b>	<b>1,432,161</b>	<b>1,073,811</b>	<b>2,086,566</b>	<b>1,880,631</b>	<b>1,666,641</b>
Personnel expenses	12	(670,740)	(637,932)	(362,301)	(857,116)	(804,443)	(600,609)
Retirement benefit expenses	38.1	(42,648)	(41,289)	(30,759)	(47,751)	(45,780)	(37,163)
Depreciation of property, equipment & investment properties		(59,022)	(54,171)	(17,966)	(79,897)	(73,666)	(51,900)
Amortisation of intangible assets		(11,148)	(7,130)	(3,534)	(20,269)	(15,299)	(12,717)
Other operating expenses	13	(610,267)	(595,231)	(293,953)	(975,134)	(900,047)	(700,689)
<b>Total operating expenses</b>		<b>(1,393,825)</b>	<b>(1,335,753)</b>	<b>(708,513)</b>	<b>(1,980,167)</b>	<b>(1,839,235)</b>	<b>(1,403,078)</b>
<b>Operating profit before VAT on financial services and impairment of investment in subsidiary</b>		<b>209,756</b>	<b>96,408</b>	<b>365,298</b>	<b>106,399</b>	<b>41,396</b>	<b>263,563</b>
Impairment of investment in subsidiary		(205,899)	-	-	(18,193)	-	-
<b>Profit from operations after impairment of investment in subsidiary</b>		<b>3,857</b>	<b>96,408</b>	<b>365,298</b>	<b>88,206</b>	<b>41,396</b>	<b>263,563</b>
Value Added Tax on financial services		(57,219)	(43,121)	(38,468)	(57,219)	(43,121)	(40,900)
Share of associate company's profit / (loss) before tax	14.1	-	-	-	7,080	17,208	(77,869)
Profit / (loss) before income tax		(53,362)	53,287	326,830	38,067	15,483	144,794
Income tax expense	15	(37,857)	(83,957)	(83,957)	(57,645)	(86,016)	(86,016)
<b>Profit / (loss) for the year</b>		<b>(91,219)</b>	<b>(30,670)</b>	<b>242,873</b>	<b>(19,578)</b>	<b>(70,533)</b>	<b>58,778</b>
<b>Profit for the year attributable to:</b>							
Equity holders of the parent		(91,219)	(30,670)	242,873	(709)	(61,147)	79,327
Non controlling interests		-	-	-	(18,869)	(9,386)	(20,549)
<b>Profit / (loss) for the year</b>		<b>(91,219)</b>	<b>(30,670)</b>	<b>242,873</b>	<b>(19,578)</b>	<b>(70,533)</b>	<b>58,778</b>
<b>Earnings / (loss) per share:</b>							
Basic/diluted earnings/(loss) per share (Rs.)	16	(0.55)	(0.18)	1.80	(0.004)	(0.37)	0.59

\* Certain amounts shown here do not correspond to the Financial Statements 2014 and reflect adjustments made due to the merger between the Company with its subsidiary MBSL Savings Bank Limited and its associate company MCSL Financial Services Ltd on 1st January 2015. Refer Note 45 for further information.

\*\* Comparatives as a stand alone entity as it stood as at 2014 has also been given to aid comparability.

The accounting policies and notes to the financial statements from page 108 to 204 form an integral part of the financial statements.

# Statement of Comprehensive Income

for the year ended 31st December	Note	Company			Group		
		2015	2014	2014	2015	2014	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
			Restated *	**	Restated *	**	
<b>Profit /(loss) for the year</b>		(91,219)	(30,670)	242,873	(19,578)	(70,533)	58,778
<b>Other comprehensive income / (expenses)</b>							
<b>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</b>							
Gains / (Losses) on re-measuring available for sale financial assets		(47,835)	52,526	51,108	(53,833)	46,182	46,182
<b>Net other comprehensive income / (expenses) to be reclassified to profit or loss in subsequent periods</b>		(47,835)	52,526	51,108	(53,833)	46,182	46,182
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</b>							
Actuarial gains/(losses) on defined benefit plans	38	32,603	(5,244)	(6,938)	31,215	(970)	(1,548)
Share of associates company's other comprehensive income	14.2	-	-	-	(726)	(928)	(688)
Deferred tax effect relating to components of other comprehensive income	15	(11,072)	2,231	2,231	(11,072)	2,231	2,231
<b>Net other comprehensive income / (expenses) not to be reclassified to profit or loss in subsequent periods</b>		21,531	(3,013)	(4,707)	19,417	333	(5)
<b>Other comprehensive income / (expenses) for the year, net of tax</b>		(26,304)	49,513	46,401	(34,416)	46,515	46,177
<b>Total comprehensive income for the year, net of tax</b>		(117,523)	18,843	289,274	(53,994)	(24,018)	104,955
Total comprehensive income attributable to:							
Equity holders of the parent		(117,523)	18,843	289,274	(33,952)	(14,178)	125,328
Non controlling interests		-	-	-	(20,042)	(9,840)	(20,373)
<b>Total comprehensive income for the year, net of tax</b>		(117,523)	18,843	289,274	(53,994)	(24,018)	104,955

The accounting policies and notes to the financial statements from page 108 to 204 form an integral part of the financial statements.

# Statement of Financial Position

as at 31st December	Notes	Company			Group		
		2015 Rs.'000	2014 Rs.'000 Restated *	2014 Rs.'000 **	2015 Rs.'000	2014 Rs.'000 Restated *	2014 Rs.'000 **
<b>Assets</b>							
Cash and cash equivalents	18	380,830	351,903	171,537	432,947	406,132	281,324
Placements with banks & financial institutions	19	440,093	1,674,998	519,282	571,672	1,796,986	1,342,986
Securities purchased under resale agreements	20.1	785,965	465,211	465,211	1,609,702	1,313,486	1,313,486
Financial investments - held for trading	21	541,970	882,176	367,530	552,741	896,629	419,224
Bills receivable	22.1	595,888	646,124	644,625	595,888	646,124	644,625
Loans & advances to customers	22.2	8,406,632	7,954,469	3,764,328	8,505,054	8,097,427	4,644,587
Lease and hire purchase receivable	22.3	14,223,259	12,168,389	7,333,505	14,223,259	12,168,389	7,921,146
Financial investments - available for sale	23	1,754,206	1,178,814	737,610	1,994,857	1,221,417	1,220,632
Financial investments - held to maturity	24	56,507	653,338	-	56,507	653,338	70,090
Real estate stock		62,545	102,895	-	62,545	102,895	-
Investment in associate company	25	81,084	81,084	102,002	96,484	94,454	341,295
Investment in subsidiary	26	310,197	516,096	1,104,311	-	-	-
Investment properties	27	145,840	148,877	52,011	145,840	148,877	52,011
Property and equipment	28	219,260	193,769	85,124	273,122	260,191	197,127
Intangible assets	29	38,816	30,549	12,356	67,141	82,724	169,437
Other assets	30	213,521	265,232	167,903	694,399	702,730	650,923
<b>Total assets</b>		<b>28,256,613</b>	<b>27,313,924</b>	<b>15,527,335</b>	<b>29,882,158</b>	<b>28,591,799</b>	<b>19,268,893</b>
<b>Liabilities</b>							
Due to banks	31	258,062	200,002	181,110	273,968	210,011	198,583
Securities sold under repurchase agreements	20.2	416,472	442,170	442,170	416,472	442,170	442,170
Due to customers	32	15,846,306	11,092,643	-	15,846,306	11,092,643	2,453,539
Debt issued and borrowed funds	33	7,883,323	11,141,793	11,032,268	7,883,323	11,141,793	11,034,267
Insurance provision - life	34.1	-	-	-	444,257	349,901	349,901
Insurance provision - non life	34.2	-	-	-	512,333	607,307	607,307
Current tax liabilities	35	141,263	208,001	208,001	141,263	208,001	208,001
Deferred tax liabilities	36	113,669	91,403	91,403	113,669	91,403	91,403
Other liabilities	37	356,840	739,439	376,580	956,610	1,064,799	724,196
Retirement benefits obligations	38	245,532	247,051	193,153	262,040	259,107	213,468
<b>Total liabilities</b>		<b>25,261,467</b>	<b>24,162,502</b>	<b>12,524,685</b>	<b>26,850,241</b>	<b>25,467,135</b>	<b>16,322,835</b>

as at 31st December	Notes	Company			Group		
		2015 Rs.'000	2014 Rs.'000 Restated *	2014 Rs.'000 **	2015 Rs.'000	2014 Rs.'000 Restated *	2014 Rs.'000 **
<b>Equity</b>							
Stated capital	39	2,124,457	2,124,457	1,607,000	2,124,457	2,124,457	1,607,000
Statutory reserves	40.1	140,544	140,544	140,544	140,544	140,544	142,058
Retained earnings	40.3	734,495	842,936	1,211,621	723,162	742,987	1,076,386
Available-for-sale reserve	40.4	(4,350)	43,485	43,485	(8,919)	43,961	52,219
Total equity attributable to equity holders of the parent		2,995,146	3,151,422	3,002,650	2,979,244	3,051,949	2,877,663
Non controlling interests		-	-	-	52,673	72,715	68,395
<b>Total equity</b>		<b>2,995,146</b>	<b>3,151,422</b>	<b>3,002,650</b>	<b>3,031,917</b>	<b>3,124,664</b>	<b>2,946,058</b>
<b>Total liabilities and equity</b>		<b>28,256,613</b>	<b>27,313,924</b>	<b>15,527,335</b>	<b>29,882,158</b>	<b>28,591,799</b>	<b>19,268,893</b>
Commitments and contingent liabilities	48	123,536	187,266	48,711	546,079	421,440	83,125
Net Assets Value per share (Rs.)		18.06	19.00	22.24	17.96	18.40	21.32

\* Certain amounts shown here do not corresponds to the Financial Statements 2014 and reflect adjustments made due to the merger between the Company with its subsidiary MBSL Savings Bank Limited and its associate company MCSL Financial Services Ltd on 1st January 2015. (Refer Note 45)

\*\* Comparatives as a stand alone entity as it stood as at 2014 has also been given to aid comparability.

The accounting policies and notes to the financial statements from page 108 to 204 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



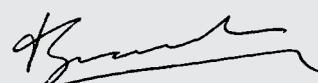
**T Mutugala**  
Chief Executive Officer

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.



**Ronald C. Perera, P. C.**  
Chairman



**H A Gunawardana**  
Director

18 May 2016  
Colombo, Sri Lanka

# Statement of Changes in Equity

<b>Company</b>	Stated capital Rs. '000	Investment fund Rs. '000	Statutory reserves Rs. '000	Available for sale reserve Rs. '000	Retained earnings Rs. '000	Total equity Rs. '000
Balance as at 01st January 2014	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)	-
<b>Balance as at 31st December 2014</b>	<b>1,607,000</b>	<b>-</b>	<b>140,544</b>	<b>43,485</b>	<b>1,211,621</b>	<b>3,002,650</b>
Adjustment due to amalgamation (Note 39.a)	-	-	-	-	(368,685)	(368,685)
Issue of shares	517,457	-	-	-	-	517,457
<b>Balance as at 01st January 2015 - Restated</b>	<b>2,124,457</b>	<b>-</b>	<b>140,544</b>	<b>43,485</b>	<b>842,936</b>	<b>3,151,422</b>
Super gain tax adjustment	-	-	-	-	(38,753)	(38,753)
Net profit for the year	-	-	-	-	(91,219)	(91,219)
Other comprehensive income, net of tax	-	-	-	(47,835)	21,531	(26,304)
<b>Balance as at 31st December 2015</b>	<b>2,124,457</b>	<b>-</b>	<b>140,544</b>	<b>(4,350)</b>	<b>734,495</b>	<b>2,995,146</b>

<b>Group</b>	Stated capital Rs. '000	Investment fund Rs. '000	Statutory reserves Rs. '000	Available for sale reserve Rs. '000	Retained earnings Rs. '000	Non controlling interests Rs. '000	Total equity Rs. '000
Balance as at 01st January 2014	1,607,000	101,336	129,914	5,000	924,458	139,805	2,907,513
Effect of change in holding percentage (Note 45.4)	-	-	-	-	52,127	(52,127)	-
Net profit for the year	-	-	-	-	79,327	(20,549)	58,778
Other comprehensive income, net of tax	-	-	-	47,219	(1,218)	176	46,177
Investment fund transfers to retained earnings	-	(101,336)	-	-	101,336	-	-
Right issue	-	-	-	-	-	1,090	1,090
Dividends paid	-	-	-	-	(67,500)	-	(67,500)
Transfers to statutory reserves	-	-	12,144	-	(12,144)	-	-
<b>Balance as at 31st December 2014</b>	<b>1,607,000</b>	<b>-</b>	<b>142,058</b>	<b>52,219</b>	<b>1,076,386</b>	<b>68,395</b>	<b>2,946,058</b>
Adjustment due to amalgamation (Note 39.a)	-	-	(1,514)	(8,258)	(333,399)	4,320	(338,851)
Issue of shares	517,457	-	-	-	-	-	517,457
<b>Balance as at 31st December 2014</b>	<b>2,124,457</b>	<b>-</b>	<b>140,544</b>	<b>43,961</b>	<b>742,987</b>	<b>72,715</b>	<b>3,124,664</b>
Super gain tax adjustment	-	-	-	-	(38,753)	-	(38,753)
Net profit for the year	-	-	-	-	(709)	(18,869)	(19,578)
Other comprehensive income, net of tax	-	-	-	(52,880)	19,637	(1,173)	(34,416)
<b>Balance as at 31st December 2015</b>	<b>2,124,457</b>	<b>-</b>	<b>140,544</b>	<b>(8,919)</b>	<b>723,162</b>	<b>52,673</b>	<b>3,031,917</b>

As per the provisions of Part III of the Finance Act, No. 10 of 2015 which was certified on 30 October 2015, the Company is liable for Super Gain Tax of Rs. 38.75 Million arose from MBSL and merged entities. According to the Act, the Super Gain Tax shall be deemed to be an expenditure in the financial statements relating to the year of assessment which commenced on 1 April 2013. The Act supersedes the requirements of the Sri Lanka Accounting Standards, hence the expense of Super Gain Tax is accounted in accordance with the requirements of the said Act as recommended by the Statement of Alternative Treatment (SoAT) on Accounting for Super Gain Tax issued by the Institute of Chartered Accountants of Sri Lanka, dated 24 November 2015.

The accounting policies and notes to the financial statements from page 108 to 204 form an integral part of the financial statements.

# Statement of Cash Flows

## Accounting Policy

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flow in accordance with the Sri Lanka Accounting Standard-LKAS 7 on 'Statement of Cash Flows', whereby operating activities, investing activities and financing activities are separately recognised. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the statement of cash flows is comprised of those items as explained in Note 41 on page 174.

for the year ended 31st December	Notes	Company		Group	
		2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Cash flows from operating activities</b>					
Profit before income tax		(53,362)	53,287	38,067	15,483
Adjustments for :					
Change in operating assets	41.2	(2,971,588)	(1,374,797)	(2,898,458)	(1,311,277)
Change in operating liabilities	41.3	4,416,592	773,162	4,671,856	823,017
Share of associate company's profit before tax		-	-	(7,080)	(17,208)
Contribution to defined benefit plans		42,648	41,289	47,751	45,780
Other non-cash items included in profit before tax	41.4	610,963	565,851	451,330	565,085
Dividends received		(14,008)	(27,260)	(12,559)	(15,997)
		2,031,245	31,532	2,290,907	104,883
Gratuity paid		(11,564)	(10,823)	(13,603)	(13,758)
<b>Net cash generated from operating activities before income tax</b>		2,019,681	20,709	2,277,304	91,125
Tax paid		(89,315)	(4,490)	(89,315)	(4,490)
<b>Net cash generated from operating activities</b>		1,930,366	16,219	2,187,989	86,635
<b>Cash flows from investing activities</b>					
Purchase of financial assets designated at FVPL		(563,386)	(1,785,803)	(563,595)	(1,809,050)
Proceeds from disposal of financial assets designated at FVPL		879,520	1,390,633	882,543	1,410,081
Purchase of financial investments-AFS & HTM		(2,639,079)	(1,472,838)	(2,843,193)	(1,791,727)
Net proceeds from sale of financial investments-AFS & HTM		2,704,596	1,850,464	2,719,096	2,470,230
Net increase/ (decrease) in other investment		1,274,323	(362,081)	1,281,409	(343,919)
Purchase of property & equipment		(81,487)	(35,131)	(89,803)	(42,217)
Purchase of intangible assets		(19,415)	(20,219)	(22,879)	(24,482)
Proceeds from sale of property & equipment		3,329	634	3,329	634
Dividend received		14,008	27,260	15,346	28,160
Net investment in subsidiary		-	(198,207)	-	-
<b>Net cash generated from/(used in) investing activities</b>		1,572,409	(605,288)	1,382,253	(102,290)
<b>Cash flows from financing activities</b>					
Net increase / ( decrease) reverse repo and repo agreements		(246,438)	(172,464)	(321,914)	(691,549)
Net increase/ (decrease) in other borrowings		(3,017,390)	(494,435)	(3,017,390)	(494,435)
Proceeds from issue of shares		-	-	-	1,090
Proceeds from issue of debentures		-	2,000,000	-	2,000,000
Payments on redemption of debentures		(268,080)	(763,720)	(268,080)	(763,720)
Dividends paid		-	(67,500)	-	(67,500)
<b>Net cash generated from/(used in) financing activities</b>		(3,531,908)	501,881	(3,607,384)	(16,114)
Net decrease in cash and cash equivalents during the year		(29,133)	(87,188)	(37,142)	(31,769)
Net cash flow from merger	45.3	-	158,103	-	158,103
Cash and cash equivalents at the beginning of year		151,901	80,986	196,121	69,787
<b>Cash and cash equivalents at the end of year</b>		122,768	151,901	158,979	196,121
<b>Analysis of cash and cash equivalents, at the end of the year</b>					
Cash and short term funds	41.1	380,830	351,903	432,947	406,132
Dues to banks		(258,062)	(200,002)	(273,968)	(210,011)
		122,768	151,901	158,979	196,121

The accounting policies and notes to the financial statements from page 108 to 204 form an integral part of the financial statements.

# Notes to the Financial Statements

## SECTION 02

### Corporate Information

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

#### 2.1 Reporting Entity

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

#### 2.2 Consolidated Financial Statements

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended December 31, 2015, comprise the company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

#### Parent Entity & Ultimate Parent Entity

In the opinion of the Directors, the company's parent entity and its ultimate parent entity is Bank of Ceylon.

#### Number of Employees

The staff strength of the company and the group as at December 31, 2015 were 866 and 1,440 respectively. (691 and 1,162 as at 31st December 2014)

#### 2.3 Group Information

##### Principal Activities and Nature of Operations

Entity	Principle business activities
<b>Company</b>	
Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit, corporate advisory services, capital market operations, margin trading, micro financing, agricultural credit facilities, real estate, pawning operations, islamic finance and accepting of savings and fixed deposits.
<b>Subsidiary</b>	
MBSL Insurance Company Limited	Underwriting of all classes of life and general insurance
<b>Associate</b>	
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 period under review, except MBSL started to accept public deposits from 01st January 2015.

#### 2.4 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended 31st December 2015 (including comparatives) were approved and authorised for issue on 18th May 2016 in accordance with the resolution of the Board of Directors on 18th May 2016.

## SECTION 03

### Basis of Preparation

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

#### 3.1 Basis of Preparation and Other Significant Accounting Policies

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

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

#### 3.2 Statement of Compliance

The consolidated financial statements of the Group and separate financial statements of the Company, as at 31st December 2015 and for the year ended, have been prepared and presented in accordance with Sri Lanka Accounting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No. 42 of 2011, Regulation of Insurance Industry Act No. 43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

- An Income Statement and Statement of Comprehensive Income providing the information on the financial performance of the Company and the Group for the year under review ( Refer pages 102 to 103);
- A Statement of Financial Position providing the information on the financial position of the Company and the Group as at year end ( Refer pages 104 to 105);
- A Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group ( Refer page 106);
- A Statement of Cash Flows providing the information to the users, on the ability of the Company and the

Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows ( Refer page 107); and

- Notes to the Financial Statements comprising accounting policies and other explanatory information ( Refer pages 108 to 204).

#### 3.3 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility in relation to the financial statements, as set out in the 'Statement of Directors' Responsibility for Financial Reporting', 'Annual Report of the Board of Directors on the Affairs of the Company' and in the certification on the Statement of Financial Position on pages 94, 100, 105 respectively.

#### 3.4 Basis of measurement

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

Item	Basis of measurement	Note no./s	Page reference
Available-for-sale financial investments	Fair value	23	148 to 150
Financial investments held for trading	Fair value	21	131 to 137
Defined benefit obligation	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	38	170 to 171

## Notes to the Financial Statements

### 3.5 Functional and Presentation Currency

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

### 3.6 Presentation of Financial Statements

The assets and liabilities of the Company and the Group in the Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. The accounting principles are applied consistently other than where specially disclosed with due regard to prudence, materiality and substance over form criteria as explained in Sri Lanka Accounting Standard LKAS 01 Presentation of Financial Statements. Where appropriate, the accounting policies are disclosed in the succeeding notes.

### 3.7 Use of Materiality, Offsetting and Rounding

#### Materiality & Aggregation

Each material class of similar items is presented separately in the financial statements. Items of dissimilar nature or function are presented separately unless they are immaterial as permitted by the Sri Lanka Accounting Standard LKAS 01 on 'Presentation of Financial Statements'.

#### Offsetting

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

#### Rounding

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

### 3.8 Summary of Significant accounting judgments, estimates and assumptions

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

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

- Impairment losses on non-financial assets - Note No. 26, 27, 28 & 29
- Deferred tax liabilities - Note No. 36
- Provision for impairment of loans and advances - Note No. 22
- Retirement benefits obligation - Note No.38
- Provision and contingent liabilities - Note No. 48

### 3.8.1 Going concern

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

### 3.8.2 Events after the reporting period

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

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate adjustments are made where necessary. Information on events after the reporting period are disclosed under Note No. 44 on page 180.

### 3.9 Significant accounting policies – statement of financial position

#### 3.9.1 Basis of consolidation

The consolidated financial statements for the year ended 31st December 2015 comprise the financial statements of the Company (Parent Company) and its subsidiary (together referred to as the "Group") and the Company's interest in associate company. The Financial Statements of all companies in the Group have common financial year which ends on December 31 and use consistent accounting policies.

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

### 3.9.2 Business combination & goodwill

Business combinations are accounted for using the Acquisition method as per requirements of Sri Lanka Accounting Standard –SLFRS 03 (Business Combinations).

The Group measures goodwill as the fair value of the consideration transferred including the recognised amount of any non-controlling interest in the acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

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

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

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

### 3.9.3 Common control business combination

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

- The net assets of the combining entities are consolidated using the existing book values.
- No amount is recognised as goodwill which arise as a result of difference between the consideration and net assets acquired.
- Comparative amounts in the financial statements are restated as if the companies had been combined at the previous balance sheet date.
- Comparatives as a stand-alone entity as if stood as at 2014 has also been given to aid comparability.

#### 3.9.3.1 Loss of control

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

#### 3.9.3.2 Transactions eliminated on consolidations

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

### 3.9.4 Foreign currency

#### 3.9.4.1 Foreign currency transactions and balances

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

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

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

## Notes to the Financial Statements

### 3.9.5 Financial instruments

#### 3.9.5.1 Date of recognition

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

#### 3.9.5.2 Initial measurement of financial instruments

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

#### 3.9.5.3 Classification & subsequent measurement of financial assets

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

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

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

#### 3.9.5.4 Effective interest method

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

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

#### 3.9.5.5 Financial assets and liabilities measured at fair value through profit or loss

##### a) Financial assets held for trading

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

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

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

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

- The designation eliminates or significantly reduces the inconsistent treatment that would otherwise arise from measuring the assets or liabilities or recognizing gains or losses on them on a different basis.
- The assets and liabilities are part of a group of financial assets, financial liabilities or both which are managed

and their performance evaluated on a fair value basis, in accordance with a documented risk management or investment strategy.

Financial assets and financial liabilities at fair value through profit or loss are recorded in the statement of financial position at fair value. Changes in fair value are recorded in 'Net gain or loss on financial assets designated at fair value through profit or loss'. Interest earned is accrued in 'Interest income', using the effective interest rate (EIR), while dividend income is recorded in 'Net trading income' when the right to the payment has been established.

### 3.9.5.6 Financial liabilities at amortized cost

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

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

### 3.9.5.7 Derecognition of financial assets and financial liabilities

#### 3.9.5.7.1 Financial assets

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

- The rights to receive cash flows from the asset have expired; or
- The Company 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.

#### 3.9.5.7.2 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.

#### 3.9.5.8 Offsetting of financial instruments

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

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

#### 3.9.5.9 Determination of fair value

The fair value for financial instruments traded in active markets at the statement of financial position date is based

## Notes to the Financial Statements

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.

### 3.9.6 Impairment of non-financial assets

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

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

Impairment losses are recognized immediately in profit or loss. For assets excluding goodwill, an assessment is made at each reporting date as to whether there is any indication that previously recognized impairment losses may no longer exist or may have decreased. If such indication exists, the group estimates the asset's or CGU's recoverable amount. Previously recognized impairment losses are reversed only if there has been a change in the assumptions used to determine the recoverable amount of the asset since the last impairment loss was recognized. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined net of depreciation, had no impairment loss been recognized for

the asset in prior years. Such reversal is recognized in the Income Statement.

### 3.9.7 Provisions

A provision is recognized in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 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.

### 3.9.8 Borrowing costs

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

### 3.9.9 Significant accounting policies that are specific to the business of the subsidiary – MBSL Insurance Company Limited

#### 3.9.9.1 Deferred expenses

##### 3.9.9.1.1 Deferred Acquisition Costs (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses and/or investment contracts with Discretionary Participation Feature (DPF), are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognized as an expense when incurred. Subsequent to initial recognition,

DAC for general insurance is amortized over the period on the basis Unearned Premium is amortized. The reinsurances' share of deferred acquisition cost is amortized in the same manner as the underlying asset amortization is recorded in the statement of 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.

#### 3.9.9.1.2 Reinsurance commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortized.

#### 3.9.9.2 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.

### 3.9.9.3 Insurance contract liabilities

#### 3.9.9.3.1 Life insurance contract liabilities

Life insurance liabilities are recognized when contracts are entered into and premiums are received. These Liabilities are measured by using the net premium method. The liability is determined as the sum of the discounted value of the expected future benefits, claims handling and policy administration expenses, policyholder options and guarantees and investment income from assets backing such liabilities, which are directly related to the contract, less the discounted value of the expected theoretical premiums that would be required to meet the future cash outflows based on the valuation assumptions used. The liability is either based on current assumptions or calculated using the assumptions established at the time the contract was issued, in which case a margin for risk and adverse deviation is generally included. A separate reserve for longevity may be established and included in the measurement of the liability. Furthermore, the liability for life insurance contracts comprises the provision for unearned premiums and unexpired risks, as well as for claims outstanding, which includes an estimate of the incurred claims that have not yet been reported to the 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 PVIF and DAC, by using an existing liability adequacy test. The Liability value is adjusted to the extent that it is insufficient to meet future benefits and expenses. In performing the adequacy test, current best estimates of future contractual cash flows, including related cash flows such as claims handling and policy administration expenses, policyholder options and guarantees, as well as investment income from assets backing such liabilities, are used. A number of valuation methods are applied, including discounted cash flows, option pricing models and

## Notes to the Financial Statements

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.

