

A Model for Financing Life

Fifty years of Responsible and
Sustainable Enterprise

**Mercantile Investments and
Finance PLC**
Integrated Annual Report 2015/16

The cover depicts the painting 'Tree of Life' by Gustav Klimt and is crafted using the dried branches of the Arecanut tree, commonly known in Sri Lanka as 'Kolapatha'.

A Model for Financing Life

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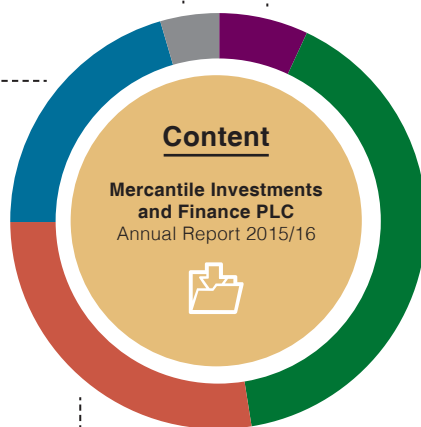
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MERCANTILE INVESTMENTS AND FINANCE PLC

Overview

Here's a 'root to crown' view of MI's Annual Report for the year...or in other words, an overview of the 'Tree of Life' of our enterprise.

04 – 07

Brief about
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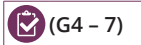
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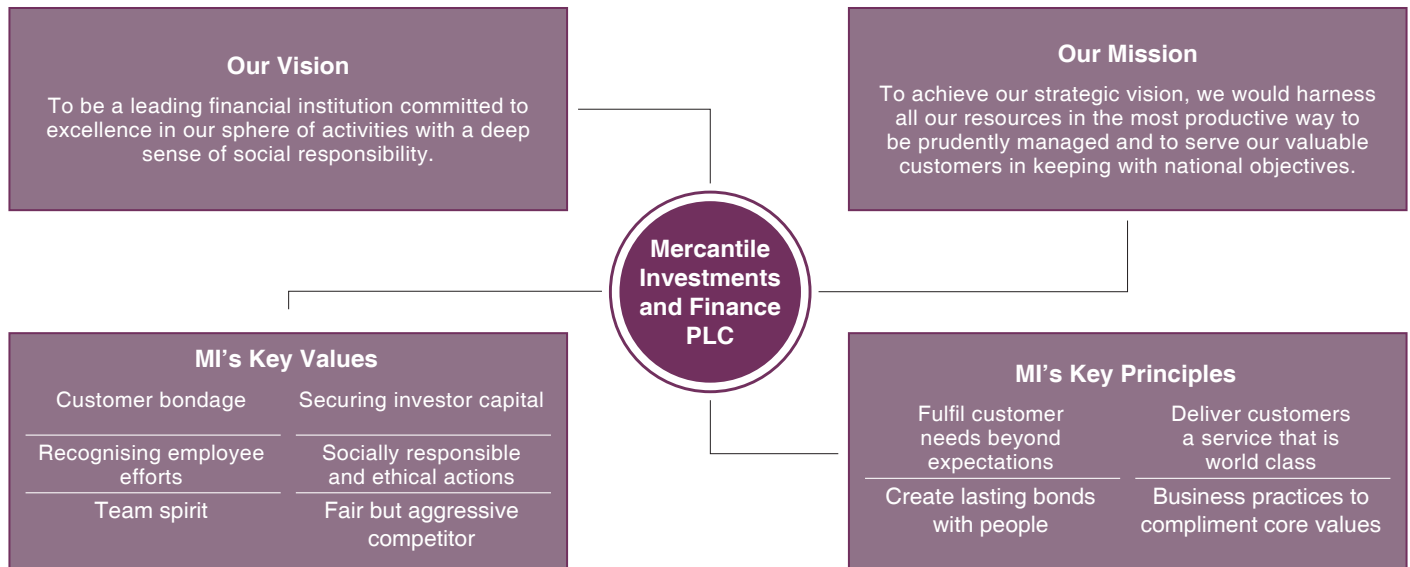
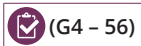
Brief about Mercantile Investments and Finance PLC

NATURE OF OWNERSHIP AND LEGAL FORM



Mercantile Investments and Finance PLC is a licensed finance company under the Finance Business Act No. 42 of 2011, listed on the *DiriSavi* Board of the Colombo Stock Exchange. MI is also a public limited liability company, incorporated in Sri Lanka on 15 June 1964 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007.

ORGANISATION'S VALUES, PRINCIPLES, STANDARDS AND NORMS OF BEHAVIOUR



THE COMPANY HISTORY AND MANAGEMENT STYLE

MI's humble beginnings started in 1964, under the visionary leadership of its founder Chairman George Ondaatjie. The Company has progressed steadily along for more than five decades, excelling as a finance company to enrich all its stakeholders. The exemplary leadership style of those at the helm over its over fifty-year history has transformed the enterprise to a highly successful organisation in the financial services sector. The Company remained deep rooted to its vision and value system, maintaining excellence in its sphere of business, while playing its part as a socially responsible enterprise, reaching out to society, economy and environment, in numerous ways.

Particularly during the last decade, the Company has aggressively expanded its operational activities, increasing its presence, offering a variety of financial solutions to people of all income segments. Under the current leadership of the Managing Director – Gerard Ondaatjie, MI moreover has made a mark as a financially strong and dependable

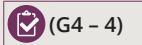
enterprise, for those in seek of credit and investment avenues. The tone at the top, right from the Board of Directors, down to other levels of the hierarchy, reflects one of vigor, despite exerting conservativeness at times of volatility and uncertainty. The Management right through has been able to maintain the required business momentum, taking bold steps especially after the post war period, to capitalise on emerging opportunities. Having built its business around a strong foundation, keeping within its fundamentals and value system, MI has managed to cement its long-term viability.

In maintaining sustainable business growth, the Company emphasises a lot on planning and strategy development. This has helped MI to harness emerging opportunities and countering evolving risks and challenges. There has been equal importance given in strengthening MI's governance framework in the recent decade with several changes being made to the Board's composition and governance practices to safeguard interest of its stakeholders. The MI's Board is structured with the right blend

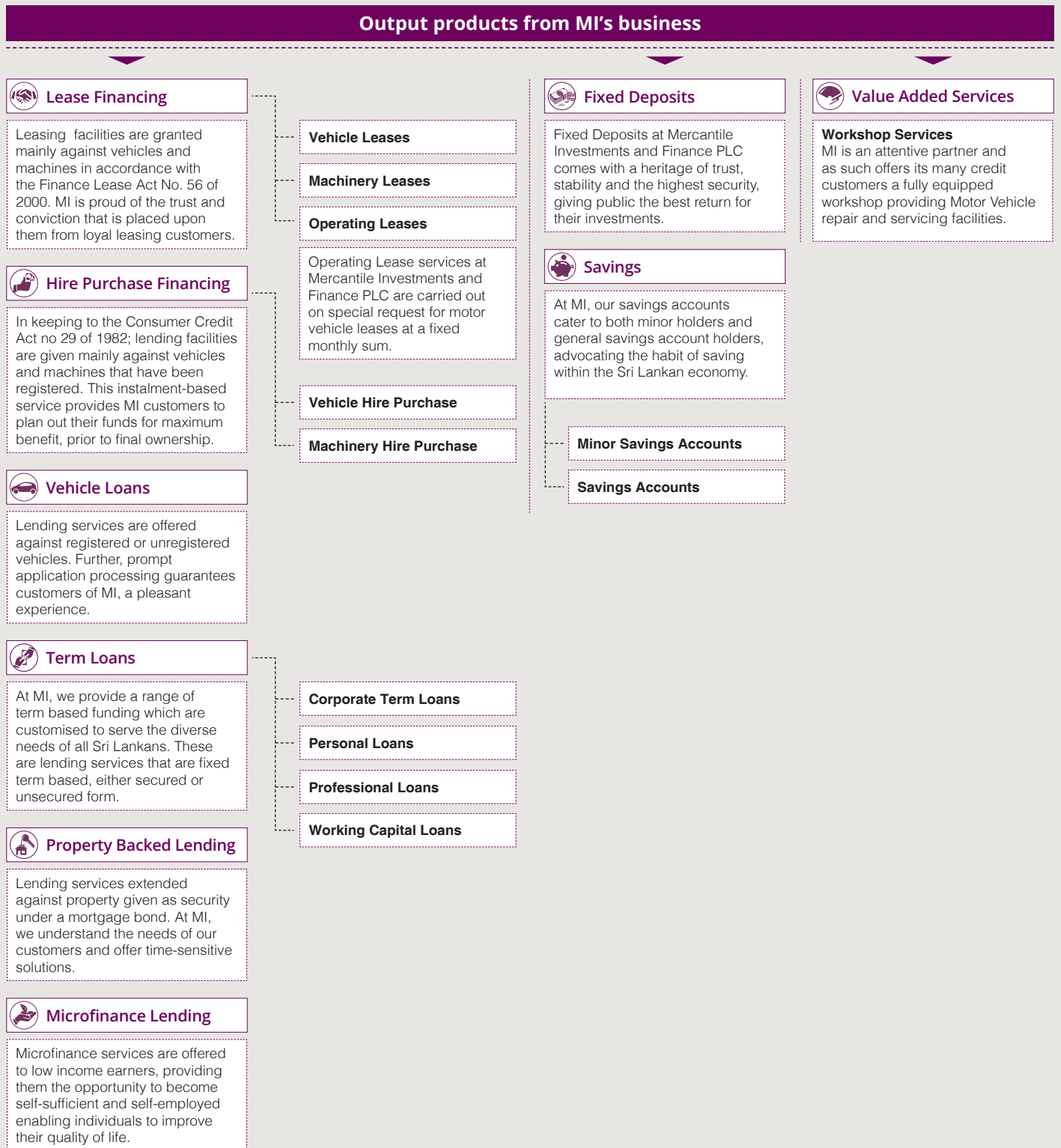
of individuals, who come from varying professional backgrounds and possesses the necessary skills to guide the organisation effectively, in a prudent manner. The Board is equally supported by a highly skilled and capable workforce that remain focused in implementing planned strategy and operational activity in achieving ultimate organisational objectives.

In creating continuous investor wealth and also striving to fulfil other organisational obligations of our other key stakeholders, namely, MI's investors, borrowers, depositors, employees, suppliers of funds and other key outside parties, MI remains focused on delivering ideal financial solutions and strives further in creating a positive impact on people, the economy, the society and the environment. In summary, the Company over the years has identified areas that required necessary fine-tuning and ensured all key facets of MI business excels and is nicely aligned in achieving overall corporate objectives that fulfil organisational and stakeholder expectations.

PRIMARY BRANDS, PRODUCTS AND/OR SERVICES



As a licensed finance company, MI's main business revolves around the granting of credit and the other being the mobilisation of deposits. MI's traditional lending has been its lease financing and hire purchase financing business lines, while in the last decade, MI has diversified its lending by extending term-based type of lending, particularly affording personal loans, pledge loans and property mortgage credit while micro financing lending has been pursued as another key product, considering its potential after the post-war era. As a deposit mobilising institution, MI's fixed deposits business continued to remain MI's core deposit product, while other deposit products such as Savings Deposits is also gaining popularity. MI continues to diversify its business lines and offerings, as a growth strategy and also as a means of managing risk in a dynamic competitive environment. MI's diversified range of financial offerings comes under the following broad categories:



MARKETS SERVED



MI's financial solutions are aimed at a wider segment of the market to people across various strata of society, who come in seek of varying financial needs. We promote our lending and deposit business to both individuals and corporates alike. During the recent decade, MI has expanded its presence in a major way and now carries on business operations in over 30 locations across the country. MI's expanded reach has enabled the Company to target a larger segment of society, to bring our financial solutions closer to varying communities. We cater to peoples' unfulfilled personal and entrepreneurial expectations on credit and those who are in search of sound and secure investment opportunities. Lending customer segments product wise is given on page 73. In terms of our deposit business, we cater to most segments of society with special attention given to senior citizens and middle-aged segments and also target middle income earners, youth, corporates and professionals.

MAP OF MERCANTILE INVESTMENTS AND FINANCE PLC HEAD OFFICE, BRANCH AND SERVICE CENTRE NETWORK LOCATIONS

Registered Office

No. 236, Galle Road, Colombo 3.

Head Office

No. 236, Galle Road, Colombo 3.
Telephone: 011-2343720 – 7
Fax: 011-2390113
Email: mercantile@mi.com.lk
Website: www.mi.com.lk

Branches

Trincomalee Branch

No. 1,065 A, Anuradhapura Junction, Palayuthu, Trincomalee.
Telephone: 026-2226456
Fax: 026-2226457
Email: mitrinco@mi.com.lk

Kurunegala Branch

No. 257, Negombo Road, Kurunegala.
Telephone: 037-2222027
Fax: 037-2222021
Email: mikurunegala@mi.com.lk

Maharagama Branch

No. 176, Lake Road, Maharagama.
Telephone: 011-2849979
Fax: 011-2848925
Email: mimaharagama@mi.com.lk

Matara Branch

No. 531, Pamburana, Matara.
Telephone: 041-2235377
Fax: 041-2235378
Email: mimatara@mi.com.lk

Galle Branch

No. 12, Park Road, Kaluwella, Galle.
Telephone: 091-2246387
Fax: 091-2246388
Email: migalle@mi.com.lk

Negombo Branch

No. 28, Keells Super Building, Colombo Road, Negombo.
Telephone: 031-2221160
Fax: 031-2221161
Email: minegombo@mi.com.lk

Kohuwala Branch

No. 28, Sunethradevi Road, Kohuwala.
Telephone: 011-2814181
Fax: 011-2814182
Email: mikohuwala@mi.com.lk

Balangoda Branch

No. 27, Haputhale Road, Balangoda.
Telephone: 045-2287605
Fax: 045-2287606
Email: mibalangoda@mi.com.lk

Kadawatha Branch

No. 381/C, Kandy Road, Mahara, Kadawatha.
Telephone: 011-2921205
Fax: 011-2921207
Email: mikadawatha@mi.com.lk

Bentota Branch

No. 149 1/2, Colombo Road, Bentota.
Telephone: 034-2275402
Fax: 034-2275403
Email: mibentota@mi.com.lk

Embilipitiya Branch

No. 127C, New Town, Embilipitiya.
Telephone: 047-2261351
Fax: 047-2261352
Email: miembilipitiya@mi.com.lk

Horana Branch

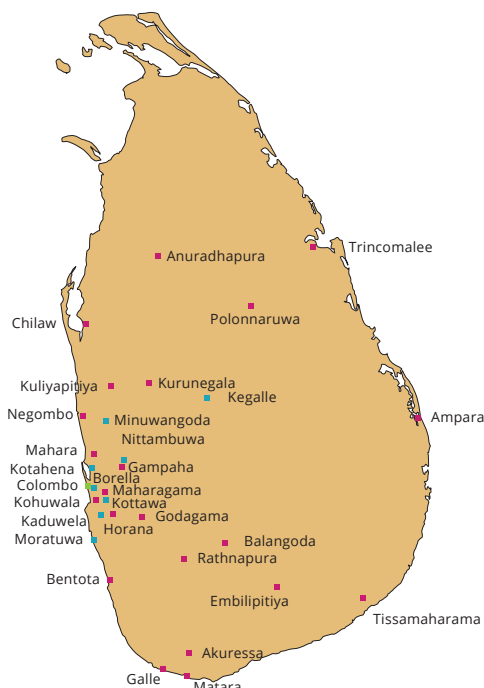
No. 439A, Panadura Road, Galedandugoda, Horana.
Telephone: 034-2265411
Fax: 034-2265412
Email: mihorana@mi.com.lk

Chilaw Branch

No. 86, Puttalam Road, Chilaw.
Telephone: 032-2224244
Fax: 032-2224245
Email: michilaw@mi.com.lk

Tissamaharama Branch

No. 19/6, Sagara Building, Palliyawatte, Tissamaharama.
Telephone: 047-2239341
Fax: 047-2239342
Email: mitissa@mi.com.lk



Polonnaruwa Branch

No. 05/142, Tamasha Place, Polonnaruwa.
Telephone: 027-2227011
Fax: 027-2227022
Email: mipolonnaruwa@mi.com.lk

Premier Service Center

No. 219, Dr. N.M. Perera Mawatha, Colombo 08.
Telephone: 011-2683445/6
Fax: 011-2683478
Email: mipremiercentre@mi.com.lk

Nittambuwa Service Center

No. 550/1/12, Colombo Road, Nittambuwa.
Telephone: 023-2298788
Fax: 033-2298789
Email: minittambuwa@mi.com.lk

Kaduwela Service Center

No. 516/2, Awissawella Road, Kaduwela.
Telephone: 011-2538231
Fax: 011-2538232
Email: mikaduwela@mi.com.lk

Kotahena Service Centre

No. 377/G, George R. De Silva Mawatha, Kotahena.
Telephone: 011-2339306
Fax: 011-2339307
Email: mikotahena@mi.com.lk

Kegalle Branch

No. 450/A, Awissawella Road, Meepitiya, Kegalle.
Telephone: 035-2053998
Fax: 035-2053997
Email: mikegalle@mi.com.lk

Ratnapura Branch

No. 654 A, Colombo Road, Ratnapura.
Telephone: 045-2233186/7
Fax: 045-2233188
Email: miratnapura@mi.com.lk

Kuliyaipitiya Branch

No. 288, Madampe Road, Kuliyaipitiya.
Telephone: 037-2282464
Fax: 037-2282465
Email: mikuliyaipitiya@mi.com.lk

Moratuwa Service Center

No. 408, Galle Road, Rawathawaththa, Moratuwa.
Telephone: 011-2647525
Fax: 011-2647526
Email: mimoratuwa@mi.com.lk

Akuressa Branch

No. 124, Matara Road, Akuressa.
Telephone: 041-2284722
Fax: 041-2284752
Email: miakuressa@mi.com.lk

Godagama Branch

No. 27/B, Dikhatapma, High Level Road, Meegoda.
Telephone: 011-2752923
Fax: 011-2752924
Email: migodagama@mi.com.lk

Anuradhapura Branch

No. 521/5, Maithreepala Senanayake Mawatha, Anuradhapura.
Telephone: 025-2224886
Fax: 025-2224887
Email: mianuradhapura@mi.com.lk

Gampaha Branch

No. 152/1, Miriswatte, Mudungoda, Gampaha.
Telephone: 033-2234453
Fax: 033-2234463
Email: migampaha@mi.com.lk

Kottawa Service Center

No. 358, High Level Road, Pannipitiya, Kottawa.
Telephone: 011-2838145-6
Fax: 011-2838146
Email: mikottawa@mi.com.lk

Ampara Branch

No. 975, Browns Junction, D.S. Senanayake Street, Ampara.
Telephone: 063-2224282
Fax: 063-2224255
Email: miampara@mi.com.lk

Minuwangoda Service Center

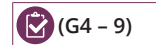
No. 52E, Negombo Road, Minuwangoda.
Telephone: 011-2294008
Fax: 011-2294009
Email: minuwangoda@mi.com.lk

KEY OPERATIONS OUTSOURCED

As a policy, MI continues to retain all key business and operational activities under its control, without outsourcing significant operations to any outside party, so that related activities can be supervised and controlled directly by the Management of the Company. However, following specific operations have been partly outsourced to reputed institutions after obtaining CBSL approval under finance companies structural changes Direction No. 01 of 2013:

Type of operation	Outsourced party	Whether fully or partly outsourced	Approval for outsourcing from CBSL
Cash transportation	Certis Lanka (Pvt) Limited	Partly	Obtained
Internal audit	Ernst and Young Advisory Services (Pvt) Limited	Partly	Obtained

SCALE OF THE OPERATION



Mercantile Investments has steadily grown its operations in terms of size, offerings and operational capabilities, particularly picking up the pace in the last decade, with the strengthening of the branch network. MI's growth in scale of operations can be well portrayed from the widening in numbers in relation to total turnover, total assets, lending book, deposits and other operational variables year-on-year. The strong growth transformation witnessed during the last decade was attributable to management relentless efforts in raising standards and capabilities;

	Compounded annual growth rate	2015/16	2014/15	2013/14	2012/13	2011/12	2010/11	2009/10	2008/09	2007/08	2006/07
Number of employees	11%	738	588	508	443	377	313	286	273	247	257
Number of locations	26%	31	26	23	20	14	7	6	5	3	3
Number of operations	4%	3	3	3	3	2	2	2	2	2	2
Gross income Rs. '000	15%	4,500,276	4,286,288	4,095,811	3,370,086	2,394,235	2,214,120	1,806,966	1,708,609	1,372,133	1,092,335
Net profit after tax Rs. '000	8%	505,019	631,272	675,362	630,791	610,088	905,898	328,600	233,375	148,569	236,985
Total Assets Rs. '000	16%	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174	8,149,800	7,508,226
Lending Rs. '000	18%	25,053,528	19,468,293	16,187,399	13,844,647	10,446,514	6,416,176	4,430,395	5,205,265	5,377,167	4,843,254
Deposits Rs. '000	23%	15,815,590	13,720,729	11,417,741	8,424,720	6,137,896	4,297,801	3,479,291	2,774,974	2,409,257	2,065,644
Total liabilities Rs. '000	18%	26,310,475	20,629,060	17,232,834	15,516,588	12,132,629	7,455,609	4,747,491	5,182,764	5,437,744	4,925,003
Debt Rs. '000	15%	8,939,641	5,955,274	5,196,397	6,231,367	5,144,459	2,715,727	616,994	1,862,279	3,209,712	2,265,372
Equity Rs. '000	11%	7,654,232	7,779,765	6,266,385	5,706,359	5,474,606	6,293,078	3,776,015	2,694,410	2,712,056	2,583,223
Market capitalisation Rs. '000	0%	6,613,200	6,613,200	6,613,200	6,613,200	-	-	-	-	-	-

WORKFORCE AND REPORTING STRUCTURE

We see human capital as an integral component in our continued success and also see people as the key driver in pursuing our growth aspirations for the future. The Company continues to invest in its workforce in developing and grooming a strong team by improving their skill levels in relation to the tasks they handle. Already, our

workforce has gathered considerable level of knowledge and knowhow over long years in business, and is therefore able to offer our customers a unique personalised service that enhances overall product value. The organisational hierarchy clear demarcates all functional areas, specifying designations of senior officers at the helm and their reporting lines. The organisation structure shown

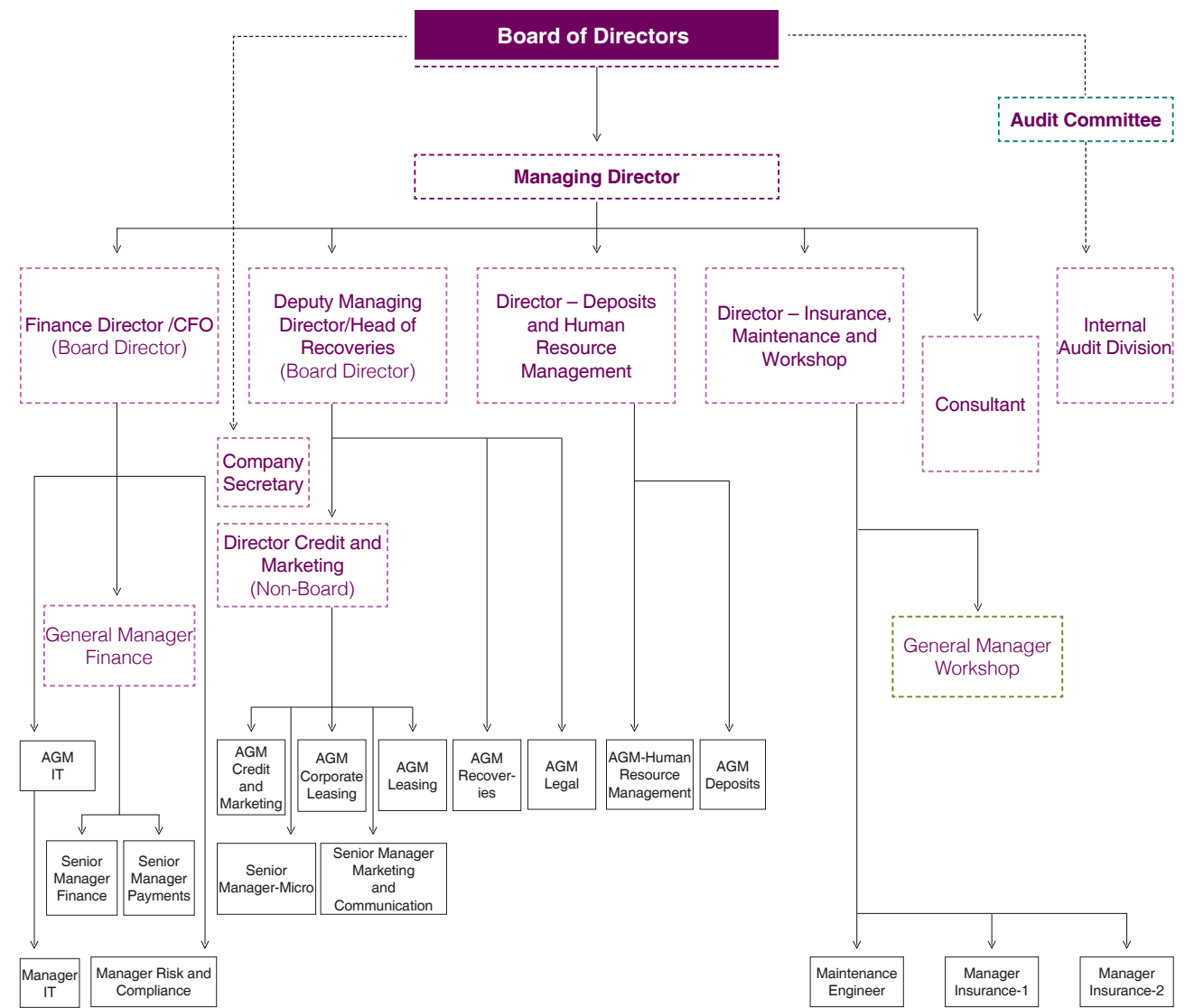
below reflects a simple structure, one that facilitates smooth communication flow between each layer of the hierarchy. Job Roles of each key designate and their subordinates have been clearly established and accordingly, formal job descriptions have been developed and issued to respective staff.

MATERIAL CHANGES IN SIZE, STRUCTURE OR OWNERSHIP



There were no material changes to MI's organisation size, structure, ownership or suppliers during the period under review.

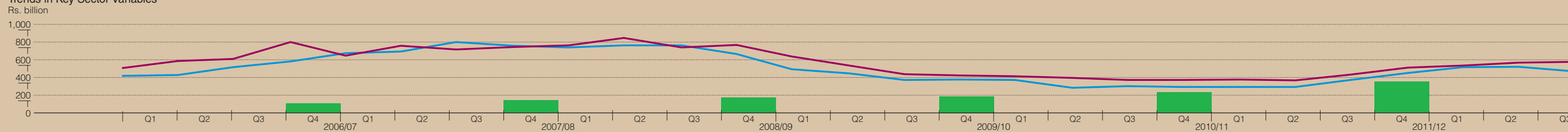
ORGANISATIONAL STRUCTURE



MI's Capital Transformation Highlights Over the Decade

Capital formed	2006/07	2007/08	2008/09	2009/10	2010/11	2011/12	2012/13
Financial Capital	<ul style="list-style-type: none"> Gross Revenue reaches Rs. 1 billion Shareholder Funds exceeds Rs. 2.8 billion 				<ul style="list-style-type: none"> Shareholders' Funds exceeds Rs. 3.7 billion 	<ul style="list-style-type: none"> Net Profit after tax reached Rs. 900 million and Shareholders' Funds exceeds Rs. 6.3 billion 	<ul style="list-style-type: none"> Gross Revenue reached Rs. 2 billion Shares traded at Rs. 2,200 per share Loan portfolio surpasses Rs. 10 billion Advertising first time in social Media 
Manufactured Capital		<ul style="list-style-type: none"> First Windows Hyper-V conversion implemented 		<ul style="list-style-type: none"> Setting up fifth branch in Bentota 		<ul style="list-style-type: none"> Setting up tenth branch at Maharagama Setting up of a LAN segmented with layer 3 redundant switch at Head Office 	<ul style="list-style-type: none"> Setting up MI's first Service Centre at Kottawa Setting up fifteenth branch at Gampaha
Intellectual Capital			<ul style="list-style-type: none"> Gateway level Firewall implementation 		<ul style="list-style-type: none"> Establishing a server room with state-of-the-art equipment 		<ul style="list-style-type: none"> New responsive MI website launched Setting up of a Risk & Compliance Unit Restructuring MIs' Board & setting up own Internal Audit Function
Human Capital			<ul style="list-style-type: none"> Number of staff exceeds 300 for the first time 			<ul style="list-style-type: none"> Gym facility offered for managers and above 	<p>Training</p> 
Social Capital				<ul style="list-style-type: none"> Won Annual Report Award for the 10th consecutive year at the CA Sri Lanka – award for Best Annual Report in the finance companies category – 2009 		<ul style="list-style-type: none"> Assisted the National Cancer Hospital, Maharagama by donating medicine 	<ul style="list-style-type: none"> MI wins LACP-Bronze Award – Financial Diversified Category – an international event MI wins Silver Award – Cover & Design in Financial Services General Category – 2011/12 at ARC Awards held in USA Setting up of a 'CSR Committee'
Natural Capital							

Trends in Key Sector Variables



*Information on revenue for 2006/07 are not available

Global and Domestic Economic and Social Trends






Commencement of mobile and social media era

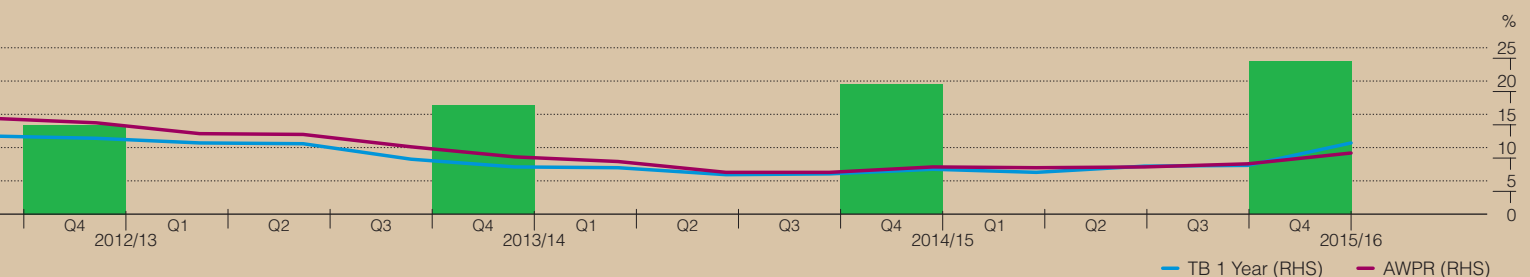
Stock Market Crash of 2008 in the USA

Ending a 30 year long conflict

Sri Lanka enters 2010 with an unprecedented opportunity to fulfil the great potential of the economy

Stock Market reached ASPI 7,811.82 points (100 as of 1985)

2013/14	2014/15	2015/16
<ul style="list-style-type: none"> Gross Revenue reaches Rs. 4 billion 	<ul style="list-style-type: none"> First Listed Debenture Issue done for Rs. 200 million Shareholders' Funds exceeds Rs. 7.8 billion 	<ul style="list-style-type: none"> Loans > Rs. 25 billion Deposits from Customers > Rs. 15 billion Shareholders' Funds > Rs. 7 billion
<ul style="list-style-type: none"> Opening of a Vehicle Disposal and Valuation Centre at Maharagama 	 <ul style="list-style-type: none"> Fifth Service Centre set up at Kaduwela Bandwidth optimisation and monitoring system 	<ul style="list-style-type: none"> Setting up twentieth branch at Ratnapura
<ul style="list-style-type: none"> Use of 365 cloud computing for daily operations 	<ul style="list-style-type: none"> Reached fifty years in business operations Developing the Micro Finance on grameen concept 	<ul style="list-style-type: none"> Setting up a Disaster Recovery site firewall Joined with Lankapay SLIPS for speedy payment processing
<ul style="list-style-type: none"> Established a fully-equipped training centre at corporate premier centre Setting up of a Human Resources Database Launching of Reward-based performance system across all key departments of MI 	 <ul style="list-style-type: none"> Recognised MI as a Great Place to work by Great Place to Work Institute Reached 500 number of employees in May 2014 	
<ul style="list-style-type: none"> Wins CA Sri Lanka Gold Award for the 13th time in sector 	  <ul style="list-style-type: none"> Long Service Awards Built a house for a differently-abled youth and family 	<ul style="list-style-type: none"> ACCA – Sustainability Reporting Awards 2015 Finance Services and Insurance Category – Joint runner-up Wins three separate Awards at CA Sri Lanka Annual Report Competition, including Silver Award for Best Integrated Reporting SAFA Awards for Integrated Reporting Second Runner-up CMA excellence in Integrated Reporting Awards 2015 2nd Runners-up
<ul style="list-style-type: none"> Activation of water holes in the Yala National Park to provide drinking water to animals inside the sanctuary 	 <ul style="list-style-type: none"> Carried out a tree planting campaign in Hakwatuna Reservoir 	<ul style="list-style-type: none"> Obtained Certification from Sri Lanka Climate Fund



Interest rates soared over 20%

- 23rd CHOGM held in Colombo
- Galle and Matara Highway was opened for the public

Change in Government and introduction of new economic policies

Triple Bottom Line Highlights

Financial Highlights

For the year ended 31 March	Achievement			Financial Goals	
	Actuals 2016 Rs. '000	Actuals 2015 Rs. '000	Change %	Budgeted 2016 Rs. million	Forecasted 2017 Rs. million
Results for the year					
Gross income	4,500,275	4,286,288	5	>4,700	>5,200
Interest income	4,301,828	4,129,395	4	>4,500	>5,000
Interest expenses	2,098,378	1,947,783	8	<2,100	<2,400
Profit before tax	802,645	911,884	-12	>900	>950
Provision for taxation	297,626	280,612	6	<300	<350
Profit after tax	505,019	631,272	-20	>600	>600
Financial Position at the Year end					
Shareholders' funds (stated capital and reserves)	7,654,232	7,779,765	-2	>8,000	>8,800
Deposits from customers	15,815,590	13,720,729	15	>15,000	>18,000
Loans and advances, leases and hire purchases	25,053,528	19,468,293	29	>24,000	>29,000
Total assets	33,964,707	28,408,825	20	>32,000	>39,000
Investors					
Gross dividend	21,042	88,677	-76	>36	>45
Earnings per share (Rs.)	168.00	210.00	-20	>220	>220
Dividends per share (Rs.)	7.00	29.50	-76	>12	>15
Net assets per share (Rs.)	2,546	2,588	-2	>2,700	>2,900
Ratios					
Return on shareholders' funds (%)	6.60	8.11	-19	>10	>10
Return on average assets (%)	1.62	2.43	-33	>1	>1
Interest cover (Times)	1.38	1.47	-6	>1.6	>1.6
Dividend cover (Times)	24.00	7.12	237	>10	>10
Equity: Assets (%)	22.55	27.39	-18	>25	>25
Debt: Equity (Times)	1.17	0.77	53	<1	<1.2
Dividend payout ratio (%)	4.17	14.05	-70	>3	>4
Price earnings ratio (Times)	13.10	10.48	25	>6	>8
Gross non-performing loans ratio (%)	3.39	4.19	-19	<3	<3
Total assets growth (%)	19.56	20.89	-6	>15	>15
Advance growth (%)	28.69	20.27	42	>15	>24
Deposit growth (%)	15.27	20.17	-24	>25	>20
Operating profit margin (%)	16	19	-15	>20	>20
Value added per employee (Rs.)	6,222	7,483	-17	>7,500	>7,500
Interest spread (%)	8.01	10.13	-21	>9	>9
Net interest margin (%)	8.94	11.02	-19	>10	>10
Statutory Ratios					
Liquid assets (%)	11.73	12.45	-6	>12	>12
Core capital ratio (%) – minimum required 5%	19.35	21.70	-11	>18	>18
Total risk-weighted capital ratio (%) – minimum required 10%	15.75	15.27	3	>15	>15

**SUSTAINABLE
GROWTH PATH
TOTAL REVENUE**

Over

Rs. 4.5 billion

NET INTEREST INCOME

Rs. 2.2 billion

PRE TAX PROFIT

Rs. 803 million

TOTAL ASSETS

Rs. 34 billion

**A SOLID
CAPITAL ADEQUACY POSITION**

Core Capital Ratio

19.35%

(Well above minimum prudential requirement of 5%)

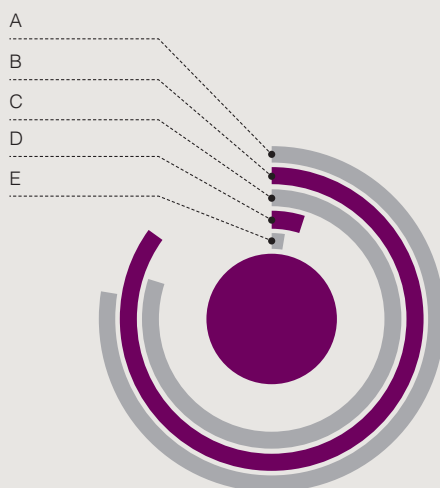
Total Risk Weighted Capital Ratio

15.75%

(Well above minimum prudential requirement of 10%)

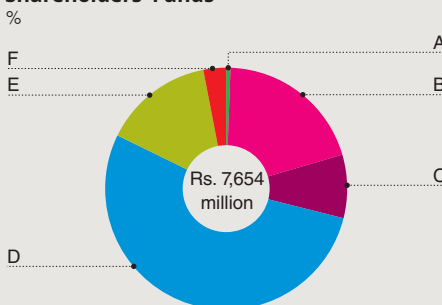
Composition of Interest Income

Leases, hire purchases and loans and receivables accounted for 97% of MI's interest income during the year 2015/16.



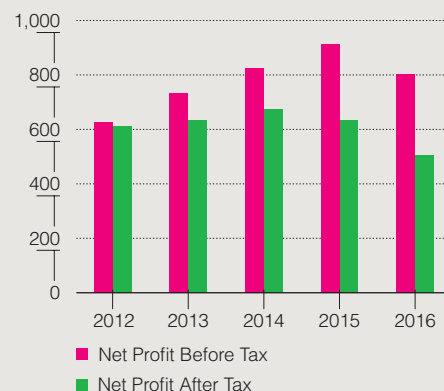
	%
A. Income from Finance Lease	31
B. Income from Hire Purchase	34
C. Income from Other Loans and Receivables	32
D. Income from Treasury Bills and Bonds	2
E. Income from Fixed Deposits	1

Shareholders' Funds

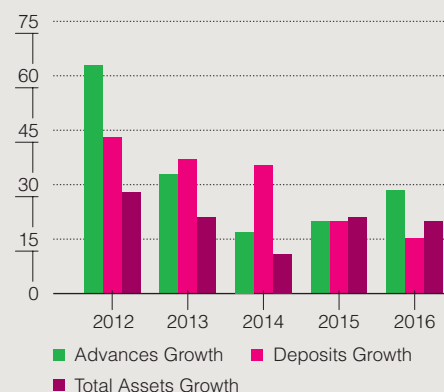


A - Stated Capital	1%	-	Rs. 36 million
B - Revaluation Reserve	19%	-	Rs. 1,540 million
C - Statutory Reserve Fund	8%	-	Rs. 631 million
D - General Reserves	54%	-	Rs. 4,086 million
E - Retained Earnings	15%	-	Rs. 1,124 million
F - Available-for-Sale Reserve	3%	-	Rs. 237 million

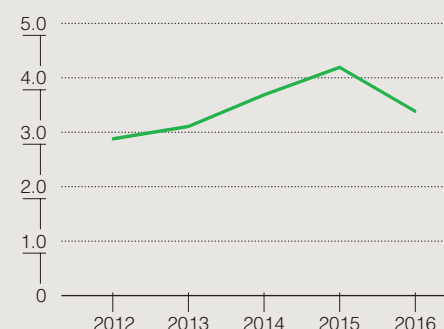
Profitability Growth
Rs. million



Balance Sheet Growth
%



Gross NPL Ratio
%



Non-Financial Highlights

GRI G4 Indicator	For the Year Ended 31 March	FY 2015/16	FY 2014/15
Economic Sustainability			
EC1	Direct economic value generated (Rs. '000)	4,591,950	4,400,083
	Economic value addition (Rs. '000)	(164,872)	206,979
	Community investment cost (Rs. '000)	7,053	3,063
	Staff volunteered time on CSR (Hours)	659	1,291
	Number of new business locations launched	5	3
EC3	Employee benefit liability (Rs. '000)	146,235	120,118
EC6	Local hiring of employees (%)	69	57
EC9	Percentage of purchases from suppliers – Head office, Colombo (%)	68	70
	– Other locations of Sri Lanka (%)	32	30
Environment Sustainability			
EN3	Electricity consumption in kWh (Head office)	55,609	53,070
	Electricity consumption at head office in value (Rs. '000)	19,116	22,012
	Fuel usage – Petrol in litres	405,000	323,828
	– Diesel in litres	43,080	35,113
	Fuel cost (Rs. '000)	51,427	48,896
EN8	Water consumption in units (Head office)	692	707
	Water consumption at head office in value (Rs. '000)	2,731	2,323
EN15-EN17	Total Carbon Footprint at head office (Tonnes)	578	N/A
EN23	E-wastes (Number of items)	106	–
	Waste paper (Kg)	2,703	4,863
EN29	Significant environment fines (Rs. '000)	–	–
EN31	Environment protection expenditure (Rs. '000)	550	100
EN34	Number of environmental grievances	–	–
Labour Sustainability			
LA1	Total workforce in number	738	588
	Recruitments in number	264	161
	Attrition rate (%)	15	14
LA3	Retention rate after parental leave (%)	75	100
LA6	Number of injuries	4	9
	Lost days	140	104
	Absenteeism in days	296	94
LA9	Training hours per participant as an average (Hours)	9.58	7
LA11	Employee performance appraisal as a percentage of total workforce (%)	78	73
LA16	Employee grievances reported and resolved	5	4
Social Sustainability			
SO1	Number of individuals responding on impact studies	90	56
	Number of customers serviced	29,161	13,548
SO3	Proportion of businesses reviewed for risk of corruption (%)	100	100
SO4	Training on anti-money laundering (Number of employees)	211	105
SO8	Significant fines for violation of laws/regulations (Rs. '000)*	–	–
Human Rights Sustainability			
HR3	Incidents of discriminations	–	–
HR5	Incidents of child labour (below 18 years)	–	–
HR6	Incidents of forced labour	–	–
HR12	Human rights incidents reported and resolved	–	–
Product Responsibility Sustainability			
PR3	Core products that apply labelling/clauses	2	2
PR9	Significant fines for product/service	–	–
FS7	Number of products that yield social benefit	3	3

*Significant fines are defined as fines over Rs. 1 million.



Economic Sustainability

Direct economic value generated

Rs. 4,592 million

Community investment cost

Rs. 7 million

Number of new business locations launched

5



Environment Sustainability

Electricity consumption in kWh (Head office)

55,609 kWh 

Water consumption in Units (Head office)

692 

Carbon footprint

577.92 tCO₂



Labour Sustainability

Total workforce in numbers

738

Attrition rate

15%

Training hours per employee

19.53 hours 



Social Sustainability

Number of customers

Lending	Deposits
25,226	3,935

Proportion of business reviewed for risk of corruption

100%

Training on anti-money laundering (Number of employees)

211



Human Rights Sustainability

Incidents of discriminations

None

Incidents of forced labour

None

Human rights incidents reported and resolved

None



Product Responsibility Sustainability

Core products that apply labelling/clauses

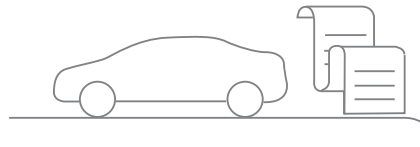
2

Significant fines for product/service

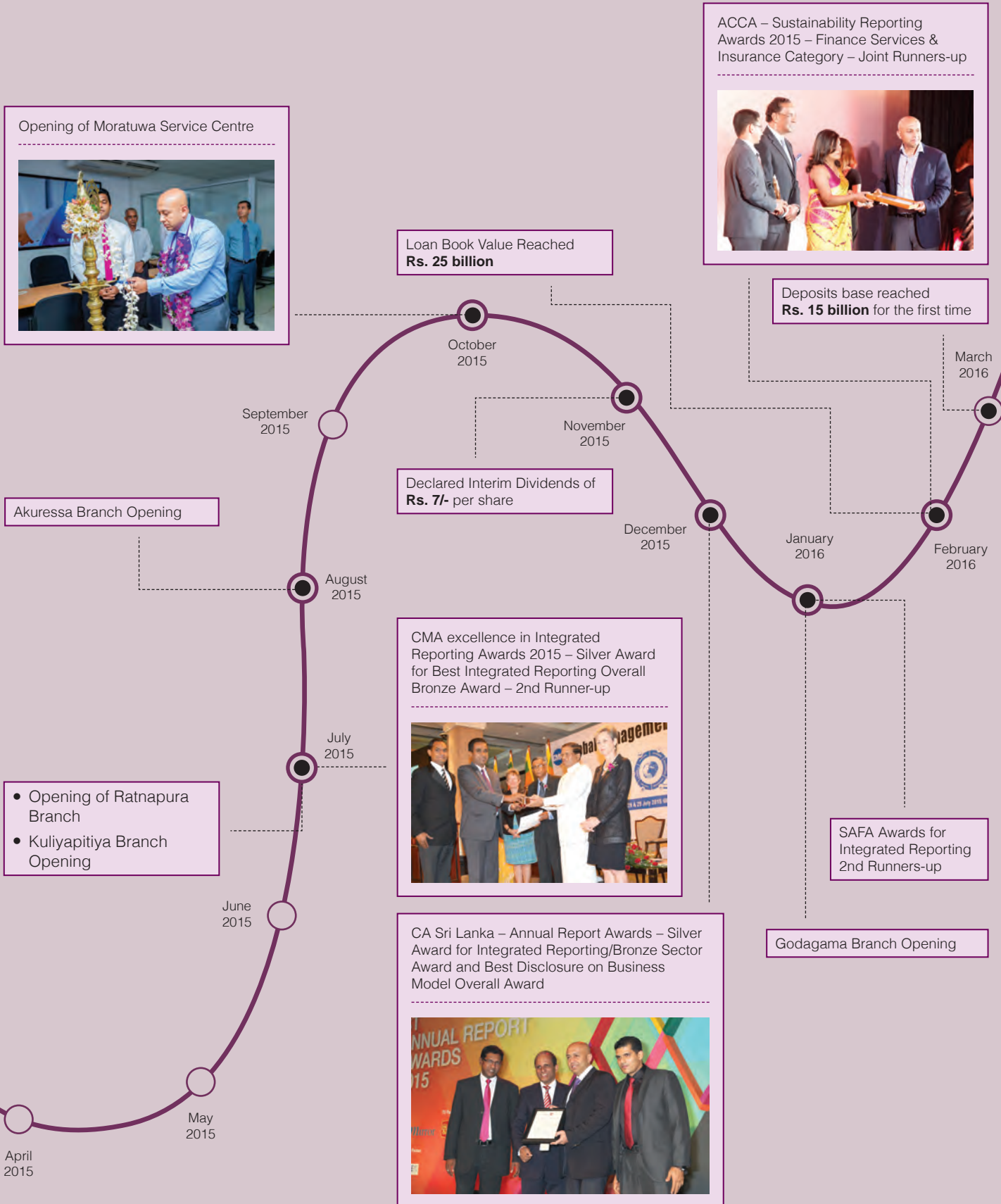
None

Number of products that yield social benefit

3



Achievements/Milestones – FY 2015/16



Awards Won

AWARDS WON AND RECOGNITION FOR EXCELLENCE IN FINANCIAL REPORTING

MI has displayed great skill in financial reporting, producing outstanding Annual Reports, for over a decade. Because of this, MI has won fame and recognition both locally and internationally, winning a number of accolades in the recent past. We take pride in maintaining excellence in financial reporting by providing high quality financial disclosure to our stakeholders and most of all staying committed to the cause of transparency in reporting. The Company has won the gold award thirteen times and won the gold award for twelve consecutive years under the Finance Company category, in the past.

MI was able to win the following awards for its FY 2014/15 Annual Report:

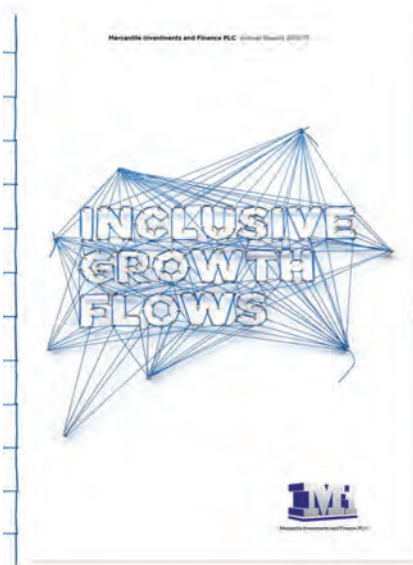
 <p>CA Sri Lanka Annual Report competition organised by The Institute of Chartered Accountants of Sri Lanka in December 2015</p> <ul style="list-style-type: none"> • Bronze Award winner, in the Finance Company Sector category • Winning the Silver Award for the All Island Best Integrated Report presented • Overall Award for Best Business Model disclosure 	 <p>The Sustainability Reporting awards organised by the ACCA Sri Lanka in February 2016.</p> <ul style="list-style-type: none"> • Joint runners-up of the Sustainability Reporting award under in the 'Financial Services and Insurance category'
 <p>Third place winner in South Asia's best integrated reporting at the SAFA awards 2016 held in Pakistan</p>	 <p>Winning the all island third place for the Best Integrated Annual Report organised by the CMA Institute of Sri Lanka held in 2015.</p>



MI's Victorious Finance Team

Brief about the Integrated Annual Report

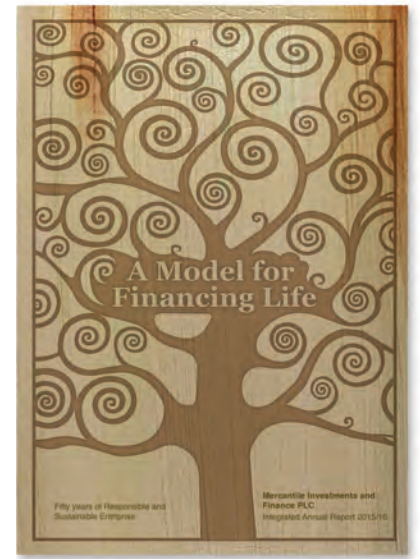
OUR INTEGRATED REPORTING JOURNEY



2013/14



2014/15



2015/16



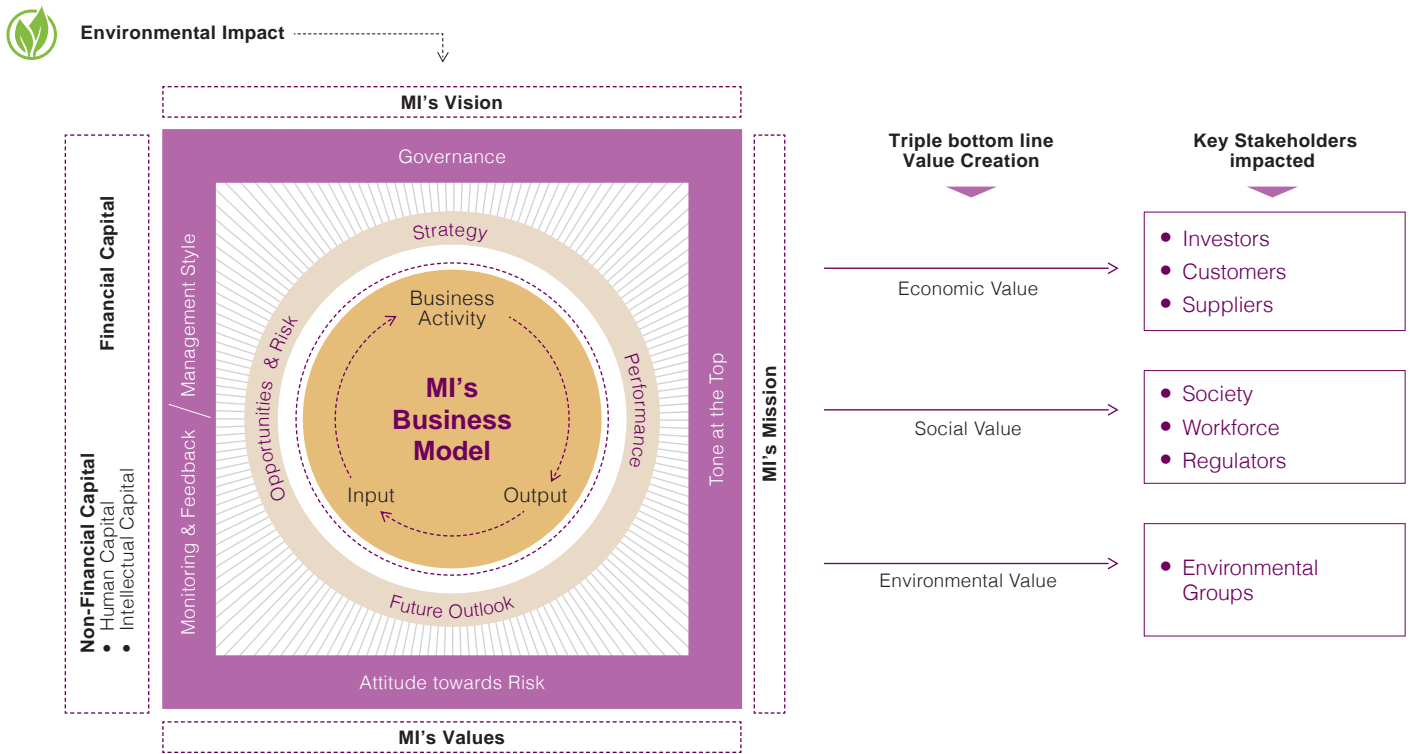
Having excelled in financial reporting for more than a decade, being recognised and awarded for producing some of the best annual reports in the corporate world, we at MI believe our financial reporting endeavours should evolve over time to capture the essence of our business, its progress and impacts to our stakeholders in a more meaningful way. As a result, we stand committed annually, in delivering a meaningful and concise annual report that communicates effectively MI's performance against expectations on triple bottom line value creation towards our key stakeholders. Accordingly, our Report embraces internationally accepted reporting frameworks to communicate effectively our capital accretion process and also MI's commitment towards sustainability.

For the third consecutive year, we present an Integrated Annual Report, which has been prepared in accordance with the International Integrated Reporting framework of 2013, issued by the International Integrated Reporting Council (IIRC). We believe that adopting this framework has enriched our reporting standards and goes hand-in-hand with our business prerogatives that uphold an integrated approach in reaching our aspirations, for the enhancing of stakeholder value. Furthermore, we believe that we have been able to effectively articulate our triple bottom line performance this year, including sustainability efforts from all facets of our business by preparing the Annual Report based on Global Reporting Initiatives G4 Comprehensive Reporting framework, coupling financial services sector specific disclosure to enhance reporting.

CREATING SUSTAINABLE TRIPLE BOTTOM LINE VALUE

As a premier finance company which has been in existence for over five decades, we continued to strive in meeting our visionary aspirations and this includes meeting our obligations towards our varying stakeholders. From a gamut of stakeholder expectations, we firstly stand committed in enhancing our shareholders wealth as our primarily corporate objective. Further, as a responsible corporate citizen and an enterprise bonded with people and society, our activities are geared in generating greater value to the economy, society and environment, which eventually benefit MI's stakeholders and also indirectly assist in building a sustainable nation. The essence of this whole process of value creation that we at MI strive for, is captured in "MI's sustainable triple bottom line value creation process diagram".

SUSTAINABLE TRIPLE BOTTOM LINE VALUE CREATED FOR STAKEHOLDERS



MI in creating triple bottom line value, touches upon the key three dimensions of Profits, People and Planet, for a sustainable tomorrow. The Company, through a unique well-defined business model, commits itself in augmenting value to its stakeholders, transforming and enriching capital tangible and intangible each year, to make triple bottom line value creation a reality. This process encompasses the organisation's vision, mission and internal value system, which forms the foundation on which we pursue maximisation of corporate profits, in parallel to us aspiring to meet other stakeholder expectations linked to economic, social and environmental sustainability.

INTEGRATED BUSINESS MODEL OF MI

The Company reached a significant milestone in its proud history, celebrating fifty successful years in business, during the last financial period. During these efficacious years, we have stuck to our unique business model that encompass sound planning, strategic thinking and an integrated approach in doing business with the purpose of maximising wealth of our shareholders. In keeping to our aspiration, we have managed to also go beyond boundaries to also see avenues of creating greater value to our other key stakeholders as well,

focusing on sustainability percepts. The business model we uphold focuses upon enhancing various types of capital inputs, both financial and non-financial in nature, which comprises of a number of key elements that follow a streamlined value enhancement process. The model encapsulates a strong corporate values system, which requires everyone working within the organisation to uphold ethical and transparent practice. Moreover, it advocates a strong governance culture that focuses on prudent management of Company affairs. In facilitating an effective governance system and managing risks associated with our type of financial business, we have established a strong control environment that encompasses predefined operational policies, practices, procedures and an effective compliance monitoring system.

A new medium-term corporate plan was developed, which is effective from this financial year 2015/16 till 2017/18. The strategic plan approved by the Board, highlights the importance of adopting an integrated approach, recognising the importance of each key element of our business model, in driving the triple bottom line concept. During the strategic planning process, a thorough business analysis was carried out identifying trends,

predictions and patterns unfolding in the industry and other sectors of the economy, which can have possible impacts on how we generate value. There was greater focus on analysing key market variables impacting MI's products such as interest rates, customer preferences, technology and number of other factors.

The integrated approach also highlights the importance of monitoring our triple bottom line performance periodically, through constant review of Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs). These indicators assisted us in arriving at our performance and outcomes for the year from various angles. This covered the assessment of MI's various capitals that mainly include the financial capital which was sustained through the generation of annual profits while also reviewing other indicators financial and operational in nature. While recognising the importance of integrated business thinking, MI's Annual Report nicely captures MI's unique integrated business model and effectively provides coverage of each element associated with the model. All key elements of the integrated business model and its related disclosure can be tracked from the page number reference mentioned in the diagram next page.

MI'S INTEGRATED BUSINESS MODEL

**MI's Vision,
Mission, Values
and Leadership
Style**

Page ref. 4

Objective Setting and Strategy Development

	Page ref.
Goals in the short, medium and long-term	64
Strategy adopted on core business	69 to 87 and 124 to 196



Capital Inputs

	Page ref.
Capital Inputs utilised for business	70 and 71, 88 and 89
Financial Capital	
Manufactured Capital	
Human Capital	
Intellectual Capital	
Social Capital	
Natural Capital	



Analysis of Business Environment

	Page ref.
World and Sri Lankan Economy	46 to 54
SWOT and PESTLE Analysis	55 to 58, 60 and 61
Risk and Opportunities	62 and 63, 127 to 130

Value Adding Activities/Strategy

	Page ref.
Integrated Service Value Chain	68
Business Strategy Development	70 to 87
Enhancing Effectiveness of Success Factors	72
Effective Work Processes	73 to 87
Human Capital Value Chain	166
Advanced Information Communication and Technology Support	82 to 85
Treasury Management and Pricing Process	80
Cost Management	81
Sustainability Initiatives on Value Creation/Focus on Triple Bottom Line	124 to 196

Future Outlook

	Page ref.
Economy and LFC Sector	48 to 51, 55 to 58, 197 to 199
Business Outlook	30 and 31, 197 to 199
Futuristic View on Sustainability	199
Governance Environment	53

Outputs

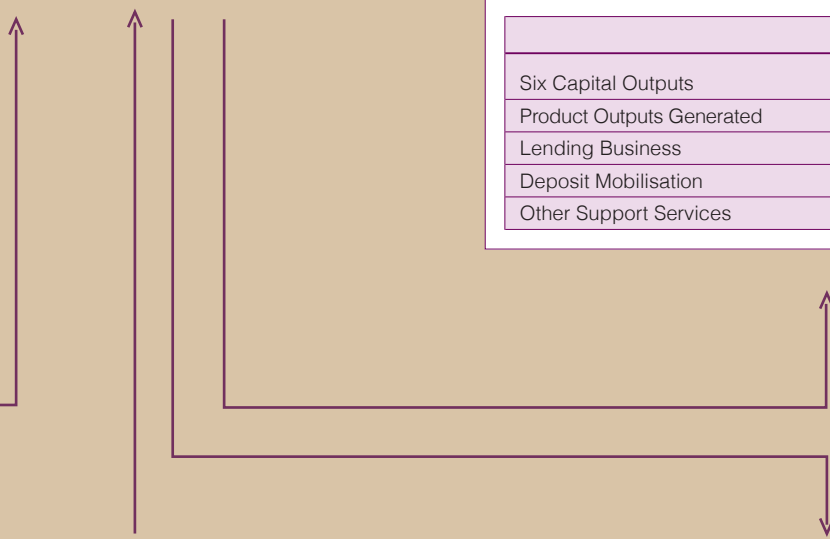
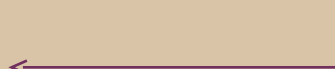
	Page ref.
Six Capital Outputs	88 and 89
Product Outputs Generated	5, 112 to 120
Lending Business	73 to 75, 112 to 117
Deposit Mobilisation	76 and 77, 118 and 119
Other Support Services	120

Stewardship

	Page ref.
Profiles of Directors/Senior Management	212 to 218
Corporate Governance	220 to 296
Risk Management	298 to 330

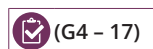
Performance and outcomes

	Page ref.
Operational Performance	65 to 87
Financial Performance	88 to 122
Dividends/Share Price	143
Value Addition	139 and 140
Employee Value/Productivity	108 and 109
Sustainability Performance	137 to 196
Risk Appetite Level	306 to 330
Extent of Compliance to Requirements	281 and 282
Financial Statements and Other Financial Disclosure	352 to 433



REPORTING PARAMETERS

ENTITIES COVERED IN REPORT/SCOPE OF REPORT

 (G4 – 17)

The Integrated Annual Report presented herewith provides a comprehensive coverage of Mercantile Investments’ strategic, operational and financial performance as viewed against organisational expectations that include economic, social, environmental and governance parameters for the financial year ended 31 March 2016, together with necessary comparative information.

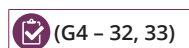
The Audited Financial Statements appearing under the Financial Reports section, relate to disclosures pertaining to Mercantile Investments and Finance PLC. Accounting effects of Associate Company Nuwara Eliya Hotels Company PLC, has been incorporated to the Financial Statements in accordance with LKAS/SLFRS requirements. Other disclosures financial as well as non-financial in nature contained in this Report, wherever necessary have been extracted from internally-maintained records, unless otherwise stated. Financial information contained in the Management Discussion and Analysis chapter corresponds with the Audited Financial Statements, as applicable.

SUMMARY OF FRAMEWORKS AND REGULATIONS ADOPTED

INTEGRATED REPORTING FRAMEWORK

This is the third year that we present an Integrated Annual Report to explain MI’s performance, articulating various interlinks between financial capital and non-financial capital for the purpose of explaining our value creation process towards our stakeholders. In preparing this Integrated Annual Report, we have drawn reference to the International Integrated Reporting framework of 2013 (www.theiirc.org) and accordingly, have followed related concepts, principles and guidance for effectively communicating our integrated business model and performance.

SUSTAINABILITY REPORTING APPROACH

 (G4 – 32, 33)

G4 COMPREHENSIVE REPORTING

This is the second year that we adopted the Global Reporting Initiative GRI G4 framework for the reporting of our sustainability efforts and also the first year that we adopted GRI G4 “In Accordance Comprehensive” reporting framework. We believe that we have improved our reporting sphere by adopting the comprehensive reporting option and also adopting the material financial service sector disclosures applicable to the financial sector. In keeping to the GRI G4 framework, all required aspects and indicators in relation to the “in accordance comprehensive reporting” and “sector specific aspects and indicators” are covered in the GRI Index given on pages 200 to 209. The external assurance report issued by Messrs’ BDO Partners, Chartered Accountants on Sustainability Reporting is given on page 210.

ACCOUNTING STANDARDS

The Audited Financial Statements contained in this Report has been prepared and presented in accordance with requirements of the Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards

(SLFRS) issued by the CA Sri Lanka. Financial information provided in the Management Discussion and Analysis chapter, wherever applicable, corresponds to the LKAS/SLFRS based Audited Financial Statement balances.

OTHER REPORTING REGULATIONS AND RECOMMENDED DISCLOSURES

Disclosure contained in this Report covers reporting requirements stemming from other key regulations and includes the provisions of the Companies Act No. 07 of 2007, provisions stipulated by the Central Bank of Sri Lanka, including the Finance Business Act No. 42 of 2011 and the rules of disclosure of the Colombo Stock Exchange. For the purpose of Corporate Governance related disclosures, we have drawn reference to the revised Code of Best Practice on Corporate Governance, issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka (New release – 2013), the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and related amendments issued by the Central Bank of Sri Lanka.

ASSURANCE REPORTS OBTAINED

External assurance has been obtained for following business processes/disclosures contained in the Integrated Annual Report.

Business process assured/Disclosures	Output from assurance	External assurance obtained from
Financial: 1. Annual Financial Statements	External Audit Report	Messrs BDO Partners, Chartered Accountants
Sustainability: 2. 2.a Sustainability section disclosures	Assurance Report	Messrs BDO Partners, Chartered Accountants
2.b Greenhouse gas emission verification	Assurance Report	Sri Lanka Climate Fund (Pvt) Limited
Governance: 3. Compliance status to Corporate Governance Direction issued by CBSL	Assurance Report	Messrs BDO Partners, Chartered Accountants
Risk Controls: 4. Directors’ statement on Internal Controls	Assurance Report	Messrs BDO Partners, Chartered Accountants

The external assurance providers operates independently in carrying out their reviews. The Board of Directors of MI or the Corporate Management have no direct dealings or have links with the external assurance providers.

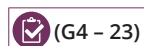
REPORTING BOUNDARY

Disclosures presented in the Management Discussion and Analysis chapter that comprise the sustainability section and the section on stewardship, reports purely on the financial, operational and sustainability performance of Mercantile Investments and Finance PLC. This is because MI's holding structure does not involve any subsidiary company holdings. The Company notes that any impact arising from activities of its Associate Nuwara Eliya Hotels Company PLC, is insignificant for purpose of detailed reporting. The commentary given in these reports primarily refers to activities of Mercantile Investments and Finance PLC, within the geographical boundaries of Sri Lanka, as MI does not operate any branches or subsidiaries, in other countries.

DECIDING REPORT CONTENT

In keeping to the international framework on Integrated Reporting and GRI's G4 Sustainability Reporting framework, further description of MI's approach to deciding report content, including stakeholder inclusiveness and identifying on material aspects to report is presented comprehensively in the section on "Deciding Report Content" in the Management Discussion and Analysis chapter on pages 35 to 45.

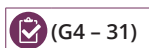
MATERIAL CHANGES SINCE LAST REPORTING DATE



There have not been any significant changes to the scope, boundary and reporting basis since the last reporting date of 31 March 2015, except for the shift in reporting from in accordance "Core" to "Comprehensive".

AVAILABILITY OF THE ANNUAL REPORT

A hard copy of the Annual Report is sent to all shareholders, prior to holding the Annual General Meeting, giving due period of notice, separately, for the benefit of all stakeholders. Our Report has been made available in MI's website www.mi.com.lk and the CSE website www.cse.lk (The Report can be viewed by referring to MI Stock Code "MERC").



Contact point for comment or query with regard to this report should be sent via mail or e-mail to;

Contact and Address:
Mr. Deva Anthony,
General Manager Finance,
Mercantile Investments and Finance PLC,
236, Galle Road, Colombo 03.
E-mail: accounts@mi.com.lk

RESPONSIBILITY OVER INTEGRITY OF THE INTEGRATED REPORT AND SUSTAINABILITY REPORTING

I acknowledge the integrity of the disclosure contained in the Integrated Report presented herewith and the sustainability reporting which comprise the Overview section, the Management Discussion and Analysis chapter, which includes the Sustainability section and disclosure pertaining to stewardship, which in turn should also be read in conjunction with the Audited Financial Statements and other reports given in the Financial Reports section of the Annual Report.

The Board through the Finance Director/ Chief Financial Officer governed the preparation and presentation aspects of the Integrated Report and Sustainability Reporting. The Integrated Report has been presented in accordance with the International Integrated Reporting framework of 2013, issued by the International Integrated Reporting Council (IIRC), while the Sustainability Report has been prepared based on GRI's G4 "in accordance comprehensive" reporting structure.

Finance Director/Chief Financial Officer
13 June 2016

Chairman's Message



“To maximise revenue possibilities, a number of measures were taken to increase periodic lending volumes, consolidating on the strengthened branch network developed during the last decade”

My Dear Stakeholders,

While welcoming you all to Mercantile Investments and Finance PLC's (MI) fifty-third Annual General Meeting, I am pleased to present to you the Company's Integrated Annual Report for the financial year ended 31 March 2016. It has been another gratifying year for Mercantile Investments and Finance PLC (MI), as we were able to make steady progress in achieving our key operational goals and some of the key optimistic financial targets, amidst somewhat challenging business conditions. Being the Chairman of the Company, I can firmly say that we have stood firm in our quest in creating stakeholder value yet again this year.

Let me lay-forth in brief, the key highlight for the period under review, focusing on our salient achievements, challenges faced and insights into the future of the Finance Industry and how we plan to go about meeting our future expectations.

FINANCIAL RESULTS

The financial results of the Company stood satisfactory in the backdrop of somewhat challenging business conditions with growing competitiveness, changing regulatory environment and industry dynamics. In sustaining shareholder wealth, the Company was able to record a robust pre-tax profit of Rs. 803 million and a post-tax profit of Rs. 505 million for the FY 2015/16, reflecting though a decline in pre-tax and post-tax profits of 12% and 20%, respectively compared to the last financial period. In particular, the gradual rise in interest rates and its resulting repricing effect impacted the Company's core business margins, pegging back chances of increasing profitability levels during the period.

In striving towards challenging revenue and profit targets, the Company sought commitment of its buoyant corporate team and staff from the word go. The Board together with the Corporate Management, were able to come up with clear corporate goals and strategy in the medium term, as part of the strategic planning process which concluded early 2015 and started to implement the Board approved strategic plan from June 2015 onwards. Management was able to set forth clear financial targets and supporting strategies for three years including the period under review. Main business divisions accordingly developed their sub-departmental goals and strategies and focused on improving respective business lines.

To maximise revenue possibilities, a number of measures were taken to increase periodic lending volumes, consolidating on the strengthened branch network developed during the last decade. We further extended our business presence and our operational capabilities, opening five additional branch/service centres in key strategic locations and also recruited 264 numbers of additional staff to strengthen the workforce.

I was pleased to observe the business momentum kept across all our locations, generating the needed customer awareness and then going on to extend a unique professional service. We attracted new customers for both our lending and deposit businesses and also retained existing clientele offering our diverse financial product range. As a result, our lending book grew buoyantly by 29%, while deposits growth remained satisfactorily at 15%. Core business margins however, continued to be pressured due to the repricing effect and competitive pricing strategies of the industry.

In spite of the sound lending book expansion, MI's net interest income growth was marginal at 1% mainly because of the decline in core business margins enjoyed unlike previous period. As a result, the marginal growth registered on core revenues impacted total gross income growth which stood subdued at 5%. The sluggish nature of the stock market too impacted the

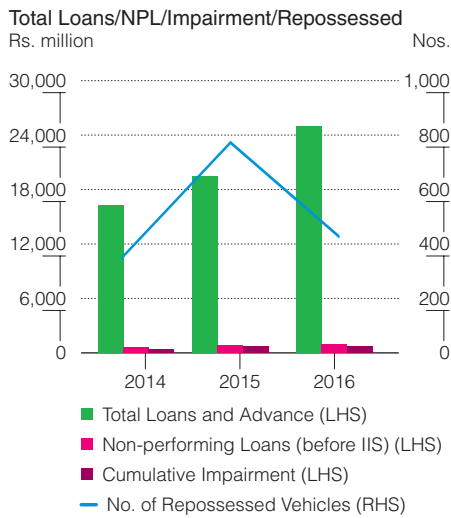
gross income as it limited the possibility of realising higher non-fund based income, compared to fruitful past years.

A key focus of the Credit and Marketing division this year was to generate steady increase in lending volumes, without compromising on the quality of lending. Nonetheless, like others in the industry, we too felt the general deterioration in borrower credit repayments, but was able to instill effective recovery strategies to maintain sound collection levels and curtail bad debts. By closely monitoring customer accounts and initiating strong recovery measures, we managed to keep collection ratio levels at commendable levels. Moreover, by the year end, the Company's non-performing ratio stood low at 3.39% below last years recorded of 4.19%.

Total assets of the Company moved up reaching Rs. 34 billion as at the Reporting date, reflecting a 20% rise, mainly on account of the said growth in loan book. While we pursued various funding options to provide for the demand in lending business, our funding strategy revolved around identifying newer lines at optimal pricing. Mobilising of fixed deposits remained the key funding source while bank borrowings were pursued in tandem, to fulfil both short and long-term funding needs. Whilst deposit mobilisation remained competitive and its cost on the rise, we increased our borrowings significantly by 50% YoY to maintain an optimal equilibrium in funding and to keep cost of funding lower.

In articulating our core product performance, I would like to now outline indicators reflecting their growth and asset quality;

Key products	2016 Rs. million	2015 Rs. million	Growth %
Finance lease receivables	9,926	5,410	83
Hire purchase receivables	6,826	7,399	(8)
Loans and receivables	8,302	6,660	25
Fixed deposit base	15,727	13,640	15
Savings deposits base	64	43	49



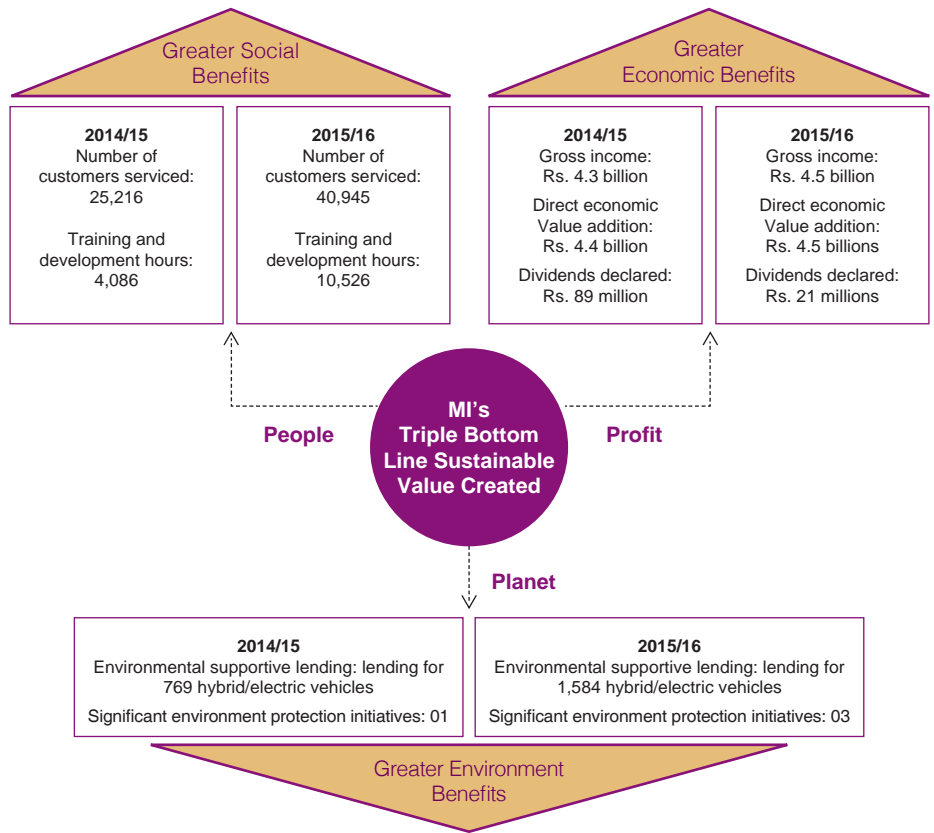
INTEGRATED THINKING IN CREATING TRIPLE BOTTOM LINE VALUE

In accomplishing our visionary aspirations, we continued to fashion our thinking towards integrated thinking to generate triple bottom line value, thereby striving towards meeting varying expectations of our key stakeholders. We have been successful with our own unique business model that embraces integrated thinking, which is geared towards corporate excellence and a vision for a better sustainable tomorrow.

Through a combined effort of all divisions, we were able to record satisfactory profitability levels which benefited our investors. From a broader social perspective, we took the initiative to uplift people's lives, those of our workers as well others, their knowledge and capabilities and also initiated a number of specific green practices to curtail use of natural resources. This also included the support extended to safeguard the planet and its resources, including animals through various philanthropic initiatives.

I believe from the key sustainability achievements portrayed below, it is evident that we have managed to support the creation of broader economic, social and environmental value in more ways than one.

MI'S SUSTAINABLE TRIPLE BOTTOM LINE VALUE



PROFIT - ENHANCING ECONOMIC VALUE

We took effective strategic and operational decisions to ensure that we keep to our promise of generating satisfactory returns to our capital providers. The recorded solid profitability levels this year highlights our commitment towards business growth and creating investor wealth yet again. The dividends declared to our investors totaled to Rs. 21 million for the period under review compared to Rs. 89 million declared last year.

From a broader economic angle, MI continued to contribute to the wider economic value generation process, recording growth in direct economic value generated and distributed.

PEOPLE - ENHANCING SOCIAL VALUE

For the benefit of our employees and those external to the Company including society in general, we identified various ways of bringing benefit to people, financially and otherwise. While continuing to strengthen workforce numbers, we made an all out effort in nurturing our employees to raise the knowledge, capability and with it productivity levels. We implemented effective training tools and continued to motivate top performers by rewarding them for their efforts and provided them the needed morale support and guidance, to keep them satisfied and motivated.

From a broader social angle, our widened business reach made it possible for us to tap into needs of various communities. From a business perspective, we identified people needing immediate credit to improve their lives and livelihoods. Our budding microfinance business paved the way for MI to have close links with communities and build lasting bonds. The philanthropic initiatives of the Company, in improving the lives of the poor and the lesser privileged, I must say further reiterated MI's commitment towards creating a better tomorrow for people.

PLANET - ENHANCING ENVIRONMENTAL VALUE

In extending our support to the environment and its habitats, a number of initiatives were extended during this period and it included our support in the tree planting programme carried out in Gampola, in a biodiversity designated area.

As we continue to aspire for higher triple bottom line value and sustainable development practices, we finalised our sustainability strategy for the next few years and commenced implementing them from this period. The Board and myself stand committed in guiding the Corporate Management and the Sustainability Governance Committee to accomplish the sustainability goals placed before us.

INTEGRATED BUSINESS REPORTING

As a Company that embraces integrated thinking, having established a clear interlink between various components of our business to bring about a synergetic effect, I can say that MI is on a progressive journey, to build short, medium and long-term stakeholder value. Therefore, as the right step in the right direction, we understand the importance of articulating our performance over time and progress against set goals and future prospects, for the benefit of our interested parties.

For the second consecutive year running, our finance team has produced an exceptional Integrated Annual Report, in keeping to an internationally accepted integrated reporting framework. I believe MI's progressive business journey is well laid out and explained in this Report, for the betterment of all our stakeholders.

UPHOLDING EFFECTIVE GOVERNANCE PREROGATIVES

The Board and myself stand committed in continuing to strengthen the governance framework that we established. While enhancing internal processes, we also introduced additional internal controls as means of cutting down on risks which I believe has helped us better manage routine work operations. In terms of supervisory review, I am happy to note the strengthening of the internal audit function and expansion of the audit coverage and shift towards risk based auditing. In improving risk management at MI, additional measures were taken to widen the review and reporting of high risk areas and plans are also underway to develop formal documented risk management processes and risk measurement techniques within the next year.

The exceptional reporting standards maintained by MI over the years, endorses the Company's desire for transparency, which we consider integral to our good governance prerogatives. While continuing to comply with the Corporate Governance Direction issued by the regulator, we placed emphasis on adopting good governance practices recommended by the revised Code on Corporate Governance issued jointly by the CA Sri Lanka and the Securities & Exchange Commission of Sri Lanka in 2013.

The Board and myself stand committed to the safety and soundness of the enterprise and will continue to uphold these high standards in Corporate Governance for the prudent running of the Company. We have created a professional working environment, for employees to improve

their skills through continuous learning, to bring forth innovative ideals and follow ethical practices, as part of MI's unique value system. We expect all who become part of the MI team to display the highest level of integrity and also to act ethically at all times. As the Chairman, I affirm that no known material violations of disciplined business conduct and ethical requirements of the Company has taken place during the year, at Board levels as well as from other levels of the corporate hierarchy.

FUTURISTIC VIEW OF THE BUSINESS ENVIRONMENT

With the political climate stabilising and economic development taking gradual effect, future prospects for the corporate community looks enterprising. The improving international relations and possible increase in FDI's too should bolster the economy which is expected to grow above 4% on average in the next few years. I believe the Finance Industry like other leading industries would have enough opportunities for growth and to embark into fresh revenue generating avenues along the way.

As challenges to finance companies, the drawbacks in the vehicle sales market particularly the high import duty structure, devaluation of the Rupee exchange rate and measures instilled to control credit growth, will have a direct negative impact on the Industry. As a counter strategy, we can expect the industry to pursue fresh sources of revenue, especially to tap into some of the potential banking sector offerings. The industry can hope to capitalise on its flexibility in operations to grant credit faster and the ability to tap into needs of lower income earners.

MI will stay receptive to customer needs and to key changes in market variables such as interest rates which are already on the rise. In this backdrop, our main focus will revolve around developing our core business lines and other corporate strategy planned for the next two years. We will be attuned to the macro level changes and make every effort to derive benefits from improving business conditions, to turn it to our advantage. We can expect to see certain shifts in sectorial composition of national GDP in the next few years. These macroeconomic shifts will be watched carefully for future strategy, whilst we keep a tab on our business nitty-gritties. The flexibility that we have in terms of financial capital and the wealth of skills and knowledge possessed by our workforce will help us extend our reach to potential business segments and emerging communities.

WORDS OF APPRECIATION

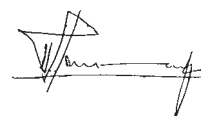
I would like to take this moment to recognise all those who have been a key part in Mercantile Investments pleasing performance this period. As the Chairman, let me firstly thank all members of the MI Board for extending their support for the betterment of the Company. Thank you for giving the Board and Corporate Management the required advice and expertise to guide the Organisation forward.

It is with great pleasure that I acknowledge the efforts of the Corporate Management Team and their respective staff in reaching towards our aspirations. I wish to commend all those who displayed enormous commitment in bringing success to the Organisation, yet again this year. Despite all challenges, your continued efforts and relentless dedication has enriched the Organisation and has brought success again.

I would also like to take this opportunity to thank the Governor, Deputy Governor, Director Non-Banking Supervision Department and all relevant staff of the Central Bank of Sri Lanka for their continued guidance and extending fullest corporation to us.

For all Mercantile Investments' customers who have continued to be our financial business partners, displaying your loyalty all this while, I wish to thank you once again for keeping faith in the Company. Your loyalty has inspired us to look for better ways of serving all our customers and has made MI stronger and a highly competitive organisation. A special note of thanks is also extended to all our intermediaries, namely the agents and other transacting parties who remain an integral component to MI's business growth.

I also take this opportunity to thank all our shareholders for standing beside the Company throughout our corporate journey, in both good and challenging times. While thanking you again for placing immense trust in myself and all the other Directors of the Board, we reassure you of our commitment towards enhancing shareholder wealth. The Company will continue to strategise and look for sustainable ways of improving its triple bottom line value for the benefit of all our key stakeholders.



Saro Weerasuriya
Chairman

13 June 2016

Managing Director's Review



“I must say that we remained well attuned to developments taking place in the market and was quite agile in exploiting conditions. We kept abreast of developments unfolding in the industry as well as at national level, taking bold steps in developing our lending business and strengthening internal operations”

It was yet a promising year for Mercantile Investments, as we capitalised on the solid foundation built and bold measures taken in the recent year to develop our core business of lending and deposit mobilisation. The Company however, remained cautious on making rapid expansion of its lending book and kept staunch focus on maintaining assets quality in tandem. The efforts of staff of all key divisions paved the way for the Company to pursue most its operational and financial targets successfully, in the midst of a challenging competitive business environment. In fulfilling stakeholder expectations, there was staunch determination by management in striving towards key financial and non-financial goals set at the commencement of the period.

It was evident that this satisfactory performance during the period under review was achieved in the midst of a volatile but positive industry setting. While enjoying improving business conditions, the Finance Company sector continued to face numerous external challenges. Changes in Sri Lankan economic policy and development taking place, changes in peoples' lifestyles and preferences, additional regulations and movements in market variables such as interest rates, exchange rate etc. continued to shift demand for our types of financial products both ways. However, by being pro active and taking prompt action, we managed to end the year with a satisfactory operational and financial performance.

As the Managing Director, let me firstly elaborate on the status of the Sri Lankan economy in 2015 and then briefly outline how MI went about pursuing our corporate goals and explain in a nutshell the key highlights of MI's performance, for the period under review.

GLOBAL ECONOMY

3.1% GROWTH IN WORLD OUTPUT

Global economic growth decelerated with some of the key economic nations and developing nations economies slowing down, despite moving away from recessionary conditions of the past. War-torn Middle-East nations and parts of Europe continued to grapple with numerous drawbacks to their economies, including persistent debt crisis. In general, the economic pick up witnessed across the western nations and other key economies, particularly in the Asian region, fuelled world output in FY 2015/16. Growth in world output declined to 3.1% from previous year of 3.4%. The emerging economies widened their positive global impact and the advanced economies picked-up in contribution towards world output.

SRI LANKAN ECONOMY

SRI LANKAN REAL GDP GROWTH STOOD AT 4.8%

The Sri Lankan economy progressed steadily this year with real GDP growing by 4.8%, compared to 4.9% recorded in 2014. Local industries continued to be propelled mainly by the improving economic conditions, mainly as a result of the economic development taking place from all parts of the country. The pick up in the tourism industry and export oriented industries has had an indirect impact on other industries including the Finance Industry. The change in political climate and improving sentiments in the international arena also paved the way to widen national economic growth prospects, with improving exports and flow of FDIs.

It was pleasing to observe the growing optimism displayed by both public sector and business communities to capitalise on emerging opportunities and bold attempts being made to exploit conditions. Improving infrastructure and other development activity taking place, including widening international partnerships, drove the corporate sector forward. The agriculture sector in particular, recorded notable progress with real output change at 5.5% in 2015 up from 4.9% reported end 2014.

KEY ECONOMIC INDICATORS LOOKED PROMISING

Steady progress of the Sri Lankan economy and its resilience to domestic and external challenges was reflected from some of the other key economic indicators in 2015. To mention a few:

- The unemployment rate stood relatively lower compared to some of the developed nations at 4.6% but was marginally up from 4.3% recorded by end 2014.
- Inflation annual average stood at a single digit level for the seventh consecutive year, dropping further from 3.3% to just 0.9% in 2015.
- Export volumes index percentage change stood positive at 4.6% in 2015, compared to a positive of 4.3% recorded by end 2014.
- Market capitalisation of institutions in the capital market stood at Rs. 2,938 billion in 2015 marginally lower though from Rs. 3,104 billion reported by end last year.

FINANCIAL SERVICE SECTOR CREDIT GROWTH STOOD AT 32%, WHILE AVERAGE SECTOR GROSS NPL RATIO LEVELS DECLINED TO 5.7%

The Licensed Finance Company sector encountered numerous obstacles in somewhat challenging business conditions but managed to expand business activity and remain resilient during the year. A noticeable feature was the continued decline observed in core business margins on account of the rising interest rates and its repricing effect and also the impact on credit quality, with NPL ratio levels staying again above 5% levels. The notable devaluation of the Sri Lankan Rupee, witnessed during this financial period and the new regulations imposed on vehicle valuations for the computation of import duties and the restriction of 70% on the loan to value ratio, hampered the vehicle sales market and the Finance Company sector lending prospects somewhat.

However, the finance company sector was able to sustain reasonable business revenue, combining traditional lease financing with non-traditional lending such as personal loans, property mortgage loans and microfinance, which helped boost lending volumes and overall yields. In terms of the deposits business, the Industry maintained its growth momentum mainly through the mobilisation of Fixed Deposits. The pressure exerted by the Banking sector that has since clawed to Finance Company boundaries, continued to increase already high competition level within the industry.

MI'S PERFORMANCE HIGHLIGHTS – FY 2015/16

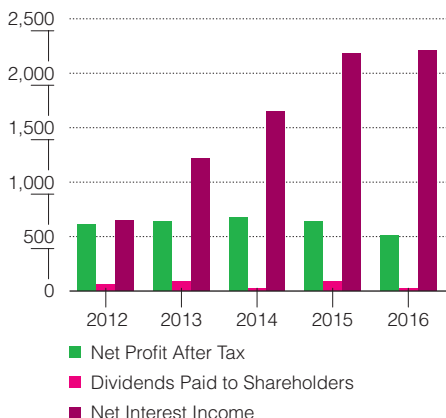
MI performed pleasingly in the FY 2015/16 in its operational and financial performances, meeting some of the optimistic targets set, in very challenging business conditions. I must say that we remained well attuned to developments taking place in the market and was quite agile in exploiting conditions. We kept abreast of developments unfolding in the industry as well as at national level, taking bold steps in developing our lending business and strengthening internal operations. Measures were taken to improve technology support to assist in service delivery and to enhance MIS. Moreover, through the strength of our workforce, their skill, dedication and focus, the Company made immense headway in excelling from various facets of business.

All these factors played an integral part in the Company registering satisfactory profits yet again this period and also being able to contribute to the generation of superior triple bottom line value for our stakeholders. Let me outline and provide a brief on our salient financial achievements for the period which are:

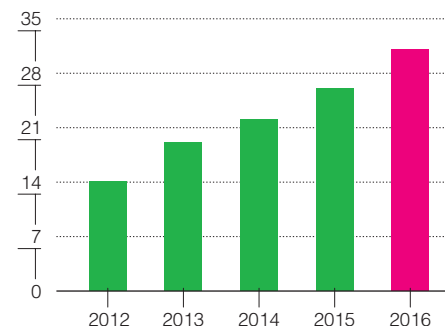
SALIENT TRIPLE BOTTOM LINE ACHIEVEMENTS

Triple bottom line area of focus	Key performance indicators	Actual FY 2015/16	Growth/ (Decline) from FY 2014/15 (%)
Generating returns to investors	Gross income (Rs. million)	4,500	5
	Net interest income (Rs. million)	2,203	1
	NPL ratio (%)	3.39	(19)
	Return on shareholders' funds (%)	6.6	(19)
	Dividends paid to shareholders (Rs. million)	21	(76)
	Net profit before tax (Rs. million)	803	(12)
	Net profit after tax (Rs. million)	505	(20)
Building business while enhancing customer relationships	Loans and advances portfolio (Rs. million)	25,054	29
	Number of new lending customers	25,226	>100
	Deposit base (Rs. million)	15,816	15
	Number of new deposit customers	665	(86)
	Number of branches/service centers	31	19
	Average overall loan to value ratio (%)	61.25	-
Enhancing value of human capital	Human capital (No.)	738	26
	Number of training hours (Hours)	10,526	>100
Enhancing society and environmental value	Total social and environmental cost (Rs. million)	7	>100
	Total investment in CSR initiatives (Rs. million)	4	>100

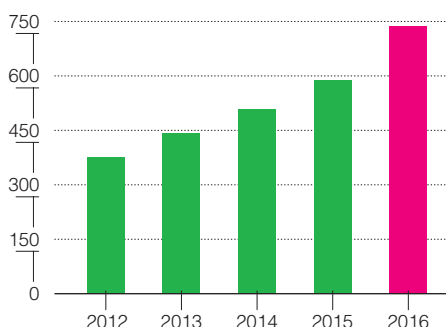
Net Profit After Tax, Dividends Paid to Shareholders and Net Interest Income
Rs. million



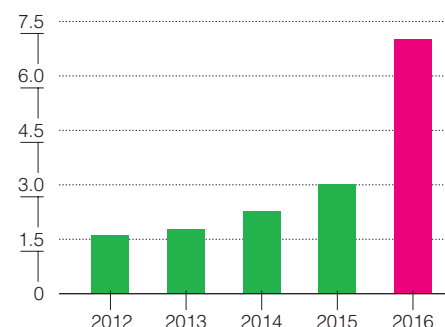
Number of Branches/Service Centres
Nos.



Human Capital
Nos.



Total Social and Environmental Cost
Rs. million



GENERATING SOLID RETURNS TO INVESTORS

NET PROFIT BEFORE TAX – RS. 803 MILLION

In the midst of a volatile and competitive business environment, the Company recorded a satisfactory pre-tax profit of Rs. 803 million and a post-tax profit of Rs. 505 million, reaffirming our commitment towards continuous investor wealth creation. As a consequence of the rising interest rates and the repricing effect impacting our core margins enjoyed, overall profitability levels remained lower compared to last year with NPBT and NPAT declining by 12% and 20% respectively. Considering the recorded profitability levels and MI's profit retention needs, MI's Board declared a total dividend of Rs. 21 million to shareholders for the FY 2015/16, in comparison to Rs. 89 million distributed during the last financial period.

MI's total shareholders' funds too moved down marginally by 2% YoY, and remained at Rs. 7.65 billion, mainly on account of the sluggish performance of the stock market negatively impacting the fair value of MI's equity investments, resulting in a material drop in the available for sale reserves. MI's return on shareholders funds also remained lower at 6.60%, compared to 8.11% recorded during the last financial year, subdued on account of the posted moderate profitability levels.

TOTAL GROSS REVENUE ADVANCED TO RS. 4.5 BILLION

MI's total gross revenue stood at Rs. 4.5 billion, growing marginally by 5% YoY, while interest income from MI's lending business, remained the main source of revenue with a 93% contribution to total revenue. Gross revenue remained constricted because of the notable slow-down in generating core revenues with Net Interest Income (NII) staying at Rs. 2.2 billion, reflecting only a 1% rise from a year before. With interest rates on the rise, the enjoyed core business margins kept lowering due to the repricing effect. This somewhat negated the revenue growth achieved from the material expansion of the loan book.

In staying competitive and sustaining core lending revenues, we remained focused on increasing our business presence, opening up a number of new operational locations and simultaneously intensified marketing and promotional activity to capture market attention at key strategic hubs. In executing our plans we kept to our basics and ensured that we extended the required service standards from all our service points.

In contrast to lending income, MI's non-fund based income contribution towards total revenue, stood subdued. The persistent sluggishness of the stock market lowered any possibilities of making anticipated higher realised share trading gains which remained insignificant unlike few years before. Further, the unrealised fair value loss mainly arising due to the equity investments too remained high impacting the available-for-sale financial assets by Rs. 656 million, in contrast to a Rs. 781 million gain recorded last year.

STRENGTHENING CORE BUSINESS AND CUSTOMER RELATIONSHIPS

LENDING PORTFOLIO GROWTH STOOD IMPRESSIVE AT 29%, WHILST KEEPING ASSET QUALITY INTACT

Lending outstanding	2016 Rs. million	2015 Rs. million	Change (%)	Avg LTV Ratio for Motor Vehicles (%)
Hire purchase	6,826	7,399	(7.74)	61.66
Lease	9,926	5,410	83.48	63.85
Loans and receivable	8,302	6,660	24.65	57.43
Impairment charged				
Individual impairment	139	235	(40.85)	—
Collective impairment	96	60	60.00	—
Cumulative impairment	771	661	16.64	—
No. of repossessed vehicles	428	772	(44.56)	—

The aggressive stance taken to sustain core lending growth brought due results as MI's loans and advances portfolio surpassed Rs. 25 billion mark, reflecting a commendable 29% increase YoY.

In generating higher levels of core revenue, we focused on developing our non-traditional lending product range that included property mortgages, microfinance and personal loans than before. Moreover, in spite of the drawbacks witnessed for the free flow of the vehicle sales market, MI's traditional lease financing growth was phenomenal at 84% mainly boosted by the elimination of value added tax since 2015. To out-beat competition arising from both within and outside the sector, we managed to optimise our lending mix and extend a unique personalised service that saw us attract new customers to our doorstep.

As a key strategy on credit, we also instilled effective recovery measures under the leadership of Deputy Managing Director, which deserves a special mentioning. The timely recovery measures ensured that our NPL levels stayed well controlled at 3.39% compared to 4.19%, recorded during the last financial year. I would like to compliment the key role played by the Recovery Division staff, together with the Internal Valuation and Asset Disposal Unit and the Legal Division in making the overall recovery process smooth and a highly effective one.

MI's total assets too advanced by 20%, reaching Rs. 34 billion, almost similar to growth levels recorded last year, mainly boosted by the expanding lending book.

WIDENING OF MI'S DEPOSIT BASE WITH A GROWTH OF 15%

Deposits mobilisation was the other priority area of focus and as a result, a number of initiatives were implemented towards its development. I believe the efforts made in the last couple of years, in strengthening the deposit marketing arm and total operation and also the widening of MI's reach to new regional locations, helped us in attracting abundance of new customers along the way. The Company continued to offer attractive returns to our depositors, combining steady returns by extending a unique personalised service, which ensured MI surpass the Rs. 15 billion mark in total deposit base for the first time.

OPTIMAL COST MANAGEMENT

Despite interest rates being on the rise during the year, the Company remained proactive to potential interest rate risk, securing number of longer-term borrowing lines at optimal rates, to keep funding cost controlled. Managing of the rising overhead cost was the other key area of focus, where attention was paid on cutting down unnecessary expenditure and focusing on improving strategic business unit wise cost to income ratios.

ENHANCING VALUE OF HUMAN CAPITAL

TOTAL EMPLOYEE TRAINING HOURS 10,526

As an Organisation that values its people highly, we continued to nurture our human capital hoping to enhance their value over time. We made plans to develop their skills, broaden their knowledge base and importantly to raise overall productivity. We focused more on training and development than any other year. Accordingly, we afforded greater learning opportunities for staff which increased the annual total training hours substantially by 158% from a year before. In sustaining employee motivation, we continued to adopt the highly effective performance based rewarding system and recognised top performers, biannually. Remuneration packages of employees were revised, based on their performance levels at the commencement of the financial year, supported by other monetary and non-monetary benefits. Those who continued to excel in various divisions were promoted and others, groomed to take up additional responsibilities and a mix of tasks. I believe the approach undertaken will continue to enrich human capital value in more ways than one.

AUGMENTING SOCIETAL AND ENVIRONMENTAL VALUE

TOTAL NUMBER OF SOCIAL PROJECTS INITIATED 11

In keeping to MI's Visionary aspirations of doing good to society, not only from a commercial perspective but going that extra mile to help individuals better their lives, remained yet again a top priority for the Company. We made steady progress in initiating a number of worthy activities targeting the well-being of society and the environment. In keeping to our unique business model and integrated thinking process, we continued to pursue triple bottom line value creation and hence extending our efforts to philanthropy related causes. We not only emphasised on streamlining the micro nitty-gritties of our commercial operations but also looked at sustainable ways of doing things for the benefit of society and the environment, from a broader perspective.

In bringing forth greater value to society, through the Sustainability Governance Committee, we focused on improving economic conditions of the poor and lesser privileged by extended projects for the provision of shelter, sanitation, water, educational support and also to provide basic commodities to those really in need.

NUMBER OF ENVIRONMENTAL PROJECTS INITIATED - 03

We also made significant progress in terms of safeguarding the environment, its resources and habitats. While continuing to adopt 'green practices' to ensure sparing use of natural resources such as energy, water and specific consumable items, from a broader perspective, a number of worthy initiatives were carried out to protect the environment and its habitats.

In expanding our commitment towards sustainability reporting, we are pleased to adopt the 'In accordance comprehensive' option of the Global Reporting Initiatives (GRI) G4 version to better inform stakeholders of our economic, social and environmental efforts.

AN INTEGRATED THINKING PROCESS DEVELOPED THE CORPORATE PLAN BASED ON INTEGRATED THINKING

In our quest to generating triple bottom line value and fulfilling corporate goals and aspirations, the Board and the Corporate Management's thought process revolved around planning and managing business activities in an integrated manner. In keeping to our unique integrated business model, we followed a well thought out path in devising suitable strategy, covering key facets of our business and developed a comprehensive medium-term corporate plan, starting from this period. Through a formal planning process, we developed our future strategy and then went on to decide on the operational specifics and suitable monitoring mechanisms to review performance of key functions overtime.

As part of our integrated business process, we continued to adopt a performance driven culture which assisted us in gaining support of our staff, in moving towards our overall goals without sub optimisation. We obtained their commitment to strive towards ambitious departmental targets and then assigned challenging targets down to officer level. As another key element in this integrated process, Executive Directors and the Corporate Management were closely involved in reviewing Key Performance Indicators linked to each area of business, which helped identify performance gaps early and to implement ways of bridging the gaps.

ADVOCATING A SOUND GOVERNANCE SYSTEM

NUMBER OF NEW GOVERNANCE AND RISK INITIATIVES - 18

As a responsible corporate, MI Board continued to improve its existing corporate governance framework, practices and procedures. Governance prerogatives were used as an effective tool in improving overall business performance, moreover, as a measure of safeguarding corporate assets through prudent management of MI's business activities. Accordingly, the MI Board continued to direct affairs of the Company in an effective manner, overseeing, guiding and delegating tasks to members of the Corporate Management and their staff.

Services of an ICT consultant was also sought to boost MI's ICT capabilities and to guide the Company in developing a solid ICT framework and to propose necessary changes to existing systems to enhance its capabilities to meet future requirements of an evolving competitive industry.

While placing emphasis on establishing strong internal controls in areas that have grown in risk, constantly monitored by Heads of Divisions, we also strengthened our risk management process through the Risk Manager and the Integrated Risk Management Committee, as early warning mechanisms. I am also happy to observe the efforts of the Internal Audit Division in widening its review process and the Audit Committee's role in overseeing effectiveness of internal controls and the financial reporting process.

DISPLAYING EXCELLENCE IN FINANCIAL REPORTING

It was indeed a proud year for us in terms of corporate reporting with MI's Annual Report for the FY 2014/15 securing a number of prestigious awards presented by key recognised accounting bodies that included CA Sri Lanka, ACCA Institute, CMA Institute and SAFA Annual Report Awards. I must reiterate the commitment displayed by the Finance team in ensuring that the Company maintains world class standards in corporate financial reporting. I believe efforts in enhancing both our financial and non-financial disclosures have paved the way for our stakeholders to be more informed and the Company to remain transparent in its endeavours.

FUTURE OUTLOOK

The on going economic development taking place and the rejuvenation of underdeveloped parts of the country which include building of highways, proposed attractive ventures in the pipeline such as the Port City Project and the pick-up seen in tourism and the export sectors, is bound to motor the Sri Lankan economy forward. In this positive setting, the business community would have the opportunity to exploit improving business conditions through appropriate strategies to gear for the next few years. For the finance industry, the development of highway and connecting of key economic hubs via improved road infrastructure will improve the industry's reach. Moreover, stable economic policy coupled with improving resilience of the Finance Company sector would continue to improve public sentiments.

With the political climate stabilising and sentiments of the international community gradually improving, we can expect higher levels of foreign direct investment to flow towards fuelling local industries linked to tourism and other viable propositions, including the stock market. The challenge would be to manage key variables that impact growth prospects for the economy, particularly the already pressured exchange rate, other key variables such as interest rates, inflation etc. The monetary and fiscal policies adopted should be consistent and industry friendly, if it is to fuel local industries, boosting GDP and per capita levels. The need to nurture close relationships with neighbouring nations and building up ties with other key economies will certainly help revive exchange earnings for the country.

For the Finance Industry, possible upward movements in interest rates within the next two years, is bound impact core interest margins. Demand for credit, though will not be hampered, but for the LFC sector, generating traditional financing business will continue to be a challenging proposition. However credit growth is expected to slow down with the gradual contraction seen in market liquidity. Hence, to generate revenue growth, the financial services sector will have to look for new and innovative ways of doing business. To improve core business margins, the sector will need to identify cheaper funding options and low cost methods of doing business by revisiting existing operational processes. It is imperative that the

employee productivity will be the decisive factor apart from use of ICT innovation to drive business growth. To counter the setbacks associated with the motor vehicle trade, we can expect the Industry to promote higher levels of term based funding, taking advantage of the industry's agility and flexible approach to business.

MI'S APPROACH TO THE FUTURE

Based on the medium-term corporate plan, Management has set forth an optimistic growth trajectory, expecting steady rise in core revenues, profit levels and capital formation, taking into account future expectations of our investors.

We are hopeful that the emerging opportunities resulting from ongoing economic development will continue to create adequate demand for our types of financial services. Based on the solid platform built over the last decade, the planned future strategy would revolve around consolidating MI's business activities in newly set up regions. We have devised effective strategies to confidently guide us past our challenging goals and targets set for the next few years.

We hope to develop our core business capabilities and pursue revenue growth, keeping a close tab on customer preferences, changes in interest rates, exchange rates and changes in finance industry and at national level. In generating triple bottom line value for our stakeholders, we will focus on factors deemed key in future, vital to sustain anticipated performance levels.

In the immediate future, our business focus will mainly revolve around following:

- **Targeting Business Growth in a Sustainable Manner**

As an institution built on solid fundamentals and financial backbone, our actions will revolve around identifying long-term sustainable growth, thus safeguarding the trust and financial stability of the organisation in the process. We hope to exercise a certain degree of caution, predicting business cycles before entering into new propositions. We will invest our resources in lucrative products and locations and will stay innovative to build market share.

We will look for new ways of cutting down on cost and in this context, we hope to widen horizons in terms of technology, especially the use of ICT to improve service levels and decision-making. We hope to introduce other convenient modes of payment and also hope to ease further operational functions across the branch network using technology, as means of shortening lead times on payments and document processing.

- **Creating Greater Product Value**

As customer preferences are bound to shift rapidly, we hope to stay well receptive to those changes and to constantly identify innovative ways of enriching our existing product range. We will focus on customer satisfaction by striving to maximise total product value.

- **Raising Employee Productivity**

We expect to nurture staff to cope with the dynamic and complex finance business environment, to ensure an efficient service is extended at all times. A thorough training calendar will be put forward in coordination with HR Division, utilising MI's training facilities at the Cotta Road premises and pursuing other training options. While grooming employees to face future challenges, we hope to keep their morale and motivation high. We will emphasise on the current performance based system as a basis to reward and motivate the workforce. In improving our HR management activities, we hope to invest in broad basing capabilities of the Human Resources Information System (HRIS), in the next financial year.

- **Effective Management of Risks**

As the finance sector evolves, we can expect changes in risk profiles requiring us to be fully geared to tracking potential risks and to come up with proactive measures early. The Board and myself as a result stand committed in exercising a strong risk management system, which will help detect future risk and disseminate information back to Supervisory Committees and the Board for timely action.

WORDS OF APPRECIATION

I would like to take this opportunity to thank all those who were part of MI's sound performance this year. Let me warmly extend my gratitude to the Chairman and fellow Directors for their guidance and the invaluable contribution given to the Board, myself and all staff. My sincere appreciation also goes out to all employees who remained dedicated in fulfilling what is expected from them and staying committed in fulfilling goals of the organisation, in this dynamic business environment.

I wish to also thank the new Governor of the Central Bank and his able staff for their continued support during this period and for the cooperation extended to us. Let me also specially thank our valued customers, for choosing MI to be your trusted business partner and more importantly for displaying loyalty towards the Company.

On conclusion, I extend my sincere appreciation to our shareholders for keeping the faith in myself and the Board. As a Company that has surpassed fifty years of trusted business excellence, the Board and myself stand committed in our quest to generating constant returns to our investors and other stakeholder value. The Annual Report theme selected this year rightly highlights our thirst for 'financing life' to all that we are part of, an aspiration that we will continue to pursue for the next fifty years as well and beyond.



Gerard G. Ondaatjie
Managing Director

13 June 2016



'Pristine track record'

Our enterprise has run its course over more than 50 years...it's been strong and rock solid...founded on empathy, great ethics and emancipated strategy...it's a track record to be proud of!

Management Discussion and Analysis

Here are the strategies and initiatives that went into growing our 'Tree of Life'...and in its nourishment and growth, we gave fruits to our investors and shelter, sustenance and protection to the lives of our stakeholder community.

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CFO's Statement on Performance



“We take each year’s financial progress as a constant improving journey...which has empowered us to generate constant integrated stakeholder value”

As a financially solid organisation, it is our governance strategy that we drive our business forward, guided by our past and present financial performance and ultimately future financial expectations, by working towards specific financial goals and targets. It is our propagative that we continue to integrate our plans and operational activities specially to maximise our investor wealth, which is reflective from the sound numbers we generate each year. We take each year's financial progress as a constant improving journey...which has empowered us to generate constant integrated stakeholder value.

As the Finance Director/CFO, I am pleased with the concluded period's financial performance, considering it was a somewhat volatile and challenging phase for the industry with a number of regulatory changes impacting business. The strong leadership displayed by the Board, and the efforts of the Corporate Management in aggressively pursuing optimistic financial targets over the years, ensured MI registered robust profitability levels, with this year being no exception. This has paved the way for MI to sustain a strong capital base and a sound financial standing.

As an organisation renowned for winning awards for producing exceptional annual reports, I am proud to reiterate our

commitment towards better corporate reporting and transparency. I believe the initiative taken this year to adopt the Global Reporting Initiatives (GRI's) G4 'In accordance comprehensive' reporting framework, will certainly benefit our stakeholders in better understanding the Company's integrated process and initiatives undertaken in creating triple bottom line sustainable value. It is in this backdrop that I am pleased to mention the number of awards secured at Annual Report Competitions this period, adding on to our glorious past. Securing three awards including two all island awards at the CA Sri Lanka Annual Report Awards and also winning awards at the CMA Integrated Reporting Awards and winning joint second place at the ACCA Sustainability Reporting Awards, under the financial services and Insurance Category, affirms our commitment towards excellence in financial reporting and transparency.

While the financial numbers look enterprising, we are hopeful of sustaining our financial milestones in the future, guided by the medium-term corporate plan that is in effect till 2017/18. While the industry dynamics look quite challenging, I believe there remains enough opportunity in the market for the industry to sustain anticipated turnovers, profitability levels and return on shareholders' funds. We can expect the present steady political climate and Government policy to boost the finance industry to another level, in the next few years. Based on the broad plans we have set forth, I am optimistic of churning superior financial value to our investor expectations, in the years to come!

Shermal Jayasuriya
Finance Director/CFO

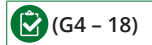
13 June 2016

Reporting Approach

Combined Integrated and Sustainability Reporting Framework

In deciding on the report content to be provided in the Integrated Annual Report, a combined approach was taken, drawing reference to both the GRI's G4 framework reporting principles and the IIRC's integrated reporting framework's reporting requirements. MI believes that by adopting these international frameworks has made the Company's reporting more concise, catering to information requirements of stakeholders. This is because the Company adheres to a clear cut process of content selection, starting from stakeholder engagement to deciding report content and then materiality testing and final topic selection.

DECIDING REPORT CONTENT



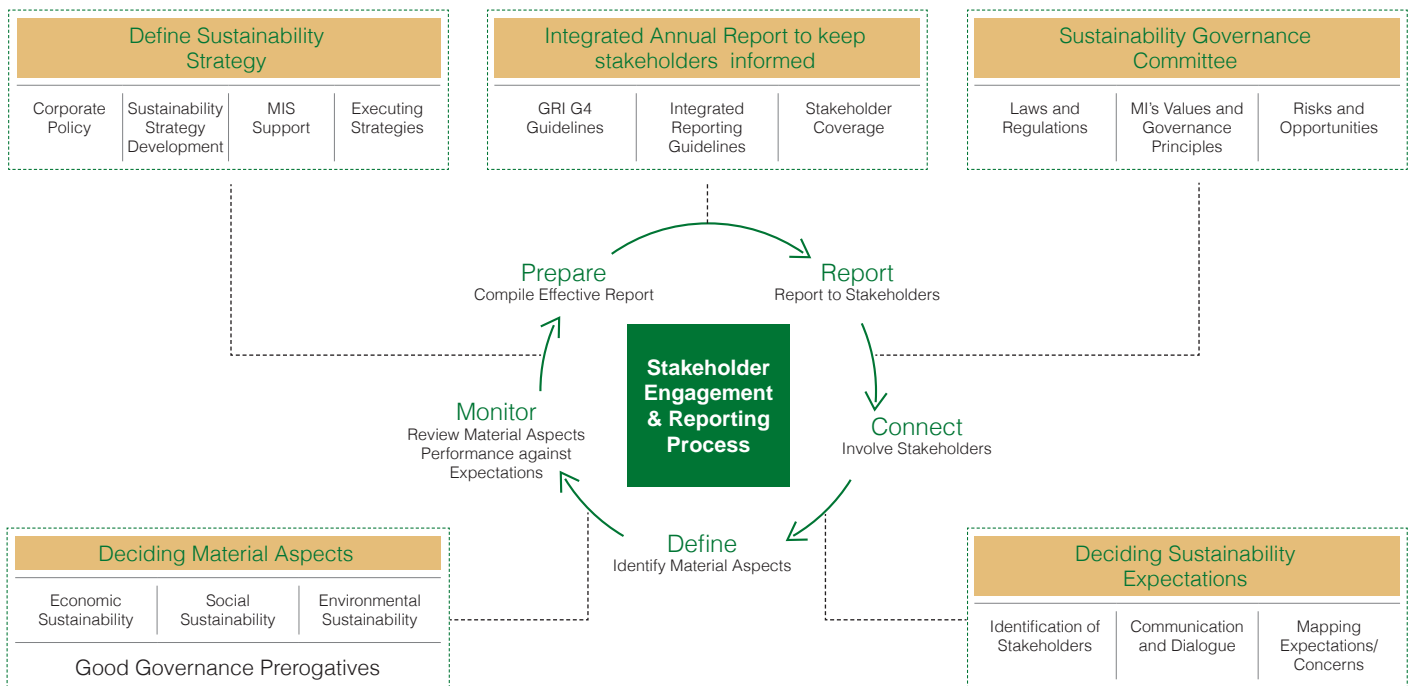
By combining reporting requirements specified by the IIRC's integrated reporting framework and GRI's G4 key reporting principles and guidelines, MI ensured that the Company's Report in all respects, is relevant, concise and gives a balanced position of all material aspects. The process of deciding report content explained below, helped the Company to capture key topics associated with MI's performance, from various facets of MI's business including the essence of the Company's process of sustainable value creation.

matters at hand and then planned the compilation of a report covering material matters. As the final step, the Company undertook to report such key matters to MI's stakeholders.


In deciding the report content, the process initially required that MI identify who the Company's key stakeholders are. This the Company did by carefully analysing its business and laying down underlying expectations of each stakeholder and also making due reference to broader obligations on sustainability. Thereafter, as the next step, the Company listed down matters that are deemed significant to each key stakeholder, from the point of view of the Company as well as from the stakeholders' perspective towards the Company. In finally, deciding on key topics to report, the Company followed the materiality principles specified by both GRI G4 and its guidelines as well as the International Integrated Reporting Framework. This involved analysing these important aspects relating to the organisation and its stakeholders and deciding on the level of impact the respective aspect would have on either the organisation or/and its stakeholders and then prioritising material aspects for the purpose of reporting. Aspects of a lesser importance in this process were filtered out and not reported to ensure conciseness, thus maintaining high standards in MI's reporting.

APPROACH ADOPTED IN DECIDING REPORT CONTENT

The five step approach adopted in identifying suitable content for reporting, illustrated in the diagram, was in keeping with GRI's sustainability reporting requirements and the IIRC's integrated reporting requirements. The process firstly commenced with the stakeholder inclusiveness stage, where MI consulted, interacted and obtained feedback from various stakeholders their key expectations as an ongoing exercise. Thereafter, the Company adopted a process for deciding of material matters to report and as the next step, established a monitoring process to review those



Stakeholder Engagement

 (G4 - 24-27)

The following parties were considered key stakeholders of MI who can impact the Company or can be impacted directly or indirectly by MI's business and its engagement with them or would be deemed as parties who would be interested to know of MI's progress from an economic, social and environmental perspective:

Stakeholder	Importance of stakeholder	Influence by stakeholder on MI	MI's influence on stakeholder
 Investors	MI's shareholders remain its main category of stakeholders. As investors of capital, they require a gamut of financial and non-financial information on MI's performance to gauge progress made in terms of creating shareholder wealth and to make other assessments of the Company.	High	High
 Customers	Customers who transact with MI regularly remain the bread and butter of MI's business and a key stakeholder. Accordingly, their expectations are critical for the Company, if MI is to sustain its finance business.	High	High
 Employees	The total workforce of the Company makes an immense contribution towards MI's success and as a result employees are considered an invaluable asset for the Company. At the same time, employees themselves expect to prosper with the Company by striving for various monetary and non-monetary expectations that include development of their careers.	High	High
 Suppliers	With the expansion of MI's overall operation, suppliers of stationery and other consumables have become increasingly important. Key suppliers expect to maintain a sound relationship with MI so that they can secure bulk orders and in turn, offer optimal prices.	Medium	Medium
 Lenders	MI's banking partners are an important component of MI's business as they support MI in meeting varying funding needs. They expect to maintain a sound relationship, which is mutually benefiting both parties and one that is ongoing and long-term.	High	Medium
 Regulators	Being in a highly regulated industry and a listed public company, MI is subject to various regulatory bodies' reviews. Regulators make assessment of MI's stability, compliance to regulations to establish levels of safety, soundness and compliance to prevailing laws and regulations.	High	Medium
 Society	As an organisation that serves the society through various financial solutions and in terms of a broader sustainability perspective, the society's expectations of the Company are wide ranging. Apart from financial needs, people of varying communities expect corporates to act in a socially responsible manner and extend support for societies well-being.	Medium	Medium
 Environmental Groups	With MI's expanding operational presence across the country, the Company like any other corporate, is expected to protect the environment and to ensure that its business operations do not hamper resources or surroundings.	Medium	Low



Considering the importance of having stakeholder engagement throughout the business journey, MI ensured that there was continuous dialogue and interaction with its key stakeholders. The engagement and interaction process with key stakeholders was handled broadly in two ways. Firstly, MI maintained communication with its customers, employees, lenders and other key stakeholders as part of its routine day-to-day work operation. Simultaneously, MI sustained deeper stakeholder interaction by resorting to more effective interactive sessions such as meetings and other direct engagements, particularly with its investors


by holding AGMs, EGMs and other special one-to-one meetings held with customers, lenders, employees etc. Further, in fulfilling goals of the Sustainability Governance Committee, direct feedback was obtained from people in various communities, on their wants and expectations before commencing project work.




These engagements proved essential for the Company in maintaining constructive dialogue with key stakeholders and gave the opportunity for stakeholders to come up with their recommendations, concerns as well as thoughts on improvements and



innovative ideas. This eventually supported the individuals or parties in meeting their own personal needs as well as assisting MI in broadbasing business and widening the benefits extended to society.

For purpose of reporting, the engagement process helped the Company in deciding what matters require attention and needs reporting on a continuous basis. For each stakeholder, key topics arising from the engagement process, their expectations and mechanisms adopted by MI to respond to topics/concerns can be outlined as follows;

Stakeholder	Engagement methods	Frequency of engagement	Key topics related to stakeholder identified during engagement	Expectations of stakeholder	Mechanisms adopted by MI to respond to topics/concerns
Investors/ Shareholders 	<ul style="list-style-type: none"> Shareholder meetings/AGM Annual Report/ Feedback form Announcements to CSE Extraordinary General Meetings One-to-one meetings MI website information updates Press releases and articles in magazines 	<ul style="list-style-type: none"> Annual Annual Ad hoc, as necessary (Interim accounts – quarterly) Ad hoc, as and when necessary As necessary On a regular basis Ad hoc, as necessary 	<ul style="list-style-type: none"> MI's financial, operational progress and Capital Management strategy in delivering anticipated financial results Plans, future prospects, and outcomes envisaged in relation to core business growth Operational improvements Governance and Risk Management mechanisms being adopted 	<ul style="list-style-type: none"> To enjoy shareholder returns for invested capital above the market rate of return To enjoy constant returns based on sustainable business growth 	<ul style="list-style-type: none"> There is a close dialogue with most of MI's shareholders over the year. MI ensures that the AGM is held in June – July each year and there is constructive dialogue between management and shareholders. Material investor concerns and recommendations are then and there followed-up through a formal mechanism For the benefit of MI investors and other stakeholders, the Company presents annually a comprehensive Annual Report. The Report is backed by necessary disclosures to articulate MI's performance and progress for the period
Customers 	<ul style="list-style-type: none"> Direct customer feedback to MI's service points Marketing visits/ Field visits 	<ul style="list-style-type: none"> On a regular basis Credit customers – mostly once prior to transacting Deposit customers – on an ad hoc basis and selective 	<ul style="list-style-type: none"> MI's product range, other value added services offered and their pricing To assess MI's financial solidity and continued soundness, related information to flow from MI, on a regular basis 	<ul style="list-style-type: none"> The customer's expect to fulfil their financial needs by either obtaining credit or making investments at the best possible pricing Ensuring safety of one's investment at all times 	<ul style="list-style-type: none"> Product diversification is part of MI's growth strategy and is pursued as means of fulfilling most of the Company's customer needs. Both lending and deposit businesses are highly geared in catering to varying customer preferences and request Through continuous marketing and promotional campaigns organised island-wide and also targeting specific regions, customer awareness of MI's offerings is constantly maintained

Stakeholder	Engagement methods	Frequency of engagement	Key topics related to stakeholder identified during engagement	Expectations of stakeholder	Mechanisms adopted by MI to respond to topics/concerns
	<ul style="list-style-type: none"> One-to-one meetings Customer suggestions via suggestion boxes and follow-up Telephone discussions/ e-mails Media campaigns MI corporate website 	<ul style="list-style-type: none"> As necessary Ad hoc On a regular basis On a regular basis On a regular basis 	<ul style="list-style-type: none"> Continuous focus on improving standards of service and customer convenience Resolving customer needs and grievances 	<ul style="list-style-type: none"> Maintaining confidentiality of information placed Carrying out transactions in a convenient and time saving manner 	<ul style="list-style-type: none"> There is constant grooming of MI's workforce to deliver a quality service and for employees to be trained and equipped to handle complex situations with ease MI continues to invest in technology to uplift its ICT capabilities to remain competitive in the market. This is done without compromising on data security. There is continuous audit of ICT systems to ensure required ICT standards are met Formal mechanisms are in place to address customer issues and to follow-up on matters deemed necessary to improve customer service levels
Employees 	<ul style="list-style-type: none"> Departmental review meetings The 'open door policy' for employees to freely interact one-to-one with MD, other Directors and senior officers Management meetings Performance appraisal and individual review meetings Internal Newsletter communiqués Corporate communiqués through circulars, memos and e-mails Company's social events including get-togethers, sports day and celebrations and religious events 	<ul style="list-style-type: none"> Monthly On a regular basis Weekly Biannual Annual Regular MI Get-together – Annual Other events – ad hoc 	<ul style="list-style-type: none"> Equal learning and opportunity for career advancement Professionalism and employee diligence expected in executing duties Rules and regulations governing activities of the workers Recognising employee suggestions, ideas, and creative thinking Performance evaluating and rewarding, staff welfare and other non-monitory benefits Grievance handling and motivation management 	<ul style="list-style-type: none"> Rewarding system to commensurate with employee efforts Ensuring that there is a clear communication of an individual's expected performance goals, job roles and other requirements of the employer Having a progressive learning and development culture that will foster career advancement over time Ability to express ideas, concerns and grievances freely 	<ul style="list-style-type: none"> Employee awareness of what is expected of them and changes in duties, targets and regulations etc. are informed to them primarily through the formal job description, circulars and by supervisory training MI upholds a strict performance based culture across all job functions. Employees are evaluated by their superiors based on a formal evaluation process and high performers rewarded biannually and informed to all by circular MI adopts a unique learning culture and affords opportunity for staff to come out with ideas and suggestions to improve processes. To encourage this, MI recognises those that contributed in enhancing operations and financial performance through rewarding, career advancement and letters of commendation

Stakeholder	Engagement methods	Frequency of engagement	Key topics related to stakeholder identified during engagement	Expectations of stakeholder	Mechanisms adopted by MI to respond to topics/concerns
Lenders/Suppliers  	<ul style="list-style-type: none"> One-to-one meetings Routine telephone discussions Periodic visits undertaken by either party Review of performance and status according to agreements entered into 	<ul style="list-style-type: none"> As necessary On a regular basis As necessary, usually once a year with key parties As necessary 	<ul style="list-style-type: none"> Deciding of price, quality and other internal requirements with suppliers Identifying ways of building lasting business relationship with all key strategic business partners Analysing actual performance and meeting of contractual targets against expected Review of alternate solutions and choices as means of satisfying existing organisational requirements 	<ul style="list-style-type: none"> Agreeing on a suitable price and other aspects of supply in keeping to supply expectation Maintaining a mutually beneficial business relationship that will see business prospects improve Ensuring compliance to contractual requirements including level of quality 	<ul style="list-style-type: none"> MI maintains a continuous relationship and dialogue with the Company's main banking partners to identify possible sources of optimal funding and to grow prevailing relationships to new heights Separately, MI deals with its suppliers based on an approved supplier list, to ensure quality and price requirements are handled appropriately, whilst continuing to build lasting relationships with the reputed parties
Regulators 	<ul style="list-style-type: none"> On-site reviews by CBSL Off-site reviews by CBSL and other regulatory bodies Other discussions with the Board and Senior Management Issue of regulations and requirements by regulators Submission of returns and status reports Training programmes/workshops with regulatory bodies Submission of special reports 	<ul style="list-style-type: none"> Annual On a regular basis As necessary As necessary Based on periodic deadlines – weekly to annual As necessary As necessary 	<ul style="list-style-type: none"> Precise and prompt implementation of regulations issued by CBSL and other regulatory bodies Concerns and recommendations related to reviews carried out and areas needing special attention Obtaining training, clarifications and guidance on new regulations 	<ul style="list-style-type: none"> Ensuring there is prudent governance of all activities of the Company and assessing extent of compliance to stated regulations Seeking regulator approval and guidance on matters specified and as deemed necessary 	<ul style="list-style-type: none"> MI is committed in ensuring that there is prudent conduct of affairs of the Company. MI upholds a strong compliance culture within the organisation and maintains a close dialogue with regulators to ensure required rules and regulations are followed to expectations

Stakeholder	Engagement methods	Frequency of engagement	Key topics related to stakeholder identified during engagement	Expectations of stakeholder	Mechanisms adopted by MI to respond to topics/concerns
Society/ Environmental Groups  	<ul style="list-style-type: none"> Interacting with segments of society by direct correspondence and meetings Conducting island-wide surveys Communicating with society through press releases and other reporting Using the widening branch network to interact with local community Public events and sponsorships MI's corporate website 	<ul style="list-style-type: none"> To commence and implement a project Annually As necessary other than annual reporting As necessary As necessary On a regular basis 	<ul style="list-style-type: none"> Identifying societal needs, financial and otherwise, which the organisation can satisfy Resolving wider social and environmental issues Awareness building on MI's services among local communities Creating fresh job opportunities within local community Fulfilling microfinancing requirements to improve livelihoods of rural community Countering financial crime and maintaining responsible financing 	<ul style="list-style-type: none"> Obtain funding at optimal rates to meet people's personal needs and entrepreneurial needs and expecting safety of investments placed with MI Expecting solutions for other community needs such as financial assistance to suffice health needs, education, poverty alleviation and sanitation Safeguarding environment and its habitats from depletion Curb crimes carried out through financial transactions Creating job opportunities for people living in various parts of the country 	<ul style="list-style-type: none"> MI's strategy of widening its business presence beyond the Western Province, to cater to larger segments of society, equipped with a wider choice of financial products and services, has paved the way for communities to benefit from MI's efforts In terms of corporate social activity, MI's Sustainability Governance Committee was able to make significant headway in initiating socially responsible projects for the benefit of society and the environment, on an ongoing basis Mercantile Investment's remain a well reputed stable and rock solid finance company among the players in the sector. Adoption of sound policies to curb financial crime and other strong governance initiatives safeguard stakeholder interest

‘Well-articulated strategy...effective implementation’

Where do we want to go? How do we get there? What are the inputs and considerations we need to take on board, along the way? The journey of our enterprise through the years and into the future has asked these questions and in answering them, we have evolved a...well-articulated strategy...and its effective implementation

Identified Material Aspects for Reporting and Aspect Boundary

(G4 - 17-21)

By maintaining stakeholder engagement, MI was in a position to make an effective assessment of various stakeholder expectations. Accordingly, MI decided on what the most relevant and material topics were based on its importance to the Company as well as to the stakeholder and also in terms of sustainability. This was the basis on which MI selected the topics and aspects to report in this year's Annual Report.

For each aspect identified, MI assessed the applicable aspect "boundary", whether it is impacting the Company internally or externally the stakeholders, to make

a proper assessment of the matters to consider, depending on probable resulting impacts. In this topic's selection process, MI decided on an aspect's materiality, taking into account, the number of key considerations that included the following:

- Estimable sustainability impacts associated with the aspect.
- Risk elements associated with the aspect.
- Is the aspect connected to various laws and regulations?
- Does this resemble an opportunity for success to Mercantile Investments?
- Future impacts and challenges associated with the aspect.

MI decided on the extent of impacts, taking above considerations into account for each of the GRI G4 aspects, which fell under the following perspective. MI then decided on the overall materiality impact level of each aspect, assessing them as either high, medium or low in relation to:

- Impact of aspect to Mercantile Investments
- Impact of aspect to stakeholder
- Impact of aspect in the context of sustainability

This assessment enabled MI to decide on which aspects were deemed material and had to be given priority for reporting, as depicted in the table:

G4 ASPECT VS MATERIALITY TABLE

G4 Aspect	Materiality level of aspect (High/Medium/Low)			Aspect boundary						Reporting status	
				Internal			External			Reported	Not reported
	Impact on Mercantile Investments	Impact to MI's stakeholders	Impacts in terms of MI's sustainability context	MI head office and branches	Customers	Suppliers	Lenders	Society/ environment	Regulators		
Economic											
1. Economic performance	High	High	High	✓	✓		✓			✓	
2. Market presence	High	High	High	✓				✓		✓	
3. Indirect economic impact	Medium	High	High					✓		✓	
4. Procurement practices (Including borrowing of funds)	Low	Medium	Medium			✓	✓			✓	
Environment											
5. Materials	Low	Medium	Medium			✓		✓		✓	
6. Energy	Medium	Low	Medium					✓		✓	
7. Water	Medium	Low	Medium					✓		✓	
8. Biodiversity	Low	Medium	Medium					✓		✓	
9. Emissions	Low	Medium	Medium					✓		✓	
10. Effluents and waste	Low	Medium	Medium					✓		✓	
11. Products and services	Low	Medium	Medium					✓		✓	
12. Compliance	Low	Medium	Medium					✓		✓	
13. Transport	Medium	Medium	Medium					✓		✓	
14. Overall	Medium	Medium	Medium					✓		✓	
15. Supplier environment assessment	Low	Medium	Medium			✓		✓		✓	
16. Environment grievance mechanisms	Medium	Low	Medium					✓		✓	

G4 Aspect	Materiality level of aspect (High/Medium/Low)			Aspect boundary					Reporting status	
				Internal		External			Reported	Not reported
	Impact on Mercantile Investments	Impact to MI's stakeholders	Impacts in terms of MI's sustainability context	MI head office and branches	Customers	Suppliers	Lenders	Society/ environment		
Social: Labour Practices and Decent Work										
17. Employment	High	High	High	✓						✓
18. Labour/management relations	High	High	High	✓						✓
19. Occupational health and safety	High	High	High	✓						✓
20. Training and education	High	High	High	✓						✓
21. Diversity and equal opportunity	High	High	High	✓						✓
22. Equal remuneration for women and men	High	High	High	✓						✓
23. Supplier assessment for labour practices	Low	Low	Low			✓				✓
24. Labour practices grievance mechanisms	High	High	High	✓						✓
Social: Human Rights										
25. Investment	Medium	Medium	Medium	✓						✓
26. Non-discrimination	High	High	High	✓						✓
27. Freedom of association and collective bargaining	Low	Low	Low	✓						✓
28. Child labour	High	High	High	✓						✓
29. Forced or compulsory labour	High	High	High	✓						✓
30. Security practices	High	High	Medium	✓						✓
31. Indigenous rights	Low	Low	Low					✓		✓
32. Assessment	High	High	High	✓	✓	✓				✓
33. Supplier human rights assessment	Low	Low	Low			✓				✓
34. Human rights grievance mechanisms	High	High	High	✓	✓	✓				✓
Social: Society										
35. Local communities	High	High	High					✓		✓
36. Anti-corruption	High	High	High					✓		✓
37. Public policy	Low	Low	Low	✓						✓
38. Anti-competitive behaviour	Low	Low	Low					✓		✓
39. Compliance	Medium	High	Medium						✓	✓
40. Supplier assessment for impacts on society	Low	Low	Low			✓				✓
41. Grievance mechanisms for impacts on society	Low	High	Medium					✓		✓
Social: Product Responsibility										
42. Customer health and safety	High	High	Medium		✓		✓			✓
43. Product and service labelling	High	High	High		✓		✓			✓
44. Marketing communication	High	High	High		✓		✓			✓
45. Customer privacy	High	High	High		✓		✓			✓
46. Compliance	High	High	High		✓		✓		✓	✓

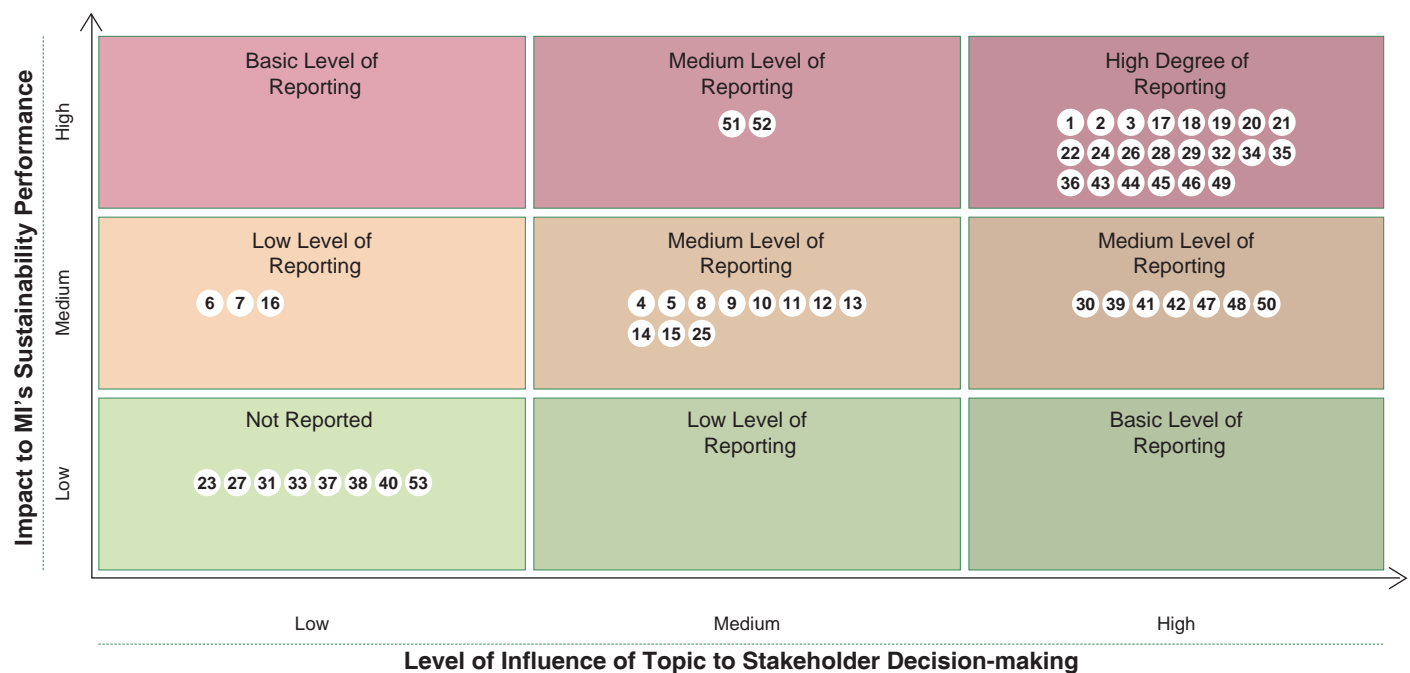
G4 Aspect	Materiality level of aspect (High/Medium/Low)			Aspect boundary						Reporting status	
				Internal			External				
	Impact on Mercantile Investments	Impact to MI's stakeholders	Impacts in terms of MI's sustainability context	MI head office and branches	Customers	Suppliers	Lenders	Society/ environment	Regulators	Reported	Not reported
Sector Specific Disclosure – Society:											
47. Access points to disadvantaged	Medium	High	Medium		✓					✓	
48. Financial services to disadvantaged	Medium	High	Medium		✓					✓	
Sector Specific Disclosure – Product Responsibility:											
49. Portfolio of business lines (FS6)	High	High	High		✓					✓	
50. Products and services with social benefit (FS7)	Medium	High	Medium		✓					✓	
51. Products and services with Environmental benefit (FS8)	Medium	Medium	High					✓		✓	
52. Audit coverage to assess implementation of environmental and social policies and procedures (stand-alone)	Medium	Medium	High					✓		✓	
53. Active ownership (FS10 and FS11)	Low	Low	Low					✓		✓	

ASPECTS NOT REPORTED WITH REASONS FOR EXCLUSION

G4 Aspect/Sector specific aspect or indicator	Materiality level of aspect (High/Medium/Low)			Reasons for exclusion from reporting
	Impact on Mercantile Investments	Impact to MI's stakeholders	Impacts in terms of MI's sustainability context	
Social: Labour Practices and Decent Work				
23. Supplier assessment for labour practices	Low	Low	Low	Our finance business does not involve supplier participation except for the supplying of inventory vehicles, stationery and consumables deemed immaterial when compared against the main operation of the Company.
Social: Human Rights				
27. Freedom of association and collective bargaining	Low	Low	Low	No trade union exist within the Company and there is harmonious relationship between management and employees with clear open door policy.
31. Indigenous rights	Low	Low	Low	Being a service organisation, there is minimal interaction of our operations with environment and habitats.
33. Supplier human rights assessment	Low	Low	Low	Our finance business does not involve supplier participation except for the supplying of inventory vehicles, stationery and consumables deemed immaterial when compared against the main operation of the Company.

G4 Aspect/Sector specific aspect or indicator	Materiality level of aspect (High/Medium/Low)			Reasons for exclusion from reporting
	Impact on Mercantile Investments	Impact to MI's stakeholders	Impacts in terms of MI's sustainability context	
Social: Society				
37. Public policy	Low	Low	Low	As a quoted independent organisation with no interaction with public bodies other than normal course of transactions, public policy considerations are not deemed as material aspects for reporting.
38. Anti-competitive behaviour	Low	Low	Low	As an organisation that does not resort to any anti-competitive behaviour, considerations under this aspect are deemed immaterial to report.
40. Supplier assessment for impacts on society	Low	Low	Low	Our finance business does not involve supplier participation except for the supplying of inventory vehicles, stationery and consumables deemed immaterial when compared against the main operation of the Company.
Social: Product Responsibility				
53. Active ownership (FS10 and FS11)	Low	Low	Low	The Company assessed that there is no significant direct impact to society or environmental harm arising from our business as we only deal in financial transactions.

MATERIALITY GAUGE MATRIX



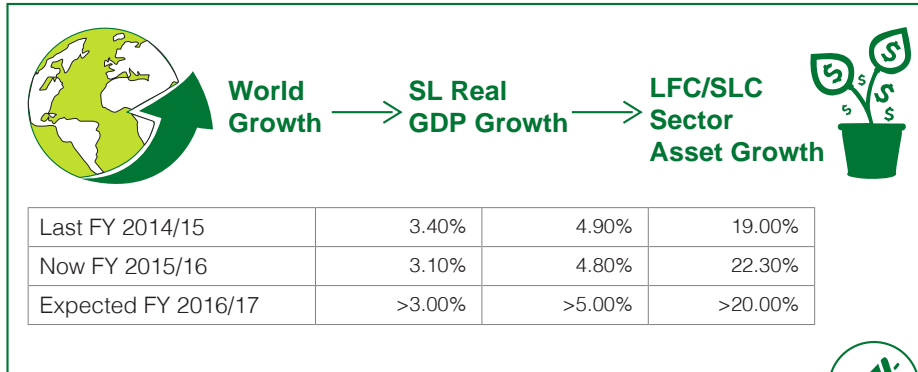
Finally, to decide on the extent of reporting to be carried out, the identified material aspects were mapped to a 'Materiality gauge matrix' as shown. MI ensured that there was detailed reporting for aspects identified as high impact, in terms of level of influence of aspect to stakeholder decisions and impact to MI's sustainability performance. As the extent of impact reduced for both such considerations, MI accordingly lowered the reporting extent. This approach ensured that the overall report is precise and provides purely the required disclosures in relation to a material aspect.

In keeping to the G4 comprehensive reporting framework, MI has ensured that all required indicators related to the identified material aspect is reported, together with required specific standard disclosure for the finance sector, if considered as material. Further, MI ensured that when reporting the Company followed key principles on report quality, thus adhering to requirements on presenting a balance, accurate and reliable report and also maintaining comparability, clarity and timeliness in reporting.

Business Environment Analysis

World/Sri Lankan Economic Overview

JOURNEY IN BUSINESS ENVIRONMENT



Market concerns about the future performance of China's economy, has started to have spillovers to other economies through trade channels and weaker commodity prices, diminishing confidence and increasing financial market volatility. The dramatic decline in imports in a number of emerging markets and developing economies in economics distress also impacted global trade. The ongoing power struggles especially in Ukraine and the tensions in the Middle East too had its negative impacts to global trade.

WORLD ECONOMY AND ITS IMPACTS ON MI

Based on the International Monetary Fund (IMF) World Economic Outlook (WEO) update 2016, there was a 0.3% decline in year-over-year growth of world output which fell to 3.1% in 2015. This was mainly attributed to the subdued demand witnessed across economies and also due to diminishing prospects. However, IMF forecasts a gradual pickup in world economic growth trajectory during the next two years 2016 and 2017 as shown below.

WORLD ECONOMIC GROWTH TRAJECTORY (PERCENTAGE CHANGE)

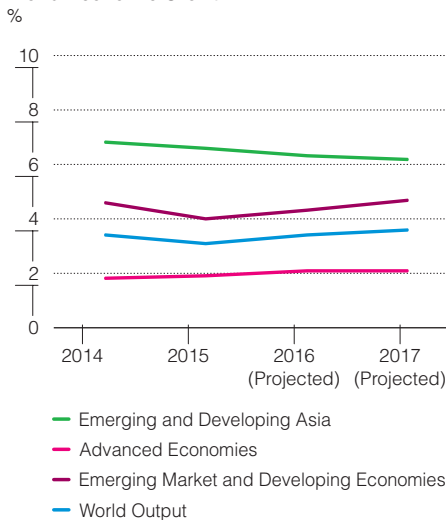
	Year-over-year 2014 estimates (%)	Year-over-year 2015 estimates (%)	Year-over-year 2016 projections (%)	Year-over-year 2017 projections (%)
World output	3.40	3.10	3.40	3.60
Advanced economies	1.80	1.90	2.10	2.10
Emerging market and developing economies	4.60	4.00	4.30	4.70
Emerging and developing Asia	6.80	6.60	6.30	6.20

For Sri Lanka, such global concerns somewhat negatively impacted its tourism industry and also the much needed progress in the inflow of foreign direct investments. Global changes too had its effects on the Sri Lankan Rupee, which continued to depreciate against the US Dollar and also hindered foreign investor participation in the stock market. The material fall in world oil prices had no major bearing on Sri Lankan oil linked commodities or inflation as petrol and diesel prices did not move down in a similar manner.

WORLD ECONOMIC IMPACT ON MI

Despite global vehicle prices moving moderately, Sri Lankan vehicle import prices remained very much on the high side on account of the high duty structure and valuation methods adopted domestically. Like others in the industry, this was a concern for MI as demand for new vehicle import financing too remained on the lower side, unlike earlier. The devaluation of currency too had its impacts on local interest rates, which continued to move upward. In a rising interest rate scenario, it was therefore challenging for the Company to manage MI's cost of funding and yields on core business to enjoy steady margins. Similarly, declined foreign investor participation in the stock market had a negative impact on MI's total fair value of investments in stock market equity. However, the improving global sentiments in Sri Lanka and the Government's policy and initiatives in boosting domestic and international trade continued to fuel the LFC sector. Demand for MI products remained at healthy levels during the period under review with both individuals and corporates alike wanting to own motor vehicles for both personal use and for commercial purposes.

World Economic Growth



Global economic activity remained subdued in 2015, owing to number of factors. Growth in emerging markets and developing economies declined for the fifth consecutive year, while modest recovery continued in advanced economies. Three key transitions continue to influence the global outlook: (1) the gradual slowdown and rebalancing of economic activity in China away from investment and manufacturing towards consumption and services, (2) lower prices for energy and other commodities, and (3) a gradual tightening in monetary policy in the USA in the context of a resilient US recovery as several other major advanced economy Central Banks continue to ease monetary policy.

Source: IMF's World Economic Outlook update January 2016

SRI LANKAN ECONOMY AND ITS IMPACT ON MI

The Sri Lankan real economic growth in 2015 stood at 4.8% compared to 4.9% registered in 2014. The country's growth of the export sector was negatively impacted due to the witnessed slowdown in the growth in demand for traditional export markets. Further the strengthening US economy prompted short-term capital outflows but these negative impacts were somewhat offset by lower international commodity prices. In this backdrop the domestic consumption rebounding as incomes grew, especially among the public sector workers. Agriculture and services related activities grew by over 5% while industry related activities grew by 3% in 2015. As a result of the subdued commodity prices, inflation turned negative during July to September 2015, this being the first time since March 1995. Year-on-year headline inflation nevertheless stood at 2.8% by end 2015 rising marginally from 2.1% recorded by end 2014. Core inflation too grew marginally to reach 4.5%

driven mainly by enhanced growth in bank credit and also by higher wages afforded to Government workers and employees of other sectors of the economy.

An overall deficit in the balance of payments (BOP) arose despite substantial gains from the lower oil prices and continued positive trends in the tourism sector mainly due to slowing down of net foreign exchange inflows, including worker remittances and capital outflow. The budget deficit also grew to 7.4% above the targeted deficit due to overruns on the expenditure side of the Government Budget. However, efforts were made to reverse the downward trend in Government Tax and non-tax revenues which was a moderate success. In order to address the adverse implications of growing demand pressures on price and financial stability and help cushion pressure on the BOP, the Central Bank of Sri Lanka took early corrective action by imparting greater flexibility in the management of the exchange rate,

enforcing regulations on the loan to value (LTV) ratio and tightening monetary policy through an upward adjustment of the Statutory Reserve Requirement and making upward revisions to the policy interest rates.