### 3.9.9.3.2 Non-life insurance contract liabilities

Non-life insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the 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.

#### 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.

### 3.9.9.3.3 Investment contract liabilities

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

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

Deposits and withdrawals are recorded directly as an adjustment to the liability in the statement of financial position. Fair value adjustments are performed at each reporting date and are recognized in the statement of 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.

#### 3.9.9.4 Discretionary participation features (DPF)

A DPF is a contractual right that gives holders of these contracts the right to receive as a supplement to guaranteed benefits, significant additional benefits which are based on the performance of the assets held within the DPF portfolio. Under the terms of the contracts surpluses in the DPF funds can be distributed to policyholders and shareholders on a 90/10 basis. The Group has the discretion over the amount and timing of the distribution of these surpluses to policyholders. All DPF liabilities including unallocated surpluses, both guaranteed and discretionary, at annually are held within insurance or investment contract liabilities as appropriate.

#### 3.9.10 New Accounting Standards Issued but not yet effective

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

Accounting Standard	Summary of the Requirement	Possible impact on Financial Statements
SLFRS 9 – ‘Financial Instruments’	SLFRS 9, issued in 2014, replaces the existing guidance in LKAS 39 - Financial Instruments: Recognition and Measurement. SLFRS 9 includes revised guidance on the classification and measurement of financial instruments, including a new expected credit loss model for calculating impairment on Financial assets. It also carries forward the guidance on recognition and derecognition of Financial instruments from LKAS 39.  Effective date of SLFRS 9 has been deferred till January 01, 2018.	The Group/Company, is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 9.
SLFRS 15 – ‘Revenue from Contracts with Customers’	SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaces existing revenue recognition guidance, including LKAS 18 on ‘Revenue’ and LKAS 11 on ‘Construction Contracts’.  SLFRS 15 is effective for the periods beginning on or after January 01, 2017.	The Group/Company is assessing the potential impact on its Consolidated Financial Statements resulting from the application of SLFRS 15.
Equity Method in Separate Financial Statements (Amendment to LKAS 27)	The amendments to LKAS 27 will allow entities to use the equity method to account for investments in subsidiaries, and associates in their separate Financial Statements.  The amendment is effective for the periods beginning on or after January 01, 2016.	The Group/Company is assessing the potential impact on its Consolidated Financial Statements resulting from the application of amended LKAS 27.

# Notes to the Financial Statements

## Specific Accounting Policies and Notes

This section provides specific accounting policies and accounting estimates in relation to the reported values in the financial statements with additional notes and explanations.

### 4 Income

#### Accounting Policy

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

for the year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Interest and similar income	4,055,225	4,384,629	4,146,125	4,484,729
Fee and commission income	42,640	92,792	197,659	129,718
Insurance premium income	-	-	903,910	1,128,785
Net trading income	41,288	21,163	42,957	19,488
Net gain/ (loss) on financial assets - held for trading	(54,137)	132,900	(55,336)	137,172
Other operating income	114,041	103,157	176,246	123,148
	4,199,057	4,734,641	5,411,561	6,023,040

### 5 Net Interest Income

#### Accounting Policy

##### Recognition of income and expenses

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

##### Interest and similar income and expense

For all financial instruments measured at amortized cost, interest bearing financial assets classified as available-for-sale and financial instruments designated at fair value through profit or loss, interest income or expense is recorded using the EIR, which is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument or a shorter period, where appropriate, to the net carrying amount of the financial asset or financial liability.

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 six 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 six 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.

##### 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.

#### Overdue interests

Default charges for the late payment of finance lease and hire purchase rentals, and delay in redemption of bills of exchange, are recognized as income on collection.

for the year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Net Interest Income</b>				
Loans and advances to customers	3,815,685	4,095,345	3,891,327	4,168,711
Financial investments - available for sale & held to maturity	168,845	128,328	184,103	155,062
Financial investments designated at fair value through profit or loss	199	99	199	99
Placements with banks & financial institutions	70,496	160,857	70,496	160,857
Interest and similar income	4,055,225	4,384,629	4,146,125	4,484,729
Due to banks	67,258	77,833	67,285	78,186
Due to customers	1,145,128	1,270,930	1,145,128	1,270,894
Debt issued and other borrowed funds	892,393	1,197,421	892,393	1,200,199
Other	28,546	33,247	29,545	34,381
Interest and similar expenses	2,133,325	2,579,431	2,134,351	2,583,660

## 6 Fee and commission income

### Accounting Policy

#### Net 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;

for the year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Fee and commission income</b>				
Trade & other related activities	42,611	80,351	42,611	80,351
Reinsurance commission income	-	-	136,190	20,021
Brokering services	29	12,441	29	12,441
Others	-	-	18,829	16,905
	42,640	92,792	197,659	129,718
<b>Fee and commission expenses</b>				
Fees	-	2,654	99,898	95,511
	-	2,654	99,898	95,511

## Notes to the Financial Statements

### 7 Insurance premium income

#### Accounting Policy

##### Gross premiums

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

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

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

##### Reinsurance premiums

Gross reinsurance premiums on life and investment contracts are recognized as an expense 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.

#### Benefits, claims and expenses recognition

##### Gross benefits and claims

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

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

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

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

##### Reinsurance claims

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

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Non-life insurance	-	-	1,194,676	967,492
Life insurance	-	-	203,235	294,299
Total gross written premium	-	-	1,397,911	1,261,791
Change in unearned premium provisions	-	-	94,851	43,461
Gross premium income	-	-	1,492,762	1,305,252
Less: Premium ceded to reinsurers	-	-	588,852	176,467
Net premium income	-	-	903,910	1,128,785

## 8 Net trading income

### Accounting Policy

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

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Dividend income	11,221	15,097	12,559	15,997
Gain/(Loss) on disposal of quoted shares	30,067	6,066	30,398	3,491
Net trading income	41,288	21,163	42,957	19,488

## 9 Net gain/ (loss) on financial assets - held for trading

### Accounting Policy

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

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial assets held for trading	(54,137)	132,900	(55,336)	137,172
	(54,137)	132,900	(55,336)	137,172

## 10 Other operating income

### Accounting Policy

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

### Gain from sale of available for sale financial investments

Gains from sale of available for sale financial investments are the amounts transferred from equity to the statement of comprehensive income on the derecognition of investments classified as available for sale investments.

### Dividend income

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

## Notes to the Financial Statements

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Dividend received from non trading investments	2,787	12,163	-	-
Gains from sale of available for sale financial investments	-	59	-	59
Profit/(loss) on sale of property & equipment including foreclosed properties	4,781	(795)	4,781	(775)
Other income	106,473	91,730	171,465	123,864
	<b>114,041</b>	<b>103,157</b>	<b>176,246</b>	<b>123,148</b>

### 11 Impairment charges for loans and other losses

#### Accounting Policy

The Company and Group recognise the changes in the impairment provisions for loans and receivables which are assessed as per LKAS 39 - Financial Instruments-recognition and measurement. The methodology adopted by the Company and the Group is explained in Note 22 to these financial statements.

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Loans and advances to customers				
Bills receivables	6,873	9,293	6,873	9,293
Loans & advances to customers	233,822	224,091	233,822	224,091
Lease and hire purchase rental receivables	221,456	482,451	221,456	482,451
Available for sale	-	3,600	-	3,600
Insurance receivables	-	-	12,467	-
Net written off during the year	-	960	-	960
	<b>462,151</b>	<b>720,395</b>	<b>474,618</b>	<b>720,395</b>

### 12 Personnel expenses

#### Accounting Policy

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

#### Defined contribution plan – Employees' Provident Fund and Employees' Trust Fund (EPF & ETF)

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

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff emoluments	549,122	557,692	681,242	666,251
Employers' contribution to defined contribution plans				
Employees' Provident Fund	49,186	30,412	66,676	45,997
Employees' Trust Fund	12,297	7,603	16,632	11,218
Other personnel expenses	60,135	42,225	92,566	80,977
	670,740	637,932	857,116	804,443

### 13 Other operating expenses

#### Accounting Policy

Other operating expenses are recognised in the statement of profit or loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property, plant & equipment in a state of efficiency has been charged to the statement of profit or loss in arriving at that profit for the year.

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Directors' emoluments	6,299	11,547	13,346	13,886
Auditors' remuneration				
Audit fees	1,568	3,649	2,745	4,579
Non audit fees	711	628	711	628
Professional & legal fees	26,302	37,156	31,195	46,117
Donations	231	70	256	70
Office administration & establishment expenses	211,027	318,440	290,125	394,004
Other	364,129	223,741	636,756	440,763
	610,267	595,231	975,134	900,047

### 14 Share of associate company's profit / (loss) before tax

for the year ended 31st December		Group	
		2015	2014
		Rs.'000	Rs.'000
<b>14.1 Share of associate company's profit / (loss) before tax</b>	Holding %		
Lanka Securities (Pvt) Ltd	29.00	7,080	17,208
		7,080	17,208
<b>14.2 Share of associate company's other comprehensive income</b>	Holding %		
Lanka Securities (Pvt) Ltd	29.00	(726)	(928)
		(726)	(928)

## Notes to the Financial Statements

### 15 Income tax expense

#### Accounting Policy

##### Current tax

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

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

for the year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Current tax</b>				
Current income tax	26,663	69,536	36,503	71,595
(Over)/ under provision of taxes in respect of prior years	-	(14,456)	9,948	(14,456)
<b>Deferred tax</b>				
Relating to origination and reversal of temporary differences				
Income statement	11,194	28,877	11,194	28,877
Other comprehensive income	11,072	(2,231)	11,072	(2,231)
	48,929	81,726	68,717	83,785
Tax charged to income statement	37,857	83,957	57,645	86,016
Tax charged to other comprehensive income	11,072	(2,231)	11,072	(2,231)
	48,929	81,726	68,717	83,785

#### Reconciliation of the total tax charged

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

for the year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Accounting profit before tax</b>	(53,362)	53,287	38,067	15,483
Income tax expense calculated at 28%	(14,941)	14,920	10,659	4,335
Add : Effect on disallowable expenses	1,674,348	1,559,274	1,705,002	1,598,097
Less : Effect on allowable expenses and exempt income	1,762,692	1,444,740	1,794,675	1,472,978
Adjusted trade profit	(103,285)	129,454	(79,014)	129,454
Less : Effect on utilisation of tax losses/qualifying payments	14,624	59,918	30,592	59,918
Add : Effect on tax losses on leasing business	144,572	-	144,572	-
Current tax on profit for the year	26,663	69,536	34,966	69,536
Income tax charged at 28%:	26,663	69,536	34,966	69,536
Share of associate company's current tax	-	-	1,537	2,059
Deferred tax charge/ (reversal) to income statement	11,194	28,877	11,194	28,877
Deferred tax charge/ (reversal) to other comprehensive income	11,072	(2,231)	11,072	(2,231)
(Over)/ Under provision in the previous years	-	(14,456)	9,948	(14,456)
Total income tax expense	48,929	81,726	68,717	83,785

## 16 Earnings / (loss) per share and Dividend per share

### 16.1 Basic earnings / (loss) per share

#### Accounting Policy

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

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

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
Profit / (loss) attributable to ordinary shareholders (Rs.'000)	(91,219)	(30,670)	(709)	(61,147)
Number of ordinary shares used as denominator ('000)	165,875	165,875	165,875	165,875
Basic earnings / (loss) per ordinary share (Rs.)	(0.55)	(0.18)	(0.004)	(0.37)

### 16.2 Dividend per share

for the year ended 31st December	Company		Group	
	2015	2014	2015	2014
<b>Declared and paid during the year</b>				
Dividends on ordinary shares (Rs.'000)	-	67,500	-	67,500
Dividend per share (Rs.)	-	0.50	-	0.50

## 17 Analysis of financial instruments by measurement basis

#### Accounting Policy

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

## Notes to the Financial Statements

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

#### 17.1 Company - 2015

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

	Held for Trading (FVPL)	Other Financial Liabilities at amortised cost	Total
<b>Liabilities</b>			
Due to banks	-	258,062	258,062
Securities sold under repurchase agreements	-	416,472	416,472
Due to customers	-	15,846,306	15,846,306
Debt issued and borrowed funds	-	7,883,323	7,883,323
Other liabilities	-	68,061	68,061
<b>Total financial liabilities</b>	<b>-</b>	<b>24,472,224</b>	<b>24,472,224</b>

**17 Analysis of financial Instruments by measurement basis (Contd.)****17.2 Company - 2014**

	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Rs. '000 Total
<b>Assets</b>					
Cash and cash equivalents	-	-	351,903	-	351,903
Placements with banks & financial institutions	-	-	1,674,998	-	1,674,998
Securities purchased under resale agreements	-	-	465,211	-	465,211
Financial investments - held for trading	882,176	-	-	-	882,176
Bills receivable	-	-	646,124	-	646,124
Loans & advances to customers	-	-	7,954,469	-	7,954,469
Lease and hire purchase receivable	-	-	12,168,389	-	12,168,389
Financial investments - available for sale	-	1,178,814	-	-	1,178,814
Financial investments - held to maturity	-	-	-	653,338	653,338
Other assets	-	-	104,413	-	104,413
<b>Total financial assets</b>	<b>882,176</b>	<b>1,178,814</b>	<b>23,365,507</b>	<b>653,338</b>	<b>26,079,835</b>
				Other Financial Liabilities at amortised cost	Total
<b>Liabilities</b>					
Due to banks			-	200,002	200,002
Securities sold under repurchase agreements			-	442,170	442,170
Due to customers			-	11,092,643	11,092,643
Debt issued and borrowed funds			-	11,141,793	11,141,793
Other liabilities			-	263,372	263,372
<b>Total financial liabilities</b>			<b>-</b>	<b>23,139,980</b>	<b>23,139,980</b>

## Notes to the Financial Statements

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

#### 17.3 Group - 2015

	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Rs: '000 Total
<b>Assets</b>					
Cash and cash equivalents	-	-	432,947	-	432,947
Placements with banks & financial institutions	-	-	571,672	-	571,672
Securities purchased under resale agreements	-	-	1,609,702	-	1,609,702
Financial investments - held for trading	552,741	-	-	-	552,741
Bills receivable	-	-	595,888	-	595,888
Loans & advances to customers	-	-	8,505,054	-	8,505,054
Lease and hire purchase receivable	-	-	14,223,259	-	14,223,259
Financial investments - available for sale	-	1,994,857	-	-	1,994,857
Financial investments - held to maturity	-	-	-	56,507	56,507
Other assets	-	-	87,458	-	87,458
<b>Total financial assets</b>	<b>552,741</b>	<b>1,994,857</b>	<b>26,025,980</b>	<b>56,507</b>	<b>28,630,085</b>
			Held for Trading (FVPL)	Other Financial Liabilities at amortised cost	Total
<b>Liabilities</b>					
Due to banks			-	273,968	273,968
Securities sold under repurchase agreements			-	416,472	416,472
Due to customers			-	15,846,306	15,846,306
Debt issued and borrowed funds			-	7,883,323	7,883,323
Other liabilities			-	367,986	367,986
<b>Total financial liabilities</b>			<b>-</b>	<b>24,788,055</b>	<b>24,788,055</b>

**17 Analysis of financial instruments by measurement basis (Contd.)****17.4 Group - 2014**

	Held for Trading (FVPL)	Available for Sale (AFS)	Loans and Receivables (L & R)	Held to Maturity (HTM)	Rs. '000 Total
<b>Assets</b>					
Cash and cash equivalents	-	-	406,132	-	406,132
Placements with banks & financial institutions	-	-	1,796,986	-	1,796,986
Securities purchased under resale agreements	-	-	1,313,486	-	1,313,486
Financial investments - held for trading	896,629	-	-	-	896,629
Bills receivable	-	-	646,124	-	646,124
Loans & advances to customers	-	-	8,097,427	-	8,097,427
Lease and hire purchase receivable	-	-	12,168,389	-	12,168,389
Financial investments - available for sale	-	1,221,417	-	-	1,221,417
Financial investments - held to maturity	-	-	-	653,338	653,338
Other assets	-	-	126,663	-	126,663
<b>Total financial assets</b>	<b>896,629</b>	<b>1,221,417</b>	<b>24,555,207</b>	<b>653,338</b>	<b>27,326,591</b>
			Held for Trading (FVPL)	Other Financial Liabilities at amortised cost	Total
<b>Liabilities</b>					
Due to banks			-	210,011	210,011
Securities sold under repurchase agreements			-	442,170	442,170
Due to customers			-	11,092,643	11,092,643
Debt issued and borrowed funds			-	11,141,793	11,141,793
Other liabilities			-	273,822	273,822
<b>Total financial liabilities</b>			<b>-</b>	<b>23,160,439</b>	<b>23,160,439</b>

## Notes to the Financial Statements

### 18 Cash and cash equivalents

#### Accounting Policy

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

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Cash in hand	129,765	30,274	129,765	30,916
Cash at bank	251,065	321,629	303,182	375,216
	380,830	351,903	432,947	406,132

### 19 Placements with banks & financial institutions

#### Accounting Policy

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

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Fixed Deposits	440,093	1,674,998	571,672	1,796,986
	440,093	1,674,998	571,672	1,796,986

### 20 Securities sold under repurchase agreements

Securities sold under agreements to repurchase at a specified future date are not derecognized from the statement of financial position as the group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognized in the consolidated statement of financial position as 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 resale agreements

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

as at 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>20.1 Assets</b>				
Reverse repurchased agreements	785,965	465,211	1,609,702	1,313,486
	785,965	465,211	1,609,702	1,313,486
<b>20.2 Liabilities</b>				
Repurchase agreements	416,472	442,170	416,472	442,170
	416,472	442,170	416,472	442,170

## 21 Financial investments - held for trading

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short -term profit or position taking. Financial investments held for trading are recorded in the Statement of Financial Position at fair value. Changes in the fair value are recognised in 'Net gain on financial assets designated at fair value through profit or loss'. Dividend income is recorded in 'Other operating income' according to the terms of the contract ,or when the right to receive the income has been established.

Financial investments held for trading include debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

as at 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Quoted equities and unit trusts	(Note 21.1) 539,556	879,776	550,327	894,229
Debt securities	(Note 21.2) 2,414	2,400	2,414	2,400
	541,970	882,176	552,741	896,629

## Notes to the Financial Statements

### 21.1 Quoted equities and unit trusts

Company	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Bank, Finance and Insurance</b>						
A I A Insurance Lanka PLC	-	2,078	-	667	-	628
Asia Asset Finance PLC	2,500,000	1,000,000	4,350	1,850	4,249	1,900
Citizens Development Business Finance PLC-Non Voting	44,733	9,639	3,992	732	3,579	713
HNB Assurance PLC	7,500	28,600	621	2,584	560	2,388
Sanasa Development Bank PLC	-	152,350	-	12,059	-	13,953
Softlogic Capital PLC	-	70,999	-	504	-	511
Vallibel Finance PLC	-	319,054	-	14,399	-	14,676
Citizens Development Business Finance PLC	-	30,000	-	435	-	423
Commercial Bank of Ceylon PLC	10,000	-	1,745	-	1,402	-
Commercial Bank of Ceylon PLC - Non Voting	68,018	33,018	8,367	3,681	8,366	4,131
Development Finance Corporation of Ceylon PLC	120,000	120,000	24,993	24,993	20,172	26,280
Hatton National Bank PLC-Non Voting	15,000	-	2,625	-	2,669	-
Janashakthi Insurance Company PLC	674,893	-	13,072	-	11,811	-
Lanka Orix Leasing Co. PLC	126,600	75,000	14,642	9,626	11,900	6,600
National Development Bank PLC	67,704	-	15,688	-	13,141	-
Nations Trust Bank PLC	210,032	50,000	20,657	4,804	18,126	4,850
Sampath Bank PLC	25,000	5,000	6,283	1,416	6,200	1,182
Seylan Bank PLC	135,000	199,968	13,846	18,117	12,825	18,997
Seylan Bank PLC-Non Voting	375,000	425,138	20,227	21,505	27,375	24,445
Union Bank of Colombo PLC	-	642,300	-	14,507	-	16,250
Housing Development Finance Corporation PLC	27,000	-	1,866	-	1,812	-
Chilaw Finance PLC	35,104	-	768	-	803	-
Softlogic Finance PLC	60,515	-	3,340	-	3,141	-
Ceylinco Insurance PLC	2,810	-	4,426	-	4,175	-
The Finance Company PLC	200,000	-	1,000	-	900	-
Central Finance PLC	39,894	-	10,531	-	10,092	-
First Capital Holdings PLC	-	17,714	-	935	-	833
			173,039	132,814	163,298	138,760

**21.1 Quoted equities and unit trusts (Contd.)**

Company	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Diversified Holdings</b>						
Browns Investment PLC	1,953,034	5,644,914	5,216	15,074	2,734	10,725
Aitken Spence PLC	115,000	160,997	11,616	16,276	11,121	16,663
The Colombo Fort Land & Building PLC	45,000	-	1,230	-	1,031	-
Expo Lanka Holdings PLC	-	157,041	-	1,508	-	1,351
Hemas Holdings PLC	117,803	-	10,013	-	10,944	-
Vallibel One PLC	147,230	890,735	3,079	20,547	3,165	23,440
Free Lanka Capital Holdings PLC	-	102,300	-	567	-	205
CT Holdings PLC	20,000	20,000	4,206	4,206	2,800	2,860
Softlogic Holdings PLC	220,000	107,653	3,376	1,837	3,410	1,776
Adam Capital PLC	200,000	-	520	-	420	-
John Keells Holdings PLC	246,549	86,115	45,600	20,426	43,910	21,529
John Keells Holdings PLC (Warrants - 23)	445,529	280,323	24,160	20,141	14,391	20,324
John Keells Holdings PLC (Warrants - 22)	-	48,297	-	3,837	-	3,284
			109,016	104,419	93,926	102,157
<b>Construction and Engineering</b>						
Access Engineering PLC	620,442	495,442	19,854	16,642	14,332	15,904
Commercial Development PLC	4,649	-	451	-	430	-
MDT Walkers PLC	130,000	-	7,745	-	6,656	-
Colombo Dockyard PLC	17,918	7,527	3,537	1,824	2,689	1,453
			31,587	18,466	24,107	17,357
<b>Beverages, Food and Tobacco</b>						
Distilleries Co of Sri Lanka PLC	185,000	186,617	35,732	36,044	45,510	39,188
Renuka Agri Foods PLC	752,274	80,521	3,177	372	3,084	387
Ceylon Tobacco Company PLC	5,000	-	4,450	-	4,963	-
Keells Food Products PLC	10,729	-	1,899	-	2,227	-
Renuka Shaw Wallace PLC -Non Voting	-	1,318	-	28	-	32
Lucky Lanka Milk Processing PLC	3,057,722	3,053,822	18,265	18,251	10,396	14,964
Lucky Lanka Milk Processing PLC-Non Voting	-	134,700	-	404	-	377
Three Acre Farms PLC	-	201,581	-	10,853	-	10,281
			63,523	65,952	66,180	65,229

## Notes to the Financial Statements

### 21.1 Quoted equities and unit trusts (Contd.)

Company	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Hotels and Travel</b>						
Asian Hotels & Properties PLC	206,214	206,214	15,430	15,430	12,187	13,981
Dolphin Hotels PLC	-	15,000	-	533	-	828
Palm Garden Hotels PLC	-	36,868	-	4,845	-	2,949
Eden Hotel Lanka PLC	127,743	127,743	3,677	3,677	2,236	3,283
Amaya Leisure PLC	-	8,770	-	714	-	745
Aitken Spence Hotel Holdings PLC	63,219	63,219	5,793	5,795	4,299	4,963
The Kingsbury PLC	1,937,727	1,914,030	41,845	41,450	33,910	34,453
Confifi Hotel Holdings PLC	147,472	-	10,928	-	5,619	-
Serendib Hotels PLC-Non Voting	-	39,037	-	958	-	910
Galadari Hotel PLC	610,387	418,116	8,915	6,232	6,409	6,063
Marawila Resorts PLC	959,168	479,584	4,656	3,217	2,686	2,872
John Keells Hotels PLC	75,000	30,941	1,175	519	1,155	526
Beruwala Resorts PLC	-	108,992	-	205	-	207
Ceylon Hotel Corporation PLC	7,326	-	187	-	185	-
Bansei Royal Resorts Hikkaduwa PLC	28,600	-	306	-	257	-
			92,912	83,575	68,943	71,780
<b>Manufacturing</b>						
ACL Cables PLC	40,000	32,500	4,323	2,511	4,836	2,483
ACL Plastics PLC	-	12,200	-	1,639	-	1,525
Abans Electricals PLC	-	132,073	-	16,484	-	15,651
Pelwatte Sugar Industries PLC	41,600	41,600	1,799	1,799	978	978
Tokyo Cement Co. (Lanka) PLC - Non Voting	25,000	-	1,043	-	988	-
Royal Ceramic Lanka PLC	-	45,000	-	5,147	-	5,260
Piramal Glass Ceylon PLC	800,000	-	5,100	-	4,880	-
Central Industries PLC	-	154,603	-	11,909	-	13,296
ACME Printing & Packaging PLC	131,023	-	1,198	-	1,074	-
Ceylon Grain Elevators PLC	-	83,610	-	4,192	-	3,428
Dankotuwa Porcelain PLC	630,902	188,753	6,301	2,746	5,363	2,737
Textured Jersey PLC	75,000	497,466	1,700	9,704	2,663	10,248
Lanka Tiles PLC	46,253	-	5,565	-	5,129	-
Eastern Merchants PLC	132,667	-	1,244	-	1,167	-
Kelani Tyres PLC	115,000	27,800	9,023	2,022	8,913	2,191
Hayleys Mgt Kinitting Mills PLC	-	166,239	-	2,927	-	2,893
Agstar Fertilizers PLC	418,173	-	2,834	-	2,676	-
Sierra Cables PLC	1,423,758	-	6,307	-	5,695	-
			46,437	61,080	44,362	60,690

**21.1 Quoted equities and unit trusts (Contd.)**

Company	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Trading</b>						
Ceylon & Foreign Trades PLC	3,595	100,000	27	1,042	23	750
C.W.Mackie PLC	-	42,483	-	3,060	-	2,506
Singer Sri Lanka PLC	-	1,548	-	184	-	183
Brown and Company PLC	5,178	22,000	539	3,060	523	2,354
Tess Agro PLC- Non Voting	430,298	165,570	770	215	688	215
			1,336	7,561	1,234	6,008
<b>Stores &amp; Supplies</b>						
Ceylon Tea Brokers PLC	192,655	-	937	-	713	-
			937	-	713	-
<b>Power and Energy</b>						
Hemas Power PLC	-	145	-	4	-	3
Vallibel Power Erathna PLC	500,000	-	4,608	-	4,450	-
Laugfs Gas PLC	-	7,500	-	267	-	304
Laugfs Gas PLC - Non Voting	25,000	1,090	1,000	24	953	41
Lanka IOC PLC	100,000	100,000	5,424	6,000	3,710	6,000
			11,032	6,295	9,113	6,348
<b>Health Care</b>						
Asiri Hospitals PLC	-	50,000	-	1,150	-	1,080
Nawaloka Hospitals PLC	3,800,000	4,481,290	14,627	17,250	12,540	14,788
			14,627	18,400	12,540	15,868
<b>Land and Property</b>						
Colombo Land & Developemnt Co PLC	228,583	228,583	9,178	9,178	5,852	8,412
Serendib Land PLC	75	-	172	-	159	-
Overseas Realty (Ceylon) PLC	481,042	60,000	11,427	1,316	11,160	1,578
East West Properties PLC	-	92,111	-	1,276	-	1,179
			20,777	11,770	17,171	11,169

## Notes to the Financial Statements

### 21.1 Quoted equities and unit trusts (Contd.)

Company	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Chemical &amp; Pharmaceuticals</b>						
CIC Holdings PLC	-	42,120	-	3,063	-	3,115
CIC Holdings PLC - Non Voting	-	19,829	-	1,349	-	1,317
Col. Pharmacy	-	1,215	-	793	-	762
Chemanex PLC	-	9,519	-	836	-	762
Haycarb PLC	-	14,760	-	2,582	-	2,553
Muller & Phipps (Ceylon) PLC	-	375,000	-	700	-	563
			-	9,323	-	9,072
<b>Plantation</b>						
Balangoda Plantations PLC	497,486	487,609	14,996	14,788	8,756	12,922
Kotagala Plantations PLC	67,444	137,097	2,644	5,374	1,201	4,332
Elpitiya Plantations PLC	223,646	225,379	5,623	5,667	4,764	5,116
Talawakelle Tea Estates PLC	-	85,025	-	2,970	-	2,806
Kegalle Plantations PLC	-	13,000	-	1,301	-	1,222
			23,263	30,100	14,721	26,398
<b>Investment Trust</b>						
Renuka Holding PLC	76,441	126,987	3,471	5,919	2,056	4,000
Ceylon Guardian Investment Trust PLC	-	5,000	-	1,000	-	975
Taproben Holdings PLC	-	2,000,000	-	10,063	-	9,200
Ceylon Investment PLC	91,164	36,020	8,893	3,794	7,257	3,512
Lanka Century PLC	393,822	52,500	5,695	838	4,765	819
			18,059	21,614	14,078	18,506
<b>Motors</b>						
Sathosa Motors PLC	-	4,648	-	1,746	-	1,139
CM Holdings PLC	-	16,000	-	2,111	-	2,066
			-	3,857	-	3,205
<b>Telecommunication</b>						
Dialog Telecom PLC	813,665	250,000	9,346	3,250	8,706	3,325
			9,346	3,250	8,706	3,325

**21.1 Quoted equities and unit trusts (Contd.)**

Company	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Footwear &amp; Textiles</b>						
Ceylon Leather Products PLC	5,770	-	481	-	444	-
			481	-	444	-
<b>Service</b>						
Paragon Ceylon PLC	20	-	19	-	20	-
			19	-	20	-
<b>Unit Trusts</b>						
Namal Acquity Value Fund	-	30,900	-	2,863	-	2,784
Eagle Money Plus Fund	-	20,034,656	-	321,121	-	321,120
			-	323,984	-	323,904
Total value of quoted equities and unit trusts			616,391	902,460	539,556	879,776
<b>21.2 Other debt securities</b>						
Commercial Credit & Finance PLC	20,000	20,000	2,141	2,141	2,414	2,400
Total value of listed debentures			2,141	2,141	2,414	2,400
Total value of financial assets at fair value through profit or loss			618,532	904,601	541,970	882,176
Marked to market valuation loss			(76,562)	(22,425)	-	-
Fair value of financial assets designated at fair value through profit or loss			541,970	882,176	541,970	882,176

## Notes to the Financial Statements

### 21.1 Quoted equities and unit trusts (Contd.)

Group	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Bank, Finance and Insurance</b>						
A I A Insurance Lanka PLC	-	2,078	-	667	-	628
Asia Asset Finance PLC	2,520,000	1,020,000	4,388	1,891	4,281	1,941
Citizens Development Business Finance PLC - Non Voting	44,733	9,639	3,992	732	3,579	713
HNB Assurance PLC	7,500	28,600	621	2,584	560	2,388
Sanasa Development Bank PLC	-	152,350	-	12,059	-	13,953
Softlogic Capital PLC	-	70,999	-	504	-	511
Vallibel Finance PLC	-	319,054	-	14,399	-	14,676
Citizens Development Business Finance PLC	-	30,000	-	435	-	423
Commercial Bank of Ceylon PLC	10,000	-	1,745	-	1,402	-
Commercial Bank of Ceylon PLC-Non Voting	68,018	33,018	8,367	3,681	8,366	4,131
Development Finance Corporation of Ceylon PLC	120,000	120,000	24,993	24,993	20,172	26,280
Hatton National Bank PLC-Non Voting	15,000	-	2,625	-	2,669	-
Janashakthi Insurance Company PLC	674,893	-	13,072	-	11,811	-
Lanka Orix Leasing Co. PLC	126,600	75,000	14,642	9,626	11,900	6,600
National Development Bank PLC	67,704	-	15,688	-	13,141	-
Nations Trust Bank PLC	210,032	50,000	20,657	4,804	18,126	4,850
Sampath Bank PLC	25,000	5,000	6,283	1,416	6,200	1,182
Seylan Bank PLC	135,000	219,968	13,846	19,197	12,825	20,147
Seylan Bank PLC-Non Voting	375,000	425,138	20,227	21,505	27,375	24,445
Union Bank of Colombo PLC	-	662,300	-	14,970	-	16,756
Housing Development Finance Corporation PLC	27,000	-	1,866	-	1,812	-
Chilaw Finance PLC	38,857	4,753	855	110	897	129
Softlogic Finance PLC	60,515	-	3,340	-	3,141	-
Ceylinco Insurance PLC	2,810	-	4,426	-	4,175	-
The Finance Company PLC	200,000	-	1,000	-	900	-
Central Finance PLC	39,894	-	10,531	-	10,092	-
Swarnamahal Financial Services PLC	25,831	25,831	143	143	41	54
First Capital Holdings PLC	-	17,714	-	935	-	833
			173,307	134,651	163,465	140,640

**21.1 Quoted equities and unit trusts (Contd.)**

Group	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Diversified Holdings</b>						
Browns Investment PLC	1,953,034	5,644,914	5,216	15,074	2,734	10,725
Aitken Spence PLC	115,000	160,997	11,616	16,276	11,121	16,663
The Colombo Fort Land & Building PLC	45,000	-	1,230	-	1,031	-
Expo Lanka Holdings PLC	-	157,041	-	1,508	-	1,351
Hemas Holdings PLC	117,803	-	10,013	-	10,944	-
Vallibel One PLC	147,230	890,735	3,079	20,547	3,165	23,440
Free Lanka Capital Holdings PLC	-	102,300	-	567	-	205
CT Holdings PLC	20,000	20,000	4,206	4,206	2,800	2,860
Softlogic Holdings PLC	220,000	107,653	3,376	1,837	3,410	1,776
Adam Capital PLC	1,200,000	1,000,000	3,250	2,730	2,520	2,400
John Keells Holdings PLC	250,793	89,829	46,507	21,367	44,668	22,458
John Keells Holdings PLC (Warrants 23)	445,529	280,323	24,160	20,141	14,391	20,324
John Keells Holdings PLC (Warrants - 22)	-	48,297	-	3,837	-	3,284
			112,653	108,090	96,784	105,486
<b>Construction and Engineering</b>						
Access Engineering PLC	620,442	495,442	19,854	16,642	14,332	15,904
Commercial Development PLC	4,649	-	451	-	430	-
MDT Walkers PLC	130,000	-	7,745	-	6,656	-
Colombo Dockyard PLC	17,918	7,527	3,537	1,824	2,689	1,453
			31,587	18,466	24,107	17,357
<b>Beverages, Food and Tobacco</b>						
Distilleries Co of Sri Lanka PLC	185,000	186,617	35,732	36,044	45,510	39,188
Renuka Agri Foods PLC	752,274	80,521	3,177	372	3,084	387
Ceylon Tobacco Company PLC	5,000	-	4,450	-	4,963	-
Keells Food Products PLC	10,729	-	1,899	-	2,227	-
Renuka Shaw Wallace PLC -Non Voting	-	1,318	-	28	-	32
Lucky Lanka Milk Processing PLC	3,057,722	3,053,822	18,265	18,251	10,396	14,964
Lucky Lanka Milk Processing PLC-Non Voting	-	134,700	-	404	-	377
Three Acre Farms PLC	-	201,581	-	10,853	-	10,281
			63,523	65,952	66,180	65,229

## Notes to the Financial Statements

### 21.1 Quoted equities and unit trusts (Contd.)

Group	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Hotels and Travel</b>						
Asian Hotels & Properties PLC	206,214	206,214	15,430	15,430	12,187	13,981
Dolphin Hotels PLC	-	15,000	-	533	-	828
Palm Garden Hotels PLC	-	36,868	-	4,845	-	2,949
Eden Hotel Lanka PLC	127,743	127,743	3,677	3,677	2,236	3,283
Amaya Leisure PLC	-	8,770	-	714	-	745
Aitken Spence Hotel Holdings PLC	63,219	63,219	5,793	5,795	4,299	4,963
The Kingsbury PLC	1,937,727	1,914,081	41,845	41,451	33,910	34,454
Confifi Hotel Holdings PLC	147,472	-	10,928	-	5,619	-
Serendib Hotels PLC-Non Voting	-	39,037	-	958	-	910
Galadari Hotel PLC	610,387	418,116	8,915	6,232	6,409	6,063
Marawila Resorts PLC	959,168	479,584	4,656	3,217	2,686	2,870
John Keells Hotels PLC	75,000	30,941	1,175	519	1,155	526
Beruwala Resorts PLC	-	108,992	-	205	-	207
Ceylon Hotel Corporation PLC	7,326	-	187	-	185	-
Bansei Royal Resorts Hikkaduwa PLC	28,600	-	306	-	257	-
			92,912	83,576	68,943	71,779
<b>Manufacturing</b>						
ACL Cables PLC	40,000	32,500	4,323	2,511	4,836	2,483
ACL Plastics PLC	-	12,200	-	1,639	-	1,525
Abans Electricals PLC	-	132,073	-	16,484	-	15,651
Bogala Graphic PLC	-	34,830	-	878	-	1,090
Pelwatte Sugar Industries PLC	68,400	68,400	2,925	2,925	978	1,608
Tokyo Cement Co.(Lanka) PLC - Non Voting	25,000	-	1,043	-	988	-
Royal Ceramic Lanka PLC	-	45,000	-	5,147	-	5,260
Piramal Glass Ceylon PLC	800,000	-	5,100	-	4,880	-
Central Industries PLC	-	154,603	-	11,909	-	13,296
ACME Printing & Packaging PLC	131,023	-	1,198	-	1,074	-
Ceylon Grain Elevators PLC	-	83,610	-	4,192	-	3,428
Dankotuwa Porcelain PLC	630,902	188,753	6,301	2,746	5,363	2,737
Textured Jersey PLC	75,000	497,466	1,700	9,704	2,663	10,248
Lanka Tiles PLC	46,253	-	5,565	-	5,129	-

**21.1 Quoted equities and unit trusts (Contd.)**

Group	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Eastern Merchants PLC	132,667	-	1,244	-	1,167	-
Kelani Tyres PLC	115,000	27,800	9,023	2,022	8,913	2,191
Hayleys Mgt Kinitting Mills PLC	-	166,239	-	2,927	-	2,893
Agstar Fertilizers PLC	418,173	-	2,834	-	2,676	-
Sierra Cables PLC	1,423,758	-	6,307	-	5,695	-
			47,563	63,084	44,362	62,410
<b>Trading</b>						
Ceylon & Foreign Trades PLC	3,595	100,000	27	1,042	23	750
Singer Sri Lanka PLC	-	1,548	-	184	-	183
C. W. Mackie PLC	-	42,483	-	3,060	-	2,506
Brown and Company PLC	5,178	22,000	539	3,060	523	2,354
Tess Agro PLC- Non Voting	430,298	165,570	770	215	688	215
			1,336	7,561	1,234	6,008
<b>Stores &amp; Supplies</b>						
Ceylon Tea Brokers PLC	192,655	-	937	-	713	-
			937	-	713	-
<b>Power and Energy</b>						
Hemas Power PLC	-	145	-	4	-	3
Vallibel Power Erathna PLC	500,000	-	4,608	-	4,450	-
Laugfs Gas PLC	-	7,500	-	267	-	304
Laugfs Gas PLC - Non Voting	25,000	1,090	1,000	24	953	41
Resus Energy PLC	172,737	172,737	3,407	3,407	4,301	3,126
Lanka IOC PLC	100,000	100,000	5,424	6,000	3,710	6,000
			14,439	9,702	13,414	9,474
<b>Health Care</b>						
Asiri Hospitals PLC	-	50,000	-	1,150	-	1,080
Nawaloka Hospitals PLC	3,800,000	4,481,290	14,627	17,250	12,540	14,788
			14,627	18,400	12,540	15,868

## Notes to the Financial Statements

### 21.1 Quoted equities and unit trusts (Contd.)

Group	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Land and Property</b>						
Colombo Land & Development Co PLC	231,283	231,283	9,274	9,274	5,918	8,511
Seylan Development PLC	-	66	-	1	-	1
Serendib Land PLC	75	-	172	-	159	-
Overseas Realty (Ceylon) PLC	481,042	60,000	11,427	1,316	11,160	1,578
East West Properties PLC	-	92,111	-	1,276	-	1,179
			20,873	11,867	17,237	11,269
<b>Chemical &amp; Pharmaceuticals</b>						
CIC Holdings PLC	-	42,120	-	3,063	-	3,115
CIC Holdings PLC - Non Voting	-	19,829	-	1,349	-	1,317
PC Pharma PLC	1,400,000	1,400,000	4,045	4,045	840	1,960
Chemanex PLC	-	9,519	-	836	-	762
Col. Pharmacy	-	1,215	-	793	-	762
Haycarb PLC	-	14,760	-	2,582	-	2,553
Muller & Phipps (Ceylon) PLC	-	375,000	-	700	-	563
			4,045	13,368	840	11,032
<b>Plantation</b>						
Balangoda Plantations PLC	497,486	487,609	14,996	14,788	8,756	12,922
Kotagala Plantations PLC	67,444	137,097	2,644	5,374	1,201	4,332
Guardian Capital Partners PLC	18,472	18,472	1,006	1,006	741	803
Agalawatta Plantations PLC	7,230	7,230	217	217	148	196
Elpitiya Plantations PLC	223,646	225,379	5,623	5,667	4,764	5,116
Talawakelle Tea Estates PLC	-	85,025	-	2,970	-	2,806
Kegalle Plantations PLC	-	13,000	-	1,301	-	1,222
			24,486	31,323	15,610	27,397
<b>Investment Trust</b>						
Renuka Holding PLC	76,441	126,987	3,471	5,919	2,056	4,000
Equity One PLC	26,664	26,664	977	977	1,299	1,187
Ceylon Guardian Investment Trust PLC	-	5,000	-	1,000	-	975
Taproben Holdings PLC	-	2,000,002	-	10,063	-	9,200
Ceylon Investment PLC	91,164	36,020	8,893	3,794	7,257	3,512
Lanka Century PLC	393,822	52,500	5,695	838	4,765	819
			19,036	22,591	15,377	19,693

**21.1 Quoted equities and unit trusts (Contd.)**

Group	No of Shares		Cost		Fair Value	
	2015	2014	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>Motors</b>						
Sathosa Motors PLC	-	4,648	-	1,746	-	1,139
CM Holdings PLC	-	16,000	-	2,111	-	2,066
			-	3,857	-	3,205
<b>Telecommunication</b>						
Dialog Telecom PLC	813,665	250,000	9,346	3,250	8,706	3,325
			9,346	3,250	8,706	3,325
<b>Footwear &amp; Textiles</b>						
Ceylon Leather Products PLC	5,770	-	481	-	444	-
			481	-	444	-
<b>Service</b>						
Paragon Ceylon PLC	20	-	19	-	20	-
Kalamazoo Systems PLC	135	135	172	172	351	153
			191	172	371	153
<b>Unit Trusts</b>						
Namal Acquity Value Fund	-	30,900	-	2,863	-	2,784
Eagle Money Plus Fund	-	20,034,656	-	321,121	-	321,120
			-	323,984	-	323,904
Total value of quoted equities and unit trusts			631,342	919,894	550,327	894,229
<b>21.2 Other debt securities</b>						
Commercial Credit & Finance PLC	20,000	20,000	2,141	2,141	2,414	2,400
Total value of listed debentures			2,141	2,141	2,414	2,400
Total value of financial assets at fair value through profit or loss			633,483	922,035	552,741	896,629
Marked to market valuation loss			(80,742)	(25,406)	-	-
Fair value of financial assets designated at fair value through profit or loss			552,741	896,629	552,741	896,629

## Notes to the Financial Statements

### 22 Loans & receivables to customers

#### Accounting Policy

'Loans and advances to customers', include non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, 'Loans and advances to customers' are subsequently measured at amortized cost using the EIR, less allowance for impairment. Amortized cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortization is included in 'Interest income' in the income statement.

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

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

#### Lease and hire purchase receivables

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

#### Group as a lessor

Assets leased to customers, to who the Company 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.

#### 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.

#### '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'.

### 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.

### Impairment of financial assets carried at amortized cost

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

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

## Notes to the Financial Statements

### 22.1 Bills receivable

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Bills discounted	730,125	792,178	730,125	792,178
Deferred income	(1,613)	(2,760)	(1,613)	(2,760)
	728,512	789,418	728,512	789,418
Less: Allowance for impairment losses (Note 22.1.1)	132,624	143,294	132,624	143,294
	595,888	646,124	595,888	646,124

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

##### Individual impairment charges

As at 01st January	137,193	124,426	137,193	124,426
Charge / (write back) to income statement	1,406	12,767	1,406	12,767
Write off during the year	(17,543)	-	(17,543)	-
<b>as at 31st December</b>	<b>121,056</b>	<b>137,193</b>	<b>121,056</b>	<b>137,193</b>

##### Collective impairment charges

As at 01st January	6,101	9,575	6,101	9,575
Charge / (write back) to income statement	5,467	(3,474)	5,467	(3,474)
<b>as at 31st December</b>	<b>11,568</b>	<b>6,101</b>	<b>11,568</b>	<b>6,101</b>
<b>Total</b>	<b>132,624</b>	<b>143,294</b>	<b>132,624</b>	<b>143,294</b>

### 22.2 Loans & advances to customers

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Term loans	5,172,063	5,854,991	5,172,063	5,854,991
Personal loans	2,375,653	1,185,327	2,375,653	1,185,327
Cheque discounting	41,525	43,257	41,525	43,257
Staff loans	226,700	249,014	226,700	249,014
Textile debt recovery fund	1,735	1,735	1,735	1,735
Susahana loan scheme	1,359	1,359	1,359	1,359
Margin trading	189,118	148,613	189,118	148,613
Micro finance	623,030	425,866	623,030	425,866
Commercial papers and other placements	-	50,000	94,380	188,479
Pawning	196,843	175,359	196,843	175,359
Real estate loans	58,914	25,903	58,914	25,903
Loans to life policy holders	-	-	4,042	4,479
Loans against fixed deposits	200,507	250,082	200,507	250,082
	9,087,447	8,411,506	9,185,869	8,554,464
Less: Allowance for impairment losses (Note 22.2.1)	680,815	457,037	680,815	457,037
<b>Net loans and advances to customers</b>	<b>8,406,632</b>	<b>7,954,469</b>	<b>8,505,054</b>	<b>8,097,427</b>

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

	Company		Group	
	2015	2014	2015	2014
as at 31st December	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Individual impairment charges</b>				
As at 01st January	320,530	176,405	320,530	176,405
Charge / (write back) to income statement	102,905	169,193	102,905	169,193
Write off during the year	(10,044)	(25,068)	(10,044)	(25,068)
<b>as at 31st December</b>	<b>413,391</b>	<b>320,530</b>	<b>413,391</b>	<b>320,530</b>
<b>Collective impairment charges</b>				
As at 01st January	136,507	83,606	136,507	83,606
Charge / (write back) to income statement	130,917	54,898	130,917	54,898
Write off during the year	-	(1,997)	-	(1,997)
<b>as at 31st December</b>	<b>267,424</b>	<b>136,507</b>	<b>267,424</b>	<b>136,507</b>
<b>Total</b>	<b>680,815</b>	<b>457,037</b>	<b>680,815</b>	<b>457,037</b>

**22.3 Lease and hire purchase receivable**

	Company		Group	
	2015	2014	2015	2014
as at 31st December	Rs.'000	Rs.'000	Rs.'000	Rs.'000

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

Total lease rental receivable	18,484,420	16,149,816	18,484,420	16,149,816
Less: Lease rental receivable after one year	12,132,089	7,276,698	12,132,089	7,276,698
Lease rental receivable within one year from the reporting date	6,352,331	8,873,118	6,352,331	8,873,118
Less : Unearned lease income	1,821,306	3,032,622	1,821,306	3,032,622
	4,531,025	5,840,496	4,531,025	5,840,496

**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	12,132,089	7,276,698	12,132,089	7,276,698
Less : Unearned lease income	1,755,297	329,759	1,755,297	329,759
	10,376,792	6,946,939	10,376,792	6,946,939
Less : Provision for impairment (Note 22.3.c)	684,558	619,046	684,558	619,046
Net investment in leases and hire purchase	14,223,259	12,168,389	14,223,259	12,168,389

## Notes to the Financial Statements

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000

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

#### Individual impairment charges

As at 01st January	473,394	277,719	473,394	277,719
Charge / (write back) to income statement	196,065	449,814	196,065	449,814
Write off during the year	(155,944)	(254,139)	(155,944)	(254,139)
<b>as at 31st December</b>	<b>513,515</b>	<b>473,394</b>	<b>513,515</b>	<b>473,394</b>

#### Collective impairment charges

As at 01st January	145,652	189,754	145,652	189,754
Charge / (write back) to income statement	25,391	32,637	25,391	32,637
Write off during the year	-	(76,739)	-	(76,739)
<b>as at 31st December</b>	<b>171,043</b>	<b>145,652</b>	<b>171,043</b>	<b>145,652</b>
<b>Total</b>	<b>684,558</b>	<b>619,046</b>	<b>684,558</b>	<b>619,046</b>

### 22.4 Non-performing loans and advances

Net exposure on non-performing loans and advances as at 31st December, before discounting the value of the securities obtained is given below:

Bills receivable	263,031	235,316	263,031	235,316
Loans and advances	1,813,393	1,344,560	1,813,393	1,344,560
Lease / hire purchase receivable	1,230,353	1,313,577	1,230,353	1,313,577
Gross non-performing loans and advances	3,306,777	2,893,453	3,306,777	2,893,453
Less: Provision for impairment	1,497,997	1,219,377	1,497,997	1,219,377
Net exposure	1,808,780	1,674,076	1,808,780	1,674,076
Percentage of gross non-performing loans	13.37%	13.16%	13.32%	13.07%
Percentage of net exposure	7.32%	7.61%	7.29%	7.56%

#### Collaterals given

The carrying amount of lease rentals pledge as collateral as at 31st December 2015 was Rs. 130,000,000 (2014: Rs. 112,500,000) against over draft facility.

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

### 23 Financial investments - available for sale

#### Accounting Policy

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in the market conditions.

After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealized gains and losses are recognized directly in equity (other comprehensive income) in the 'available-for-sale reserve'. When the investment is disposed of, the cumulative gain or loss previously recognized in equity is recognized in the income statement in 'other operating income'. Interest earned whilst holding available-for-sale financial investments is reported as 'interest income' using the EIR.

Dividends earned, whilst holding available-for-sale financial investments are recognized in the income statement as 'net trading income', when the right of the payment has been established. The losses arising from impairment of such investments are recognized in the income statement in 'impairment losses on financial investments' and removed from the 'available-for-sale reserve'.

#### 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.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Government securities (Note 23.1)	1,712,896	1,158,235	1,944,534	1,193,447
Quoted investments	-	-	9,013	7,391
Unquoted investments (Note 23.2)	41,310	20,579	41,310	20,579
Total financial investments - Available for sale	1,754,206	1,178,814	1,994,857	1,221,417

#### 23.1 Government Securities

Treasury bills	1,129,328	195,793	1,223,698	195,793
Treasury bonds	583,568	962,442	720,836	997,654
	1,712,896	1,158,235	1,944,534	1,193,447



**24 Financial investments - held to maturity****Accounting Policy**

Held to Maturity financial investments are non-derivative financial assets with fixed or determinable payments and fixed maturity dates, which the Group has the positive intention and ability to hold to maturity. Subsequent to initial recognition, held-to-maturity investments are measured at amortised cost using the effective interest method less any impairment. Amortised cost is calculated by taking in to accounting any discount or premium on acquisition and fees that are an integral part of the EIR. The amortization is included in 'interest income' in the Statement of 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.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Debt securities - Treasury bonds	56,507	653,338	56,507	653,338
	56,507	653,338	56,507	653,338

**25 Investment in associate company****Accounting Policy**

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

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

After application of the equity method, the Group determines whether it is necessary to recognize an additional impairment loss on the Group's investment in its associate. The Group determines at each reporting date whether there is any objective evidence that the investment in the associate is impaired. If this is the case, the Group calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognizes the amount in the 'share of profit of an associate' in the income statement.