The financial services sector was able to remain resilient during the year, strengthened by the regulatory and supervisory framework instilled, improved risk management capabilities and other prudent measures implemented across the banking and other financial institutions that include finance companies. Nevertheless, the continued rise in interest rates, steep devaluation of the Rupee and policies introduced to curb vehicle imports to minimise the increasing vehicle congestion in the city, impacted the finance industry. Salient economic impacts during the financial year 2015/16, which is relevant to MI and its impacts on the Company's business and overall performance can be outlined as follows:

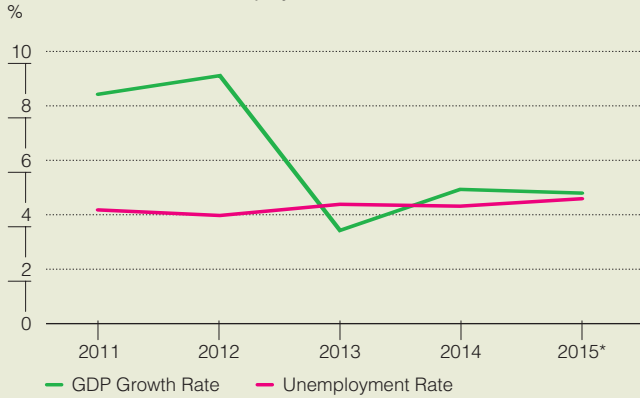
SRI LANKAN ECONOMIC MOVEMENTS AND ITS IMPACTS TO MI

Movements in key economic variables in 2015**	Impact to MI as a result of the economic conditions in FY 2015/16
<p>The Sri Lankan economy grew by 4.8% in real terms in 2015, compared to 4.9% growth in 2014, accommodated by generally supportive fiscal and monetary policies and favourable weather conditions, amidst challenges from both domestic and external factors.</p> <p>A low and stable inflation environment and relatively lower interest regime sustained during 2015 continued to support the economy, on the domestic front. On the external front, spillovers from the subdued performance in the world economy weighed on economic activities. Both in nominal and real terms, the growth was buoyed by the domestic demand generated mainly through consumption, which was stimulated by increase in household disposable income.</p> <p>GDP at current market prices amounted to Rs. 11,183.2 billion up from Rs. 10,448.5 billion recorded last year, while GDP per capita was estimated at Rs. 533,398/- for 2015 compared to Rs. 503,032/- last year, recording a 6% growth. The unemployment rate though moved up marginally from 4.3% last year to 4.6% in 2015, but continued to remain lower than some of the advanced economies' unemployment rates.</p>	<p>The economic resurgence taking place continued this year on to create constant demand for financial service sector products, including demand for MI's core lendings such as financing support to purchase vehicles and other forms of credit for entrepreneurial requirements and for personal needs.</p> <p>With improving savings habit among society nicely coinciding with the increasing per capita income and purchasing power of people, MI stood firm in canvassing higher levels of deposits this period. MI's expanding branch network was able to penetrate effectively into potential segments, targeting business beyond the Western Province to identify new deposits whilst keeping retention levels intact. Within the Western Province, corporate deposits were the other potential segment pursued successfully.</p>

Movements in key economic variables in 2015**

Impact to MI as a result of the economic conditions in FY 2015/16

GDP Growth Rate & Unemployment Rate



*Provisional
Source: CBSL Annual Report 2015

There was diverseness in MI's lending to various sectors of the economy but due to MI's lease and hire purchase business still accounting for more than 50% of MI's total lendings, credit disbursements were channelled more towards fulfilling requirements for vehicle ownership of individuals and also for corporates, mainly under the transport and construction sectors.

The steady growth reflected from both service as well as industry sectors continued to have a positive impact on MI with steady demand accruing for its traditional financing products as well as for the term based lending product range. However, through MI's risk management function and the Credit Committee, the Company was cautious in granting to certain sectors and products deemed riskier.

Sectorial Performance Highlights

On the production front, growth was broad based with positive contributions stemming from overall growth in key sectors as follows:

• Agriculture Sector

The agriculture, forestry and fishing activities grew by 5.5% in value added terms during 2015, compared to 4.9% growth recorded in 2014. This was mainly attributable to the notable expansion in the growing of rice, due to a bumper harvest recorded and the substantial contribution from the growing of vegetables.

• Industry Sector

There was a collective growth of 3% in value added terms from the industry sector, which comprise mining and quarrying, manufacturing, electricity, water, waste treatment and construction. This was mainly boosted by the robust growth in manufacturing activities.

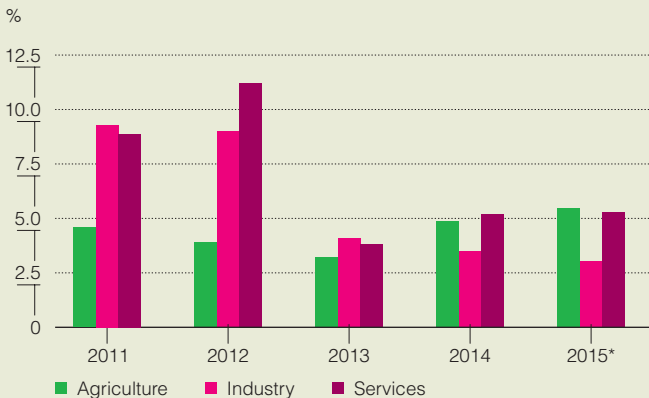
• Services Sector

The services sector remained the major contributor to the economy, growing by 5.3% in gross value added terms in 2015, compared to 5.2% growth in 2014 and accounted for 56.6% of the GDP. This growth was mainly attributed to the robust growth in financial services activities supported by transportation services, warehousing, real estate, wholesale and retail trade activities.

Outlook

Considering the inherent lower risk, MI can expect demand for vehicles backed lending to remain constant, despite controls placed on imports. Planned GDP growth and per capita income will continue to stimulate economic activity, boosting credit and at the same time, increasing people's earning capacities and savings. MI's strategy will revolve around going where the business potential prevails and is expected to materialise. Further, business operations will be geared in the next few years for greater branch deposit mobilisation as well.

Annual Sectorial Growth



*Provisional
Source: CBSL Annual Report 2015

Movements in key economic variables in 2015**

Inflation Remained Considerably Lower Single Digit

The general price increases measured in terms of the movements in both National Consumer Price Index (NCPI 2013=100) and Colombo Consumers' Price Index (CCPI 2006/07=100), increased at a slow rate with mixed movements.

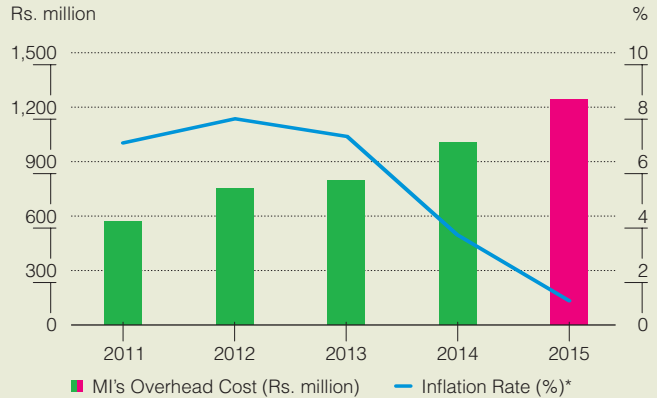
This lower inflation trajectory was partly supported by the downward adjustments of prices of fuel, utility and selected food items. Well contained inflation expectations, prudent monetary management, favourable supply side developments in the domestic market and the subdued international price environment of the majority of commodity imports also contributed towards maintaining this favourable trend in the general price level.

However, depreciation of the Rupee in 2015 exerted some upward pressure on prices, partly offsetting the favourable supply side developments in the international markets and subdued international prices of major commodity imports.

Impact to MI as a result of the economic conditions in FY 2015/16

Despite inflation rate remaining very low, MI's overhead cost of goods and service showed an increase, mainly because of the higher levels of consumption arising from the expanding business operations.

Inflation Last Five Years vs MI's Overhead Cost Movement



*Source: CBSL Annual Report 2015
CCPI (2006/07=100) Annual Average

The general rise in prices of goods and services continued to impact the consumer on his/her's potential for savings, particularly the middle and low income earners. However, for MI, the resultant negative impact was minimal as the Company, with its wider array of customer segments was able to sustain steady deposit base growth.

Outlook

With core business margins expected to remain pressured, managing overheads will be essential to the LFC sector as a whole, in maintaining anticipated profitability. MI, whilst pursuing its expansion plans, will strive to keep operational costs minimal and consolidate on recent locations to improve revenue and keep costs curtailed.

Movements in key economic variables in 2015**

Impact to MI as a result of the economic conditions in FY 2015/16

Interest Rates

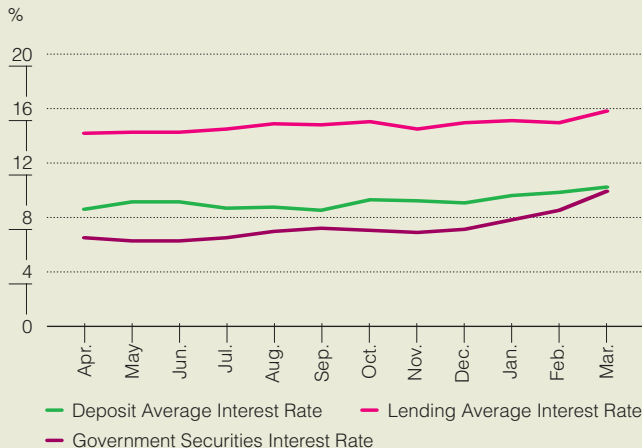
In the backdrop of continued low inflation, the Central Bank maintained a relaxed monetary policy stance during 2015, but started to initiate a gradual tightening of monetary policy as the year drew to a close. This was carried out to control excessive demand pressures on inflation emanating from high credit and money expansion. Restrictions placed on the access to the Standing Deposit Facility under the Open Market Operations (OMO) that was in place from 2014 was removed, nevertheless concurrently, CBSL lowered its policy rates by 50 basis points in April 2015, to lessen the impact. Both deposit and lending rates remained relatively low in 2015, although yield rates on Government Securities increased, responding to the high domestic borrowing requirements.

Increased state borrowing and lower credit availability pushed Government Securities interest rates upward from 2016, even going beyond the two digit mark by 31 March 2016. LFC sector deposit rates in parallel rose and MI too revised its pricing upward to afford attractive rates.

Lending rates were also revised upward but at a relatively lower pace but to boost overall margins, MI's higher yield generating lending volumes were increased. Nevertheless, the increase in borrowing cost and the repricing of deposits at these higher pricing levels, brought down core margins somewhat, being a similar phenomenon witnessed across the Industry.

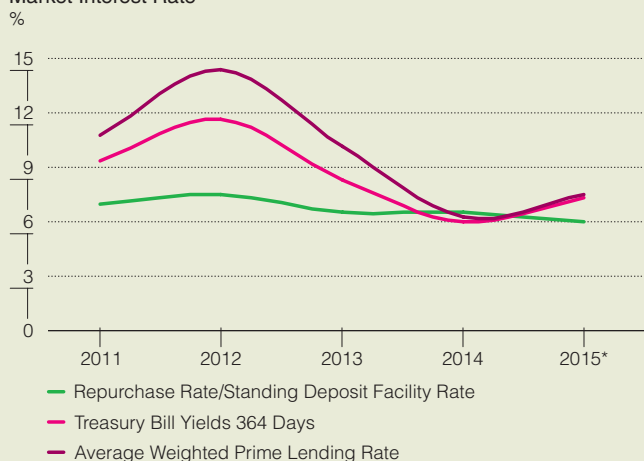
Trend in Interest Rates (%)	2015*	2014	2013	2012	2011
Treasury Bill Rate (364 days)	7.30	6.01	8.29	11.69	9.31
Standing Deposit Facility Rate/Repurchase Rate	6.00	6.50	6.50	7.50	7.00
Commercial Banks' Average Weighted Prime Lending Rate (AWPLR)	7.53	6.26	10.13	14.40	10.77

MI's Deposit and Lending Interest Rate Averages vs Government Securities One Year Rate – 2015/16



*Provisional

Market Interest Rate



*Provisional

Source: CBSL Annual Report 2015

Finance companies sector deposit rates gradually increased as the financial period drew to a close in keeping to the increasing Government Securities rates, while lending rates also rose but at a relatively slower pace. Based on the nature of lending carried out by LFCs, the resultant repricing effect impacted the industry's core margins, which pegged back profitability levels somewhat.

Outlook

MI can expect market interest rates to continue its upward trajectory but level out as the new financial year unfolds. To maintain industry margins, the finance companies sector including MI, will strive to balance traditional financing business with higher yield generating but riskier products.

Movements in key economic variables in 2015**

Impact to MI as a result of the economic conditions in FY 2015/16

Fiscal Policy and Impacts to Vehicle Sales Market

With various domestic and global developments taking place, fiscal management remained a challenge in 2015. To reduce the budget deficit and the level of debt outstanding, an interim budget was presented early 2015, which introduced a number of policy measures to increase Government revenue, provide concessions to public sector employees, pensioners, low income families and the general public.

General tax structure applicable to the finance companies sector, that includes the corporation tax at 28%, normal VAT and VAT on financial services at 11% and the NBT on financial services of 2% forming bulk of the industry's tax costs, remained unchanged during the period, despite attempts to revise the tax rates upward in January 2016, under the budget proposals.

Impact to vehicle sales market due to economic policy

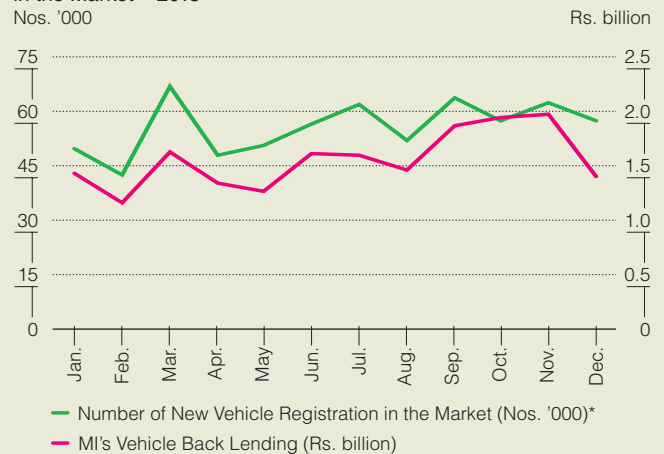
To curb accelerated growth in credit in the financial service sector, a minimum cash margin requirement was imposed on Letters of Credit opened for the importation of vehicles. This was later replaced by a maximum Loan to Value (LTV) ratio for vehicle backed lending and policy adopted on exchange rates and changes to already high vehicle importation tax structure, including the implementation of a new valuation approach to decide on import duty decelerated vehicle imports and the credit creation related to the vehicles sales market, which had a notable impact on the finance companies who provide relatively higher vehicle backed credit.

The exclusion of VAT on leases from 2015 had an immediate positive effect on MI's lease business, the growth of which picked up tremendously as opposed to the hire purchase business which remained subdued. The continuing policy on high import duty on vehicles and additional policy measures implemented, in curbing vehicle imports again was a significant drawback to the vehicle sales market, negatively impacting MI's credit growth from traditional financing and vehicle backed lending. Despite these challenges, MI's overall lending growth remained well above targeted growth expectations.

Outlook

The proposed increase in VAT and few other taxes is bound to come into effect in the new financial year and will impact the LFC sector profitability somewhat. The focus though, would be to identify ways of maintaining vehicle backed lending volumes despite the drawbacks associated with the vehicle sales market.

Vehicle Backed Lending vs Vehicle Registrations in the Market – 2015



*Source: Department of Motor Traffic

Movements in key economic variables in 2015**

Impact to MI as a result of the economic conditions in FY 2015/16

Financial Services Sector – Financial Performance

The financial sector showed improved performance, reflecting the underlying economic performance and supportive prudential regulatory measures, which led to further strengthening of the financial system's stability of the country. The improved performance was reflected in leading indicators of financial institutions, financial markets, payment and settlement systems. Increased Rupee lending, funded mainly through customer deposits, drove asset growth of the banking sector, which stood at 15.9%. Asset quality of the sector improved with the non-performing loan (NPL) ratio falling to 3.2% at the end of 2015 from 4.2% in 2014. The operating profits also showed a growth of 10.3% and profitability measured by Return on Assets (ROA) and Return on Equity (ROE) at levels in previous year.

Licensed Finance Companies (LFC) and Specialised Leasing Companies (SLC) Performance

The LFC/SLC sector performance remained robust during 2015, in terms of the expansion of both business volume and outreach. This reflected the broad-based economic activities, appropriateness of policy initiatives and supportive regulatory and supervisory measures in place.

The branch network of the two sectors expanded further in 2015 by 84 to 1,216 locations, with emphasis placed on areas outside the Western Province.

• LFCs and SLCs Assets and Liabilities

Total assets of the LFC/SLC sector expanded rapidly growing by 22.3% in 2015. Credit growth remained the main reason for this, growing by 31.8%, much higher than last year's 15.8%. This growth was mainly sustained due to high growth in other secured loans and through finance leases. Asset growth was mainly supported by the increase in borrowings by 44.6%, while total deposits grew by 16.1% at a lesser magnitude, compared to a 22.8% growth in 2014. High growth in borrowings was largely due to funds obtained from the banking system and by way of debenture issues.

MI's asset growth remained satisfactory up, due to the sound lending book growth, on a similar trajectory as the financial services sector's average lending growth. MI's market share, in terms of total assets stood behind optimistic higher targeted growth levels.

The total net interest income and profitability levels of the Company in absolute terms and in comparison to last year, remained subdued below expectation levels mainly on account of lower spreads enjoyed on its core business.

Composition of Assets and Liabilities of LFC and SLC vs MI

Item	Actual overall 31.12.2015 Rs. billion (a)	Actual overall 31.12.2014 Rs billion (a)	MI's actual 31.12.2015 (as a % of sector item)
Assets			
Accommodation	796	604	2.45
Finance leasing	419	276	1.29
Hire purchase	73	121	10.14
Investments	100	110	6.14
Others	101	101	0.15
Liabilities			
Total deposits	481	414	2.85
Total borrowings	314	217	1.81
Capital elements	123	117	6.33
Total funds	918	748	2.96
Others	78	67	1.07
Total assets/liabilities	996	815	2.85

a. Provisional

b. Source for column 1 & 2: Annual Report of Central Bank of Sri Lanka 2015

Movements in key economic variables in 2015**

• Risks in the LFC/SLC Sector

Asset quality improved in 2015, reflected from the improved NPLs and provision coverage ratios. Gross and net NPLs ratios decreased to 5.7% and 1.6% respectively, in 2015 from 6.9% and 2.3% registered in 2014, mainly due to higher loan growth.

• LFCs and SLCs Profitability and Capital

The sector recorded moderate profits despite the improvements of core business operations mainly due to the sharp increase of operational costs. As a result of credit portfolio expansion, Net Interest Income picked up notably by 32%. The higher yields derived from microfinance lending and finance lease portfolios, attributed mainly to this growth. The Total Regulatory Capital too increased by 5.8% with the recorded profit retention. Total Capital Adequacy Ratio which stood at 13.5% in 2014, dropped to 11.2% in 2015, due to the increasing risk-weighted assets, but remained above minimum level.

• Supervisory and Regulatory Developments

With a view to pre-empting the noticed trend on accelerating credit demand for vehicle leasing facilities that may develop into a system-wide risk to the financial sector, CBSL imposed controls on credit expansion and implemented a new regulatory framework by strengthening and streamlining existing policies and practices in respect of branch openings, closure and relocation. The regulator also continued to adopt a strong surveillance system, implementing both on-site and off-site review of institutions in the sector.

Impact to MI as a result of the economic conditions in FY 2015/16

Composition of Income and Expenses of LFC and SLC Sectors vs MI

Item	Actual overall 31.12.2015 Rs. billion (a)	Actual overall 31.12.2014 Rs. billion (a)	MI's actual 31.12.2015 (as a % of sector item)
Interest income	150.4	131.2	2.94
Interest expense	68.2	69.1	2.94
Net interest income	82.2	62.1	2.95
Non-interest income	22.8	20.4	0.82
Non-interest expense	67	47.6	1.84
Loan loss provisions (Net)	9.5	11	3.25
Profit before tax	28.5	23.9	3.59
Tax	13.3	9.1	2.62
Profit after tax	15.2	14.8	4.44

a. Provisional

b. Source for column 1 & 2: Annual Report of Central Bank of Sri Lanka 2015

While maintaining sound loan growth, in terms of asset quality, the improving collection levels on credit had a positive impact on MI as NPL ratio levels, which went up in the first half of 2015/16, was brought commendably below 3.5%. Similar to the industry averages, MI's debt, mainly comprising of bank borrowings, rose sharply to support the lending book growth. Deposit growth remained somewhat slowed down at 15%, compared to last year's, a similar pattern seen across the industry. Robust profitability and sound profit retention levels ensured MI too maintained healthy capital adequacy ratio levels, well above the prudential requirements. As witnessed across the industry, the increase in operational costs due to expansion of activities, coupled with the repricing effect, impacted any chances of recording higher levels of profitability as anticipated.

Outlook

In line with the expected industry asset growth, MI will forge well ahead in expanding its loan book and maintaining anticipated expansion targets. However, based on future predictions, MI can expect core business margins to remain pressured and in order to safeguard profitability, emphasis on asset quality will remain a top priority.

Key CBSL Regulations Imposed in 2015/16 Applicable to LFCs

Directions	Key requirements of the Direction
<ul style="list-style-type: none"> Loan to Value Ratio for Loans and Advances Direction No. 02 of 2015 Opening, closure and relocation of business places Direction No. 01 of 2016 	<ul style="list-style-type: none"> Required the Loan to Value Ratio to be a maximum of 70% for all vehicle backed lendings. A streamlined process with increased reporting requirements, including a new application format and the need for an annual branch expansion plan to be prepared prior to opening, closure and relocation of business places.

**Main Source of information: The Annual Report of 2015 of Central Bank of Sri Lanka

In terms of regulator review, MI was subject to the standard annual CBSL on site review, which was conducted at the commencement of this financial period, based on previous financial year information. There was also ongoing off-site surveillance based on weekly, monthly, quarterly and annual information submitted to the regulator.

Outlook

To ensure financial system stability and close governance of institutions handling public money, finance companies will have to continue to abide by a plethora of regulations even in the future. However, macroeconomic policies and specific regulations will be directed at improving financial assistance to boost underdeveloped areas and industries and will pave the way for the LFC sector to identify fresh opportunities.

Movements in key economic variables in 2015**

Impact to MI as a result of the economic conditions in FY 2015/16

Colombo Stock Exchange Performance

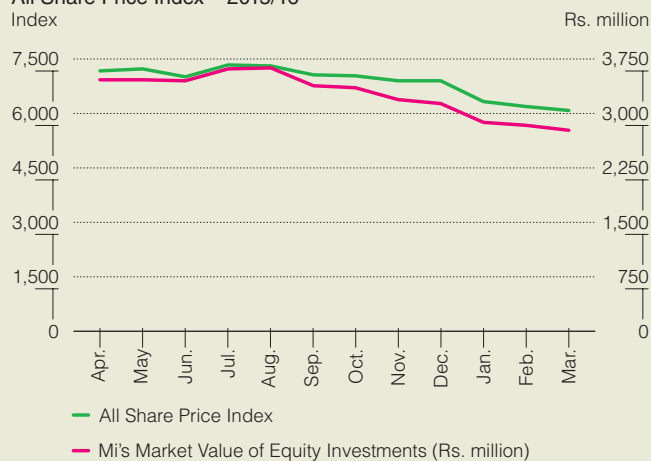
In contrast to the previous year, the Colombo Stock Exchange (CSE) recorded a sluggish performance under volatile movements in the price indices during 2015. The All Share Price Index (ASPI), declined by 5.5% to 6,694 points, while S & P Sri Lanka 20 index, declined by 11.3% to 3,626 points. Increasing investor uncertainty, resulting from delayed policy directions along with political changes, increasing interest rates, depreciation in the exchange rate and reversal of capital flows from emerging markets, resulted in significant foreign outflows from the equity market during 2015.

Share Market Performance

	2015	2014
All share price index	6,894.5	7,299.0
Year-on-year change (%)	5.5	23.4
S & P Sri Lanka 20 Index	3,625.7	4,089.1
Year-on-year change (%)	11.3	25.3
Market capitalisation (Rs. billion)	2,937.9	3,104.8
As a percentage of GDP (%)	26.3	29.7
Market price earnings ratio	18.0	19.7
Average daily turnover (Rs. million)	1,059.6	1,415.0
Value of shares traded (Rs. billion)	253.3	341.0
Number of companies listed	294	294
Number of rights issued	14	13
Initial public offers/offers for sale	27	5

Source: Colombo Stock Exchange

Stock market's continued sluggishness and steep decline in share prices impacted MI's total equity investment portfolio, which declined in value over the twelve months. Despite the banking and hotel sectors looking buoyant in economic performance and outlook, related industry share prices witnessed a significant decline as the year unfolded. MI's equity portfolio value, which comprises a major component in these sectors too declined as a result. This reduction can be deemed temporary considering the ongoing economic progress accelerating over time and expected influx of FDIs that is bound to boost the stock market.

Mi's Market Value of Equity Investments vs All Share Price Index – 2015/16

Source: Colombo Stock Exchange

Outlook

MI can expect foreign participation in the stock market to pick up, especially with the improving international sentiments about the country. Nevertheless, economic development activities and measures to boost economic activities and international trade will have to be fast tracked within the next financial year, if the stock market is to reach total recovery, in a short time span.

ANALYSING MI'S CAPABILITIES AND CONCERNS

As part of MI's corporate planning process, the Company made a thorough evaluation of its capabilities versus dynamics of the business environment. From this, MI was able to identify its internal key strengths and key weaknesses and also the external opportunities and threats prevailing in the market. The SWOT analysis helped MI to plan and devise suitable strategy to emerge competitive and successful. Summarised below are the key actions taken during this period, in terms of harnessing the Company's key strengths and overcoming weaknesses and at the same time, identifying opportunities and tackling threats.

KEY STRENGTHS

Key strengths	Key actions taken to build on strengths – FY 2015/16	Outlook on key strengths
<ul style="list-style-type: none"> Balance sheet strength with total shareholders' funds exceeding Rs. 7 billion and total assets exceeding Rs. 30 billion. 	<ul style="list-style-type: none"> Corporate plan focused on ways of generating higher levels of lending volumes whilst targeting to sustain satisfactory yields so that there is steady margins from our core business. We increased the number of credit and marketing officers and established additional branch locations to boost lending volumes. Ensured average lending volumes exceeded previous year and also that MI retained a satisfactory core spread to record sound net interest income. 	<ul style="list-style-type: none"> Based on next three years business development strategy, MI expect total capital to advance on average by 10% annually and the total assets to grow above 15% on average each year.
<ul style="list-style-type: none"> Acquired business knowledge and know how in terms of financing and other financial solutions and expertise in vehicle sales market. 	<ul style="list-style-type: none"> Moved beyond traditional financing and developed term-based lending solutions that include MI's microfinance business, property mortgage lending, pledge facilities etc. The contribution from these lines continued to show a gradual increase than before. 	<ul style="list-style-type: none"> The Company will strive in making innovative changes to serve more customer wants over time. There will be continuous improvements and diversifications made to the product range.
<ul style="list-style-type: none"> MI's unblemished track record and reputation as a financially solid premier finance company, that has been in business for over five decades. 	<ul style="list-style-type: none"> Ensured prudent running of operations through an effective governance framework, led by a capable Board of Directors and equally supported by an efficient Corporate Management team and staff. Continued to be transparent, communicating to public on MI's plans and key activities undertaken. There was periodic publication of financials and other key information in the CSE web and through news papers. 	<ul style="list-style-type: none"> Public will be wary of financial institutions that do not act responsibly and hence reputed corporates that are financially sound will be sought after like in recent times.
<ul style="list-style-type: none"> Having a strong growing workforce that comprise significant component of long standing employees who have served MI for over 5 years. 	<ul style="list-style-type: none"> Through the newly recruited AGM HR, implemented a more comprehensive training and development calendar for the period. Effective human resource management techniques were adopted to derive maximum output from people, motivating them, nurturing them to bring out the best in them. 	<ul style="list-style-type: none"> Being a service oriented company, MI will continue to invest heavily in nurturing its workforce. While strengthen staffing numbers to meet future operational requirements, attempts will be made to enhance knowledge and capability of the workforce.
<ul style="list-style-type: none"> Expanding branch network having presence in over 30 locations of strategic business importance. 	<ul style="list-style-type: none"> Was able to increase the number of MI locations from 26 to 31, during the year. Plans are underway to establish presence in a few more locations where MI currently lacks presence. 	<ul style="list-style-type: none"> More branch expansion is planned for the next two years, considering the increasing economic activity in certain lucrative towns. MI expects greater business volumes to be generated from beyond the Western Province in the future.
<ul style="list-style-type: none"> Possessing an effective ICT environment, supported by right ICT hardware and software systems, support staff and an ICT savvy workforce. 	<ul style="list-style-type: none"> Engaged an ICT Consultant to guide in enhancing MI's ICT requirements for the future and to see ways of maximising ICT resources for the benefit of all users. There were ongoing assessments and decisions being made to enhance the core systems with radical changes being proposed to enhance the ICT system to meet the next decades user requirements. 	<ul style="list-style-type: none"> MI expects its core systems to be enhanced further in the next few years in terms of system capacity, capabilities and user friendly features to meet demands of users in an evolving business scenario.

KEY WEAKNESSES

Key weaknesses	Key actions taken to counter weaknesses – FY 2015/16	Outlook on key weaknesses
<ul style="list-style-type: none"> MI's traditional financing business of hire purchase and lease financing, continues to be the significant contributory products to MI's lending volumes. 	<ul style="list-style-type: none"> Built non-traditional lending such as personal lending, property mortgage and microfinance, through the network of branches. Corporate plans were established, based on planned optimal product mix, combining traditional financing products with non-traditional products to ensure that overall yields and core margins are maintained. 	<ul style="list-style-type: none"> Despite the ongoing economic growth having a positive impact on demand for financing business, the finance industry will remain very competitive. MI can expect the industry to gradually shift focus towards other potential lending products to sustain competitiveness.
<ul style="list-style-type: none"> Fixed deposits remain the core deposit product with minimal contribution from other deposit types. 	<ul style="list-style-type: none"> In broad basing MI's fixed deposit business, the Company concentrated on attracting a larger clientele, diversifying into potential segments such as youth and middle aged savers. 	<ul style="list-style-type: none"> Increased business presence coupled with adequate resources including technology support should pave the way to build fixed deposit business and to explore other avenues including developing savings.
<ul style="list-style-type: none"> Significant component of MI's fixed deposit base comprises of deposits canvassed from senior citizens. 	<ul style="list-style-type: none"> Plans were devised, commencing this year to develop MI's payments and settlement systems with the intention of establishing convenient and speedy modes of payment, considering the planned decentralisation of deposit operations. 	<ul style="list-style-type: none"> MI can expect, the proposed technology integration, including embracing of better payments and settlement options such as ATM services to attract savings from a wider segment of society.
<ul style="list-style-type: none"> Yields derived from lease and hire purchase businesses, tended to be relatively lower than term based lendings. 	<ul style="list-style-type: none"> Maintained a satisfactory lending mix, by promoting both traditional and non-traditional lendings with equal aggression to keep to anticipated average lending yields, as a result ensuring that the spread enjoyed from core business was fulfilling corporate plan expectations. 	<ul style="list-style-type: none"> With the industry experiencing a gradual dip in core margins, to wean of competition, the industry will look for other forms of lending that bring about better returns to boost overall lending yield averages.
<ul style="list-style-type: none"> Based on MI's funding profile, there remained an assets and liability mismatch in the less than one year bucket. (Any interest rate hike would impact core spreads as funding cost will tend to go up in such a situation). 	<ul style="list-style-type: none"> Despite more deposits still being invested in the short-term, the Deposit Division continued to attract one year and longer fixed deposits as well, in keeping to ALCO expectations. The Treasury Division was able to secure number of fixed rate, over one year borrowing facilities from our banking partners. 	<ul style="list-style-type: none"> The possibility of interest rates moving upward at least by another 2% looks a possibility in the next few years. Accordingly, the industry is bound to secure more long-term funding unlike earlier, to cut down on the potential interest rate risk.

KEY OPPORTUNITIES FROM EXTERNAL FACTORS

Key opportunities	Key actions taken to build on opportunities – FY 2015/16	Outlook on key opportunities
<ul style="list-style-type: none"> Improving economic climate and political stability is expected to boost local industries and stimulate international trade. 	<ul style="list-style-type: none"> Maintained lending business growth well above 25%, capitalising on steady demand for financing and also for other forms of credit. Was able to generate reasonable volumes from non-traditional lending such as term lending. 	<ul style="list-style-type: none"> We can expect financial service sector to sustain credit growth well above 10%, taking note of the positive forecast in GDP growth for the future.
<ul style="list-style-type: none"> Growth in GDP and each person's income will continue to fuel demand for products in the finance sector. 	<ul style="list-style-type: none"> Growth in deposits was above 10% but was behind optimistic growth targets in keeping to Corporate Plan's expectations. 	<ul style="list-style-type: none"> Despite the contraction in brand new vehicle imports, MI can expect the registered motor vehicle market to pick up and create enough demand for the Company's types of lending.
<ul style="list-style-type: none"> Fixed income generating products such as fixed deposits, will continue to be preferred by most especially, low risk taking segments as opposed to high return high risk investments that remain volatile and riskier. 	<ul style="list-style-type: none"> Capitalised on MI's reputation as a solid and stable institution to invest and therefore, was able to mobilise FDs at steady pace from both the Head Office and through the branch network. Built brand image across newly established regions and created enough awareness by initiating number of island-wide advertising campaigns. 	<ul style="list-style-type: none"> Despite fixed income securities being yet the attractive option for most investors, MI can expect the property market as well as stock market to stabilise in the medium-term, considering the improving economic conditions, political climate and international relations.
<ul style="list-style-type: none"> Measures to stabilise the LFC sector in the recent past have gradually brought back public confidence. 	<ul style="list-style-type: none"> Whilst continuing to operate an effective governance framework, MI went ahead with its aggressive but professional approach, keeping to its business model. The Company ensured that each functional division stuck to a clear plan and strategy, embracing best in industry practices and internationally accepted approaches to manage overall operations. Both front end and back office functions were strengthened with additional human resources, especially at the managerial level, to ensure anticipated standards are maintained. 	<ul style="list-style-type: none"> Tougher regulations and risk controls, coupled with improving business conditions, will continue to stabilise the industry and restore public confidence.
<ul style="list-style-type: none"> Improving international trade and global focus and more opportunities for industries to seek foreign dealings and collaborations. 	<ul style="list-style-type: none"> Despite not proceeding with available options related to international funding as at the Reporting date, MI continued to pursue related possibilities even during this period. However, as part of our lendings, credit was granted to certain industries that deal in international trade. 	<ul style="list-style-type: none"> With interest rates on the rise, MI can expect foreign funds to be cheaper in the next few years. The industry is bound to source a notable portion of their funding through international investors going forward.

KEY THREATS STEMMING FROM EXTERNAL FACTORS

Key threats	Key actions taken to counter threats – FY 2015/16	Outlook on key threats
<ul style="list-style-type: none"> Financial consolidation and other factors have led to fewer and strategically stronger LFCs dominating the market in terms of capability and pricing. 	<ul style="list-style-type: none"> The strategic plan developed this period, analysed prevailing competitive threats, including possible threats resulting from the financial consolidation programme initiated by the regulator. The plan identified competitive strategy to out beat others. 	<ul style="list-style-type: none"> Mergers and takeovers that took place on account of the financial consolidation process and possible future consolidations and collaborations, would increase competition levels in the sector further.
<ul style="list-style-type: none"> As a result of improving economic climate, widening investment options, i.e, investment avenues stemming from the share market, real estate and other fixed income securities offered in the market. 	<ul style="list-style-type: none"> Fixed deposits being MI's key investment avenue for its customers, was promoted aggressively across the MI's branch network through continuous advertising and other marketing campaigns. Through sound operational and financial management, MI was able to generate sound post-tax profits moderately behind its optimistic targets. 	<ul style="list-style-type: none"> Already real estate prices have climbed and can expect a steeper annual appreciation in the future. The stock market too should pick up with possible foreign investments, flowing back due to improving international sentiments. However, the proposed capital gains tax and increases in VAT and other taxes is bound to be a challenge to corporates.
<ul style="list-style-type: none"> Rapid evaluation of the finance industry on account of growing competition. Thinning margins due to heavy price competition. 	<ul style="list-style-type: none"> Focused on sourcing cheaper funding options, through increased bank borrowings and deposits at preferential rates. Canvassed higher levels of deposits at attractive rates by creating awareness through various marketing campaigns. Built business around high-yield lending such as personal loans, property mortgage loans, microfinance lending, while consolidating on traditional lower-yield lendings. 	<ul style="list-style-type: none"> Competitive pricing is sure to continue even in future as customers are attuned to attractive pricing options as their main preference. Industry will look at ways of cutting down on overheads and cost of funding to manage spreads.
<ul style="list-style-type: none"> Steep depreciation in Sri Lankan Rupee, mainly on account of increase in imports and lowering of FDIs would continue to pressure market interest rates. 	<ul style="list-style-type: none"> Secured longer-term borrowings wherever possible and mobilised more than 1 year deposits than before, to bridge assets and liability mismatches. Kept close watch on interest rates and related variables and took timely proactive measures to ensure margins are retained. 	<ul style="list-style-type: none"> Considering the maturity mismatches inherent to the industry, possible further upward movements in interest rates would affect margins of the sector. The industry will pursue more longer term funding options to minimise the interest rate risk that is imminent.
<ul style="list-style-type: none"> Managing human capital has become a challenge with wider job opportunities prevailing for those skilled in the industry. 	<ul style="list-style-type: none"> Kept employees motivated by maintaining a clear performance based remuneration policy. This was coupled with employee career development programmes such as knowledge enhancement through training and affording career advancement opportunities for top performers. 	<ul style="list-style-type: none"> Potential candidates would seek reputed and stable institutions as an attractive employer than those offering higher perks. Expanding sector would afford more job opportunities to employees but those skilled and experienced will be sought out more.



‘Relationships that matter’

The bonds that hold us close to our stakeholders are built on a mutuality of respect together with shared empathy and true understanding. They are long standing and close...and are invaluable to the Company.

PESTLE Analysis

	Political conditions	Impact to the LFC sector	How MI capitalised on these conditions
Political	<ul style="list-style-type: none"> Political stability and improving international sentiments. Macroeconomic policies of the Government have been geared in redefining the nation in terms of economic development, since post war. 	<ul style="list-style-type: none"> Stable political environment and economic policy has led the way for the industry to pick up in terms of credit granting and be competitive with others such as the banking sector. This indirectly has had a positive impact on demand for LFC sector products. Continued infrastructural development, including highway construction, has opened newer avenues for the sector, to reach out to a much larger community. Free floating exchange rate policy adopted since 2015, has resulted in the Sri Lankan Rupee depreciating notably within a short period, impacting cost of imports, including motor vehicle purchases. There were policy changes by Government to control the influx of motor vehicles clogging roads. 	<ul style="list-style-type: none"> Was able to establish a number of new branches/service centres in strategic hubs, closer to where notable development is taking place. Kept close watch on changes happening to market variables such as interest rates, exchange rates etc. and developed appropriate strategies accordingly.
Economic	<ul style="list-style-type: none"> Globally, despite the gradual comeback from recession, the Arab spring and resultant migrant crises, coupled with continuing conflicts among nations, has impacted Europe and worldwide. From the Asian Region, large economies such as China and India continue to redefining global economic constituents and play a leading role. Optimistic forecast for Sri Lankan economy, with the annual GDP growth expected, together with steady increase in each individual income. Progressive economic policy and plans developed for the next few years to boost local industries and revitalise international trade. Despite the rise in interest rates, overall rates remained lower, stimulating economic activity. 	<ul style="list-style-type: none"> Improving economic conditions and purchasing power of people has continued to fuel demand for credit growth in the sector. Controlling of vehicle imports and high cost of related duties, continued to impact financing business. Growing demand and interest in boosting the small and medium enterprises and microcredit line. With interest rates moving upward and customers being very price sensitive, deposit business remained very competitive. Certain borrowers faced concerns in making repayments due to impacts on their enterprises and financial conditions. 	<ul style="list-style-type: none"> Capitalised on active regions and penetrated to potential segments to build credit business and deposit mobilisation activity. Was able to cater to funding needs of the lower and middle income earners beyond Western Province, through a broadened product range. Adopted strong recovery strategies, ensuring close monitoring of collections. Also, enhanced credit policies to safeguard from decline in credit quality.
Social	<ul style="list-style-type: none"> Improving social standards and quality of living, coupled with growth in each individual's income. Society becoming tech savvy and more informed, due to emergence of advanced technology that include smartphones and social media and other informative sources. Society expectations have widened. Corporates are expected to do business in a sustainable manner without destroying nature and for the benefit of society. 	<ul style="list-style-type: none"> Increased knowledge on available products and options in the market has widened customer expectations, placing strong demands on the sector, which has led to a very competitive industry. The sector players have displayed their keenness to identify varying needs of society and to come up with ways of bringing solutions/relief to society. 	<ul style="list-style-type: none"> By bringing credit accessible to people living even in remotest areas of the country, MI was able to improve people's lives and livelihoods, wherever possible by offering financial solutions at attractive rates. We continued to stay receptive to people's needs, tailoring financial solutions and identifying better means of catering to their needs. As a socially responsible corporate, MI initiated a number of social programmes, beyond commercial activity, for societies' benefit this year too.

	Technological changes	Impact on LFC sector	How MI capitalised on these conditions
Technological	<ul style="list-style-type: none"> • Efficiency of business activity has improved due to rapid technological advancement. • Customers have become sophisticated and demanding because of new developments in technology. • Appropriate use of technology, particularly use of ICT, has become a decisive factor for corporates in gaining competitive edge. 	<ul style="list-style-type: none"> • For the LFC sector, ICT remained an integral part in creating operational efficiency and generating Management Information Systems (MIS) for taking right decisions. • The sector is equipped with tech savvy workers for both front line as well as back office, for the smooth functioning of operations. 	<ul style="list-style-type: none"> • To accommodate rapidly changing demands of the industry and user efficiency, bold changes were planned and are being implemented to the core ICT system. • Identified ways in which technology can assist in our manual operations and systemise such areas.

	Legal conditions	Impact on LFC sector	How MI capitalised on these conditions
Legal	<ul style="list-style-type: none"> • To maintain financial stability, the financial services sector, in particular, is strongly regulated by various regulatory bodies. • International laws and treaties have brought about changes in local laws and regulations. E.g. Imposing of IFRS, FTRA etc. • Good corporate governance and strong compliance culture is practiced to safeguard companies from various resulting losses and legal concerns. 	<ul style="list-style-type: none"> • The industry is closely regulated by the Central Bank of Sri Lanka and other bodies such as the Colombo Stock Exchange over the sector institutions. • Additional regulations such as the limiting of Loan granted against security value impacted the industry in terms of lending volumes. • To safeguard from legal concerns, the industry has placed emphasis on building a strong risk management and compliance culture in the recent decade. • Increased regulations imposed in recent years have stabilised the sector in terms of financial and governance aspects. This has improved public confidence gradually, after witnessing a drop in confidence in the last decade. 	<ul style="list-style-type: none"> • Through the Manager – Risk and Compliance, the Board monitored MI's compliance status to prevailing regulations. • Maintained continuous communication with officers of CBSL and other statutory bodies. The Management was able to seek clarification and advice from the regulator, as and when needed. • MI's Legal Division pursued legal recourse for problematic accounts based on the laws of the land and provided necessary legal advice to other divisions.

	Environment conditions	Impact to the LFC sector	How MI capitalised on these conditions
Environmental	<ul style="list-style-type: none"> • With depleting resources, there is wider global focus on creating a greener environment. • With expanding business operations and interactions with the environment, the business community is required to stay respective to environment protection concerns. 	<ul style="list-style-type: none"> • In spite of having minimal impact to the environment from industry business operations, the expanding operations of the industry across the country and general environmental concerns of corporates, have raised awareness on environmental considerations for the sector. • Growing industry initiatives to safeguarding environmental resources when conducting business activity and other general green practices, to display sector commitment towards safeguarding of the environment. • Greater level of financial and non-financial disclosures, given in corporate publications on environment by the industry considering increased attention by their stakeholders. 	<ul style="list-style-type: none"> • MI adopted a number of measures, to limit the use of natural resources, such as energy and adopted practices to keep its surroundings secure from any waste and pollution, due to the Company's operations. • Through the Sustainability Governance Committee, initiated projects focusing on safeguarding the environment including its habitats. • Provided comprehensive disclosure about the Company's environmental initiatives carried out during the period in the Annual Report.

Licensed Finance Company (LFC) Sector Specific Risks and Challenges

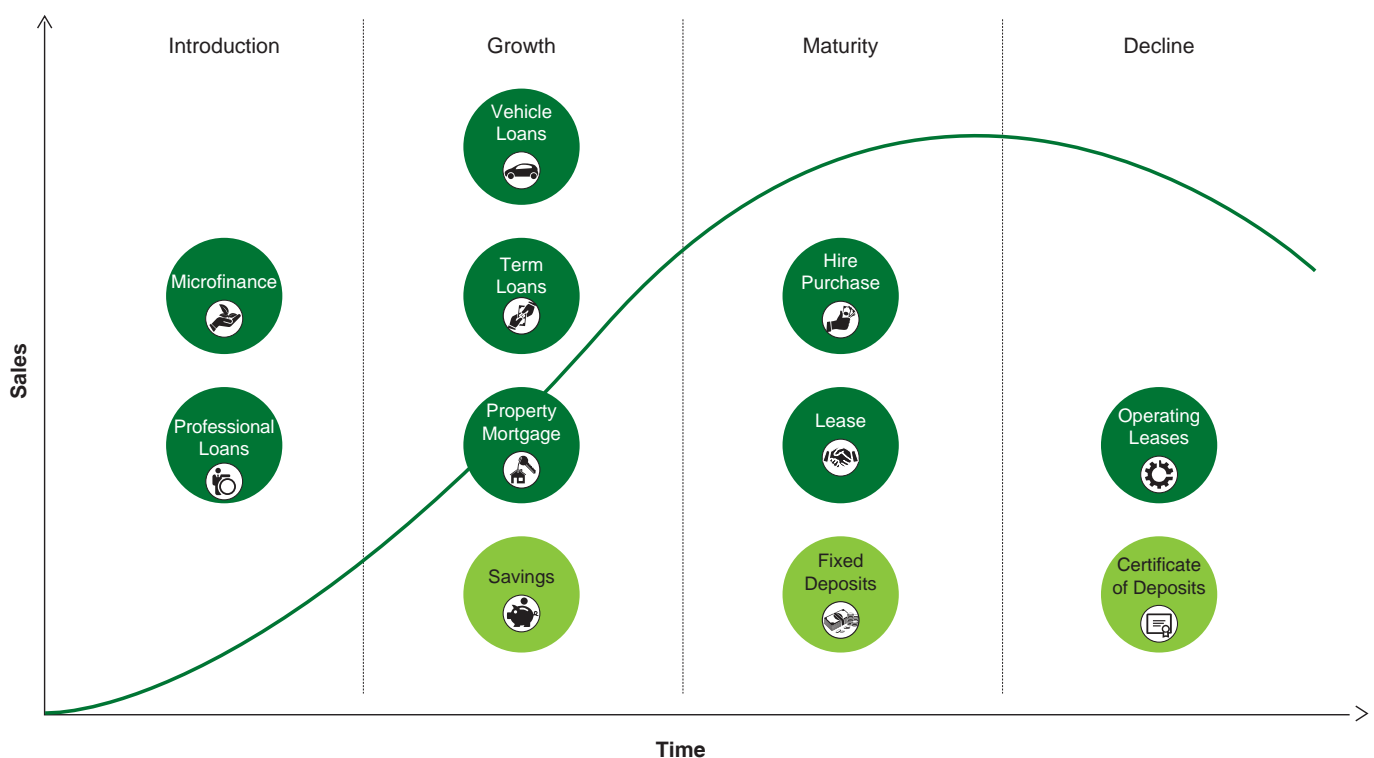
With the financial services sector rapidly evolving, players in the sector are exposed to numerous risks and challenges. It is a known fact that the industry is susceptible to change and volatility, in terms of market variables, customer needs and preferences, technology, human resources and other aspects such as new legislature which requires MI to recognise changes and adopt accordingly to ensure long-term success.

Being in the LFC sector, the Company outlines below, the prevailing key risks/challenges for the sector and the approach adopted by MI in tackling them:

Key risks/challenges facing LFCs	How MI approached Key risks/challenges in 2015/16									
<p>Growing Customer Expectations</p> <p>The new generation of customers is highly informed, being in the information age connected through technology marvels including social media. They are conversant of financial products and their variations in the marketing terms of pricing and other factors. This places greater demand on the sector to deliver a better value added product.</p>	<ul style="list-style-type: none"> Offered a well-diversified product portfolio of financial solutions to meet varying customer needs. Gained ground in building the total customer base, making significant progress mainly through the newly set-up-fully fledged Microfinance Division that catered to the needs of the middle and lower income earners. By revisiting and enhancing some of the key operational processes and practices of both front end and back office operations, MI was able to improve its overall service including processing lead times. Employees were subject to extensive training and development programmes to raise customer service levels and operational standards. The Senior Manager – Marketing and Communication was able to build customer awareness and MI brand across the country, highlighting on MI's unique personalised service and speedy delivery. 									
<p>Thinning Core Margins</p> <p>Core business margins enjoyed by LFCs have contracted over time, due to heightened competition from within the sector and also from banks.</p>	<ul style="list-style-type: none"> MI managed to maintain reasonable core margins by balancing the lending product mix with both high and low yield lendings against level of credit risk undertaken. In combination with traditional financing, the Company promoted high yield lendings such as property mortgage etc., whilst ensuring a strong credit review processes is in place to cut down on default risk. From the cost side, MI kept its borrowing cost minimal, sourcing funds through both short and long-term funding options offered by MI's local banking partners. Same time, deposits being the main source of funding was mobilised keeping to internal pricing policies and regulatory limits on interest rates. 									
<p>Maintaining Credit Quality in the Midst of Declining Credit Worthiness of Borrowers</p> <p>NPL levels in the LFC sector remained on the high side over the last two years, due to deterioration in creditworthiness of some of the borrowers. The number of asset repossessions remained at a relatively high level for the sector.</p>	<ul style="list-style-type: none"> Through effective recovery actions ensured collection levels were kept satisfactory by maintaining, close monitoring and follow up process. Broadening the special recovery task and constant efforts in regularising overdue and problematic customer accounts helped reduce bad debts. Our internal valuation unit actively took part in carrying out valuations to determine accurate security values and was successful in carrying out a number of <i>Riya Pola</i> vehicle sales events to dispose repossessed vehicles; <table border="1" data-bbox="824 1691 1469 1899"> <thead> <tr> <th></th> <th>FY 2015/16</th> <th>FY 2014/15</th> </tr> </thead> <tbody> <tr> <td>Number of internal valuations carried out</td> <td>6,861</td> <td>6,000</td> </tr> <tr> <td>Repossessed vehicles sold during the period</td> <td>332</td> <td>586</td> </tr> </tbody> </table>		FY 2015/16	FY 2014/15	Number of internal valuations carried out	6,861	6,000	Repossessed vehicles sold during the period	332	586
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Key risks/challenges facing LFCs	How MI approached Key risks/challenges in 2015/16
<p>Regulations Impacting Motor Vehicle Financing</p> <p>The prevailing high import duty structure on motor vehicles kept demand for vehicle purchases subdued, as a result, continuing to have a negative impact on lease business, despite the elimination of VAT. The imposing of maximum 70% loan to value ratio for motor vehicle lending from December 2015 too slowed sector lending book growth.</p>	<ul style="list-style-type: none"> • Afforded tailor-made financial solutions, such as structured lease facilities to ease repayments of borrowers, coupled with attractive lease rates as a result of being able to sustain profound growth levels in lease portfolio. • Non-traditional lending business was also developed as means of increasing overall lending volumes with focus on building property mortgage loans, personal loans and also microfinance lendings.
<p>Escalating Costs Due to Expansion</p> <p>Expanding operational activity increased consumption, coupled with annual increases in personnel costs and general inflationary factors, have led to the escalation of cost structures of players across the industry.</p>	<ul style="list-style-type: none"> • Continuous cost monitoring system and supervision of departmental cost and accountability. • While departmental heads monitored their recurring costs, various cost saving strategies continued to be implemented. MI managed to control costs escalation in relation to use of electricity, water, stationery and other consumable items. • Considering the annual increases in staffing costs, the Management focused on employee productivity controls, implementing a performance based rewarding policy across all key divisions.
<p>Stronger Regulatory Controls Applied on the Finance Industry</p> <p>Stiff regulatory controls imposed in recent times by CBSL and other legal bodies, have made the industry stable, despite the rise in compliance cost.</p>	<ul style="list-style-type: none"> • By implementing the measures imposed by the regulator, MI was able to strengthen its governance aspects and operational areas, cutting down on key risk such as credit risk, liquidity risk and interest rate risk. • While ensuring a strong compliance culture, through the compliance officer and other supervisory committees and Audit, the Company was able to work within the regulatory frameworks to proceed on its business plans, having enough flexibility in terms of capital and manpower.

MI'S KEY PRODUCTS AND ITS POSITION IN THE PRODUCT LIFE CYCLE



MI's Key Strategic Goals Targeted

The recent Board approved three year corporate plan, applicable from FY 2015/16, envisaged a number of key goals, which were decided upon after making a thorough study of the business environment, organisational, stakeholder expectations and also, foreseeing trends in the industry and outside. Accordingly, in keeping to integrated value creation expectations of the Company, the following goals were established for the period under review and for the next two years and was the basis on which the Management monitored operational and financial performance.

Key goals in the short-term	Key goals in the medium-term (Goals set to be achieved within 3 years)	Key goals targeted long-term (Goals set to be achieved by 2020)
Achieving a Net profit after tax growth of over 10% year-on-year	Maintaining the return on shareholders' funds above 15% by enhancing wealth of capital providers, through consistent profitability growth.	Broad-basing investor returns by targeting to be within the top five profitable enterprises within the sector.
Maintaining a Net Interest Income growth over 15%	Extending business reach through further expansion of the branch network.	Increase market share over 4% in terms of core revenue.
Deposit base growth to be kept above 15%	To sustain a high quality lending portfolio that reflects a low NPL ratio below 3%.	Building up a strong workforce equipped to face complexities of the next decade.
Maintain the lending portfolio growth above 20%	Managing cost in-line with income generated, thereby keeping the Cost to Income Ratio under 55%.	Enhancing effective sustainable practices commercially as well as otherwise, for the betterment of the economy, society and the environment.
Non-performing lending ratio to be kept below 4%	Instilling a strong governance framework, together with effective risk management practices to tackle potential risk and better corporate management.	
Initiating social and environmental activity, based on a approved budget	Extensive training and development activity, aimed at enhancing knowledge of the workforce to raise productivity levels and service standards.	

Operational Review

MI's Operational Performance Commentary


The concluded financial year 2015/16 can be deemed yet another satisfactory phase for MI, in terms of its operational performance, as management consolidated on its expanded presence made over the last half a decade. Key facets of MI's business operation were improved with colossal efforts. MI broad based operations to boost core business portfolios, making significant steps in further widening MI's business presence

this year as well. There was equal emphasis on maintaining asset quality to cope with, last few years deteriorating creditworthiness of borrowers right across the financial services sector. The Company strengthened its operational processes and increased recruitments to improve lead times and operational efficiency. In enhancing workforce productivity, the Company trained, mentored and groomed individuals to gear them to

face demanding work expectations. MI capitalised on regions where greater business prevailed, strengthening operations in those locations, while taking a moderate approach where demand for our types of business products were generally low. These efforts enabled the Company to record commendable core business growth YoY, without compromising on the quality of credit granted.

OPERATIONAL HIGHLIGHTS – FY 2015/16 PERFORMANCE AND OUTCOMES




Growth in branch network – 19%	Core business growth • Lending – 29% • Deposits – 15%	No. of new governance initiatives – 11	No. of new risk management initiatives – 7
New customer partnerships • Lending – 25,226 • Deposits – 665	Managing lending quality – Gross NPL ratio 3.39%	Sustainability initiatives • Number of CSR projects – 14 • Increase in workforce – 150	



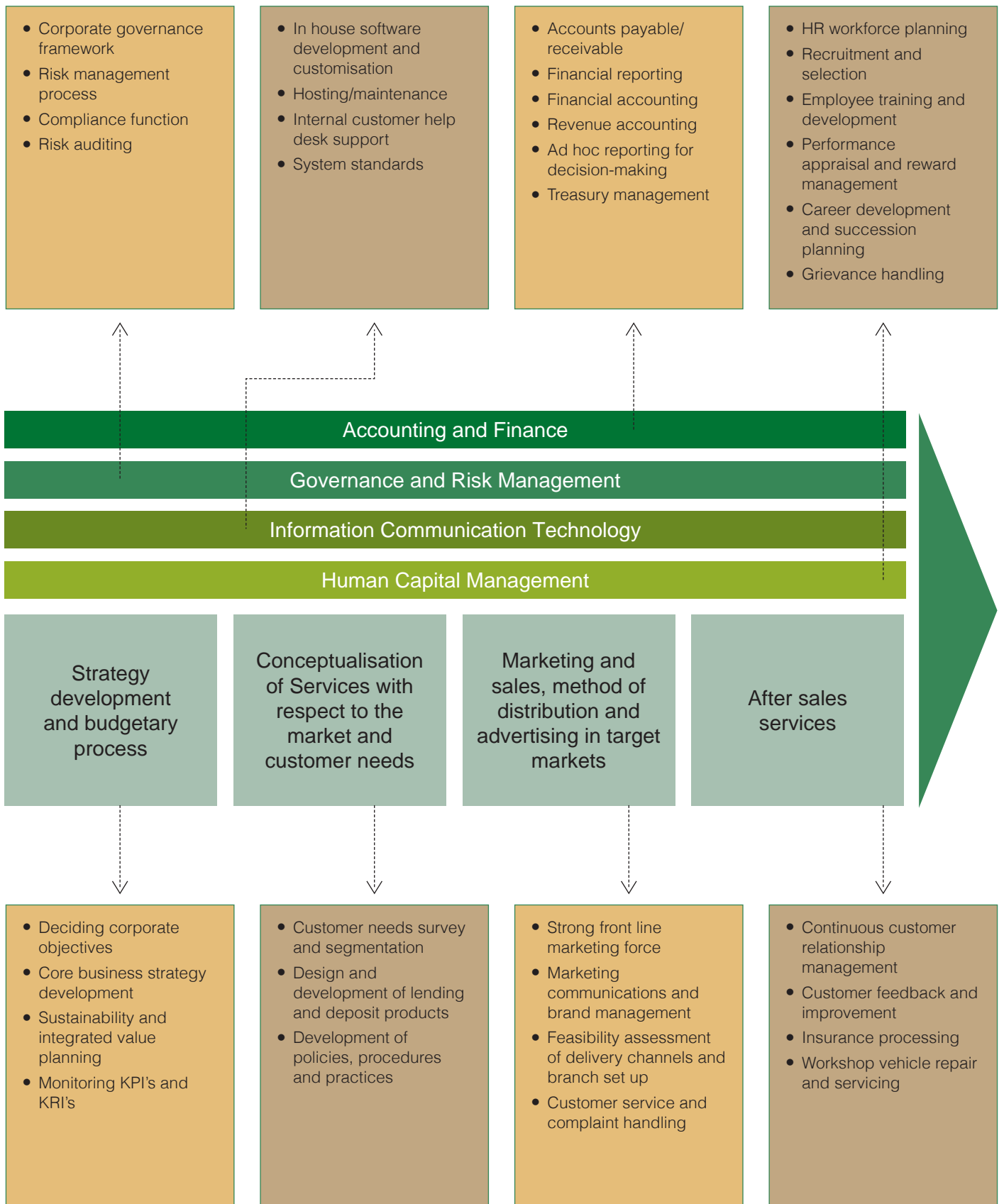
OPERATIONAL ACHIEVEMENTS: MI'S PROGRESS AGAINST STRATEGIC OBJECTIVES/GOALS

Pillars	Objectives/Goals	Progress	Achievements FY 2015/16
Expanding business to bolster the bottom line	• Creating growth in business volumes	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> Increased the total lending volume year-on-year over 40% with the support of the efforts of the credit and marketing teams. MI catered to 25,266 in number of fresh clients and 11,744 in number of existing clients in the process. Deposits growth too was satisfactory at 15%, despite facing fierce pricing competition.
	• Ensuring core margins are maintained satisfactorily	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> Maintained reasonable core business spreads despite experiencing increases in funding costs, exerted by the repricing pressure.
	• Generating robust post tax profitability	<input checked="" type="checkbox"/>	<ul style="list-style-type: none"> Registered a solid post tax profit of Rs. 505 million which though reflected a dip in profits compared to last year.

Pillars	Objectives/Goals	Progress	Achievements FY 2015/16																																							
Growing core business market share	<ul style="list-style-type: none"> To develop an islandwide branch network, to cater to increasing wants of people from various communities. 	✓	<ul style="list-style-type: none"> Opened fresh business locations, increasing MI's total branch tally to twenty-four and service centres to seven. 																																							
	<ul style="list-style-type: none"> Implementation of an aggressive above the line and below the line marketing and promotion campaigns, to build and sustain strong brand awareness, islandwide. 	✓	<ul style="list-style-type: none"> Established a strong marketing communication unit to handle branding and product promotion activity in a more focused manner. Accordingly, initiated a number of marketing and promotional campaigns above the line and below the line, incurring over Rs. 85 million in advertising and promotion, more than 70% year-on-year. 																																							
Maintaining asset quality	<ul style="list-style-type: none"> 1st six months ratio to be maintained at 95% out of total receivables. 	✓	<ul style="list-style-type: none"> Implementation of efficient recovery strategies to handle problematic accounts coupled with day-to-day monitoring of contracts in arrears by the NPL Management Committee, to bring NPL ratio to a favourable level. 																																							
	<ul style="list-style-type: none"> To maintain a 65% of overall collection ratio. 	✓	<ul style="list-style-type: none"> Initiated a number of <i>Riya Pola</i> vehicle sales events during the year to dispose repossessed vehicles. Details on disposal of repossessed motor vehicles are as follows: 																																							
			<p>Seized Vehicles vs Disposed Vehicles Nos.</p> <table border="1"> <caption>Seized Vehicles vs Disposed Vehicles Data</caption> <thead> <tr> <th>Category</th> <th>Seized Vehicles</th> <th>Disposed Vehicles</th> </tr> </thead> <tbody> <tr><td>A - Motor Cars</td><td>90</td><td>75</td></tr> <tr><td>B - Vans</td><td>45</td><td>25</td></tr> <tr><td>C - Lorries</td><td>115</td><td>105</td></tr> <tr><td>D - Tippers</td><td>15</td><td>10</td></tr> <tr><td>E - Three Wheelers</td><td>90</td><td>65</td></tr> <tr><td>F - Buses</td><td>10</td><td>10</td></tr> <tr><td>G - Tractors</td><td>15</td><td>10</td></tr> <tr><td>H - Bikes</td><td>15</td><td>10</td></tr> <tr><td>I - Jeeps</td><td>15</td><td>10</td></tr> <tr><td>J - Machinery</td><td>10</td><td>10</td></tr> <tr><td>K - Cabs</td><td>5</td><td>5</td></tr> <tr><td>L - Other</td><td>2</td><td>2</td></tr> </tbody> </table> <p> ■ Seized Vehicles ■ Disposed Vehicles </p> <p> A - Motor Cars E - Three Wheelers I - Jeeps B - Vans F - Buses J - Machinery C - Lorries G - Tractors K - Cabs D - Tippers H - Bikes L - Other </p>	Category	Seized Vehicles	Disposed Vehicles	A - Motor Cars	90	75	B - Vans	45	25	C - Lorries	115	105	D - Tippers	15	10	E - Three Wheelers	90	65	F - Buses	10	10	G - Tractors	15	10	H - Bikes	15	10	I - Jeeps	15	10	J - Machinery	10	10	K - Cabs	5	5	L - Other	2	2
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	<ul style="list-style-type: none"> NPL ratio to be brought down to below 4%. 		<ul style="list-style-type: none"> The credit appraisal and disbursement process was updated to bring in additional controls and process efficiencies to the credit function. Implemented a formal, fully-fledged microfinance procedure document, segregating the operational functions effectively. 																																							

Pillars	Objectives/Goals	Progress	Achievements FY 2015/16
Nurturing workforce to gain strategic advantage	<ul style="list-style-type: none"> Raising productivity levels of the workforce. 		<ul style="list-style-type: none"> MI was able to attract additional skilled, qualified and experienced resources from the LFC sector and outside to boost core and supporting activities of the organisation.
	<ul style="list-style-type: none"> Effective manpower planning and succession planning. 		<ul style="list-style-type: none"> 539 employees of the organisation attended both in-house and external training programmes, such as seminars, workshops, e-learning and other learning programmes.
	<ul style="list-style-type: none"> Embedding a learning culture, where employees are developed and fostered on an ongoing basis to face market challenges and sophistications. 		<ul style="list-style-type: none"> Adopted right human resource management strategy, supported by formal HR policies to manoeuvre our workforce towards greater productivity.
Cost management	<ul style="list-style-type: none"> Reducing wastage and eliminating duplication of operational activities. 		<ul style="list-style-type: none"> Monthly review of key costs and identifying ways to reduce recurring cost and eliminating wastage.
	<ul style="list-style-type: none"> Maintaining a healthy cost-to-income ratio 		<ul style="list-style-type: none"> Total start-up cost on average of newly set up locations, stood moderate, based on the low cost set-up strategy adopted during this period. However, the cost to income ratio moved up over the anticipated threshold of 55%.
Upholding high governance standards	<ul style="list-style-type: none"> Instilling an effective governance system within the enterprise, through the adoption of proposed best practices by various bodies, in addition to all other regulatory requirements. 		<ul style="list-style-type: none"> Ensuring MI's strong governance framework was instilled right across all Company activities and also embracing additional good governance prerogatives to strengthen MI's management approach.
	<ul style="list-style-type: none"> Well-established stringent risk management process which will ensure risk evaluation, implementation of counter risk strategy and ongoing review to safeguard business operation from possible risks. 		<ul style="list-style-type: none"> Close review of MI's compliance status to regulations and reporting to high-level committees and the Board for necessary action. Through a close monitoring system assessing changes in market variables, risk profile changes and threats etc. and making pertinent decisions as proactive measures.
Creating a sustainable business and a sustainable tomorrow	<ul style="list-style-type: none"> Building sustainable value in terms of economy, society and the environment, in keeping to our value system and corporate vision. 		<ul style="list-style-type: none"> Developed a strategic plan which recognises the importance of sustainable development, proposing medium-term sustainability strategy that will meet sustainable strategic expectations of stakeholders. The section on sustainability, given on pages 125 to 196 describes MI's progress in enhancing sustainability value, contributing to economic, social and environmental well-being of the people of the country. The Sustainability Governance Committee was able to explore and complete a number of value adding projects, targeting the lesser privileged sections of society and helping them in meeting their varying needs.

INTEGRATED SERVICE VALUE CHAIN OF MI



JOURNEY IN STRATEGY DEVELOPMENT AND EXECUTION

Journey in Strategy Development and Execution				
		Core Business Development Strategy	Recovery Strategy	Support Departments Strategy
Last	FY 2014/15	Loan and deposit portfolio expanded	NPL ratio was 4.19%	Operational improvements
Now	FY 2015/16	Loan and deposit portfolio expanded	NPL ratio 3.39%	Ongoing ICT enhancements and support strategy
Expected	FY 2016/17	Loan and deposit Portfolio to expand	NPL ratio to be <3%	Greater decentralisation



STRATEGY DEVELOPMENT, EXECUTION AND REVIEW



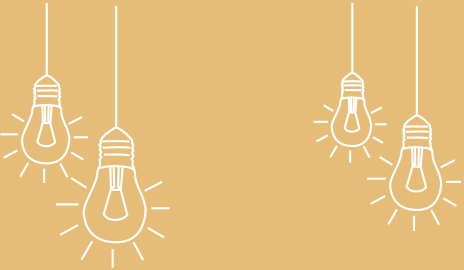



Through the initiation of the Board, the second phase of the strategic planning process commenced in 2015 with the preparation of the second medium-term strategic plan. The Board approved strategic plan remains applicable for three years, commencing this financial period 2015/16, up until 31 March 2018. The Board adopted an effective formal process that started by identifying the corporate objectives/goals and thereafter, obtaining support of the Directors, Corporate Management and other Senior Officers in devising a suitable strategy under the 'Strategy Development' phase.

Thereafter, targets were developed on an overall basis and later the respective departments finalised their sub departmental targets, even drilling down cluster wise and officer-wise for core business divisions. This included both financial and non-financial Key Performance Indicators (KPIs) and Key Risk Indicators (KRIs), in keeping to the Balanced Score Card technique.

For the purpose of performance monitoring, these targets were compared against actuals regularly on an ongoing basis, which assisted the Management in identifying deviations early and thereafter, to make corrective action at the right moment. The performance review phase involved the Finance Department updating Corporate Management on a weekly, monthly, quarterly and annual basis, so that respective departmental heads and staff were kept apprised of their progress.

MI's Capital Management Strategy

Capital		Strategy	
		Key Strategy	
Financial Capital Transformation	<ul style="list-style-type: none"> • Capital Structure • Reserves & Profitability • Liquidity Status • Optimal Funding Mix 	<p>Lending Strategies</p> <ul style="list-style-type: none"> • Optimising the lending product mix • Increasing the market presence through island wide branch network market segmentation <p>Recoveries Strategies</p> <ul style="list-style-type: none"> • Reduction of NPL <p>Deposits Strategies</p> <ul style="list-style-type: none"> • Increasing the volume of low cost saving deposit base. <p>Treasury Management Strategies</p> <ul style="list-style-type: none"> • Pursuing low cost borrowing • Departmental cost management 	
Manufactured Capital Transformation	<ul style="list-style-type: none"> • Branch Network • Acquisition of Property, Plant & Equipment • Distribution Channels • Vehicle Fleet 	<p>Expansion Strategies</p> <ul style="list-style-type: none"> • Expanding branch network • Ownership of property and equipment • Fleet Management <p>ICT Strategies</p> <ul style="list-style-type: none"> • ICT system enhancement, upgrading and customisation • Lease vs ownership strategy 	
Intellectual Capital Transformation	<ul style="list-style-type: none"> • Knowledge Protection and Enhancement • Technological Advancement • Governance Framework 	<p>Technological based Intellectual Capital Management</p> <ul style="list-style-type: none"> • Customisation of ICT system • Customisation of MIS <p>Audit, Risk Management and Governance Strategies</p> <ul style="list-style-type: none"> • Stringent Audit and Assurance Process • Comprehensive Corporate Governance Framework • 360 Degree Risk Management Process <p>Knowledge management Strategies</p> <ul style="list-style-type: none"> • Knowledge retention mechanism • Knowledge acquisition mechanism • Broad basing core product knowledge 	
Human Capital Transformation	<ul style="list-style-type: none"> • Knowledge & Skill Building • Health & Safety of People • Gender Balance • Employer Employee Relationship • Productivity Enhancement 	<p>Knowledge Management Strategies</p> <ul style="list-style-type: none"> • Training and Development • Employee Engagement Activities • Performance Appraisal • Career Path Development • Talent Acquisition • Comprehensive Health and Safety Practices 	
Social Capital Transformation	<ul style="list-style-type: none"> • Social Support • Awards & Recognition • Brand Building • Stakeholder Management 	<p>Sustainability Strategies</p> <ul style="list-style-type: none"> • Social Value Building Initiatives • Microfinance Assistance • Employee Welfare <p>Relationship Management Strategies</p> <ul style="list-style-type: none"> • Shareholder Engagement • Customer Relationship Management Mechanism <p>Brand Management Strategies</p> <ul style="list-style-type: none"> • ATL and BTL marketing communication • Brand awareness building • PR management 	
Natural Capital Transformation	<ul style="list-style-type: none"> • Environment Protection • Biodiversity • Waste Management 	<p>Cost Management Strategies</p> <ul style="list-style-type: none"> • Energy Management Strategies • Waste Management Strategies • Initiations to Reduce Carbon Emission • Environment supported lending 	

Capital Management		
General Strategy	Actions	Outcomes/Outputs/Value Created
	<ul style="list-style-type: none"> • New product development & product extensions • Operational expansion • Recovery tactics • Cash Flow generation • Daily Working Capital Management 	<ul style="list-style-type: none"> • Profitability • Growth in shareholders' funds • Dividend declared • Asset quality • Total Assets growth • New products/Extensions
	<ul style="list-style-type: none"> • Expanding the branch network • Capacity enhancement • Upgrade technology for process efficiency 	<ul style="list-style-type: none"> • Investments in property & equipment • Increase in vehicle fleet • Number of upgrades/new modules • Branch growth
	<ul style="list-style-type: none"> • Employee Retention & Long Service • Investing in Advanced Technology • Increased Effectiveness and Efficiency of Internal Processes • Balanced Board • Risk Management Techniques 	<ul style="list-style-type: none"> • Service Status of Workforce • Number of Superior ICT Developments & Costs • Number of Internal Process Developments • Corporate Governance Initiatives • Risk Management Initiatives
	<ul style="list-style-type: none"> • Recruitment & Selection • Training & Development Programmes • Performance Linked Rewarding • Safety Procedures • Welfare Schemes • Competitive Remuneration Package • Leverage Diversity & Equal Opportunity • Talent Attracting Method 	<ul style="list-style-type: none"> • Staff Strength & Additional Staff Cost • Training Initiatives & Training costs • Performance Appraising
	<ul style="list-style-type: none"> • Local Community & Environmental Development Projects • Communication with Stakeholders • Promotions & Brand Awareness Campaigns • Micro Loan Expansions 	<ul style="list-style-type: none"> • Number of Social Projects Handled • Brand Awareness Campaigns • Survey Responses • Microfinance Lending
	<ul style="list-style-type: none"> • Preservation of Biodiversity Hotspots • Lendings for Green Products • Energy Efficiency Activities • Carbon Footprint Measurements & Environment Certification 	<ul style="list-style-type: none"> • Lending for Hybrid/Electric Vehicles • GHG Emission Level • Environment Supportive Investment Cost

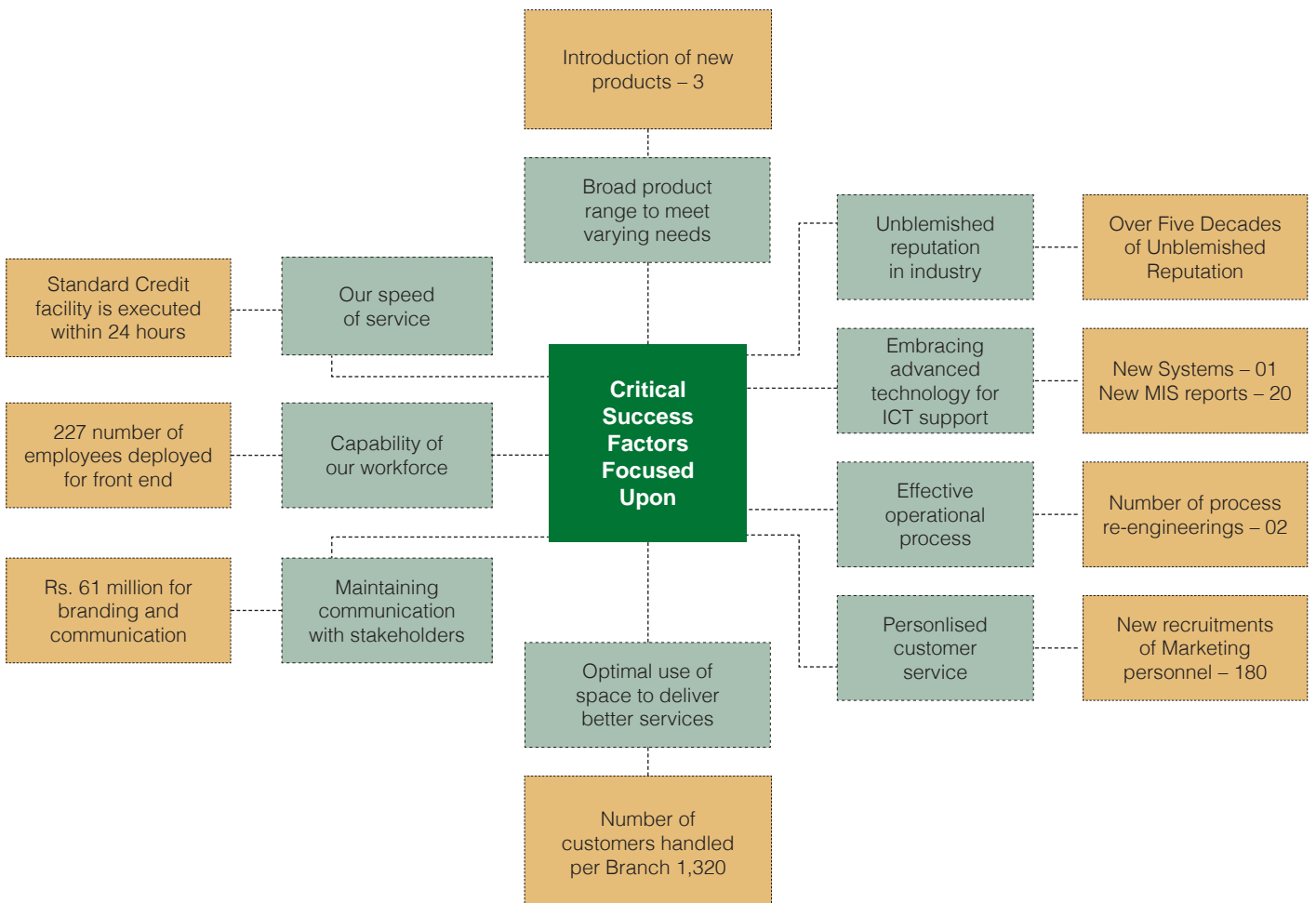
Key Strategic Imperatives Pursued

Considering the future expectations of our stakeholders and specified corporate objectives, a number of strategic imperatives were decided and introduced, focusing on the organisation’s capital management process. As shown in the Capital management strategy diagram, the strategies adopted, helped transform each key financial and non-financial capital associated with our business operation to a higher value. As the Company forges ahead in a challenging era, these strategic imperatives form part of our business as usual activities. Accordingly, MI has incorporated various capital management actions within the relevant business functional areas and support services, to ensure there is smooth implementation of proposed strategy. As a Company that sets high performance standards, periodically, MI monitored respective outcomes and assessed its performance in terms of each financial and non-financial capital related KPI or KRI.