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

## Notes to the Financial Statements

as at 31st December	Company							
	Country of Incorporation	Principal Activity	No. of Shares	Holding %	2015		2014	
					Cost	Directors'	Cost	Directors'
					Valuation		Valuation	
Rs.'000	Rs.'000	Rs.'000	Rs.'000					
<b>Unquoted</b>								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,067,750	29.00%	81,084	81,084	81,084	81,084
Balance as at 31st December					81,084	81,084	81,084	81,084

### 25.1 Carrying value on equity basis

as at 31st December	Group	
	Lanka Securities (Pvt) Ltd	
	2015	2014
	Rs.'000	Rs.'000
Net assets at the beginning of the year	94,454	92,396
Add: Profit / (loss) before tax accruing to the group	7,080	17,208
Less: Income tax	(1,537)	(2,059)
Add: Other comprehensive income for the year	(726)	(928)
Less: Dividend received	(2,787)	(12,163)
<b>Net assets at the end of the year</b>	<b>96,484</b>	<b>94,454</b>

### 25.2 Summarized financial information of associate

for the year ended 31st December	Lanka Securities (Pvt) Ltd	
	2015	2014
	Rs.'000	Rs.'000
Income	159,255	186,479
Less : Expenses	134,842	127,140
Profit before taxation	24,413	59,339
Less : Income tax expense / (reversal)	5,299	7,102
<b>Profit for the period</b>	<b>19,114</b>	<b>52,237</b>
Other comprehensive income	(2,504)	(3,200)
<b>Total comprehensive income for the period</b>	<b>16,610</b>	<b>49,037</b>

as at 31st December	2015	2014
	Rs.'000	Rs.'000
Total assets	478,049	501,451
Total liabilities	145,347	175,747

**26 Investment in subsidiary****Accounting Policy**

Investment in subsidiaries are stated at cost, net of any impairment losses which are charged to the Income Statement and it is in accordance with the Sri Lanka Accounting Standards LKAS 27 - Separate Financial Statements.

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. Non-controlling interests are presented separately in the consolidated financial statement of profit or loss and within equity in the consolidated statement of financial position, but separate from parent shareholder's equity. 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. Upon the loss of control, the Group derecognises the assets (including goodwill) 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 loss of control is recognised in the statement of changes in equity. 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 an equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

as at 31st December	Country of Incorporation	Principal Activity	2015		Cost	2015		2014	
			No. of Shares	Holding %	Rs.'000	Directors' Valuation Rs.'000	Cost Rs.'000	Directors' Valuation Rs.'000	
<b>Unquoted</b>									
MBSL Insurance Company Ltd (Note 26 a.)	Sri Lanka	Insurance	475,697,403	84.12	516,096	310,197	516,096	516,096	
Less : Impairment provision (Note 26 b.)					(205,899)	-	-	-	
Balance as at 31st December					310,197	310,197	516,096	516,096	

**26 a. Investment in MBSL Insurance Company Ltd**

	2015		2014	
	No. of Shares	Rs.'000	No. of Shares	Rs.'000
Balance as at 01st January	475,697,403	516,096	317,131,602	317,889
Investments in voting shares during the year	-	-	158,565,801	198,207
Balance as at 31st December	475,697,403	516,096	475,697,403	516,096

## Notes to the Financial Statements

### 26 b. Impairment provision

At the end of the reporting period, the Company and the Group assessed the recoverable amount of the investment in subsidiary, MBSL Insurance Company Limited of Rs. 516.1 mn and the recoverable amount of the goodwill of Rs.18.2 mn respectively.

The recoverable amount of the 84.12% investment in subsidiary was determined as Rs.310.2 mn and impairment allowance of Rs.205.9 mn (2014:nil) was made in the Company's financial statements. The group determined that the goodwill associated with its investment in subsidiary is fully impaired by Rs.18.2 mn (2014: nil).

#### Impairment of investment in subsidiary :

The main indicator that was considered for the assessment of impairment of the investment in subsidiary was the continuous losses in the current and previous years resulting in the carrying value of the investment in the Company's financial statements exceeding the subsidiary's net assets.

The recoverable amount of the investment in subsidiary was assessed using the fair value less cost to sell value method. The fair value of the investment was determined using a market based approach. The company determined a level 2 fair value by reference to the price to book value approach (PBV) using the PBV multiples of similar companies in the industry which amounted to 1.51 times. Further, the PBV determined using industry data, was discounted by 30% due to the facts that the shares in the subsidiary are not listed and the non-compliance with the regulatory requirements with regards to capital requirements of Insurance Board of Sri Lanka.

The value in use model was not considered for the purpose of determination of the recoverable value of the investment due to the uncertainty involved in the estimation of future cash flows due to the insurance and financial risks faced by the subsidiary.

The impairment loss has been separately presented in the statement of comprehensive income.

### 27 Investment properties

#### Accounting Policy

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

#### 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.

#### Basis of Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The carrying amount includes the cost of replacing part of an existing Investment Property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an Investment Property.

The Company adopts the cost model for subsequent measurement of investment properties in accordance with LKAS 40 - Investment Property. Accordingly, land classified as investment property is stated at cost, and buildings classified as investment property are stated at cost less any accumulated depreciation and any accumulated impairment losses. Provision for depreciation is made over the period of 20 years at the rate of 5% per annum using the straight-line method for buildings classified as investment property. Land is not depreciated.

The Group revalues investment property at least once in five years for disclosure purpose.

#### Derecognition

Investment Properties are derecognized when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognized in the income statement in the period of derecognition.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Cost as at 01st January	165,876	165,876	165,876	165,876
Add: Additions /improvements	-	-	-	-
Cost as at 31st December	165,876	165,876	165,876	165,876
Accumulated depreciation as at 31st December	20,036	16,999	20,036	16,999
<b>Net book value as at 31st December</b>	<b>145,840</b>	<b>148,877</b>	<b>145,840</b>	<b>148,877</b>

#### Accumulated depreciation

Balance as at 01st January	16,999	13,961	16,999	13,961
Charge for the year	3,037	3,038	3,037	3,038
Balance as at 31st December	20,036	16,999	20,036	16,999

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	867	495	867	495

### 27.1 Investment properties held by the company

as at 31st December	2015										
	Location	No of Buildings	Building sq.ft	Extent perches	Fair Value Hierarchy	Cost / Carrying amount			Fair Value		Total
Land Rs.'000						Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings 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. (Note.27.1.a)	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	213,000	20,000		233,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.				2.0A	Level 3	600	-	600	3,400	N/A	3,400
Mirissawelawatta hena; Thekkawatta, Dambadeniya				1A-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
Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralesgamuwa	1			2A-1R-4.35P	Level 3	65,604	44,396	110,000	182,175	115,840	298,015
						105,126	60,750	165,876	511,761	138,795	650,556

## Notes to the Financial Statements

**27.1.a** The company has entered in to an agreement with 71 tenants to sell the lease hold rights of the property at No. 102 & 104, Dam Street, Colombo 12 subject to the approval of Urban Development Authority (UDA). The date of the completion of this sale and the execution of the Deed of Transfer in favour of the purchaser in respect of lease hold rights of the premises shall be fixed subsequent to the registration of the said premises as a Condominium unit and upon a Condominium Deed of Declaration being executed and obtaining all necessary approvals from the UDA for such registration within five years from the execution of said agreement. The MBSL shall expeditiously affect the Transfer Deeds contemplated by the agreement after having obtained the registration of the Condominium Plan and the Condominium Declaration and any other statutory approval from UDA and upon the balance payment of the purchase consideration settled in full.

**27.1.b** The fair value of the investment properties as at 31st December 2015 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), Mr. Samantha Kumara Madawan Arachchi Bs.(EMV), City Planning (JP), Dip (UPM) NI, AIREV and Mr. A.G. Gunarathne B.Sc. Estate Mgt & Valuation, F.I.V (Sri Lanka), who are independent valuers not connected with the Company. The Directors have reviewed the values of the investment properties as at 31st December 2015 and concluded that there was no impairment.

### 28 Property and equipment

#### Accounting Policy

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.

#### 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.

#### 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 non-current assets is written off in full in the year of acquisition.

#### 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.

#### Derecognition

An item of Property, Plant & 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.

#### 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.





**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	Value Buildings	Value Land	
					Rs.'000	Rs.'000	Rs.'000	
470, Hendala Road, Wattala	1	64	2,200	Level 3	79,400	1,484	9,961	694%
					79,400	1,484	9,961	

Market value of the lands and buildings of the company as at 31st December 2015 was Rs. 79,400,000 as per the valuation carried out in March 2016 by Mr. S.A.M.A. Perera (FIV). The Directors have reviewed the values of the land & buildings as at 31st December 2015 and concluded that there was no impairment.

**Title restriction on property & equipment**

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

**Property & equipment pledged as security for liabilities**

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

**Compensation from third parties for items of property & equipment**

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

**Fully depreciated property & equipment**

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

as at 31st December	Company		Group	
	2015	2014	2015	2014
Motor vehicles	31,543	12,652	31,543	12,652
Computer equipments	85,953	58,573	85,953	58,573
Equipment, furniture & fittings	48,229	30,955	48,229	30,955
<b>Total</b>	<b>165,725</b>	<b>102,180</b>	<b>165,725</b>	<b>102,180</b>

**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.

## Notes to the Financial Statements

### 29 Intangible assets

#### Accounting Policy

##### 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.

##### 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 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.

##### 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

**29.a**

	Computer Software Rs.'000	Total Rs.'000
<b>Company</b>		
<b>Cost</b>		
Balance as at 01st January 2014	115,973	115,973
Additions and improvements during the year	20,219	20,219
Disposals during the year	(23,175)	(23,175)
Transfers during the year	(1,919)	(1,919)
Balance as at 31st December 2014	111,098	111,098
Additions and improvements during the year	19,415	19,415
<b>Balance as at 31st December 2015</b>	<b>130,513</b>	<b>130,513</b>
<b>Accumulated amortisation</b>		
Balance as at 01st January 2014	98,503	98,503
Amortization for the year	7,130	7,130
Disposals during the year	(23,175)	(23,175)
Transfers during the year	(1,909)	(1,909)
Balance as at 31st December 2014	80,549	80,549
Amortization for the year	11,148	11,148
<b>Balance as at 31st December 2015</b>	<b>91,697</b>	<b>91,697</b>
<b>Net book value</b>		
as at 31st December 2014		30,549
as at 31st December 2015		38,816

**29.b**

	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
<b>Group</b>			
<b>Cost</b>			
Balance as at 01st January 2014	157,429	119,437	276,866
Additions and improvements during the year	24,482	-	24,482
Disposals during the year	(23,175)	-	(23,175)
Transfers during the year	(1,919)	-	(1,919)
Adjustment due to merger	-	(101,244)	(101,244)
Balance as at 31st December 2014	156,817	18,193	175,010
Additions and improvements during the year	22,879	-	22,879
<b>Balance as at 31st December 2015</b>	<b>179,696</b>	<b>18,193</b>	<b>197,889</b>
<b>Accumulated amortisation &amp; impairment</b>			
Balance as at 01st January 2014	102,071	-	102,071
Amortization for the year	15,299	-	15,299
Disposals during the year	(23,175)	-	(23,175)
Transfers during the year	(1,909)	-	(1,909)
Balance as at 31st December 2014	92,286	-	92,286
Amortization for the year	20,269	-	20,269
Impairment provision for the year	-	18,193	18,193
<b>Balance as at 31st December 2015</b>	<b>112,555</b>	<b>18,193</b>	<b>130,748</b>
<b>Net book value</b>			
as at 31st December 2014			82,724
as at 31st December 2015			67,141

## Notes to the Financial Statements

### Impairment testing of goodwill

Further to the assessment of impairment of investment in the subsidiary, the goodwill which had arisen on the date of acquisition of the subsidiary was assessed for the impairment as at the year end.

In order to do this assessment, the investee company was considered as a Cash Generating Unit (CGU). Recoverable value of the CGU was determined based on the market approach as explained above. Since the recoverable amount of the company is less than the carrying amount as explained above the impairment allowance of Rs.18.2 mn against the goodwill was provided during the current year.

### Fully amortized intangible assets

Gross carrying amount of intangible assets which have been fully amortized that are still in use as follows;

	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Computer Software	86,866	47,973	86,866	47,973

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.

## 30 Other assets

### Accounting Policy

The Company and the Group classify all their other assets as mainly comprise of advance payments, commercial paper and sundry receivables

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Claims and commission receivables	15,142	8,251	15,142	8,251
Receivables	86,176	150,627	148,754	221,764
Advances and pre payments	45,256	44,175	80,647	82,181
Other accounts	66,947	60,834	67,391	97,108
Reinsurance assets-insurance contracts	-	-	88,449	61,519
Insurance receivables	-	1,345	294,016	231,907
Commercial paper	382,906	320,106	382,906	320,106
Less: Allowances for impairment	(382,906)	(320,106)	(382,906)	(320,106)
	213,521	265,232	694,399	702,730

## 31 Due to banks

### Accounting Policy

Due to banks include bank overdrafts obtained from banks. Subsequent to initial recognition, these are measured at amortized cost using the EIR method.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Bank overdraft	258,062	200,002	273,968	210,011
	258,062	200,002	273,968	210,011

**32 Due to customers****Accounting Policy**

Due to customers include fixed deposits and saving deposits. Subsequent to initial recognition, these are measured at amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortization is included in 'interest and similar expenses' in the Income Statement.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Savings deposits	693,207	566,403	693,207	566,403
Time deposits	15,153,099	10,526,240	15,153,099	10,526,240
	<b>15,846,306</b>	<b>11,092,643</b>	<b>15,846,306</b>	<b>11,092,643</b>

**33 Debt issued and borrowed funds****Accounting Policy**

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

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

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Debentures (Note 33.1)	5,489,350	5,668,800	5,489,350	5,668,800
Short term borrowings	2,393,973	5,290,377	2,393,973	5,290,377
Long term borrowings	-	182,616	-	182,616
Total debt issued and borrowed funds	<b>7,883,323</b>	<b>11,141,793</b>	<b>7,883,323</b>	<b>11,141,793</b>

## Notes to the Financial Statements

### 33.1 Debentures

	Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Market Values		
						Highest Rs.	Lowest Rs.	Period end Rs.
<b>Fixed Rate Debentures</b>								
2013 / 2018 - 17.50% p.a.	listed	Nil	Annually	28-Mar-13	27-Mar-18	121.70	115.18	115.18
2013 / 2017 - 17.25% p.a.	listed	Nil	Annually	28-Mar-13	27-Mar-17	110.64	110.64	110.64
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	108.82	108.82	108.82
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	111.04	111.04	111.04
2014 / 2019 - 9.00% p.a.	listed	Nil	Annually	13-Nov-14	12-Nov-19	97.35	97.35	97.35
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 / 2015 - 11.80% p.a.	Un-listed	Nil	Bi Annually	16-Nov-11	16-Nov-15
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##### Total Debentures

Outstanding number of debentures as at 31st December 2015, consisted of Rs. 50,000,000 Unsecured Redeemable debentures of Rs. 100/- each issued by the company

Company has not repurchased any of its own debt during the year. (2014: Nil)

The company has not had any default of principal, interest or other breaches with regard to all liabilities during 2015 and 2014.

Interest rate of comparable Government Security %	Interest yield			Yield to Maturity			Interest rates		Company / Group Value as at	
	Highest	Lowest	Last traded	Highest	Lowest	Last traded	2015	2014	2015	2014
									Rs.'000	Rs.'000
8.82%	14.38%	15.19%	15.19%	9.34%	9.91%	9.91%	17.50%	17.50%	734,412	733,859
7.87%	15.59%	15.59%	15.59%	9.74%	9.74%	9.74%	17.25%	17.25%	569,250	568,677
8.82%	Not traded during the period			Not traded during the period			16.70%	16.70%	753,663	753,667
8.82%	Not traded during the period			Not traded during the period			16.50%	16.50%	168,717	168,793
8.36%	13.09%	13.09%	13.09%	9.79%	9.79%	9.79%	14.25%	14.25%	770,901	770,790
7.74%	Not traded during the period			Not traded during the period			13.50%	13.50%	336,238	336,175
8.36%	Not traded during the period			Not traded during the period			13.50%	13.50%	18,137	18,136
8.36%	12.83%	12.83%	12.83%	9.65%	9.65%	9.65%	13.25%	13.25%	11,600	11,599
9.46%	9.25%	9.25%	9.25%	9.74%	9.74%	9.74%	9.00%	9.00%	991,405	920,382
9.46%	Not traded during the period			Not traded during the period			8.75%	8.75%	1,135,027	1,102,653
							11.80%	11.80%	-	284,069
									5,489,350	5,668,800

## Notes to the Financial Statements

### 34 Insurance provision

#### Life insurance contracts liabilities (including investment contract liabilities with DPF)

The liability for life insurance contracts and investment contract with DPF is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment return, expenses, lapse and surrender rates and discount rate. The company bases mortality, morbidity on standard of the industry.

Mortality tables which reflect historical experience, adjusted when appropriate to reflect the company unique risk exposure, product characteristics, target markets and own claims severity and frequency experience. For these contracts that insure risk related to longevity, prudent allowance is allowable is made for expected future mortality improvements as well as wide ranging changes to life style, could insignificant changes to the expected future mortality exposure. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expenses levels, adjusted for expected expenses inflation is appropriate.

Laps and surrender rates are based on the company's historical experience of laps and surrenders.

Discount rates are based on current market risk rates, adjusted for the company own risk exposure.

#### 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.

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 31st December	Group	
	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	335,256	215,549
Increase in life fund	89,975	119,707
	425,231	335,256
Fair value reserve	(1,152)	1,091
	424,079	336,347
Unclaimed benefits	20,178	13,554
Balance as at 31st December	444,257	349,901

**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 31st December	Group	
	2015	2014
	Rs.'000	Rs.'000
Provision for reported claims by policy holders	115,520	111,264
Provision for claims IBNR	43,354	47,733
Outstanding claims provision	158,874	158,997
Provision for unearned premiums	353,459	448,310
<b>Total non life insurance provision</b>	<b>512,333</b>	<b>607,307</b>

**35 Current tax liabilities****Accounting Policy**

The Group and Company is subject to income taxes. Significant judgement is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of laws, at the time of the preparation of these financial statements.

Current tax assets are recognised at historical values less impairment. Income tax liabilities are recorded at the amounts expected to be paid.

as at 31st December	Company		Group	
	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance at 01 January	208,001	165,284	208,001	165,284
Add: Provision for taxation	26,663	69,536	36,503	71,595
Add: Super gain tax	38,753	-	38,753	-
(Over) / under provision of taxes in respect of prior years	-	(14,456)	9,948	(14,456)
Less : Paid during the year	80,162	363	81,699	2,422
Less : Set off during the year	10,010	12,000	28,261	12,000
Less: ESC & ACT receivable balance	41,982	-	41,982	-
<b>Balance as at 31 December</b>	<b>141,263</b>	<b>208,001</b>	<b>141,263</b>	<b>208,001</b>

## Notes to the Financial Statements

### 36 Deferred tax liabilities

#### Accounting Policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Income Statement.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Deferred tax liability	113,669	91,403	113,669	91,403
	113,669	91,403	113,669	91,403

#### 36.1 Reconciliation of deferred tax liability

as at 31st December	2015		2014	
	Temporary Difference Rs.'000	Tax Effect Rs.'000	Temporary Difference Rs.'000	Tax Effect Rs.'000
As at 01st January	326,440	91,403	231,276	64,757
Amount originating during the year	79,521	22,266	95,164	26,646
as at 31st December	405,961	113,669	326,440	91,403

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

Leased assets	1,996,169	558,927	854,603	239,289
Employee benefit - Income statement	(278,135)	(77,878)	(186,215)	(52,140)
Employee benefit - Other comprehensive income	32,603	9,129	(6,938)	(1,943)
Fixed assets	73,088	20,465	39,468	11,051
Tax losses	(1,417,764)	(396,974)	(374,478)	(104,854)
	405,961	113,669	326,440	91,403

The companies in the group have carried forward losses amounting to Rs.2,140 million (2014 - Rs. 1,618 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. 732 million (2014 - Rs.1,181 million).

**37 Other liabilities****Accounting Policy**

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

**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'.

Withholding tax on dividends, distributed by the company, subsidiaries and associates.

**(i) Withholding tax on dividends distributed by the company**

Withholding tax that arises from the distribution of dividends by the Company is recognized at the time the liability to pay the related dividend is recognized.

**(ii) Withholding tax on dividends distributed by the subsidiaries and associates**

Dividends received by the company from its subsidiaries and associates, have attracted a 10% deduction at source.

**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.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Accrued expenses	25,001	299,837	36,498	304,438
Payable to employees & suppliers	135,724	118,589	203,570	166,763
Insurance payable	6,269	289	265,631	70,158
Margin accounts	289	28,604	289	28,604
<b>Lease creditors</b>				
Within 12 months	1,316	3,467	3,841	5,850
Later than 12 months	1,536	3,303	14,898	19,189
Other liabilities	186,705	285,350	431,883	469,797
	<b>356,840</b>	<b>739,439</b>	<b>956,610</b>	<b>1,064,799</b>

## Notes to the Financial Statements

### 38 Retirement benefits obligations

#### Accounting Policy

The defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by the Sri Lanka Accounting Standards 19 - Employee Benefits.

#### Gratuity

In compliance with the Payment Gratuity Act No.12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees.

#### Recognition of actuarial gains and losses

The company recognises the total actuarial gains and losses that arise in calculating the Company's obligation in respect of the plan in Other Comprehensive Income during the period in which it occurs.

#### Funding arrangements

The gratuity liability is not externally funded.

#### Accounting estimates

The actuarial valuation involves making demographic & financial assumptions specified below.

Demographic Assumptions: Mortality rates, Staff turn over, Disability, Retirement age

Financial Assumptions: Rate of discount, Salary Increase, Gratuity Formula, Employee Data, Assets

The mortality rates represent the probabilities of "death" occurring within one year of any give age based on publicly available mortality table issued by Institute of Actuaries, London.

In determining the appropriate long term rate of discount management considers market rates of interest on short term Corporate Bonds/Government Bonds and the anticipated long term rate of inflation.

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	247,051	211,341	259,107	226,115
Expense recognised in the income statement (Note 38.1)	42,648	41,289	47,751	45,780
Payment made during the year	(11,564)	(10,823)	(13,603)	(13,758)
Expense recognised in other comprehensive income	(32,603)	5,244	(31,215)	970
<b>Balance as at 31st December</b>	<b>245,532</b>	<b>247,051</b>	<b>262,040</b>	<b>259,107</b>

#### 38.1 Expense recognised in the income statement

Current service cost	20,413	20,155	24,250	23,095
Interest cost	22,235	21,134	23,501	22,685
<b>Total</b>	<b>42,648</b>	<b>41,289</b>	<b>47,751</b>	<b>45,780</b>

An actuarial valuation of the retirement benefit obligation was carried out as at 31st December 2015 by Messrs. Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the liability is the 'Projected Unit Credit' (PUC), the method recognised by the Sri Lanka Accounting Standard, LKAS 19 on 'Employee Benefit'.

**38.2 Actuarial assumptions**

	2015	2014
Discount rate	9.00%	9.00%
Future salary increment rate	10% p.a.	10% on January 2015 and thereafter 12% p.a.

**Retirement age**

Expected average working life of the active participants is 5 - 6 years for the year ended 31st December 2015.

**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%	**	(12.376)	(12.376)
(1%)	**	13.776	13.776
*	1%	13.608	13.608
*	(1%)	(12.400)	(12.400)

\* Discount rate is fixed at; 2015 - 9%

\*\* Salary Increment rates for; 2015 - 10%

**39 Stated capital**

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	2,124,457	1,607,000	2,124,457	1,607,000
New share issue	-	517,457	-	517,457
<b>Balance as at 31st December</b>	<b>2,124,457</b>	<b>2,124,457</b>	<b>2,124,457</b>	<b>2,124,457</b>

**No of shares in issue**

Balance as at 01st January	165,875	135,000	165,875	135,000
New share issue	-	30,875	-	30,875
<b>Balance as at 31st December</b>	<b>165,875</b>	<b>165,875</b>	<b>165,875</b>	<b>165,875</b>

## Notes to the Financial Statements

### 39.a Adjustment due to amalgamation

Merchant Bank of Sri Lanka PLC (MBSL) amalgamated with MBSL Savings Bank Limited (MSB) and MCSL Financial Services Limited (MCSL) with effect from 01st January 2015. 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 issued up to maximum of 30,874,541 (Thirty Million Eight Hundred and Seventy Four Thousand Five Hundred and Fourty 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.

## 40 Reserves

### 40.1 Statutory reserves

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	140,544	128,400	140,544	129,914
Add: Transfers during the year	-	12,144	-	12,144
Less: Adjustment due to amalgamation	-	-	-	(1,514)
<b>Balance as at 31st December</b>	<b>140,544</b>	<b>140,544</b>	<b>140,544</b>	<b>140,544</b>

Statutory reserve represents the reserve fund of the company created in terms of the Finance Companies (Capital Funds) Direction No. 01 of 2003 issued by the Central Bank of Sri Lanka.

### 40.2 Investment fund reserve

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	-	100,115	-	101,336
Less: Transfers to retained earnings	-	(100,115)	-	(101,336)
Balance as at 31st December	-	-	-	-

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**

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	842,936	952,984	742,987	924,458
Add: Profit for the year	(91,219)	242,873	(709)	79,327
Other comprehensive income	21,531	(4,707)	19,637	(1,218)
Transfers from investment fund	-	100,115	-	101,336
Effect of change in holding percentage	-	-	-	52,127
Less: Dividend paid	-	(67,500)	-	(67,500)
Transfers to statutory reserves	-	(12,144)	-	(12,144)
Super gain tax adjustment	(38,753)	-	(38,753)	-
Adjustment due to amalgamation	-	(368,685)	-	(333,399)
Balance as at 31st December	734,495	842,936	723,162	742,987

**40.4 Available-for-sale reserve**

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 01st January	43,485	(7,623)	43,961	5,000
Add: Gains available for sale financial assets	(47,835)	51,108	(52,880)	47,219
Less: Adjustment due to amalgamation	-	-	-	(8,258)
Balance as at 31st December	(4,350)	43,485	(8,919)	43,961

## Notes to the Financial Statements

### 41 Additional cash flow information

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
<b>41.1 Analysis of cash and cash equivalents</b>				
Cash and short term funds	380,830	351,903	432,947	406,132
Due to banks with original maturity less than three months	(258,062)	(200,002)	(273,968)	(210,011)
	122,768	151,901	158,979	196,121
<b>41.2 Change in operating assets</b>				
Loans and advances given to customers	(2,521,649)	(571,877)	(2,412,260)	(543,765)
Other operating assets	12,212	(82,525)	(11,580)	(47,117)
Adjustment for impairment	(462,151)	(720,395)	(474,618)	(720,395)
	(2,971,588)	(1,374,797)	(2,898,458)	(1,311,277)
<b>41.3 Change in operating liabilities</b>				
Due to customers	4,521,286	762,866	4,753,663	762,866
Other operating liabilities	(104,694)	10,296	(81,189)	56,751
Insurance provision	-	-	(618)	3,400
	4,416,592	773,162	4,671,856	823,017
<b>41.4 Other non-cash items included in profit before tax</b>				
Loss on disposal of quoted shares	(30,067)	(6,066)	(30,398)	(3,491)
Interest accrued on government securities	(148,010)	(77,131)	(163,268)	(103,864)
Gain on sale of property and equipment	(3,317)	252	(3,317)	252
Net (gain)/loss on financial assets designated at FVPL	54,137	(132,900)	55,336	(137,172)
Impairment charges	668,050	720,395	492,811	720,395
Depreciation and amortisation	70,170	61,301	100,166	88,965
	610,963	565,851	451,330	565,085

### Other financial disclosures

This section provides information on related party disclosures and other disclosures required by the Sri Lanka Accounting Standards.