KEY STRATEGIC IMPERATIVE – PROMOTING WHAT WE DO BEST!

In driving MI’s business forward, the Company placed enormous effort in improving activities revolving around what the Company do best, the factors that have continued to contribute to MI’s success all this while. There was an all-out commitment to build on these success factors by setting forth parameters for each of the critical ones to implement suitable improvements, keeping overall value creation in mind. Most of the KPIs and KRIs looked at in appraising performance under the core business balance score card system, revolved around key activities that are associated with our critical success factors.



Core Business Divisions Operational Review



KEY STRATEGIC IMPERATIVE – LENDING BUSINESS STRATEGY

LENDING BUSINESS HIGHLIGHTS FY 2015/16

- Maintained sound lending growth by sustaining steady monthly lending volumes.
- Intensified marketing communication activity, including Branding. Recruited a number of sales and marketing officers to boost sales.
- Established additional branches/service centres to widen MI's presence and cater to a much larger audience.
- Expanded the Microfinance Unit to proceed ahead on an aggressive marketing drive. A total of 15 Branches were fully equipped with resources to handle microfinance business, under the supervision of the Micro unit.
- Improved internal processes to speed up processing time of credit disbursement and ensured efficiency and accuracy of operations by seeking greater ICT support.

COMBINED LENDING VOLUME MAXIMISATION WITH THE NEED TO MAINTAIN OPTIMAL YIELDS

- In driving MI's core business of lending forward, the credit and marketing divisional staff remained aggressive, thereby attracting new customers and managed to also sustain repeat business.
- Lending volumes were kept at desired levels, whilst ensuring an optimal product mix was maintained that generated satisfactory average yields, which nevertheless remained behind anticipated.
- In keeping to MI's strategic prerogatives of business growth, the Management continued to broad base its lending activities across targeted segments, increasing presence and service potential further, similar to the last few years.
- In striving for targeted spreads, MI ensured not to compromise on asset quality, considering the witnessed decline in credit repayments across the industry.

Lending product mix	Actual volume 2015/16 %	Actual volume 2014/15 %	Budgeted volume 2015/16 %	Targeted segments					
				Corporates	SME	Affluent mass	General mass	Government employees	Low income urban/rural
Hire purchase	19.51	33.93	40	✓	✓	✓	✓	✓	✓
Finance lease	40.99	28.61	20	✓	✓	✓	✓	✓	✓
Vehicle loans	12.49	18.08	26	✓	✓	✓	✓	✓	✓
Term loans	8.59	5.09	4	✓	✓	✓	✓	✓	
Property mortgage	7.36	11.47	8	✓	✓	✓	✓		
Pledge loans	8.13	2.76	2	✓	✓	✓	✓		
Microfinance loans	2.84	0.06	0				✓		✓
Operating lease	0.09	0.00	0	✓					

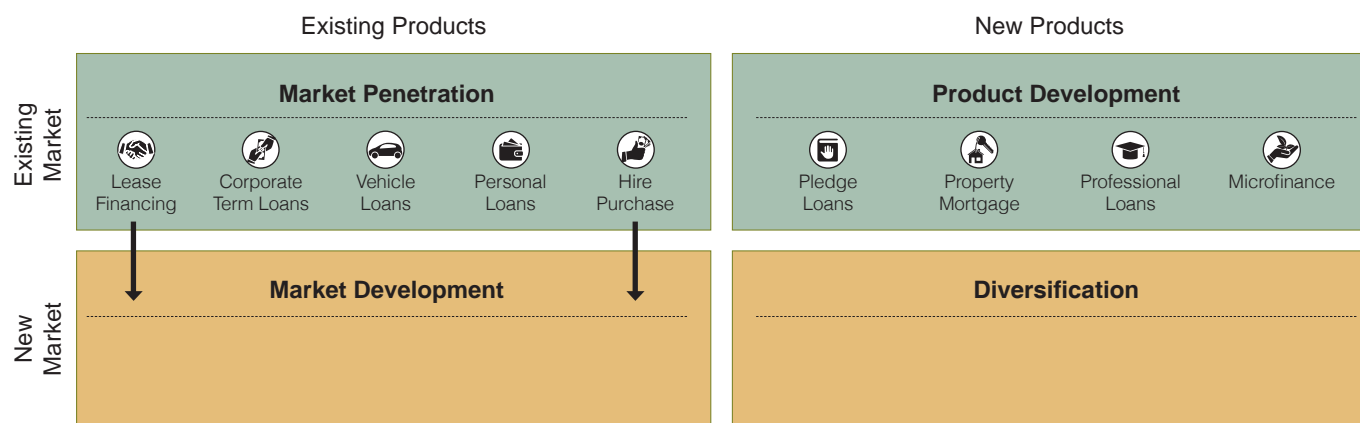
TARGETING VIABLE CUSTOMER SEGMENTS

- In deciding target markets and devising lending strategy, the Management analysed potential market segments available for MI and then identified the suitable product mix to cater to varying needs of borrowers.
- Market segmentation was used as an imperative strategic tool to support the Company in gaining further ground in MI's lending business. This is considering the growing diversity in the Sri Lankan financial markets and changes arising among specific sectors and other economic shifts, technology advancement and social changes.
- Based on these identified market segments, it was proposed to strive for an optimal lending product mix for the next three years, including this financial period as means of diversifying business risk, improve volumes and maintain anticipated yields amidst rising competition.

PRODUCT MARKET STRATEGIES

- Separate product market strategies were adopted, for each of the key lending products and this was based on each product’s standing in the product life cycle and the assessments made on potential market segments identified.
- Until a few years before, MI’s traditional financing products, being the lease and hire purchase financing business, was predominantly targeted towards a selective audience who were mainly located in the Western Province and in a smaller scale, derived from a few outside branches. Since then, MI took bold steps and focused on expanding market share, targeting higher lending volumes from these traditional lines. A conscious effort therefore, was made from 2008 onwards, in pursuing market development strategies and like last year, MI followed through on this aspect during this period, to maximise lending opportunities.
- MI continued to strengthen its presence outside the Western Province as a means of securing new customers. In offering a superlative and differentiate service, MI’s branches were streamlined with necessary staffing, online network capabilities and other operational support. All branch locations were carefully selected in strategic hubs of the country, allowing greater flexibility for branches to seek a wider spectrum of customers and to grow business.
- While building traditional financing business, this year too MI emphasised on developing the Company’s personal loans, corporate loans and vehicle loans to sustain anticipated overall volumes. These forms of lendings helped to improve its overall average lending yield and also helped to counter declining yields observed from traditional financing business lines.
- Recently introduced pledge loan business and property mortgage business was mostly promoted to existing market segments as a type of product development strategy.
- MI expanded our microfinance operation from 2015, moving away from doing business in a few locations to a more aggressive one, strategically targeting potential regions across the country.

PRODUCT MARKET LENDING STRATEGY ADOPTED



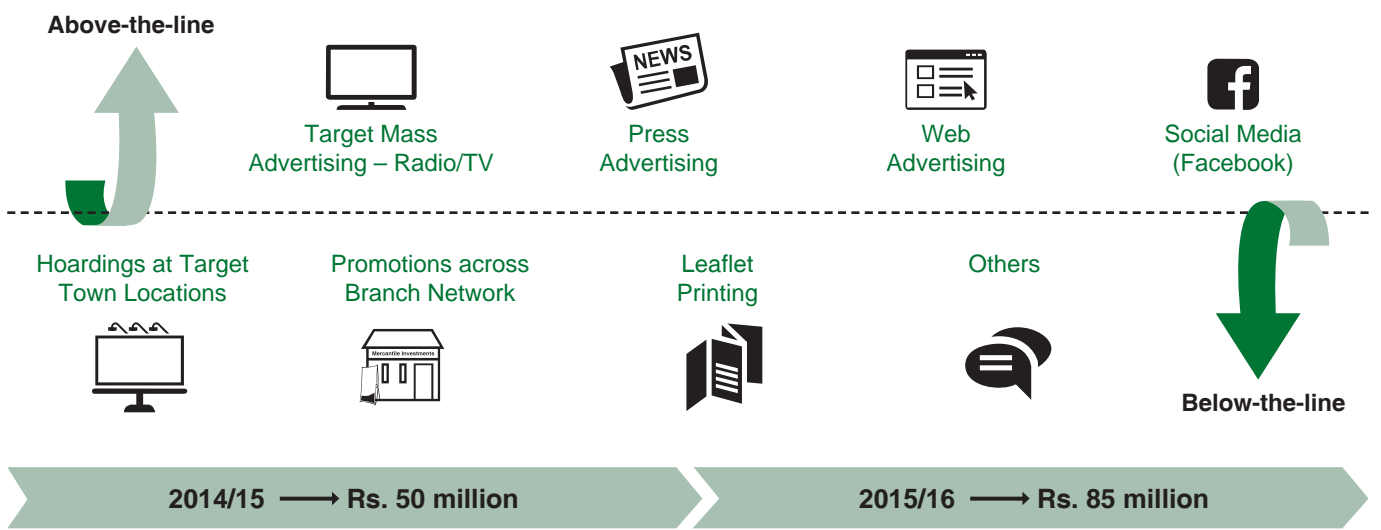
MAINTAINING SERVICE EXCELLENCE

- In fulfilling excellence in service standards, core lending operational processes were reviewed and improved with additional changes, taking account of both internal feedback and the position after benchmarking with competitors.
- In managing relatively risky higher yielding lending products, MI strengthened lending operations, enhancing both documentation requirements and the credit review process, in consultation with the recovery and legal divisions.
- To support front end lending operations, MI improved existing ICT infrastructure, constantly updating online network capabilities based on user requirements and other operational support across the network with additional system features. This helped front line and back end staff to expedite their work faster, thereby putting through a more superlative service.
- The credit and marketing staff, recovery officers and deposit staff were subject to regular training on improving service skills. Both on the job training and desk learning in customer service aspects, helped boost service standards.
- Management further emphasised on the importance of enhancing workforce productivity to drive service excellence. Periodic sales targets and other KPI indicators were linked to the biannual rewarding system.

MARKETING COMMUNICATION STRATEGY

- Through the Senior Manager – Marketing and Communication, a number of promotional campaigns were initiated to build the MI Brand, especially to create awareness about our plethora of lending services, in newly established regions.
- The Management resorted to both above the line and below the line activities to promote business across the country.
- MI's corporate website provided a stream of key corporate information about the Company and the product offerings as a means of promoting business online.
- Social media networks such as Facebook were strategically used to build awareness among youth and other tech-savvy segments of MI's product offerings.

ADVERTISING AND PROMOTION APPROACH



OUTLOOK ON LENDING STRATEGY

MI could see lending business growing rapidly to greater sophistication with the introduction of more vibrant and innovative products being offered to the market in the next few years. Diversification would be the prime strategy for the LFC sector, going outside the industry's comfort zone of financing traditional business lines. Industry would look to serve more middle income and lower class income earners, particularly tapping on the potential microfinance market and also other personalised credit to support the lives and livelihoods of rural population living outside the western province.

MI's forecasted lending growth expectations set for the next few years, is bound to bring fresh challenges to the Company, specifically in the backdrop of a fierce competitive market for credit. While consolidating on what MI does best, the Company hopes to do more traditional financing by penetrating into other potential segments by tapping into potential sources through our active set of agents and suppliers. In meeting these high growth expectations, MI hope to expand the microfinancing business in rural areas and also have plans to take other non-traditional product lines such as personal lending, property mortgage lending and pledge loan facilities to new heights, capitalising on the growing branch network.

3 KEY STRATEGIC IMPERATIVE – DEPOSIT BUSINESS STRATEGY

DEPOSIT BUSINESS HIGHLIGHTS

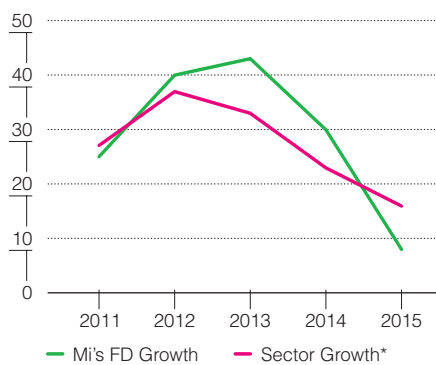
- Based on an independent review of Ernst and Young, MI made specific changes at both head office and branches to improve deposit operation. A number of changes made to improve speed, convenience and compliance aspects at every location.
- Offered a broad-ranging interest rate structure, that blended with MI’s funding needs, whilst affording special rates for depositors upon fulfilling of specific requirements.
- Further strengthened the marketing arm of the deposits division and carried out various promotional campaigns at head office and at branches.
E.g. Town storming, e-media, TV, radio, newspaper and other promotions to specific identified market segments.
- Intensified promoting campaigns related to MI kids’ savings accounts.
- Special customer promotions and schemes including special rates for senior citizens.

GROWING THE FIXED DEPOSIT BASE

Growing the fixed deposit base remained a key priority as it continued to account for over 99% of total business and remained the primary source of funding for the Company. Therefore:

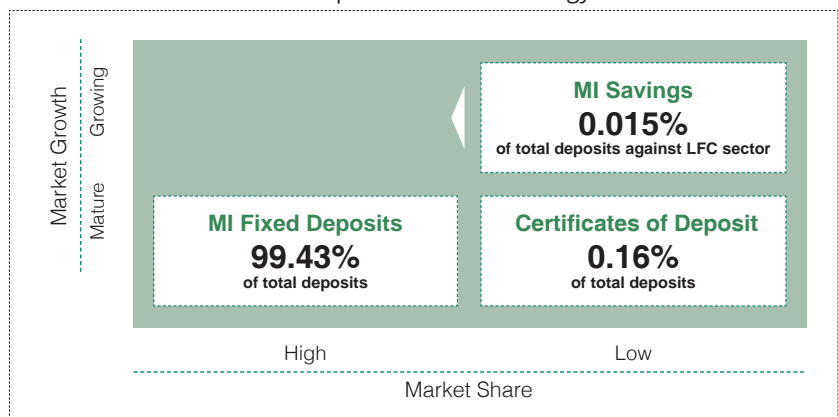
- To maintain satisfactory growth expectation levels on FDs amidst a highly competitive market, it was necessary that MI’s branch network played an important role in consolidating our position in deposit mobilisation, especially in the developing regions. MI continued to offer our customers profound services that the Company is capable of, whilst reminding them of MI’s reputation as a financially strong enterprise.
- As a medium-term strategy, a thorough study of deposits operations was carried out to improve existing processes and payment system to enhance customer convenience. Ernst and Young, Chartered Accountants, were engaged in documenting existing processes and also to recommend process improvements and to highlight weaknesses.
- Easing payment process and widening payment options and planning for greater decentralisation of payment of deposit maturities, interest refunds and loans against deposits.

MI’s FD Growth vs Sector Growth %



*Source: CBSL Annual Report 2015

MI’s Deposits Product Strategy



BROAD BASING THE DEPOSIT PRODUCT RANGE

- Plans were implemented to develop MI's savings deposits business, considering its potential, taking into account the projected individual income growth of people and growing savings habit among individuals, MI's savings brands MI Kids and MI Max were promoted across MI's branch network.
- MI provided greater autonomy and decentralisation at branch level to canvass savings and made specific changes to operational processes and strengthened the marketing arm of Deposits Division to boost mobilisation levels beyond the Western Province.
- In contrast, lesser attention was paid in building our CD base (certificates of deposit), taking note of the lowered demand that prevailed due to stringent regulations imposed since 2006 on customer identification impacting customer anonymity. CDs being in a non-growing market, was offered on a case-by-case basis as an ancillary product, mainly to existing depositors. As a result, the CD base continued to dip compared to last year.

OUTLOOK ON DEPOSIT STRATEGY

The predicted growth in national output for the next few years, coupled with improving individuals income, should fuel people's wealth and lead to higher savings levels. MI can expect the term based deposit market to keep growing, with sufficient opportunity for expansion in base, despite the competitiveness associated with the product. Sustaining a well-balanced FD base will be of strategic importance for MI to provide the necessary funding support for the planned loan book growth and also in maintaining anticipated spreads. Anticipating market interest rates gradual upward movement, the Company would attempt to mobilise more longer term deposits. Further, considering the expected growth in people's savings and the potential for the industry to tap on the savings deposit market, the Company will pursue a strategy to develop this side of business and to tap new segments of society, utilising MI's strong branch network. MI's deposit marketing arm will work closely with the branches in building brand loyalty and continue to create awareness beyond the Western Province. MI will utilise ICT support to the fullest in identifying convenient ways of doing business with emphasis on pursuing easier ways of payments through e-payment solutions and ATM support. MI hope to pursue cross-selling and also afford additional product features that add value to the final product. In growing the customer base, MI will pursue new segments and develop potential segments such as youth and middle income earners.

Support Divisions' Operational Review

4

KEY STRATEGIC IMPERATIVE – RECOVERY STRATEGY

RECOVERY STRATEGIES VS ACTUAL POSITION ACHIEVED

Recovery Strategy	Achievements in FY 2015/16
Utilisation of Internal Valuation and Asset Disposal Unit	No. of internal valuations 6,861 No. of assets disposed 332
Smooth repossession and legal process	No. of assets repossessed 428
Minimum court cases in the medium term	Successfully completed 154 cases
Policy of maintaining over 95% collection level for first six months and striving for zero arrears	Achieved a 94% collection level for first six months
Special Recovery Force (SRF) teams to speed recovery process	Successfully increased SRF teams from two to six

KEEPING NON-PERFORMING LENDING LEVELS WELL-MANAGED

- The Recovery Division worked closely with credit and marketing, following up on lending accounts that moved into one month and over in arrears. By resorting to strict recovery measures and a close monitoring process, the Recovery Division was able to keep NPL levels intact, recording a 3.39% ratio for this financial year, satisfactorily below industry average NPL levels.
- As a firm strategy of managing problematic default accounts, MI proceeded with strict recovery measures such as ceasing of vehicles and resorted to legal recourse for problematic accounts.

LEGAL CASES POSITION STATUS

Product	Cases filed in 2015/16	Successfully completed cases in 2015/16	Cases filed in 2014/15
Hire purchase	169	82	236
Finance lease	118	47	117
Other loans and advances	50	25	80

STRENGTHENING SPECIAL RECOVERIES FORCE

- The Recovery Division adopted a strong recovery process, initiating a specialised recovery team, called the Special Recoveries Force (SRF) to provide a 24 hour, 7 days a week recovery effort. Considering the need for more than one SRF team, management put to action additional SRF teams, who were able to contribute to the improvement of collection levels.

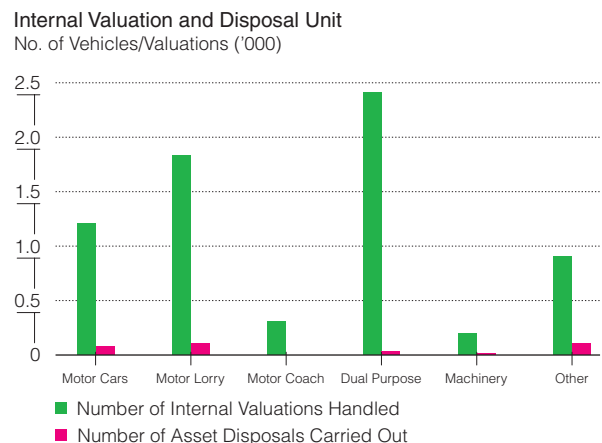
EFFECTIVE UTILISATION OF THE INTERNAL VALUATION AND VEHICLE DISPOSAL

- The Internal Valuation and Vehicle Disposal Unit established in 2014 at MI's Maharagama yard centre, was set up to ensure vehicle valuations are accurate and also to assist the Recovery Division in its speedy disposing of ceased vehicles. The unit remained focused to these objectives in coordination with Recovery and Legal Divisions, to expedite problematic cases.
- A number of "Riya Pola" vehicle sale events were held at various times of the year, to facilitate the sale of motor vehicles repossessed during the year.



INTERNAL VALUATION AND VEHICLE DISPOSAL UNIT'S EFFORT DURING FY 2015/16

	Number of internal valuations handled	Number of asset disposals carried out
Motor cars	1,208	72
Motor lorry	1,830	105
Motor coach	310	6
Dual purpose	2,403	30
Machinery	209	9
Other	901	110
Total	6,861	332



TRAINING RECOVERY OFFICERS TO ENSURE AN EFFECTIVE RECOVERY PROCESS

- A number of training sessions were organised to enhance recovery staffs knowledge on recovery practices, collection monitoring with special focus on recovery impacts on loan impairment charges. Staff were trained to make individual impairment assessments independently.

OUTLOOK ON RECOVERY STRATEGY

Considering the expected growth in the loan book in future, a smooth and effective recovery process would be vital requisite, in order to safeguard asset quality and control NPL levels. By venturing into better yielding but relatively riskier products, such as property mortgage backed loans, personal loans, microfinance etc., MI will ensure close supervision, especially over collection levels and will implement an effective recovery process for overdue accounts, to maintain NPLs below anticipated threshold limits. The Recovery Division hopes to maintain sound collection levels through the existing recovery procedures and will strive for following specific overall recovery goals, even on a long-term perspective:

Recovery goals	Targeted medium-term FY 2015/16 to FY 2017/18
NPL ratio	<3%
1st six months recovery ratio	>95%
Overall collection ratio	>65%
Contracts in arrears between 3 to 5 months	<4%
Arrears ratio	<25%

5 KEY STRATEGIC IMPERATIVE – TREASURY MANAGEMENT

TYING-UP FOR LOWER COST FUNDING

- The Treasury Division, as part of its management of liquidity and funding, secured a number of funding lines at attractive rates, tying up mainly with MI's long-standing bank partners.
- Funds were also obtained through securitisations in collaboration with financial intermediaries. Unlike during the previous year, MI did not proceed on any debenture issues or did not source commercial paper based funding.

Borrowing Position

Source of funding	Total facility value/issue value FY 2015/16 Rs. million	Total facility value/issue value FY 2014/15 Rs. million	New borrowing lines/debt issues FY 2015/16	Interest rate range applicable in FY 2015/16
Bank borrowings				
Long-term loans	2,191	3,206	6	8.50% – 10.50%
Short-term loans	9,900	1,350	31	6.50% – 9.25%
Money market loans	600	350	3	7.50% – 9.25%
Commercial papers				
Commercial papers	Nil	321	Nil	Nil
Others				
Long-term loans – securitisations	2,000	23	2	9.25% – 9.35%
Debenture issue	Nil	200	Nil	Nil

IDENTIFYING MORE LONGER TERM FUNDING OPTIONS

- In bridging less than one year assets and liability mismatches and also to mitigate interest rate risk arising from the persistent rise in rates, Treasury pursued a number of one year and above borrowings, tying up with banks.

OUTLOOK ON FUNDING STRATEGY

Considering the prevailing positive economic sentiments and the expected growth in national economic activity, the demand for finance company lending products should persist at healthy levels. However, in the backdrop of a highly competitive market for the mobilisation of deposits, borrowing will be the other key source of funding to support lending business. As sector spreads continue to contract and with interest rates moving up steeply again, sourcing cheaper funds would remain high priority. MI expects to maintain close relationship, with our long standing banking partners to secure fresh facilities to fund our planned lending growth. MI will identify international funding options as well, considering local cost of funding becoming costlier.

6 KEY STRATEGIC IMPERATIVE – COST MANAGEMENT

MAINTAINING AN ACCEPTABLE COST TO INCOME RATIO

The process of cost management involved analysis of key costs on an ongoing basis. Accordingly, a number of initiatives were implemented to manage the rise in overhead costs arising from expansion and inflationary factors.

- Department-wise and Branch-wise cost breakdowns were furnished to respective heads on a monthly basis for them to ascertain their level of cost and also for them to manage rise in recurring costs, expecting to cut down on costs wherever possible and to eliminate wastage.
- Ensured branch expansions were conducted conservatively, without high capital investment.
- As means of controlling large recurring cost items, various costs reduction practices were recommended and fresh initiatives were implemented by management during FY 2015/16.

Focus area	Key cost reduction initiatives – 2015/16
Controlling telephone cost	<ul style="list-style-type: none"> • Through a mobile service provider continued to secure optimal rates by entering into a group package where outgoing calls among MI staff were given free of charge. • Obtained free of charge handsets for staff members coming under the Group mobile package.
Reducing electricity usage	<ul style="list-style-type: none"> • Setting up LED lights at most of MI locations as opposed to fluorescent lights to cut down on costs.
Controlling the use of stationery	<ul style="list-style-type: none"> • Establishing a complete stationery/consumable monitoring system that generates MIS unit-wise values and quantities enabling management to monitor and have control over usage. • Use of smaller pack sizes for printing documents as opposed to larger packs thus controlling usage.
Printer cartridge usage	<ul style="list-style-type: none"> • Moved from ink cartridge printers to laser printers, increasing the ability to generate higher number of copies thus reducing each copy cost notably.
Motor vehicle fleet	<ul style="list-style-type: none"> • Since trimming the MI vehicles fleet, catered to ad hoc transport requirements by obtaining outside transport services as and when required.
Controlling water usage	<ul style="list-style-type: none"> • Use of well water to operate vehicle cleaning and other non-consumption related activities, cutting down on main water usage.

OUTLOOK ON COST STRATEGY

The planned operational expansion and increase in branch network will continue to pose a challenge to maintain required profitability growth as the Company can expect cost structure too to rise. The gradual pick-up in inflation would add additional pressure to already thinning margins due to competitive pricing strategies adopted by the sector. MI therefore, will remain conservative in its expenditure in the backdrop of further organisational expansion. The Company hopes to pursue MI's policy of setting up branches with minimal start-up costs as opposed to heavy initial capital investment to reach early breakeven income levels.

Other cost including cost on recruitments will be incurred only after due feasibility, comparing additional cost with resulting benefits and income increases. More emphasis will be placed on improving staff productivity in the next two to three years to ensure that MI derive higher levels of income, without absorbing large levels of personnel cost. The Management will continue to closely review overhead cost elements, business unit wise and department wise, on a monthly basis to tighten usage and eliminate waste. In keeping with the strategic plan, the Management will work towards maintaining a healthy cost to income position overall by managing cost to income positions, drilling down to branch level impacts. To cut down on energy cost, the Company expects to evaluate utilisation of solar power as an alternative for some of the locations in the next period.



KEY STRATEGIC IMPERATIVE – EFFECTIVE IMPLEMENTATION OF INFORMATION AND COMMUNICATION TECHNOLOGY (ICT)

KEY INFORMATION AND COMMUNICATION TECHNOLOGY INITIATIVES FY 2015/16

- Moved physical servers to virtual servers, wherever possible, to reduce hardware cost.
- Introduction of Mini PCs to minimise the space requirement as well as power consumption.
- Improved the current basic HRIS system to a complete human resource management solution, including online leave applying procedure.
- Fixed deposits system was enhanced to meet requirements proposed by Deposits Division, which enable them to carry out their daily operations, minimising manual intervention.
- Generated additional MIS reports, which will enable the Management to take effective decisions.
- Moved the critical mail users to cloud base, which enabled mobility and availability.
- Seeking of an Independent ICT expert's views to enhance system features and capabilities.
- Installation of CCTV Systems across MI locations.

Being a technology savvy institution, MI understand the strategic importance of ICT management in bringing forth differentiating advantage in terms of business intelligence and reaching excellence in service standards. The Finance company sector being ever so dynamic and sophisticated in the current business context, calls for institutions to embrace best in industry technology to handle ICT requirements. Considering this vital necessity, MI's ICT backbone has been set-up essentially to provide appropriate technological capacity that is agile and scalable to meet growing business demands. The ICT policy framework of the Company that embraces international ICT standards, was fine-tuned and implemented in full throttle from last year.

UPHOLDING HIGH ICT STANDARDS

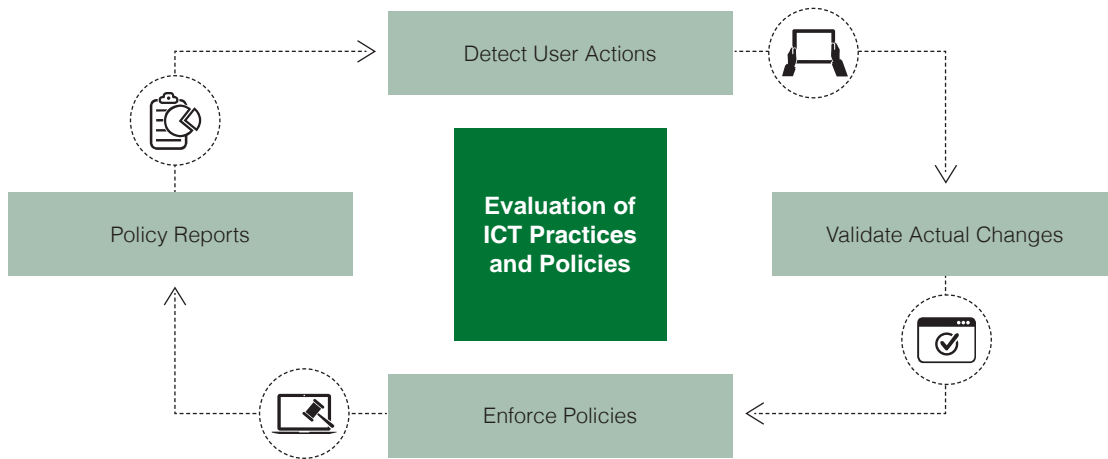
- In maintaining high ICT standards across the organisation, ICT-related activities are governed by industry accepted standards that are laid down by the Management. These ICT standards presented in the form of policies and practices, have been specified in the ICT Procedure Manual (IPM), Information System Security Policy (ISSP), System Development Standards (SDS) and the ICT Contingency Plan developed for the Company.
- In supporting an effective ICT environment, these policy documents played an integral role in setting forth a professional approach to the provision of information for decision-making. Policy manuals specified clear rules and norms for the ICT Department as well as the users attached to business units and other support functions, to sustain a credible and effective ICT environment.

SYSTEMS COMPLIANCE

- Compliance audits on ICT-related operations are conducted by both Internal and External Auditors on an ongoing basis. Any non-compliance to ICT Procedure Manual (IPM), Information System Security Policy (ISSP), System Development Standards (SDS) and the ICT Contingency Plans were reported back to the Audit Committee.
- MI's ICT systems were in compliance with Sri Lanka Accounting Standards and Central Bank Rules and Guidelines. Licensed software were continued to be used in compliance with Intellectual Property Act of Sri Lanka.
- There was a thorough independent review conducted by an outside ICT Specialist, who provided advice on broader system weaknesses and possible solutions, which improved compliance.

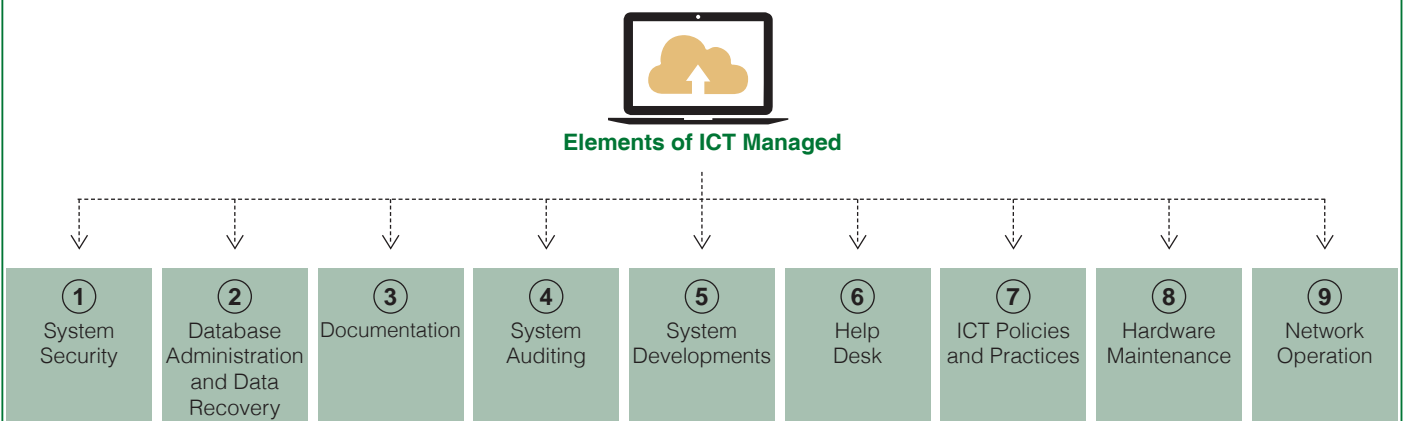
ICT POLICIES AND PROCEDURES

Developed ICT policies and practices have evolved over time through a formal process. At MI, this process firstly identifies user actions and then goes on to validate actual changes done, so that effective policies can then be developed and put to practice. Developed policies are eventually reported back to the end users, so that there is clear communication of ongoing organisational ICT expectations for all to know and follow.



MANAGING KEY COMPONENTS OF ICT FRAMEWORK

By having established an effective ICT environment, respective divisions are able to obtain full value of MI's ICT system to execute various business functions. ICT supports all levels of the hierarchy, so that effective decision-making could take place on a daily basis. To make this happen, MI's ICT framework comprises of nine core elements that are interlinked and administered centrally by the ICT Division.

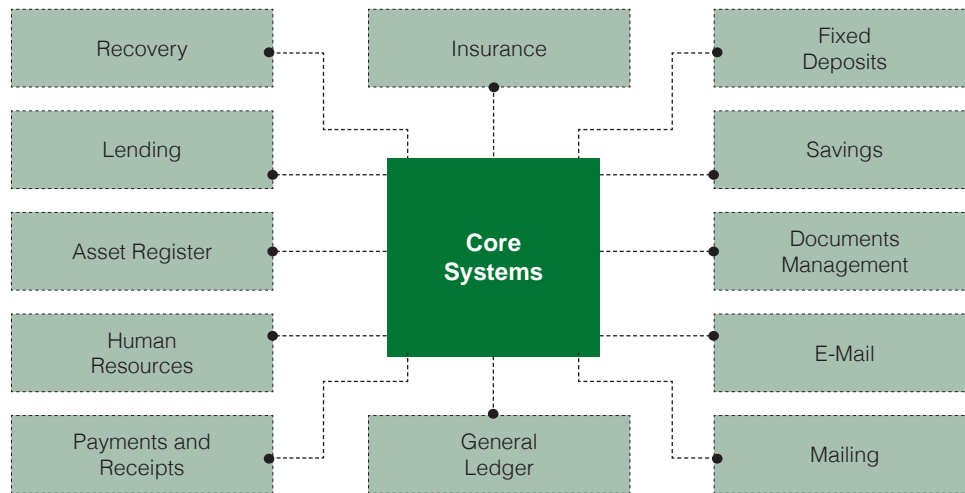


USING LATEST ICT TECHNOLOGY

- The ICT Department, which is headed by AGM IT, coming under the purview of the Finance Director, consists of a highly conversant ICT team, who are responsible for all system development, network operations, system security and database administration, which is handled fully in-house.
- MI's core system is internally developed and uses IP-VPN technology through a renowned ISP provider in Sri Lanka. The head office's main servers have been interconnected with the branch network system for online processing, so enabling core divisions to expedite transactions without delay.

ESTABLISHING THE ICT ROLE IN SUPPORTING BUSINESS OPERATIONS

- The information system of the Company that started from a simple PC-based network system, has now evolved to a highly reliable and stable multi-user client server architecture, aided by the growing advancement in technology.
- A stable and reliable platform has been established through a world renowned Oracle Database Management System, to execute core operational functions of the Company. The network servers run on Microsoft windows server 2008-2012, while both mail and proxy servers run on Linux.
- MI's software modules use '.NET' platform to facilitate speedier processing of data and to enhance compatibility with new operating systems and hardware solutions.
- In assisting operational functions associated with our finance business, MI's core system comprises a number of sub modules that cater to information needs of front-office and back-office operations. The core system supports all key front end and back end operational areas, which are fully-automated, namely, lending operations, recovery operations, fixed deposits, savings and insurance and at the same time assists support functions activities such as payments, receipting, inventory management and general ledger.
- Core system user features were further enhanced during the year so that MI's ICT framework remains ahead in terms of capability and user-friendliness. With the guidance of the ICT Consultant, significant improvements were made to core system and its sub modules, especially in terms of enhancing their reliability, efficiency and effectiveness.
- Based on the recommendation of the IT Consultant, measures were also taken to enhance MI's overall ICT architecture.
- Plans were kick-started to also enhance user knowledge in present applications, by conducting extensive user training.



BROADENING INFORMATION SUPPLY THROUGH ICT

The ICT Department worked closely with users of key divisions to widen the information supply for quality decision-making. The core system was enhanced to generate a number of

additional reports during 2015/16, which were taken daily, weekly, monthly or as and when required.

Division	Description of new ICT reports developed in FY 2015/16	Frequency
Credit	AMS lending module	
	Customer detail	Daily
	Loan to value ratio and its summary	Daily
Recoveries	AMS lending module	
	Minus balances	Daily
	Notes branch-wise	Daily
	Personal loans daily interest	Daily
Finance	AMS lending module	
	Type of financial accommodations – term loans	As at date
	Age analysis	As at date
	Top 25 borrowers	As at date
	Type-wise activations	Daily
	Type-wise balances	Daily

Division	Description of new ICT reports developed in FY 2015/16	Frequency
Micro	Microfinance system	
	Loans issued	Daily/Weekly
	Repayment detail	Daily/Weekly
	Repayment summary	Daily/Weekly
	Loans settled detail	Daily/Weekly
	Underpayment detail	Daily/Weekly
	Outstanding detail	Daily/Weekly
	Insurance collection summary	Daily/Weekly
	Insurance collection detail	Daily/Weekly
Weekly attendance	Daily/Weekly	

MANAGING ICT ASSOCIATED RISK

- The drive towards e-governance unsurprisingly, has increased MI's reliance on ICT. This brings with it varying degree of associated risk that need to be managed by the Company. Therefore, during the period it was pivotal that the Company reviewed its ICT policies and practices regularly that addresses risks. MI continued to assess the adequacy of the contingency plans that the Company has put in place to counter broader contingency events.
- The Business Continuity Plan (BCP) of MI lays down a course of action, assigning due management responsibility into a specified high level team to deal with contingency events and major disasters. The BCP takes into account impacts to the ICT environment and counter strategy to deal in such a situation. It focuses on disaster recovery from a potential disaster event to minimise disruptions that could occur to the ICT environment and provides cost effective solutions to assure business continuity until full recovery takes place.
- Key actions taken during FY 2015/16 by the ICT recovery team to counter potential risks to Company's ICT environment include:
 - Central file servers, data base servers and automated data replication servers were kept fully operational to replicate data to the special disaster recovery (DR) sites, thereby minimising any possible data losses. These systems were backed up by UPS systems and by auto starting power generators as an additional precaution.
 - Full implementation of firewalls, cloud security services, Active Directory (AD) security policies, virus walls and VLAN infrastructures within the Company's network as a means of securing the ICT systems from external and internal threats.

USER TRAINING ON ICT SYSTEMS

An effective two prong training process was implemented by the ICT Division to train existing users and newly joined recruits to get accustomed to system features.

- As a micro training strategy, a mobile ICT team was active across the network, meeting branch users to provide clarification to system issues and conducting on-site training. This involved appraising users on how to maximise the available system features for their daily tasks and also on troubleshooting aspects related to PCs, printers and Local Area Networks.
- Separately, the ICT Department conducted centralised training sessions and workshop programmes during the financial period, focusing on appraising users on the application of IT security policies and other related standards that are currently practiced.

OUTLOOK ON ICT STRATEGY

With the technological advancements taking place, ICT will continue to play an essential part in shaping the future of the financial sector, which will support in enhancing core business activities. Dependence on ICT will intensify with MI's planned operational expansion, especially owing to the growing customer expectations for customised financial solutions, coupled with the need to deliver a superior service from all facets of our business. MI will continue to seek innovative technological advancements to facilitate greater autonomy with key operational functions and to support forecasted branch expansion in future. MI introduced the new Oracle 11C database system to improve core system capabilities in order to upgrade core system capabilities. MI envisage this enhancement to facilitate the forecasted growth in branch network, especially because it provides features which would improve the efficiency of the system such as database vaults, self-managing, automatic memory management, invisible indexes and flashback data. To enhance MI's core system capabilities into another level, the Company's ICT Division is planning to implement Oracle 12C database system and latest Net and Web technology.

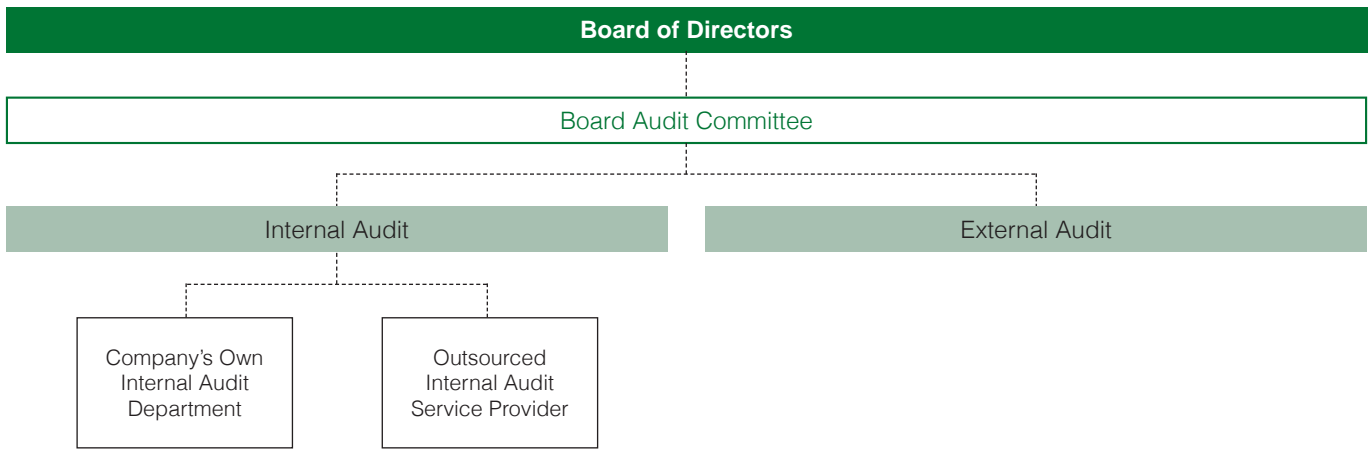
The ICT Department expects to train a large number of users to ensure productive use of the prevailing core IT system. Eventual future system upgrades and the introducing of new system features will be a key area of focus, in such training seminars. In enhancing system architecture and soundness, proposed recommendation of the ICT Consultant will be pursued, which will certainly increase the Company's focus on system security and customer data confidentiality. MI hopes to revisit the ICT control environment to ensure required safety features remain effective in the backdrop of rising business sophistication.

8

KEY STRATEGIC IMPERATIVE – AUDIT, RISK MANAGEMENT AND COMPLIANCE

STRUCTURED AUDIT AND REPORTING FRAMEWORK

- The Internal Audit structure of MI was established by its Board to safeguard corporate assets, to expedite their responsibilities on implementing a sound internal control and risk mechanism. For this purpose, the Board has established a formal and transparent structure of audit, equipped with professionally qualified and experienced staff, who are given the required infrastructure and independence.
- MI's internal audit mandate has been formally established through a Board approved 'Internal Audit Charter'. While recognising the Internal Audit as a value adding function of MI, the independency of the internal audit team is ensured by this Charter to deliver the objective assurance support to the Board.

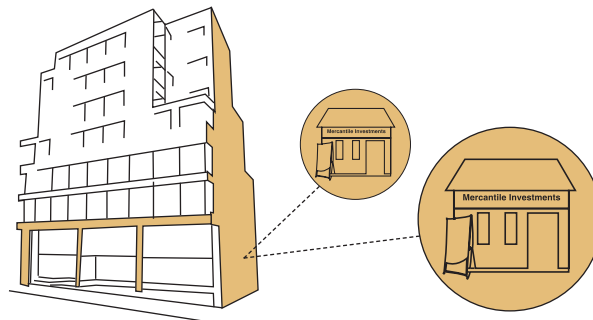


STRATEGIC AUDIT GOALS

- Internal Audit Division and outside service provider, collectively ensured that the entire audit scope is covered for the selected locations/departments according to their respective approved audit plans.

Internal Audit Coverage FY 2015/16

Head Office	
Main Audits	Surprise/ Follow up Audits
No. of Audits Planned	
4	4
No. of Audits Completed	
4	4



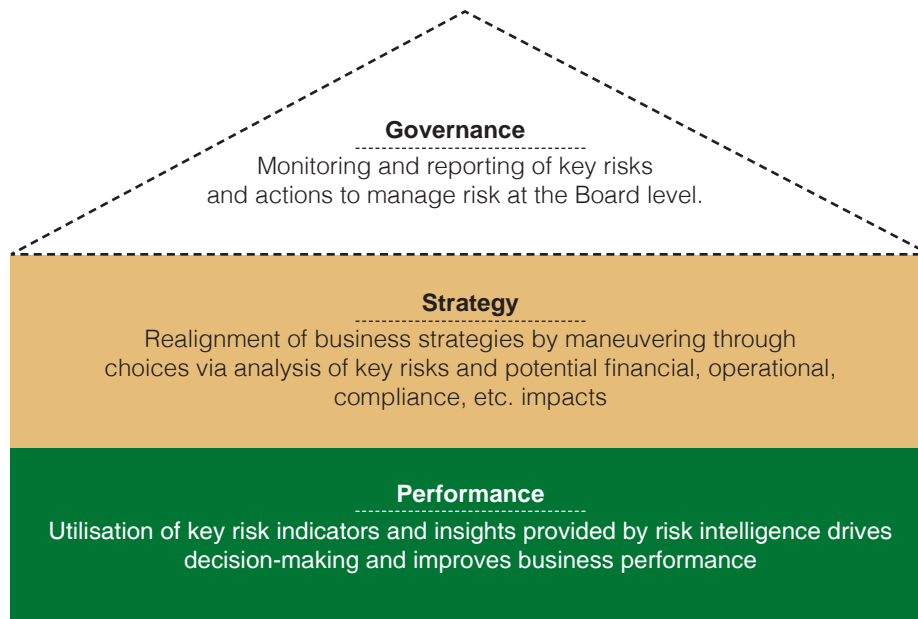
Branch	
Main Audits	Surprise/ Follow up Audits
No. of Audits Planned	
25	25
No. of Audits Completed	
22	19

COMPREHENSIVE RISK-BASED AUDIT COVERAGE

- The audit plans developed were based on a risk-based audit approach, that focused on carrying out increased audit coverage for high risk branches. This approach was commenced for 2016.
- The Company adopted a strong risk management and compliance culture to provide MI's Board, shareholders and other key stakeholders with independent and objective assurance that the organisation operates with integrity, to high standards and within its risk appetite.

COMPREHENSIVE 360 DEGREE RISK AND COMPLIANCE COVERAGE

- The Company utilised risk management as a link to strategy, enhancing performance and for better governance. To further improve the compliance and risk management sphere, various measures were taken during the period under review as explained in the Risk Management Report given further on.
- The Manager – Risk and Compliance was required to prepare detailed Risk and Compliance Reports for internal and external reporting purposes. The Manager – Risk and Compliance also provided analytical support to various divisions of the Company, and ensured concerns are communicated to the right individuals.



FUTURE OUTLOOK ON AUDIT, RISK MANAGEMENT AND COMPLIANCE STRATEGY

The dynamic environment and planned growth prospects forecasted by the organisation will draw new risks to MI's operations. Accordingly, the audit function will face new challenges and will need to be geared for the future. MI's focus on greater operational decentralisation will demand more indepth review from the Audit Division. The Audit Division will need to acquire more human resources to facilitate the requirements mentioned during the financial year under review. To be agile against a changing business environment, the Audit Division will continuously review and update its audit procedures and plans.

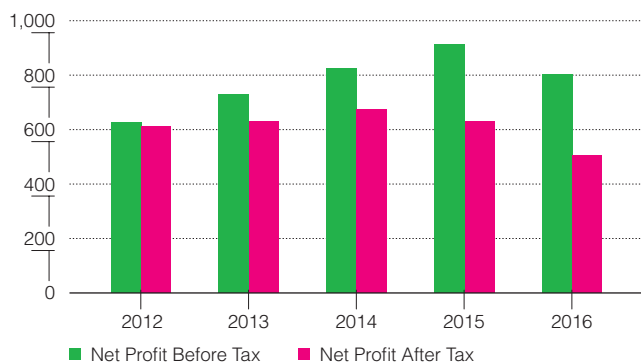
Financial Review

Overall Company Review

OUR INTEGRATED JOURNEY IN OVERALL PERFORMANCE AND OUTCOMES

	Last FY 2014/15	Now FY 2015/16	Expected FY 2016/17
Net profit after tax (NPAT) (Rs. '000)	631,272	505,019	>800,000
Net interest income growth (%)	33	1	>20
Dividends declared (Rs. '000)	88,677	21,042	>40,000
Return on shareholders' fund (%)	8.11	6.60	>10
Earnings per share (Rs.)	210	168	>250

MI's Pre and Post-Tax Profits
Rs. million



CAPITAL CREATION

We accumulated tangible and intangible value of key capital inputs that include human capital which was enhanced through knowledge building and other positive activity. Our strategy and the total efforts of the year eventually transformed the six capitals we monitor to various degrees as shown below. Despite observing a decline in financial capital formation, owing to the moderate profitability and impacted equity market, other capital transformations remained steady as planned.

Inputs from 1 April 2015

Financial Capital

- Profit after tax – Rs. 631 million
- Shareholders' funds – Rs. 7.77 billion
- Dividends declared – Rs. 88.6 million
- Debt mobilised – Rs. 5,682 million
- Total balance sheet assets – Rs. 28 billion
- Liquidity – Rs. 1,753 million (Liquid Assets)

Manufactured Capital

- The value of property, plant & equipment – Rs. 1.75 billion
- No. of vehicles in fleet – 130
- No. of locations – 26
- New ICT features added – 18

Human Capital

- MI's total staff strength stood at 588
- Gender balance Women – 16%
- Total Training hours – 4,075
- Performance appraised of total staff – 72.62%

Intellectual Capital

- No. of internal processes developed – 5
- No. of products developed – 0
- Subject matter related experts and technically sound staff – 75
- Employee retention (service more than 05 years) – 30%

Social Capital

- Social support projects – 15
- No. of awards and recognition – 3
- No. of large marketing campaigns conducted – 3
- Microfinance lending – Rs. 8 million

Natural Capital

- Lending for green products – 769 Hybrid/Electric vehicles
- GHG emission – Not evaluated
- Environmental expenditure – Rs. 100,000

MI's Six Capital Transformation

Key Activities	Outputs	Outcomes 31 March 2016
<ul style="list-style-type: none"> - Appropriate and responsible allocation of financial capital - Financial accounting - Treasury management - Efficient systems, controls and processes - Budgets/strategic plan targets 	<ul style="list-style-type: none"> - Cash flow generated by financial activities - Cash flow generated by other activities - Profitability and funding 	<ul style="list-style-type: none"> - Profit after tax – Rs. 505 million - Shareholders' funds – Rs. 7.65 billion - Dividends declared – Rs. 21 million - Debt mobilised – Rs. 8,527 million - Total balance sheet assets – Rs. 33.9 billion - Liquidity – Rs. 1,881 million (Liquid Assets)
<ul style="list-style-type: none"> - Expanding branch network - Efficiently managing of Company properties - Fleet management 	<ul style="list-style-type: none"> - Constructions completed during the year – Rs. 23.92 million - New branches opened – 5 	<ul style="list-style-type: none"> - The value of property, plant & equipment – Rs. 1.8 billion - No. of vehicles in fleet – 121 - No. of locations – 31 - New ICT features added – 20
<ul style="list-style-type: none"> - Training and Development – Performance management - Career path development - Employee engagement activities - Recruitment and selection - Talent attracting 	<ul style="list-style-type: none"> - Skilled management and employees - High quality service to the customers - Expertise of marketing and communication, vehicle valuations and disposals 	<ul style="list-style-type: none"> - MI's total staff strength stood at – 738 - Gender balance women – 18% - Total training hours – 10,526 - Performance appraised – 78%
<ul style="list-style-type: none"> - Invest in technology - Increase effectiveness of internal processes 	<ul style="list-style-type: none"> - Customised ICT system - Educated and trained staff 	<ul style="list-style-type: none"> - No. of internal processes developed – 12 - No. of products developed – 3 - Subject matter related experts and technically sound staff – 103 - Employee retention (service more than 5 years) – 26.5%
<ul style="list-style-type: none"> - Shareholder engagement - Customer relationship management - ATL & BTL marketing - Brand awareness building - PR management - Projects to build social value enhancement 	<ul style="list-style-type: none"> - Social projects initiated - Accolades received for financial reporting 	<ul style="list-style-type: none"> - Social support projects – 11 - No. of awards and recognition – 6 - No. of large marketing campaigns conducted – 2 - Microfinance lending – Rs. 559 million
<ul style="list-style-type: none"> - Using of LED lights - Use of well water - Lending for green products - Preservation for bio diversity - Carbon footprint certification 	<ul style="list-style-type: none"> - Saving of electricity units - Saving of water units - Total lending product portfolio for green products - GHG emission levels 	<ul style="list-style-type: none"> - Lending for green products – 1,584 Hybrid/Electric vehicles - GHG emission – Rs. 577.92 tonnes of CO₂ - Environmental expenditure – Rs. 549,900



‘Making all the difference’

Our customised regime of systems and processes allow us to be effective, quick and highly responsive to the needs and aspirations of stakeholders, whilst yielding efficiencies that the Company ploughs back into the wider community.

To elaborate performance overall basis, relevant Key Performance Indicators (KPI's) monitored by the Management are outlined herein. The commentary includes salient accomplishments made during the year as well as drawbacks witnessed in MI's march to success, providing graphical/tabular presentations with necessary comparative information. These disclosures should be read in conjunction with the SLFRS/LKAS based Financial Statements of the Company that appear in the Financial Reports section of this Annual Report. Unless otherwise stated, the financial information given in commentary, including supporting tables and graphs for FY 2015/16 and comparative information are SLFRS/LKAS based.

PROFITABILITY AND OTHER FINANCIAL KPI'S REMAIN NOTEWORTHY

Having set the tone for growth in core business performance, MI's profitability and other key financial performance indicators for the period under review, remained robust despite falling short of some of the optimistic growth expectations pursued according to the strategic plan. In the backdrop of a growing competitive market for Finance Business, the Company was able to post robust pre-tax and post-tax profits, taking commendable strides towards success in key areas of business, which is reflective from the KPIs elaborated below. The Company benefitted significantly from its efforts made in raising performance standards from various facets of MI's business, which helped sustain satisfactory financial performance in the midst of a challenging and somewhat volatile industry conditions.

KPI SUMMARY

Measurement	Last FY 2014/15	Now FY 2015/16	Expected FY 2016/17
Financial Perspective			
Revenue growth			
• Interest income growth (%)	7	4	>20
• Fee and other income growth (%)	(33)	26	<20
• Total revenue growth (%)	5	5	>15
Operating cost-to-income ratio (%)	53	61	>20
Operating income (Rs. million)	2,043	2,402	>3,000
Return on average asset ratio (%)	2.43	1.62	>2
Profit after tax (Rs. million)	631	505	>800
Value added (Rs. million)	4,400	4,592	>5,500
Customer Perspective			
Number of branches	19	24	>30
Number of new customers % of total customers:			
• Deposits (%)	20	2	>25
• Lending (%)	53	62	>25
On time delivery of service ratio in lending (%)	80	80	>80
Provincial customer reach (Nos.)	06 Provinces	07 Provinces	09 Provinces
Internal Business Perspective			
Employees			
Number of employees			
• Executive and above	247	333	>350
• Clerical staff	341	405	>400
Welfare and training cost per employee (Rs.)	62,080	24,044	>25,000
Employees below 40 years (%)	79	85	78-80
Workforce gender diversity male:female	5:1	4:1	5:1
Suppliers			
Number of agents for lending business	3,627	4,581	-
Registered agents for deposit development (Nos.)	3	3	-
Learning and Growth Perspective			
Number of new branches/service centres opened	3	5	>5
Number of new products launched/product extensions	1	3	>1
Total asset base of the Company (Rs. billion)	28.4	33.9	>38
Portfolio values (Rs. billion)			
• Lending	19.5	25	>30
• Deposits	13.7	15.8	>21
Employee training hours	4,075	10,526	>10,500

KPI: PROFITABILITY PERFORMANCE

Goal: In accordance with laid down medium-term Strategic Plan goals, MI expects to maintain steady post-tax earnings growth annually.

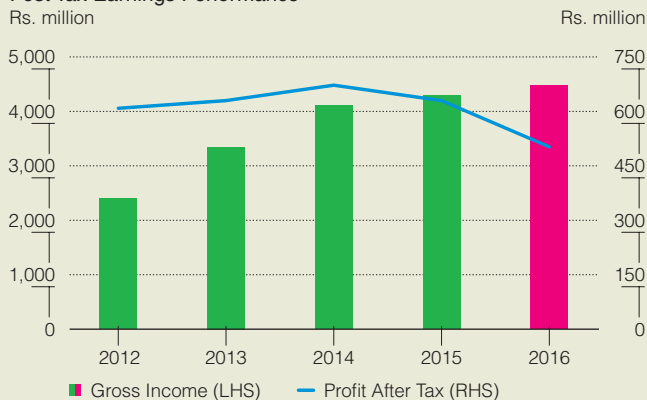
Targeted absolute
post-tax profit
>800

FY 2015/16 (Rs. million)	Actual	
	FY 2014/15 (Rs. million)	FY 2013/14 (Rs. million)
505	631	675

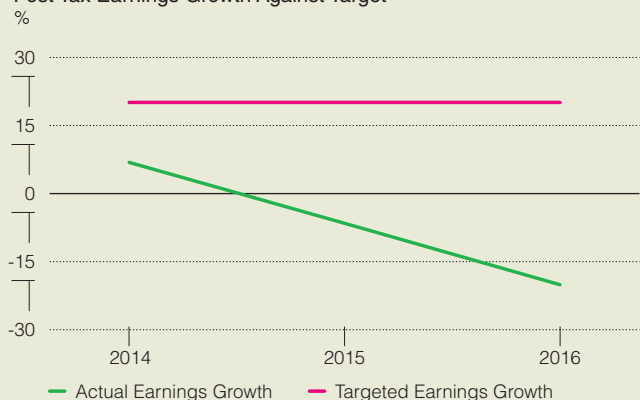
Targeted post-tax
profit growth
>20%

FY 2015/16	Actual	
	FY 2014/15	FY 2013/14
(20%)	(7%)	7%

Post Tax Earnings Performance
Rs. million



Post Tax Earnings Growth Against Target
%



PERFORMANCE IN PRE-TAX AND POST-TAX PROFITABILITY

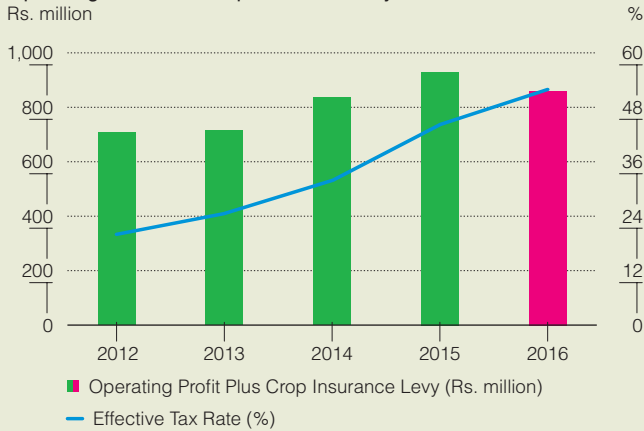
- MI's profitability levels stood satisfactory with Net Profit Before Tax for the period reaching Rs. 803 million compared to Rs. 912 million posted last year, reflecting however a 12% decline from a year before. Similarly, MI's Net Profit After Tax, reduced to Rs. 505 million compared to Rs. 631 million recorded for the previous period.
- The decrease in profitability was mainly on account of the lower core margins enjoyed due to the repricing effect resulting from the persistent rise in interest rates.
- Despite the commendable progress made by the Company in taking strategic advantage from the immerging markets and improving business sentiments on account of the positive economic developments taking place, the revenue generated was relatively slower paced than the cost escalation that took place due to expanding operations.

TAXATION IMPACT ON PROFITABILITY

- MI, being in the finance industry, continued to incur several taxes that included VAT, NBT and Corporate Tax. The effective tax rate with financial services specific taxes, remained considerably high at 52% of NPBT, mainly due to the higher corporate tax slab of 28% being applied and the heavy tax charge of 11% applied on VAT on financial services, which is expected to go up further in the next financial period.
- A summary of key taxes applicable and the effective tax rate compared with profitability performance can be outlined as follows:

Taxes to Government	FY 2015/16 Rs. million	FY 2014/15 Rs. million	FY 2013/14 Rs. million	FY 2012/13 Rs. million	FY 2011/12 Rs. million
Income tax	297	281	149	101	16
VAT on financial service	119	106	101	74	126
Nation building tax	22	14	9	-	-
Crop insurance levy	6	9	7	-	-
Total	444	410	266	175	141

Operating Profit Plus Crop Insurance Levy Vs Effective Tax Rate



OUTLOOK ON KPI

In meeting optimistic growth expectations on profitability that is forecasted for next year, the Management will strive to look for ways of boosting MI's Net Interest Income, while finding ways to curtailing cost escalation as a parallel strategy. To ensure reasonable profit growth that will yield an acceptable level of return on shareholders' funds, equal emphasis will be paid to enhancing overall worker productivity and identifying ways of maintaining a sound cost to income ratio position from all strategic business units, targeting to go below 55% within the next two years. Nonetheless, the Company can expect MI's effective tax rate to further increase on account of the proposed tax legislature changes taking effect from the next financial period, which will hamper profitability growth expectations considerably.

KPI: REVENUE GROWTH

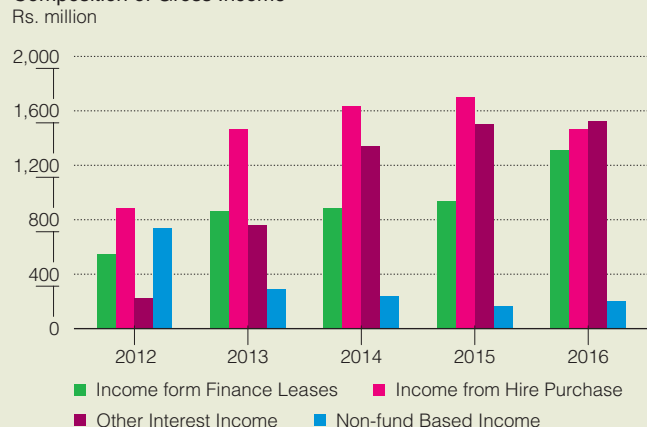
Goal: A total revenue growth of over 15% is expected annually in the medium term, which will enable MI to retain an above 3% market share in terms of sector revenue.

Targeted revenue growth 2016/17 >15%	Budgeted revenue growth		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>15%	5%	5%	22%

PERFORMANCE IN REVENUE GENERATION

- Total revenue rose by 5% and remained subdued at Rs. 4,501 million, compared to Rs. 4,286 million recorded last year.
- In keeping to MI's revenue growth plans, the Company implemented core business strategy as a means of boosting lending related revenue, as opposed to income from non-fund based operations. Accordingly, the lending related revenues contributed 93% to total revenue in FY 2015/16, while non-fund based income played a passive role. Loan book was bolstered by pickup in leases, vehicle loans, microfinance, which drove this year's revenue growth.
- In contrast, revenue derived from non-fund based equity investments totaled to Rs. 108 million pegged back due to this period's subdued nature of the share market.

Composition of Gross Income



OUTLOOK ON KPI

Based on the three year strategic plan, the Management will continue its efforts on pursuing its plans on boosting core business revenue as a means of generating steady total revenue growth. In this context, MI will focus on developing higher yield generating products and ones that are popular and growing in demand. Property based lending, microfinance and other term lending will bolster revenue, while dependence on non-fund based revenue will remain lower. MI hopes to maintain the aggressive stance taken in developing the Company’s branch network, hoping to increase branch revenue contribution over time.

KPI: GROWTH IN NET INTEREST INCOME (NII) AND NET INTEREST MARGIN (NIM)

Goal: We expect to maintain steady growth in NII of over 20%, while maintaining core business NIM above 8%.

<p>Targeted NII growth 2016/17 >20%</p>	Budgeted NII growth		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>20%	1%	33%	35%

<p>Targeted NIM growth 2016/17 >10%</p>	Budgeted NIM growth		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>10%	9%	11%	10%

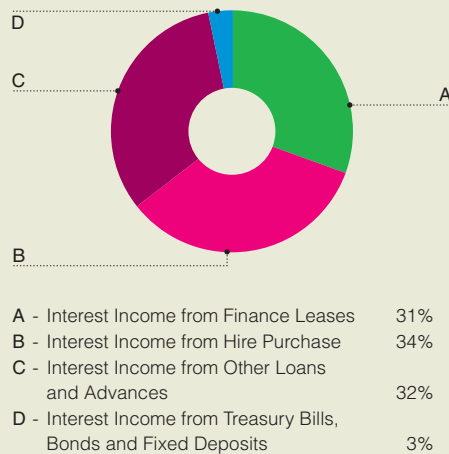
PERFORMANCE IN NII AND NIM

- As a consequence of the repricing effect, there was only a marginal growth in NII of 1% YoY, despite recording a noteworthy growth in the loan book. The 2% decline in NIM compared to previous year’s NIM, significantly pegged back NII growth.
- NIM continued to be bolstered by higher yielding term based lendings that included property mortgage loans, microfinance and other term based lending. Further, as a strict policy, the Management refrained from doing business below breakeven levels to maintain margins at acceptable levels.
- As interest rates moved up, MI’s Weighted Average Cost of Funding increased as MI’s deposit base, which mainly comprised of fixed deposits, placed for a shorter term, were renewed at these higher rates offered by the Company.
- As a counter measure, MI increased borrowings, which remained at relatively lower costs, which in turn helped to bring down Weighted Average Cost of Funding to an extent.

TOTAL INTEREST INCOME POSITION

- Total interest income rose to Rs. 4,302 million, up by 4% from previous year, propelled by the growth in the loan book but remained constricted since yields enjoyed did not move up that significantly.
- The growth in interest income generation was mainly derived from hire purchase financing, which remained the key interest income generating product, with a 34% contribution, while lease interest income continued to be the preferred product among the two, gaining momentum after exclusion of value added tax contributing 31%.
- Interest income from loans and advances too was another significant source, contributing handsomely by 32% because of the sound demand for vehicle loans, personal loans, microfinance and property mortgage loans.
- Interest income derived from investing in Government Securities, which included Treasury Bills and Bonds and deposits placed in commercial banks, contributed only 3% to interest income. With related yields remaining low, investments in these securities were kept merely to maintain statutory liquidity levels.

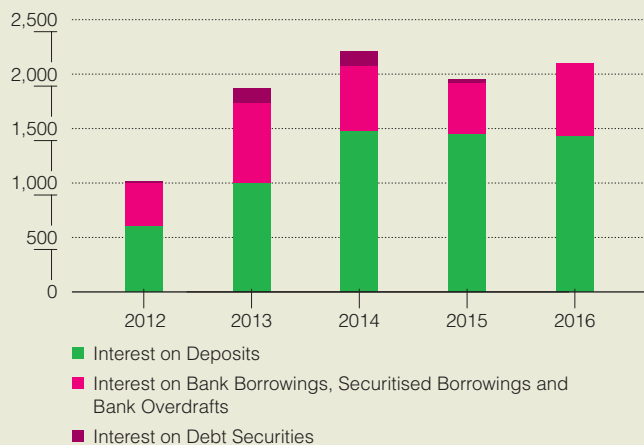
Components of Interest Income – 2016
%



TOTAL INTEREST EXPENSE POSITION

- Total interest expenses moved up from Rs. 1,948 million to Rs. 2,098 million, reflecting an absolute increase of Rs. 150 million or 8% during the twelve month period.
- Deposits interest cost totaled to Rs. 1,429 million, but this reflected a 2% decline from a year before but remained the largest interest cost element of the Company, making up 68% of the total interest cost.
- The moderate increase in fixed deposit rates increased costs on new deposits canvassed and on renewals, while overall interest cost increased mainly from borrowing cost which rose by 36% YoY.
- Borrowings cost totaled Rs. 669 million and comprised mainly of overdraft expense, short-term and long-term bank borrowing costs and also debt security costs.

Analysis of Interest Expense
Rs. million



OUTLOOK ON KPI

The industry would be mindful of declining spreads which impact NII and NIM and so would see ways of offering competitive pricing options, identifying cheaper funding and innovative solutions to cut down on costs. In the backdrop of competition, Mercantile Investments will adopt a flexible approach when it comes to managing the NII and NIM and do best to be receptive to changes in customer preferences, interest rates etc., to ensure its product lines remain sustainable and competitive going forward. Identifying low cost funding options, both local and internationally, will be a key area of focus, especially with interest rates on the rise and market liquidity levels somewhat on the low side. Our focus will revolve around diversifying to other products, including those that bring better yields, after ensuring strong credit evaluation systems and recovery processes are put in place. MI hopes to monitor interest rate movements and rate shock analysis as part of the Company's risk management activity, to ensure related risks are minimised. To bring down impacts on NIM and interest rate risk, MI hopes to build a solid long-term deposit base within the next three years, focusing on mobilising larger base of retail clients and sourcing higher levels of longer tenor investments.

KPI: GENERATING NON-FUND BASED INCOME (NFBI)

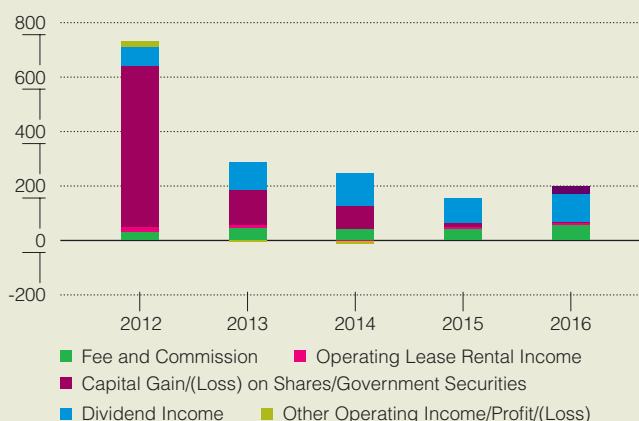
Goal: Expect NFBI to grow by over 30% to support overall revenue growth, in the medium term.

Targeted NFBI 2016/17 >30%	Budgeted NFBI		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>30%	26%	(33%)	(17%)

PERFORMANCE IN NFBI

- Despite NFBI generating a moderate contribution to total revenue, related revenue pleasingly increased from Rs. 157 million to Rs. 198 million, up by 26% YoY.
- Dividend income was the largest NFBI constituent amounting to Rs. 103 million, up by 12% YoY, on account of relatively better dividend payouts being made during the period under review.
- Realised capital gains from trading in shares stood insignificant at Rs. 5 million, declining further from Rs. 13 million reported during last year.
- In contrast, insurance commission income remained another key source of NFBI, contributing Rs. 59 million, reflecting a YoY growth of 24% on account of increased insurance services extended to our core business clients.

Non-fund Based Income
Rs. million



OUTLOOK ON KPI

NFBI is bound to remain an integral source of revenue for the industry, in parallel to traditional lending revenue and will be sought after as means of boosting total revenue. The potential for NFBI is clearly visible for LFCs, if they are ready to tread on non-traditional businesses such as guarantee based transactions and other non-lending based, on balance sheet and off balance sheet products. MI will look at building NFBI and that too from more steady lines of business which include insurance services and other potential avenues. For MI, NFBI contribution to total revenue is bound to gradually improve over the next few years, especially with the expected stock market recovery that is bound to take place when economy prospers and FDI's flow in.

KPI: CONTROLLING TOTAL OPERATING EXPENSE RISE

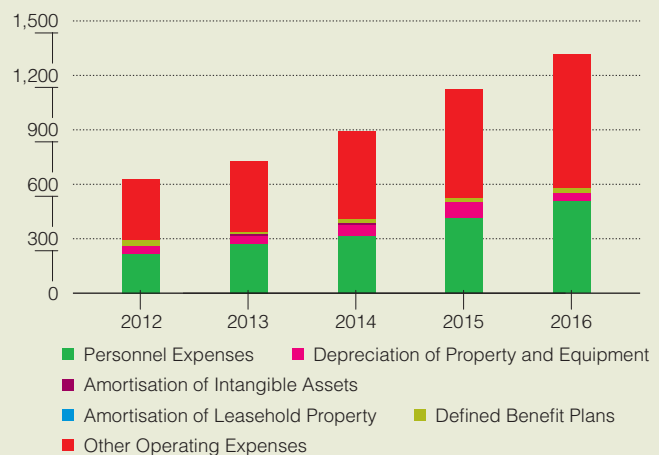
Goal: In the wake of expanding operations, MI hopes to maintain strong control over escalation in general overhead costs

Targeted operating cost 2016/17 (Rs. million) >1,400	Budgeted operating cost		Actual	
	FY 2015/16 (Rs. million)	FY 2015/16 (Rs. million)	FY 2014/15 (Rs. million)	FY 2013/14 (Rs. million)
	>1,300	1,315	1,125	891

PERFORMANCE IN MANAGING OPERATING COST

- Total operating expenses of the Company stood at Rs. 1,315 million, compared to Rs. 1,125 million escalating by 17%.
- Expanding of business operations, increased manpower requirements and utilisation of consumables, utilities and general operational costs were the main reasons for the escalation in costs.
- Personnel costs remained the largest operating cost item for the Company, totalling to Rs. 532 million up by 21%. Additional recruitments, coupled with the impact of salary revisions carried out in FY 2015/16, impacted this rise.
- Other operating expenses (excluding personnel cost) too escalated, up by 14% to Rs. 783 million, rising mainly due to said increase in operational activity and because of general inflationary factors.

Composition of Operating Expenses
Rs. million



REASONS FOR VARIANCES IN KEY OPERATING EXPENSE ITEMS

Five largest overhead cost items	Actual cost in		Variance increase/ (reduction) Rs. '000	Key reasons for variance
	FY 2015/16 Rs. '000	FY 2014/15 Rs. '000		
1. Personnel cost	532,030	437,628	94,402	Increase in recruitments and salary increments effected
2. Advertising and promotion	84,627	50,290	34,337	Increased promotions carried out for brand building and lifting awareness across the country
3. Electricity cost	30,350	31,489	(1,139)	Decline in usage despite widened operations
4. Fuel cost	51,430	48,896	2,534	Increase in fuel usage on account of increased staff travelling
5. Depreciation and amortisation	49,994	86,896	(36,902)	Increase in residual value considered and increase in useful life of computer software and motor vehicles.

OUTLOOK ON KPI

Management will be mindful of the planned branch expansion and its effect on expanding cost structure of the Company. Information technology support will take a central role in minimising manual operations and will be a strong tool in boosting productivity and reducing lead times. Branch expansions and refurbishments that are in the pipeline will be carried out with minimal capital expenditure. MI will pursue adopting renewable energy options to cut down on electricity for some of our operational locations.

KPI: STEADY GROWTH IN TOTAL ASSETS

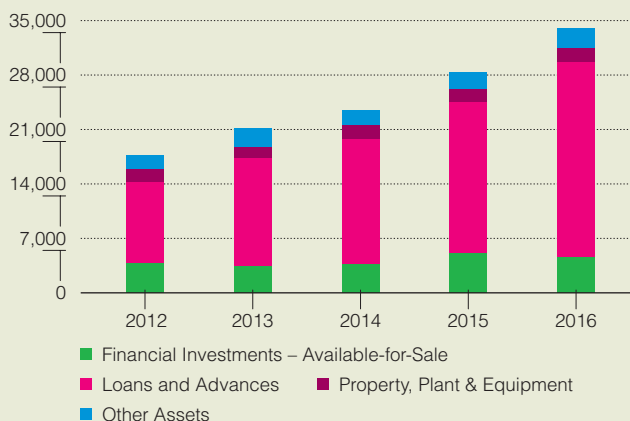
Goal: Maintaining strong business momentum, that will foster steady total assets growth exceeding 15% on average annually

Targeted total assets growth 2016/17 >15%	Budgeted total assets growth		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>15%	20%	21%	11%

PERFORMANCE IN TOTAL ASSETS

- The momentum gained in core business of lending, increased total assets of the Company to Rs. 33,965 million, reflecting a pleasing 20% growth, in keeping to overall business growth expectations.
- The major component of the total assets was MI's loans and advances, which accounted for 74% of its total assets.
- Financial investments available-for-sale though declining in fair value on account of the fall in equity prices, was the other highest contributing asset item with a 14% contribution to the total while property, plant & equipment contribution remained lower at 5%.

Total Assets Composition
Rs. million



OUTLOOK ON KPI

MI's total asset growth will continue to be fuelled by its core lending business, driven by post war development and economic activity taking place. The Company will also be identifying fresh revenue generating business opportunities that will expand total assets in the longer-term. The Company can expect the stock market recovery to take place in the next few years which will boost MI's equity investment value. In addition, the planned enhancements to MI's ICT should require additional investments in systems, which are bound to increase property, plant & equipment values going forward.

KPI: GROWTH IN TOTAL LOANS AND ADVANCES

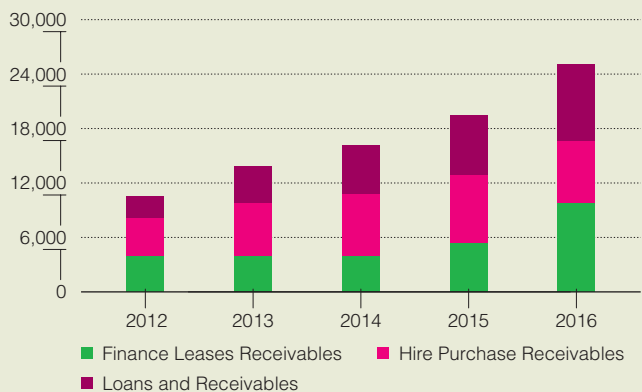
Goal: To generate higher revenue from core operation, MI expects to maintain the lending growth over 20% per annum, in the medium term.

Targeted loan growth 2016/17 >20%	Budgeted loan growth		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>15%	29%	20%	17%

PERFORMANCE IN CORE LENDING BUSINESS

- Total net loans and advances outstanding rose noteworthy above targeted and budgeted, from Rs. 19,469 million to Rs. 25,053 million, reflecting an increase of Rs. 5,585 million or 29% YoY.
- Despite the sluggishness of the vehicles sales market, further impacted by the new valuation methods in importation and controlling of credit through the restrictions applied on the Loan to Value ratio, MI's lease business showed profound growth of 84% YoY. As a result of the elimination of VAT on leases from last financial period, there was increased demand for lease while demand for hire purchase declined significantly. MI was able to extend credit to cater to demand for brand new and second hand vehicles as well as demand for acquiring of machinery and construction related vehicles.
- MI also ensured that the Company's lending product mix was optimally balanced to generate reasonable yields, increasing focus on other lending's such as personal lending, property mortgage based lending and microfinance.
- While there was steady lending business being derived from the Western Province, it was pleasing to observe a tremendous pick up in lending volumes from beyond Western Province which contributed 31% to total lendings.

Composition of Total Lending
Rs. million



OUTLOOK ON KPI

Future outlook on overall lending business is explained on pages 75 and 197.

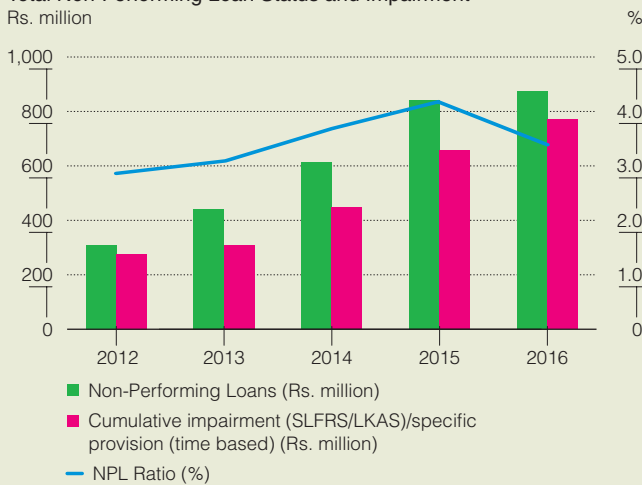
KPI: KEEPING NON-PERFORMING LENDING (NPL) RATIO LOW

Goal: Ensuring there is constant asset quality by keeping the gross NPL ratio controlled below 3.5% (NPL before Interest in suspense)

Targeted NPL ratio 2016/17 <3%	Budgeted NPL ratio		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	<3%	3.39%	4.19%	3.69%

* Non-performing lending ratios have been computed based on CBSL time based provisioning regulations.

Total Non-Performing Loan Status and Impairment



PERFORMANCE IN MANAGING QUALITY OF LENDING

- Effective credit review policies and recovery strategies paved the way for better management of NPL levels, which enabled NPL ratio, which stood over 4% at the start of the year to be brought down to 3.39% by 31 March 2016.
- A thorough monitoring system was in effect to keep track of all arrears accounts with extra focus being given to 1st six months of a contract and contracts in arrears between 3 to 6 months. The target driven culture adopted across both

credit and recovery teams highlighted the importance of ensuring MI's overall asset quality, linking relevant officers' performance to the biannual rewarding system that took place, recognising top performers of such divisions.

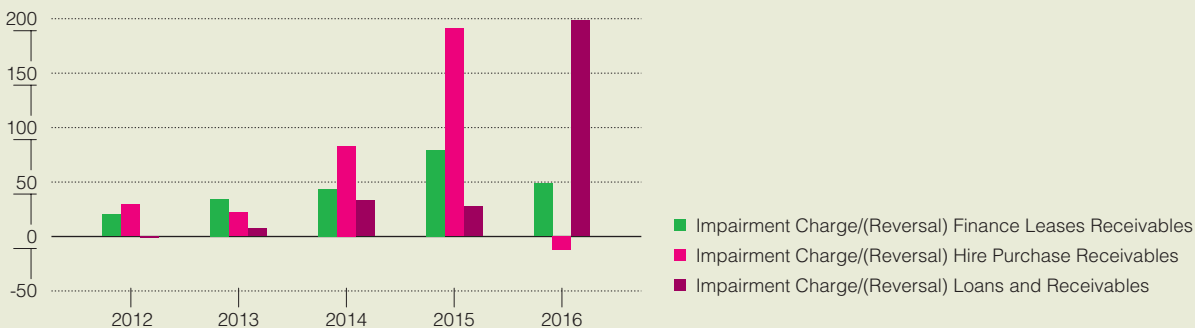
- Total impairment charge decreased by 21% YoY due to these efforts and also because of the significant expansion of the loan book. However, total write-offs for the year increased by 51%, increasing total impairment charge.

IMPAIRMENT CHARGE ON LOANS AND RECEIVABLES

The impact of lending book impairment charge/(reversal) to Statement of Comprehensive Income was computed assessing the individual and collective impairment charge/(reversals) in compliance with SLFRS/LKAS requirements.

	FY 2015/16 Rs. '000	FY 2014/15 Rs. '000	Growth/(decline) Rs. '000	Basis of computation
Individual Impairment	14,431	151,839	(137,408)	In arriving at the individual impairment, a threshold limit was decided by the Management to conduct impairment testing on significant loans which adequately represented the total loan portfolio of the Company. Such loans were tested against predetermined individual impairment indicators approved by the Management.
Collective Impairment	95,713	61,122	34,591	Collective impairment was carried out by dividing the loan portfolio into several buckets based on the homogeneous risk characteristics associated with different products, i.e. the lease and hire purchase portfolios were segregated based on vehicle type and nature of assets kept as security and then further evaluated on their associated risk variables. In arriving at the collective impairment provision, MI reverted to historical loss experience of these buckets expressed in terms of Loss Given Default (LGD) and Probability of Default (PD).
Write-offs	124,672	82,781	41,891	Bad debts, where the possibility of recovery was remote, were written off, under the approval of the Board.
Total increase in Impairment charge	234,816	295,742	(60,926)	

Analysis of Impairment Charge/(Reversal) to Income Statement
Rs. million



PROVISION COVER RATIO

	FY 2015/16	FY 2014/15	FY 2013/14
Total cumulative impairment (Rs. million)	771	661	448
Non-performing loans and advances (Net of Interest in suspense before B&D) according to CBSL time based regulations (Rs. million)	876	844	613
Cumulative impairment provision as a % of non-performing lending (%)	88	78	73

In keeping to SLFRS/LKAS impairment requirements, all necessitated provisions were made on account of identified “bad credit accounts”. As against the total non-performing lending, the total cumulative impairment charge reflected a satisfactory provisioning cover of 88% (FY 2014/15 – 78%), maintained as at 31 March 2016.

OUTLOOK ON KPI

With MI widening its business options and venturing into non-traditional higher yielding products, monitoring and managing credit risk is going to be a key factor in sustaining profitability. In this backdrop, tougher credit review practices and recovery procedures will be embraced, supported by timely information to manage collections and follow up on defaulters. Adequate recovery officers will be deployed at each business point to ensure daily collections are kept smooth and any overdue clients are followed up promptly. The internal valuation and disposal unit will play a key role in ensuring accurate values of assets and to also assist in expediting the disposal process of repossessed assets, in an efficient manner. Stringent recovery measures will be implemented, coupled with adequate legal support to bring down NPL ratio even below the 3% levels, in the medium term.

KPI: OPTIMAL MANAGEMENT OF FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

Goal: Enjoying steady capital appreciation from equity investment portfolio and deriving a sound yield from investing in Treasury Bills and Bonds

A. TRADING OPTIMALLY TO DERIVE MAXIMUM REALISED CAPITAL GAINS FROM SHARE INVESTMENTS

Targeted realised capital gains from equity portfolio 2016/17 (Rs. million) >100	Budgeted realised capital gains from equity portfolio		Actual	
	FY 2015/16 (Rs. million)	FY 2015/16 (Rs. million)	FY 2014/15 (Rs. million)	FY 2013/14 (Rs. million)
	>150	5	13	81

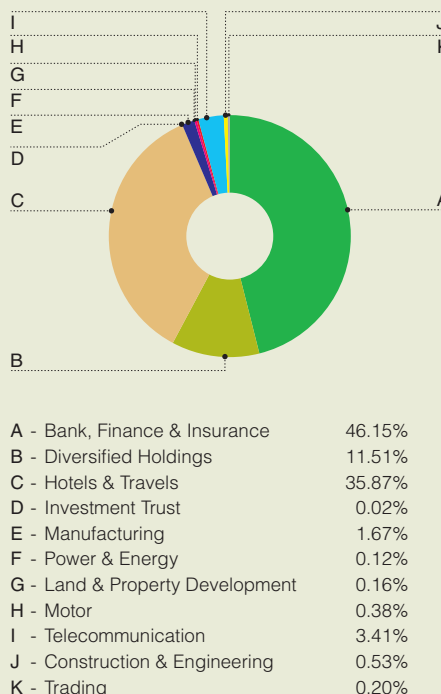
B. ENSURING AN OPTIMAL SHARE PORTFOLIO THAT APPRECIATES IN VALUE, IN KEEPING TO EXPECTATIONS

Value of equity portfolio	Actual		
	FY 2015/16 (Rs. million)	FY 2014/15 (Rs. million)	FY 2013/14 (Rs. million)
	3,293	3,914	2,892

PERFORMANCE IN FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

- Out of the financial investments – available-for-sale portfolio, equity based Investments remained the largest component amounting to Rs. 3,293 million.
- The persistent volatility, mostly reflective of a downward movement in share prices, negatively impacted the value of MI's total equity investments. Accordingly, the fair value of equity investments net decline was Rs. 621 million or 16% YoY, while capital gains realised, remained lower and below optimistic levels budgeted.
- Treasury Bills and Bonds, being the balance component under financial investments – AFS totalled to Rs. 1,268 million, up by 10%. These investments were maintained to meet statutory liquid assets requirements.
- There were no further material share investments carried out during the period and therefore, the sector-wise composition of MI's share portfolio did not indicate any major shifts between sectors from last year. A major percentage of shares under the portfolio comprised of Hotels, Banking and Finance and Insurance sectors.

Sector Wise Equity Investments %



OUTLOOK ON KPI

Economic policy in attracting more FDIs, coupled with improving international sentiments, is bound to stimulate the subdued stock market in future. This would enable MI's equity values to pick-up and to generate expected capital appreciation, by disposing part of the investments. As other avenues of investment, despite the imposition of tax on capital gains, the already lucrative property market would remain an alternative, but a riskier investment.

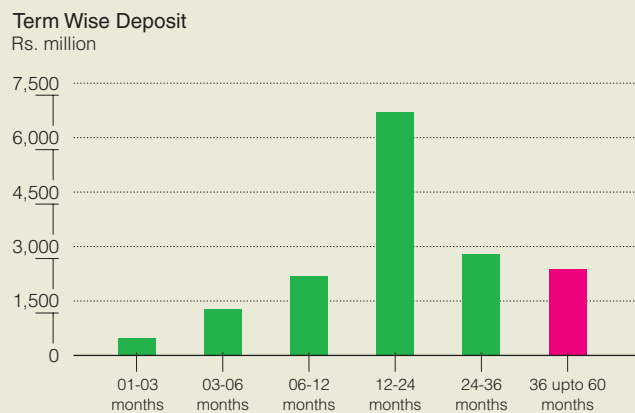
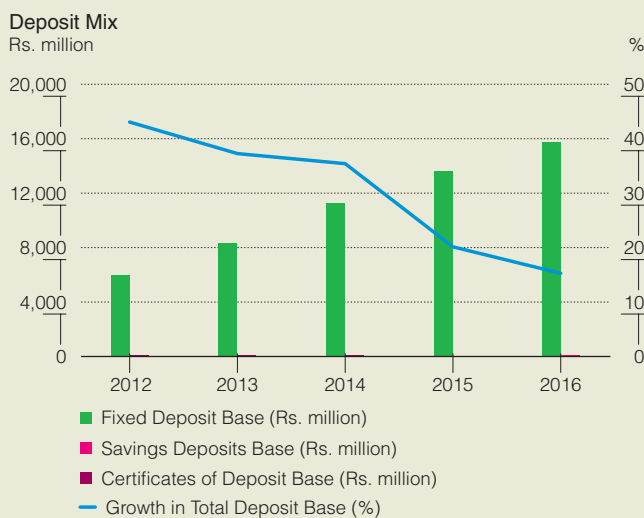
KPI: DEPOSITS MOBILISATION GROWTH

Goal: To maintain steady growth in total deposit base in keeping to MI’s funding needs

Targeted deposit growth 2016/17 >20%	Budgeted deposit growth		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>25%	15%	20%	36%

PERFORMANCE IN DEPOSIT MOBILISATION

- Despite stiff competition within the industry and also from the Banking sector, MI’s deposit mobilisation process remained in full gear, recording a commendable 15% growth in total deposits outstanding YoY, increasing the total deposits base from Rs. 13,721 million to Rs. 15,816 million as at 31 March 2016. MI capitalised on the longstanding financial stability and widened branch network to mobilise deposits from key regions.
- MI’s deposit mix composition remained quite similar to past years, with fixed deposits being the dominant product, while savings deposits and CDs played a subdued role in generating deposit volumes.
- Through a focused effort, retail deposits were increased by 9%, contributing 66% to total deposit base while specific strategy adopted to generate higher levels of FDs from the branch network, paid off handsomely.
- Through the deposit mobilisation process, MI’s long-term funding needs and liquidity mismatches that include recommendations of the Assets and Liabilities Management Committee, were bridged effectively. Accordingly, a total of Rs. 1,504 million was canvassed as more than 1 year deposits in FY 2015/16 compared to Rs. 1,692 million canvassed last year.



OUTLOOK ON KPI

Future outlook on deposit mobilisation is explained on pages 77 and 198.

KPI: GEARING MANAGEMENT

Goal: Ensuring there is an appropriate blend of equity to debt (Gearing) that will ensure the organisation’s funding is well matched reflecting financial solidity.

Targeted borrowing to equity ratio 2016/17 <100%

Budgeted borrowing to equity ratio		Actual	
FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
<100%	117%	77%	83%

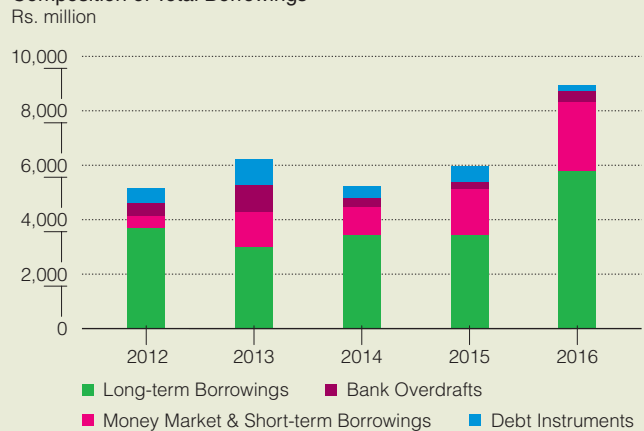
PERFORMANCE IN GEARING

- In comparison to last year’s borrowings to equity ratio of 77%, there was a notable increase in the ratio to 117%, going above the expected gearing percentage on account of higher borrowings taken during this period.
- As borrowing cost remained relatively lower compared to deposit funds, to keep cost of funding optimal, MI was compelled to increase borrowings. Equity on the other hand, showed a marginal reduction on account of the moderate profitability levels recorded and retained. No changes were observed in the stated capital of the Company during this period.

BORROWINGS

- Total borrowings rose from Rs. 5,956 million to Rs. 8,939 million, as at 31 March 2016, increasing significantly by 50% compared to a 15% rise recorded last year. From total borrowings, long-term borrowings amounted to Rs. 5,811 million, up 68%, while Money Market and other Short-Term Borrowings, Overdrafts and Debt Instruments in total, rose by 25% to Rs. 3,128 million.
- An optimal blend was maintained between longer-term borrowings versus short-term borrowings, to manage interest rate risk and to maintain core business spreads. The Treasury Division tied up for a number of fresh funding lines from our long-standing banking partners as well as from other banks and funding intermediaries.

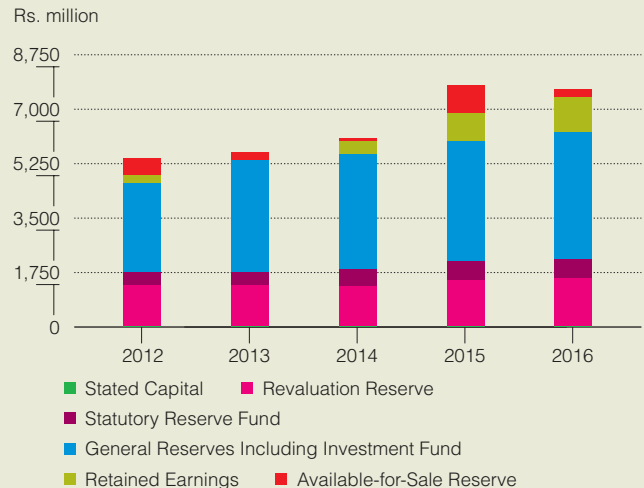
Composition of Total Borrowings



TOTAL SHAREHOLDERS’ FUNDS

- Total shareholders’ funds of the Company reduced marginally by 2% from Rs. 7,780 million to Rs. 7,654 million, in spite of the sturdy profitability levels recorded. This was because of the significant decline recorded on fair value of equity investments under the Available-for-Sale Financial Assets, which dropped by Rs. 621 million, negating possible growth in shareholders’ funds.

Shareholders’ Funds



OUTLOOK ON KPI

To keep future cost of funding optimal, MI will pursue additional borrowing, but will strive to maintain the gearing levels within the threshold limit by being aggressive on its deposit mobilisation. International funding sources will become viable again in the medium term with domestic interest rates on the rise. We can expect shareholders’ funds to expand, considering the high probability of the stock market picking up in the medium term and also on account of efforts planned in generating sound profitability for the next few years.

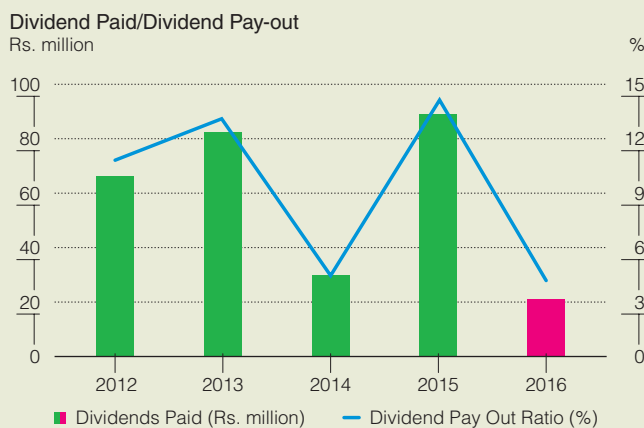
KPI: SOUND DIVIDENDS TO SHAREHOLDERS

Dividend Policy: Declaring a sound annual cash dividend to investors for their invested capital, after ensuring sufficient funds are retained for future growth expectations.

Targeted dividend pay-out ratio 2016/17 >4.00	Budgeted dividend pay-out ratio		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>3.00	4.17	14.05	4.45

PERFORMANCE ON DIVIDENDS

- A total dividend of Rs. 21 million was declared for FY 2015/16, which reflected a 76% decrease in the quantum of dividends declared compared to a year before. This reflected a conservative dividend pay-out ratio of 4.17% decided by the Board, after considering this financial period’s profitability levels and the need to retain greater extent of internally generated funds for future plans.



OUTLOOK ON KPI

MI Board will continue to maintain a healthy balance in its dividend pay-out even in future, recognising the need for profit retention, whilst meeting investor expectations of a sound cash dividend. Based on the projected profitability forecast, MI can expect the actual absolute dividend values to gradually increase, whereas the pay-out ratios to remain at moderate levels.

PERFORMANCE IN TERMS OF KEY FINANCIAL RATIOS

KPI: KEEPING COST TO INCOME BELOW THRESHOLD

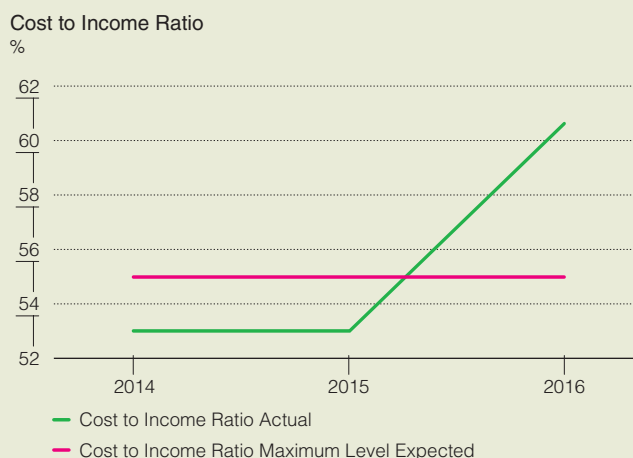
Goal: Ensuring that the cost to income percentage is maintained below the ideal 55% threshold limit laid down.

Targeted cost to income ratio 2016/17 <55%	Budgeted cost to income ratio		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	<55%	61%	53%	53%

Cost to income ratio – Operating expenses including VAT on financial services as a percentage of total operating income.

COST TO INCOME RATIO PERFORMANCE

- The rise in cost to income ratio negatively to 61% was mainly attributable to the slow growth in gross revenue as against a much steeper rise in overhead costs.
- Despite a conservative approach being taken when deciding on all capital investments, which ensured new locations set-up during the year were established with minimal start-up cost, the expanding operations and increase usage caused the cost to escalate. The revenue generated from MI's core business did not accelerate as anticipated resulting in the ratio exceeding the internal threshold limit. This can be deemed a temporary increase and should improve once MI generates higher levels of revenue again.



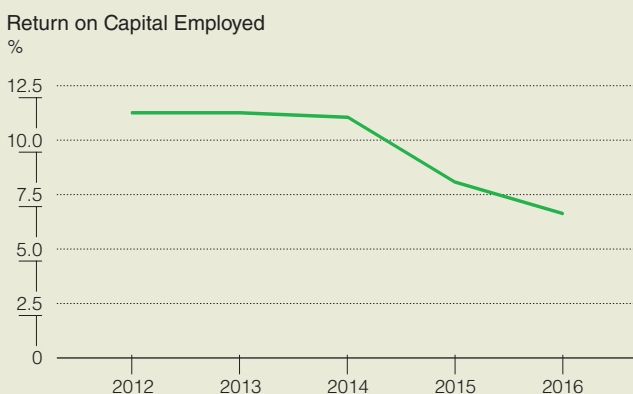
KPI: RETURN ON SHAREHOLDERS' FUNDS

Goal: MI expect the return on shareholders' funds to be attractive for our investors and this to be above the risk free rate of return by a sufficient margin.

Targeted shareholders' fund 2016/17 >10%	Budgeted		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>10%	6.60%	8.11%	10.77%

PERFORMANCE IN RETURN ON SHAREHOLDERS' FUNDS

- With post-tax profitability declining the return on shareholders' funds decreased from 8.11% to 6.60%, remaining below targeted expectations. Continued pressure exerted on core margins and escalating overhead cost negatively impact forecasted growth in profitability levels. However, higher lending volumes achieved than anticipated helped sustain satisfactory profits but was not sufficient to boost return on shareholders' funds above 10% expectations.



OUTLOOK ON KPI

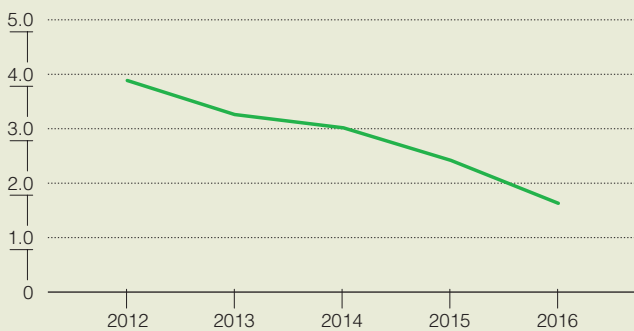
Based on the next three year profitability forecast, the return on shareholders' funds should exceed 10%, to generate attractive returns to stay ahead of increasing yields on Government Securities. The planned product diversification strategy should foster better yields and ease concerns on core margins. Further, by planning to generate higher lending volumes MI hopes to derive greater revenue levels that will compensate for the escalation in overheads, on account of future operational expansion.

KPI: RETURN ON AVERAGE ASSETS (ROA)

Goal: MI requires the ROA after-tax to be kept above the minimum threshold of 1%.

Targeted ROA 2016/17 >1%	Budgeted ROA		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>1% minimum industry norm	1.62%	2.43%	3.02%

Return on Average Assets
%



PERFORMANCE IN ROA

- ROA ratio stood satisfactorily at 1.62% above the minimum threshold expected, however declining from last year's reported ROA of 2.43%. The reason for the drop was mainly because of the decline in post-tax profits, as against a sizable growth in total assets of the Company.

OUTLOOK ON KPI

With the finance industry being ever more competitive, core business margins will remain squeezed and at the same time, cost structures are bound to escalate on account of the possible expansion in industry activity. As a result, MI can foresee industry average ROA staying relatively below par, unlike in the past. For MI, the planned strategies on revenue growth should boost profitability levels thereby gradually improving the ROA position.

KPI: EARNINGS PER SHARE (EPS)

Goal: MI expect to generate a satisfactory EPS, which reflects gradual growth in annual earnings for our investors.

Targeted EPS 2016/17 >Rs. 250.00 PS	Budgeted EPS		Actual	
	FY 2015/16	FY 2015/16	FY 2014/15	FY 2013/14
	>Rs. 250.00 PS	Rs. 168.00 PS	Rs. 210.00 PS	Rs. 224.67 PS

PERFORMANCE IN EPS

- Despite optimistic expectations, there was a 20% downward movement in MI's basic EPS, compared to a 6.25% reduction reported last year.
- With the issued number of ordinary shares remaining unchanged for the past number of years, the observed decline in post-tax profits witnessed this financial period impacted the basic EPS.

OUTLOOK ON KPI

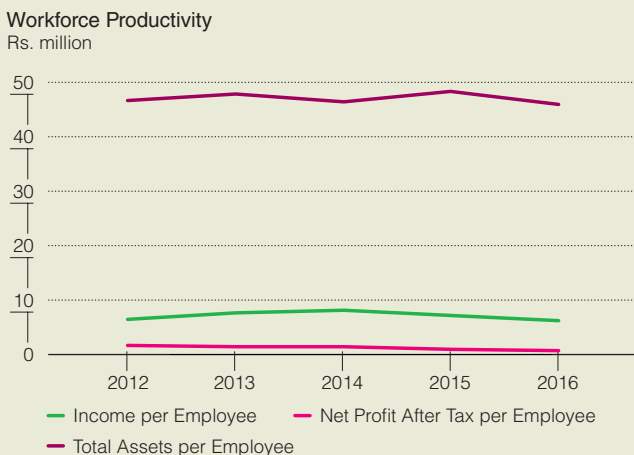
With proposed business plans taking full effect, MI can expect future EPS to move upward on account of the projected earnings growth. Having established a strong branch network in the last decade, MI has the expertise and the capability to capitalise on the emerging opportunities. The proposed controls to be placed on the Banking sector on doing lease business, would bring increased opportunities for the Finance Companies to grow their market share on leases.

KPI: ENHANCING WORKFORCE PRODUCTIVITY

OUR INTEGRATED JOURNEY - PERFORMANCE AND OUTCOMES

	Last FY 2014/15	Now FY 2015/16	Expected FY 2016/17
Gross revenue per employee (Rs. '000)	7,289	6,097	7,328
Net profit after tax per employee (Rs. '000)	1,073	684	1,831

Goal: Improving workforce productivity levels over time, so that a greater extent of tasks will be handled efficiently, to boost revenue and to control unnecessary expenditure that result from duplication of work and other wastage of management time.



PERFORMANCE IN ENHANCING WORKFORCE PRODUCTIVITY

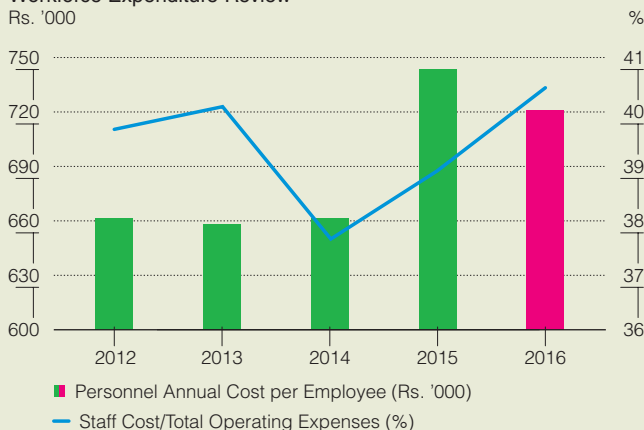
Employee related financial indicators/indicators reflecting workforce productivity:

- Gross income for each employee decreased from Rs. 7.3 million to Rs. 6.1 million for each employee by 31 March 2016.
- Post-tax profit for each employee too marginally decreased to Rs. 0.68 million for each employee from Rs. 1 million recorded last reporting date on account of relatively moderate earnings recorded against the rising cadre.
- Despite the total personnel cost increasing from Rs. 438 million to Rs. 532 million this period, the average annual personnel cost for each employee declined from Rs. 0.744 million to Rs. 0.721 million due to greater extent of recruitments taking place from lower and middle level grades.

Initiatives undertaken to strengthening the workforce and develop their productivity:

- MI's total workforce was strengthened from 588 reported last year to 738 by the end of this financial period, indicative of a 25% growth YoY. The Company concentrated on developing skills of staff, for the purpose of grooming them to handle tasks efficiently and effectively, so that they can take up higher work volumes with ease. MI upheld a

Workforce Expenditure Review
Rs. '000



strong learning culture through training and development activity and empowered staff to better their performance and to come up with creative ideas and solutions.

- The section on "Employee review" given on pages 164 to 181, provides a comprehensive disclosure on MI's total workforce breakdown in terms of level of service, gender, ethnicity etc. and other particulars deemed relevant on workforce.

OUTLOOK ON KPI

Considering the increasing personnel cost structures, there will be greater importance placed in enhancing employee productivity levels, more so in the future. MI expects to continue investing in employees with the hope of nurturing them and then widening their capabilities as the Company has done in the past. MI will ensure that all future recruitments are carried out in keeping to the Company's strict recruitment policies that is bound to attract high calibre staff. MI hopes that the extensive training and development initiatives planned ahead will adequately nurture staff to face future challenges in the industry.

KPI: CAPITAL INVESTMENTS MADE FOR THE FUTURE

Ensuring that there is adequate capital investment made to improve operational and financial performance.

Targeted capital investment
2016/17
(Rs. million)
>50

Budgeted capital investment

FY 2015/16 (Rs. million) FY 2015/16 (Rs. million)

>50 116

Actual

FY 2014/15 (Rs. million) FY 2013/14 (Rs. million)

155 356

FUTURE OUTLOOK ON CAPITAL INVESTMENT

PERFORMANCE IN CAPITAL INVESTMENT

To improve work efficiency and capability following areas were focused upon and initial capital investments incurred during the year:

Focused business area	Capital investment incurred/to be incurred (Rs. million)	Expectations from investment
1. Enhancing ICT systems	150	To increase efficiency of all processes to standardise with the industry
2. Credit operation	49	To cater to more customers in an efficient manner
3. Widening office space	15	Provide enough spaces for employees and customers
4. Nurturing workforce	13	Improve productivity

KPI: SOUND CASH FLOW POSITION

Policy on cash management: Maintaining a sound cash flow position that is sufficient to meet daily cash needs, ad hoc requirements and to meet future planned activities and liabilities.

PERFORMANCE IN CASH FLOW

MI's cash and cash equivalents as at the reporting date reduced marginally by Rs. 63 million to Rs. 344 million from a year before due to following cash flow activities:

CASH FLOW FROM OPERATING ACTIVITIES

Net movement of MI's operating cash flows shifted from a negative of Rs. 543 million a year before, to a negative of Rs. 2,658 million as at the reporting date. The negative operating cash outflow resulted mainly due to funds advanced to customers, interest payments, personnel costs and other overheads. On the other hand, inflow of cash from operating activities arose mainly from net increase in funds received on deposits, interest and commission receipts.

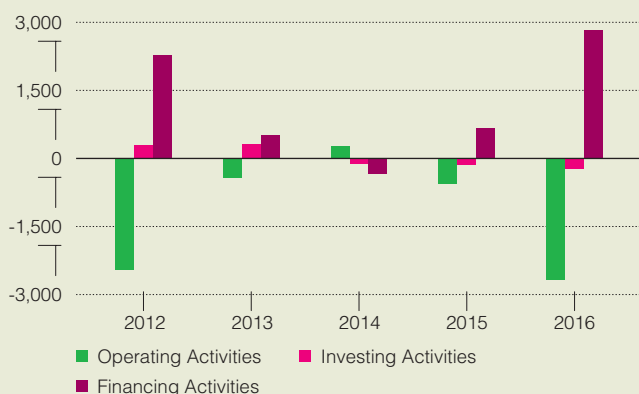
CASH FLOW FROM INVESTING ACTIVITIES

MI's cash flow from investing activities reflected an outflow this period amounting to Rs. 228 million, compared to an outflow of Rs. 147 million recorded last period. Purchase of property, plant & equipment together with purchase of non-dealing securities, resulted in the net outflow, while the main inflows were the dividends received, proceeds from sale of non-dealing securities and proceeds from sale of property, plant & equipment.

CASH FLOW FROM FINANCING ACTIVITIES

Cash flow from financing activities showed a cash inflow totaling Rs. 2,823 million as at 31 March 2016, compared to a positive cash flow of Rs. 676 million recorded during the previous period. This increase was attributable to the higher level of borrowings undertaken in this period.

Cash Flow Analysis
Rs. million



OUTLOOK ON KPI

The need for managing cash flow will be an integral function in future to maintain internal liquidity and to keep funding cost down. Accordingly, MI's Central Treasury will plan for short and longer-term cash requirements based on ongoing funding needs and will resort to deposit funding and borrowings to source most of the requirements. MI will maintain close relationship with the Company's banking partners so that MI can continue to secure optimal funding lines to support planned credit growth and to settle maturing liabilities.

KPI: GROWING MARKET SHARE AND ECONOMIC IMPACT

OUR INTEGRATED JOURNEY - PERFORMANCE AND OUTCOMES

	Last FY 2014/15	Now FY 2015/16	Expected FY 2016/17
Market Share (%)	2.63	2.66	>4
Growth in value addition (Rs. million)	206	(165)	>500
Economic value generated (Rs. million)	4,400	4,592	>5,500

Goal: We expects MI's market share in the LFC/SLC sector in terms of total turnover to be increased gradually over 3% to reach 4% by 2020.

Target market share (On turnover basis) 2016 >3%	Target market share (On turnover basis)		Actual December	
	2015	2015	2014	2013
	>3%	2.66%	2.63%	3.27%

*Based on CBSL Annual Report statistics compared against MI's 31 December recorded balances.

PERFORMANCE IN MARKET SHARE AND ECONOMIC IMPACT

a. Growth in MI's Market share

MI's Market share in terms of revenue of the combined LFC and SLC sector stood at 2.66% as at December 2015, compared to 2.63% recorded in December 2014, behind higher market share expectations of the Company. While the total assets of the combined sectors grew by 17% from Rs. 7,787 billion to Rs. 9,074 billion in 2015, MI was able to grow its own balance sheet at a similar pace, securing the Company's market share held, in terms of total assets.

b. Value addition to economy

MI's value addition impact to economy is explained on page 140, together with five-year supporting statistics.

c. Financial impact to economy measured by our Economic Value Addition (EVA)

MI's Economic Value Addition made for the period under review with comparative information has been disclosed on page 139.

OUTLOOK ON KPI

In the midst of a highly competitive finance company sector, increasing market share by over 1% to strive towards a 4% total market share will remain a challenging aspiration but a possible goal that is within MI's reach. MI can expect revenue generation to pick up and reach peak levels, once the branch network expansion nears conclusion and each strategic business unit consolidates and contributes significantly to revenue generation. Accordingly, MI's economic value addition and annual value added too is bound to increase overtime and as a result, MI's impact to overall economy will widen within the next 3 to 5 years.

Product Financial Review

OUTPUTS

Lending Business
Achievements

Deposit Business
Achievements

Insurance
Services

Workshop Service and
Repairs

LENDING BUSINESS PERFORMANCE

Through the efforts of the credit and marketing teams and the expanding branch network, the Company managed to maintain satisfactory growth in lending volumes. Increased lending targets were handed down to the frontline credit and marketing officers and their individual performances were monitored periodically using the individual balance score card review and rewarding system, in order to maintain satisfactory revenue and overall lending yield's. MI promoted the Company's range of products, keeping a balance between traditional lease and hire purchase versus term lending and maintained a healthy product mix.

PERFORMANCE AND OUTCOMES

- New Lending Secured – Rs. 19,559 million
- Growth In New Lendings – 47%

Total credit disbursement in financial year 2015/16 stood all time high reaching almost Rs. 20 billion, reflecting the commitment shown by the credit and marketing teams. These efforts cleared the path for MI to attain a noteworthy 47% YoY increase in volumes, in the midst of a tough competitive market. During this period, MI was able to maintain commendable business volumes from its traditional lease financing.

LENDING PRODUCT MIX

	New lending secured in FY 2015/16 Rs. million	New lending secured in FY 2014/15 Rs. million	Growth/ (Decline) %
Hire purchase business	3,815	4,509	(15)
Lease financing business	8,017	3,802	111
Vehicle loans	2,443	2,402	2
Term loans**	1,681	676	149
Property mortgage	1,447	1,524	(5)
Microfinance	559	8	6,888
Others*	1,597	367	335
Total	19,559	13,288	47

While MI's hire purchase showed disbursement results totalling to Rs. 3,815 million in new lending, reflective though a 15% drop YoY, new facilities disbursed on lease financing showed a tremendous pick up growing by 111% compared to 87% rise recorded last year, contributing Rs. 8,017 million in value as new lending facilities. Microfinance lending volumes were increased by Rs. 551 million during the year as a result of enhancing of MI's Micro Operation Islandwide.

* This includes professional loans and other term lending.

** Excludes staff loans and loans against deposits.



FINANCE LEASES PERFORMANCE

During the year, Finance Lease business popped up as MI's main lending product recording sound growth above the budget, boosted by the exclusion of VAT on lease last year. However, during the latter part of the financial year, this form of business was negatively impacted due to the changes in valuing of motor vehicles at customs and due to the restriction on the loans to value (LTV) ratio placed by Central Bank of Sri Lanka.

Indicator	FY 2015/16 Rs. million	FY 2014/15 Rs. million	% growth FY 2015/16	% growth FY 2014/15	Budgeted % growth FY 2015/16	Projected % growth FY 2016/17	Achievements/Remarks
Lease outstanding	9,926	5,410	83	35	38	29	Finance lease receivables grew by 83% with total portfolio reaching Rs. 9,926 million for the first time.
Interest income on leases	1,318	937	41	5	31	31	Total lease interest income increased by 41% to Rs.1,318 million.

Number of lease customers FY 2015/16	Number of lease customers FY 2014/15	Change % FY 2015/16	Change % FY 2014/15	Achievements/Remarks
11,741	8,038	46	13	Number of lease customers increased by 46% on account of aggressive promotion of the product executed from our expanding branch network and marketing communication activities.

QUALITY OF FINANCE LEASE PORTFOLIO

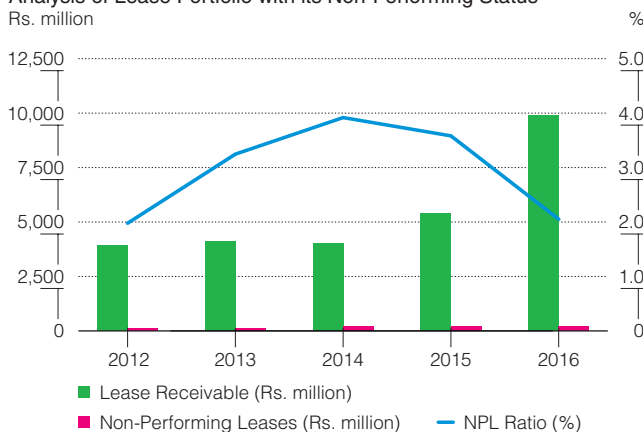
The general downturn in repayments on credit and high level of NPL in the industry, required MI to be vigilant and be proactive in terms of sustaining credit quality. The Company's efforts in managing the quality of lease portfolio is well reflected from the statistics below:

NON-PERFORMING RATIO

Finance lease NPL %* FY 2015/16	Finance lease NPL %* FY 2014/15	Budgeted lease NPL %* FY 2015/16	Projected NPL %* FY 2016/17	Remark on highlights
2.06	3.57	3.00	3.00	Stringent recovery measures on long overdue and close supervision of contracts moving into less than six month buckets helped keep Lease NPL at 2.06%.

* Non-performing lending ratios have been computed based on CBSL time based regulations.

Analysis of Lease Portfolio with its Non-Performing Status
Rs. million



IMPAIRMENT ON LEASE

	FY 2015/16 Rs. million	FY 2014/15 Rs. million	Remarks on highlights
Lease total impairment charge for the period	49	79	Decreased by Rs. 30 million.
Lease cumulative impairment	182	193	Decreased by 6%.

Lease individual impairment charge	
FY 2015/16 Rs. million	FY 2014/15 Rs. million
17	45

Lease collective impairment charge		Average loss given default (LGD) used	
FY 2015/16 Rs. million	FY 2014/15 Rs. million	FY 2015/16 %	FY 2014/15 %
32	34	39	35

LOAN TO VALUE POSITION

	MI's lease loan to value ratio average (LTV)	Maximum regulatory loan to value ratio average	Remarks on highlights
Before 1 December 2015	67%	100%	With the LTV restrictions coming into effect, the lease LTV showed a decline by the close of the year.
After 1 December 2015	58%	70%	

NUMBER OF REPOSSESSED AND SOLD ASSETS ON LEASES

Type of vehicle	Repossessed		Sold out of repossessed	
	FY 2015/16	FY 2014/15	FY 2015/16	FY 2014/15
Motor cars	25	49	20	13
Vans	5	11	2	3
Lorries	63	107	55	49
Buses	0	3	0	1
Motorcycles	13	18	13	7
Other	104	124	77	44

FUTURE OUTLOOK ON FINANCE LEASES

The gradual pick up witnessed in market interest rates is bound to increase lease pricing in the short-term. As a respite to the imposed LTV controls, the banking sector being curtailed on doing lease business going forward in 2016, is sure to keep LFC prospects intact. This may indicate positive growth conditions for leasing business for the Finance companies in future. Nevertheless to

remain competitive, MI will need to strategise effectively to build its lease portfolio, particularly taking advantage of the acquired knowledge in leasing business for over five decades. To gain market share, MI will have to seek cheaper sources of funding to continue affording competitive rates. In this context, the Company hopes to introduce innovative leasing solutions that are economical whilst maintaining required service standards by boosting operational excellence from all MI's service points.



HIRE PURCHASE (HP) FINANCING PERFORMANCE

During the year, hire purchase business, which was MI's leading product in the past, fell back as the second main lending product showing a decline. With the exclusion of VAT and better pricing affected on leases, there was a steep pick-up in demand for leases as opposed to HPs, which shifted MI's efforts more towards Lease Financing.

Indicator	FY 2015/16 Rs. million	FY 2014/15 Rs. million	% growth FY 2015/16	% growth FY 2014/15	Budgeted % growth FY 2015/16	Projected % growth FY 2016/17	Achievements/Remarks
Hire purchase outstanding	6,826	7,399	(8)	8	17	16	Compared to a 8% growth last year, there was a decline shown in outstanding.
Interest income from hire purchases	1,460	1,697	(14)	4	9	21	Total hire purchase interest income decreased by Rs. 237 million and its contribution fell to 32% of total revenue.

Number of hire purchase customers FY 2015/16	Number of hire purchase customers FY 2014/15	Change % in FY 2015/16	Change % in FY 2014/15
8,804	9,386	(6)	9

MI offered tailor-made structured HPs and rescheduled some of the HP contracts, allowing customers better repayment alternatives. HPs were offered as a solution to mainly finance registered motor vehicles for which constant demand remained due to the large vehicle population in Sri Lanka.

QUALITY OF HIRE PURCHASE PORTFOLIO

Having over a 20% lending portfolio in HPs and witnessing a general deteriorating in credit collections, MI's Recovery Division took effective recovery measures to sustain collections and curtail the rise in NPLs, impairment charges and increased repossessions, disposals and litigations.

NON- PERFORMING RATIO

Hire purchase NPL %* in FY 2015/16	Hire purchase NPL %* in FY 2014/15	Budgeted hire purchase NPL %* in FY 2015/16	Projected NPL %* in FY 2016/17	Remarks on highlights
6.63	5.75	3.00	3.00	Despite close monitoring and strict recovery process NPL ratio on HPs increased. The negative growth in HP portfolio too contributed to the NPL rise.

*Non-performing lending ratios have been computed based on CBSL time based regulations.

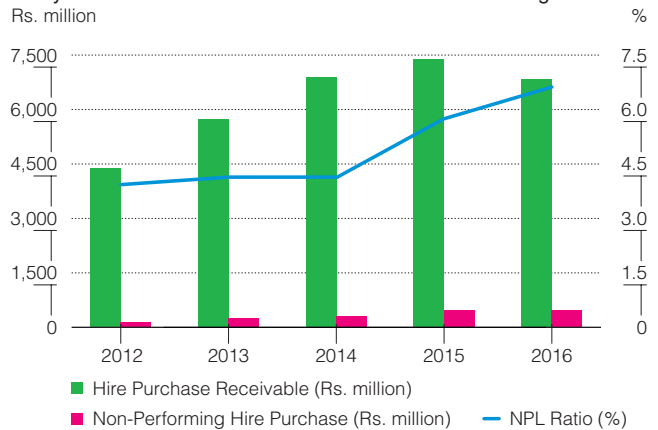
IMPAIRMENT ON HIRE PURCHASE

	FY 2015/16 Rs. million	FY 2014/15 Rs. million
Hire purchase total impairment charge/(reversal) for the period	(13)	189
Hire purchase cumulative impairment	302	374

Hire purchase individual impairment charge/(reversal)	FY 2015/16 Rs. million	FY 2014/15 Rs. million
	(31)	166

Hire purchase collective impairment charge		Average loss given default (LGD) used	
FY 2015/16 Rs. million	FY 2014/15 Rs. million	FY 2015/16 %	FY 2014/15 %
18	23	33	27

Analysis of Hire Purchase Portfolio with its Non-Performing Status



LOAN TO VALUE POSITION

	MI's Hire purchase loan to value ratio average	Maximum regulatory loan to value ratio average
Before 1 December 2015	63%	100%
After 1 December 2015	58%	70%

FUTURE OUTLOOK ON HIRE PURCHASING

Increased demand for finance leases will remain the main factor impacting possibility of boosting hire purchase business. Furthermore, with the implementation of recent budget proposals, the immediate pick up in motor vehicle prices for registered vehicles will also be another obstacle in growing the portfolio. Considering these factors, the demand for hire purchase financing is bound to gradually decline and accordingly, MI's focus too will depend on future prospects. However, the Company will continue to promote the product beyond the Western Province, hoping to sustain overall market share.

NUMBER OF REPOSSESSED AND SOLD ASSETS ON HIRE PURCHASE

Type of vehicle	Repossessed		Sold out of repossessed	
	FY 2015/16	FY 2014/15	FY 2015/16	FY 2014/15
Motor cars	48	99	47	27
Vans	36	73	18	17
Lorries	52	113	50	48
Buses	9	17	6	7
Motorcycles	0	1	0	1
Other	45	68	33	24

LOANS AND RECEIVABLES PERFORMANCE

For MI, its loans and receivables comprise a variety of products that bring forth varying yields, depending on their risk levels and pricing strategies. By offering such a number of products, MI was able to cater to various customer requirements and grow its overall base. During the year, the Company was able to accelerate Microfinance lending by setting up a separate Microfinance Division with Micro Finance Lending Experts.

Indicator	FY 2015/16 Rs. million	FY 2014/15 Rs. million	% growth FY 2015/16	% growth FY 2014/15	Budgeted % growth FY 2015/16	Projected % growth FY 2016/17	Achievements/Remarks
Loans and Receivables Outstanding							
- Personal loans	1,227	766	60	4	(41)	(33)	With products such as vehicle loans, personal loans and microfinance, related lending grew in total by 27%
- Property mortgage loans	2,006	1,756	25	55	30	26	
- Vehicle loans	3,860	3,584	8	21	1	(7)	
- Microfinance loans	382	9	>100	(55)	184	62	
- Others	614	9	>100	(96)	18	16	
Interest Income from Loan and Receivables							
- Personal loans	185	170	9	24	22	(83)	Total related interest income increased by 2% to Rs. 1,395 million
- Property mortgage loans	353	355	(1)	(8)	30	42	
- Vehicle loans	678	753	(10)	30	8	2	
- Microfinance loans	75	6	>100	0	190	82	
- Others	93	59	58	20	1	24	

Indicator	Number of loan and receivables customers in FY 2015/16	Number of loan and receivables customers in FY 2014/15	Change % in FY 2015/16	Change % in FY 2014/15
Personal loans	871	613	42	(2)
Property mortgage loans	170	214	(21)	11
Vehicle loans	2,939	2,391	23	46
Microfinance loans	12,335	483	>100	(25)
Others	136	86	58	41

QUALITY OF LOAN AND RECEIVABLES PORTFOLIO

Unlike lease and hire purchase financing, loans and receivables brought in additional credit risk due to its nature and type of collateral offered. Product specific recovery measures were instilled to tackle, possible drop in quality of lending and follow up actions initiated promptly to ensure collections are made smoothly.

NON-PERFORMING RATIO

Indicator	Loan and receivables NPL %* in FY 2015/16	Loan and receivables NPL %* in FY 2014/15	Budgeted loan and receivables NPL %* in FY 2015/16	Projected loan and receivables NPL %* in FY 2016/17
Personal loans	4.41	6.88	3.00	3.00
Property mortgage loans	4.29	4.53	3.00	3.00
Vehicle loans	1.11	1.63	3.00	3.00
Microfinance loans	0	0	3.00	3.00
Others	0	1	3.00	3.00

*Non-performing lending ratios have been computed based on CBSL time based regulations.

IMPAIRMENT OF LOAN AND RECEIVABLES

Loan and receivables	FY 2015/16 Rs. million	FY 2014/15 Rs. million	Remarks
Impairment Charge/(Reversal) for the Period			
- Personal loans	6	(30)	Net impairment charge on loans and receivables stood at Rs. 198 million for the financial year 2015/16.
- Property mortgage loans	217	4	
- Vehicle loans	(25)	53	
- Microfinance loans	0	0	
- Others	0	0	
Cumulative Impairment			
- Personal loans	27	22	Collective impairment on loans and receivables increased to Rs. 286 million.
- Property mortgage loans	227	11	
- Vehicle loans	31	60	
- Microfinance loans	0	0	
- Others	1	0	

Indicator	Loans and receivables individual impairment charge/(reversal) Rs. million		Individual impairment as a % of total impairment	Loans and receivables collective impairment charge/(reversal) Rs. million		Average loss given default (LGD) used %	Loans to value (LTV) average	
	FY 2015/16	FY 2014/15		FY 2015/16	FY 2014/15		Before December 2015 *	After December 2015 *
- Personal loans	(1)	(34)	(1)	7	4	27	59%	54%
- Property mortgage loans	190	0	81	26	4	34		
- Vehicle loans	(37)	58	(54)	12	(5)	21		
- Microfinance loans	0	0	0	0	0	68		
- Others	1	0	1	0	0	7		

* Maximum regulatory loans to value ratio before 1 December 2015 was 100% and after 70%.

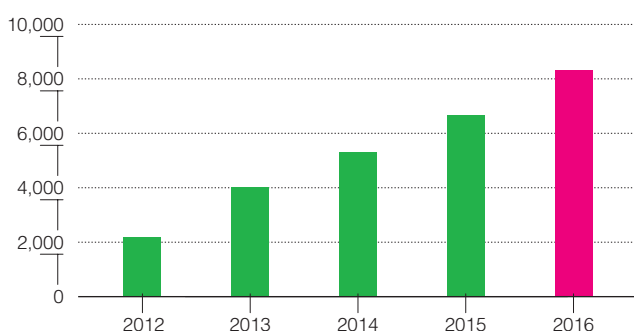
NUMBER OF REPOSSESSED AND SOLD ASSETS ON LOANS AND RECEIVABLES

Type of vehicle	Repossessed		Sold out of repossessed	
	FY 2015/16	FY 2014/15	FY 2015/16	FY 2014/15
Motor cars	15	26	5	4
Vans	5	16	4	0
Lorries	0	2	0	0
Buses	0	0	0	0
Motorcycles	0	0	0	0
Other	8	11	8	5

FUTURE OUTLOOK OF LOAN AND RECEIVABLES

Lately, the finance sector has gradually shifted to these forms of non-traditional lending, considering the prevailing potential and better yields that can be enjoyed. Loans and receivables with its diverse product range will help MI to maintain a well diversified product mix and support in achieving challenging overall lending volume expectations. Greater attention would be paid to building micro loans by setting up micro units at fresh locations. For the benefit of micro clients, MI plans to offer numerous benefits to its customers, which will be competitive. This will include micro consumption loans, reimbursement of funeral expenses in the event of death of customer or spouse and Rs. 50,000/- in-house insurance cover to attract more customers in future. Based on the product knowledge gathered so far, MI hopes to promote property backed lending, adopting strict credit reviews practices to minimise unforeseen losses.

Loans and Receivables
Rs. million



DEPOSIT BUSINESS PERFORMANCE

PERFORMANCE AND OUTCOMES

- Growth in New Deposits – (7%)
- Growth in Deposit Base – 15%

	New deposits secured in FY 2015/16 Rs. million	New deposits secured in FY 2014/15 Rs. million	Growth in new deposits %	Deposit refunds in FY 2015/16 Rs. million	Deposit refunds in FY 2014/15 Rs. million	Change on deposit refunds %
Fixed deposits	5,715	6,137	(7)	4,207	4,336	(3)
Savings deposits	42	39	8	136	164	(17)
Certificates of deposit	0	0	0	14	27	(48)
Total	5,757	6,176	(7)	4,357	4,527	(4)

Though there was strong competition created by banks and other finance companies, offering competitive rates, MI stayed committed in building its deposit base. The Company took a two prong approach of attracting new customers and simultaneously managed to retain MI's loyal customer base through the expertise of the deposit marketing team. Accordingly, the total new deposits secured in FY 2015/16 amounted to Rs. 5,757 million, in comparison to Rs. 6,176 million secured last year, which though reflected a (7%) YoY decline.

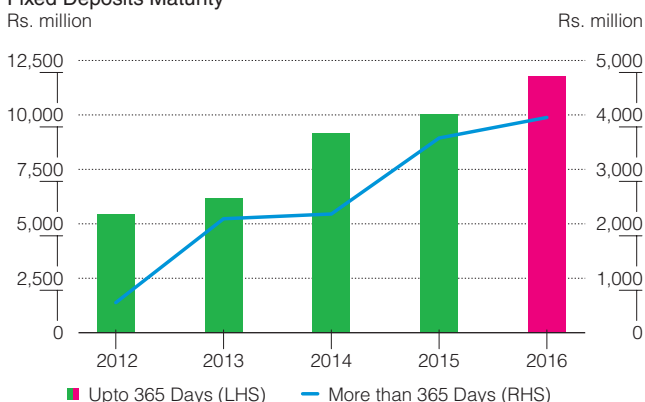


FIXED DEPOSIT PERFORMANCE (FDS)

More than 99% of MI's deposit mix was in FDs, with the total FD outstanding amounting to Rs. 15,727 million, recording a commendable YoY growth of 15%. FDs were promoted extensively across the branch network with greater attention paid in consolidating business within the Western Province and at the same time building business in other regions. MI was able to attract FD accounts from various segments that included individuals and corporate depositors alike, grasping new business even from grass root levels. To counter high competitive rates being offered by competitors, the Company's pricing structures were reviewed regularly and revised during the year.

Using a combination of recruitment and training options, MI lifted the Company's operational capabilities across the branch network to pursue more untapped deposit business, whilst growing FD's at a healthy pace. Moreover, MI sustained repeat business through the Company's loyal depositor base, by cementing their trust again.

Fixed Deposits Maturity
Rs. million



	FY 2015/16	FY 2014/15	Growth % in FY 2015/16	Growth % in FY 2014/15
Fixed deposits outstanding (Rs. million)	15,727	13,640	15	20
Number of fixed depositors (In number)	3,803	4,001	(5)	(4)



FUTURE OUTLOOK OF FIXED DEPOSIT BUSINESS

FDs will remain as the attractive investment choice for most, as it affords people a steady return, over high risk high return options and also due to the sluggishness of the stock market. Similarly, MI can expect market interest rates to move upward gradually in the medium term, which will fuel demand for FD business. While retaining MI's existing customers, the Company will use its marketing experts to attract fresh depositors by offering attractive returns. There will be greater emphasis in generating larger flows of FD's from MI's branch network, supported by easing of deposits processing and related payment systems. MI hopes to provide ATM facilities within the next year to provide better accessibility to cash.



SAVINGS DEPOSITS PERFORMANCE

As a result of the aggressive promotional campaigns launched during the year through branding and various promotional campaigns, MI was able to increase the saving base by 49% during the year. The Company's branch network also played a key role in promoting MI's savings brands MI Max and MI Kids. However, the absolute value of savings continued to remain low. To challenge the tough competitive environment that exists for savings, MI made plans to build the savings base by looking at system enhancements, operational changes and investing in additional resources.

	FY 2015/16	FY 2014/15	Growth % in FY 2015/16	Growth % in FY 2014/15
Savings deposits outstanding (Rs. million)	64	43	49	48
Number of savings depositors (In number)	497	468	6	6

FUTURE OUTLOOK OF SAVINGS DEPOSITS BUSINESS

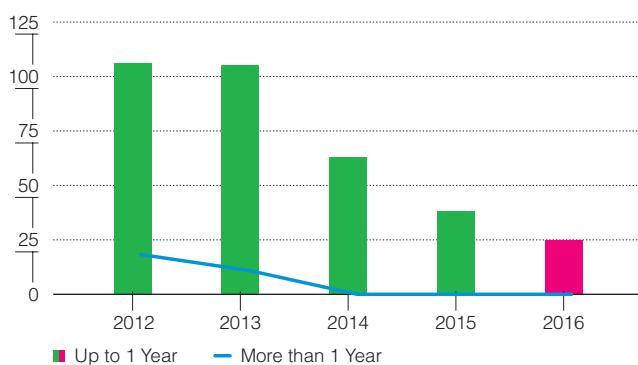
As a registered finance company, with over five decades of trusted service, MI is in a sound footing to garner confidence to develop the potential savings business avenues. As a strategic tool to boost saving base, MI hopes to tie-up with service providers and afford better customer facilities such as ATM services across the country. Based on the corporate plan, MI has kept higher sums for marketing and communication activity, mainly to build the Company's saving product awareness across the country, with the support of our senior manager branding.

CERTIFICATES OF DEPOSIT (CD) PERFORMANCE

During the year, MI paid less attention to promote CDs, as demand for the product continued to dip. However, MI was able to convert CD withdrawals to FDs by offering competitive rates. CDs remained a dying product for the Finance Industry, owing to regulations on transparency in funding sources.

	FY 2015/16	FY 2014/15	Growth % in 2015/16	Growth % in 2014/15
Certificates of deposit outstanding (Rs. million)	24.9	38	(34)	(40)
Number of CD depositors (In number)	5	6	(25)	(25)

Classification of Deposits Maturity
Rs. million



FUTURE OUTLOOK OF CD BUSINESS

Considering the low demand for CD's, MI will not invest in promoting this line of business. The Company will cater CD's on a case-by-case basis to support depositors, merely as an ancillary product.

OTHER STRATEGIC BUSINESS UNITS' PERFORMANCE

INSURANCE SERVICES DEPARTMENT PERFORMANCE

PERFORMANCE AND OUTCOMES

- Growth in Insurance Commission Income – 23%
- Total Claims Recovery – Rs. 91 million

As an ancillary service to our core lending business, MI's Insurance Department played a key role, offering insurance cover to our clients for vehicles financed. During the year, the Company was able to process gross written premiums totaling to Rs. 701 million (Rs. 530 million in 2014/15), which generated a commission income of Rs. 59 million during the year.

Indicator	FY 2015/16 Rs. million	FY 2014/15 Rs. million	% growth FY 2015/16	Remarks
Commission income	59	48	23	Increase of business volumes and efficient service of Insurance Division
Insurance claim	91	85	7	Due to the increase of vehicle accidents

FUTURE OUTLOOK OF INSURANCE DEPARTMENT SERVICES

At present, MI is working with key established insurance companies to offer a better personalised insurance support for the Company's customers under one roof. Though the customer has capability to go for outside insurance, with the collaboration of MI's credit and marketing team, the Company hopes to grow the insurance business in future. MI will capitalise on its strengths such as processing quick claims, early renewals, improve customer awareness etc. to cater to the Company's clients' insurance requirements.

WORKSHOP SERVICES DEPARTMENT PERFORMANCE

PERFORMANCE AND OUTCOMES

- Workshop Revenue Growth – 1%

In the backdrop of a highly competitive industry, MI's Vehicle Repair and Service Workshop Division's revenue increased marginally from Rs. 80 million to Rs. 81 million. Extended working hours and opening on holidays were helpful to retain existing customers and attract new customers during the year. By offering various services that included minor repairs to major repairs handled by technical experts, paint work and vehicle servicing services helped sustain business revenues.

FUTURE OUTLOOK OF WORKSHOP DEPARTMENT SERVICES

Radical changes are ongoing to uplift the outlook of the division including its physical appearance and marketing tactics. The next few years will see the division extending its service to the corporate sector in a major way and finding ways to boost the individual service and repair business.

WORKSHOP STATISTICS

Month	Number of vehicles repaired	Revenue from vehicle repairs (Rs. million)	Number of vehicles serviced	Revenue from vehicles serviced (Rs. million)
April 2015	151	4	124	1
May 2015	171	5	148	2
June 2015	178	5	136	2
July 2015	166	6	138	2
August 2015	157	5	122	1
September 2015	183	5	137	2
October 2015	178	5	154	2
November 2015	157	5	102	1
December 2015	188	7	129	2
January 2016	168	4	137	1
February 2016	154	5	132	2
March 2016	169	6	121	1

Operating Performance by Segments

MI has identified five main segments as Finance lease, Hire purchase, loans and advances, investments and others. Among those segments, key segments are finance lease, hire purchase and loans and advances.

OPERATING PERFORMANCE BY SEGMENTS

	Finance lease			Hire purchase			Loans & advances			Investments			Others			Total	
	2016 Rs. million	2015 Rs. million	%	2016 Rs. million	2015 Rs. million	%	2016 Rs. million	2015 Rs. million	%	2016 Rs. million	2015 Rs. million	%	2016 Rs. million	2015 Rs. million	%	2016 Rs. million	2015 Rs. million
Segment income	1,318	937	40.67	1,459	1,697	(13.99)	1,395	1,366	2.11	238	234	1.46	90	52	73.52	4,500	4,286
(-) Segment expenses	1,092	718	52.18	1,178	1,306	(9.77)	1,108	1,031	7.53	105	99	5.66	70	39	82.23	3,554	3,192
(-) Impairment	49	79	(37.67)	(12)	190	(106.62)	198	27	633.10	-	-	-	-	-	-	235	296
Segment profit	176	140	25.70	294	201	46.14	88	308	(71.33)	133	135	(1.63)	20	13	48.17	711	798
Segment assets	9,926	5,410	83.48	6,826	7,399	(7.74)	8,302	6,660	24.66	6,033	6,375	(5.36)	2,877	2,565	12.17	33,965	28,409
Segment liabilities	9,926	5,410	83.48	6,826	7,399	(7.74)	8,302	6,660	24.66	6,033	6,375	(5.36)	2,877	2,565	12.17	33,965	28,409

Brief description of each segment is given on page 403 in the Notes to the Financial Statements.

- Most profitable segment was the Hire Purchase segment recording the highest profit of Rs. 294 million. By efficient and effective management, this segment was able to reach the top by generating higher segment income, compared to finance lease and loans and advances segments.
- Investment segment reported a profit of Rs. 133 million with the reduction of 2% compared to the previous year. Major component of income was derived from dividend income comprising 43% of its total income. Due to the sluggishness of stock market realised, capital gains was lower unlike the past.
- By identifying segments, MI was able to manage the overall business in an efficient manner. Allocating resources among the segments that are identified as key was the main focus. On the other hand, the Management emphasised the importance of considering loss-making segments to convert them to profitable segments.

FINANCIAL PERFORMANCE BY LOCATION

PERFORMANCE AND OUTCOMES

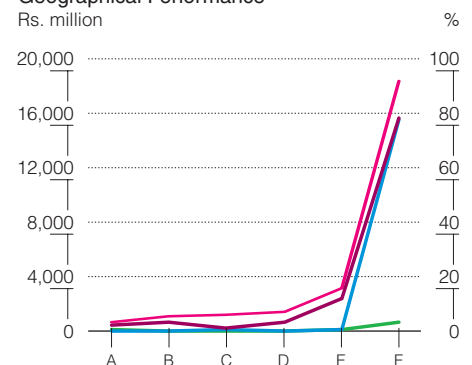
- Lending outstanding outside Western Province – Rs. 7,513 million
- Net Profit Before Tax outside Western Province – Rs. 177 million

GEOGRAPHIC WISE FINANCIAL PERFORMANCE

With the last decade, MI's geographic locations have widened considerably with its expanding locations to key regional hubs. Through these key locations the Company managed to grow operationally and financially to new heights. Deposit mobilisation was the challenging business line with strong competition stemming from some of the popular regions. Due to numerous reasons, KPI's such as

profitability, business volumes and level of NPL performance varied diversely from one region to another. Financial need of MI's customers varied from region to region at times and the changes in weather patterns had its impact on MI's agriculture-related lendings.