### 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 Personnel (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, chief operating 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. R P K Gallage, Mr. D M Gunasekara, Mr. B J Sinniah, Mr. S S Gamage, Mr. A H Samasundera, Mr. S L Rahaman, Mr. L C De Silva & Mr. W P R P H Fonseka (Alternate Director to Mr. D M Gunasekara) were directors of the Company as at 31st December 2015.

**Related party transactions (Contd.)**

**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 31st December	
			2015	2014	2015	2014
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Transactions with parent company</b>						
Bank of Ceylon	Mr. D.M.Gunasekara - GM/CEO	Overdraft facility	-	-	-	(181,106)
	Mr. B.J. Sinniah - Independent Director (Appointed w.e.f 26/03/2015)	Money Market Loan	(1,051)	-	-	-
		Debenture	-	-	(1,626,020)	(1,626,020)
		Secretarial fee received	-	60	-	-
		Staff training	-	(108)	-	-
		Fee and Charges	(116)	(117)	-	-
		Interest received	1,911	1,311	-	-
		Debenture interest paid	(155,025)	(43,679)	-	-
		Interest paid	(3,233)	(120,420)	-	-
	Lease rental paid	-	-	(3,072)	-	
<b>Transactions with subsidiaries</b>						
MBSL Savings Bank Limited	Mr. M R Shah - Chairman	Salary payment	N/A	(4,000)	N/A	-
	Mr. Lalith De Silva - Director	Reimbursable expenses	N/A	1,675	N/A	(3,785)
		Lease rentals paid	N/A	(2,517)	N/A	-
MBSL Insurance Company Limited	Mr.S.S.Gamage - Director (Appointed w.e.f 13/03/2015)	Insurance agency commission	19,104	18,943	-	-
	Mr. Lalith De Silva - Director (Resigned w.e.f.13/03/2015)	Reimbursable expenses	-	4,981	-	268
	Mr. K.B.S.Bandara - Director (Resigned w.e.f. 26/03/2015)	Business Promotion	(12)	-	-	-
		Rent Income Received	-	180	-	-
	Mr. W.P.R.PH Fonseka - Alternate Director to Mr. D M Gunasekara	Insurance expenses	(8,443)	-	-	-
Mr.T.Mutugala - Director	Interest on CP & PN	-	(36)	-	-	
<b>Transactions with associates</b>						
Lanka Securities (Pvt) Ltd	Mr. M R Shah - Director	Dividend received	2,508	5,245	-	-
	(Resigned w.e.f. 23/01/2015)	Lease rental received	282	1,176	-	5,071
		Net accommodation as a % of the company's regulatory capital funds	-	-	-	0.17%

## Notes to the Financial Statements

### 42.c Related party transactions (Contd.)

	Name of the Director & Position	Nature of Transactions	Income/ (expenses) recognized during the year		Assets / (Liabilities) as at 31st December	
			2015	2014	2015	2014
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
MCSL Financial Services Limited	Mr. Lalith De Silva - Chairman Mr. M R Shah -Director	Management fee Reimbursable expenses	N/A N/A	825 2,616	N/A N/A	N/A 4,380
Transactions with other companies						
Credit Information Bureau of Sri Lanka	Mr. D.M.Gunasekara - Director	Dividend received CRIB charges	216 (16,546)	36 (658)	- -	- -
Hotels Colombo (1963) Limited	Mr. D.M.Gunasekara - Director	Meeting expenses Staff training cost	(244) (1,128)	(47) (68)	- -	- -
BOC Property Development and Management Company Limited	Mr. D.M.Gunasekara - Director	Rent paid Electricity, water, office maintenance, rates	(43,883) (13,030)	(37,434) (11,458)	- -	- -
Ceybank Asset Management	Mr. D.M.Gunasekara - Director	Commercial paper interest Interest on Money Market Loan	- (4)	(52) -	- -	- -
Lanka Clear	Mr. D.M.Gunasekara - Director Mr. W.P.R.P.H Fonseka - Alternate Director to Mr. D M Gunasekara / Chairman - Audit Committee	Interest on Commercial paper Slip processing charges	(645) (118)	- -	- -	(24,658) -
Ceybank Holiday Homes (Pvt) Ltd	Mr. D.M.Gunasekara - Director	Staff Training	(549)	-	-	-
Dialog Axiata PLC	Mr. A H Samarasundera - Director (Appointed w.e.f 13/03/2015)	Telephone charges ATM lease line charges	(4,995) (257)	N/A N/A	- -	N/A N/A
Institute of Bankers of Sri Lanka	Mr. D.M.Gunasekara - Director	Business Promotion	(20)	-	-	-

**Related party transactions (Contd.)****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 & OD facility obtained from BOC. Such loans & OD facility are secured by Leasing & Hire Purchase facilities and Micro Finance Facilities. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31st December 2015, 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.

Year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Short term benefit	18,586	17,940	25,633	20,279

In addition to the above, the company has also provided company maintained vehicles to the chairman and the chief executive officer in line with the approved employment terms of the company.

**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 31st December	Company				2014			
	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
<b>Financial assets</b>								
Financial investments - held for trading	541,970	-	-	541,970	882,176	-	-	882,176
	541,970	-	-	541,970	882,176	-	-	882,176
<b>Financial investments - available for sale</b>								
Government securities	1,712,896	-	-	1,712,896	1,158,235	-	-	1,158,235
Unquoted investments	-	-	41,310	41,310	-	-	20,579	20,579
	1,712,896	-	41,310	1,754,206	1,158,235	-	20,579	1,178,814
	2,254,866	-	41,310	2,296,176	2,040,411	-	20,579	2,060,990

## Notes to the Financial Statements

### 43 Fair value of financial instruments (Contd.)

as at 31st December	Group							
	2015				2014			
	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	
<b>Financial assets</b>								
Financial investments - held for trading	552,741	-	-	552,741	896,629	-	-	896,629
	552,741	-	-	552,741	896,629	-	-	896,629
<b>Financial investments - available for sale</b>								
Government securities	1,944,534	-	-	1,944,534	1,193,447	-	-	1,193,447
Quoted investments	-	9,013	-	9,013	-	7,391	-	7,391
Unquoted investments	-	-	41,310	41,310	-	-	20,579	20,579
	1,944,534	9,013	41,310	1,994,857	1,193,447	7,391	20,579	1,221,417
	2,497,275	9,013	41,310	2,547,598	2,090,076	7,391	20,579	2,118,046

#### Accounting Policy

##### Financial Instruments recorded at fair value

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

##### Financial instruments carried at fair value

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

##### Financial investments available for sale

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

These assets are valued using models that use both observable and unobservable data. The 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.

**43 Financial instruments recorded at fair value (Contd.)****Day 1 profit**

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, the group amortise the difference between the transaction price and fair value (i.e. Day 1 profit or loss) over time on an applicable basis in interest income. The table below shows the movement in the aggregate profit not recognised when financial instruments were initially recognised ('Day 1 profit').

as at 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Balance as at 1st January	73,226	66,943	73,226	66,943
Reduction due to passage of time	(18,062)	(16,151)	(18,062)	(16,151)
Deferral of profit on new transactions	15,045	31,736	15,045	31,736
Derecognition of the instruments	(18,813)	(9,302)	(18,813)	(9,302)
Balance as at 31st December	51,396	73,226	51,396	73,226

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

as at 31st December	Company				Group			
	2015		2014		2015		2014	
	Rs.'000 Carrying Amount	Rs.'000 Fair value						
<b>Financial assets</b>								
Placements with banks & financial institutions	440,093	440,093	1,674,998	1,674,998	571,672	571,672	1,796,986	1,796,986
Bills receivable	595,888	595,888	646,124	646,124	595,888	595,888	646,124	646,124
Loans & advances to customers	8,406,632	8,406,632	7,954,469	7,954,469	8,505,054	8,505,054	8,097,427	8,097,427
Lease and hire purchase receivable	14,223,259	14,223,259	12,168,389	12,168,389	14,223,259	14,223,259	12,168,389	12,168,389
Financial investments - held to maturity	56,507	60,324	653,338	659,712	56,507	60,324	653,338	659,712
Other assets	87,458	87,458	104,413	104,413	87,458	87,458	126,663	126,663
<b>Total</b>	<b>23,809,837</b>	<b>23,813,654</b>	<b>23,201,731</b>	<b>23,208,105</b>	<b>24,039,838</b>	<b>24,043,655</b>	<b>23,488,927</b>	<b>23,495,301</b>
<b>Financial liabilities</b>								
Due to customers	15,846,306	15,846,306	11,092,643	11,092,643	15,846,306	15,846,306	11,092,643	11,092,643
Debt issued and borrowed funds	7,883,323	7,883,323	11,141,793	11,141,793	7,883,323	7,883,323	11,141,793	11,141,793
Other liabilities	68,061	68,061	263,372	263,372	367,986	367,986	273,822	273,822
<b>Total</b>	<b>23,797,690</b>	<b>23,797,690</b>	<b>22,497,808</b>	<b>22,497,808</b>	<b>24,097,615</b>	<b>24,097,615</b>	<b>22,508,258</b>	<b>22,508,258</b>

## Notes to the Financial Statements

### **Fair value of financial assets and liabilities not carried at fair value**

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the financial statements:

### **Assets for which fair value approximates carrying value**

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

### **Fixed rate financial instruments**

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

### **44 Events after the reporting period**

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the financial statements.

### **45 Restatement of comparatives**

Pursuant to the approval of shareholders at extraordinary general meeting held on 13th October 2014, the company amalgamated with MBSL Savings Bank Limited (MSB) and MCSL Financial Services Limited (MCSL) with effect from 01st January 2015.

Comparative figures were restated as if the companies had been combined at the previous Balance Sheet date as per the guidelines issued under Statement of Recommended Practice (SoRP) - Merger accounting for common control business combination issued by Institute of Chartered Accountants of Sri Lanka.

The restatement had an impact on the following components of financial statements for the year ended 31st December 2014.

**45.1 Income Statement**

	Company			Group		
	Current Presentation 2014 Rs.'000	As Reported Previously 2014 Rs.'000	Impact Rs.'000	Current Presentation 2014 Rs.'000	As Reported Previously 2014 Rs.'000	Impact Rs.'000
	Income	4,734,641	2,539,185	2,195,456	6,023,040	4,244,244
Interest and similar income	4,384,629	2,339,084	2,045,545	4,484,729	2,849,003	1,635,726
Interest and similar expenses	(2,579,431)	(1,227,296)	(1,352,135)	(2,583,660)	(1,463,005)	(1,120,655)
<b>Net interest income</b>	1,805,198	1,111,788	693,410	1,901,069	1,385,998	515,071
Fee and commission income	92,792	43,893	48,899	129,718	89,792	39,926
Fee and commission expenses	(2,654)	-	(2,654)	(95,511)	(95,511)	-
<b>Net fee and commission income</b>	90,138	43,893	46,245	34,207	(5,719)	39,926
Insurance premium income	-	-	-	1,128,785	1,128,785	-
Net claims and benefits	-	-	-	(742,843)	(742,843)	-
Net trading income	21,163	(1,361)	22,524	19,488	(994)	20,482
Net gain/ (loss) on financial assets - held for trading	132,900	97,525	35,375	137,172	102,384	34,788
Other operating income	103,157	60,044	43,113	123,148	75,274	47,874
<b>Total operating income</b>	2,152,556	1,311,889	840,667	2,601,026	1,942,885	658,141
Impairment charges for loans and other losses	(720,395)	(238,078)	(482,317)	(720,395)	(276,244)	(444,151)
<b>Net operating income</b>	1,432,161	1,073,811	358,350	1,880,631	1,666,641	213,990
Personnel expenses	(637,932)	(362,301)	(275,631)	(804,443)	(600,609)	(203,834)
Retirement benefit expenses	(41,289)	(30,759)	(10,530)	(45,780)	(37,163)	(8,617)
Depreciation of property, equipment & investment properties	(54,171)	(17,966)	(36,205)	(73,666)	(51,900)	(21,766)
Amortisation of intangible assets	(7,130)	(3,534)	(3,596)	(15,299)	(12,717)	(2,582)
Other operating expenses	(595,231)	(293,953)	(301,278)	(900,047)	(700,689)	(199,358)
<b>Total operating expenses</b>	(1,335,753)	(708,513)	(627,240)	(1,839,235)	(1,403,078)	(436,157)
<b>Profit from operations after impairment of investment in subsidiary</b>	96,408	365,298	(268,890)	41,396	263,563	(222,167)
Value Added Tax on financial services	(43,121)	(38,468)	(4,653)	(43,121)	(40,900)	(2,221)
Share of associate company's profit / (loss) before tax	-	-	-	17,208	(77,869)	95,077
<b>Profit/(loss) before income tax</b>	53,287	326,830	(273,543)	15,483	144,794	(129,311)
Income tax expense	(83,957)	(83,957)	-	(86,016)	(86,016)	-
<b>Profit/(loss) for the year</b>	(30,670)	242,873	(273,543)	(70,533)	58,778	(129,311)

## Notes to the Financial Statements

### 45.2 Statement of Financial Position

	Company			Group		
	Current	As Reported	Impact	Current	As Reported	Impact
	Presentation	Previously		Presentation	Previously	
	2014	2014	Rs.'000	2014	2014	Rs.'000
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
<b>Assets</b>						
Cash and cash equivalents	351,903	171,537	180,366	406,132	281,324	124,808
Placements with banks & financial institutions	1,674,998	519,282	1,155,716	1,796,986	1,342,986	454,000
Securities purchased under resale agreements	465,211	465,211	-	1,313,486	1,313,486	-
Financial investments - held for trading	882,176	367,530	514,646	896,629	419,224	477,405
Bills receivable	646,124	644,625	1,499	646,124	644,625	1,499
Loans & advances to customers	7,954,469	3,764,328	4,190,141	8,097,427	4,644,587	3,452,840
Lease and hire purchase receivable	12,168,389	7,333,505	4,834,884	12,168,389	7,921,146	4,247,243
Financial investments - available for sale	1,178,814	737,610	441,204	1,221,417	1,220,632	785
Financial investments - held to maturity	653,338	-	653,338	653,338	70,090	583,248
Real estate stock	102,895	-	102,895	102,895	-	102,895
Investments in associate companies	81,084	102,002	(20,918)	94,454	341,295	(246,841)
Investments in subsidiaries	516,096	1,104,311	(588,215)	-	-	-
Investment properties	148,877	52,011	96,866	148,877	52,011	96,866
Property and equipment	193,769	85,124	108,645	260,191	197,127	63,064
Intangible assets	30,549	12,356	18,193	82,724	169,437	(86,713)
Other assets	265,232	167,903	97,329	702,730	650,923	51,807
<b>Total assets</b>	<b>27,313,924</b>	<b>15,527,335</b>	<b>11,786,589</b>	<b>28,591,799</b>	<b>19,268,893</b>	<b>9,322,906</b>
<b>Liabilities</b>						
Due to banks	200,002	181,110	18,892	210,011	198,583	11,428
Securities sold under repurchase agreements	442,170	442,170	-	442,170	442,170	-
Due to customers	11,092,643	-	11,092,643	11,092,643	2,453,539	8,639,104
Debt issued and borrowed funds	11,141,793	11,032,268	109,525	11,141,793	11,034,267	107,526
Insurance provision - life	-	-	-	349,901	349,901	-
Insurance provision - non life	-	-	-	607,307	607,307	-
Current tax liabilities	208,001	208,001	-	208,001	208,001	-
Deferred tax liabilities	91,403	91,403	-	91,403	91,403	-
Other liabilities	739,439	376,580	362,859	1,064,799	724,196	340,603
Retirement benefits obligations	247,051	193,153	53,898	259,107	213,468	45,639
<b>Total liabilities</b>	<b>24,162,502</b>	<b>12,524,685</b>	<b>11,637,817</b>	<b>25,467,135</b>	<b>16,322,835</b>	<b>9,144,300</b>

	Company			Group		
	Current	As Reported	Impact	Current	As Reported	Impact
	Presentation	Previously		Presentation	Previously	
2014	2014		2014	2014		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Equity</b>						
Stated capital	2,124,457	1,607,000	517,457	2,124,457	1,607,000	517,457
Statutory reserves	140,544	140,544	-	140,544	142,058	(1,514)
Retained earnings	842,936	1,211,621	(368,685)	742,987	1,076,386	(333,399)
Available-for-sale reserve	43,485	43,485	-	43,961	52,219	(8,258)
Total equity attributable to equity holders of the parent	3,151,422	3,002,650	148,772	3,051,949	2,877,663	174,286
Non controlling interests	-	-	-	72,715	68,395	4,320
<b>Total equity</b>	<b>3,151,422</b>	<b>3,002,650</b>	<b>148,772</b>	<b>3,124,664</b>	<b>2,946,058</b>	<b>178,606</b>
<b>Total liabilities and equity</b>	<b>27,313,924</b>	<b>15,527,335</b>	<b>11,786,589</b>	<b>28,591,799</b>	<b>19,268,893</b>	<b>9,322,906</b>

### 45.3 Cash Flow Statement

	Rs.'000
Cash and cash equivalents from the merger	204,627
Overdraft	(46,524)
<b>Net cash inflow from merger</b>	<b>158,103</b>

### 45.4 Effect of change in holding percentage

The company has purchased additional 237,848,701 number of shares in MBSL Insurance (Pvt) Ltd since 2013. Due to these transactions, the company's share holding as at 31st December 2014 has increased up to 84.12% while the holding percentage of NCI has decreased upto 15.88%. These transactions have been considered as transactions between equity holders, but the resulting change in non-controlling interest has not been recognised in previous years. Hence, the above error corrections were made to identify the resulted changes in the non-controlling interest and the difference between the non-controlling interests are adjusted, and the fair value of the consideration paid was recognised directly in the consolidated retained earnings.

### 46 Going concern of subsidiary

#### a. Going concern of MBSL Insurance Company Limited

The MBSL Insurance Company Limited has incurred a loss of Rs.108,871,000 for the year ended 31st December 2015 (2014 loss of Rs. 52,799,000) and accumulated losses of Rs. 743,021,000 as at 31st December 2015 (2014 - Rs. 632,762,000). The company's net assets and stated capital as at 31st December 2015 are 333,531,000 and 1,080,022,000 respectively.

Further, the company is in non compliance with the segregation of life and non life business and listing requirements as per Section 53 and Section 15 A of the Insurance Industry Act No 43 of 2000.

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.

#### b. Solvency margin of MBSL Insurance Company Limited

The MBSL Insurance Company's solvency margin non life insurance as stipulated in the regulation of Insurance Industry Act No. 43 of 2000, are not in compliance as at 31st December 2015. According to the statement of solvency prepared by the management of MBSL Insurance Company Limited and the actuary, the solvency ratios of Non Life Insurance business as at 31st December 2015 is 0.41. (Previous year 1.18)

Further, the company is in non compliance with the segregation of life and non life business and listing requirements as per Section 53 and Section 15 A of the Insurance Industry Act No. 43 of 2000.

# Notes to the Financial Statements

## 47 Financial Reporting By Segment

### Accounting Policy

The Group's segmental reporting is based on the business segment.

A segment is a distinguishable component of the Group that is engaged in providing products and services. ( Business segments, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the financial statements of the Group.

Inter -segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

As per the provision of Sri Lanka Reporting Standards (SLFRS 8), the operating segment of the Group has been identify based on the products and services offered by the Group of which level of risks and rewards are significantly differ from one another.

Top management of the Group consider the operating results and condition of its business segment in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues describes as follows:

### Lease & Hire-Purchase

This segment includes Leasing and Hire Purchase products offered to the customers.

### Corporate and retail credit

This segment includes Loan products offered to the customers.

### Corporate advisory and capital markets

This segment includes Capital market and corporate advisory services.

### Insurance

Insurance business segment includes life and general insurance.

Group	Leasing		Corporate & Retail Credit		Corporate advisory & Capital markets		Insurance		Eliminations / Unallocated		Total	
	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
for the year ended 31st December												
<b>Revenue from external customers</b>												
Interest and similar income	2,327,757	2,731,257	1,437,745	1,216,849	17,524	41,762	90,900	100,136	272,199	394,725	4,146,125	4,484,729
Interest and similar expenses	1,066,973	1,431,872	633,887	641,463	52,965	118,124	1,025	3,630	379,501	388,571	2,134,351	2,583,660
Net interest income	1,260,784	1,299,385	803,858	575,386	(35,441)	(76,362)	89,875	96,506	(107,302)	6,154	2,011,774	1,901,069
Other income	46,901	64,042	8,320	69,162	(6,765)	159,207	408,365	372,862	92,589	34,684	549,410	699,957
Inter-segment transactions	-	-	-	-	900	10,900	-	-	(900)	(10,900)	-	-
<b>Total operating income</b>	<b>1,307,685</b>	<b>1,363,427</b>	<b>812,178</b>	<b>644,548</b>	<b>(41,306)</b>	<b>93,745</b>	<b>498,240</b>	<b>469,368</b>	<b>(15,613)</b>	<b>29,938</b>	<b>2,561,184</b>	<b>2,601,026</b>
Impairment charges for loans and other losses	(221,456)	(482,451)	(235,852)	(237,338)	(4,843)	(606)	(12,467)	-	-	-	(474,618)	(720,395)
<b>Net operating income</b>	<b>1,086,229</b>	<b>880,976</b>	<b>576,326</b>	<b>407,210</b>	<b>(46,149)</b>	<b>93,139</b>	<b>485,773</b>	<b>469,368</b>	<b>(15,613)</b>	<b>29,938</b>	<b>2,086,566</b>	<b>1,880,631</b>
Depreciation of property, equipment & investment properties	29,520	27,093	18,712	25,835	1,137	1,783	21,133	17,708	9,395	1,247	79,897	73,666
Amortisation of intangible assets	5,576	1,703	3,534	703	243	582	9,121	8,169	1,795	4,142	20,269	15,299
Segment result	385,227	287,629	106,829	(187,909)	(86,080)	47,801	(100,573)	(42,850)	(199,004)	(63,275)	106,399	41,396
Impairment from subsidiary investments											(18,193)	-
<b>Profit / (loss) from operations after impairment from subsidiary investments</b>											88,206	41,396
Value Added Tax on financial services											(57,219)	(43,121)
Share of associate company's profit / (loss) before tax											7,080	17,208
<b>Profit/(loss) before income tax</b>											38,067	15,483
Income tax expense											(57,645)	(86,016)
<b>Profit/(loss) for the year</b>											(19,578)	(70,533)
<b>Assets</b>												
<b>Capital expenditures</b>												
Property and equipment	40,200	17,331	27,504	11,857	13,042	1,137	8,274	11,573	783	319	89,803	42,217
Intangible assets	9,579	10,547	6,156	9,205	374	559	4,265	-	2,505	4,171	22,879	24,482
<b>Total assets</b>	<b>14,235,402</b>	<b>13,015,623</b>	<b>8,863,004</b>	<b>7,740,204</b>	<b>750,144</b>	<b>525,121</b>	<b>1,920,338</b>	<b>1,762,406</b>	<b>4,113,270</b>	<b>5,548,445</b>	<b>29,882,158</b>	<b>28,591,799</b>
<b>Total liabilities</b>	<b>4,840,394</b>	<b>7,910,354</b>	<b>2,871,035</b>	<b>5,014,311</b>	<b>238,437</b>	<b>304,585</b>	<b>1,602,767</b>	<b>1,304,575</b>	<b>17,297,609</b>	<b>10,933,310</b>	<b>26,850,241</b>	<b>25,467,135</b>

## Notes to the Financial Statements

### 48 Contingent liabilities and commitments

Contingent Liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be readily measured as defined in the Sri Lanka Accounting Standard - 37 on 'Provisions, Contingent Liabilities and Contingent Assets'. Contingent liabilities are not recognized in the Statement of Financial Position but are disclosed unless its occurrence is remote.

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

Year ended 31st December	Company		Group	
	2015 Rs.'000	2014 Rs.'000	2015 Rs.'000	2014 Rs.'000
Financial Guarantees & Claims to the customers	123,536	187,266	546,079	421,440
Total commitments and contingencies	123,536	187,266	546,079	421,440

In the normal course of business, the Company makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognized on the statement of financial position, they do contain credit risk and therefore form part of the overall risk of the Company. No material losses are anticipated as a result of these transactions.

### Pending Litigations

In the normal course of business, the Company incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations.