Geographical Performance



A - Eastern B - North Central
C - North Western D - Sabaragamuwa
E - Southern F - Western

— Lending Outstanding (Rs. million)
— Non-Performing Advances (Rs. million)
— Deposits Outstanding (Rs. million)
— Net profit/(loss) Before Tax (%)

Province	Lending outstanding Rs. '000	Non-performing advances Rs. '000	Deposits outstanding Rs. '000	Net profit/(loss) before tax Rs. '000	Net profit/(loss) before tax %
Eastern	685,963	57,131	7,706	19,983	2
North Central	1,114,584	16,217	16,297	25,850	3
North Western	1,182,419	43,826	61,713	9,354	1
Sabaragamuwa	1,422,404	16,051	36,756	27,295	3
Southern	3,108,007	74,240	148,043	94,611	12
Western	18,316,695	668,583	15,545,076	625,553	78

BRANCH WISE AND SERVICE CENTER-WISE PERFORMANCE

PERFORMANCE AND OUTCOMES

- Branch Lending Growth – 39%
- Branch Deposit Growth – 22%
- Branch Profit Growth – 19%

The Company adopted a simplified managing system where all MI's business locations, coming under specified clusters, reported to separate AGMs, while they in turn were supervised by the Director – Credit and Marketing (Non-Board) who remained overall responsible for all branch operations. Through this efficient management process and adequate manpower coupled with the right level of training, most branches recorded sound profitability levels with satisfactory overall performance. MI ensured basic facilities such as parking, easy access and online system support to cater to the Company's customers more efficiently from every service point.

PERFORMANCES OF BRANCH AND SERVICE CENTRES

Branch	Lending outstanding Rs. '000	Non-performing advances Rs. '000	Deposits outstanding Rs. '000	Net interest income Rs. '000	Overheads Rs. '000	Cost to income %	Profit/(loss) Rs. '000
Akuressa	96,376	–	1,129	3,284	7,766	236	(4,482)
Ampara	320,185	34,884	5,350	28,211	10,850	38	9,357
Anuradhapura	659,546	7,860	15,421	36,831	19,015	52	17,447
Balangoda	540,910	8,081	23,405	38,109	19,812	52	18,936
Bentota	724,367	8,895	78,829	53,815	19,029	35	30,142
Chilaw	453,935	17,361	15,807	29,642	14,203	48	7,918
Embilipitiya	380,728	7,971	950	31,283	13,074	42	8,398
Galle	875,794	18,993	37,347	52,927	22,479	42	21,429
Gampaha	628,078	19,056	73,118	36,416	14,498	40	15,515
Godagama	166,086	–	500	2,219	5,341	241	(3,273)
Horana	588,380	8,209	16,949	46,392	16,464	35	23,081
Kadawatha	1,781,369	35,619	132,420	114,343	44,052	39	66,816
Kegalle	330,350	–	8,488	9,480	10,474	110	(1,012)
Kohuwala	1,651,429	39,950	414,206	95,169	34,863	37	48,626
Kuliyapitiya	212,870	–	21,025	8,767	11,098	127	(2,331)
Kurunegala	515,614	26,465	24,882	36,208	17,115	47	3,767
Maharagama	1,071,331	6,048	145,843	70,582	23,770	34	44,273
Matara	1,090,206	26,853	25,535	62,256	27,155	44	38,980
Negombo	914,123	48,872	391,068	59,347	27,505	46	25,008
Polonnaruwa	455,038	8,357	876	24,389	15,192	62	8,403
Ratnapura	170,415	–	3,912	10,531	9,536	91	972
Tissamaharama	321,264	19,499	5,204	26,684	13,736	51	8,542
Tricomalee	365,778	22,247	2,355	25,400	13,147	52	10,626

Service centre	Lending outstanding Rs. '000	Non-performing advances Rs. '000	Deposits outstanding Rs. '000	Net interest income Rs. '000	Overheads Rs. '000	Cost to income %	Profit/(loss) Rs. '000
Borella – Coporate Premier	3,135,117	7,106	N/A	120,363	43,002	36	(117,589)
Kaduwela	444,888	1,092	N/A	19,741	12,092	61	7,506
Kotahena	303,184	584	N/A	14,726	9,722	66	4,581
kottawa	737,146	4,012	N/A	40,239	17,160	43	14,377
Minuwangoda	968,127	69,082	N/A	58,562	20,304	35	15,204
Moratuwa	214,019	–	N/A	6,978	9,677	139	(2,704)
Nittambuwa	470,934	–	N/A	25,847	15,807	61	10,111

FUTURE OUTLOOK OF GEOGRAPHIC/ BRANCH PERFORMANCE

MI's branch network will play a significant role in boosting lending volumes and moreover, taking a greater active role in deposit mobilisation than before. According to the strategic plan, the Company's hoping to open a few more branches during the next financial year to reach customers' door steps to provide quicker services. By the introduction of ATM facilities, MI can influence the customers saving habit, while fulfilling their borrowing requirements through the Company. It will be quite challenging to retaining market share as the LFC sector becomes more competitive. Capitalising on MI's strengths and eradicating any weaknesses, the Company will try to increase its market share by catering to untapped external opportunities.

Callousness We Don't Buy Into...

Lack of regard for Planet Earth and its environment has no place in the MIL ethos. As a responsible institution with decades of experience all the ingredients of a sustainable business are well to the fore.



Statement from the Chairman



“As a responsible corporate entity, MI continues to display its keenness in acting as a highly socially responsible enterprise and therefore has embedded its expectations on sustainability, incorporating relevant requisites right from the corporate strategic planning process”

BUILDING A SUSTAINABLE NATION

With peace dawning after a long drawn conflict, our nation has slowly but steadily progressed in economic development which has positively impacted living standards and social well-being of people in a short span of time. However, the challenge is to sustain a lasting effective development exercise, which should improve people's lives, financially as well as socially, in a way that it will bring sustainable lasting results. Already, the post-war period has seen the Government as well as the business community embarking on numerous programmes to lift the overall economy, thus uplifting living standards of people, unlike during the conflict times. While policy changes and thought-out development strategies have contributed tremendously to the revival of the economy, lot needs to be done to handle some of the equally important burning issues associated with society in areas such as education, health, poverty alleviation and sanitation. I believe, the business communities involvement will have to widen in these areas in the next few years. Both public and Government sectors will have to work hand-in-hand to display equal commitment in fulfilling some of the important societal needs and expectations, which will eventually help in building a sustainable nation.

CORPORATES ROLE IN SUSTAINABILITY

With the deepening of the business communities role in fulfilling people's needs in numerous forms, this decade has seen vast initiatives being taken by corporates to improve their sustainable practices, rather than merely concentrating on short-term commercial profits. Indeed the moment has come for the corporate sector to act responsibly towards the environment and to display renewed commitment towards betterment of society, as they excel in their spheres of business. Corporates now have the opportunity to do so, considering their expanding business presence coupled with improving infrastructure and moreover technology, which has enabled them to stay close to people of varying communities.

The finance industry should continue to support small scale entrepreneurs as well as low income earners, as a means of uplifting their lives and livelihoods, so they in-turn can contribute to national development exercise more extensively. The corporate sector should look beyond the provision of commercial activities and commit themselves towards uplifting healthcare, education, shelter, sanitation etc., needs of the poor and lesser privileged. The business community should act more socially responsible and be aware of the environment, and do its level best to secure natural resources and adopt practices to protect the atmosphere.

MI'S UNWAVERING COMMITMENT TOWARDS SUSTAINABILITY

As a responsible corporate entity, MI continues to display its keenness in acting as a highly socially responsible enterprise and therefore has embedded its expectations on sustainability, incorporating relevant requisite rights from the corporate strategic planning process. MI's sustainability value creation process pursues economic, social and environmental value for the benefit of our key stakeholders and is a component of our overall business model. We remain committed to serving people across the country through our widened financial offerings and thus was successful in increasing our business presence tremendously within the last five years.

Our contribution to society did not end there, as we continued to contribute to society in other ways as well, initiating a number of CSR campaigns targeting the poor and the underprivileged, this year. I am happy to announce our commitment towards the environment too, continuing to extend support to planting of trees, commenced last year and extending support via various other eco-friendly practices to safeguard the use of natural resources such as energy, consumables and water. I further believe that adopting the GRI's G4 comprehensive reporting framework from this period, will facilitate better compilation and transmission of sustainability information to our keen stakeholders.

FUTURE PERSPECTIVES ON SUSTAINABILITY

As an institution that has served the people for over five decades, MI will stay receptive to the needs of the market and the predictions for the future and accordingly implement strategy based on changing conditions and people's expectations. We will analyse trends in the market and changes in societal habits and wants so that we could be better equipped to serve people of a wider spectrum. In terms of economic contribution, we hope to provide greater value addition to MI investors, customers and other stakeholders and from a broader perspective to the LFC sector and finally to the economy, which we hope to implement through concise planning and strategy. We plan on further expanding our reach to afford greater accessibility to people who can come seeking our financial solutions, even from the most remote parts of the nation. As the industry dynamics keep changing in the future, we hope to fine-tune our existing product range and will stay innovative as possible to bring forth wider choice of financial solutions to the people.

To fulfil interest of our array of stakeholders, we hope to capitalise on our unique integrated business approach to maximise MI's future triple bottom line value. Towards this endeavour, the Board and myself will stand committed in nurturing, motivating and guiding our invaluable human resource, the MI team, who I believe holds the key to our future success.

Saro Weerasuriya
Chairman
13 June 2016

9 Key Strategic Imperative – Sustainable Value Creation Process

Through a strategic planning process, we placed greater importance during this period on identifying ways of generating sustainable triple bottom line value, going beyond traditional commercial profit maximisation boundaries. Hence, we were able to lay forth a clear strategic path for the Company from all key angles, incorporating formalised sustainability strategy as part of MI's corporate plan for the next three years. The main purpose of doing this was to bolster MI's economic, social and environmental value, for the period under review and also going forward. We understood the need to enhance our triple bottom line value annually, so that most of our stakeholder's expectations can be met effectively.

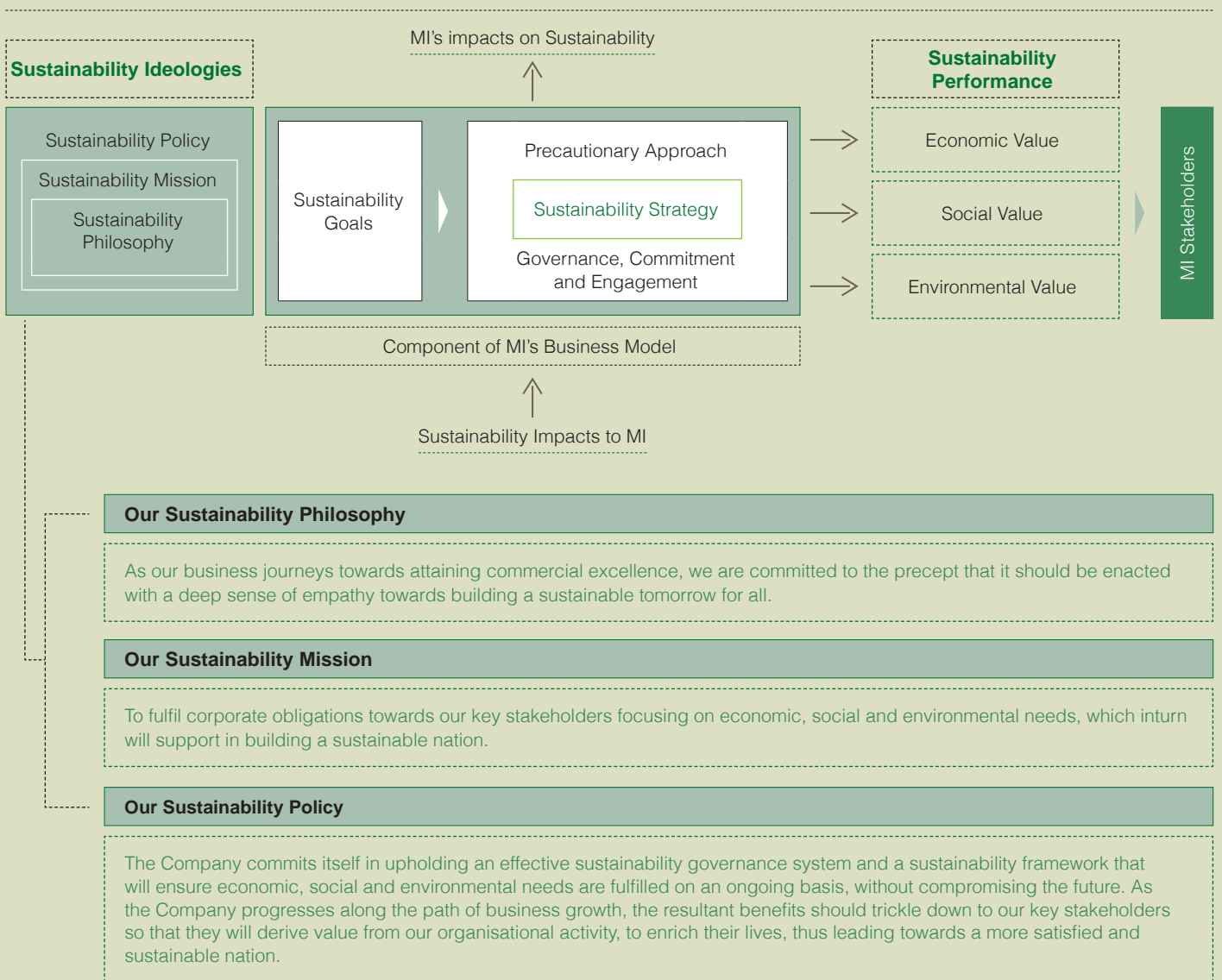
MI's sustainability value creation process is initiated with the Company making a thorough assessment of the prevailing internal and external considerations

against MI's sustainability efforts, in relation to the key economic, social and environmental dimensions, under the guidance of the Sustainability Governance Committee. This assessment is made for the purpose of initially establishing MI's impacts on sustainability and also sustainability impacts on MI, which is carried out in parallel to MI's overall business environmental assessment. The Sustainability Governance Committee was able to study the key economic, social and environmental impacts and thereafter was able to identify resultant opportunities and challenges to come up with suitable sustainable strategy, going forward. The Committee reviewed existing sustainable strategy and proposed necessary revisions or changes, which was incorporated to the corporate plan and thereafter approved by the Board during this financial period.

In devising effective sustainability strategy, the Committee reviewed the received feedback obtained from MI's stakeholders through the stakeholder engagement process that takes place on an ongoing basis.

As depicted in MI's sustainability value creation process diagram, the key elements of the process commences with the initial impact study and the step of setting down sustainability goals and thereafter devising a sustainability strategy, which is all done in keeping to the unique business model of the Company. This approach eventually strives in enhancing economic, social and environmental value, thus fulfil varying stakeholder expectations in the process. This process upholds MI's visionary aspirations and sustainability ideologies, requiring all those working within to embrace MI's sustainability philosophy, sustainability mission and sustainability policy, when striving for the ultimate attainment of overall goals and targets.

MI'S SUSTAINABILITY VALUE CREATION PROCESS



SUSTAINABILITY REPORTING PARAMETERS

As explained in “reporting parameters” on page 20, the sustainability reporting contained in this section and other sustainability disclosures contained in Management Discussion and Analysis, Stewardship and Financial Report section corresponds with the requirements of Global Reporting Initiatives G4 framework “in accordance – comprehensive” option on sustainability reporting. In preparing reporting content, we have drawn reference to G4 frameworks Reporting Principles and Standard Disclosure including finance sector specific disclosure on sustainability reporting.

General Standard Disclosure	“In Accordance – Comprehensive” reporting given
Strategy and analysis	G4-1 – G4-2
Organisational profile	G4-3 to G4-16
Identified material aspects and boundaries	G4-17 to G4-23
Stakeholder engagement	G4-24 to G4-27
Report profile	G4-28 to G4-33
Governance	G4-34 to G4-55
Ethics and integrity	G4-56 to G4-58
General standard disclosures for financial services sector	None required to be reported for the financial services sector

Specific Standard Disclosure	“In Accordance – Comprehensive” reporting given
Generic Standard disclosures on management approach	Disclosure given for material aspects selected
Indicators	All indicators given related to each identified material aspect
Specific Standard disclosures for financial services sector	Sector specific requirements have been given for all material aspects selected

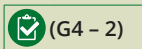
Our approach to “Deciding Report Content” is explained under pages 35 to 45, which provides a comprehensive update of the steps involved in deciding the topics/aspects given in sustainability section and other reports of the Annual Report. In this process, we have outlined how MI engages with its stakeholders, report boundary setting and the adoption of G4 principles that include materiality principles to ensure the effectiveness of our the sustainability related disclosures and other disclosure reports.

In preparing reporting content, we have drawn reference to G4 frameworks Reporting Principles and Standard Disclosure



MI'S IMPACT ON SUSTAINABILITY

DESCRIPTION OF KEY IMPACTS, RISKS AND OPPORTUNITIES



As a company that has widened its business reach and activity, from a sustainability perspective, our impacts on economy, society and environment are many and MI's key impacts are enumerated in tabular form. We have also outlined the challenges and opportunities stemming from such impacts and the strategy adopted for each of those impacts and the progress made for this financial period.

Key impacts	Key stakeholders impacted	Resultant challenges/ opportunities from impacts	MI's strategy adopted	MI's progress in FY 2015/16
<p>Economic impact: Growing business presence and operational activity has expanded the number of people we serve. While this has enabled the Company to grow financially, it has positively impacted our investors returns and contributed to the development of our sector and the economy.</p>	<p>Investors/ Customers/ Local Community/ Regulators</p>	<p>Opportunities for MI:</p> <ul style="list-style-type: none"> • Strong business presence across the country has opened doors for people to obtain MI's services easily to suffice varying financial needs. • Post-war resurgence has boosted the financial sector like other industries, thus creating increased opportunities for MI and the people it caters to. <p>Challenges for MI:</p> <ul style="list-style-type: none"> • Having to compete from number of locations while expanding operations requires effective management tools to bring about required internal returns and economic contributions. • Increased business presence requires greater decentralised operation which warrants a stronger control system. 	<ul style="list-style-type: none"> • Developing specific business lines such as the microfinance arm, thereby broad-basing our assistance to lower and middle income earners. • Effective selection and recruitment process to identify ideal candidates to assist growing operations. • Strengthening operational procedures as a means of enhancing ultimate offering value. • Close monitoring of financial performance against targets, so that gaps can be identified early and solutions identified, including necessary changes to strategy. • Implementing an effective governance system to ensure prudent management of business and also strengthening risk management practices to counter key risks associated with business. • Strengthening internal controls, compliance and audit aspects through continuous monitoring and adopting a risk-based approach to audit. 	<ul style="list-style-type: none"> • Setting up a fully-fledged Microfinance Division in 2015 and thereafter extending microlending from a number of locations. • Widening the financial solutions offered, going beyond traditional financing to cater to special needs of people including tailoring term lending products to fit people's budgets. • Making a comprehensive assessment of Information Communication Technology needs and making necessary changes in system to enhance features to improve operational performance and decision-making. • Revisiting core operational procedures and managing to make necessary procedural enhancements to improve efficiency. • Weekly review of financial performance that include monitoring of Key Performance Indicators with corporate management, was able to identify gaps early and implement changes to core business operations to bridge such shortcomings on an ongoing basis. • Internal audit coverage was enhanced by embracing a more risk-based audit approach from this period. • IRMC, with the support of the Manager – Risk and Compliance was able to monitor key risk and was able to provide a periodic feedback to the Board. Various Board Sub-Committees and the Management Committee met regularly and reviewed risky areas which included credit risk, liquidity risk, interest rate risk etc.

Key impacts	Key stakeholders impacted	Resultant challenges/opportunities from impacts	MI's strategy adopted	MI's progress in FY 2015/16																								
<p>Social impact: Our widened presence has opened the door for MI to interact with people of various communities and to understand their needs and to cater to them much better.</p>	Society	<p>Opportunities for MI:</p> <ul style="list-style-type: none"> • Easy access to communities with expanding operations, even reaching people living in remote locations. • MI is better placed in serving people meeting financial needs and also looking after other social needs. <p>Challenges for MI:</p> <ul style="list-style-type: none"> • Need to constantly be receptive to changing needs of people and also have the needed flexibility to cater to such needs. • Need to adopt to responsible practices towards society, mainly to safeguard corporate image. 	<ul style="list-style-type: none"> • Strategy in building business beyond the Western Province, which has opened a gateway for people to obtain MI financial solutions to better their lives and livelihoods. • Going beyond commercial boundaries and addressing some of the social issues such as poverty alleviation, educational support and providing health and sanitation needs to poor. • Cementing social bonds with people of varying communities, initiating awareness campaigns, extending personalised services to people and catering to various segments including senior citizens of society, affording attractive returns to them. 	<ul style="list-style-type: none"> • Through our core business lines, we served more people outside the Western Province than during the previous period. <table border="1" data-bbox="1091 490 1474 707"> <thead> <tr> <th colspan="3">Number of customers served outside Western Province</th> </tr> <tr> <th>Product</th> <th>FY 2015/16</th> <th>FY 2014/15</th> </tr> </thead> <tbody> <tr> <td>Lending</td> <td>13,399</td> <td>3,672</td> </tr> <tr> <td>Fixed deposits</td> <td>220</td> <td>156</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • Based on MI's philanthropic initiatives, the number of individuals served is as follows: <table border="1" data-bbox="1091 831 1474 1128"> <thead> <tr> <th colspan="3">Number of individuals served</th> </tr> <tr> <th>Initiated by</th> <th>FY 2015/16</th> <th>FY 2014/15</th> </tr> </thead> <tbody> <tr> <td>The Sustainability Governance Committee</td> <td>>600</td> <td>>900</td> </tr> <tr> <td>Other (Corporate Management and other staff)</td> <td>>300</td> <td>>100</td> </tr> </tbody> </table> <ul style="list-style-type: none"> • We built awareness of MI's capabilities in various regions. Increased focus in personal lending, microfinance etc. led to our employees interacting with communities much freely and understanding their needs and catering to them. 	Number of customers served outside Western Province			Product	FY 2015/16	FY 2014/15	Lending	13,399	3,672	Fixed deposits	220	156	Number of individuals served			Initiated by	FY 2015/16	FY 2014/15	The Sustainability Governance Committee	>600	>900	Other (Corporate Management and other staff)	>300	>100
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Other (Corporate Management and other staff)	>300	>100																										
<p>Having to manage a relatively large diverse workforce that is continuously growing.</p>	Employees/ Society	<p>Opportunities for MI:</p> <ul style="list-style-type: none"> • Chance to recruit employees from within local communities, who are conversant of those local conditions and the needs of people. <p>Challenges for MI:</p> <ul style="list-style-type: none"> • Staff retention will be a vital factor for MI, considering the prevailing competitive environment to attract highly skilled people. • To keep pace in a dynamic business environment, employee knowledge needs to be constantly updated. 	<ul style="list-style-type: none"> • Using local hiring as a strategy to gain competitive advantage and also to better serve people in those communities. • Implementing a performance – based culture and recognising top performers to keep employees motivated and goal-oriented. • Continuous employee nurturing programme undertaken by HR through various human resource techniques including knowledge enhancement and career path development. 	<ul style="list-style-type: none"> • Number of locally hired personnel have increased, with fresh local hirings taking place this period. Local hiring information is given on page 148. • Implementation of the performance based, balanced scorecard reward system, biannually for employees attached to all key divisions. MI hopes to create a win-win culture that will motivate staff and at the same time improve productivity levels. • Revision of salary scales to ensure MI's remuneration packages remain very competitive and able to retain high calibre staff. • A total of 10,526 training hours were afforded to staff during this period compared to last year's 4,075 hours. 																								

Key impacts	Key stakeholders impacted	Resultant challenges/opportunities from impacts	MI's strategy adopted	MI's progress in FY 2015/16
<p>Environmental impact: Increased operations has led to greater use of energy and other natural resources.</p>	Environment including habitats.	<p>Challenges for MI:</p> <ul style="list-style-type: none"> Ongoing organic expansion eventually requires greater resource consumption and responsibility towards the environment. Increased presence in various parts of the nation requires attention to environment and related issues, particularly for locations in environmentally sensitive areas. 	<ul style="list-style-type: none"> Adoption of environmentally friendly practices and controls to manage and sparingly use natural resources. Carrying out direct environmental protection initiatives through the Sustainability Governance Committee to support the environment and its habitats. 	<ul style="list-style-type: none"> As a significant project, through the Sustainability Governance Committee, a tree planting campaign was carried out in Gampola in a biodiversity designated area. These plants will eventually provide shade and other benefits such as contribute in protecting the ozone layer. MI's other efforts that supported in safeguarding the environment, its natural resources and habitats have been explained in detail under the section on "Environmental Value Creation" further on.








IMPACT TO MI FROM SUSTAINABILITY

Sustainability trends impacting MI	Opportunities/challenges from sustainability trends	MI's strategy towards sustainability trends	MI's progress in FY 2015/16
<p>Economic trends:</p> <ul style="list-style-type: none"> Ongoing economic development and growth in GDP and per capita income has revived the corporate sector including the finance industry. Pick-up in economic activity in under-developed areas outside the Western Province. Rapid changes observed in customer thinking and behavioural patterns due to advancement in technology including social media. The business environment is dynamic and has accelerated with the globalisation and opening of markets for international trade and technological advancements keep on easing how we do business. 	<p>Opportunities:</p> <ul style="list-style-type: none"> The improving economic conditions and pick up in most industries would positively impact demand for financial services offerings. Opportunity to pursue businesses beyond traditional financing, to penetrate into other credit requirements of society. Expanding customer base and market segments creating new opportunities for MI to make a better economic impact. <p>Challenges:</p> <ul style="list-style-type: none"> In a dynamic competitive Finance sector, corporates need to be receptive to business conditions and flexible to adopt to changing needs. Customers' demands are challenging and is raised further with increasing competition particularly for pricing. Need to adopt to advanced technological developments, especially in the ICT field which requires corporates to make constant investments. People have a wider choice of financial solutions in the market and investment avenues unlike in the past. 	<ul style="list-style-type: none"> Strategy developed to penetrate into markets in newly set up regions and to capitalise on the ongoing economic resurgence. Awareness building in recently established locations and strong promotional campaigns across MI network to boost business. Making a genuine effort to cater to financial needs of people living even in remotest of locations. Catering to people's funding needs by introducing a broad-based product range and tailoring existing offerings to fit peoples' budgets and capacities. Affording attractive returns to depositors and offering credit on best possible terms and pricing by continuously reviewing pricing applied. Being respective to customer preferences and at the same time, keeping close watch on changes happening to key market variables and taking decisions effectively. 	<ul style="list-style-type: none"> Strong marketing and communication campaigns were carried out around various branch locations to build awareness of people of various backgrounds of MI's services and how the organisation can support people in lifting their lives and livelihoods. Offered tailor-made financial solutions and attractive offerings to sustain continued customer loyalty. Being receptive constantly to customer needs, we conducted a general people survey as well and made necessary updates to offerings and operations based on customer feedback. Since launching MI's Microfinance Unit in 2015, the unit was able to expand microfinance services across various key locations to cater to a wider segment of society. The Corporate Management was able to meet on a weekly basis to discuss performances, which includes a review of prevailing market trends and changes and any resultant impacts to MI and to make appropriate decisions, based on such reviews. Was able to offer special rates above sheet rate for deposits placed over a specific value or period. Senior citizen depositors were offered a preferential rate.

Sustainability trends impacting MI	Opportunities/challenges from sustainability trends	MI's strategy towards sustainability trends	MI's progress in FY 2015/16												
<p>Social trends:</p> <ul style="list-style-type: none"> Technology, including use of social media has impacted society in a major way and continues to change preferences of society. Despite improving social conditions and growth in economy, for certain segments of society, basic amenities such as drinking water, medicines and proper shelter are still lacking. Rise in education and literacy levels with women's role in corporate society increasing. 	<p>Opportunities:</p> <ul style="list-style-type: none"> Widening demand for various people's needs affords enough opportunities for corporates to tap and provide ideal solutions. Performance and overall corporate success in the current era is not confined to financial profits only but also extends to how much of value and benefit it brings to society. Corporates in meeting their staffing needs, are able to select from a wider choice of individuals, who come from varying backgrounds and from either gender. <p>Challenges:</p> <ul style="list-style-type: none"> Increased presence of corporates, require them to have greater vigilance to sustainability issues, especially those impacting society. Heavy competition among corporates to meet people's needs and to build lasting bonds that is hard to be broken. Since corporates are dependent on society in some way, securing corporate reputation and goodwill is vital to ensure long-term success. 	<ul style="list-style-type: none"> Pursued ways of expanding our product range and services to meet varying financial demands of people. Identified other needs of society, beyond financing, especially the needs of the poor and lesser privileged to improve their lives. Recruitment strategy involved identifying people who are diverse and are of either gender to ensure a strong and balanced workforce is built over time. Being receptive to local community needs by maintaining a continuous dialog with key stakeholders. Upholding a strong compliance culture and adopting sound corporate practices and values. 	<ul style="list-style-type: none"> We built business around our widened financial product range and offered them through the expanded branch network. Was able to cater to a wide array of people of varying financial backgrounds. A number of CSR projects were initiated through the Sustainability Governance Committee to address varying social issues that covered poverty elevation, meeting educational needs of the poor and providing shelter to those in need. Total recruitments to workforce in terms of gender was as follows and showed an increase in both genders: <table border="1"> <thead> <tr> <th>Gender</th> <th>FY 2015/16</th> <th>FY 2014/15</th> </tr> </thead> <tbody> <tr> <td>Male</td> <td>222</td> <td>147</td> </tr> <tr> <td>Female</td> <td>42</td> <td>14</td> </tr> <tr> <td>Total</td> <td>264</td> <td>161</td> </tr> </tbody> </table> <ul style="list-style-type: none"> By gathering invaluable feedback on expectations of people within local communities and thereafter deliberating on possible approaches and brainstorming, helped us to widen our spheres and also to uplift standards. Adopted a strong governance culture and a close monitoring system through the Internal Audit Division. 	Gender	FY 2015/16	FY 2014/15	Male	222	147	Female	42	14	Total	264	161
Gender	FY 2015/16	FY 2014/15													
Male	222	147													
Female	42	14													
Total	264	161													
<p>Environment trends:</p> <ul style="list-style-type: none"> Expansion of the world population and industrialisation, has led to deforestation and increasing dangers of global warming. Changes happening to the eco-system due to human intervention are negatively impacting the environment, including the survivability of its habitats. Increased usage of natural resources has led to its scarcity, especially energy and other natural resources such as fresh drinking water. 	<p>Opportunities:</p> <ul style="list-style-type: none"> Greater recognition for corporates that commit themselves towards protecting the environment and adopting green practices for the benefit of society. Corporates will eventually benefit by the sparing use of natural resource since it will help reduce related consumption costs. <p>Challenges:</p> <ul style="list-style-type: none"> Environment protection initiatives will unusually involve expenditure while related benefits will accrue only indirectly or will come in the longer term. Controlling use of scarce natural resources in the midst of business expansion. 	<ul style="list-style-type: none"> Adopted strategies to cut down on use of natural resources such as energy, water and consumables. Tackled areas of wastage and identified effective resource saving practices. 	<ul style="list-style-type: none"> Continued to adopt energy saving methodologies to cut down on electricity usage. Obtaining assistance of an effective inventory management system to manage the intake of stationary and consumable items. Regular departmental reviews to monitor recurring use of items and their related costs. 												

OUR SUSTAINABILITY AMBITIONS

For each identified key stakeholder, the following sustainable value propositions were laid down for the three years commencing 2015/16 and commitment obtained from the Sustainability Governance Committee and members of the Corporate Management in striving towards them:


Stakeholder	Value proposition
Investors 	<ul style="list-style-type: none"> • Enhance employee wealth by posting sound profitability, distribution of sound dividends and increased share price value. • To strengthen governance practices to maintain the Company's financial stability, maintain public confidence and to safeguard corporate assets. • Keeping cost to income ratio below 55%, in the medium term.
Customers 	<ul style="list-style-type: none"> • Increasing presence by expanding the branch network to 40 fully-fledged branches by 31 March 2018.
Employees 	<ul style="list-style-type: none"> • To identify, nurture and increase productivity/ value of our human resource base via training and development and other career development activities. • Maintaining a rewarding system that matches performance levels of staff. • To strengthen the workforce in the next 3 years to provide adequate manpower to meet the planned operational expansion.
Regulators 	<ul style="list-style-type: none"> • Ensure strict compliance culture that adheres to organisational policies, procedures, rules and regulations.
Suppliers 	<ul style="list-style-type: none"> • Maintaining a worthwhile win-win relationship with reputed suppliers that will ensure MI secures quality supplies at best prices.
Society/Local community 	<ul style="list-style-type: none"> • Identify and meet needs of society beyond commercial boundaries, particularly of the poor and lesser privileged.
Environment and its habitats 	<ul style="list-style-type: none"> • Adopt green practices to safeguard environment and controlling the use of scarce natural resources for day-to-day operations.

Sustainable value propositions were laid down for the three years commencing 2015/16 and commitment obtained from the Sustainability Governance Committee and members of the Corporate Management

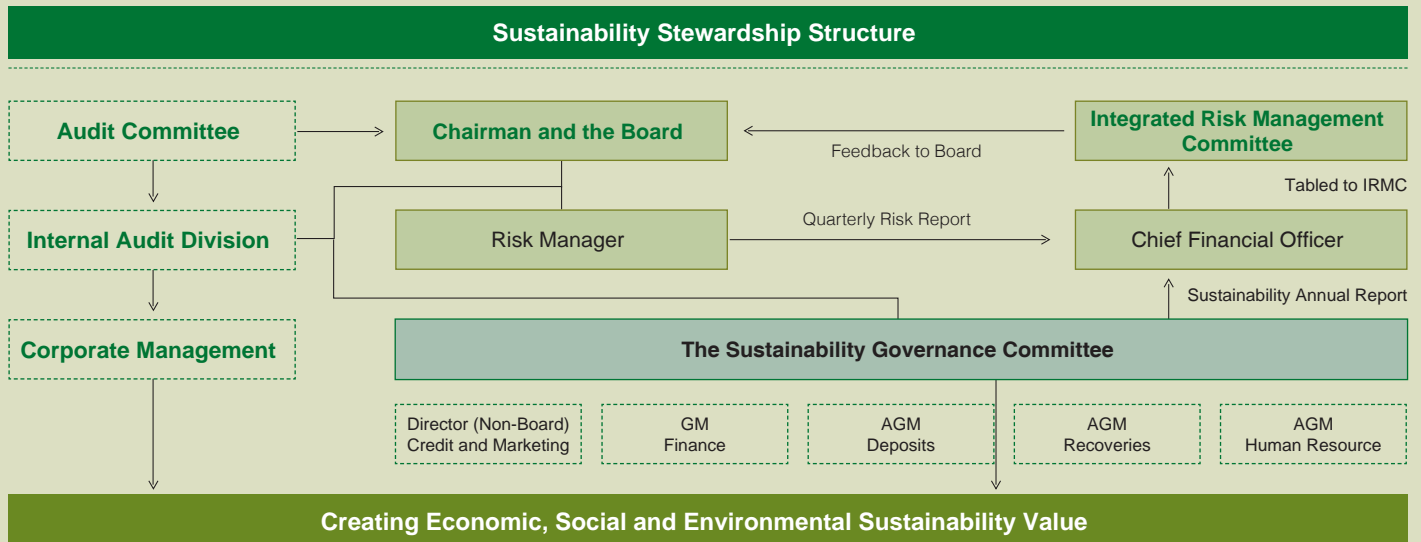


Stewardship Over Sustainability

GOVERNANCE STRUCTURE AND COMPOSITION

 (G4 – 34, 35, 36, 44, 48)

While the stewardship over MI's sustainability process comes under the Board, who stands committed to the creation of triple bottom line value, as the next tier in the sustainability stewardship structure, it is the Sustainable Governance Committee and in tandem with the Corporate Management who are entrusted with the task of pursuing sustainability aspirations of the organisation. This year when finalising the corporate plan, the commitment of the Corporate Management and the Sustainability Governance Committee was obtained jointly from the point of establishing of sustainability goals and right up to the planning of suitable sustainability strategy in the medium term. The effective sustainability stewardship structure adopted by the organisation can be outlined as follows:



ROLE OF THE SUSTAINABLE GOVERNANCE COMMITTEE

The Sustainability Governance Committee is chaired by the Director (Non-Board) – Credit and Marketing while General Manager – Finance, Assistant General Manager – Deposits, Assistant General Manager – Human Resources and Assistant General Manager Recoveries form the other members, who work within a fixed approved annual budget. The Committee, in keeping to its mandate, focused on meeting social and environmental expectations of key stakeholders, by initiating a number of related projects. This mainly involved addressing some of the burning needs of society, going beyond commercial boundaries and other needs surrounding protection of the environment and its resources. The Committee was successful in completing projects for the betterment of society and the environment, under following broad themes:

- Assistance in cash and kind for the poor and underprivileged.
- Educational assistance for children in need.
- Shelter for the poor.
- Community service programmes for the benefit of society.
- Programmes aimed at safeguarding the environment covering the nation's indigenous flora and fauna.

The Committee reports to the Managing Director and also appraises its progress in creating sustainable value to the IRMC through the Finance Director, when necessary. The sustainability report is reviewed by the Finance Director/Chief Financial Officer and approved prior to its release in the Annual Report as given on page 21.

ROLE OF CORPORATE MANAGEMENT TOWARDS SUSTAINABILITY

While the Sustainability Governance Committee pursues social and environmental aspirations of the organisation, the Corporate Management is expected to focus on achieving MI's primary goals on enhancing investor wealth and from a broader perspective, bringing forth long-term economic value to MI investors, the LFC sector and the economy as a whole. Apart from uplifting finance business through various operational and financial means, for which commentary was given in the financial and operational review's first part of the MD&A, the other key task in this process is managing of the invaluable human resources, nurturing them and creating an environment for their progression, thus creating a win-win position for the employee and company alike. Employee review in this part of the section, discusses

handling of our human resource and the progress made this year. Performance of the core divisions and other support divisions, which come under the Corporate Management, is reviewed closely by the Managing Director and other Executive Directors. They inturn appraise the Board, on progress of key divisions on a continuous basis.

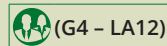
ROLE OF THE MI BOARD IN SUSTAINABILITY GOVERNANCE

The MI's Board leads from the front in governing matters associated with the Company's sustainability value creation prerogatives, to generate the anticipated economic, social and environment value towards key stakeholders, instilling effective mechanisms for the process to work. Towards this endeavour, the Board provides necessary resources and guidance to Corporate Management and the Sustainability Governance Committee for the achievement of sustainability objectives and the associated sustainability strategy and action plans. Therefore, members of the Corporate Management team and the Sustainability Governance Committee together with all other staff are expected to commit themselves in achieving their individual targets that have been aligned with the broad organisational goals that include the sustainability goals.

The medium-term strategic plan approved by the Board, effective for this year and also applicable for the next two years, sets out clear sustainability objectives from a broader perspective while sub-targets and goals are established and monitored by respective Heads of Divisions, for their staff. In keeping to MI's unique business model, specific sustainability strategies were devised with financial targets laid down for core divisional staff to strive for, while the Sustainability Governance Committee was entrusted with pursuing social and environmental goals, which were decided at the start of the year by the Committee. It was therefore commendable to observe significant progress being made by both Sustainability Governance Committee and Corporate Management teams, in terms of pursuing and implementing some of the key proposed sustainability strategies, the progress of which is expected to be reviewed in early 2016/17 period.

In terms of risk management, MI's Board continued to implement effective controls to safeguard the interests of all its key stakeholders. As part of its good governance initiatives, the Board's annual performance for the concluded financial period 2015/16, was reviewed by each Director by completing an evaluation checklist, which included a review of economic, social and environmental efforts. Through a strong governance framework, the Board and Corporate Management of the Company were able to govern activities of the Company in a prudent and effective manner. As part of this effective framework, appointment of executive positions with responsibility for economic, social and environmental goals was decided by the Board through the Managing Director.

FEATURES OF THE MI BOARD AND ITS SUB-COMMITTEES



The Board of MI's, in keeping to good governance practices specified by regulations and professional bodies, has established several Board Sub-Committees, with Director participation to closely monitor progress of specific operational activities and to overlook risk management aspects. MI's Board is equipped with an appropriate blend of Executive and Non-Executive Directors who possess a gamut of knowledge, experience and qualification in their respective fields and hence is able to support the Board to take appropriate decisions and to provide advice and guidance, for the effective direction of affairs of the Company. To arrive at sound decisions and actions, the Chairman of the Board and Chairman of the Sub-Committees are expected to ensure that there is active participation from all members.

COMPOSITION OF THE BOARD AND SUB-COMMITTEES BY GENDER/AGE

The Board/Committee	Male		Female		Age 30-40		Age 41-50		Age 51-60	
	No.	%	No.	%	No.	%	No.	%	No.	%
The Board of Directors	8	80	2	20	-	-	8	80	2	20
Audit Committee	3	100	-	-	-	-	2	67	1	33
Integrated Risk Management Committee	4	100	-	-	-	-	3	75	1	25
Remuneration Committee	2	67	1	33	-	-	2	67	1	33
Credit Committee	4	100	-	-	1	25	2	50	1	25
Nomination Committee	4	100	-	-	-	-	3	75	1	25
Assets and Liability Committee	3	100	-	-	-	-	2	67	1	33
Related Party Transaction Committee	4	100	-	-	-	-	3	75	1	25

CONSULTATION PROCESS BETWEEN STAKEHOLDERS AND HIGHEST GOVERNANCE BODY



MI'S BOARD'S INTERACTION WITH SHAREHOLDERS

MI's shareholders are freely able to express their views, raise concerns and to clarify doubts by interacting with the Board at the Annual General Meeting held during June of each year. In addition, investors are in a position to communicate with the Board and the Company Secretary via correspondence during any part of the year and can even request for a meeting by appointment. As another interactive mechanism, shareholders can communicate with the Company in writing, using the "stakeholder feedback form" annexed to the Annual Report.

MI'S BOARD'S INTERACTION WITH EMPLOYEES


MI's Board through the Executive Directors, maintains continuous interaction and dialogue with members of the Corporate Management and their staff to ensure smooth running of day-to-day operations. MI's unique "open door policy" paves the way for employees attached to various hierarchical levels of the Organisation to interact with the Executive Directors and other Senior Officers. For MI, this mechanism is deemed a productive approach in identifying creative ideas and concerns of employees early and also in motivating them. Directors who head key divisions, interact regularly with their team of staff members to monitor progress and grasp underlying concerns and to convey instructions and key decisions. Weekly corporate meetings chaired by the Managing Director, are held in the presence of other Executive Directors and members of the Corporate Management, thus creating the required platform for both Directors and Management to interact on a constant basis. For the Non-Executive Directors, monthly Board meetings allow them to interact with Executive Directors and thereby pass down their advice to Corporate Management, mainly through the Executive Directors.

MI'S BOARD'S INTERACTION WITH OTHER STAKEHOLDERS

MI's Board interaction with other stakeholders happens mainly through the Executive Directors who either deals directly with outside stakeholders or through the members of the Corporate Management and the Sustainability Governance Committee. Through this process, the Board is kept informed of various stakeholder expectations and other matters deemed important to the Company. The Managing Director in co-ordination with respective core business heads, namely the Credit Division and the Deposit Division, keeps close interaction with MI's customers. Going down to other levels of the hierarchy, the Director Credit and Marketing (Non-Board) through the cluster AGMs and under them, the branch heads maintain a continuous rapport with credit customers while AGM Deposits, through the respective deposit officers and branches keeps the interaction of the Company with MI's depositors.

MI's Board is therefore able to interact and identify material topics associated with its investors, customers, suppliers, lenders, employees, regulatory bodies, the local community and social groups through the stakeholder identification and engagement process detailed out at the commencement of the Management Discussion and Analysis on pages 36 to 40.

NOMINATION AND SELECTION PROCESS AND HANDLING OF CONFLICTS OF INTEREST OF THE HIGHEST GOVERNANCE BODY

 (G4 - 39, 40, 41)

The Board has established a Nomination Committee to continuously evaluate the need for additional members to the Board. For this purpose, the Committee is required to review eligibility of potential candidates as members to the Board and then recommend them based on their suitability. Information pertaining to the Nomination Committee is given on page 290.

The Chairman of the Board is a Non-Executive Director, in keeping to prevailing corporate governance regulations. As a governance prerogative, to manage conflicts of interest and to handle related party transactions impartially, the Board has established a "Related Party Transaction Committee" which functions independently. Information pertaining to the Related Party Transaction Committee is given on page 293.

A brief on MI's corporate governance framework and governance initiatives adopted, including details pertaining to the MI's Board and its Sub-committees is disclosed under the "Corporate Governance Report" given on pages 221 to 294.

MI'S MEMBERSHIPS IN ASSOCIATIONS

 (G4 - 16)

- Member of the Finance Houses Association of Sri Lanka
- Member of the Leasing Association of Sri Lanka
- Member of Ceylon Chamber of Commerce
- Member of the newly set up "Integrated Reporting Council of Sri Lanka"

ENHANCING KNOWLEDGE OF THE HIGHEST GOVERNANCE BODY

 (G4 - 43)

The Board through the Chief Financial Officer, keeps abreast of the Company's progress with regard to MI's economic, social and environmental efforts. This involves reviewing current best practices adopted by other corporates, the finance industry and also recommendations proposed by local bodies such as the CSE and international bodies such as GRI on sustainability. At the same time, the Sustainability Governance Committee continues to enrich member's knowledge on sustainability, while some of its members underwent related external training, taking part in seminars and workshops. To widen knowledge of the Corporate Management and other staff on "sustainability", we hope to provide targeted internal and external training in future.

HIGHEST GOVERNANCE BODY'S ROLE IN SETTING PURPOSE, VALUES AND STRATEGY

 (G4 - 42, 45, 47, 49, 50)

ROLE OF MI'S BOARD IN STRATEGIC PLANNING

The Board, as part of its responsibilities, has undertaken the task of developing a formal corporate plan for the Organisation every three years, in co-ordination with the Corporate Management and other key officers. The medium term strategic plan developed and implemented this period took into account MI's vision, mission and corporate objectives and covered adequately MI's aspirations on sustainability and set-forth sustainability goals in the process. The Executive Directors took part with the Corporate Management in devising strategy, which included devising of sustainability strategy and thereafter assessing operational and tactical plans including monitoring mechanism of key divisions.


ROLE OF CORPORATE MANAGEMENT IN STRATEGIC PLANNING

The Corporate Management in co-ordination with Manager Risk was able to carry-out an initial assessment of MI's sustainability efforts and also in understanding the impacts on organisation and its stakeholders. This internal and external sustainability analysis of economic, social and environment dimensions helped the Corporate Management and the Sustainability Governance Committee in devising strategies in the medium-term. Past customer surveys and other social feedback too were taken into account when devising related strategies.

EVALUATING SUSTAINABILITY PERFORMANCE AND ITS FEEDBACK

The performance of the Corporate Management and the Sustainability Governance Committee was reviewed by the Executive Directors as part of the corporate planning process this period, comparing actual sustainability efforts against expectations originally laid down. Any material gaps identified from this review process were looked into and accordingly suitable plans and strategy was inbuilt to the final corporate planning process. Separately, an independent periodic review is carried out by Manager Risk and Compliance on economic, social and environmental performance aspects and any resultant concerns are highlighted in the quarterly risk report. The report is tabled at the Integrated Risk Management Committee through the CFO with concerns taken up and necessary feedback provided to the Board with due recommendations of the Committee. However, there were no critical concerns raised by the IRMC to the Board on sustainability during the year under review. Page 274 and 303 provides disclosure on "Sustainability risk management".

PRECAUTIONARY APPROACH AND BOARD'S ROLE IN RISK MANAGEMENT

 (G4 - 14, 45, 46, 47)

Considering the dynamic and complex business environment that persist within the financial services sector, we understand the importance of understanding underlining risks and continue to manage risk for the success and long-term viability of the organisation. Towards this aspect, MI's Board has taken appropriate steps by establishing an effective risk management process, thereby ensuring there is appropriate trade-off between risk and returns, keeping growth in shareholder wealth as its primary


objective. As part of MI's risk management framework and overall risk review process, we identify various potential risks and then identify means of managing risks that include addressing credit risk, liquidity risk and market risk, greatly associated with our type of business.

By taking a conservative cautionary stance in managing our business operation, we take a proactive approach in managing potential risks, which enables us to safeguard interest of our key stakeholders, in a professional and effective manner. The adopted precautionary approach has a definite positive impact on the outlook of MI's sustainability efforts as related efforts are ultimately aimed at protecting the interest of the Company and its stakeholders from potential risk, from various angles.

From an overall supervisory perspective, the Company has established an "Integrated Risk Management Committee" being a Sub-Committee of the Board to supervise the effectiveness of the risk management process and practices of the Company and to recommend suitable measures to manage risk when it is necessary or lacking. As another higher level supervisory committee, the other main Sub-Committee of the Board is the Audit Committee which separately reviews adequacy of the internal control system and reports on the appropriateness of the financial reporting system to the Board. The Internal Audit Division works under the supervision of the Audit Committee, evaluating adequacy of internal controls and adherence to compliance both internal requirements and external regulations by conducting regular audits. These independent checks involve assessing and testing employees adherence to laid down organisational policies, procedures and practice as well as regulatory requirements thus helping to minimise exposure to various potential risks.

The "Risk Management Report" given on pages 298 to 330 provides a comprehensive disclosure on MI's key risks and how these risks are managed under MI's established risk management framework with specific mention on "sustainability risk" on page 303.

EVALUATING SUSTAINABILITY PERFORMANCE AND REMUNERATION

 (G4 - 44, 51, 52, 53, 54, 55)

The Remuneration Committee being a Sub-Committee of the Board is entrusted with independently assessing the performance level of Executive-Board members that includes the Managing Director. Based on such annual assessments, changes to remuneration levels of such Directors are decided by the Committee, as part of its responsibilities. The Board separately decides on Non-Executive Director fees based on the level of expertise and the contribution made by respective Directors towards the Board, in governing its affairs.

A disclosure about the Remuneration Committee's composition and its delegated tasks is given on page 288.

In terms of determining the remuneration of the Corporate Management and other employees, the Managing Director, in co-ordination with respective heads of divisions, reviews performance of employees periodically. These assessments forms the basis on which remuneration levels of employees are decided. In this review process, views of relevant employee's immediate supervisors and other superiors are also taken into account for the appraisal and final conclusions.


Precautionary Approach Adopted by MI

Management of key risk through a thorough risk management framework	Adoption of a concise strategic planning process	Business Continuity Planning	Adoption of local and international reporting standards to enhance financial reporting	Having mechanisms to oversee critical activities and provide feedback. <i>Eg. IRMC, ALCO, Audit Committee, Internal Audit and compliance review</i>	Strong governance framework that upholds effective controls throughout MI's operations including an apt compliance culture
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MI upholds the need for a performance based culture for its employees and hence adopts a formal performance evaluation methodology annually, across all key divisions. This evaluation involves biannual appraisal of performance of the Corporate Management team as well as other staff, linking each employee's performance to their annual bonuses, increments and also for decisions on career advancement prospects.

For the frontline business divisions, the employee evaluations presently focuses upon achievement of business targets and goals, comparing balanced scorecard KPI's of actuals achieved against employee's individual targets. The support divisional staff's performance is assessed based on intangible requisites and other qualitative performance criteria. We hope to incorporate specific social and environmental sustainability evaluation criteria's for respective Corporate Management and key officers, once sustainability training and goals are streamlined.

RATIO OF ANNUAL TOTAL COMPENSATION/RATIO OF PERCENTAGE INCREASE

 (G4 – 54, 55)

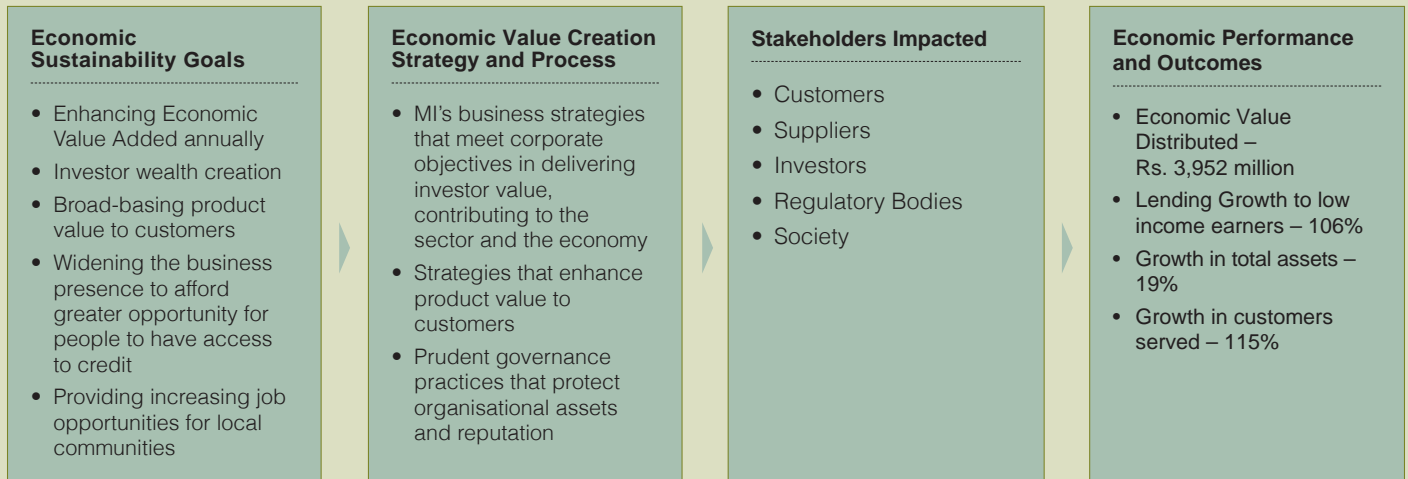
Service Location	FY 2015/16 Ratio*	
	Executive	Non-executive
Head Office	1:17.39	1:2.46
Micro Finance Unit	1:07.8	1:1.23
Negombo Branch	1:06.3	1:1.26
Kohuwala Branch	1:3.18	1:1.30
Balangoda Branch	1:2.28	1:1.24
Kadawatha Branch	1:3.80	1:1.24
Bentota Branch	1:2.09	1:1.47
Trincomalee Branch	1:2.69	1:1.16
Kurunegala Branch	1:2.71	1:1.32
Matara Branch	1:3.37	1:1.48
Galle Branch	1:2.21	1:1.20
Maharagama Branch	1:3.43	1:1.51
Anuradhapura Branch	1:3.0	1:1.70
Chilaw Branch	1:2.29	1:1.25
Tissamaharama Branch	1:2.24	1:1.13
Horana Branch	1:2.41	1:1.42
Gampaha Branch	1:1.71	1:1.08
Embilipitiya Branch	1:2.25	1:1.57
Minuwangoda Branch	1:1.91	1:1.63
Ampara Branch	1:2.40	1:1.29
Kottawa Branch	1:1.74	1:1.05
Polonnaruwa Branch	1:2.35	1:1.19
Kotahena Branch	1:1	1:1.30
Kaduwela Branch	1:1.59	1:1.88
Nittambuwa Branch	1:2.17	1:1.82
Premier Centre	1:3.82	1:1.54
Moratuwa Branch	1:1.32	1:1.21
Kegalle Branch	1; 2.12	1:1.19
Ratnapura Branch	1:1	1:1.08
Kuliyapitiya Branch	1:2.49	1:1.28
Akuressa Branch	1:1	1:1.27
Godagama Branch	1:2.21	1:1.41

*Total compensation of the Highest Paid Individual: Median of all employees (except the highest paid individual)

Review of Economic, Social and Environmental Performance – FY 2015/16

In explaining MI's performance towards economic, social and environmental sustainability consideration, for each of these dimensions we provide commentary covering the management approach adopted, including strategy aspects and also a detailed review of the key stakeholders impacted due to our efforts this year. Our disclosure is provided in keeping to the GRI G4 "in accordance comprehensive" option and accordingly, we have provided all required material topics and subtopics supported by adequate financial and non-financial statistics, covering each material aspect and indicators required by the GRI G4 framework, including financial service sector specific disclosure to elaborate upon MI's sustainability efforts from an economic, social and environmental point of view.

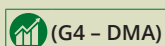
Economic Value Creation



SUMMARY OF ECONOMIC IMPACTS

For the Financial Year	2015/16	2014/15	% change
Economic performance			
Economic value added (Rs. '000)	(164,872)	206,979	-180
Economic value distributed (Rs. '000)	3,951,569	3,683,646	-7
Economic value retained (Rs. '000)	640,381	716,437	-11
Market value added (Rs. '000)	(1,041,032)	(1,166,565)	11
Total community investment cost (Rs.)	7,053,113	3,063,416	130
Employee impact			
Statutory obligations (Rs. '000)	146,235	120,118	22
Employment generation (No.)	264	161	64
Government impact			
Corporate taxes (Rs. '000)	460,043	402,962	12
Tax savings (Rs. '000)	1,440	3,654	-61
Investor impact			
Dividends paid (Rs. '000)	21,042	88,677	-76
Dividend pay out ratio (%)	4.17	14.05	-70
Return on shareholders' fund (%)	6.60	8.11	-19
Market presence			
Total lending (Rs. million)	19,560	13,288	47
Deposit mobilisation (Rs. million)	197	350	-44
Branches/service centres (No.)	31	25	24
Customer base (No.)	29,161	13,677	113
Indirect economic impacts			
Customers enjoying credit facilities (No.)	25,226	9,547	164
Procurement practices			
Spending on suppliers (Rs. '000)	367,738	285,225	29

ECONOMIC PERFORMANCE



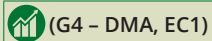
Being a premier finance company and a good corporate citizen in the financial services sector, MI has always stepped forward to bring value to its stakeholders. The Company positions its stakeholders, including shareholders, at the heart of the entire corporate strategy to execute better service to accomplish their expectations. The Company's clear and unique policies together with the focused strategy, led MI to stand out amongst the rest of its competition. MI, through the provision of its financial solutions, strives to reach its core objectives while the management commits to create and develop a value adding product range. The main intention of this is to satisfy people who come seeking varying financial needs and requires support to fulfil their wider aspirations. From a broader perspective, the specific policies, practices and procedures we adopt, contribute to the licensed finance companies sector and finally to the overall economy from numerous angles, economy wise, society wise and from other facets.

Having the expectations of customers in mind, MI continued to initiate new service locations and widen its product range and invested in both financial and non-financial capital on emerging market opportunities, to fulfil its economic value creation aspirations. As a consequence of the progressive branch network expansion, MI's business presence has grown at a greater pace within the financial industry. Sound profit levels were generated throughout the past years to meet long-term objectives of the Company as a whole. Taking into account the needs of our customers, suppliers and neighboring communities, we have managed to develop and execute effective corporate strategies and action plans which has led MI to sustain continued commercial success. MI, over the last five decades served customers of varying segments, offering a wide range of products. By staying creative and customer oriented, we have gained competitive advantages over competition.

After considering required changes to the economic-related strategy, we managed to convert certain areas we felt as weak and high risk into valuable opportunities and same time built on our strengths, to maintain expected economic value. We improved our internal operational processes as a base to enhance productivity and fine-tuned associated policies and practices, while being innovative in the way we provide our services. This eventually assisted the Company in maintaining service standards, thus boosting core business volumes. Posting healthy profits this year once again reaffirmed MI's financial stability, cementing public confidence and customer loyalty further. MI being a premier financial service provider within the non-bank financial sector, extensively creates value and takes a significant role in the development of the national economy. MI's impact does not lie only on microeconomy level, but also its impacts reach macroeconomic sphere as well. The benefits that accrue to our investors, customers and employees, not only adds value to the macroeconomy, but also contributes to the ongoing development of the national economy.

SECTOR SPECIFIC – ECONOMIC PERFORMANCE

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED



The ongoing expansion of the branch network and diversification of product range has enabled the Company to establish a wider footprint beyond the Western Province. MI has experienced significant business growth over the years, reflecting its expanding role as a corporate of substance and significance vis-à-vis the Sri Lankan economy.

As a market leader, MI has made a significant impact on people, corporates and local community as a whole. Moreover, traditional financing patterns have changed to more novel financing methods, adding value to people in an effective manner. Being part of the whole successive progress, MI's workforce has been able to enjoy attractive remuneration packages as a consequence of MI's financial strength and commendable financial results registered over the years.

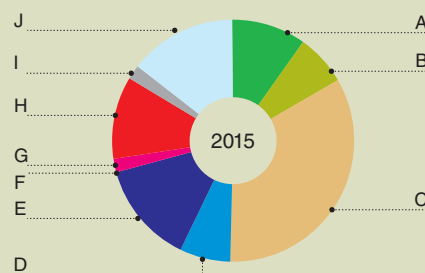
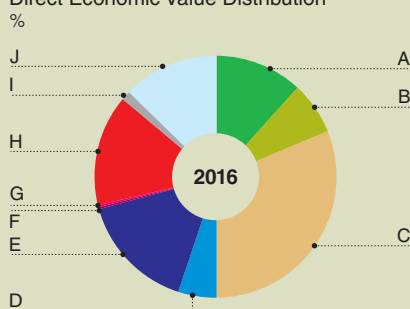
MI'S VALUE ADDITION TO ECONOMY

By bringing continuous accumulation of shareholder wealth, employee benefits and contributions to Government by way of taxes, MI forges ahead in adding value to the economy. This fact is proven in the recent year's performance and gradually widening service aspects. MI has increased its economic impact year-on-year as evident from this year's financial results. In terms of value to the economy, MI's total value addition rose from Rs. 4,400 million to Rs. 4,592 million by end of this financial period, up 4%. Keeping long-term growth prospects in mind, 13% of this year's total value addition was retained within the Company and remainder was distributed. A distribution of 12% was recorded as salaries to employees and 7% by way of taxes to the Government.

DIRECT ECONOMIC VALUE GENERATED AND DISTRIBUTED

For the year ended 31 March	2015/16		2014/15		2013/14		2012/13		2011/12	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
Direct economic value generated										
Interest income	4,301,828		4,129,395		3,861,558		3,087,726		1,659,951	
Commission income	58,927		47,554		44,402		45,937		31,968	
Investment income	5,143		13,049		80,512		123,179		590,916	
Share of associate company profit	91,675		113,795		105,798		95,459		42,669	
Others	134,377		96,290		109,338		113,245		111,400	
Total	4,591,950		4,400,083		4,201,608		3,465,546		2,436,904	
Economic value distributed										
To employees as remuneration	532,029	11.59	437,628	9.95	335,849	7.99	291,804	8.42	249,507	10.24
To Government as taxes	332,306	7.24	313,592	7.13	279,760	6.66	236,173	6.81	152,224	6.25
Operating costs:										
To depositors as interest	1,428,676	31.11	1,456,321	33.10	1,477,307	35.16	1,001,092	28.89	605,431	24.84
Provision for loan losses/impairment charges	234,816	5.11	295,741	6.72	160,445	3.82	64,318	1.86	46,897	1.92
Cost of external services	725,945	15.81	597,162	13.57	482,085	11.47	382,973	11.05	331,907	13.62
To community	7,053	0.15	3,063	0.07	2,339	0.06	1,820	0.05	1,697	0.07
Payments to providers of capital:										
To shareholders as dividends	21,042	0.46	88,677	2.02	30,060	0.72	82,665	2.39	66,133	2.71
To providers of loans	669,702	14.58	491,462	11.17	738,176	17.57	866,608	25.01	404,443	16.60
Economic value retained within the business:										
- As depreciation/amortisation	49,994	1.09	86,896	1.97	71,174	1.69	50,876	1.47	45,610	1.87
- As reserves	590,387	12.86	629,541	14.31	624,413	14.86	487,217	14.06	533,055	21.87
Total	4,591,950		4,400,083		4,201,608		3,465,546		2,436,904	

Direct Economic Value Distribution

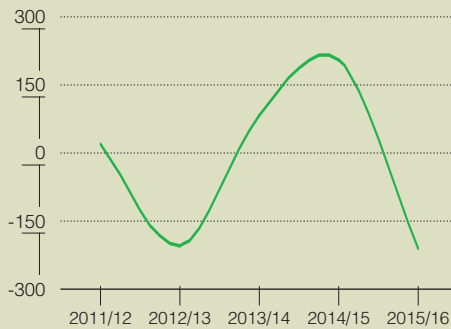


	2016	2015
A - To Employees as Remuneration	11.6	10.0
B - To Government as Taxes	7.2	7.1
C - To Depositors as Interest	31.1	33.1
D - Provision for Loan Losses/ Impairment Charges	5.1	6.7
E - Cost of External Services	15.8	13.6
F - To Community	0.2	0
G - To Shareholders as Dividends	0.5	2.0
H - To Providers of Loans	14.6	11.2
I - Depreciation/Amortisation	1.1	2.0
J - As Reserves	12.9	14.3

ECONOMIC VALUE ADDED

MI's moderate earnings level compared to the increasing Government Treasury Bills rates resulted in the Economic Value Added (EVA) turning negative to Rs. 165 million for this period, compared to a positive of Rs. 207 million reported for last period. Nevertheless, MI continued to generate steady profits in excess of Rs. 500 million again this year and remained an institution of systematic importance with a total asset base of over Rs. 30 billion. MI poses a considerable level of positive impact on the sector and overall economy, through its value creation process that is enjoyed by our key stakeholders both internally and externally who are linked to the value chain of MI's business. Furthermore, MI offered numerous services passing down tangible and intangible benefits to the general public in terms of the commercial service extended and other sustainable practices including social and environmental benefits, particularly the increase in the levels of employment afforded thus far.

Economic Value Added
Rs. million



ECONOMIC VALUE ADDED

As at 31 March	2015/16 Rs. '000	2014/15 Rs. '000	2013/14 Rs. '000	2012/13 Rs. '000	2011/12 Rs. '000
Invested equity					
Shareholders' funds	7,654,232	7,779,765	6,266,385	5,706,358	5,474,606
Add: Provision for impairment	770,887	660,743	447,782	311,530	279,251
Total	8,425,119	8,440,508	6,714,167	6,017,888	5,753,857
Earnings					
Net profit after tax	505,019	631,272	675,362	630,791	610,088
Add: Impairment charges for loans and advances	234,816	295,741	160,445	96,358	79,105
Less: Bad debt written-off	(124,672)	(82,780)	(24,193)	(32,040)	(32,208)
Total	615,163	844,233	811,614	695,109	656,985
Cost of equity (based on 12 months weighted average Treasury Bill rate plus 2% for the risk premium) (%)	9.25	8.41	11.48	15.25	10.38
Cost of average equity	780,035	637,254	730,820	897,596	638,967
Economic Value Added	(164,872)	206,979	80,794	(202,487)	18,018

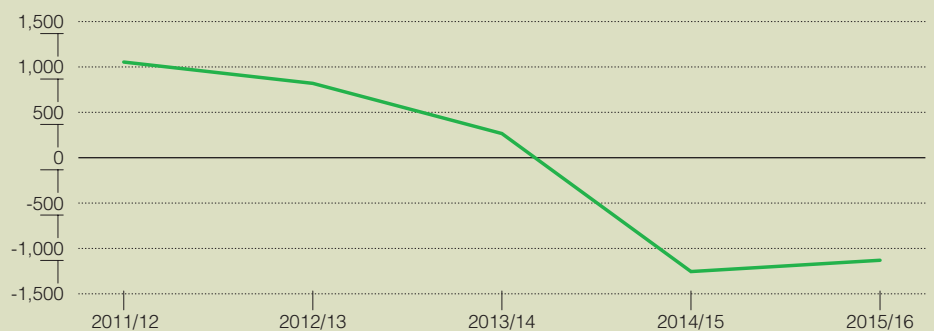
MARKET VALUE ADDED

MI's ordinary shares traded at an astounding share price of Rs. 2,200/- per share in FY 2011/12 based on which the market value added remained positive during that trading year. There had not been any trades from that period onwards and therefore MVA of the Company remained negative for this year, based on this last traded price applied to calculate the MVA.

MARKET VALUE ADDED (MVA)

	2015/16 Rs. '000	2014/15 Rs. '000	2013/14 Rs. '000	2012/13 Rs. '000	2011/12 Rs. '000
Market capitalisation/Market value of equity	6,613,200	6,613,200	6,613,200	6,613,200	6,613,200
Less: Equity owners' funds					
Shareholders' funds	7,654,232	7,779,765	6,266,385	5,706,358	5,474,606
Total equity owners' funds	7,654,232	7,779,765	6,266,385	5,706,358	5,474,606
Market value added	(1,041,032)	(1,166,565)	346,815	906,842	1,138,594

Market Value Added
Rs. million



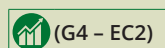
COMMUNITY INVESTMENT COST

Breakdown of community investment cost by type of investment, forming part of MI's value addition process and the monetary support and other assistance extended to each of those investment types can be summarised as follows:

Type of community investment	Type of assistance given	MI's goals and expected outcomes from the community investments	In monetary terms (Rs.)
Monitory contributions	Financial assistance and other monitory donations.	Enriched MI's vision of being a leading financial institute while bringing value to the society.	6,883,440
Time contributions	574 man hours were devoted to enhance the value of societal projects. Employees visited project locations and supported in community service.	Devoted valuable time of staff members to support the needy to reach MI's vision.	163,016
In-kind contributions	Distributed household items, clothes, food items and other required items to the needy. Also, a refrigerator and a washing machine was donated. Books, chairs, tables and steel cupboards were donated to two schools.	Built team spirit and social responsibility by lending hand to the needy reaching MI's key values.	169,673
Management cost	85 man hours were spent by some of the Corporate Management members, managing the flow of activities related to the projects.	Devoted time of management to initiate, commence and complete the projects.	85,000

The Sustainability Governance Committee meets frequently to discuss and identify possible community investment activities that could be undertaken to support the needy and society at large. Staff members' suggestions are also accepted and considered when deciding the budget and allocating funds for projects. The Sustainability Governance Committee decides the budget for the year, allocating a significant component of the budget for carrying out worthy community investment projects. At MI, we believe performance and value of money cannot be measured in monetary terms only. Both monetary and non-monetary donations we do, would give a massive impact to the beneficiary in separate ways based on their needs. Performance is assessed by comparing the time and opportunity costs of volunteers, with the final outcome being assessed in relation to the investment. Value for money is assessed by a comparison between money donated and the monetary and non-monetary value that is added to the lives of beneficiaries.

FINANCIAL IMPLICATIONS AND OTHER RISKS AND OPPORTUNITIES FOR THE ORGANISATION'S ACTIVITIES DUE TO CLIMATE CHANGE



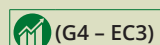
MI as a financial institute, was not directly affected by the climate changes that occurred during the period. However, MI's lending business is extended across key locations of the country, thus this geographic diversity exposes the Company to climate change. MI's agriculture-related lending, despite being a small component of total lending, was impacted due to ad hoc weather changes this period as well. From a positive angle, most of MI's locations and types of lending were not subject to material climate changes and frequent climate hazards, thus having no direct financial impacts.

MI's products that were impacted due to climate change are given below:

FINANCIAL IMPLICATIONS DUE TO CLIMATE CHANGE

Key indicators	2015/16	2014/15	% change
Risks from Exposure to Agriculture and Agri-Based Industries			
Agriculture and related lending portfolio (Rs. '000)	854,582	689,826	23.88
Total agriculture related disbursements (Rs. '000)	655,371	387,525	69.12
Non-performing portfolio related to agriculture and related lending (Rs. '000)	100,421	—	>100
Non-performing ratio (%)	11.75	—	>11.75
Environmental initiatives			
Environmental Investment (Rs. '000)	550	100	>450

COVERAGE OF THE ORGANISATION'S DEFINED BENEFIT PLAN OBLIGATIONS



DEFINED BENEFIT PLANS AND CONTRIBUTION PLAN OBLIGATIONS

DEFINED BENEFIT PLANS

In accordance with the Payment of Gratuity Act No.12 of 1983, MI employees are entitled to retirement gratuity upon completion of five years of continued service. An actuarial valuation is carried out periodically to ensure adequacy of the gratuity provision available to settle the gratuity liability. Accounting policy adopted in this regard is disclosed under accounting policies and Notes to the Financial Statements on pages 363 and 397 respectively.

DEFINED CONTRIBUTION PLANS

MI's employees are also eligible for Employees' Provident Fund contributions (EPF) and Employees Trust Fund contributions (ETF), based on relevant statutes and regulations. The Company contributes 14% and 3% of gross emoluments of employees to EPF and ETF respectively, for the benefit of employees.

	FY 2015/16 Rs. '000	FY 2014/15 Rs. '000	FY 2013/14 Rs. '000
ETF contribution			
Employer's ETF contribution	11,036	8,818	8,219
EPF contribution			
Employer's EPF contribution	51,815	35,233	28,742
Employee's contribution	27,671	22,325	19,161
Gratuity provision and paid			
Gratuity provision	146,235	120,118	108,677
Gratuity paid	8,617	18,091	1,639



Investor Review



As a shareholder of Mercantile Investments, I am satisfied with the performance showcased by the Company during the Financial Year 2015/16. I believe the experiences gained by MI over the last 52 years, places the Company in a powerful position in which to embrace future challenges and opportunities. I wish the Company further success in the years to come.

Mrs. Ainth Monica Rajapakse
Shareholder – Mercantile Investments and Finance PLC



MI'S INVESTOR BASE

The Company's investor base currently comprises a few large investors. MI obtained listing status under the *Diri-Savi* Board of the Colombo Stock Exchange in June 2012 and therefore has the flexibility at any time to obtain fresh capital if necessary.

shareholders' funds that now stands in excess of Rs. 7 billion. As a result of this strong net asset position, MI's ordinary share market price remains exceptionally high. Based on the last recorded trade upon listing, MI's shares traded at an astounding price of Rs. 2,200/- per ordinary share. Furthermore, our investors have continued to enjoy steady dividends, while enjoying steady climb in the Company's net assets value per share, reflected from the following five-year financial statistics:

SHAREHOLDER WEALTH ACCRETION

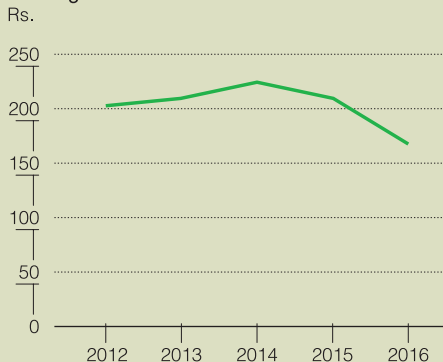
MI continued to accumulate shareholder wealth, recording sound profitability levels during this year, realising steady returns to its investors. In terms of financial performance, financial year 2015/16 proved to be a satisfactory period, meeting fully or partly MI's goals in terms of revenue growth, asset expansion and profitability. Our investors over the years have enjoyed sound returns in terms of dividends and have seen their investments grow through a constant accumulation of

INVESTOR INFORMATION

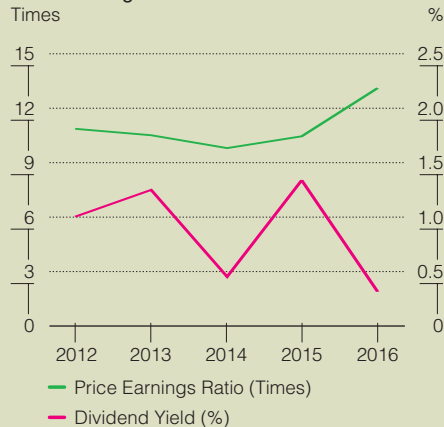
	2015/16	2014/15	2013/14	2012/13	2011/12
Earnings per share (Rs.)	168.00	210.00	224.67	209.84	202.96
Dividend yield (%)	0.32	1.34	0.45	1.25	1.00
Asset growth YoY (%)	20	21	11	21	28
Return on shareholders' funds (%)	6.60	8.11	10.78	11.05	11.14
Share price – ordinary voting (Rs.)	2,200	2,200	2,200	2,200	2,200
Price earnings ratio (times)	13.10	10.48	9.79	10.48	10.84
Dividends paid (Rs. '000)	21,042	88,677	30,060	82,665	66,132

* All investor information are given under Investor Relation Section.

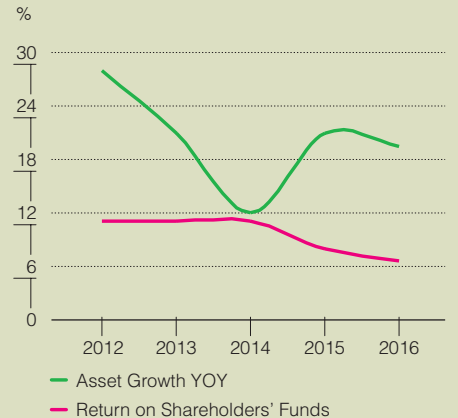
Earnings Per Share



Price Earnings Ratio & Dividend Yield



Assets Growth & Return on Shareholders' Funds



QUOTED DEBENTURE ISSUE - 2014

MI paid out the first interest payment in November 2015 for the Senior Unsecured Redeemable Rated Four-Year debenture issued during the last financial year. Rs. 200,000,000/- of funds were generated from the issue and the proceeds were utilised to strengthen MI's funding mix and to minimise the mismatches in funding exposure.

A full disclosure on investor information is given on pages 423 to 427 under "Investor Relation" section.



Customer Review

වසර 30 කට පෙර, මාගේ පළමු වාහනය මිලදී ගැනීමේ අවස්ථාවේ සිට මේ දක්වා ඇති වූ සියලුම මූල්‍ය අවශ්‍යතාවයන් වලදී නිඛඳුව මා හා මාගේ සමීපතමයන්හට අවශ්‍ය පහසුකම් සලසා දීමට මර්කන්ට්සිල් ඉන්වෙස්ට්මන්ට්ස් ආයතනය කටයුතු කළ බවම ඔවුන්ගේ අනර්ඝ සේවය පැසසීමට මනා හේතුවකි.

Mr. P. Mathew
Customer of Mercantile Investments and Finance PLC





BUILDING CUSTOMER SATISFACTION

We took meaningful steps to uphold our motto “Service that extends beyond”, making bold measures to satisfy customer needs, how challenging it may have looked. We did not hesitate any time to offer a diverse range of financial solutions to both individuals and corporate customers alike, thus making their entrepreneurial and personal dreams a reality. MI takes pride in delivering a superlative service and to do so, we follow a well-gear operation to manage both our lending and deposit businesses that have evolved over time. All staff members of MI work as a team and have mastered sophisticated approaches in satisfying customers who come from every nook and corner of society. Every member of the MI team is completely devoted to their given tasks. The Company this year enjoyed repeat business and constant growth in its product portfolio, as a result of building close ties with our customers, from the first point of contact with them.



Branch openings at Godagama

ENHANCING PRODUCT VALUE

In laying customer preferences at the heart of our internal processes, it is our ambition to improve product features so that we can cater to market expectations. Over time, we have been able to engage closely with people in many different communities and understand their preferences better. We offered innovative solutions to suit customer requirements and took an aggressive approach in promoting our traditional lines of finance, lease and hire purchase business. Every effort was made to also build our non-traditional term lending, particularly personal and corporate loans. Despite having gradual growth in our recently introduced microfinancing, we emphasised its importance to our lending mix and made plans to develop this form of business across key locations. We tailored traditional and non-traditional lending to suit customer budgets and preferences; affording step up and structured lease and hire purchase financing and other tailored repayment solutions.



Empowering the micro community

FINDING WAYS TO REACH BUSINESS EXCELLENCE

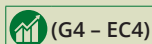
Sophistication and dynamism of the financial services sector and the extent of competence laid by competition has driven MI to uphold excellence in our sphere of business. By having the required capital and know how, MI had adequate flexibility to face a challenging business environment in 2015/16. As a practice, we obtained feedback from the market on a continuous basis to help us understand customer preferences and thereafter to develop suitable core business strategy and action plans. During the period, our credit operations were strengthened by refining procedures to increase service delivery and enhance customer convenience. Measures were implemented to move towards greater decentralisation in future, particularly focusing on easing formalities and processes in terms of deposit taking and easing the payment process.

By making improvements to core systems with the support of the IT Consultant, key upgrades and modifications were carried out to assist front end and back office operations. The user-friendly ICT system supported us in delivering an effective and efficient service to our customers. Our credit and marketing teams and deposits and recovery officers were better equipped to handle customers' requests promptly and to their satisfaction. By having a simplified system to access a vast amount of complicated information, has supported front office staff to answer customer inquiries faster. A vast amount of customer data is well protected by MI's advanced ICT framework and thus our customers are able to freely interact and provide details without fear of information breaches. From the initial inquiry to the final execution stage, our front line divisions as well as support divisions were well-gearred to deliver a speedy service, with minimal inconvenience to customers. We fine-tuned our operational processes and have gone to great lengths to develop related operations with ICT support to provide a unique personalised customer service.

SECURING CORPORATE TRUST AND LOYALTY

We expect employees to display integrity and ethical standards in the course of business operations at all levels of corporate hierarchy, as we believe that it is vital in attracting a loyal customer base. Enhanced corporate image is a result of responsible and conservative business practices which the society respects. Our employees are expected to strictly abide to given procedures and controls in their day-to-day operations. Our recruitment process is geared to attract individuals who possesses the required capabilities and the right character that include required integrity and professionalism to fit into the unique working culture.

FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT/TAXES TO GOVERNMENT



GOVERNMENT INSTITUTION REVIEW

There is no direct investment by Government bodies in shares of MI and no direct funding arrangements made towards the Company. However, Finance Industry including NBFIs continue to be highly regulated by various Government bodies. This includes, CBSL, Department of Inland Revenue and other Government bodies. Therefore, close engagement with these regulatory bodies are required in order to implement smooth regulations. MI's processes of engagement with regulatory bodies has been explained on page 39.

	FY 2015/16 Rs. '000	FY 2014/15 Rs. '000	FY 2013/14 Rs. '000	FY 2012/13 Rs. '000	FY 2011/12 Rs. '000
Taxes to Government					
Income tax	297,626	280,612	148,969	101,278	15,667
Vat on financial service	132,173	99,331	93,351	64,024	40,866
Nation building tax	23,975	16,555	2,528	–	–
Crop insurance levy	6,269	6,464	6,754	–	–
Total	460,043	402,962	251,603	165,302	56,533
Taxes collected on behalf of the Government					
VAT	147,318	77,192	7,730	1,621	–
Stamp duty	85,788	60,976	49,374	58,640	49,262
Withholding tax on dividend	–	–	–	2,176	–
Total	233,105	138,168	57,104	62,437	49,262

FINANCIAL ASSISTANCE RECEIVED FROM GOVERNMENT

Tax reliefs and tax credits obtained by MI can be considered as indirect financial benefits/concessions derived from ultimate taxes payable to the Government or related public institutions during the financial year 2015/16.

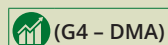
The Company through its normal business dealings enjoyed following tax exemptions in keeping to the Inland Revenue Act No. 10 of 2006:

- Capital gain on sale of shares as per Section 13 (t).
- Notional tax credit claimed on interest income earned on investments made in Government Treasury Bills and Bonds.

TAX SAVINGS/CREDITS

For the year ended 31 March	FY 2015/16 Rs. '000	FY 2014/15 Rs. '000	FY 2013/14 Rs. '000	FY 2012/13 Rs. '000	FY 2011/12 Rs. '000
Tax savings	1,440	3,654	22,543	34,490	165,456
Notional tax credit claimed	9,821	10,330	6,826	5383	2,763

MARKET PRESENCE



MI pursued its quest for greater business presence, expanding the branch network, covering key strategic locations across the island. MI operates 24 branches and 7 service centres currently and out of them 4 branches and 1 service centre has been launched during 2015/16. With the intention of serving a larger segment of society, management of MI concentrated on building presence outside the Western Province. As a result, MI expanded its branch network commendably by 19% YoY. The expanding branch network of MI is given on page 6, indicating MI's strong presence in the market.

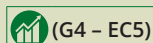
MI'S BUSINESS PERFORMANCE OUTSIDE WESTERN PROVINCE

For the year ended 31 March	FY 2015/16	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12
Lending business (Rs. million)	6,076	3,433	4,382	2,601	1,812
Deposit mobilisation (Rs. million)	197	350	177	115	39
Branches/service centres (No.)	16	13	12	11	9

Offering financial solutions to those that need the most is at the helm of our priorities and therefore over these five decades, we have built strong and long lasting bonds with local communities. Within the last decade, our presence beyond the Western Province has expanded at a tremendous pace and it is also our prerogative to extend the reach to attractive up and coming locations in the near future.

MI built its presence to serve a larger segment

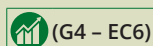
RATIOS OF STANDARD ENTRY LEVEL SALARY BY GENDER COMPARED TO LOCAL MINIMUM SALARY AT SIGNIFICANT LOCATIONS OF OPERATION



MINIMUM SALARY OF NEW RECRUITS

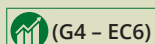
The minimum salary paid to employees at MI is above the minimum statutory requirement in Sri Lanka. In accordance with the National Minimum Wage of Workers Act No. 03 of 2016, the minimum wage is Rs. 10,000/- for any industry or service sector, whereas, entry level of MI is set at Rs. 14,000/-, and does not vary with the location of operations or gender. Location of operation is referred to as the branches and service centres, where MI carries out its business operations. Ratio of standard entry level wage to local minimum wage at MI is 140%.

PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY AT SIGNIFICANT LOCATIONS OF OPERATION



As a recruitment strategy, candidates who reside within close proximity of our branches/service centres are given preference if they possess the required capabilities and experience. Close proximity from home to workplace gives the employee the opportunity to feel motivated, to devote their maximum effort when doing their day-to-day work at the workplace. Also, they are already familiar with the business environment and customer profile and will fit in faster to MI's aspirations. The cultural and traditional differences between different areas of the country that tend to be factors are not considered key concerns anymore for such employees. The below table depicts the number of senior officers serving as locally hired individuals:

PROPORTION OF SENIOR MANAGEMENT HIRED FROM THE LOCAL COMMUNITY AT SIGNIFICANT LOCATIONS OF OPERATIONS



Branch	Total staffing	Total locally hired**	% of senior officers (Managers, Deputy Managers & Assistant Managers) locally hired*
Head Office	313	174	12.78
Negombo Branch	17	14	11.76
Kohuwala Branch	20	14	5
Balangoda Branch	19	16	-
Kadawatha Branch	24	20	16.67
Bentota Branch	9	4	-
Trincomalee Branch	11	11	9.09
Kurunegala Branch	12	8	-
Matara Branch	15	15	6.67
Galle Branch	15	12	6.67
Maharagama Branch	13	9	-
Anuradhapura Branch	17	16	5.88
Chilaw Branch	13	12	7.69
Tissamaharama Branch	12	10	-
Horana Branch	13	9	-
Gampaha Branch	15	10	6.67
Embilipitiya Branch	14	12	7.14
Minuwangoda Branch	10	10	10
Ampara Branch	8	8	12.5
Kottawa Branch	9	7	-
Polonnaruwa Branch	9	9	100
Kotahena Branch	6	6	16.67
Kaduwela Branch	10	8	10
Nittambuwa Branch	16	13	6.25
Premier Centre	13	8	15.38
Moratuwa Branch.	12	5	8.33
Kegalle Branch	9	8	11.11
Ratnapura Branch	14	13	7.14
Kuliyapitiya Branch	13	13	7.69
Akuressa Branch	10	8	-
Godagama Branch	9	8	22.22

* Senior Management comprises managers, deputy managers and assistant managers.

** 'Local' refers to the district in which the respective Branch/ service centres is located.

*** Significant location of operations refers to all branches and service centres of the Company

INDIRECT ECONOMIC IMPACTS

DEVELOPMENT AND IMPACT OF INFRASTRUCTURE INVESTMENTS AND SERVICES SUPPORTED



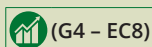
While MI makes a direct attempt in providing financial solutions to the needy, indirectly it contributed to the development of local community and society as a whole. From a commercial angle, MI opens up the opportunities to the local community for them to seek funding for their ventures and also financial support creates job opportunities for people living in various parts of the Country. Our lending facilities are offered to individuals as well as corporate entities to fund their financial requirements and ultimately enhance economic development of those communities.

By investing in fresh business locations, we were able to extend our financial solutions to individuals and corporates, thus contributing directly to the economy. Apart from the economic benefits of carrying on our business, socially we have invested in developing shelter, sanitation, etc. for the poor at various locations which is discussed under the "Social Review". There are however no direct investments made in infrastructural projects of large scale during the financial year 2015/16. Indirect loans granted for infrastructural projects can be considered as a support for infrastructural development and accounts for 0.08% of total lending.

MI'S CREDIT SUPPORT TO VARIOUS SECTORS

Industry/sector credit has been extended	Total disbursements by industry/sector in FY 2015/16 Rs. '000	No. of customers in industry/sector enjoying credit as at 31 March 2016
Agriculture	655,371	2,078
Commercial	4,504,932	11,545
Consumption	641,107	1,134
Finance	153,138	75
Housing & property	674,484	119
Industrial	645,687	921
Others	2,607,108	2,416
Services	9,411,818	6,798
Tourism	250,370	138
Lending for infrastructure development projects	15,500	2

SIGNIFICANT INDIRECT ECONOMIC IMPACTS, INCLUDING THE EXTENT OF IMPACTS



Credit disbursements in terms of geographic spread have also increased notably, with MI's rapid expansion beyond the Western Province in the past five years. Total disbursements were made without any biasness towards a particular province or preference of a stakeholder.

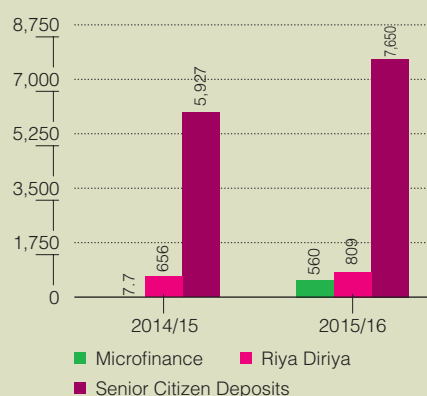
Province credit has been extended	2015/16			2014/15			Change in total disbursements Rs. '000
	Total disbursements by province in FY 2015/16 Rs. '000	No. of customers in province enjoying credit as at 31 March 2016	No. of branches	Total disbursements by province in FY 2014/15 Rs. '000	No. of customers in province enjoying credit as at 31 March 2015	No. of branches	
Central	226,947	142	0	144,492	115	0	82,455
Eastern	456,534	633	2	390,608	722	2	65,926
North Central	754,816	781	2	542,372	558	2	212,444
North Western	1,264,559	2,550	3	584,495	575	2	680,064
Northern	9,242	12	0	4,598	4	0	4,644
Sabaragamuwa	1,133,099	4,637	4	599,376	643	3	533,722
Southern	2,060,060	4,195	5	1,048,697	936	4	1,011,363
Uva	169,955	721	0	118,927	119	0	51,028
Western	13,484,304	11,555	15	9,854,580	5,875	13	3,629,724

MI'S INDIRECT ECONOMIC IMPACT GENERATING PRODUCTS

Products	2015/16		2014/15	
	No. of Beneficiaries	Amount Rs. million	No. of Beneficiaries	Amount Rs. million
Senior Citizen Deposits	6,132	7,650	2,228	5,927
Microfinance	12,543	560	146	7.7
Riyadiriya	2,190	809	1,848	656

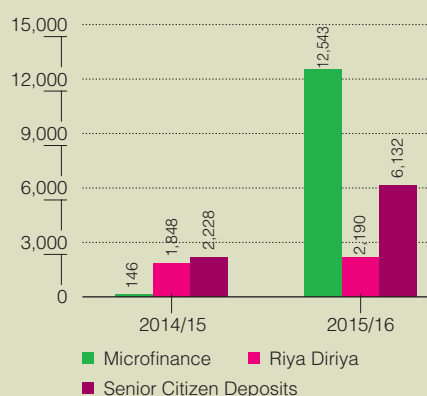
Monetary Value of Benefits

Rs. million



Number of Beneficiaries

Nos.





Supplier Review



SUPPLY CHAIN



MI, as a service provider, relies on specific suppliers as given below but not to a significant level, unlike other industries.

- Sourcing of funding is key to our lending operations and therefore we consider our banking partners and other lenders of funds as our funding suppliers.
- In order to create a well-equipped working environment, property, plant & Equipment such as furniture, computer equipment and other office-related items are required for running of business. Purchasing Department plays a vital role in sourcing these requirements, at Head Office and branch level, from reputed suppliers.
- We also purchase stationery and other consumable items for our daily requirements.
- In addition, the Company maintains a separate motor vehicle inventory stock comprising popular vehicle brands supplied from reputed vehicle suppliers.

MI'S BUSINESS SUPPLY CHAIN



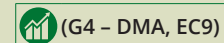
MI's core operations are carried out with funds obtained from our key banking partners and financial institutions. Short-term and long-term loans, securitisations are the other sources of funding. The key source of funding is obtaining public funds by way of deposits. MI's supply chain includes other general suppliers as well, who support day-to-day operations. Vehicle providers, fixed asset providers, stationery items and other consumable providers can be categorised under key general suppliers. Also indirect service providers, such as janitorial service providers, maintenance service providers involve in our supply chain.

The Company maintains a sound relationship with all key suppliers who continue to supply funds or offer items to required quality at reasonable prices. By building these strong bonds, both Company and its suppliers, have been

able to gain mutual benefit. i.e. Suppliers gain by securing bulk orders and the Company through favourable pricing structures.

PROCUREMENT PRACTICES

PROPORTION OF SPENDING ON LOCAL SUPPLIERS AT SIGNIFICANT LOCATIONS OF OPERATION



We adopt a centralised process for purchasing stationery and other consumable items. Our suppliers list is periodically reviewed for validity in terms of quality, price and past performance in relation to goods and services of other upcoming reputed vendors who enter the market from time to time. We have introduced an ICT-based inventory system to manage purchases of stationery and consumables as well as other related management information requirements.

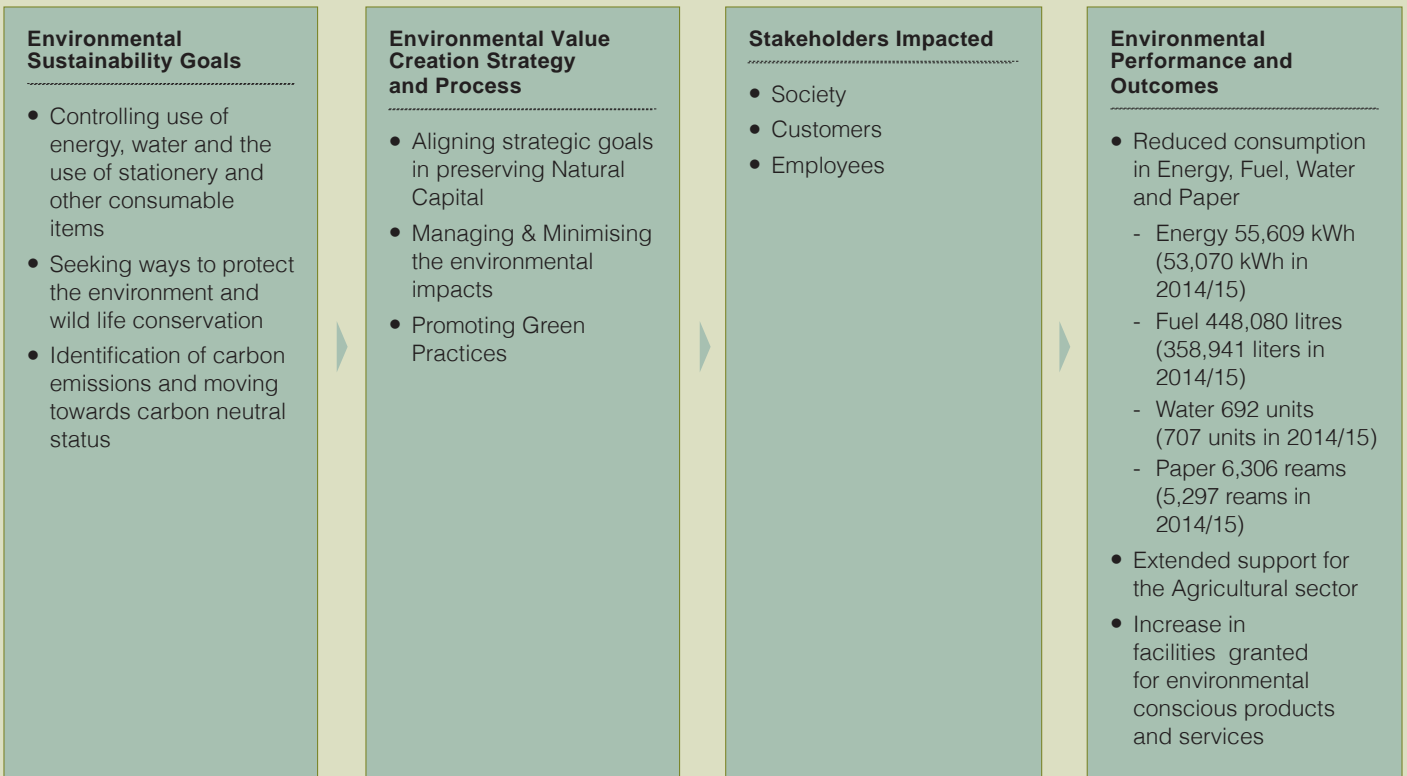
PROPORTION OF SPENDING ON LOCAL SUPPLIERS AT SIGNIFICANT LOCATIONS OF OPERATIONS

	2015/16				2014/15			
	Head office		Other locations		Head office		Other locations	
	Rs. '000	%	Rs. '000	%	Rs. '000	%	Rs. '000	%
Electricity	19,116	7.70	11,234	9.41	22,012	10.97	9,476	11.21
Telephone	17,622	7.09	14,887	12.48	14,562	7.25	11,006	13.02
Maintenance of premises	9,876	3.98	26,538	22.24	19,181	9.56	10,793	12.77
Security charges	14,547	5.86	6,710	5.62	14,647	7.30	3,277	3.88
Water	1,368	0.55	1,363	1.14	1,418	0.71	905	1.07
Printing and stationery	28,651	11.53	1,989	1.67	19,279	9.60	1,288	1.52
Fuel	27,040	10.89	24,390	20.44	27,382	13.64	21,515	25.46
Insurance	33,675	13.56	271	0.23	29,520	14.71	161	0.19
Rent	3,300	1.33	28,393	23.79	2,263	1.13	17,598	20.83
Advertising and promotions	81,603	32.85	3,024	2.53	43,477	21.66	6,813	8.06
Computer equipment and maintenance	11,613	4.67	528	0.44	6,984	3.48	1,669	1.98
Total spending on suppliers	248,411	100.00	119,327	100.00	200,724	100.00	84,501	100.00

Significant locations of operations refer to all branches and service centres of the Company.

Environment Value Creation

ENVIRONMENT VALUE CREATION

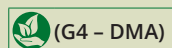


SUMMARY OF ENVIRONMENTAL IMPACTS

For the Financial Year	FY 2015/16	FY 2014/15	Change %
Materials			
Paper usage (Reams)	6,306	5,297	19
Recycled items (as a % of total consumption)	71.81	72.29	-1
Energy			
Total electricity utilisation (kWh)	55,609	53,070	5
Total fuel usage inside and outside the organisation (Litres)	605,770	465,176	30
Energy consumed per employee (kWh)	177.66	133.01	7
Water			
Total water usage (Units)	692	707	-2
Biodiversity			
Investment in trees planting (Rs.)	107,600	100,000	8
Emissions			
Total carbon footprint (Tonnes)	577.92	*N/A	-
Effluents and waste			
E-waste (No. of Items)	106	0	0
Waste paper (Kg)	2,703	4,863	-44

* Commenced estimating carbon footprint from FY 2015/16 onwards.

ENVIRONMENT



The standards for corporate leadership are evolving rapidly as consumers and investors increasingly expect strong environmental performance to be part and parcel of strong business performance. Therefore, we believe that it is the responsibility of the entire corporate community to manage and preserve this environment and resources (“Natural Capital”) irrespective of industry segment or pursuit. MI as a responsible corporate citizen, have embedded an environmental perspective into its core business strategy, recognising the importance of preserving natural capital in its journey towards sustainable value creation. Having expanded our presence around the country, we understand the need to be more attuned to environmental concerns of communities. In spite of our being a service organisation with negligible direct impact on the environment resulting from our commercial activity, we have focused on environmental conservation and protection initiatives adopting our own specific green measures that have evolved over time. Our main focus vis-à-vis the environment has been to monitor and control our use of resources such as electricity, water and consumables. In parallel, we adopt specific green practices to safeguard the surroundings that we operate in and as a good corporate citizen; we carry out CSR initiatives to support the environment including the animal population.

ENVIRONMENTAL POLICIES

Our policy on environmental value creation has been developed to ensure that environmental issues are managed in a manner commensurate with their value, risk, legal and statutory requirements, while instigating our commitment towards conserving the natural resources in a way that our business does not harm the environment, minimising the resource utilisation. We have extended our diligence inculcating green practices and initiatives geared for the workplace and the community. We give priority to environmental considerations whenever key decisions are made such as setting up new locations and/or deciding to relocate. We operate our day-to-day activity by ensuring that there is no hindrance to the surrounding environment. We provide responsible finance and investment activities, ensuring that the funding we provide has no direct environmental and social impact from the outset. Moving ahead, we hope to develop policies to assess the environment compliance status of industrial borrowers more indepthly. Moreover, we always encourage and support local community-based environmental initiatives and promote employee engagement in order to enhance awareness and understanding the importance of preserving natural capital.

ENVIRONMENTAL PROTECTION

In spite of being a service organisation with minimal direct impact on the environment, we strive to preserve natural resources and the environment along with the green initiatives and other environmental protective safety procedures implemented on the following aspects:

- Maintaining a clean business environment
- Energy Management
- Water Management
- Controlling consumable intake
- Waste Management
- Conserving biodiversity
- Tree planting
- Responsible finance and investing
- Monitoring GHG emission levels

CARBON NEUTRAL ANNUAL REPORT

In upholding a greener environment, for the fourth year running, we were able to produce a carbon neutral Annual Report for this financial year as well. The greenhouse gas emissions resulting from the design, photography, production, project management, usage of paper and printing were offset using verified carbon offsets.



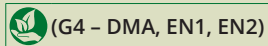
RESPONSIBLE FINANCE AND INVESTING

Although our business operations have no direct impact to the environment, we recognise that the activities of companies we finance and invest in can have environmental impacts. Understanding and managing the environmental and social (E&S) risks associated with the companies with whom we work is essential.

MI does not finance transactions relating to the following:

- Activities that would result in the degradation of protected critical natural habitats as designated.
- Activities that would involve the purchase of timber from illegal logging operations.
- Production or trade in any product or activity deemed illegal under host-country laws or regulations.

MATERIALS



CONTROLLING CONSUMABLE INTAKE

Given the nature of our business operations, we have identified that "Material Usage" is not a significant aspect in our business. However, with the ongoing branch expansion, the need for consumable items mostly derived from renewable sources that include use of paper has risen sharply, requiring stiffer controls. We continued our efforts to minimise the paper usage with special attention given for its recycling and reuse. Items recycled/reused include – paper, files and printer/toner cartridges. Since introducing the inventory management system last year, periodic information is also passed down in relation to use of stationery and consumable items department wise, for its closer monitoring.

Stationery and consumables that are either recycled or reused remained a significant percentage of total usage of such items, as shown below.

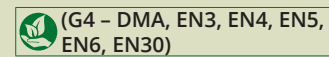
USAGE TREND IN STATIONERY AND RELATED CONSUMABLES:

Type of item	FY 2015/16	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12
Photo copy paper: (reams)					
- A 4	5,549	4,613	3,968	2,900	2,382
- Legal	228	263	200	151	178
- A 4R	529	421	374	335	293
Total	6,306	5,297	4,542	3,386	2,853
Ink cartridges/fax/printers (No. of cartridges)	237	267	256	387	389
Photo copy toner, fax toner and laser jet printer toners (No. of units)	1,771	1,116	897	625	420
Box files (No. of box files)	992	1,078	301	400	436

WORKING TOWARDS A PAPERLESS ENVIRONMENT

MI has made a significant commitment to responsible paper use by offering more paperless operational initiatives. MI's online "Document Management System" which was introduced a few years ago, was further developed to allow our lending division to retrieve key documents on an ongoing basis. This has helped it avoid movement of duplicated hard copy documents between Head Office and branches, thus cutting down on use of paper. This is another initiative by the Management in moving towards a paperless work environment since systemising the loan document approval process, a few years before. To further, streamline the sustainability drive towards paperless environment, we have upgraded our system modules to automate generating daily reporting requirements and emailing to the ultimate users.

ENERGY CONSUMPTION AND TRANSPORT



Given the nature of our business operations as a finance company, electricity remains the primary source of energy needed for the day-to-day operations within the organisation. Having identified the importance of preserving scarce resources, MI as a responsible corporate citizen has geared significant strides to minimise electricity usage. MI's Engineering Division has sought the following energy saving alternatives that would control usage and help manage our impact on the environment.

- Installation of energy efficient lighting solutions with the use of LED, CFL and fluorescent tube lights at Company premises.
- Reduced air conditioning usage by controlling internal temperature with UV repelling film purchasing energy saving equipment.
- Conducting training programmes for the employees on energy saving tips.
- Periodic maintenance checks to ensure the efficiency and effectiveness of the electrical equipment and energy usage.
- Strict monitoring on operating hours of the air conditioning system to ensure that central air conditioning is shut-down after 5.00 p.m.

Recycled item	No. of items consumed in FY 2015/16	No. of items consumed in FY 2014/15	Items recycled in FY 2015/16	Items recycled in FY 2014/15	% of items recycled against total consumption FY 2015/16	% of items recycled against total consumption FY 2014/15
Box files	992	1,078	450	603	45.36	56
Photo copy toner, fax toner and laser jet printer toners	1,771	1,116	1,534	983	86.78	88

AVERAGE MONTHLY ELECTRICITY UTILISATION BY MI FROM NATIONAL ELECTRICITY GRID

	FY 2015/16	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12
Head office electricity utilisation – In kWh	55,609	53,070	52,829	49,962	50,725

Electricity energy consumption is measured in kilowatt hours (kWh). No major fluctuation has been observed in electricity consumption during the last five year.

To save electricity, certain corporates have turned to renewable energy options such as solar power and windmill options as a substitute for non-renewable energy resources. We hope to introduce Solar power technology to selected branches as a pilot project during the upcoming year, in combination with electricity from the national grid.

CONTROLLING FUEL CONSUMPTION

As part of MI strategy towards conserving non-renewable energy resources, we have implemented several initiatives in ensuring the efficient usage of energy resources even outside the organisation. Controlling fuel consumption of the Company's fleet of vehicles was initiated cognisant of the aim of minimising the impact on the environment. Our transport division monitors each vehicle and refers them to MI's workshop for required periodic service to streamline the vehicle maintenance process which will ultimately ensure the energy efficiency, the reduction of emissions and the environmental impact. In controlling fuel usage, department heads are furnished vehicle-wise fuel statements on a monthly basis, so that excessive users can be identified and managed. Furthermore, we have encouraged the employees to plan their field visits in advance and to use other alternative modes to minimise the total transport cost, fuel consumption and the emissions.

FUEL USAGE BY LOCATION

Location	Petrol usage FY 2015/16 Rs. '000	Petrol usage FY 2014/15 Rs. '000	Diesel usage FY 2015/16 Rs. '000	Diesel usage FY 2014/15 Rs. '000
Head Office	24,599	25,938	4,093	3,722
Negombo	1,054	1,356	–	–
Kohuwala	1,445	1,508	–	–
Balangoda	1,169	699	–	–
Mahara	1,279	1,012	–	–
Trincomalee	780	957	–	–
Kurunegala	583	596	–	–
Maharagama	716	1,094	–	–
Galle	859	781	–	–
Matara	886	1,083	–	–
Anuradhapura	1,280	1,194	–	–
Embilipitiya	952	420	–	–
Horana	801	192	–	–
Chillaw	875	697	–	–
Tissamaharama	747	631	–	–
Gampaha	617	935	–	–
Kottawa	473	542	–	–
Ampara	547	931	–	–
Minuwangoda	193	174	–	–
Polonnaruwa	803	843	–	–
Corporate Premier	1,194	1,270	–	–
Nittambuwa	641	378	–	–
Kaduwela	495	511	–	–
Kotahena	548	380	–	–
Benthota	624	609	–	–
Kegalle	739	443	–	–
Moratuwa	335	–	–	–
Kuliyapitiya	1,087	–	–	–
Ratnapura	508	–	–	–
Akuressa	337	–	–	–
Godagama	168	–	–	–
Total	47,334	45,174	4,093	3,722

FUEL USAGE TRENDS

	FY 2015/16	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12
Fuel					
Petrol (litres)	405,000	323,828	263,022	213,902	121,626
Diesel (litres)	43,080	35,113	18,636	18,938	20,167

ENERGY CONSUMPTION OUTSIDE THE ORGANISATION: INVESTIGATION COST


	FY 2015/16	FY 2014/15
Fuel (litres) used for investigations	157,690	106,235
Mileage	1,120,302	1,001,975

ENERGY INTENSITY

Energy source	Consumption level 2015/16	Consumption level 2014/15
Energy used within organisation (kWh)	55,609	53,070
Total employees at head office	313	399
Energy consumed/Employee ratio (kWh per employee)	177.66	133.01

*Head Office is considered in calculating energy intensity

EMISSIONS

 (G4 – DMA, EN15, EN16, EN17, EN18, EN19, EN20, EN21)

Emissions result in drastic consequences to our environment and today climate change has become a global issue that has implications for our business, customers and employees. We are working to understand and anticipate how changes in climate and the need for adaptation will impact not just our own business, but our customers and those companies we lend to, invest in and purchase from. Since we extend financial assistance to customers engaged in sectors that may have negative impacts from climate changes such as Agriculture, MI may also be exposed to these adverse effects indirectly impacting relevant loan collections and observing rises in Non-Performing Loans (NPL) in agriculture related lending.

As a responsible corporate citizen, we have taken preventive measures that our emission does not promote any climate changes. We have also continued with our Tree Planting Project which will generate carbon credits and negate any adverse impacts on climate change. MI in its journey towards sustainable value creation has stepped up efforts to quantify its carbon footprint with the objective of minimising its environmental impact.

The carbon footprint assessment has been calculated based on the Greenhouse Gas (GHG) accounting protocol of the World Business Council for Sustainable Development (WBCSD) and IPCC. The measurement of the CO₂ emission forms the point of origin for the Carbon Footprint Calculation, which is preceded by an extensive data gathering exercise that helped to ascertain the environmental imprint. This initiative was carried out with the consultation and guidance of the Sri Lanka Climate Fund (SLCF) starting this financial period.

MI'S GREEN HOUSE GAS EMISSIONS SUMMARY BY SCOPE

Scope	Type of emission	Emission level tCO ₂
Scope 1	Refrigerant Gas Loss	57.02
	Emission from company owned vehicles – Business purposes and employee commuting (Diesel & Petrol)	350.28
	Emission from generators	0.43
Scope 2	Emission from electricity consumption	125.87
Scope 3	Emission from water consumption (Drinking & non-drinking)	0.0069
	Grid loss	16.36
	Employee commuting from common and private owned transportation	27.96
	Waste disposal	Excluded
Total carbon footprint (Tonnes)		577.92

CARBON FOOTPRINT INTENSITY

Intensity Ratio
(metric tonnes of CO₂e
emissions per employee) 1.8tCO₂e

Note: Scope 1, 2 & 3 and GHG emission (Carbon footprint) intensity computations have been based on Head Office GHG emissions that include CO₂, N₂O, CH₄. MI's GHG emissions at other locations will be incorporated for the next financial period.

MI has not emitted any ozone depleting substances and NOx, Sox and any other significant air emission that include biogenic CO₂ and are seeking to move towards carbon neutrality in the following year through the Company's green initiatives, such as tree planting, using/promoting eco-friendly vehicles such as hybrid/electric and using energy efficient equipment.

Currently, we do not assess emissions resulting from our lendings as this is the first year of assessing GHG emissions. Due to the same reason, MI is also not able to compare current year actuals of GHG emissions against past emission levels.



Carbon Footprint Certificate for 2015/16.

TRANSPORT

(G4 – EN30)

For MI, goods and people transportation is a main activity that creates emissions. Hence, we have taken steps to minimise related emissions as follows:

- Obtained emission certificates for our vehicle fleet for 2015/16.
- Streamlined the vehicle maintenance process to ensure the energy efficiency and reduction of emissions.
- Encouraged alternative modes to reduce staff transportation.

**CONTROLLING WATER USAGE
WATER CONSUMPTION**

(G4 – DMA, EN8, EN9, EN10)

Though our business operations does not have any direct impact on water resources, since our water usage is confined to the basic needs of workplace and employees, MI's engineering division has introduced specific measures at head office premises to cut down on water consumption levels as part of our journey towards conserving natural resources. A unique waterflow system has been set up to control water usage in washrooms while a tube well system is maintained to cater for other secondary water requirements of the Company. As we do not obtain water from any natural sources directly, other than the well water being a small quantum of water being used, no water sources are directly affected in a material way.

AVERAGE MONTHLY WATER UTILISATION FROM NATIONAL WATER SUPPLY

	FY 2015/16	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12
Head Office water utilisation – (In Units)	692	707	908	733	723

The carbon footprint assessment has been calculated based on the Greenhouse Gas (GHG) accounting protocol

Considering our limited usage of water consumption and the minimal impact to the environment, we have not extended our sustainability drive towards water recycling or reuse, but ensured that the reduction of water usage happens through cost effective measures and by creating employee awareness of the need to conserve natural resources.

PRODUCTS AND SERVICES ENERGY REQUIREMENTS AND ENVIRONMENTAL IMPACTS

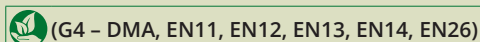
(G4 – DMA, EN7, EN27 AND EN28)

Given the nature of our business operations as a finance company, although our direct environmental impact from our business is negligible, we have identified that there can be an indirect impact on the environment, resulting from our core business of vehicle financing. As part of our environmental sustainability strategy, we provide funding for people to own more eco-friendly and energy efficient vehicles that include hybrid and electric type of motor vehicles.

We believe by extending financial support to agricultural sector, expanding our microfinance portfolio, we can help to reduce the indirect impact on the environment as well.

As a finance company, reclaiming packaging material is not relevant for our products and services.

BIODIVERSITY



(G4 – DMA, EN11, EN12, EN13, EN14, EN26)

MI's growing presence in the last decade, particularly in biodiversity listed areas has called for the Company to be ever more attentive of its impacts on the surrounding environment. While our operation involve minimal contact with the environment, we have ensured through comprehensive feasibility studies that our operation does not hinder designated protected areas of national conservation or areas of high significance in terms of biodiversity. Furthermore, as a proactive measure of mitigating any indirect impact on the environment, we have been more conscious about financing customers, to avoid any facilities being granted to any person/business which creates any adverse impact on biodiversity. We do not discharge any waste water to any biodiversity designated areas.

MI'S PRESENCE IN BIODIVERSITY DESIGNATED LOCATIONS

Branch	Biodiversity location	Distance (km)	Size of the operational location (km ²)	Biodiversity value of protected area
Head Office	Bellanwila	10.3	0.00244	Religious & Historical Value
Tricomalee	Naval Headworks Sanctuary	20.1	0.000071	Sanctuary
	Great Sober Island	9.1	0.000071	Maritime
Anuradhapura	Mihintale	14.9	0.00021	Religious & Historical Value
	Mahakanadarawa Wewa	21.5	0.00021	Rain water reservoir
Polonnaruwa	Elahera – Girithale	14.3	0.00015	Historical value
Kurunegala	Kimbulwana Oya	27.2	0.00033	Reservoir
Chilaw	Anawilundawa	19.8	0.00011	One of the six Ramsar wetlands
Kegalle	Kurulu Kele	1.1	0.00014	Birds Forest
Benthota	Honduwa Island	17.5	0.00021	Maritime
Galle	Telwatta	24.1	0.00011	Religious & Historical Value
	Nimalawa	28.2	0.00011	Forest-based monastery
	Rumassala	5.5	0.00011	Tourism area
Tissamaharama	Weerawila	9.9	0.00011	Freshwater
Ampara	Buddangala	7.0	0.00015	Religious & Historical Value
Matara	Nimalawa	25.4	0.00029	Forest-based monastery
	Kiralakele	5.3	0.00029	Terrestrial
Kohuwala	Bellanwila	4.2	0.00025	Religious & Historical Value
	Muthurajawela	29.2	0.00025	Terrestrial
Maharagama	Bellanwila	5.4	0.00016	Religious & Historical Value
Horana	Bellanwila	31.6	0.00026	Religious & Historical Value
Negombo	Muthurajawela	17.7	0.000074	Terrestrial
Kadawatha	Bellanwila	26.1	0.0002	Religious & Historical Value
	Muthurajawela	14	0.0002	Terrestrial
Gampaha	Muthurajawela	17.1	0.00018	Terrestrial
Service Centre				
Minuwangoda	Muthurajawela	16	0.00015	Terrestrial
Kottawa	Bellanwila	10.6	0.000088	Religious & Historical Value
Borella	Bellanwila	9.4	0.00052	Religious & Historical Value
	Muthurajawela	23.9	0.00052	Terrestrial
Nittambuwa	Muthurajawela	28.8	0.00017	Terrestrial
Kaduwela	Bellanwila	19.3	0.00023	Religious & Historical Value
Kotahena	Bellanwila	15.7	0.000086	Religious & Historical Value
	Muthurajawela	21.7	0.000086	Terrestrial

* Hot spot locations within a 35 km radius has been considered for the evaluation.

** Despite close proximity no impact to biodiversity.

ENVIRONMENT AND ITS HABITAT PROTECTION PROJECTS EXECUTED

TREE PLANTING PROJECT IN GAMPOLA

Implementation Date – 17 March 2016
 Initiated by – The Sustainability Governance Committee (SGC)

Budgeted Cost  Actual Cost
Rs. 150,000/- **Rs. 107,600/-**



RATIONALE FOR THE PROJECT

To help in creating cleaner air, reducing pollution and minimising soil erosion, MI continued with the planting of trees for the second successive year, this time in Gampola. This was carried out in the “The Religious Centre of Ambuluwawa,” a biodiversity designated area and complex. Ambuluwawa is a mountainous terrain which is facing erosion.

PROJECT ACTION

The planting of indigenous and herbal saplings were carried out by the *Jana Jaya* Foundation in the Gampola area wherein the MI's SGC donated Rs. 107,600/- and participated in the planting exercise.

DONATION OF PROSTHETIC LIMB FOR AN ELEPHANT

Implementation Date – 4 March 2016
 Initiated By – The Sustainability Governance Committee

Budgeted Cost  Actual Cost
Rs. 150,000/- **Rs. 104,700/-**



RATIONALE FOR THE PROJECT

MI supported rehabilitation of a disabled elephant called ‘*Namal*’ by providing a prosthetic leg, at the Udawalawe elephant transit home. MI managed to resolve the elephants disability, which effected his spine and ability to walk. It was decided to carry out this project, with the intention of protecting the endangered wildlife in the country, for the benefit of the environment and its habitats.

PROJECT ACTION

A sum of Rs. 104,700/- was donated to “Exceed Prosthetics & Orthotics” Foundation for this purpose. Thereafter, ‘*Namal*’ was successfully fitted with the limb and was able to walk like other elephants.

PLACING AWARENESS BOARDS AT YALA

Implementation Date – 8 October 2015
 Initiated by – The Sustainability Governance Committee

Budgeted Cost  Actual Cost
Rs. 100,000/- **Rs. 97,600/-**



RATIONALE FOR THE PROJECT

By placing sign boards at the Yala National Park, it was intended to bring awareness to visitors about safety and conservation. This would thereby aid in protecting the park and its numerous wildlife species.

PROJECT ACTION

The Sustainability Governance Committee designed and placed awareness boards at key strategic locations around the vicinity of the park and at the entrance. This included warning boards in three languages for the safety of animals and also for the benefit of the visitors to the park.

ICT GOES GREEN

As a company that has widened business activities including reach, we have always strived to continuously identify potential environmental impacts and to minimise the effect through a scrutinised impact review from our operational activities. MI's Green ICT initiatives have been introduced towards this endeavour aiming to instigate our environmental consciousness. These Green ICT initiatives have been focused on minimising the negative impact of ICT operations on the environment by designing, operating and disposing of computers and computer-related products in an environmentally friendly manner.

• **Virtual Servers:**

More than twenty application servers are being hosted on three physical servers. Through this measure, we save on energy, as we reduce the number of servers required.

• **Reducing Paper Usage:**

The Company's e-mail system, Core system modules and Document Managements system among others facilitate users to view documents online and avoid taking hard copies as far as possible. Hence, at least 40,000 A4 sheets are saved per month.

• **Using Energy Efficient Computer Equipment**


MI has attuned its procurement strategy to ensure that energy efficient devices are purchased and configured with energy saving settings. Further, we have started purchasing Mini PC systems which will save largely on power consumption.

• **Video Conferencing**

The Company is testing to have their meeting through video calls with branches, which will reduce travel time, accommodation and fuel cost.




EFFLUENTS & WASTE

 (G4 – DMA, EN22, EN23, EN24, EN25, EN26)

As a company extending financing needs of the customers, we do not discharge any water or our operation does not result in significant spills of any kind. Although we do not directly generate any hazardous waste and spills from our core operations, we have embraced a proactive approach for general day-to-day waste initiating better waste management practices to ensure smooth disposal of waste paper, e-waste and other forms of waste, without hindering the surrounding environment. We do not deal materially in waste deemed hazardous under the terms of the BASEL Convention and hence we abide to our standard disposal methods mentioned below.


Type of waste item	Frequency of disposal	Disposal method
1. Waste paper	Weekly	Daily collection of waste paper from departments at Head Office is collected at basement stores and then disposed on a weekly basis to an authorised party.
2. E-waste	Biannual	Separate storage area is assigned to store e-waste. Periodically, inventory is taken and quotations called and items sold based on best price.
3. Damaged office equipment	Ad hoc	Damaged furniture, equipment and other similar items of various departments are forwarded to Maintenance Department. The items are stored in Maharagama under a list and sold when required price is attained with the approval of the Management.
4. Garbage	Weekly	Daily collection of garbage taken from each floor at Head Office is stored temporarily at a nominated site in the basement. Weekly garbage is thereafter collected by the CMC.

ENVIRONMENTAL COMPLIANCE

 (G4 – EN29)


MI, as a responsible premier finance company has always strived to achieve a standard of compliance which exceeds the mere legal requirements and embraced with global best practices for environmental governance in addition to the mandatory environmental regulations. During this period, there were no reported violations of any environmental standards and the Company was not called upon to settle any environmentally related fines. No sanctions were imposed as a result of non-compliance with any environmental regulations during this period. Assurance to this effect is provided on page 337 in the statement on the Annual Report of the Board of Directors. Going beyond our own compliance standards, we hope to bring in environmental policies on customers to encourage them to adhere to environmental regulations by strengthening our prerequisites for granting facilities.

ENVIRONMENTAL GRIEVANCE MECHANISM

 (G4 – EN34)


In understanding any adverse impacts resulting from MI's business operations on the environment and identifying suitable remedies, the Company is open to following up on any concerns raised by outside parties. A feedback form affixed to the Annual Report is available for any party to convey environmental concerns resulting from our operations, which will be looked into by the Management depending on its materiality. No environment related grievances were reported to Management formally during FY 2015/16, as well as, no grievances brought forward from previous year requiring resolution.

INVESTMENTS ON ENVIRONMENTAL PROTECTION

 (G4 – EN31)

Environmental protection initiative	Activity involved	Expense incurred for FY 2015/16 Rs.
Tree Planting at Gampola	Planting of trees in the religious centre of Ambuluwawa, in Gampola	107,600
Green IT initiatives	Provision of virtual servers and servers supporting the document management system	1,500,000
GHG emission testing	Annual emission certificates obtained for MI fleet of motor vehicles and other office items	240,000

SUPPLIER ASSESSMENT

 (G4 – EN32, EN33)

As a finance company our business operation is more customer driven with insignificant dependence on suppliers and therefore we have not extended our environmental assessment for suppliers for their environmental footprint.

Social Value Creation

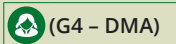


SUMMARY OF SOCIAL IMPACTS

For the Financial Year	FY 2015/16	FY 2014/15	% Change
Labour practices and decent work			
New employee hires (No.)	264	161	64
Staff strength (No.)	738	588	26
Lost days (No.)	140	104	35
Training hours (No. of Hours)	10,526	4,075	158
Grievances resolved (No.)	5	4	25
Society			
Total microfinance lending (Rs. million)	560	7.7	7,173
Senior citizen deposits (Rs. million)	7,650	5,927	29
Operations assessed for risk related corruption (No.)	9	8	13
Total community projects and social support (Rs. '000)	7,053	3,063	130
Human rights grievance mechanism			
Grievance about human rights resolved (No.)	0	0	0
Product responsibility			
Lending for environment benefiting products (Rs. million)	4,796	2,591	85

MANAGEMENT APPROACH TO SOCIAL VALUE CREATION

SOCIETY



As a responsible corporate, we approach social value creation from a broader perspective considering its long-term benefits. We expect to bring benefit to society through commercial activity and other means in our own ways possible, which will pave the way for long-term reciprocal benefits to accrue back to the Company. For us, social value creation primarily revolves around enhancing value of human capital and thus stands as our main area of focus. While investing in nurturing our workforce, we also stand committed in bringing value to the general society at large, striving to address certain needs of the local communities, going beyond commercial boundaries. This period too, the Company was able to embark on various social projects, mainly supporting to improve the quality of life of the poor and the less privileged.

For MI, “Social Value Building” as a key strategic prerogative, commences internally and that’s with our employees. We adhere to a unique employee centric culture, one that promotes team building and is geared to promote effective interaction and dialogue between employees, across all levels of the hierarchy. We adopt our own unique style of human resource management, which encourages employees to contribute towards the success of the Company through their own skills, experience and talents. The Company likewise, expects the employee to gain from MI, both monetarily and non-monetarily during their tenor for all their efforts.

The unique management style adopted inculcates creativity and innovation and affords employees equal opportunity to excel in their careers. From a broader society angle, MI’s Sustainability Governance Committee leads from the front, initiating worthy social projects that touch upon providing financial assistance, basic material necessities, educational support, shelter and sanitation facilities to the poor and lesser privileged.

In articulating our total social value creation process and related performance for the period, our social review has been separated under four parts as per G4 framework.

i.e. Review of Labour practices and decent work, Social Review, Human Rights Review and Product Review.



Employee Review

After working for over 25 years at Mercantile Investments, I have been able to accomplish the pinnacle of my career, while overcoming various workplace challenges. Over the years, Mercantile Investments has given me the opportunity of enriching myself with a wealth of knowledge and experience fulfilling my career aspirations successfully to go up the corporate ladder. I am immensely grateful for the infinite support given to me by MI to face challenges in a dynamic industry.

Mrs. Malkanthi Samaranayake

Employee of Mercantile Investments and Finance PLC





LABOUR PRACTICES AND DECENT WORK



Human capital has always been the decisive factor in our success story, especially since we are a service organisation, being fully dependent on people to sustain business success now and in the future. Throughout our fifty year business journey, MI's workforce has shown immense determination and commitment in pursuing enthusiastic growth expectations laid down. MI's employees remain its most valuable asset, being the brain and brawn of the Company. The employees are the backbone of MI, providing life to fulfil the vision of the Company.

Being a service organisation and a socially responsible enterprise, our employees play an integral role in fulfilling various needs of our key stakeholders. We have built-up a strong workforce, a team of skilled and experienced individuals who have been groomed and nurtured over the years to become financial specialists and experts in their fields. At MI, we believe in investing in human capital development for the Organisation's long-term success, to help it face future business complexities and as a means of raising productivity levels.

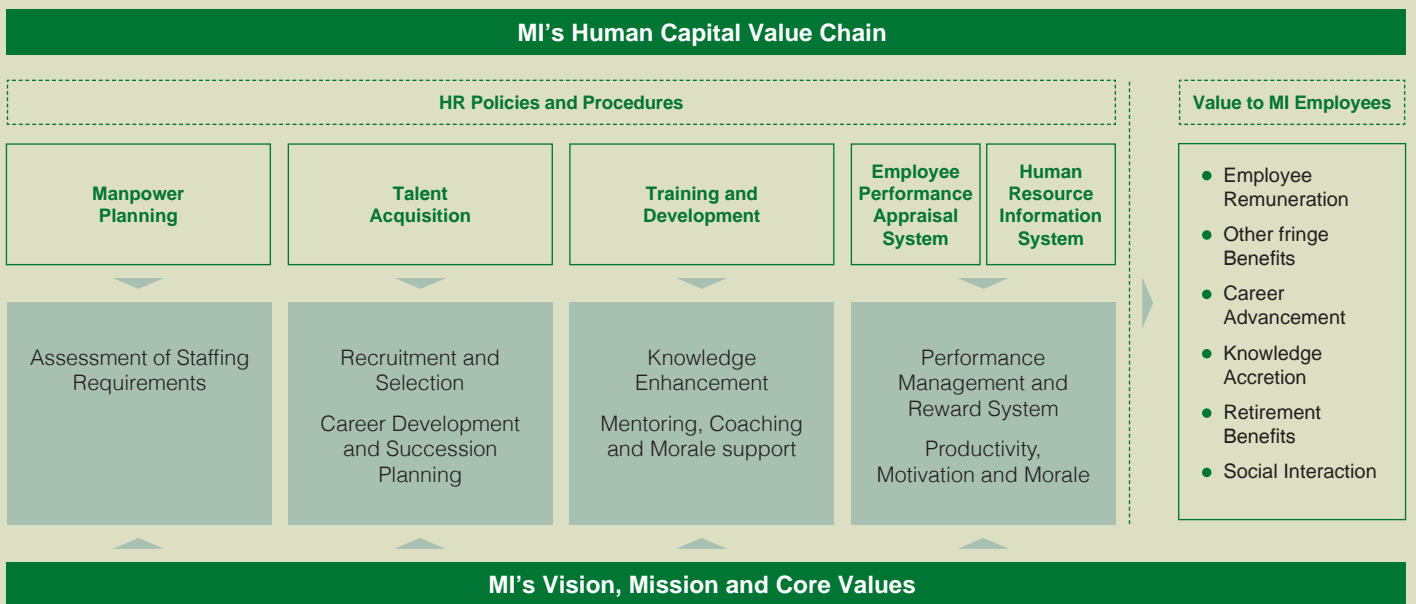
MI understands the value of human capital and hence has invested in people and has remained a caring employer, maintaining employee motivation and morale to bring out the best in them. While being recognised as one of the top fifteen "Best Companies to Work For" in Sri Lanka by the Great Place to Work Institute in 2014, MI has continued to adopt employee focused human resource strategies to sustain bonding between the institution and the employee for mutual benefit. The Company's employee-centric approach has brought about an effective team of individuals, who remain passionate about what they do, who are positive thinkers by nature. We at MI, nurture our employees and empower them to create value for the organisation expecting them to excel in their fields and display ones' talents.

CREATING HUMAN CAPITAL VALUE

In increasing human capital value, the workforce is subject to a continuous value enhancement process which involves a number of key human resource elements that transpire benefits to both organisation and the employees in different ways. Key elements attributable to MI's Human Capital Value Chain, depicted in the diagram, are of essence to us in managing people. The HR value creation process reflects a transparent declaration of our "People Strategy", which is aligned to the overall business strategy, targeting higher employee productivity levels through constant nurturing and motivation of employees.

HUMAN RESOURCE POLICIES AND PROCEDURES

Our primary HR policy is to subject our workforce to a continuous nurturing programme throughout their work lives, as a means of sustaining the organisation's success, that will equally benefit the employee in developing his/her's careers. MI's HR policy recognises the importance of building employees' technical skills and competencies at all levels of the hierarchy, on a continuous basis. The total gamut of HR policies has been aligned with other organisational policies to ultimately assist in moving towards overall corporate objectives and goals. The established HR policies and procedures have been designed to uplift employees to a level that will empower them to become financial professionals in their fields over time. They eventually gain the required aptitude to deal with sophistication and challenges associated with the financial services sector. As a Company that upholds a sound value system and corporate culture, our HR policies highlight the importance of maintaining honesty, integrity and ethical behavior. Our HR policy does not in any way go against sustaining equality in the workplace and does not justify or condone any form of discrimination in respect of an employee's race, gender or religion.



MANPOWER PLANNING

To meet manpower requirements arising due to branch expansion the Company made additional recruitments this year as well. Staffing requirements of departments were followed up by the Human Resources Department as part of MI's manpower planning process. The HR Division was required to initiate the recruitment process and to assist various departments in attracting the best of talent from the finance industry or from outside the industry. As a standard measure, we firstly evaluate possible candidates internally, failing which, we resort to external recruitments. To aid the internal career advancement review process, our biannual performance appraisal process helps the Company in keeping a track of potential employees who can take up future roles. In sustaining motivation of staff, we at times resorted to "job enhancement" and "job enrichment" alternatives for mainly top performers who excel in their fields. Through a well-planned out process, manpower requirements of the Company were fulfilled to expectation.

TALENT ACQUISITION

We understand the importance having an efficient process to attract, select and retain talent, to continue fulfilling human resource needs of the Company, thereby enabling the Company to possess a strong workforce capable of facing future industry challenges. As part of "talent acquisition", we have streamlined the recruitment and selection process of candidates, to gather information of potential candidates and to identify suitable individuals having the required experience and qualifications to fit into a challenging and dynamic working environment. Being recognised as a "Great Place to Work", MI continued to be a preferred choice for people who come in seek job satisfaction and job security in a highly demanding industry.

The recruitment process involves thorough screening of candidates. This enables us to select the most suited individuals among a large number of other applicants. As a standard practice

we analyse candidate's basic skills, knowledge, experience and qualifications, comparing with the job role at hand. Short listed candidates are finally subject to a thorough interview process, with top positions requiring the Managing Director's review. We advertise in newspapers and also resort to web based job related databases to identify suitable applications. As a parallel measure, departmental heads are given the opportunity to nominate individuals from within the Company. We believe in succession planning, which acts as a contingency measure and also helps motivate employees to stay committed and focused on their careers.

As our business is not seasonal, recruitment numbers do not vary on any seasonal changes. However, throughout the year, there were a number of recruitments being carried out to meet staffing requirements, especially of core business divisions. Details of MI's total staff strength, recruitments and other service statistics of our workforce are outlined below:

WORKFORCE RELATED INDICATORS



STAFF STRENGTH

No. of employees	FY 2016		FY 2015		FY 2014		FY 2013		FY 2012	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Directors	4	1	4	1	4	1	4	1	5	2
Managers	85	13	61	9	56	9	53	7	52	6
Executives	182	48	136	36	117	34	112	36	74	28
Clerical & allied	209	74	154	49	143	37	116	28	81	30
Office assistant and others	122	0	138	0	107	0	86	-	99	-
	602	136	493	95	427	81	371	72	311	66

*Part-time permanent employees have also been included but not shown separately since immaterial.

SERVICE ANALYSIS

No. of employees	FY 2016		FY 2015		FY 2014		FY 2013		FY 2012	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Below 5 years	442	100	340	59	279	48	234	43	170	33
6-10 years	61	13	64	9	56	9	54	13	54	12
11-15 years	36	8	31	8	42	11	43	7	45	8
16-20 years	39	5	33	7	32	2	23	4	25	5
Over 20 years	24	10	25	12	18	11	17	5	17	8
	602	136	493	95	427	81	371	72	311	66

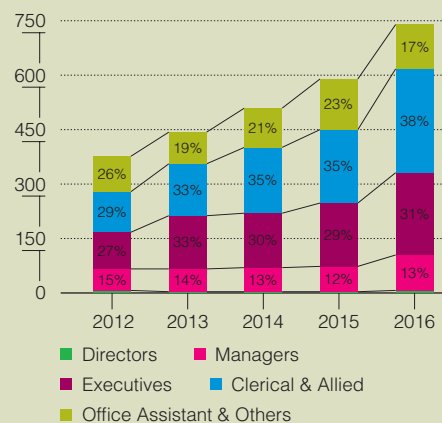
No. of Staff



FY 2016 Service Analysis

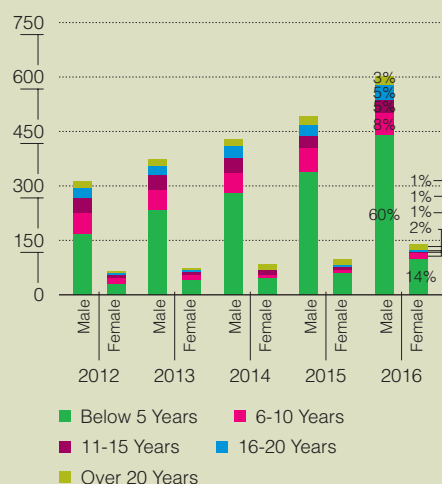
Staff Strength

No. of Employees



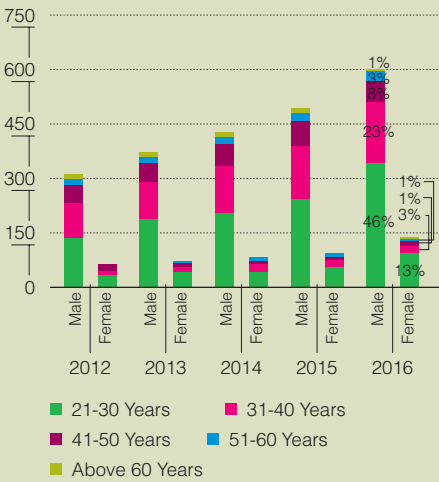
Service Analysis of Employees

No. of Employees



Age Analysis of Employees

No. of Employees



AGE ANALYSIS

No. of employees	FY 2016		FY 2015		FY 2014		FY 2013		FY 2012	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
21-30 years	343	94	246	56	207	43	187	41	139	35
31-40 years	167	23	144	20	128	21	104	15	94	14
41-50 years	62	11	68	11	59	10	51	13	49	14
51-60 years	22	7	21	7	20	6	18	2	18	2
Above 60 years	8	1	14	1	13	1	11	1	11	1
	602	136	493	95	427	81	371	72	311	66

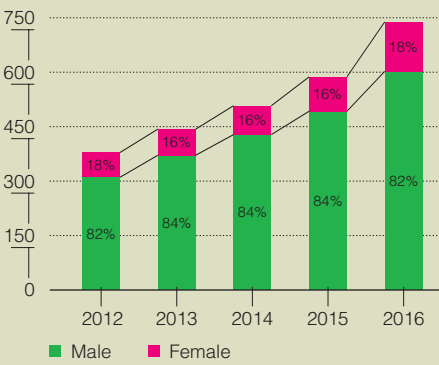
No. of Staff



FY 2016 Age Analysis

Gender Distribution of Employees

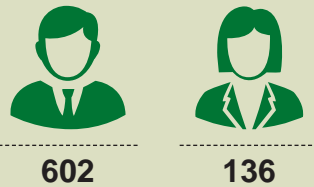
No. of Employees



GENDER DISTRIBUTION

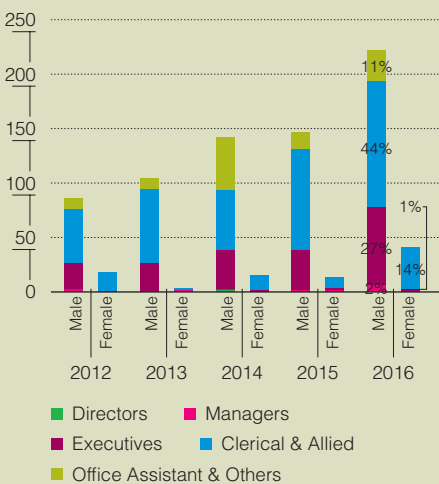
No. of employees	FY 2016	FY 2015	FY 2014	FY 2013	FY 2012
Male	602	493	427	371	311
Female	136	95	81	72	66

Total Staff by Gender



Staff Recruitments

No. of Employees



STAFF RECRUITMENT

No. of Employees	FY 2016		FY 2015		FY 2014		FY 2013		FY 2012	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Directors*	0	0	0	0	1	0	0	0	0	0
Managers	6	1	1	1	3	0	2	1	3	0
Executives	72	3	37	3	35	1	24	0	23	1
Clerical & Allied	115	38	94	10	54	14	69	3	51	17
Office assistant & other	29	0	15	0	48	0	10	0	9	0
	222	42	147	14	141	15	105	4	86	18

*Executive Directors have been reported.

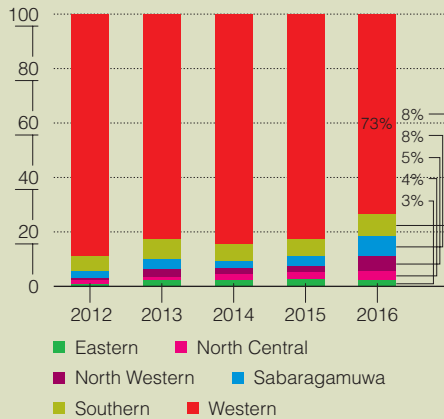
TOTAL NUMBER AND RATES OF NEW EMPLOYEE HIRES BY AGE GROUP, GENDER AND REGION – STAFF RECRUITMENTS

Category	2016				2015			
	Male		Female		Male		Female	
	Number	%	Number	%	Number	%	Number	%
Eastern								
Below 30 years	5	1.89	2	0.76	2	1.24	0	0.00
30-50 years	0	0.00	0	0.00	3	1.86	0	0.00
Over 50 years	0	0.00	0	0.00	0	0.00	0	0.00
North Central								
Below 30 years	10	3.79	2	0.76	4	2.48	0	0.00
30-50 years	1	0.38	0	0.00	2	1.24	0	0.00
Over 50 years	0	0.00	0	0.00	0	0.00	0	0.00
North Western								
Below 30 years	18	6.82	2	0.76	2	1.24	0	0.00
30-50 years	6	2.27	0	0.00	2	1.24	0	0.00
Over 50 years	0	0.00	0	0.00	0	0.00	0	0.00
Sabaragamuwa								
Below 30 years	26	9.85	3	1.14	6	3.73	1	0.62
30-50 years	3	1.14	0	0.00	0	0.00	0	0.00
Over 50 years	0	0.00	0	0.00	0	0.00	0	0.00
Southern								
Below 30 years	21	7.95	1	0.38	9	5.59	2	1.24
30-50 years	7	2.65	0	0.00	2	1.24	0	0.00
Over 50 years	0	0.00	0	0.00	0	0.00	0	0.00
Western								
Below 30 years	99	37.50	30	11.36	89	55.28	11	6.83
30-50 years	20	7.58	2	0.76	25	15.53	0	0.00
Over 50 years	6	2.27	0	0.00	1	0.62	0	0.00
Total	222		42		147		14	

PROVINCIAL AND BRANCHWISE BREAKDOWN OF HUMAN CAPITAL AS AT MARCH – STAFF DISTRIBUTION

No. of Employees		2016		2015		2014		2013		2012	
		Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Trinco	Eastern	11	0	9	0	6	0	6	0	5	0
Ampara	Eastern	6	2	6	1	4	1	4	1	0	0
Total		17	2	15	1	10	1	10	1	5	0
Anuradhapura	North Central	16	1	7	1	6	1	4	1	4	0
Polonnaruwa	North Central	7	2	7	0	5	1	0	0	0	0
Total		23	3	14	1	11	2	4	1	4	0
Kurunegala	North Western	11	1	8	1	6	1	7	0	3	0
Chillaw	North Western	12	1	6	0	5	1	5	1	0	0
Kuliyapitiya	North Western	12	1	0	0	0	0	0	0	0	0
Total		35	3	14	1	11	2	12	1	3	0
Balangoda	Sabaragamuwa	17	2	6	2	5	1	7	1	6	0
Embilipitiya	Sabaragamuwa	14	0	7	0	6	0	5	1	3	0
Ratnapura	Sabaragamuwa	11	3	0	0	0	0	0	0	0	0
Kegalle	Sabaragamuwa	7	2	2	1	0	0	0	0	0	0
Total		49	7	15	3	11	1	12	2	9	0
Bentota	Southern	7	2	9	1	6	1	8	0	6	0
Tissa	Southern	11	1	4	1	5	1	5	1	0	0
Galle	Southern	13	2	10	1	7	1	7	3	5	0
Matara	Southern	14	1	12	1	8	3	8	2	7	2
Akuressa	Southern	10	0	0	0	0	0	0	0	0	0
Total		55	6	35	4	26	6	28	6	18	2
Head Office	Western	226	87	325	74	293	64	241	57	238	61
Negombo	Western	15	2	8	1	10	1	11	1	9	1
Kohuwala	Western	18	2	14	0	12	0	10	2	11	1
Kadawatha	Western	21	3	12	1	12	0	14	0	9	0
Maharagama	Western	11	2	8	1	7	1	7	0	5	1
Horana	Western	12	1	4	1	4	0	7	1	0	0
Gampaha	Western	13	2	4	1	5	0	3	0	0	0
Minuwangoda	Western	8	2	7	0	6	0	6	0	0	0
Kottawa	Western	7	2	4	2	5	2	6	0	0	0
Nittambuwa	Western	14	2	5	2	4	1	0	0	0	0
Kaduwela	Western	8	2	4	1	1	0	0	0	0	0
Kotahena	Western	4	2	5	1	0	0	0	0	0	0
Corporate Premier	Western	11	2	0	0	0	0	0	0	0	0
Godagama	Western	7	2	0	0	0	0	0	0	0	0
Moratuwa	Western	10	2	0	0	0	0	0	0	0	0
Workshop	Western	24	0	0	0	0	0	0	0	0	0
Yard Maharagama	Western	14	0	0	0	0	0	0	0	0	0
Total		423	115	400	85	359	69	305	61	272	64
Grand Total		602	136	493	95	428	81	371	72	311	66

Provincial-wise Breakdown of Human Capital
%



STAFF RELIGION AND ETHNICITY BY GENDER (NO. OF EMPLOYEES)

Gender	Religion	Ethnic Group				Grand Total
		Burgher	Muslim	Sinhala	Tamil	
Female	Buddhist	0	0	102	0	102
	Catholic	3	0	24	2	29
	Hindu					0
	Islam	0	4	0	0	4
	Christian	0	0	1	0	1
Female total		3	4	127	2	136
Male	Buddhist	0	0	499	0	499
	Catholic	1	0	78	5	84
	Hindu	0	0	0	11	11
	Islam	0	7	0	0	7
	Christian	0	0	1	0	1
Male total		1	7	578	16	602
Grand total		4	11	705	18	738

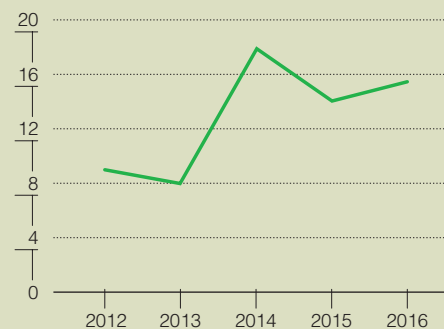
The Company yet again recorded low staff turnover levels, despite the growing competitive job market



LOW STAFF TURNOVER LEVELS

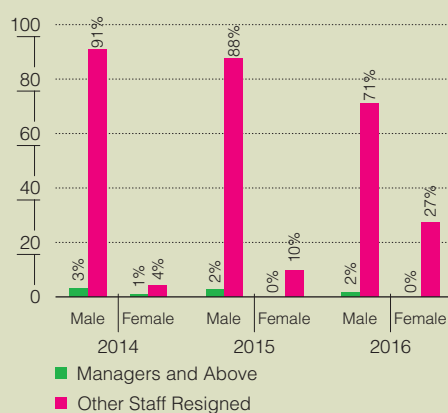
MI's as a caring employer and a corporate that continues to invest in people's development, has led the way for the organisation to sustain impeccable motivation levels over the years. The Company yet again recorded low staff turnover levels, despite the growing competitive job market. Due to a lesser number of staff resignations over the years, more than 27% of MI's workforce have served the organisation for over five years. Out of this percentage, over 62% of employees have recorded service tenures going over ten years, which reflects positively on MI as a sought after employer.