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
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 5/12/2014 but was re-listed for Trial. However, the hearing has now reached a conclusion and the parties are required to written submissions on the next date.	Written submission 13/06/2016
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.	Trial proceeding 05/07/2016
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.	Inquiry proceeding 30/05/2016
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.	Trial proceeding 29/07/2016
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.	Trial proceeding 03/06/2016

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
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/-.	Action dismissed in February 2014
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.	Action dismissed in March 2015
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.	Trial proceeding 20/05/2016
9	13436/M DC - Kurunegala	This action has been filed by the 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.	Trial proceeding 18/12/2016
10	13434/M DC - Kurunegala	This action has been filed by the 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.	Trial proceeding 18/12/2016
11	13435/M DC - Kurunegala	This action has been filed by the 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.	Trial proceeding 18/12/2016
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.	Trial proceeding 18/12/2016

## Notes to the Financial Statements

### 48 Contingent liabilities and commitments (Contd.)

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
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.	The Plaintiff and the other defendants reached a settlement on 28/1/2016 and discharged MBSL from liability.
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.	The Plaintiff and the other defendants reached a settlement on 28/1/2016 and discharged MBSL from liability.
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).	Trial/Settlement 05/05/2016
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 seized articles.	Inquiry
17	Claim- 01/2014 HC Hambantota	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2237/2010 against S A P S Shantharatne. The Petitioner is seeking the release of seized articles.	Inquiry
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.	Not proceeded with
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 was dismissed on 1/02/2016.	Dismissed on 1/02/2016
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 was dismissed on 1/02/2016.	Dismissed on 1/02/2016
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 was dismissed on 1/02/2016.	Dismissed on 1/02/2016
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 was dismissed on 1/02/2016.	Dismissed on 1/02/2016

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
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.	28/06/2016 Trial
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.	Inquiry proceeding 16/06/2016
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.	Inquiry proceeding 16/06/2016
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.	Inquiry proceeding 16/06/2016
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 heard to a conclusion and the judgement is reserved for delivery.	Judgement due
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.	Answer due on 08/09/2016
29	LT application No.13/305/02	This is an application filed by an ex. Employee of MBSL in the Labour Tribunal seeking re-instatement and the payment of back wages. This employee's service was terminated due to a financial fraud committed by him when functioning as the Cashier. On a complaint made by MBSL the Colombo Fraud Bureau the Attorney General's Department filed criminal action bearing No.HC/1676/2004 in the Criminal High Court of Colombo. Trial is being heard at present and the MBSL witnesses have finished their evidence. In the event that this criminal action is decided against this employee the question of reinstatement and payment of back wages is most unlikely to arise.	The evidence of MBSL witnesses were concluded on 10/10/2014 and a further Trial was in 25/02/2016
30	CL/146/2015 (HC/Civil/ MR/529/08)	This action was instituted by one B. H Karunawathi claiming the articles seized by MBSL through Fiscal in execution of writ against A. H Nandasena in HC/Civil/529/MR/2008.	Inquiry on 30/08/2016
31	CL/147/2015	This action was instituted by one A. H Champika Nishanthi claiming the articles seized by MBSL through Fiscal in execution of writ against A. H Nandasena in HC/Civil/529/MR/2008.	Inquiry on 30/08/2016

## Notes to the Financial Statements

### 48 Contingent liabilities and commitments (Contd.)

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
32	CL/148/2015	This action was instituted by one J. M C Pushpakumari claiming the articles seized by MBSL through Fiscal in execution of writ against A. H Nandasena in HC/Civil/529/MR/2008.	Inquiry on 30/08/2016
33	CL/149/2015	This action was instituted by one Y. B. Dilani Shalika claiming the articles seized by MBSL through Fiscal in execution of writ against A. H Nandasena in HC/Civil/529/MR/2008.	Inquiry on 30/08/2016
34	41/Claim	The Plaintiff has filed this action claiming damages from the registered owner, Drive and MBSL (the absolute owner) seeking damages for causing permanent injury as a result of an accident involving the Lease article. The case was withdrawn on 4/01/2016.	Case withdrawn 04/01/2016
35	SC/HC/LA/43/2015 (HC/CIVIL496/09/MR)	This Appeal was submitted by the Respondent/ Lessee in HC/Civil case No. 496/2009 the order of which was delivered in favour of MBSL by the High court. The matter is now fixed for support on 1/08/2016	Support on 01/08/2016
36	2963/L	Plaintiff filed this action seeking a declaration that the Mortgage Bond taken as security by MBSL be declared a nullity. Answer of MBSL is due at present	To file Proxy & Answer on 11/08/2016
37	CHC/215/2015/MR (COMMERCIAL HIGH COURT)	Plaintiffs are the Shareholders of the company and they have filed an action in District Court of Colombo (Case No. DMR/785/13) claiming Rs.3,841,000/- for the shares they have invested for amounting to Rs.2,400,000/-. This case has transferred to the Commercial High Court by the District Court order dated 20.11.2015 considering the value of the case.	Notice Returnable on 2ND Defendant (Entrust Ltd) – 25.05.2016
38	DC Colombo 19426/L	Owner of the property denies the signature on the Mortgage Bond.	Case is laid by until identifying the heirs of the Plaintiff.
39	DC Colombo 19433/L	Plaintiff denies the transfer of the property to MBSL. His value of the property is claimed. Judgement is in favour of MBSL. Plaintiff has appealed. Appeal dismissed on 1/4/2016	Judgment to be pronounced.
40	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. Order with regard to the substitution 11/8/2015.	Case is laid by 11/08/2015
41	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.	To be taken up for argument on 24/05/2016
42	DC Negombo 7300/L	Declaration of Title sought by the Petitioner. Judgment in favour of MBSL. Judgement in favour of MBSL 4/11/2015.	Notice of Appeal received.
43	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 Company by the Borrower where judgment has been entered in favour of the Company. The Motion filed to review the main case (DC-Colombo 17451/MB)	Motion filed to review the main case.
44	DC Chilaw 4145/L	The Plaintiff seeks a Declaration of Title.	Further Trial on 30/05/2016

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
45	DC Kalutara 145/PRO	Testamentary Action connected to DC Colombo, Case No. 17513/MB (MBSL VS D B Silva & M S M Fernando). Facility has been settled in full. MBSL has made an application to release MBSL from this action.	Further Trial 30/5/16
46	DC Galle L/16855	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)	Further Trial on 30/05/2016
47	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 on 28/06/2016.
48	DSP/62/2015	The plaintiff has obtained an enjoining order restraining MBSL from auctioning the Mortgaged Property interim injunction sought by the plaintiff was refused	Further Trial on 29/07/2016
49	8190/L DC Kurunegala	This action has been filed by Institute of Data Management against Merchant Credit of Sri Lanka (2nd Defendant) and Vinayamurthi Janagan (1st Defendant- Customer of TL facility) seeking declaration of title for the land which has mortgaged to Merchant Credit by 1st defendant.	Written Submissions on 05/07/2016
50	826/L -DC Attanagalla	This action has been filed by the Ponweera Arachchilage Wickramasinghe and Ponweeraarachchilage Ranasinghe against Merchant Credit of Sri Lanka (5th Defendant), Hettiweediya Mudiyansele Rajeewa Bandara Paranagama (3rd Defendant-former employee of MCSL), Praveen Johanan Sunderasingh (4th Defendant-former employee of MCSL) and two others. The Plaintiffs are seeking for an order declaring Mortgage Bond No1505 dated 16/11/2011 attested by J.C Ponnaiah, Notary Public and Deed of Transfer null and void.	09/06/2016 - Trial
51	1520/MR/14 - DC Kaduwela	This action has been filed by Jayathungage Samantha Perera (Customer of Merchant Credit who has obtained a Lease Facility and defaulted.) against Merchant Credit of Sri Lanka (1st Defendant) and two others. However Merchant Credit of Sri Lanka has been made a party to this action only for the notice purpose.	Answer filed for Replication on 08/07/2016
52	DMR/8867/09 - DC Colombo	The plaintiff filed action against Merchant Credit of Sri Lanka seeking an order for damages caused to the plaintiff by wrongful conduct of the defendant. However court has dismissed the action on 01/04/2015. Plaintiff has now filed Petition of Appeal.	01/04/2015 - Order delivered in favour of MCSL- Appeal filed by the Plaintiff is pending before Civil Appellate High Court of Colombo.
53	8147/L - DC Kurunegala	Plaintiff has filed action against K.M Mahindaratne (Customer- 2nd Defendant) and Merchant Credit of Sri Lanka (1st Defendant) seeking interim and permanent injunction orders restraining 1st Defendant from enforcing the Mortgage Bond No. 1825 dated 26/03/2011 attested by M.K.T.U Senevirathne, Notary Public.	1st Defendant Answer filed and 2nd Defendant Answer - 11/07 /2016
54	DSP 98/10 - DC Colombo	The Plaintiff has filed action against Merchant Credit of Sri Lanka (1st Defendant) and H.M.D.T Herath (2nd Defendant- Customer of Lease Facility) seeking a declaration that plaintiff is the owner of the land which has been mortgaged to Merchant Credit.	25/04/2016 - Judgment Delivered in favour of MBSL.

## Notes to the Financial Statements

### 48 Contingent liabilities and commitments (Contd.)

No.	Action / Case No.	Purpose / Cause of Action	Position as at 31st December 2015
55	14363/SPL - DC Homagama	This action has been filed by Appukuttige Mervin Perera & Appukuttige Lasira Indika Perera against Merchant Credit of Sri Lanka (2nd Defendant) and 5 Others, seeking inter alia to declare Mortgage Bond No. 570 dated 07/06/2012 attested by T.L Karunarathna, Notary Public null and void.	2nd Defendant Answer Filed and 1st Defendant Steps . To be called on 12/07/2016
56	DMR 608/12-DC Colombo	Plaintiff has filed action against Merchant Credit of Sri Lanka claiming damages for Malicious prosecution.	Further Trial on 23/09/2016
57	4977/SPL - DC Colombo	Plaintiff is seeking an order declaring Mortgage Bond No 77 dated 02-10-1995 attested by Mihirun Nisha Nachchiya Abdeen, Notary Public null and void. This case has been filed against the Abdul Cassim Hilmy Cassim (1st Defendant), Broadway Distributors (2nd Defendant), Merchant credit of Sri Lanka (3rd Defendant) and Mihirun Nisha Nachchiya Abdeen (4th Defendant) in 1997 by Makboola Mohammed Yoosuf.	03/08/2016 - Commission Report
58	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.	Trial on 28/06/2016.
59	CHC/695/15/MR	The Plaintiff being a member of the Consortium of Investors who entered into a Share Sale and Purchase Agreement with MBSL in March 2012 with regard to the Sale and Purchase of MBSL's shareholding in MBSL Savings Bank Limited has instituted this action against MBSL, seeking the refund of the advance payment of LKR 19,842,233.06 made by the Plaintiff to MBSL together with Interest thereon at the rate of 25% per annum commencing from 28/03/2012 amounting to a total sum of LKR 37,617,567 as at 27/10/2015.	Summons returnable on 10/05/2016

### 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 for prudent risk management. Integrated Risk Management Committee (IRMC) of the company is responsible for:

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

Merchant Bank of Sri Lanka & Finance PLC has identified 4 critical types of risk which can affect on MBSL's operations adversely as Credit, Market, Liquidity and Operational risks.

### **Risk Mitigation**

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

### **Risk Measurement Systems**

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

### **Credit Risk**

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

### **Concentration Risk**

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

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

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

### **Market Risk**

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

### **Liquidity Risk**

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

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

## Notes to the Financial Statements

### 49 Risk Management (Contd.)

#### Maturity Analysis

The table below summarises the maturity portfolio of the undiscounted cash flows of the group's financial assets and liabilities as at 31st December 2015.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the group expects that many customers will not request repayment on the earliest date the group could be required to be paid and the table does not reflect the expected cash flows indicated by the group's deposit retention history.

#### Maturity analysis

Company	On Demand 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
<b>Assets</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	380,830	-	-	-	-	-	380,830
Placements with banks & financial institutions	-	-	440,093	-	-	-	440,093
Securities purchased under resale agreements	-	785,965	-	-	-	-	785,965
Financial investments - held for trading	-	541,970	-	-	-	-	541,970
Bills receivable	-	595,888	-	-	-	-	595,888
Loans & advances to customers	38,530	812,839	2,183,337	3,784,230	1,247,632	340,064	8,406,632
Lease and hire purchase receivable	163,947	761,185	4,082,460	6,761,525	2,409,399	44,743	14,223,259
Financial investments - available for sale	-	715,736	571,292	144,192	98,172	224,814	1,754,206
Financial investments - held to maturity	-	-	-	-	55,016	1,491	56,507
Financial other assets	-	82,305	283	275	2,557	2,038	87,458
<b>Total financial assets</b>	<b>583,307</b>	<b>4,295,888</b>	<b>7,277,465</b>	<b>10,690,222</b>	<b>3,812,776</b>	<b>613,150</b>	<b>27,272,808</b>
<b>Non Financial Assets</b>							
Real estate stock	-	19,425	43,120	-	-	-	62,545
Investments in associate companies	-	-	-	-	-	81,084	81,084
Investments in subsidiaries	-	-	-	-	-	310,197	310,197
Investment properties	-	-	-	-	-	145,840	145,840
Property and equipment	-	-	-	-	-	219,260	219,260
Intangible assets	-	-	-	-	-	38,816	38,816
Other assets	-	32,079	93,984	-	-	-	126,063
<b>Total non-financial assets</b>	<b>-</b>	<b>51,504</b>	<b>137,104</b>	<b>-</b>	<b>-</b>	<b>795,197</b>	<b>983,805</b>
<b>Total Assets</b>	<b>583,307</b>	<b>4,347,392</b>	<b>7,414,569</b>	<b>10,690,222</b>	<b>3,812,776</b>	<b>1,408,347</b>	<b>28,256,613</b>

**49 Risk Management (Contd.)****Maturity analysis (Contd.)**

<b>Company</b>	On Demand	Up to	3 - 12	1-3	3-5	More than	Total
	Rs.'000	03 months	months	years	years	5 years	Rs.'000
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
<b>Financial Liabilities</b>							
Due to banks	258,062	-	-	-	-	-	258,062
Securities sold under repurchase agreements	-	416,472	-	-	-	-	416,472
Due to customers	11,070	4,668,015	8,605,340	2,057,349	430,088	74,444	15,846,306
Debt issued and borrowed funds	-	1,078,147	994,123	3,684,446	2,126,607	-	7,883,323
Other financial liabilities	-	56,904	11,157	-	-	-	68,061
<b>Total financial liabilities</b>	<b>269,132</b>	<b>6,219,538</b>	<b>9,610,620</b>	<b>5,741,795</b>	<b>2,556,695</b>	<b>74,444</b>	<b>24,472,224</b>
<b>Non Financial Liabilities</b>							
Current tax liabilities	-	-	141,263	-	-	-	141,263
Deferred tax liabilities	-	-	-	-	-	113,669	113,669
Other liabilities	-	274,892	13,887	-	-	-	288,779
Retirement benefits obligations	-	-	-	-	-	245,532	245,532
<b>Total Non financial liabilities</b>	<b>-</b>	<b>274,892</b>	<b>155,150</b>	<b>-</b>	<b>-</b>	<b>359,201</b>	<b>789,243</b>
<b>Total liabilities</b>	<b>269,132</b>	<b>6,494,430</b>	<b>9,765,770</b>	<b>5,741,795</b>	<b>2,556,695</b>	<b>433,645</b>	<b>25,261,467</b>
<b>Equity</b>							
Stated capital	-	-	-	-	-	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	734,495	734,495
Available-for-sale reserve	-	(4,350)	-	-	-	-	(4,350)
Statutory reserves	-	-	-	-	-	140,544	140,544
<b>Total equity</b>	<b>-</b>	<b>(4,350)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,999,496</b>	<b>2,995,146</b>
<b>Total liabilities and equity</b>	<b>269,132</b>	<b>6,490,080</b>	<b>9,765,770</b>	<b>5,741,795</b>	<b>2,556,695</b>	<b>3,433,141</b>	<b>28,256,613</b>
<b>Group</b>							
	On Demand	Up to	3 - 12	1-3	3-5	More than	Total
	Rs.'000	03 months	months	years	years	5 years	Rs.'000
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	
<b>Assets</b>							
<b>Financial Assets</b>							
Cash and cash equivalents	432,947	-	-	-	-	-	432,947
Placements with banks & financial institutions	-	-	571,672	-	-	-	571,672
Securities purchased under resale agreements	-	1,609,702	-	-	-	-	1,609,702
Financial investments - held for trading	-	552,741	-	-	-	-	552,741
Bills receivable	-	595,888	-	-	-	-	595,888
Loans & advances to customers	38,530	812,839	2,183,337	3,803,113	1,305,884	361,351	8,505,054

## Notes to the Financial Statements

### 49 Risk Management (Contd.)

#### Maturity analysis (Contd.)

Group	On Demand	Up to	3 - 12	1-3	3-5	More than	Total
	Rs.'000	03 months Rs.'000	months Rs.'000	years Rs.'000	years Rs.'000	5 years Rs.'000	Rs.'000
Lease and hire purchase receivable	163,947	761,185	4,082,460	6,761,525	2,409,399	44,743	14,223,259
Financial investments - available for sale	-	715,736	660,458	163,816	111,609	343,238	1,994,857
Financial investments - held to maturity	-	-	-	-	55,016	1,491	56,507
Financial other assets	-	82,305	283	275	2,557	2,038	87,458
<b>Total financial assets</b>	<b>635,424</b>	<b>5,130,396</b>	<b>7,498,210</b>	<b>10,728,729</b>	<b>3,884,465</b>	<b>752,861</b>	<b>28,630,085</b>
<b>Non Financial Assets</b>							
Real estate stock	-	19,425	43,120	-	-	-	62,545
Investments in associate companies	-	-	-	-	-	96,484	96,484
Investments in subsidiaries	-	-	-	-	-	-	-
Investment properties	-	-	-	-	-	145,840	145,840
Property and equipment	-	-	-	-	-	273,122	273,122
Intangible assets	-	-	-	-	-	67,141	67,141
Other assets	-	512,957	93,984	-	-	-	606,941
<b>Total non-financial assets</b>	<b>-</b>	<b>532,382</b>	<b>137,104</b>	<b>-</b>	<b>-</b>	<b>582,587</b>	<b>1,252,073</b>
<b>Total Assets</b>	<b>635,424</b>	<b>5,662,770</b>	<b>7,635,314</b>	<b>10,728,729</b>	<b>3,884,465</b>	<b>1,335,448</b>	<b>29,882,158</b>
<b>Financial Liabilities</b>							
Due to banks	273,968	-	-	-	-	-	273,968
Securities sold under repurchase agreements	-	416,472	-	-	-	-	416,472
Due to customers	11,070	4,668,015	8,605,340	2,057,349	430,088	74,444	15,846,306
Debt issued and borrowed funds	-	1,078,147	994,123	3,684,446	2,126,607	-	7,883,323
Other financial liabilities	-	56,904	11,157	-	-	299,925	367,986
<b>Total financial liabilities</b>	<b>285,038</b>	<b>6,219,538</b>	<b>9,610,620</b>	<b>5,741,795</b>	<b>2,556,695</b>	<b>374,369</b>	<b>24,788,055</b>
<b>Non Financial Liabilities</b>							
Insurance provision - life	-	-	-	-	-	444,257	444,257
Insurance provision - non life	-	512,333	-	-	-	-	512,333
Current tax liabilities	-	-	141,263	-	-	-	141,263
Deferred tax liabilities	-	-	-	-	-	113,669	113,669
Other liabilities	-	274,892	313,732	-	-	-	588,624
Retirement benefits obligations	-	-	-	-	-	262,040	262,040
<b>Total Non financial liabilities</b>	<b>-</b>	<b>787,225</b>	<b>454,995</b>	<b>-</b>	<b>-</b>	<b>819,966</b>	<b>2,062,186</b>
<b>Total liabilities</b>	<b>285,038</b>	<b>7,006,763</b>	<b>10,065,615</b>	<b>5,741,795</b>	<b>2,556,695</b>	<b>1,194,335</b>	<b>26,850,241</b>

**49 Risk Management (Contd.)****Maturity analysis (Contd.)**

Group	On Demand	Up to	3 - 12	1-3	3-5	More than	Total
	Rs.'000	03 months Rs.'000	months Rs.'000	years Rs.'000	years Rs.'000	5 years Rs.'000	Rs.'000
<b>Equity</b>							
Stated capital	-	-	-	-	-	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	723,162	723,162
Available-for-sale reserve	-	(4,350)	-	-	-	(4,569)	(8,919)
Statutory reserves	-	-	-	-	-	140,544	140,544
Non controlling interests	-	-	-	-	-	52,673	52,673
Total equity	-	-	-	-	-	3,036,267	3,031,917
Total liabilities and equity	285,038	7,002,413	10,065,615	5,741,795	2,556,695	4,230,602	29,882,158

**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	On Demand	Less than	3 - 12	1-3	3-5	Over 5	Total as at
		3 Months	Months	Years	Years	Years	31-12-2015
Rs.'000							
Financial Guarantees & Claims to the customers	123,536	-	-	-	-	-	123,536
Total commitments and contingencies	123,536	-	-	-	-	-	123,536
<b>Group</b>							
Financial Guarantees & Claims to the customers	546,079	-	-	-	-	-	546,079
Total commitments and contingencies	546,079	-	-	-	-	-	546,079

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.

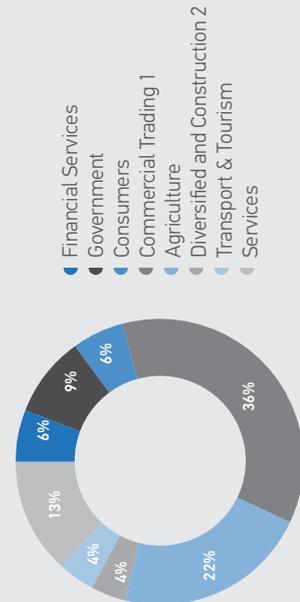
as at 31st December 2015	Financial Services	Government	Consumers	Commercial Trading 1	Agriculture	Diversified & Construction 2	Transport & Tourism	Services 3	Total
									Rs.'000
<b>Financial Assets</b>									
Cash and cash equivalents	380,830	-	-	-	-	-	-	-	380,830
Placements with banks & financial institutions	440,093	-	-	-	-	-	-	-	440,093
Securities purchased under resale agreements	-	785,965	-	-	-	-	-	-	785,965
Financial investments - held for trading	165,713	66,180	12,986	77,558	14,720	118,033	68,943	17,837	541,970
Bills receivable	-	-	-	77,809	4,000	344,361	-	169,718	595,888
Loans & advances to customers	320,690	-	575,228	3,679,599	1,637,881	275,867	386,157	1,531,210	8,406,632
Lease and hire purchase receivable	169,391	-	965,832	6,069,014	4,210,977	231,767	681,677	1,894,601	14,223,259
<b>Financial investments - available for sale</b>									
Government securities	-	1,712,896	-	-	-	-	-	-	1,712,896
Other securities	5,000	-	-	-	-	36,310	-	-	41,310
Financial investments - held to maturity	56,507	-	-	-	-	-	-	-	56,507
Other assets	21,485	-	53,265	-	-	735	-	11,973	87,458
<b>Total financial assets</b>	<b>1,559,709</b>	<b>2,565,041</b>	<b>1,607,311</b>	<b>9,903,980</b>	<b>5,867,578</b>	<b>1,007,073</b>	<b>1,136,777</b>	<b>3,625,339</b>	<b>27,272,808</b>

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

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

3 Services include IT, Health care, Telecommunication and others

#### 2015 - Company



**49 Risk Management (Contd.)****Group****Industry Analysis Risk Concentration**

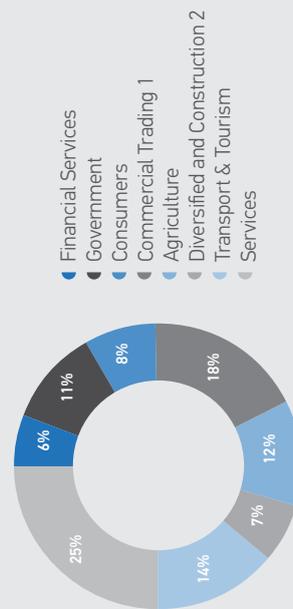
The company's concentrations of risk are managed by industry sector.

as at 31st December 2015	Financial Services	Government	Consumers	Commercial Trading 1	Agriculture	Diversified & Construction 2	Transport & Tourism	Services 3	Total
									Rs.'000
<b>Financial Assets</b>									
Cash and cash equivalents	432,947	-	-	-	-	-	-	-	432,947
Placements with banks & financial institutions	571,672	-	-	-	-	-	-	-	571,672
Securities purchased under resale agreements	-	1,609,702	-	-	-	-	-	-	1,609,702
Financial investments - held for trading	165,879	66,180	13,824	78,923	15,609	120,892	68,943	22,491	552,741
Bills receivable	-	-	-	77,809	4,000	344,361	-	169,718	595,888
Loans & advances to customers	320,690	-	575,228	3,778,021	1,637,881	275,867	386,157	1,531,210	8,505,054
Lease and hire purchase receivable	169,391	-	965,832	6,069,014	4,210,977	231,767	681,677	1,894,601	14,223,259
<b>Financial investments - available for sale</b>									
Government securities	-	1,944,534	-	-	-	-	-	-	1,944,534
Other securities	5,000	-	-	-	-	45,323	-	-	50,323
Financial investments - held to maturity	56,507	-	-	-	-	-	-	-	56,507
Other assets	21,485	-	53,265	-	-	735	-	11,973	87,458
<b>Total financial assets</b>	<b>1,743,571</b>	<b>3,620,416</b>	<b>1,608,149</b>	<b>10,003,767</b>	<b>5,868,467</b>	<b>1,018,945</b>	<b>1,136,777</b>	<b>3,629,993</b>	<b>28,630,085</b>

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

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

3 Services include IT, Health care, Telecommunication and others

**2015 - 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 31st December 2015 together with comparative figures for the year ended 31st December 2014.

#### Company

as at 31st December	Western		Southern & Sabaragamuwa		Northern	
	2015	2014	2015	2014	2015	2014
<b>Financial Assets</b>						
Cash and cash equivalents	294,755	184,905	19,411	19,167	5,982	28,094
Placements with banks & financial institutions	440,093	1,672,735	-	1,096	-	-
Securities purchased under resale agreements	785,965	465,211	-	-	-	-
Financial investments - held for trading	541,970	882,176	-	-	-	-
Bills receivable	492,215	562,210	21,927	15,755	-	-
Loans & advances to customers	5,053,749	4,855,523	1,226,200	673,167	258,617	138,087
Lease and hire purchase receivable	4,570,165	4,054,770	2,121,597	1,673,064	328,503	293,716
<b>Financial investments - available for sale</b>						
Government securities	1,712,896	1,158,235	-	-	-	-
Other securities	41,310	20,579	-	-	-	-
Financial investments - held to maturity	56,507	653,338	-	-	-	-
Other assets	71,146	91,299	4,036	603	551	654
<b>Total financial assets</b>	<b>14,060,771</b>	<b>14,600,981</b>	<b>3,393,171</b>	<b>2,382,852</b>	<b>593,653</b>	<b>460,551</b>

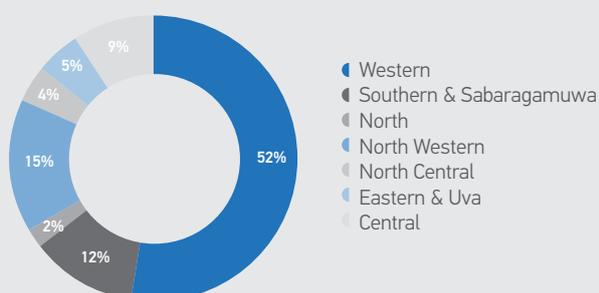
#### Group

as at 31st December

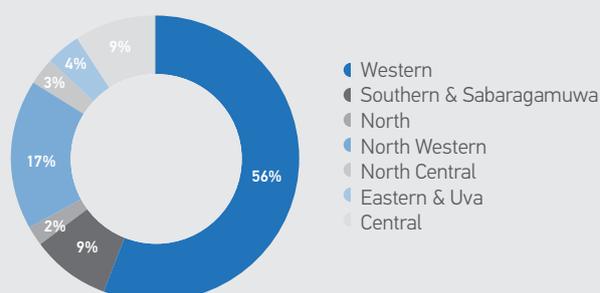
#### Financial Assets

Cash and cash equivalents	346,872	239,133	19,411	19,167	5,982	28,094
Placements with banks & financial institutions	571,672	1,794,723	-	1,096	-	-
Securities purchased under resale agreements	1,609,702	1,313,486	-	-	-	-
Financial investments - held for trading	552,741	896,629	-	-	-	-
Bills receivable	492,215	562,210	21,927	15,755	-	-
Loans & advances to customers	5,152,171	4,998,481	1,226,200	673,167	258,617	138,087
Lease and hire purchase receivable	4,570,165	4,054,770	2,121,597	1,673,064	328,503	293,716
<b>Financial investments - available for sale</b>						
Government securities	1,944,534	1,193,447	-	-	-	-
Other securities	50,323	27,970	-	-	-	-
Financial investments - held to maturity	56,507	653,338	-	-	-	-
Other assets	71,146	113,549	4,036	603	551	654
<b>Total financial assets</b>	<b>15,418,048</b>	<b>15,847,736</b>	<b>3,393,171</b>	<b>2,382,852</b>	<b>593,653</b>	<b>460,551</b>

2015 - Company



2014 - Company

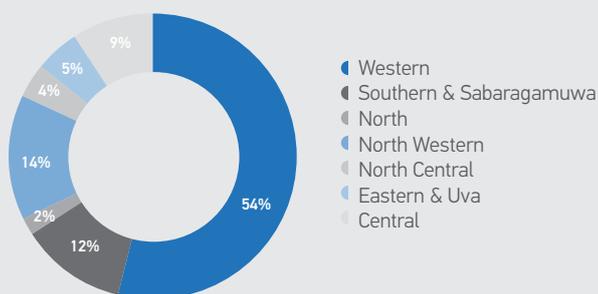


Rs.'000

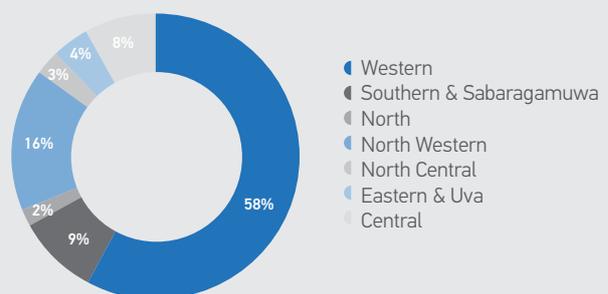
North Western		North Central		Eastern & Uva		Central		Total	
2015	2014	2015	2014	2015	2014	2015	2014	2015	2014
24,586	42,150	6,194	20,468	13,707	23,900	16,195	33,219	380,830	351,903
-	340	-	827	-	-	-	-	440,093	1,674,998
-	-	-	-	-	-	-	-	785,965	465,211
-	-	-	-	-	-	-	-	541,970	882,176
29,165	29,116	865	1,151	11,273	9,007	40,443	28,885	595,888	646,124
814,296	1,244,842	125,384	151,296	390,633	275,706	537,753	615,848	8,406,632	7,954,469
3,257,189	3,161,669	1,046,757	672,121	916,162	745,652	1,982,886	1,567,397	14,223,259	12,168,389
-	-	-	-	-	-	-	-	1,712,896	1,158,235
-	-	-	-	-	-	-	-	41,310	20,579
-	-	-	-	-	-	-	-	56,507	653,338
6,446	7,265	623	367	1,098	926	3,558	3,299	87,458	104,413
4,131,682	4,485,382	1,179,823	846,230	1,332,873	1,055,191	2,580,835	2,248,648	27,272,808	26,079,835

24,586	42,150	6,194	20,468	13,707	23,900	16,195	33,219	432,947	406,132
-	340	-	827	-	-	-	-	571,672	1,796,986
-	-	-	-	-	-	-	-	1,609,702	1,313,486
-	-	-	-	-	-	-	-	552,741	896,629
29,165	29,116	865	1,151	11,273	9,007	40,443	28,885	595,888	646,124
814,296	1,244,842	125,384	151,296	390,633	275,706	537,753	615,848	8,505,054	8,097,427
3,257,189	3,161,669	1,046,757	672,121	916,162	745,652	1,982,886	1,567,397	14,223,259	12,168,389
-	-	-	-	-	-	-	-	1,944,534	1,193,447
-	-	-	-	-	-	-	-	50,323	27,970
-	-	-	-	-	-	-	-	56,507	653,338
6,446	7,265	623	367	1,098	926	3,558	3,299	87,458	126,663
4,131,682	4,485,382	1,179,823	846,230	1,332,873	1,055,191	2,580,835	2,248,648	28,630,085	27,326,591

2015 - Group



2014 - 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 31st December 2015 the value of collateral that the company holds relating to loans individually determined to be impaired amounts to Rs. 1,921 Mn. The collateral consists of cash, securities and properties.

**49 Risk management (Contd.)****Credit Quality by class of financial assets**

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

Company	Neither past due nor impaired*	Less than 3 months	Past due but not impaired *					Individually impaired	Total 31-12-2015
			3 to 6 months	6 to 9 months	9 to 12 months	More than 12			
<b>Financial Assets</b>									
Cash and cash equivalents	380,830	-	-	-	-	-	-	380,830	
Placements with banks & financial institutions	440,093	-	-	-	-	-	-	440,093	
Securities purchased under resale agreements	785,965	-	-	-	-	-	-	785,965	
Financial investments - held for trading	541,970	-	-	-	-	-	-	541,970	
Bills receivable	13,653	241,486	14,016	7,532	23,500	221,628	74,073	595,888	
Loans & advances to customers	6,455,198	537,898	196,780	44,290	25,527	543,608	603,331	8,406,632	
Lease and hire purchase receivable	12,659,619	330,949	395,982	30,226	28,217	432,321	345,945	14,223,259	
<b>Financial investments - available for sale</b>									
Government securities	1,712,896	-	-	-	-	-	-	1,712,896	
Other securities	41,310	-	-	-	-	-	-	41,310	
Financial investments - held to maturity	56,507	-	-	-	-	-	-	56,507	
Other assets	87,458	-	-	-	-	-	-	87,458	
<b>Total</b>	<b>23,175,499</b>	<b>1,110,333</b>	<b>606,778</b>	<b>82,048</b>	<b>77,244</b>	<b>1,197,557</b>	<b>1,023,349</b>	<b>27,272,808</b>	

Group	Neither past due nor impaired*	Less than 3 months	Past due but not impaired *					Individually impaired	Total 31-12-2015
			3 to 6 months	6 to 9 months	9 to 12 months	More than 12			
<b>Financial Assets</b>									
Cash and cash equivalents	432,947	-	-	-	-	-	-	432,947	
Placements with banks & financial institutions	571,672	-	-	-	-	-	-	571,672	
Securities purchased under resale agreements	1,609,702	-	-	-	-	-	-	1,609,702	
Financial investments - held for trading	552,741	-	-	-	-	-	-	552,741	
Bills receivable	13,653	241,486	14,016	7,532	23,500	221,628	74,073	595,888	
Loans & advances to customers	6,553,620	537,898	196,780	44,290	25,527	543,608	603,331	8,505,054	
Lease and hire purchase receivable	12,659,619	330,949	395,982	30,226	28,217	432,321	345,945	14,223,259	
<b>Financial investments - available for sale</b>									
Government securities	1,944,534	-	-	-	-	-	-	1,944,534	
Other securities	50,323	-	-	-	-	-	-	50,323	
Financial investments - held to maturity	56,507	-	-	-	-	-	-	56,507	
Other assets	87,458	-	-	-	-	-	-	87,458	
<b>Total</b>	<b>24,532,776</b>	<b>1,110,333</b>	<b>606,778</b>	<b>82,048</b>	<b>77,244</b>	<b>1,197,557</b>	<b>1,023,349</b>	<b>28,630,085</b>	

\* Collective impairment allowances are made for 'neither past due nor impaired' and 'past due but not impaired' loans.

## Notes to the Financial Statements

### 49 Operational risk

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

The company recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, legal or regulatory penalties if such risks are not objectively managed.

### 50 Capital

The company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the company's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Sri Lanka.

During the past year, the company had complied in full with all its externally imposed capital requirements. (2014: 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 Ratio (%)		Total Capital Ratio (%)	
	2015	2014 *	2015	2014 *
31-Mar	13.85	21.34	14.50	21.34
30-Jun	13.63	19.52	13.64	19.52
30-Sep	12.58	18.34	12.36	18.34
31-Dec	11.91	15.91	11.68	15.91

\* Comparative figures include as a stand alone entity as it stood as at 2014

# 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 31st December 2015

Range of share Holdings	INDIVIDUAL			COMPANY			TOTAL		
	No. of Share Holders	No. of shares	% of Holders	No. of Share Holders	No. of shares	% of Holders	No. of Share Holders	No. of shares	% of Holders
	1 - 1,000	8,686	1,697,403	1.02	779	61,513	0.04	9,465	1,758,916
1,001 - 10,000	1,712	5,770,638	3.48	117	487,670	0.29	1,829	6,258,308	3.77
10,001 - 100,000	294	7,735,095	4.66	58	2,135,770	1.29	352	9,870,865	5.95
100,001 - 1,000,000	22	4,423,631	2.67	21	4,945,114	2.98	43	9,368,745	5.65
1,000,001 & Above	-	-	0.00	4	138,617,707	83.57	4	138,617,707	83.57
<b>TOTALS</b>	<b>10,714</b>	<b>19,626,767</b>	<b>11.83</b>	<b>979</b>	<b>146,247,774</b>	<b>88.17</b>	<b>11,693</b>	<b>165,874,541</b>	<b>100.00</b>

Range of share Holdings	RESIDENT			NON - RESIDENT			TOTAL		
	No. of Share Holders	No. of shares	% of Holders	No. of Share Holders	No. of shares	% of Holders	No. of Share Holders	No. of shares	% of Holders
	1 - 1,000	9,440	1,753,641	1.06	25	5,275	0.00	9,465	1,758,916
1,001 - 10,000	1,815	6,208,287	3.74	14	50,021	0.03	1,829	6,258,308	3.77
10,001 - 100,000	342	9,513,115	5.74	10	357,750	0.22	352	9,870,865	5.95
100,001 - 1,000,000	39	8,344,327	5.03	4	1,024,418	0.62	43	9,368,745	5.65
1,000,001 & Above	4	138,617,707	83.57	-	-	0.00	4	138,617,707	83.57
<b>TOTALS</b>	<b>11,640</b>	<b>164,437,077</b>	<b>99.14</b>	<b>53</b>	<b>1,437,464</b>	<b>0.87</b>	<b>11,693</b>	<b>165,874,541</b>	<b>100.00</b>

- The percentage and number of shares held by the public as at 31st December 2015 was 25.51% and 42,306,898 respectively. (31st December 2014 - 21.32% and 28,781,870 respectively)
- The Total Number of Shareholders as at 31st December 2015 was 11,693 (31st December 2014- 9,493)
- The number of Shares in issue as at 31st December 2015 were 165,874,541 (31st December 2014-135,000,000)

## 3. Book Value (as at 31st December)

	2015	2014
Net Asset Per share (Rs.)	18.06	19.00

## 4. Share Prices (Rs.)

Lowest	14.30 (14/12/2015)	13.20 (26/02/2014)
Highest	19.50 (16/01/2015)	19.90 (10/10/2014)
Last Transaction	15.00 (31/12/2015)	17.50 (31/12/2014)

## Share and Debenture Information

5. Share Trading	2015	2014
No. of Transactions	5,424	11,399
No. of Shares traded	10,857,975	26,056,267
Value of Shares traded (Rs.)	191,244,181.20	442,744,089.30

6. Earnings as at 31st December (Rs.)		
Earnings per share	(0.55)	(0.18)
Price earnings ratio	(27.28)	(94.65)

### 7. Performance at the Colombo Stock Exchange

#### (a) Market Capitalization of MBSL

Value (Rs.)	2,485,758,330	2,362,500,000
Rank	122	137

#### (b) Price Movement

All Share price Index	6,902.20	7,298.95
S&P Sri Lanka 20 Price Index	3,657.70	4,089.14
MBSL Midcap Index	10,750.93	11,058.93

### 8. Debentures as at 31st December 2015

Type	Interest Payment Details	No of Debentures	Amount (Rs.) '000
<b>1. Debentures issued in March 2013</b>			
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 31st December each year from the date of allotment until the date of Maturity/Redemption.	6,251,100	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 31st December each year from the date of allotment until the date of Maturity/Redemption.	4,852,400	485,240
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, 31st December and 31st March, each year from the date of allotment until the date of Maturity/Redemption.	7,231,900	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.	1,664,600	166,460
<b>2. Debentures issued in December 2013</b>			
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.	6,747,700	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.	2,962,200	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.	175,400	17,540

Type	Interest Payment Details	No of Debentures	Amount (Rs.) '000
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.	114,700	11,470

### 3. 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.	9,097,700	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.	10,902,300	1,090,230

## 9. Director's Shareholding

The number of Shares held by the Directors as at		31/12/2015	31/12/2014
01.	Mr. R. P. K. Gallage	Nil	N/A
02.	Mr. D. M. Gunasekara	Nil	Nil
03.	Mr. B. J. Sinniah	Nil	N/A
04.	Mr. S. S. Gamage	Nil	N/A
05.	Mr. A. H. Samarasundera	Nil	N/A
06.	Mr. S. L. Rahaman	Nil	N/A
07.	Mr. L. C. De Silva	Nil	N/A
08.	Mr. W. P. R. P. H. Fonseka (Alternate Director to Mr. D. M. Gunasekara)	Nil	Nil
09.	Mr. A P Maharaja (Resigned 18.09.2015)	N/A	N/A
10.	Mr. B Premalal (Resigned 18.09.2015)	N/A	N/A
11.	Mr. M R Shah (Resigned 23.01.2015)	N/A	Nil
12.	Mr. M S S Paramananda (Resigned 13.03.2015)	N/A	Nil
13.	Mr. P G Rupasinghe (Resigned 13.03.2015)	N/A	Nil
14.	Mr. Lalith De Silva (Resigned 13.03.2015)	N/A	Nil
15.	Mr. K B S Bandara (Resigned 26.03.2015)	N/A	Nil
16.	Mr. Chitral R Jayawarna (Resigned 13.03.2015)	N/A	Nil
17.	Mr. A M P Amarakoon (Resigned 13.03.2015)	N/A	Nil
18.	Mr. R. Sivaraman (Resigned 13.03.2015)	N/A	N/A
19.	Mr. W C K Wickramarachchi (Resigned 13.03.2015)	N/A	N/A

## 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 31st December 2015

	Name of the Shareholder	2015	%	2014	%
1	Bank of Ceylon No. 1 Account	123,562,267	74.49	97,392,136	72.14
2	Bank of Ceylon A/C Ceybank Unit Trust	10,757,541	6.49	8,825,994	6.54
3	Phoenix Ventures Private Limited	2,632,493	1.59	-	-
4	Prime Lands (PVT) Ltd	1,665,406	1.00	-	-
5	Merrill J Fernando & Sons (Pvt) Limited	526,165	0.32	526,165	0.39
6	People's Leasing & Finance PLC/Mr.D.M.P.Disanayake	425,450	0.26	346,500	0.26
7	Mr. N.Balasingam	381,400	0.23	381,400	0.28
8	Mr. B.T. Prathapasinghe	345,000	0.21	274,595	0.20
9	MR. A. Chelliah (Deceased)	333,800	0.20	333,800	0.25
10	Elgin Investments Limited	319,770	0.19	-	-
11	Mr.A M Weerasinghe	305,583	0.18	305,583	0.23
12	Chemanex PLC A/c No 1	300,000	0.18	300,000	0.22
13	People's Leasing & Finance PLC/Mr.L.P.Hapangama	300,000	0.18	300,000	0.22
14	Bartleet Produce Marketing (Pvt) Ltd	300,000	0.18	300,000	0.22
15	Hatton National Bank PLC/Dinesh Nagendra Sellamutthu	286,301	0.17	-	-
16	Mrs. N.H. Abdul Husein	284,000	0.17	230,613	0.17
17	D.S.L.Investments (Private) Ltd.	269,603	0.16	269,603	0.20
18	Asha Financial Services Limited/Mr.C.N Pakianathan	264,250	0.16	273,713	0.20
19	Mr. K C Vignarajah	263,296	0.16	263,296	0.20
20	Seylan Bank PLC/Spice of Life (Pvt) Ltd	251,895	0.15	108,173	0.08

# Decade at a Glance

## Based on Financial Statements Prepared in compliance with SLAS

### Company

For the year ended 31st December	2010	2009	2008	2007	2006
	Rs. '000				
<b>Operating Results</b>					
Income	1,522,980	1,155,731	1,035,227	872,598	704,355
Interest expenses	419,041	584,247	547,386	333,204	189,017
Operating expenses & provisions	535,870	345,720	300,898	273,261	257,190
Share of Associate Company	82,639	28,500	16,471	7,136	11,033
Profit before income tax	650,708	254,264	203,414	273,269	269,181
Income tax on profit	201,037	53,286	(1,664)	34,799	59,638
Profit after income tax	449,671	200,978	205,078	238,470	209,543
<b>Net profit for the year</b>	<b>449,671</b>	<b>200,978</b>	<b>205,078</b>	<b>238,470</b>	<b>209,543</b>

### Balance Sheet Information

#### Assets

Government Treasury Bills and Bonds	279,765	387,847	131,084	41,735	-
Investments on Securities & Properties	622,900	511,217	395,616	410,456	185,641
Loans and advances	1,567,034	1,143,361	807,469	570,618	485,594
Lease receivable	3,816,504	2,958,996	3,128,124	3,154,198	2,628,564
Property & Equipment	44,047	37,844	30,519	24,517	26,344
Investments in associate & Subsidiary companies	568,327	354,546	103,895	95,543	51,944
Other Assets	284,024	185,114	171,421	107,015	125,610
	<b>7,182,601</b>	<b>5,578,925</b>	<b>4,768,128</b>	<b>4,404,082</b>	<b>3,503,697</b>

#### Liabilities

Debentures	716,800	1,074,160	1,144,160	1,327,510	1,260,600
Borrowings	3,179,712	1,658,985	1,553,949	1,079,083	400,370
Other liabilities & Deferred Taxation	606,896	515,008	390,225	432,773	426,481
	<b>4,503,408</b>	<b>3,248,153</b>	<b>3,088,334</b>	<b>2,839,366</b>	<b>2,087,451</b>
<b>Net Assets</b>	<b>2,679,193</b>	<b>2,330,772</b>	<b>1,679,794</b>	<b>1,564,716</b>	<b>1,416,246</b>

#### Capital Employed

Stated Capital	1,607,000	1,607,000	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
	<b>2,679,193</b>	<b>2,330,772</b>	<b>1,679,794</b>	<b>1,564,716</b>	<b>1,416,246</b>

## Decade at a Glance

### Ratios and Related Information

#### Company

For the year ended 31st December

2010 2009 2008 2007 2006

#### Operating Ratios

Return on Net Assets - %	16.78%	8.62%	12.21%	15.24%	14.80%
Net Profit - %	29.53%	17.39%	19.81%	27.33%	29.75%
Cost to Income Ratio - %	42.58%	54.95%	53.30%	41.14%	42.32%
Income Growth - %	31.78%	11.64%	18.64%	23.89%	30.68%
Profit Growth - %	123.74%	-2.00%	-14.00%	13.80%	32.26%
Assets Growth - %	28.75%	17.00%	8.27%	25.70%	7.05%
Net Assets Growth - %	14.95%	38.75%	7.35%	10.48%	11.15%

#### Gearing Ratios

Debt to Equity - Times	1.45	1.17	1.61	1.54	1.17
Interest Cover - Times	2.55	1.44	1.37	1.82	2.42

#### Liquidity Ratios

Quick Ratio - Times	0.93	1.04	1.19	1.57	0.91
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#### Investors Ratios

Market value of a voting share - Rs.	45.80	19.50	7.25	14.25	16.25
Basic earnings per share - Rs.	3.33	1.49	2.28	2.65	2.33
Net assets value per share - Rs.	19.85	17.26	18.66	17.39	15.74
Price earnings ratio - Times	13.75	13.09	3.18	5.38	6.97
Earning yield - %	7.27%	7.64%	31.45%	18.60%	14.33%
Dividend per share - Rs.	1.25	0.75	1.00	1.00	1.00
Dividend Cover - Times	2.66	1.98	2.28	2.65	2.33
Dividend yield ratio - %	2.73%	3.85%	13.79%	7.02%	6.15%
Dividend Payout ratio - %	37.54%	50.34%	43.86%	37.74%	42.92%

**Based on Financial Statements Prepared in compliance with SLAS****Group**

For the year ended 31st December	2010	2009	2008	2007	2006
	Rs. '000				
<b>Operating Results</b>					
Income	2,595,680	2,332,321	1,647,537	1,443,925	1,163,678
Interest expenses	850,177	1,274,896	921,486	658,647	440,614
Operating expenses & provisions	1,032,534	727,000	494,628	464,824	429,735
Share of Associate Company	82,639	28,500	16,471	7,136	11,033
Profit before income tax	795,608	358,925	247,894	327,590	304,362
Income tax on profit	233,700	73,592	4,908	38,134	59,737
Profit after income tax	540,977	285,333	242,986	289,456	244,625
Minority interest	48,632	55,771	18,574	24,984	19,693
<b>Net profit for the year</b>	<b>492,345</b>	<b>229,562</b>	<b>224,412</b>	<b>264,472</b>	<b>224,932</b>

**Balance Sheet Information****Assets**

Government Treasury Bills and Bonds	1,626,575	1,291,653	446,084	362,499	323,054
Investments on Securities & Others	892,052	768,975	430,929	452,165	230,839
Loans and advances	3,960,576	3,435,815	1,672,491	887,570	805,632
Lease receivable	6,554,698	5,035,167	4,660,299	4,814,920	4,471,315
Property, Plant & Equipment	145,426	150,924	44,466	37,360	43,528
Investments in associate & Subsidiary companies	121,617	95,022	82,977	74,625	31,026
Other Assets	1,123,406	1,054,916	251,782	173,608	185,807
	<b>14,424,350</b>	<b>11,832,472</b>	<b>7,589,028</b>	<b>6,802,747</b>	<b>6,091,201</b>

**Liabilities**

Deposits from customers	5,676,955	4,897,367	2,199,270	1,813,329	2,142,949
Debentures	734,684	1,169,644	1,144,160	1,327,510	1,260,600
Borrowings	3,311,089	1,733,170	1,682,372	1,240,575	490,384
Other liabilities & Deferred Taxation	1,514,540	1,307,202	553,314	564,407	539,798
	<b>11,237,268</b>	<b>9,107,383</b>	<b>5,579,116</b>	<b>4,945,821</b>	<b>4,433,731</b>

Minority Interest	288,683	207,823	172,208	153,634	128,650
<b>Net Assets</b>	<b>2,898,399</b>	<b>2,517,266</b>	<b>1,837,704</b>	<b>1,703,292</b>	<b>1,528,820</b>

**Capital Employed**

Stated Capital	1,607,000	1,607,000	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
	<b>2,898,399</b>	<b>2,517,266</b>	<b>1,837,704</b>	<b>1,703,292</b>	<b>1,528,820</b>

## Decade at a Glance

### Ratios and Related Information

#### Group

For the year ended 31st December

2010                      2009                      2008                      2007                      2006

#### Operating Ratios

Return on Net Assets - %	16.99%	9.12%	12.21%	15.53%	14.71%
Net Profit - %	20.84%	12.23%	14.75%	20.05%	21.02%
Cost to Income Ratio - %	52.50%	70.44%	55.15%	45.21%	46.64%
Income Growth - %	11.29%	41.56%	14.10%	24.08%	28.45%
Profit Growth - %	96.93%	17.43%	-16.05%	18.33%	23.98%
Assets Growth - %	21.90%	55.92%	11.56%	11.68%	11.92%
Net Assets Growth - %	15.14%	36.98%	7.89%	11.41%	11.48%

#### Gearing Ratios

Debt to Equity - Times	3.34	3.10	2.73	2.57	2.55
Interest Cover - Times	1.94	1.28	1.27	1.50	1.69

#### Liquidity Ratios

Quick Ratio - Times	0.69	0.85	0.87	1.00	0.70
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#### Investors Ratios

Market value of a voting share - Rs.	45.80	19.50	7.25	14.25	16.25
Basic earnings per share - Rs.	3.65	1.70	2.49	2.94	2.50
Net assets value per share - Rs.	21.47	18.65	20.42	18.93	16.99
Price earnings ratio - Times	12.55	11.47	2.91	4.85	6.50
Earning yield - %	7.97%	8.72%	34.34%	20.63%	15.38%
Dividend per share - Rs.	1.25	0.75	1.00	1.00	1.00
Dividend Cover - Times	2.92	2.27	2.49	2.94	2.50
Dividend yield ratio - %	2.73%	3.85%	13.79%	7.02%	6.15%
Dividend Payout ratio - %	34.25%	44.12%	40.16%	34.01%	40.10%

**Based on Financial Statements Prepared Under SLFRS**

For the year ended 31st December	Company					Group				
	2015 Rs. '000	2014 Rs. '000 Restated	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2015 Rs. '000	2014 Rs. '000 Restated	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Operating Results</b>										
Income	4,199,057	4,734,641	2,355,366	1,869,714	1,393,526	5,411,561	6,023,040	5,227,315	3,955,749	3,009,426
Interest Expenses	2,133,325	2,579,431	1,371,937	1,035,739	541,370	2,134,351	2,583,660	2,364,151	1,989,101	1,234,716
Operating Expenses & Provisions	2,119,094	2,101,923	807,547	590,572	483,141	3,246,223	3,441,106	2,943,460	1,698,689	1,344,174
Share of Associate Company	-	-	-	-	60,248	7,080	17,208	(606)	(17,486)	60,248
Profit before income tax	(53,362)	53,287	175,882	243,403	429,263	38,067	15,483	(80,902)	250,473	490,784
Income tax on profit	37,857	83,957	58,942	42,156	92,992	57,645	86,016	78,851	70,256	125,318
Profit after income tax	(91,219)	(30,670)	116,940	201,247	336,271	(19,578)	(70,533)	(159,753)	180,217	365,466
Non controlling interests	-	-	-	-	-	(18,869)	(9,386)	(57,632)	36,724	30,703
<b>Net profit Attributable to Equity Holders of the Parent</b>	<b>(91,219)</b>	<b>(30,670)</b>	<b>116,940</b>	<b>201,247</b>	<b>336,271</b>	<b>(709)</b>	<b>(61,147)</b>	<b>(102,121)</b>	<b>143,493</b>	<b>334,763</b>

**Statement of Financial Position Information****Assets**

Cash in hand and cash at bank	380,830	351,903	180,104	156,130	97,260	432,947	406,132	275,688	317,758	247,625
Deposits with banks	440,093	1,674,998	784,480	140,242	-	571,672	1,796,986	1,186,017	485,954	274,243
Reverse Repurchase Agreement	785,965	465,211	140,768	116,532	450,000	1,609,702	1,313,486	469,958	590,525	552,218
Financial assets designated at FVPL	541,970	882,176	262,817	311,676	280,815	552,741	896,629	285,545	373,391	387,609
Bills receivable	595,888	646,124	627,283	525,741	527,022	595,888	646,124	627,283	525,743	527,024
Loans & advances to customers	8,406,632	7,954,469	2,342,414	1,698,280	1,452,314	8,505,054	8,097,427	3,640,429	4,458,095	4,382,575
Lease and Hire purchase rental receivable	14,223,259	12,168,389	6,935,706	7,062,055	5,534,145	14,223,259	12,168,389	7,959,842	11,971,076	9,316,466
Financial investments - available for sale	1,754,207	1,178,814	667,855	695,868	424,127	1,994,857	1,221,417	1,427,400	1,161,481	1,238,225
Financial investments - Held to maturity Investment in Associate & Subsidiary	56,506	653,338	-	-	-	56,507	653,338	100,957	507,737	308,216
Companies	391,281	597,180	1,008,106	678,823	629,484	96,484	94,454	438,234	106,228	132,774
Property & Equipment, Intangible Assets and Investment properties	403,916	373,195	95,132	107,675	54,201	486,103	491,792	393,956	419,012	301,276
Other Assets	276,066	368,127	224,135	398,289	378,374	756,944	805,625	753,263	1,245,877	1,299,234
<b>Total Assets</b>	<b>28,256,613</b>	<b>27,313,924</b>	<b>13,268,800</b>	<b>11,891,311</b>	<b>9,827,742</b>	<b>29,882,158</b>	<b>28,591,799</b>	<b>17,558,572</b>	<b>22,162,877</b>	<b>18,967,485</b>

**Liabilities**

Due to banks	258,062	200,002	99,118	138,239	183,718	273,968	210,011	152,338	272,994	520,638
Securities sold under repurchase agreements	416,472	442,170	-	419,462	930,597	416,472	442,170	-	435,558	930,597
Due to customers	15,846,306	11,092,643	-	-	-	15,846,306	11,092,643	2,824,918	7,546,297	6,983,892
Debt issued and Borrowed funds	7,883,323	11,141,793	9,623,147	7,946,502	5,356,872	7,883,323	11,141,793	9,625,317	8,555,028	5,622,322
Other liabilities & Deferred taxation	857,304	1,285,894	765,659	693,449	594,280	2,430,173	2,580,518	2,048,486	1,950,552	1,473,646
<b>Total Liabilities</b>	<b>25,261,467</b>	<b>24,162,502</b>	<b>10,487,924</b>	<b>9,197,652</b>	<b>7,065,467</b>	<b>26,850,241</b>	<b>25,467,135</b>	<b>14,651,059</b>	<b>18,760,429</b>	<b>15,531,095</b>
Non controlling interests	-	-	-	-	-	52,673	72,715	139,805	504,924	461,072
<b>Total Equity Attributable to Equity Holders of the Parent</b>	<b>2,995,146</b>	<b>3,151,422</b>	<b>2,780,876</b>	<b>2,693,659</b>	<b>2,762,275</b>	<b>2,979,244</b>	<b>3,051,949</b>	<b>2,767,707</b>	<b>2,897,524</b>	<b>2,975,318</b>

**Capital Employed**

Stated Capital	2,124,457	2,124,457	1,607,000	1,607,000	1,607,000	2,124,457	2,124,457	1,607,000	1,607,000	1,607,000
Retained Earnings & Reserves	870,689	1,026,965	1,173,876	1,086,659	1,155,275	854,787	927,492	1,160,707	1,290,524	1,368,318
<b>Capital Employed</b>	<b>2,995,146</b>	<b>3,151,422</b>	<b>2,780,876</b>	<b>2,693,659</b>	<b>2,762,275</b>	<b>2,979,244</b>	<b>3,051,949</b>	<b>2,767,707</b>	<b>2,897,524</b>	<b>2,975,318</b>

## Decade at a Glance

### Based on Financial Statements Prepared Under SLFRS (Contd.)

	Company					Group				
	2015 Rs. '000	2014 Rs. '000 Restated	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2015 Rs. '000	2014 Rs. '000 Restated	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000
<b>Operating Ratios</b>										
Return on Net Assets - %	-3.05%	-0.97%	4.21%	7.47%	12.17%	-0.66%	-2.31%	-3.69%	4.95%	11.25%
Net Profit - %	-2.17%	-0.65%	4.96%	10.76%	24.13%	-0.36%	-1.17%	-3.06%	4.56%	12.14%
Return on Assets - %	-0.32%	-0.11%	0.88%	1.69%	3.42%	-0.07%	-0.25%	-0.91%	0.81%	1.93%
Cost to Income Ratio - %	67.47%	62.05%	65.71%	55.03%	34.19%	77.31%	70.71%	96.98%	77.62%	59.82%
<b>Gearing Ratios</b>										
Debt to Equity - Times	2.86	3.74	3.50	3.16	2.34	2.88	3.86	3.53	3.20	2.38
Interest Cover - Times	0.97	1.02	1.13	1.24	1.79	1.02	1.01	0.97	1.13	1.40
<b>Liquidity Ratios</b>										
Quick Ratio - Times	0.75	0.88	0.69	0.75	1.15	0.77	0.81	0.69	0.63	0.85
<b>Investors Ratios</b>										
Market value of a voting share - Rs.	15.00	17.50	13.60	19.90	39.60	15.00	17.50	13.60	19.90	39.60
Basic earnings per share - Rs.	-0.55	-0.18	0.87	1.49	2.49	-0.004	-0.37	-0.76	1.06	2.48
Net assets value per share - Rs.	18.06	19.00	20.60	19.95	20.46	17.96	18.40	20.50	21.46	22.04
Price earnings ratio - Times	-	-	15.70	13.35	15.90	-	-	-17.98	18.72	15.97
Earning yield - %	-3.67%	-1.06%	6.37%	7.49%	6.29%	-0.79%	-2.43%	-5.56%	5.34%	6.26%
Dividend per share - Rs.	-	0.50	0.50	1.25	1.25	-	0.41	0.50	1.25	1.25
Dividend Cover - Times	-	-	1.73	1.19	1.99	-	-	-1.51	0.85	1.98
Dividend yield ratio - %	-	2.8%	3.68%	6.28%	3.16%	-	2.33%	3.68%	6.28%	3.16%
Dividend Payout ratio - %	-	-	57.72%	83.85%	50.18%	-	-	166.1	117.60%	50.41%

# Independent Assurance Report



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## INDEPENDENT ASSURANCE REPORT TO MERCHANT BANK OF SRI LANKA & FINANCE PLC ON THE SUSTAINABILITY REPORTING CRITERIA PRESENTED UNDER THE INTEGRATED ANNUAL REPORT- 2015

### Introduction and scope of the engagement

The management of Merchant Bank of Sri Lanka & Finance PLC ("the Company") engaged us to provide an independent assurance on the following elements of the sustainability reporting indicators under the annual report- 2015 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 80 of the Report.
- Limited assurance on other information presented in the GRI Content Index Tool in pages 217 - 220 of the report, prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines.

### Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE-3000): 'Assurance Engagements Other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ("CASL").

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines ("GRI Guidelines") and related information in particular, the requirements to achieve GRI G4 'In accordance' - Core guideline publication, publicly available at GRI's global website at "www.globalreporting.org".

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than reasonable assurance engagement or an audit conducted in accordance with Sri Lanka Standards on Auditing and Assurance Engagements and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

### Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures

included:

- Interviewing relevant company's personnel to understand the process for collection, analysis, aggregation and presentation of data.
- Reviewing and validation of the information contained in the Report.
- Checking the calculations performed by the company on a sample basis through recalculation.
- Reconciling and agreeing the data on financial performance are properly derived from the company's audited financial statements for the year ended 31 December 2015.
- Comparison of the content of the Report against the criteria for a Global Reporting Initiative G4 'In accordance' - Core guidelines.

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

### 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.

### Management of the Company's responsibility for the Report

The management of the company is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustaining reporting process in line with the GRI Sustainability Reporting Guidelines.

# Independent Assurance Report

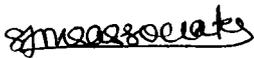
## Our responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative G4 'In accordance' - Core guidelines. This report is made solely to the Company in accordance with the terms of our engagement. We disclaim any assumption of responsibility for any reliance on this report to any person other than the company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for Professional Accountants issued by the CASL.

## Conclusion

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

- The information on financial performance as specified on page 80 of the Report is properly derived from the audited financial statements of the company for the year ended 31 December 2015.
- Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the company's sustainability practices and policies some of which are derived from GRI-G4-'In accordance' Core Sustainability Reporting Guidelines.



**SJMS ASSOCIATES**

Chartered Accountants

18 May 2016

Colombo

# GRI Content Index Tool

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
<b>Strategy and Analysis</b>			
<b>G4-1</b>	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 Message	18
<b>Organisational Profile</b>			
<b>G4-3</b>	Name of the organization	Merchant Bank of Sri Lanka & Finance PLC	06
<b>G4-4</b>	Primary brands, products, and services	Our Company at Glance	06
<b>G4-5</b>	The location of the organization's headquarters	Colombo, Sri Lanka	10
<b>G4-6</b>	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.	The Company operates only within Sri Lanka	10
<b>G4-7</b>	The nature of ownership and legal form	Corporate Information	6
<b>G4-8</b>	The markets served (geographic breakdown, sectors served, and types of customers/beneficiaries)	Our Customers	12-13
<b>G4-9</b>	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	Business Model Our People Shareholder Value Creation	11 & 86
<b>G4-10</b>	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).	Our People	86
<b>G4-11</b>	The percentage of total employees covered by collective bargaining agreements.	Performance Highlights 2015	86
<b>G4-12</b>	Describe the organization's supply chain.	Value Creation Model	11

## GRI Content Index Tool

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
<b>G4-13</b>	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	AR of BOD	94
<b>G4-14</b>	Whether and how the precautionary approach or principle is addressed by the organization.	Risk Management	65-69
<b>G4-15</b>	List externally developed economic, environmental and social charters, principles, or other initiatives to which the organization subscribes or which it endorses.	About this Report	09
<b>G4-16</b>	List memberships of associations (such as industry associations) and national or international advocacy organizations in which the organization is a member.	Memberships of Associations	31
Identified Material Aspects and Boundaries			
<b>G4-17</b>	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.	About this Report	9
<b>G4-18</b>	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.	Determining material content	14-16
<b>G4-19</b>	List all the material Aspects identified in the process for defining report content.	Determining material content	14-16
<b>G4-20</b>	For each material Aspect, the Aspect Boundary within the organization	Determining material content	14-16
<b>G4-21</b>	For each material Aspect, report the Aspect Boundary outside the organization	Determining material content	14-16
<b>G4-22</b>	The effect of any restatements of information provided in previous reports, and the reasons for such restatements.	Notes to the Financial Statements	108-204
<b>G4-23</b>	Significant changes from previous reporting periods in the Scope and Aspect Boundaries.	No significant changes from the previous year	108
Stakeholder Engagement			
<b>G4-24</b>	List of stakeholder groups engaged by the organization.	Stakeholder Engagement	12-13
<b>G4-25</b>	The basis for identification and selection of stakeholders with whom to engage.	Stakeholder Engagement	12-13
<b>G4-26</b>	The organization's approach to stakeholder engagement	Stakeholder Engagement	12-13
<b>G4-27</b>	Key topics and concerns that have been raised through stakeholder engagement	Stakeholder Engagement	12-13

GENERAL STANDARD DISCLOSURES-G4			
Number	Description	Reference/Comments	Page
<b>Report Profile</b>			
<b>G4-28</b>	Reporting period (such as fiscal or calendar year) for information provided.	Financial year ended 31st December 2015	102 & 107
<b>G4-29</b>	Date of most recent previous report (if any).	Financial year ended 31st December 2014	102 & 107
<b>G4-30</b>	Reporting cycle (such as annual, biennial)	Annual	09
<b>G4-31</b>	The contact point for questions regarding the report or its contents.	About this Report	09
<b>G4-32</b>	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.	Core	09
<b>G4-33</b>	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.	External Assurance on the Sustainability report has been obtained from SJMS Associates	215
<b>Governance</b>			
<b>G4-34</b>	The governance structure of the organization, including committees of the highest governing body.	Corporate Governance	32-60
<b>Ethics and Integrity</b>			
<b>G4-56</b>	The organization's values, principles, standards and norms of behaviour such as codes of conduct and codes of ethics.	Corporate Governance	32-60

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/comments/Reasons for omission	Page
<b>Economic Performance</b>			
<b>G4-EC1</b>	Direct economic value generated	Stakeholder Value Creation	11 & 12
<b>G4-EC2</b>	Financial implications and other risks and opportunities for the Organisation's activities due to climate change	No significant impact of climate change on the Group's operations	65
<b>G4-EC3</b>	Coverage of defined benefit plan obligations	Human Capital	84
<b>Environmental</b>			
<b>Materials</b>			
<b>G4-EN1</b>	Materials used by weight or volume	Environmental Impacts	89
<b>Energy</b>			
<b>G4-EN3</b>	Energy consumption within the organization	Environmental Impacts	89

## GRI Content Index Tool

SPECIFIC STANDARD DISCLOSURES			
Material Aspect	DMA/Indicators	Reference/comments/Reasons for omission	Page
Water			
Compliance			
<b>G4-EN29</b>	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	None	94
SOCIAL			
Employment: Labour practices and Decent Work			
<b>G4-LA1</b>	Total number and rates of new employee hires and employee turnover by age group, gender, and region	Our People	86
Employment: Occupational Health and Safety			
<b>G4-LA6</b>	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	Our People	86
Employment: Training and Education			
<b>G4-LA9</b>	Average hours of training per year per employee by gender, and by employee category	Our People	86
<b>G4-LA10</b>	Programs for skills management and lifelong learning that support the continued employability of employees and assist them in managing career endings	Our People	86
<b>G4-LA11</b>	Percentage of employees receiving regular performance and career development reviews, by gender and by employee category	Our People	86
Employment: Labour Practice Grievance Mechanism			
<b>G4-LA16</b>	Number of grievances about labour practices filed, addressed, and resolved through formal grievance mechanisms	Our People	86
Society: Local Communities			
<b>G4-S02</b>	Operations with significant actual or potential negative impacts on local communities	Community Engagement	89
Product Responsibility: Marketing communications			
<b>G4-PR6</b>	Sale of banned or disputed products	None	16
<b>G4-PR7</b>	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion, and sponsorship, by type of outcomes	None	16
Product Responsibility: Compliance			
<b>G4-PR9</b>	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	None	16
Product Responsibility: Product Portfolio			
<b>G4-FS6</b>	Percentage of the portfolio for business lines by specific region, size (e.g. micro/sme/large) and by sector	Our Customers	84

# Contact Information

## Head Office contact details

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3	Ampara	No.6, D S Senanayake Mw, Ampara	063-4923540 063-4923541	063-2224260	ampara@mbslbank.com	115
4	Anuradhapura	No: 82, Mithreepala Senanayake mawatha, Anuradhapura	025-2234485 025-4580507	025-2236313	anuradhapura@mbslbank.com	112
5	Avissawella	No.89/1/1, Ratnapura Road, Avissawella	036-4928208 036-4928209	036-2232030	avissawella@mbslbank.com	117
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7	Batticaloa	No:28, Bar Road, Batticaloa	065-4926799 065-4926787	065-2228575	batticaloa@mbslbank.com	119
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13	Gampaha	49, Yakkala Road, Gampaha.	033-2248443 033-2234558	033-2234227	gampaha@mbslbank.com	102
14	Hatton	No: 263, Dimbula Road, Hatton	051-4924641 051-4924642	051-2224375	hatton@mbslbank.com	128
15	Head Office Branch	No. 28, St. Michael's road, BOC Merchant Tower, Colombo 03	011-4711782	011-4711768	hobbranch@mbslbank.com	151
16	Hingurakgoda	No.1, Air-Port Road, Damana Kumbura, Hingurakgoda	027-4924761 027-4924762	027-2245483	hingurakgoda@mbslbank.com	126
17	Horana	212, Panadura Road, Horana.	034-2262973 034-4941108	034-2262973	horana@mbslbank.com	127
18	Ja-ela	No.270/1, Negombo Road, Thudalla, Ja-Ela	034-2265669 011-2249292	011-2249291	jaela@mbslbank.com	129
19	Jaffna	No.317,Clock Tower Road, Jaffna.	021-2220380	021-2220381	jaffna@mbslbank.com	130
20	Kadawatha	1246/B1, Kandy Road, Kadawatha	011-2901542 0112-920399 0114-062585	011-2920335	kadawatha@mbslbank.com	101
21	Kalutara	426, Galle Road, Kalutara South.	034-2224245 034-4941189 034-4941346	034-2229482	kalutara@mbslbank.com	105

	Branch Offices	Address	Telephone	Fax	E-Mail	Branch Code
22	Kandana	No.310, Colombo Road, Kandana	011- 4344072 011 -4344073	011 - 4544177	kandana@mbslbank.com	136
23	Kandy - City Office	"Ceybank House", No.88, Dalada Veediya, Kandy.	081-4946274 081-4946275 081-4946276 081-4946277	081-2237378 081-2237379 081-2237380	kandycity@mbslbank.com	133
24	Kandy	No.284, Katugasthota Road, Kandy	081-4481702 081-2224818 081-2224819 081-4951786 081-4951787 081-2202213	081-2213880	kandy@mbslbank.com	131
25	Kekirawa	No.24, Yakalla Road, Kekirawa	025-4928951 025-4928952	025-2264799	kakirawa@mbslbank.com	135
26	Kilinochchi	No.6, Kandy Road, Karadipokku, Kilinochchi.	021-2280078	021-2280079	kilinochchi@mbslbank.com	134
27	Kiribathgoda	246 A, Nawajeevana Place, Kandy Road, Kiribathgoda.	011-2910772 011-2910771 011-4062591 011-4324182 011-4324180 011-2388377	011-2910771	kiribathgoda@mbslbank.com	132
28	Kotahena	174, George R. De Silva Mawatha, Kotahena, Colombo 13.	011-2432088		kotahena@mbslbank.com	109
29	Kottawa	262/2 A, High Level Road, Kottawa.	011-2782099 011-4324170 011-4324171	011-2783389	kottawa@mbslbank.com	104
30	Kuliyapitiya	No.413/1/1, Madampe, Kuliyapitiya.	037-2281730	037-2281731	kuliyapitiya@mbslbank.com	137
31	Kurunegala	No: 40, Kandy Rd, Kurunegala	037-4692006 037-2224215 037-2223916 037-4939836	037-2223916	kurunagala@mbslbank.com	110
32	Maharagama	No: 159, Awissawella Rd, Maharagama	0114-306096 0114-306097 0112-745431	0112-745451	maharagama@mbslbank.com	138
33	Matara	40 St. Thomas Road, Matara	041-2233886	041-2233889	matara@mbslbank.com	142
34	Mathugama	No.92/4, Agalawatta Road, Mathugama	034-4947811 034-4947812	034-2249992	matugama@mbslbank.com	143
35	Metropolitan	67/1, Mahinda Place, Kirulapona.	011-2358000 011-2358002 011-4710359	011-2358090	metropolitan@mbslbank.com	141
36	Monaragala	No.280, Wellawaya Road, Monaragala	055-4929361 055-4929362	055-2276087	monaragala@mbslbank.com	140
37	Moratuwa	731, Galle Road, Idama, Moratuwa.	011 -2641420 011-2642123 011-4062587	011- 2642120	moratuwa@mbslbank.com	106
38	Negombo	No:329/16, Main Street, Negombo	031-4933922 031-2231900	031-2228324	negombo@mbslbank.com	103
39	Nittambuwa	No.101, Kandy Road, Nittambuwa.	033-4937564 033-4937565	033-2288842	nittambuwa@mbslbank.com	144
40	Nugegoda	No.196, Highlevel road, Nugegoda	011 -2768453	011- 2815535	nugegoda@mbslbank.com	108
41	Panadura	No.159/2, Galle Road, Panadura.	038-4927941 038-4927942	038-2236889	panadura@mbslbank.com	145

## Contact Information

	Branch Offices	Address	Telephone	Fax	E-Mail	Branch Code
42	Puttalam	No.126 B, Kurunagala Road, Puttalam.	032-4958795 032-2267285	032-2267776	puttalam@mbslbank.com	146
43	Rathnapura	NO.231, Main Street, Rathnapura.	045-4928089 045-4928093	045-2232524	ratnapura@mbslbank.com	113
44	Trincomalee	No: 133, Main Street, Trincomalee	026-4928888 026-4595151 026-4924788	026-2226784	trincomalee@mbslbank.com	147
45	Union Place	519, T B Jayah Mawatha, Colombo 10.	011-2374000	011-2374044	unionplace@mbslbank.com	100
46	Vavunia	No: 99, station Road, Vavuniya	024-4711711 024-471700 024-471708	024-2226108	vavuniya@mbslbank.com	148
47	Wattala	No.5/B/C, Negambo Road, Wattala.	011-2931761	011-2931762	wattala@mbslbank.com	150
48	Wennappuwa	No.197, 1st Floor, Chillaw Road, Wennappuwa.	031-2245664	031-2245665	wennappuwa@mbslbank.com	149
49	Tissamaharama	No. 117, Palliyawaththa Junction, Helambagaswala Road, Tissamaharama	047-2238717	047-2238716	tissamaharama@mbslbank.com	

# Glossary of Financial Terms

## A

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Amortization

The systematic allocation of the depreciable amount of an asset over its useful life.

### Associate company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### Available-for-Sale Financial assets

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

## C

### Capital Adequacy Ratio

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

### Cash equivalents

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

### Collective Impairment Provisions

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

### Commercial Paper

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

### Commitments

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

### Compounded Annual Growth Rate (CAGR)

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

### Consolidated Financial Statements

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

### Contingencies

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

### Cost / Income Ratio

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

### Cost Method

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

### Corporate Governance

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

### Credit Risk

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

### Credit Ratings

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

# Glossary of Financial Terms

## D

### Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

### Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Dividend Cover

Profit attributable to shareholders divided by gross dividends. This ratio measures the number of times dividend is covered by current year's attributable profits.

### Dividend Yield

Dividend per share as a percentage of its market value.

## E

### Earnings per Ordinary share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

### Economic Value Added (EVA)

A measure of productivity that takes into consideration cost of total invested equity.

### Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

### Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

## F

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

### Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortize the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

## G

### Gearing

Long term borrowings divided by the total funds available for shareholders.

### Group

A group is a parent and all its subsidiaries.

### Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

## H

### Held-to-Maturity (HTM) Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

**I****Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

**Impaired Loans**

Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

**Individually Assessed Impairment**

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

**Impairment Allowances**

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

**Intangible Asset**

An intangible asset is an identifiable non-monetary asset without physical substance.

**Interest cover**

A ratio showing the number of times interest charges 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.

# Glossary of Financial Terms

## Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## P

### Parent

A Parent is an entity which has one or more subsidiaries.

### Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

### Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Return on Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

### Risk weighted assets

On statement of financial position assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

### Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

## 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.

### 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.

# Corporate Information

**Name of Company** : Merchant Bank of Sri Lanka & Finance PLC  
(Formerly known as 'Merchant Bank of Sri Lanka PLC')

**Company Registration No** : PQ10

**Legal Form** : A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re- registered under the Companies Act No. 07 of 2007 on 4th March 2007 and quoted on the Colombo Stock Exchange.

A Registered Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

A Registered Finance Company licensed under the Finance Business Act No. 42 of 2011.

**Stock Exchange Listing** : 25th April 1991

**Registered Office** : Bank of Ceylon Merchant Tower,  
No. 28, St. Michael's Road,  
Colombo 03  
Tel. 011 4711711  
Fax. 011 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

**Board of Directors** : Mr. Ronald C. Perera, P. C. (Chairman)  
Mr. R T Wijesinha  
Mr. H A Gunawardana  
Mr. C N Wijewardane  
Mr. A S Padmaperuma

**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 Company

MBSL Insurance Company Limited  
No. 122, Kew Road  
Colombo 02  
Tel : 2 304500  
Fax: 2 300499  
E-mail : info@mbslinsurance.lk  
Web : www.mbslinsurance.lk

## Associate Company

Lanka Securities (Pvt) Ltd  
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. 11, Castle Lane  
Colombo 04

## Lawyers

Julius & Creasy  
Attorneys-at-Law, Solicitors & Notaries Public  
No. 41, Janadhipathi Mawatha  
Colombo 01

## Principal Banker

Bank of Ceylon

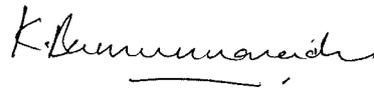
# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty Fourth Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on Tuesday 28th June 2016 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 2015 together with the Report of the Auditors thereon.
2. To elect as a Director Mr. Eluppitimudiyanselage Ronald Chithranjan Perera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
3. To elect as a Director Mr. Ranel Tissa Wijesinha 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. Charitha Nissanka Wijewardane 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. Asela Sanjaya Padmaperuma 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. Hetti Pathirannehelage Ajith Gunawardana 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 appoint the Auditor General as the auditor of the Company in terms of subsection (1)(1) of Section 36 of the 19th amendment (Amendment to the Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka) for the financial year 2016. The Audit Fees for the audit shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.10.2016.
8. To authorize the Directors to determine donations for the financial year 2016.

By Order of the Board of

**MERCHANT BANK OF SRI LANKA & FINANCE PLC**



**Company Secretary**

18 May 2016  
Colombo

**NOTES:**

1. A Form of Proxy is attached hereto, for use if necessary, in which event, it should be completed and returned to the Registered Office of the Company – Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A proxy need not be a shareholder of the Company.
3. The instrument appointing a Proxy may be in writing under the hand of the appointer or of his/her Attorney, or if such appointer is a corporation under its common seal or the hand of its Attorney or duly authorized person

# Form of Proxy

I/We.....  
of .....  
being a shareholder/ shareholders of the Merchant Bank of Sri Lanka & Finance PLC, hereby appoint.....  
of ..... whom failing ..... of  
..... whom failing any one of the Directors as \*my/our Proxy, to represent \* me/us, and to speak  
and to vote on \*my/our behalf at the Annual General Meeting of the Company to be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus  
Road, Colombo 01 on Tuesday 28th June 2016 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:

	<b>For</b>	<b>Against</b>
1. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31st December 2015 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To elect as a Director Mr. Eluppitimudiyanselage Ronald Chithranjan Perera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect as a Director Mr. Ranel Tissa Wijesinha 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. Charitha Nissanka Wijewardane 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. Asela Sanjaya Padmaperuma 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. Hetti Pathirannehelage Ajith Gunawardana 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 appoint the Auditor General as the auditor of the Company in terms of subsection (1)(1) of Section 36 of the 19th amendment (Amendment to the Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka) for the financial year 2016. The Audit Fees for the audit shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.10.2016.	<input type="checkbox"/>	<input type="checkbox"/>
8. To authorize the Directors to determine donations for the financial year 2016.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of.....Two Thousand and Sixteen.

.....  
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.







Designed & produced by REDWORKS  
Photography by Taprobane Street (Pvt) Ltd  
Digital plates & Printed by Printel (Pvt) Ltd