Total Staff Turnover
%



STAFF TURNOVER BY AGE GROUP, GENDER AND REGION

Category	FY 2015/16				FY 2014/15			
	Male		Female		Male		Female	
	Number	%	Number	%	Number	%	Number	%
Eastern								
Below 30 years	2	1.75	0	0	1	1.23	0	0
30-50 years	4	3.51	1	0.88	0	0.00	0	0
Over 50 years	0	0	0	0	0	0.00	0	0
North Central								
Below 30 years	3	2.63	1	0.88	0	0.00	0	0
30-50 years	0	0	0	0	3	3.70	0	0
Over 50 years	0	0	0	0	0	0.00	0	0
North Western								
Below 30 years	2	1.75	0	0	1	1.23	0	0
30-50 years	1	0.88	0	0	1	1.23	0	0
Over 50 years	0	0	0	0	0	0.00	0	0
Sabaragamuwa								
Below 30 years	4	3.51	1	0.88	0	0.00	0	0
30-50 years	0	0	0	0	0	0.00	0	0
Over 50 years	0	0	0	0	0	0.00	0	0
Southern								
Below 30 years	8	7.02	2	1.75	3	3.70	0	0
30-50 years	2	1.75	0	0	3	3.70	0	0
Over 50 years	0	0	0	0	0	0.00	0	0
Western								
Below 30 years	32	28.07	20	17.54	42	51.85	8	9.88
30-50 years	12	10.53	4	3.51	16	19.75	0	0
Over 50 years	13	11.40	2	1.75	3	3.70	0	0
Total	83		31		73		8	

Staff Turnover Gender-wise
No. of Employees Resigning

RETURN TO WORK AND RETENTION RATES AFTER PARENTAL LEAVE, BY GENDER

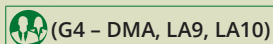
	FY 2015/16	FY 2014/15	FY 2013/14
Number of employees entitled for maternity leave	136	95	81
Number of employees who took maternity leave	5	2	5
Number of employees who returned to work after maternity leave	3*	2	5
Number of employees who returned to work after maternity leave ended who were still employed 12 months after their return to work	3*	-	3
Return to work rate %	60	100	100
Retention rate %	75	100	100

* One employee is on maternity leave from 7th March 2016 and her returning date is 8 July 2016.

** As a general policy, only maternity leave for females are granted as parental leave.

*** Based on previous year's retention information.

TRAINING AND DEVELOPMENT



In grooming employees to face a challenging business environment, for us training and development plays an integral role in widening MI teams' knowledge and skills, as an ongoing exercise. In addition, to counter challenges faced in routine working lives employees are also mentored, coached and moral support is given to them by the HR Division, jointly with the respective departmental superiors. During the last decade, staff training and development has played a vital roles in lifting productivity levels and raising the bar on the Company's service standards. It has empowered employees to take greater responsibility as they now possess the required skills and knowledge to face the challenging roles and tasks assigned to them.

A broad-based training calendar was adopted for FY 2015/16 through which HR Department was able to initiate a number of in-house training programmes at MI's Cotta Road Training Centre. Key staff were also sent on external training programmes covering workshops, seminars etc., on technical subjects, regulatory and other trainings. Newly joined recruits were also subjected to a comprehensive induction programme and in parallel provided hands-on, on-the-job training to get them started on their careers.

At MI, we maintain a healthy learning culture that affords equal opportunity for all individuals to acquire both technical knowledge, soft skills such as effective communication as well as other industry specific knowledge. By fostering an open and creative environment, we encourage employees to be innovative thinkers and strive to develop more potential leaders within the workforce. Infact already, through unwavering dedication and perseverance, top performing employees have gone on to take up demanding roles within the organisation.

Training on Compliance to Senior Employees



Induction Programme Coverage FY2015/16

- Company History
- MI Core Business Areas, Core Values, Ethics, Vision, Mission
- Motivation
- Compliance with financial regulations (Risk and Compliance)
- Documentation Process
- Legal process and recoveries procedure in brief
- Customer care, telephone etiquette and corporate etiquette, personal grooming
- Areas of HR, Career Progression and Discipline, Organisational Structure, CSR activities, Branch network, staff welfare
- Conclusion and Q & A session

TRAINING CONDUCTED IN HOUSE ON ANTI-MONEY LAUNDERING (NO. OF EMPLOYEES)

Grade	FY 2015/16	FY 2014/15	FY 2013/14	FY 2012/13	FY 2011/12
Managers and above	28	16	11	14	5
Executives/Assistants	183	89	61	52	21
Total	211	105	72	66	26

PROGRAMS FOR SKILLS MANAGEMENT AND LIFELONG LEARNING THAT SUPPORT THE CONTINUED EMPLOYABILITY OF EMPLOYEES AND ASSIST THEM IN MANAGING CAREER ENDINGS

Type and scope of training programme	Assistance provided for employees to upgrade their skills
Leadership and communication skills	Leadership and communication
Corporate etiquette	Corporate etiquette and corporate grooming
Coffee with Dian Gomes	Essentials of building a strong business
Creating a winning team	Creating a thriving corporate culture to attract build and retain the best talent
Telephone etiquette	Creating a better understanding on customer service and telephone etiquette
Corporate etiquette consultancy	Training on personality development and corporate etiquette
Leadership summit	Skill building on making decisions, confidence and managing people, projects and time efficiently
You're the ultimate brand (recoveries)	Provision of fundamental principles of business etiquette which provides the common language behaviour to make best professionals to the organisation
You're the ultimate brand credit/leasing marketing	Provision of fundamental principles of business etiquette which provides the common language behaviour to make best professionals to the organisation
Service mantras	Leadership and customer service
Preparing for leadership	Developing unique leadership style within

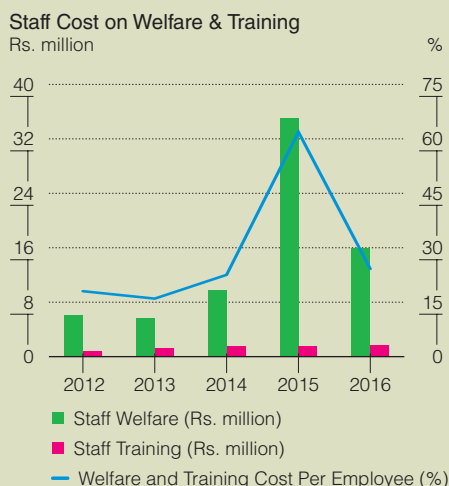
TRAINING BY GENDER AND HOURS OF TRAINING – FY 2015/16

Field of training	Gender		Total participants	Total hours of training
	Male	Female		
1. Effective credit appraisal and credit risk management	2	0	2	28.00
2. Essentials for non-bank financial institutions	1	2	3	63.00
3. Training on operations documentation and cashiering	28	33	61	445.30
4. Quality of lending and recovery fundamentals	59	4	63	252.00
5. Leadership and communication skills	44	2	46	368.00
6. Seminar on application of VAT SVAT and WHT under RAMIS	3	1	4	13.20
7. Corporate etiquette	23	23	46	368.00
8. Non-performing advances and recovery through litigation	4	0	4	57.20
9. Payment and settlement systems	1	0	1	14.30
10. The secretary	0	1	1	8.00
11. Financial intelligence	8	4	12	85.80
12. What should you know about transfer pricing	4	0	4	8.00
13. Coffee with Dian Gomes	2	1	3	6.00
14. Creating a winning team	0	2	2	4.00
15. Budget goes under the scanner	1	0	1	3.00
16. Corporate marketing planning	0	2	2	16.00
17. Awareness seminar on RAMIS	3	0	3	9.90
18. Telephone etiquette	0	1	1	8.00
19. Hire purchase and leasing agreements	1	3	4	32.00
20. Open day diploma in strategic brand management	0	2	2	4.00
21. Rights of insurance policy holders and role of insurance	2	0	2	6.00
22. Individual impairment training	14	6	20	20.00
23. Security features of currency notes	1	8	9	135.00
24. Regulatory framework related to non-bank financial institutes	2	2	4	57.20
25. Corporate law conference	0	1	1	9.00
26. Corporate etiquette consultancy	29	4	33	264.00
27. Familiarisation session (session 3)	47	6	53	159.00
28. Familiarisation (session 1)	33	8	41	123.00
29. Documentation and legal process	40	15	55	165.00
30. Recoveries procedures	36	7	43	344.00
31. Leadership summit	3	0	3	24.00
32. You're the ultimate brand (recoveries)	81	20	101	1,616.00
33. You're the ultimate brand credit/leasing/marketing	107	31	138	3,312.00
34. Mandatory training on policies, procedures and compliance	66	22	88	717.20
35. Mandatory training on policies procedures and compliance	101	22	123	916.35
36. Teller functions	1	0	1	8.00
37. Tool kit for effective presentation	0	1	1	7.30
38. Asia Pacific financial inclusion summit	3	0	3	81.90
39. Sri Lanka Accounting Standards session (1)	2	1	3	9.00
40. CIM annual conference (positioning and branding for future)	2	0	2	18.00
41. Sri Lanka Accounting Standards (session 2)	1	1	2	6.00
42. How to identify JCB and caterpillar	5	0	5	73.00
43. Familiarisation (session 2)	42	8	50	200.00

Field of training	Gender		Total participants	Total hours of training
	Male	Female		
44. Operating leases	1	0	1	16.00
45. Service mantras	6	0	6	55.80
46. Preparing for leadership	1	2	3	24.00
47. Sri Lanka Accounting Standards (session 3)	1	1	2	6.00
48. Sri Lanka Accounting Standards (session 4)	1	1	2	6.00
49. Seminar on taxation of banking and financial institutions	4	0	4	13.20
50. Workshop learn to apply SLFRS/LKAS in practice	1	0	1	24.00
51. Compliance risk management	1	0	1	24.00
52. Global accounting summit	2	0	2	36.00
53. Ms office 2013 user productivity training programme	17	13	30	240.00
54. National HR conference	0	1	1	16.00
Total	837	262		10,525.65

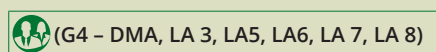
Average man hours per participant is 9.58 hours
 Average man hours per employee is 19.53 hours

Grade	Gender		Total participants	Total training hours		Average training hrs	
	Male	Female		Male	Female	Male	Female
Managers & above	209	30	239	1,436.65	213.35	13.54	13.78
Executive/assistants	628	232	860	6,559.1	2,316.55	27.07	20.28
Total	837	262	1,099	7,995.75	2,529.9	9.55	9.66



EMBRACING A CONDUCTIVE WORK ENVIRONMENT

OCCUPATIONAL HEALTH AND SAFETY (INCLUDES SECTOR SPECIFIC DMA)



A number of changes were made to the physical layouts of employee work stations, particularly to house staff of Deposits, Finance, Legal and HR Divisions. These changes were made to maximise utilised space while providing employees ideal working conditions. These restructuring were consequent to other physical layout changes effected over the last few years to improve ergonomic efficiencies but also intended to enhance interaction levels among staff. Plans are also underway to provide spacious lunch rooms and area for recreational facilities and also in the longer term, a larger area for staff vehicle parking.

In terms of employee health and safety, Management has taken standard precautionary measures to protect employees from physical hazards such as fire. Furthermore, recommendations made by the Colombo Fire Brigade on fire safety measures are being followed up. Through the Human Resource Division, plans are also under way to provide fire safety training to staff at our Head Office that will include fire drills and related contingency planning. There is also adequate security provided for all staff attached to Head Office. Safety of workers is supported with security personnel being additionally equipped with CCTV facilities at both Head Office and at branches and so are able to monitor activities during working hours.

There are no formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes currently. However, through the insurance department, the health insurance cover is annually renewed for permanent employees, their spouses and children. Further, from this financial period, all Assistant Managers and above titles were availed of a comprehensive annual medical checkup scheme at the Company's expense. Being a service oriented organisation that deals primarily in financial transactions, the type of tasks carried out by our employees do not bring any associated decrease related hazards.

RATE OF INJURIES OR FATALITIES, OCCUPATIONAL DISEASES, LOST DAYS, ABSENTEEISM BY REGION AND GENDER

Region	Fatalities (in number)				Injuries (in number)				Lost days (Based on average number of days per employee) *246 days				Type of injuries
	Male	%	Female	%	Male	%	Female	%	Male	%	Female	%	
Eastern	0	0	0	0	1	25	0	0	98	39.84	0	0	Leg injured
North-central	0	0	0	0	0	0	0	0	0	0	0	0	
North-western	0	0	0	0	0	0	0	0	0	0	0	0	
Sabaragamuwa	0	0	0	0	1	25	0	0	34	13.82	0	0	Right hand injured
Southern	0	0	0	0	0	0	0	0	0	0	0	0	
Western	0	0	0	0	2	50	0	0	8	3.25	0	0	Injuries of leg and hand

* Average number of days per employee – 246 days

Region	FY 2015/16			
	Absenteeism (in days)			
	Male	%	Female	%
Eastern	7	2.37	0	0
North-central	3	1.02	1	0.34
North-western	1	0.34	0	0
Sabaragamuwa	0	0	0	0
Southern	10.5	3.55	0	0
Western	164	55.50	109	36.89

* Occupational diseases are not applicable as there are no risks from diseases directly linked to finance business, for people at work

* Report was compiled from the statistics generated by the HR Department by obtaining information from various heads of divisions on an annual basis.

* No independent contractors have been employed.

LABOUR PRACTICES AND GRIEVANCE MECHANISM



In displaying organisation's professionalism and corporate responsibility, we expect all our employees to act diligently, displaying accountability and dynamism in their fields when executing duties. While we encourage employees to think creatively and out of the box, we understand the importance of providing the right work environment, with adequate support facilities to get the best out of them.

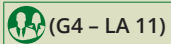
We adopt an effective organisational structure that reflects clear line of reporting and authority and responsibility for corporate management positioned in various levels of the hierarchy. The people-centric culture adopted across all divisions renews and enhances interaction between superiors and subordinates. Our "open door" corporate culture facilitates quicker feedback about staff grievances, so that prompt action can be taken by corporate management, thus limiting employee dissent and dissatisfaction.

We expects employees to perform their duties with diligence and to display integrity in whatever they do. The "Human Resource Handbook" released a few years before highlights the importance of MI's core values and the need for proper employee conduct. Towards this endeavour, the Board and Corporate Management has instilled a strong compliance culture within the organisation, expecting employees to abide to set rules and regulations without fail. Any material deviations to these established requirements would result in disciplinary action against those responsible and any repeat violations could result in termination of employment. Any violations to professional and personal ethics are viewed seriously and accordingly dealt with depending on the severity of their implications.

GRIEVANCES FORMALLY REPORTED AND RESOLVED

	FY 2015/16	FY 2014/15	FY 2013/14
Total number of grievances formally reported	6	4	2
Number of grievances addressed	6	4	2
Number of grievances resolved	5	4	2
Number of grievances unresolved	1	0	0

EMPLOYEE PERFORMANCE AND CAREER DEVELOPMENT REVIEWS

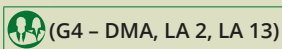


In reviewing employee performance, they are subject to a formal biannual performance appraisal that is conducted by heads of divisions across all key functions. The employee performance is linked directly to the rewarding system and accordingly staff bonuses, annual salary increments and career advancement prospects are based on such evaluations. Performance of employees attached to core business divisions are assessed, based on their individual balance score cards, by comparing their actual performance against set targets. For the support divisions, the appraisal takes a qualitative approach and there too, top performers are recognised based on high marks scored. We believe, having an effective performance appraisal system, provides corporate management the required insight necessary to decide on staff training needs and moreover, to sustain the required motivation levels which will bring mutual benefit to both Company and employee.

EMPLOYEES RECEIVING REGULAR PERFORMANCE APPRAISING AND CAREER DEVELOPMENT IN FY 2015/16

Employee category	No. of staff evaluated – male	No. of staff evaluated – female	No. of staff Not evaluated	% Appraised
Corporate management	77	6	22	79.05
Executive officers	82	23	0	100.00
Junior executive assistants & allied grades	107	19	0	100.00
Assistants	193	71	138	65.67
Total	459	119	160	78.32

EQUAL REMUNERATION RATIO OF BASIC SALARY AND REMUNERATION BY CATEGORY/LOCATIONS



Our permanent employees continue to enjoy an attractive remuneration packages based on their grade, level of experience and performance and accordingly, the salary scales were revised at the commencement of this financial period. Apart from the salary and annual bonus, permanent employees are also entitled to health insurance and could be eligible for vehicle loans as additional benefits depending on their grade and other suitability criteria. In addition, according with regulations, the Company contributes monthly to the Employee Provident Fund and Employee Trust Fund, while employees are also entitled to gratuity in accordance with the payment of Gratuity Act.

COMPARISON OF FULL TIME VERSUS TEMPORARY STAFF BENEFITS FOR FY 2015/16

Benefits	Full-time*	Part-time/temporary
Bonus	Yes	No
Life insurance	Yes	No
Health care	Yes	No
Allowances	Yes	Yes
Staff loan	Yes	No
Gratuity	Yes	No
Parental leave	Yes	Yes
Other	N/A	N/A

* Does not vary with the operational locations

MI continued to recognise exceptional performers and others who have made worthy contributions to the organisation, including those who have displayed continued loyalty for decades. Long standing employees who retired this year, who devoted their lives for over three decades towards the betterment of MI, were felicitated by the Managing Director at their farewell functions.



Biding farewell to a long-standing employee on his retirement

SALARY SCALE OF PERMANENT EMPLOYEES CATEGORY WISE AND BY LOCATIONS

Category	Ratio of basic salary of women to men*											
	FY 2015/16				FY 2014/15				FY 2013/14			
	Corporate management	Executive officers	Junior executives	Assistants & below staff	Corporate management	Executive officers	Junior executives	Assistants & below staff	Corporate management	Executive officers	Junior executives	Assistants & below staff
Head Office	1:0.99	1:0.97	1:1.06	1:1.00	1:0.95	1:0.96	1:1.04	1:1.00	1:1.00	1:1.22	1:1.002	1:0.97
Negombo Branch			1:0.85	1:1.24			1:0.79	1:1.21				1:1.21
Kohuwala Branch				1:0.95				1:0.96				1:0.79
Balangoda Branch				1:0.99				1:0.92				1:0.84
Kadawatha Branch				1:0.87				1:1.32				1:2.22
Bentota Branch				1:1.15				1:1.17				1:0.87
Trincomalee Branch				1:0.00				1:0.00				1:0.00
Kurunegala Branch				1:0.87				1:1.36				1:1.48
Matara Branch				1:1.33				1:1.47				1:1.09
Galle Branch				1:1.00				1:1.26				1:1.15
Maharagama Branch			1:0.89	1:0.91			1:0.88	1:1.25				1:0.94
Anuradhapura Branch				1:1.08				1:0.89				1:1.34
Chilaw Branch				1:0.00				1:0.00				1:0.00
Tissamaharama Branch				1:1.03				1:1.03				1:1.03
Horana Branch				1:0.92				1:0.79				1:1.11
Gampaha Branch				1:0.94				1:0.82				1:0.00
Embilipitiya Branch				1:0.00				1:0.89				1:0.93
Minuwangoda Branch				1:0.00				1:0.00				1:0.00
Ampara Branch				1:0.73				1:1.19				1:1.02
Kottawa Branch				1:1.29				1:1.08				1:1.52
Polonnaruwa Branch				1:0.98				1:1.46				1:1.07
Kotahena Branch				1:1.19				1:1.03				1:0.00
Kaduwela Branch				1:1.08				1:1.29				1:0.00
Nittambuwa Branch				1:0.57				1:0.97				1:0.74
Premier Centre				1:0.86				1:0.85				1:0.87
Moratuwa Branch				1:1.21				1:0.00				1:0.00
Kegalle Branch				1:1.04				1:1.10				1:0.00
Ratnapura Branch				1:1.24				1:0.91				1:0.00
Kuliyapitiya Branch				1:1.15				1:0.00				1:0.00
Akuressa Branch				1:0.00				1:0.00				1:0.00
Godagama Branch				1:1.31				1:0.00				1:0.00
Micro Unit			1:1.26	1:0.97				1:0.00				1:0.00

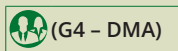
* Average salary of women divided by average salary of men.

** Above table is based on permanent employee information as employee on contract is immaterial.

In bringing social value within the organisation, employees are subject to various corporate events in the Company's social calendar, which include departmental day-outings and annual get-togethers, MI Sports Day, religious ceremonies etc. Members of the Corporate Management echelon are also provided with external gym facilities, so that they can maintain the required physical health and ease daily stresses. In terms of job satisfaction and job security, employees are fortunate to work for a premier finance company which is financially solid and having an unblemished track record in business for over five decades. Our employees moreover, are able to enjoy the unique corporate culture associated with MI, which harnesses individual talents and encourages creativity through knowledge accretion and team building.

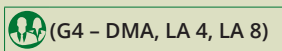
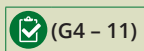
EMPLOYEES ARE TREATED WITH EQUALITY

DIVERSITY AND EQUAL OPPORTUNITY



As one of our key human resource prerogatives, we give equal opportunity for all our employees, for them to progress in their careers, sans any bias such as gender, race or religion. The remuneration policy we adopt for our workforce is also a clear testament to the absence of gender biasness. Recruitments are also carried out without any biasness through MI's formal recruitment and selection assessment criteria. After joining MI, our employees are treated with equality at all times.

SOUND EMPLOYER -EMPLOYEE RELATIONSHIP LABOUR/MANAGEMENT RELATIONS



There is a close cordial employer-employee relationship that prevails within the Company, with employee concerns, recommendations and grievances taken up, evaluated and followed up by Management, as and when they arise. No trade union functions within the Company and no collective bargaining agreements are effected by the Company with its employees. Therefore, no health and safety topics covered by the organisation exist as formal agreements with employees or trade unions. The Management of the Company has the discretion to effect any changes necessary to salary scales of employees, as deemed necessary. Material operational changes to staff job functions, if it were to happen, are usually discussed with the relevant member. Such changes though are at the discretion of the Management and no minimum notice period is required to be specified to the relevant employee, if any such changes are deemed necessary.

KEY INITIATIVES UNDERTAKEN TO ENHANCE THE VALUE OF HUMAN CAPITAL

Targeted HR aspect	Description of HR aspect	Initiatives carried out in FY 2015/16
Embracing productive HR policies, procedures and practices	<p>We believe that having right HR policies supported equally with appropriate procedures and practices is bound to enrich how we manage our human capital, to get the best out of employees.</p> <p>It is therefore necessary that we continue to review existing human resource directions issued to staff, on an ongoing basis.</p>	<p>Since recruiting an AGM Human Resource in 2015, the Company was able to review and streamline key human resource policies, procedures and practices. Accordingly, the following HR related matters were initiated:</p> <ol style="list-style-type: none"> A streamlined employee appraisal procedure in coordination with departmental heads. Streamlining of salary scales, allowances and other benefits across the Company. Implementing a comprehensive training calendar. Broad-basing human resource information supply by developing the existing HRIS reporting and decision-making.
Strengthening the workforce	<p>Having set a clear path for organisational growth as an ongoing requisite, it is therefore necessary that we continue to invest in people, those capable of taking over challenging tasks as we broaden in presence, transaction volumes and way we do business.</p>	<p>In meeting staffing requirements at Head Office departments, branches and newly set-up locations, the Company proceeded to recruit additional front-end and back-office operational staff this year as well.</p>
Increased use of human resource data to manage workforce	<p>As we observe our workforce numbers expanding each year, we understand the importance of having access to human resource related management information on a timely basis. We require such information to better manage our human capital.</p>	<p>In co-ordination with ICT Department, the HRIS was enhanced to provide following additional information:</p> <p>Internal Reporting enhancements:</p> <ul style="list-style-type: none"> Tracking was improved through an unique verification code (National Identity Card number). Enhancing facility to incorporate subdepartment allocations of employees for easy tracking and verification. (Specific locations or sub-divisions) <p>External Reporting enhancements:</p> <ul style="list-style-type: none"> Generation of key GRI G4 related human resource MIS reports. Application for leave and expiration dates of contractual staff.

Targeted HR aspect	Description of HR aspect	Initiatives carried out in FY 2015/16
Grooming employees for the future	Knowing the finance industry's growing sophistication and challenging work environment, nurturing and grooming employees to face the future business environment remains an ongoing necessity.	<ul style="list-style-type: none"> • Arranged a number of training activities either held in-house or external training covering technical requirements and other general corporate topics. Induction programmes organised for new recruits to appraise of MI's business, regulations and product information.
Maintaining employee motivation and morale constantly	With industry margins remaining contracted, one of the key ways of boosting business would be to manage employees efficiently, maintaining their motivation and morale to eventually raise their productivity levels.	<ul style="list-style-type: none"> • Continuing to reward top performers through bonuses and annual increments and considering them for higher positions going forward, thus sustaining a healthy work oriented culture. • Promoted team building by ensuring representation of staff linked to all divisions to participate in various committees, either business oriented and also social committees such as staff welfare, sports committee etc. • Offering heads/managers the opportunity to obtain annual medical check-ups at the expense of the Company, from this financial period.

CORPORATE EVENTS FY 2015/16

Based on MI's annual event calendar, several companywide corporate events were held during this financial year. The Company encourages these events to create an environment where Directors, Corporate Management and all other employees can gather and interact to ensure there is harmonious relationships among employees and management and as means of team building.

MI EMPLOYEES ANNUAL GET-TOGETHER 2015

MI's annual employee get-together, was held at Waters Edge on 5 December 2015, with the participation of the Executive Directors, Corporate Management and all other employees. The event featured live music and other fellowship events including dancing competitions, followed up by a gala dinner.



Employee Annual get-together in a 'Wild Wild West' theme in December 2015.

MI CHRISTMAS CAROLS 2015

For the third consecutive year running, under the patronage of the Managing Director, Gerard Ondaatjie, Christmas Carols were sung by our own employees at the Company premises during the festive time. The heartwarming event was held on 18 December 2015 to rekindle the Christmas feeling once again with children of some staff members participating in a drama to relive the Nativity of Jesus Christ.



Employees joining into sing carols



Children of MI's employees taking part in the Nativity.

TAKING PART IN MERCANTILE CRICKET 2016

MI's cricket team took part in the Mercantile Cricket E Division Tournament 2016 and was able to beat number of companies including Dialog Axiata to reach the pre-quarter finals. The team is set to make a huge impact in the tournament.



MI's strong cricket team of 2016.

FUTURE OUTLOOK ON HUMAN CAPITAL MANAGEMENT

Human Capital will again play a significant role in the future, moreso, because core divisions will have to raise their game plans. This will eventually require our employees to improve their productivity levels to generate higher levels of business volumes, to compensate for tighter core business margins. In this context, it is therefore vital that we keep a close watch on employee motivation and morale, often battered by stringent market demands and rising expectations from their superiors. In this backdrop, it would be necessary for the Company to do what is required to retain employees and to continue nurturing them to build their skill levels. Through the Human Resource Division, HR policies and practices will continued to be implemented for effective management of human capital. The current performance driven culture, will continue to be implemented in future as a means of rewarding top performers and recognising individuals for their efforts. We hope to move into online appraising and other systemisations including overtime computations.

In enhancing knowledge of people, we hope to intensify staff training and development activity which were an imperative tool in grooming individuals to face the business complexities of the future. We will widen the training and development activity in the next few years, to meet growing business demands. To widen knowledge of employees we will seek assistance of external training experts for providing technical training and also look at improving basic linguistic skills, presentation skills and build personality and communication skills through other forms of training.



Social Review

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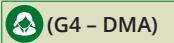
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LOCAL COMMUNITIES



As a socially responsible corporate, MI's business impact and other social activities have widened our societal efforts over time, especially after expanding our branch network operation during this decade. While we continue to interact with local community to promote our finance business, we remain vigilant about other local community needs going beyond commercial boundaries, making our visionary aspirations more meaningful. Understanding that society has varying needs, each year, our focus is to see ways of improving lives of the poor and the lesser privileged. This is apart from our commercial efforts in building business and bringing financial assistance to the doorsteps of those in need of credit. Our lending business focuses on even the poor and middle income earners through our social benefiting products such as Microfinance, Riya Dhiriya etc.

In making our social aspirations a reality, through the Sustainability Governance Committee, MI has been able to make steady progress during this decade, providing support to the lesser privileged for them to meet some of their basic needs such as shelter, healthcare, education and sanitation. We concentrated on helping the poorest of the poor and also supported community projects for the betterment of society. Our recent initiatives towards the environment especially tree planting projects, too has benefited the society as a whole. This is another source of income for the poor in the longer term and also brings enormous long-term benefits to the environment.

As other social impacts, our strong governance practices and unique style of management over the years has benefited our stakeholders and society. We have kept to industry accepted norms and regulations, to ensure we safeguard the interests of our key stakeholders and our value system requires that the Company resort to ethical practices at all times and to be fair competitors and to not denigrate other firms when carrying on business. As a premier institution in the finance company sector, we make it a point to actively participate in all key associations that have been formed for the common interest of all sector firms. While we pursues growth in our lines of business, we continues to contribute to the industry development through these associations, participating to improve finance company sector standards.

SOCIETAL GOALS PURSUED

As part of the Sustainability Governance Committees scope, the Committee lays down an annual plan, keeping to a fixed CSR budget to find ways of making a difference to society. During FY 2015/16, the allocated budget was increased two-fold to accommodate a higher number of projects, widening MI's emphasis towards meeting various societal wants, particularly of the poor and lesser privileged. The Committee this year, focused on some of the "burning issues" of society, looking at ways of providing shelter and basic commodities to the poor for daily living. Through MI's branch network, local community needs were gathered and passed on back to the Committee, who then decided on worthy social projects to bring about some form of relief and benefit to people living in tough conditions. Out of the planned 12 projects, the Committee with the support of Corporate Management and branch staff were able to complete majority and commenced balance remaining projects before the end of the financial year. This reflected a 83% (2014/15 – 80%) successful completion rate.

POLICY ON UPHOLDING VALUE TO SOCIETY

In this process of societal value creation, our policy towards society is to operate in a way that will bring benefit both to MI and society as a whole, which is in keeping with our overall corporate vision. We expect to cater to widening societal needs, through our core business activities and strive to address varying financial needs of people coming from all walks of life. Accordingly, it is our expectation to bring MI's broad ranging financial solutions to people living across different parts of the nation. We hope to cater to numerous segments of society including the very low income earners and also as a responsible corporate look for ways of going that extra mile to identifying other needs and wants of society, those particularly of the lesser privileged segments of society, to improve their well-being.

ASSESSING SOCIETY EXPECTATIONS

The overall responsibility for sustaining social value ultimately lies with MI's Board while the Sustainability Governance Committee together with other members of the Corporate Management has been entrusted with the responsibility of carrying out due assessments on societal expectations on an ongoing basis and to ensure financial and other needs of society are fulfilled, in keeping to MI's aspirations. In uplifting lives and livelihoods of local community, core business divisions of Credit and Marketing and the Deposit Division are expected to identify people's needs for funding and investment. This varies from entrepreneurial needs to personal funding requirements, for which MI is geared in handling. Our core divisions interact with people and also make periodic assessment of funding requirements and investment needs of people in whatever region they maybe. The Management remains highly vigilant and receptive to people's preferences and changing expectations overtime, which can occur due to changes in social behaviour, consumption patterns, social trends etc. Having obtained a much wider reach now compared to a decade before, our interaction levels have increased significantly with members of society, enabling us to obtain quicker customer feedback, even from people living in rural and remote areas.

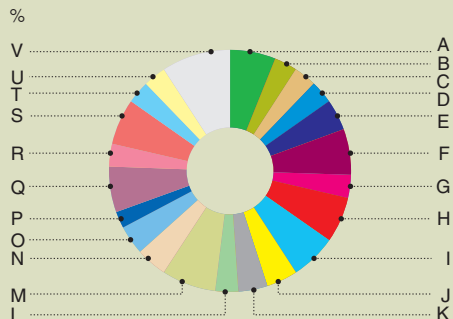
It is the tasks of the Sustainability Governance Committee on the otherhand to identify and address needs of society, going outside the sphere of MI's core business of financing. The Committee this year too was able to make significant progress in fulfilling specific needs of society with higher priority given to those needing shelter, educational support for children and other basic necessities such as food and clothing to continue their daily lives.

SURVEY TO IDENTIFY NEEDS OF PEOPLE

The Company conducted a stakeholder survey to clearly identify the needs and expectations of people. Evaluating stakeholder satisfaction is considered an integral exercise especially when engaging in business activities and has contributed immensely towards MI's survival and growth over the past fifty years.

The questionnaire was distributed throughout MI's entire branch network and the coverage was as follows:

Formal Feedback Obtained

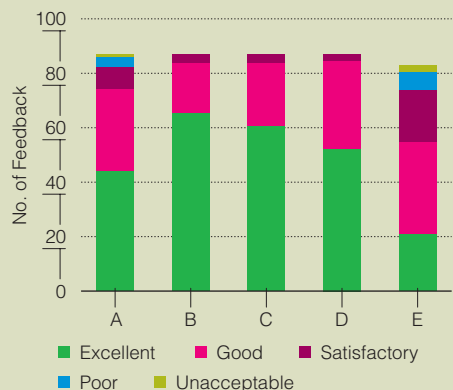


V	Negombo Branch	6%
U	Balangoda Branch	3%
T	Bentota Branch	3%
S	Trincomalee Branch	3%
R	Kurunegala Branch	4%
Q	Matara Branch	6%
P	Galle Branch	3%
O	Maharagama Branch	6%
N	Anuradhapura Branch	6%
M	Embilipitiya Branch	4%
L	Minuwangoda Branch	4%
K	Ampara Branch	3%
J	Kottawa Branch	8%
I	Polonnaruwa Branch	4%
H	Kotahena Branch	4%
G	Nittambuwa Branch	2%
F	Premier Centre	6%
E	Moratuwa Branch	3%
D	Ratnapura Branch	6%
C	Kuliyapitiya Branch	3%
B	Akuressa Branch	3%
A	Godagama Branch	10%

Highlighted results are summarised below:

- From a business perspective and service excellence, the feedback obtained was very positive.

Service Experience



- Aspect Assessed
- A - Accessibility of Service Location
 - B - Efficiency of Service
 - C - Staff are Helpful and Knowledgeable
 - D - Flexibility of Staff and Service Hours
 - E - Effectiveness of Promotions and Advertisements

- From a social standpoint, most were quite pleased with MI's CSR efforts and made suggestions on means of further improvement in the future.

Social Responsibility



- Aspect Assessed
- A - Effectiveness of Social Activities
 - B - Environmental Business Activities
 - C - Reaching Societal Expectations

LOCAL COMMUNITIES AND MI'S IMPACTS



MI'S COMMERCIAL IMPACT

Having aggressively expanded our business presence within the last five years, MI is ideally placed to serve a larger segment of society. We have been able to offer greater borrowing opportunities for those living beyond the Western Province, people residing in the remotest of regions having little or no access to funding. We have been able to impact

lives of individuals of society coming from contrasting economic standings that include low income earners and disadvantaged individuals of society as well as top income earners and corporates. Already MI's microfinance business, is gaining momentum and is a major support to local communities living outside Colombo. By having socially benefiting products such as microfinance, we are able to disburse credit to varying people of local communities, empowering individuals to build their lives and livelihood.

Our actions indirectly create self-employment and empower people to be self-sufficient, leading to number of other indirect social benefits. Furthermore, through our deposit business, we provide additional returns to our customers who are senior citizens, offering relatively higher rates for their fixed deposit investments with us. By striving for business excellence, we have come to provide a unique personalised service, affording all our customers a speedy service and a convenient means of transacting with us. It is our prerogative to carry out business in a highly professional manner, holding good governance practices and sound risk management techniques, taking utmost care to safeguard public money and other interests of our stakeholders. Our business operations have not in anyway negatively impacted local communities that we operate within. We continue to implement strong anti-money laundering policies and procedures in keeping to regulations, thus deterring dubious individuals from committing crimes through financial transactions, which eventually benefits society.

MI'S CORE BUSINESS OPERATION IMPACT AS A PERCENTAGE OF POPULATION

	Eastern	North Central	North Western	Sabaragamuwa	Southern	Western
No. of Branches	2	2	3	4	5	15
No. of New Branches	0	0	1	1	1	2
Population	1,555,510	1,266,663	2,380,861	1,928,655	2,477,285	5,851,130
Lending Customers/ Deposits Customers	649	853	2,421	5,196	4,500	15,542
Lending Customers/ Deposits Customers (% of Population)	0.04	0.07	0.10	0.27	0.18	0.27

Population on 2012 population census statistics

MI'S LENDINGS HAVING DIRECT POSITIVE SOCIAL IMPACTS

Initiatives	Target social group	FY 2015/16 Rs. '000
Microfinance	Low income earners	559,285
Senior citizen deposits	Senior citizen clients of MI	7,650,734
Riya diriya	Low income earners	808,195

SOCIETAL INITIATIVES PURSUED

During this financial period, with the commitment of the Sustainability Governance Committee, together with Corporate Management and staff, MI was able to undertake a number of invaluable projects for the benefit and well-being of people in society. Given below is an outline of all such projects and other related social initiatives and assistance.

HAMBANTOTA HOUSING PROJECT FOR THE LESS FORTUNATE

Start Date – 29 December 2015
 Initiated by – The Managing Director jointly with the Sustainability Governance Committee (SGC)

Budgeted Cost **Rs. 6,250,000/-**  Actual Cost **Rs. 3,125,000/-**



RATIONALE FOR THE PROJECT

The main aim of the project is to provide MI's fullest commitment for the "Samata Sevana National Housing Development Programme" organised by the Government of Sri Lanka. This programme will initiate model villages in various parts of the island, consisting of 25 houses in each village. These villages will consist of all necessary infrastructure and livelihood facilities for rural, low and lower middle income families.

PROJECT ACTION

MI contributed to the development of one such village in Hambantota comprising 25 houses to be completed before end of 2016. MI, through their SGC initiative, seeks to be part of the development process of Sri Lanka to support the poor who are in need of shelter.

POLONNARUWA HOUSE REBUILDING PROJECT

Implementation Date – 21 August 2015
 Initiated by – The Sustainability Governance Committee

Budgeted Cost **Rs. 170,000/-**  Actual Cost **Rs. 207,000/-**



RATIONALE FOR THE PROJECT

Stepping forward in fulfilling MI's social responsibility aspirations, the Sustainability Governance Committee decided to rebuild the collapsed house of Mr. W.M. Sarath Kumara and his family in the Ma Oya, Bendi Weva area in the Polonnaruwa District.

PROJECT ACTION

MI initiated building the house and carried out construction work in August 2015. Within a period of four months, the project reached a successful completion stage, making Sarath's and his family's dream of having a home come true. The newly built house was handed over to them in January 2016.

TUBE WELL AND SANITATION FACILITIES FOR A POLONNARUWA FAMILY

Implementation Date – 17 March 2016
 Initiated by – The Sustainability Governance Committee

Budgeted Cost  Actual Cost
Rs. 110,000/- **Rs. 122,150/-**



RATIONALE FOR THE PROJECT

As part of fulfilling sanitation needs of the poor, a family consisting of eight members who needed assistance, was chosen by the SGC in January 2016. They were in dire need of hygienic toilet facilities and running water for daily use.

PROJECT ACTION

Therefore, a sum of Rs. 110,000/- was allocated for these purposes and a toilet was constructed. Further, a tube well was also developed in the vicinity of their premises which enabled other villagers in the area, to easily access and obtain water to suffice their needs.

DONATION TO SENIOR CITIZENS' HOME AT PANADURA

Implementation Date – 16 March 2016
 Initiated by – The Sustainability Governance Committee

Budgeted Cost  Actual Cost
Rs. 70,000/- **Rs. 73,413/-**



RATIONALE FOR THE PROJECT

With the increasing ageing population in the country, the care provided to senior citizens has deteriorated. Therefore, it was an apt time to help contribute to assist senior citizens in their daily lives. As a result, the MI family undertook to donate household appliances to the “David Jayasundara Senior Citizens Home” in Panadura, which houses approximately 31 senior citizens. Around 50% of these senior citizens are occupants of the Mental Healthcare Hospital at Angoda and are now in recovery stages.

PROJECT ACTION

On 16 March 2016 members of MI team visited this elders’ home and donated a washing machine and a refrigerator worth Rs. 73,413/- to uplift the living standards of these elders.

SANITARY FACILITIES RECONSTRUCTION PROJECT IN SALIYAPURA ORPHANAGE

Implementation Date – 18 August 2015
Initiated by – The Sustainability Governance Committee

Budgeted Cost **Rs. 70,000/-**  Actual Cost **Rs. 40,000/-**



RATIONALE FOR THE PROJECT

Every human being has their common needs, which are vital for living. However, these needs are more demanding for differently abled persons and children. The Sustainability Governance Committee of MI is always seeking and willing to lend a hand to the needy, so another opportunity arose with these two projects.

PROJECT ACTION

MI donated for the construction of bath and toilet facilities at the "Saliyapura Disabled Orphans Home". Here, the old used pipes were replaced with new pipe lines and water drainage systems were newly constructed. Further, supplies were distributed to the "Sathutu Niwasa Orphanage" by items collected from MI staff.

EDUCATIONAL ASSISTANCE TO LOLUWAGODA AND WEWELDENIYA SCHOOLS

Implementation Date – December 2015
Initiated by – The Sustainability Governance Committee

Budgeted Cost **Rs. 70,000/-**  Actual Cost **Rs. 72,260/-**



RATIONALE FOR THE PROJECT

Aim is to enhance the opportunity to build an educational background for underprivileged children in Madurupitiya and Wevaldeniya primary schools, which are located in the Western Province.

PROJECT ACTION

Requirements made from Madurupitiya Primary School – Loluwagoda, were met when MI donated a writing table, steel cupboard and eight chairs worth Rs. 36,873/-.

Wevaldeniya Primary School was presented with a steel cupboard worth Rs. 13,387/- . Furthermore, exercise books were distributed among children of both schools.

BLOOD DONATION

Implementation Date – 11 March 2016
 Initiated by – The Sustainability Governance Committee together with the MI staff

Budgeted Cost **Rs. 20,000/-**  Actual Cost **Rs. 17,850/-**



RATIONALE FOR THE PROJECT

The annual blood donation campaign organised for the fourth consecutive year was held on 11 March 2016. This was in conjunction with the Maharagama Cancer Hospital, who is in need of a sufficient blood supply to treat patients.

PROJECT ACTION

This is a programme that has been conducted with a lot of enthusiasm by the MI staff each year. As such, there were over 80 donors who participated in this project this year.

EYE TESTING CAMP

Implementation Dates – 19 and 20 November 2015
 Initiated by – The Welfare Society



RATIONALE FOR THE PROJECT

The MI Welfare Association organised an eye camp for staff, in joint partnership with “Techno Vision Opticians”. This camp was concluded successfully wherein free eye testing was carried out and cash discounts were provided to staff for items purchased.

PROJECT ACTION

The on-site eye examination campaign was carried out by qualified optometrists. This camp targeted MI employees and their immediate family members as well.

Further, the Welfare Association provides an instalment scheme for members to obtain spectacles and hearing aids.

OTHER CSR PROJECTS – FY 2015/16

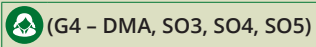
By whom	Date	Description of project	Description of CSR activity	Budgeted cost Rs.	Actual cost Rs.
Initiated by the Sustainability Governance Committee	June 2015	Contributed to the Medical Insurance Cover for senior citizen artists	Donation made to 'Sri Lanka Eksath Kala Sandhanaya' fund, to support five needy artists with health insurance covers worth Rs. 100,000/- for each artist.	70,000/-	71,000/-
Initiated by the Sustainability Governance Committee	March 2016	Financial assistance given for protecting indigenous birds in Udawalawe	Donation made to buy nets for recovery shelters for endangered birds.	50,000/-	47,600/-
Initiated by the Sustainability Governance Committee	December 2015	Donation for "Dehiwala-Ratmalana Development Foundation"	Donated Rs. 20,000/- for the book donating programme organised by the 'Dehiwala-Ratmalana Development Foundation'. Educationally disadvantaged children in Colombo and Ampara Districts are supported by this project.	20,000/-	20,000/-

OTHER SOCIAL ASSISTANCE

Date	Party supported	Description of social activity performed	Actual cost Rs.
April 2015 – March 2016	Donations given to institutions	Raising funds for various activities organised by these institutions	247,500
April 2015 – March 2016	Donations given to schools, clubs and societies	Raising funds for the welfare of members	241,000
April 2015 – March 2016	Religious societies	Giving financial support to these societies with regard to religious events organised	150,000
24 August 2015	The Rotary Club of Battaramulla	Supporting events held by the Club	5,000
22 December 2015	Mr. K. Battage Family	Financial aid for a family in need	2,000,000
10 February 2016	Gamini Dissanayake Foundation	Financial support for fund raising activities	20,000
26 February 2016	Karupaiya Kandayya	Financial aid for an eye operation	25,000
14 March 2016	Sri Lanka Sumithrayo Colombo	Financial support for fund raising events	10,000
April 2015 – March 2016	Other Donations	Donations given to various other parties	248,440
Total other social assistance given			2,946,940
Total expenditure on CSR related projects			4,106,173
Total community projects and social support			7,053,113
Total expenditure on community projects and social support as a percentage of post-tax profits (%)			1.4%

**COMBATING ILLEGAL ACTIVITIES
DETRIMENTAL TO SOCIETY**

ANTI-CORRUPTION



ANTI-MONEY LAUNDERING POLICY

In combating the menace of money laundering, which propagates criminal activities negative to society, a number of regulations have been imposed on the Finance Industry by the regulator to date. MI's Board has approved an anti-money laundering policy document and assigned a dedicated fulltime compliance officer entrusted with the responsibility of ensuring that the Company conforms to the requirements of the Financial Transactions Reporting Act (FTRA) and other regulations issued by the Financial Intelligence Unit and to monitor and report on MI's compliance status and to report and take action on concerns. Accordingly, based on these AML policies and procedures, respective divisional staff are expected to conform to customer identification requirements, due diligence, record keeping, reporting obligations etc. During the period, relevant staff of Head Office and branches was subject to mandatory training which involved both in-house training and others sent on external training conducted by CBSL. Total staff attending anti-money laundering training, which also covered requirements on identifying and reporting corruption related concerns is given on page 173 as additional information.

ANTI-CORRUPTION POLICY

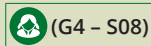
In addition to training on anti-money laundering including combating of corruption, a Board approved fraud and whistle-blowing policy is in place, which lays forth the procedures staff should follow to convey incidents of corruption and other concerns including Fraud, to the Management. Through the head of Audit, employees have been apprised of the importance of the whistle-blowing policy document together with the channels available to report an incident. In addition to this, the internal audit team was guided by the Audit Committee to implement effective audit procedures to detect shortcomings and lapses related to employees including incidents of corruption and to report them on an ongoing basis to the Committee and Board.

During the FY 2015/16, there were no reported incidents of money laundering carried out by any external parties nor were there any incidents of corruption reported.

OPERATIONAL RISK ASSESSMENT ON ANTI-CORRUPTION

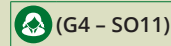
	FY 2015/16		FY 2014/15		FY 2013/14	
Total number and percentage of operations assessed for risk related to corruption	9	100%	8	100%	7	88%
Significant risks related to corruption identified through the risk assessment	0		0		0	

COMPLIANCE



MI Board and its Sub-Committees, other supervisory committees together with the Corporate Management including MI's Compliance Officer plays an integral role in maintaining MI's compliance to prevailing laws and regulations. Any notable lapses are taken up and respective staff responsible are cautioned. Except for the penalties stated in page 369 in the Financial Statements for non-compliance to CBSL directions, there were no significant fines or any non-monetary sanctions imposed on the Company for breach of laws and regulations.

GRIEVANCE MECHANISM FOR IMPACTS ON SOCIETY



A feedback form is affixed to the Annual Report, which can be used by any member of society, having experienced any grievance due to MI's business, to convey concerns to the Board and Management of the Company. There were no formal reports of any instances of socially-related grievances or impacts on society, for the year under review and also no grievances were brought forward from last year for follow up.

During the period, relevant staff of Head Office and branches was subject to mandatory training which involved both in-house training and others sent on external training conducted by CBSL.



Human Rights Review


MANAGEMENT APPROACH

Having established strong corporate values, we at the same time, respect people's views, keeping within standard human rights requisites when dealing with people internally and outside the organisation. Accordingly, we ensure standard human rights principles and values are upheld at all levels, when conducting our business affairs, especially when managing an over 700 plus workforce. Our organisational policies, procedures and practices have been developed giving due consideration to key human rights requirements, thus ensuring such standard requirements are not breached. These values correspond to MI's corporate principles and value system, which highlights the importance of the human element and the need to safeguard human ideals. Therefore, whenever we embark on material operational changes and strategy, we evaluate impacts on human resources including those that can effect human rights considerations before proceeding with its implementation.

HUMAN RIGHTS POLICY

We encourage a strong learning culture with equal opportunity for employees, so that they are able to gain knowledge and skills over time and are able to progress in their careers. We inculcate a learning work environment and a profound culture that holds no boundaries when it comes to career development and progression. As such, employees of either gender are given equal opportunity to display skills and to excel in their fields. As a strict human rights policy, we ensure our current workforce and future recruitments do not involve obtaining services of individuals below the specified legal age for employment, for any requirements whatsoever. The Company sustains healthy acceptable working conditions to all employees by keeping to accepted health and safety standards. In maintaining the right work environment for all working within, to avoid any ambiguity, MI's human resource policies conform to prevailing labour regulations and key HR requirements have been spelt out clearly to employees in the HR handbook. Human Resource Division acts as the guardian to these requisites and hence follows up on employee adherence to these standard rules and regulations including rules on employee conduct.


ASSESSMENT ON HUMAN RIGHTS INVESTMENT AND ASSESSMENT

 (G4 – DMA, HR 1, HR 2, HR 9)

No part of MI's operations including any investment agreements, were directly subject to human rights screening, impact studies or assessments during this period. No separate human rights clauses were developed and incorporated to agreements this period. No separate training was also conducted on human rights policies practiced at MI. Nevertheless, the Company continued to give due attention to standard human rights considerations before proceeding on major operational plans that include establishing of new business locations. By adopting an "open door policy" for staff and also an effective mechanism to obtain customer feedback, Management gathered required intelligence from various operational sources to assess whether any employee, customer or community was subject to human rights violations. Further, the HR Division's basic training on human rights is intended to be provided to staff, during the next financial period. For the period under review, no incidents of human rights violations were reported via formal channels.

HUMAN RIGHTS GRIEVANCE HANDLING

SECURITY PRACTICES AND GRIEVANCE MECHANISM

 (G4 – DMA, HR 7, HR 12)

MI's "open door policy" allows staff grievances to be picked up effectively, from various levels of the hierarchy. The aggrieved party is able to communicate freely up the corporate ladder, even upto the Executive Directors without hindrance. The Human Resource Division is the main contact point for any aggrieved employee to convey their initial concerns. Any human rights concerns pertaining to customers, if any, will be channelled upward by core business divisional staff to their respective heads of divisions for necessary resolution. The Human Resource Division is equipped with persons of the right calibre to deal with employee grievances, be they work or human rights related. They are able to communicate with Corporate Management and to come up with remedial action in conjunction. There were no reported human rights grievances channelled formally to the Human Resource Division during the period.

For MI, the outsourced security company has deployed trained security officers, who handle security needs of the Company, safeguarding rights of employees and people coming into premises. They are equipped to handle any security breach, in keeping to sound security practices. Security personnel have the right aptitude to deal with people in a human manner and to handle security situations in a professional manner. However, no separate human rights training was afforded to security personnel stationed at MI, during the year.

NON-DISCRIMINATION AT WORKPLACE


NON-DISCRIMINATION

 (G4 – DMA, HR 3)

The Company does not discriminate against any individual based on their gender, religion or race for any reason and expect parties that transact with us also to uphold similar values. There were no incidents of discrimination reported through our formal channels during this period.

COMPLETE PROHIBITION OF CHILD AND FORCED LABOUR

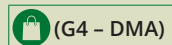
CHILD LABOUR AND FORCED/COMPULSORY LABOUR

 (G4 – DMA, HR 5, HR 6)

We ensure that our recruitment policy conforms to prevailing labour laws that require strict compliance to the minimum age limit for providing employment at any of MI locations. No individual is subject to forced labour or has been engaged against his/her free will. MI's human resource policies completely prohibit enforcing of child labour and young workers exposed to hazardous work, for any of our operations while no part of our operation involves any form of forced or compulsory labour. Employee management that include application of employee working hours, payroll and key HR requisites are in line with the Shop and Office Act of Sri Lanka and the Wages Boards Ordinance. Currently, we are not in a position to evaluate labour policies of our suppliers as our dealings with them are minimal.

Product Responsibility Review

PRODUCT PORTFOLIO, PRODUCT RESPONSIBILITY AND PRODUCT COMPLIANCE



(G4 - DMA)

MANAGEMENT APPROACH TO PRODUCT RESPONSIBILITY

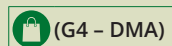
Finance business revolves around high degree of trust and confidence and according it is vital that MI conforms to its product responsibility obligations from all facets. In fulfilling MI's responsibilities in this area, the Company has laid down clear policies and procedures for the operation of lending business and Deposit mobilisation and expects all staff responsible in product handling to strictly comply with all such requirements that include regulatory obligations. We expect frontline and back office staff of core departments that include the Credit Department and the Deposit Departments to follow established organisational operational standards, which will sustain anticipated service standards for the benefit of our customers. The product policies, practices and standards embraced have been developed with due care, taking into consideration regulatory obligations and industry practice, whilst also ensuring MI continue to be fair competitors in the market. All our marketing communication activities conform to the highest levels of integrity and honesty, in a socially acceptable manner and do not in anyway resort to or condone unethical communications to mislead the public. We continue to invest in ICT to ensure our systems evolve overtime to face demands of the industry and to safeguard data from any possible security breaches, thus protecting confidentiality of customer information.

MI POLICY ON PRODUCT RESPONSIBILITY

The product responsibility policy of MI is that we deliver a totally satisfying product that brings profound value addition to customers whilst ensuring we do associated tasks in a responsible manner. Hence our employees are expected to abide by laid down standards specified in our operational manuals. The Company, in keeping with its value system, continues to instill "best in industry" policies and practices and also remains a fair player in the sector. We do not promote any banned or disputed products which will tarnish the reputation of the Company in anyway.

RESPONSIBILITY FOR MANAGING PRODUCT RANGE

PRODUCT RESPONSIBILITY - AUDIT (STANDALONE DISCLOSURE)



(G4 - DMA)

The responsibility for managing the product range and related requirements lies with the respective Heads of Divisions of lending business and deposit mobilisation business, under overall leadership of the Managing Director and the Board. Senior Management of these two divisions are required to maintain expected high standards when executing product related requirements. They are required to comply with operational instructions specified in respective operational procedure manuals, which cover key requisites in relation to product development, product handling, product delivery, marketing and communication, record keeping, product monitoring and compliance.

The Internal Audit Division was able to review MI's compliance status in relation to product responsibility by reviewing specific aspects of our core lending and deposit products. The audit coverage during this period in this regard is given on pages 86 and 87 in the MD&A section.

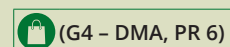
GOALS/TARGETS ESTABLISHED IN RELATION TO PRODUCTS

We recognise the diverse wants of people where preferences vary and change at a rapid pace from community to community. Accordingly, we understand the need to keep on enhancing our product range to meet growing expectations. As a competitive player in the Finance Industry, MI has introduced an attractive wide-ranging product mix, extending customer choice by tailoring some of the traditional financing products to suit customer budgets. We have gone on to diversify into non-traditional business lines, particularly expanding term based lending services in recent years. To sustain organisational growth, tough lending and deposit targets were established and followed up with the respective staff of core business units this year as well. From the lending business side, MI's leases, hire purchase financing, term based lending that include vehicle loans, were the key contributors towards overall business volumes.

KNOWLEDGE ON PRODUCT HANDLING

Employees handling products are given adequate technical training, either desk learning as well as on-the-job training to cover aspects related to product deliverables. As part of MI's learning culture, employees attached to core business divisions are given thorough knowledge of their operational requirements, procedures and processes, which ensures there is effective product handling by officers, so that product responsibility requirements of the Company are fulfilled.

MARKETING COMMUNICATIONS




(G4 - DMA, PR 6)

All our marketing communication activities that include advertisements and promotional campaigns are carried out, reflecting true facts with utmost responsibility, in an ethical manner. We are required to inform the regulator whenever we plan to proceed with specific advertisements and communiqués with regard to deposit mobilisation. We resort to various communication methods referred to in page 75 to market our products, in a clear and responsible manner. We do not deal in promotion of banned or disputed products and products that are subject to stakeholder questions or public debate.

PRODUCT PERFORMANCE MONITORING


Performance of all product categories are monitored by the Corporate Management together with respective business division heads comparing actuals against targeted goals. During weekly reviews, Executive Directors and heads of core divisions assess performance and evaluate avenues of improving product performance and take-up concerns. As part of the monitoring process, success levels of product market strategy adopted is carefully monitored to ensure organisational expectations on same are fulfilled to the extent required. Based on the feedback obtained, appropriate revision was made to our product strategy and new strategy introduced as necessary to ensure continued viability of each key product line in the market. Our core business product performance has been explained in pages 112 to 119.

**PRODUCT RESPONSIBILITY
PERFORMANCE INDICATORS
CUSTOMER HEALTH AND SAFETY**

 (G4 – DMA, PR1, PR2)

Even though, MI's financial products and overall finance business operation does not bring any direct material health and safety impacts on customers, as a responsible corporate we ensure the physical health and safety of our customers, who visit MI Head Office premises and our branch network. Required safety procedures have been established to secure the health and safety of all our customers. Apart from having fire extinguishers at Head Office premises, the Company expects to make available fire extinguishers across MI locations, to be completed by end 2016. The Security Co-ordinating Officer is entrusted with the responsibility of looking after the overall security of employees, customers and others visiting the offices. For this purpose, effective security measures are in place that includes close monitoring of people by security officers stationed around MI premises. CCTV facilities have been utilised across the branch network to enhance security monitoring.

**PRODUCT AND SERVICE LABELLING
INCLUDING SECTOR SPECIFIC DMA**

 (G4 – DMA, PR3, PR5)

For transacting with customers, industry accepted documentation formats are utilised, tailor-made wherever necessary for all our key business lines of lending and deposits. We ensure necessary product related information is provided for in relation to our products and such information is included in our lending agreements, guarantor documents, deposit certificates etc., that specify terms and conditions for the understanding of contracting parties. Clear agreement clauses have been specified that are industry accepted and fair. A common logo is used for MI's brand development and to promote the Company's product range across the country except for savings products which carry a separate MI logo. Based on the requirements arising from the language policy regulations, our key agreements have been made available in all three languages English, Sinhala and Tamil, at all MI operational points.


The newly setup Related Party Transaction Committee reviews related party transactions carried out during a period. The Committee carries out this assessment to establish that such transactions have been done on an arm's-length basis and that there is no conflict of interest taking place at Director level with any of the transacting parties.

Results of the survey carried out during this financial period measuring customer satisfaction is disclosed on pages 184 and 185.

KEY TRANSACTING DOCUMENTS OF CORE PRODUCTS THAT APPLY CLAUSES


Key credit related transaction documents	Key deposit-related transaction documents
Loan Agreement	Deposit Certificate
Proposal & Application	Deposit backed loan agreement
Pronote for Loans	Letter of Indemnity
Purchase Order	Affidavit
Acceptance Receipt	
MTA 6/MTA 3	
Certificate of Registration	

CUSTOMER PRIVACY

 (G4 – DMA, PR8)

As large amount of customer information is placed before the Company on a day-to-day basis and needs to be protected in keeping with privacy laws, MI takes the subject of customer privacy as a top priority business requirement. We have in place an information security policy document which highlights the importance of protecting customer information from intruders. For this purpose the Company has in place an effective information security control environment with required inbuilt system controls as well as other physical and external controls. Through the supervision of the ICT Department, necessary controls are inbuilt whenever we acquire new information technology solutions or make changes to existing platforms. There are numerous security features embedded in the core information system such as system passwords to limit access, automatic backing up of data, virus protection, firewalls etc. Additional improvements are being made to the system to improve data security features, in keeping to the ICT consultant's recommendations. We did not come across any reported breaches of customer privacy, during the period under review.

PRODUCT PORTFOLIO

 (G4 – DMA, FS6, FS7, FS8)

- **Our Products Portfolio**
As an organisation that strives for business excellence, we continued to focus on ways of improving our ultimate product offerings, staying receptive to financial wants of people. The product range we offer caters to a wider market segment and during a span of five decades we have managed to come up with innovative ways of doing business for the benefit of society. MI's product range illustrated in page 5 has been effective in meeting expectations of a wider audience of people. Information pertaining to percentage of the lending portfolio and deposit portfolio, product-wise by region, size and sector is given on pages 121 and 122.
- **Products that bring social benefit**
Some of our products currently promoted, bring additional benefit to stakeholders, going beyond commercial boundaries to bring about broader social benefits. Products such as Microfinance, *Riya Dhiriya* loans and senior citizen deposits and the like, have a direct impact on people's lives and their livelihoods, thus having a positive impact on society as a whole. Disclosure on MI products that bring about social benefits is given on page 149 under "Impact of Core Business on Society".

• **Products that bring environmental benefit**


We have directed some of our lending to support purchase of motor vehicles that use advanced technology that is environmental friendly unlike petrol and diesel vehicles. We have managed to increase total lending on hybrid/electric vehicles during the last two years as follows:

ENVIRONMENT BENEFITING PRODUCTS

HYBRID/ELECTRIC TYPE MOTOR VEHICLE BACKED LENDING


Environment benefiting product	Total outstanding FY 2015/16 Rs. '000	Total outstanding FY 2014/15 Rs. '000	Variance Rs. '000
Hybrid	4,637,667	2,578,628	2,059,039
Electric vehicles	158,745	12,449	146,296

PRODUCT COMPLIANCE

 (G4 – PR 2, PR 4, PR 7, PR 9)

During this period, there were no significant fines against the Company for non-compliance with laws and regulations concerning the provision and use of products and services including aspects related to product information and labelling. Further, there have not been any incidents of non-compliance with regulations concerning health and safety impacts of our products and services. Except for one incident on non-reporting of an advertisement to CBSL, there were no other reported incidents of non-compliance with regulations concerning marketing communications.

EXTERNAL SUSTAINABILITY CHARTERS REFERRED TO

 (G4 – 15)

GLOBAL COMPACT CONSIDERATIONS

Being a socially responsible institution that strives for the well-being of people in society and the environment, we refer to the Global Compact Considerations as a means of improving our current sustainability policies, practices and processes, as a voluntary exercise. The Company adopted this charter from FY 2012/13 onwards and involved stakeholders that mainly included employees and feedback received from society. MI's extent of adoption in relation to the 10 principles under the Global Compact Considerations upheld by the United Nations Global Compact (UNGC), in the area of human rights, labour, environment and anti-corruption is outlined below:

Global compact considerations 10 principles		MI's extent of adoption in FY 2015/16
Human Rights	1. Businesses should support and respect the protection of internationally proclaimed human rights.	The Company HR policies practices and procedures have been geared to ensure that we uphold standard human rights principles at all times. Also it is our propogative that business decisions are made in keeping to key human rights requirements based on their applicability to the situation.
	2. Make sure that they are not complicit in human rights abuses.	There were no reported incidents of human rights abuses or violations during the period under review. The Company adopts a considerate approach in managing its workforce and upholds basic human rights necessities on human resource. Our dealings with external parties such as our customers, suppliers, other outside parties are carried out in the right manner, conforming to basic human rights requirements.
Labour	3. Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	By adopting the open door policy, views and concerns of any staff member can be expressed to corporate management, without obstruction. Employee's feedback to corporate management is deemed invaluable and constructive information and accordingly viewed with importance. Having established effective HR policies that include grievance procedures, the Management is able to iron out concerns and to continue maintaining a harmonious relationship with the workforce.

We refer to the Global Compact Considerations as a means of improving our current sustainability policies, practices and processes



Global compact considerations 10 principles	MI's extent of adoption in FY 2015/16
4. The elimination of all forms of forced and compulsory labour.	As a strict HR policy, we do not employ people forcefully under any circumstances.
5. The effective abolition of child labour.	The Company recognises the importance of ensuring that children are not employed in any capacity whatsoever and abides strictly to this requirement.
6. The elimination of discrimination in respect of employment and occupation.	There is no form of discrimination taking place with regard to an employee's age, sex, ethnicity or religion. The appraising system practiced is purely performance based and thus focuses upon employee efforts, knowledge and experience as the key area of focus.
Environment	7. Businesses should support a precautionary approach to environmental challenges.
	Despite MI operation having minimal impact on the environment, as a responsible corporate we continued to adopt evolved green procedures to cut down on use of energy and other natural resources by controlling consumption. We expanded our efforts to increase our environmental project impacts, to protect the environment and its habitats.
8. Undertake initiatives to promote greater environmental responsibility.	Focused environment related projects undertaken during FY 2015/16, displayed our commitment to the greater well-being of the environment and its habitats.
9. Encourage the development and diffusion of environmentally friendly technologies.	By implementing specific internal procedures and practices to safeguard use of natural resource such as energy, protect emissions to the atmosphere and also by adopting processes for the disposal of waste, we continue to support environmental protection in our own ways. Further, the Green IT Policies and general environmental projects initiated each year including this financial period, continue to enrich the Company's efforts in protecting the environment and its resources.
Anti-Corruption	10. Businesses should work against corruption in all its forms, including extortion and bribery.
	The strong governance culture at MI requires all individuals working within to act with highest degree of integrity, honesty and highest ethical standards. Strict action is brought upon employees at times of material breakdown. The Board approved "Whistle-blowing and Fraud Policy" acts as a mechanism for Board and Management to identify wrongdoers so that appropriate action can be initiated. This policy document sets forth a clear process to capture wrongful acts of employees and then to investigate, report and take corrective measures against wrongdoers.

Future Outlook

Sri Lanka is on a path to economic growth and prosperity, considering the efforts made since post war to rejuvenate under par industries and establish the right back bone for economic development over the next few years. The improving international sentiments in the context will play a major role in reviving the export industry and bring in the required FDIs to the essential sectors. Of course, the path to prosperity would remain a challenging one for both Government and private sectors. Increased foreign borrowings and shifts in global economic thinking is bound to shift the nation's fortunes in the short-term but should ease out in the longer horizon. Domestically, we can expect inflation to move upward but to remain single digit for the next financial period. However, the Rupee exchange rate is bound to further depreciate, thus exerting pressure on importation costs and local industries. Moreover, interest rates will continue its upward trajectory and we can expect atleast another 2% rise over existing market rates. Despite these concerns, ongoing infrastructure development and ventures commenced during the last couple of years and also those in the pipeline would continue to fuel the economy. Importantly the reviving

tourism industry will stimulate other sectors including the financial services sector and increase economic activity and foreign exchange earnings to a great degree.

Demand for products in the financial services sector, should remain steady with increasing wealth and savings of people and immerging business opportunities, on account of favourable business conditions. Changes proposed on taxation and the additional tax proposals introduced is bound to impact the consumer and the industry alike. The industry tax costs would increase as a result. In the midst of the strong competition brought about by the Banking sector, LFCs will have to look for new innovative ways of doing business, going beyond traditional financing. The new regulations imposed on vehicle imports coupled with the control on LTV will continue to hamper brand new vehicle imports and should curtail credit growth to a certain degree. However, in boosting traditional lending, LFC's will pursue financing registered vehicle sales and that too, more leases considering the tax benefits and legal backing as opposed to hire purchasing. Increased competition and price war will continue to pressure sector margins and therefore LFC's will

pursue low cost funding sources and cost management strategies to overcome such challenges. However, the most challenging factor in all this will be managing people and striving to retain the cream, especially with the prospects of new financial institutions being setup in the offing and other job prospects immerging in other industries and internationally.

MEDIUM TERM STRATEGIC MAP: KEY GOALS/TARGETS AND STRATEGY

In gaining further success, we have set forth ourselves challenging goals/targets in the medium term to provide the base to create greater wealth to our investors and also to enhance value of other stakeholders as well. We expect to follow our unique integrated business model and hope to build on our past performances, by improving various facets of our business. We hope to proceed on planned strategy, hoping to execute operational plans to perfection to accomplish specific goals/targets thereby meeting broader corporate aspirations of the Company. Adopting the current performance driven culture, we hope to motivate our workforce to pursue following future strategy for the achievement of key business targets/goals.

Business area focused upon	Key goals	Quantifiable targets	Future strategy
Developing Lending Business	<ul style="list-style-type: none"> Maintaining steady lending portfolio growth Lending without compromising on asset quality Optimal product mix to generate optimal yields 	<ul style="list-style-type: none"> Lending growth: > 20% Non-performing lending ratio: < 3% Traditional lending versus non-traditional lending: Out of total lending Traditional lending contribution: >50% Non-traditional lending contribution: >30% 	<p>Widening branch contribution to performance We hope to expand our business presence by establishing additional operational locations in areas deemed advantageous to non-traditional lending and to garner deposits. The aim is to generate satisfactory portfolio growth on lending and to improve branch contribution along the way.</p> <p>Instilling effective credit and recovery operations In safeguarding asset quality, we hope to implement stringent credit control measures particularly for higher risk lending products. We hope to maintain sound collection levels by instilling effective recovery measures like in the past. The internal valuation and vehicle disposal unit is expected to play an integral role in this process.</p> <p>Optimal lending product mix We hope to combine traditional lending products of financing with term based higher yield generating products and ensure we keep a balance between the two, to manage credit risk. We hope to develop our microfinance, property mortgage and personal lending to generate greater lending volumes targeted for the future.</p>

Business area focused upon	Key goals	Quantifiable targets	Future strategy
Steady mobilisation of Deposits	<ul style="list-style-type: none"> Building a loyal deposit base Increasing branch deposit mobilisation targeting more retail business 	<ul style="list-style-type: none"> Deposit growth: > 15% Branch deposit contribution: > 10% of new deposits 	<p>Branch deposit mobilisation</p> <p>There will be increased focus in developing branch retail clients. Branch staff performance evaluation will align to this requirement and top performers recognised.</p> <p>Extending a superlative service</p> <p>Plans are underway to provide more convenient methods of transacting with depositors targeting greater decentralisation of deposit operation. Branch staff will be trained to handle deposit mobilisation, keeping to MI's superlative service standards.</p>
Effective Management of Human Capital	<ul style="list-style-type: none"> Employee Productivity Strengthening and enhancing capability of workforce 	<ul style="list-style-type: none"> Increased training hours year-on-year Staff turnover ratio: < 10% 	<p>Intensifying training and development activity</p> <p>Through an extensive training calendar we hope to broad-base knowledge of the workforce. More staff will be subject to in-house and external training. Right human capital management practices will be adopted to maintain employee motivation and morale.</p>
Optimal Management of Funding	<ul style="list-style-type: none"> Managing assets and liability 1 year mismatch 	<ul style="list-style-type: none"> Identifying longer term funding Net Interest Margin: > 8 % 	<p>Bridging mismatches through optimal funding</p> <p>In bridging maturity mismatches, there will be increased focus on securing long-term funding from local lenders as well as international investors. Treasury Division will be expected to identify cheaper sources of funding, to manage pressures exerted on core margins.</p>
Cost Control	<ul style="list-style-type: none"> Identifying means of cutting down usage, waste etc. 	<ul style="list-style-type: none"> Finding ways to bring down overhead cost escalation and keep within budgeted. Cost to income ratio: < 55% 	<p>Cost management strategy</p> <ul style="list-style-type: none"> Having tight control over capital expenditure and when setting up new locations. Closer control of recurring cost by business unit heads/departmental heads. Continuing to identify ways of cutting down wastage and consumption.
Use of Information Communication Technology	<ul style="list-style-type: none"> Enhancing system capabilities 	<ul style="list-style-type: none"> Making changes to ICT systems embracing proposed changes of the ICT Consultant and also taking other general requirements 	<p>Embracing advanced ICT features/modules</p> <p>To improve operations and decision-making, we hope to develop core system further to embrace additional features that are user friendly. For this purpose, the ICT Department will work hand in hand with user departments in the next twelve months.</p> <p>Training users to maximise use of ICT</p> <p>Separate ICT training will be provided for all ICT users, focusing on hands-on training as well as desk learning. Separately, through a help desk team, the ICT Department will continue to assist users in making full use of the system and to overcome any system concerns.</p>

Business area focused upon	Key goals	Quantifiable targets	Future strategy
Generating Economic Sustainability Value	<ul style="list-style-type: none"> • Creating economic value for the benefit of investors, finance industry and Sri Lankan economy as a whole 	<ul style="list-style-type: none"> • Growth in Net profit after tax: > 10% • Growing Economic Value Added: > 5% • Growth in value addition: > 5% 	<p>Generating robust profits annually Through a close performance monitoring process, the Board, Corporate Management and all staff will be expected to stay committed to set targets and goals based on the Board approved strategic plan.</p> <p>Weekly, monthly, quarterly and annual performance reviews will be carried out to assess continued efforts, so that any deviations could be identified early and resolved promptly. Optimistic KPI's set for future in terms of revenue generation, profits, asset growth etc. will form the base for evaluation and performance monitoring.</p>
Generating Social Sustainability Value	<ul style="list-style-type: none"> • Widening MI's positive impact to society moving beyond the sphere of commercial profit 	<ul style="list-style-type: none"> • Increasing staff welfare cost: >10% per annum • Non-profit making social related projects: > 12 projects a year 	<p>Bringing MI's financial solutions to those deserving By widening our presence and broad-basing financial solutions, over the next three years we hope to widen our social impact in terms of bringing forth greater opportunity for those in need of funding which will pave the way communities to be transformed and enriched.</p> <p>Fulfilling other basic societal needs The Sustainability Governance Committee is expected to expand its focus on supporting the poor and the lesser privileged, identifying their necessities and seeing means of providing them as best as possible.</p> <p>Looking after employee welfare In improving staff welfare, the Management will hope to proceed on providing a separate staff canteen area and plan to construct a larger area for employee vehicle parking.</p>
Generating Environmental Sustainability Value	<ul style="list-style-type: none"> • Doing our part to safeguard and control use of natural resources and see ways of protecting the environment 	<ul style="list-style-type: none"> • Adopting new green initiatives for the business operation: Atleast one new initiative per year • Environmental projects: Atleast one project per year 	<p>Controlling consumption of natural resources We hope to see ways of cutting down use of energy and general consumable items especially in the wake of operational expansion. We will assess use of solar power energy for some of our current and proposed branch centres as opposed to only the direct energy consumption from the national grid. We will evaluate the possibility of shifting from the current central air conditioning system to an advanced eco-friendly system in the future.</p> <p>Projects to safeguard the environment and its habitats We hope to extend our support to the protection of the environment and its habitats and plan to develop a fund for wild life conservation.</p>

GRI G4 Content Index: 'In Accordance' – Comprehensive

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
Strategy and Analysis			
G4-1	Statement from the Chairman	Sustainability Section page 124 Chairman's Message in page 24	Yes Yes
G4-2	Description of key impacts, risks and opportunities	Sustainability Section pages 127 to 130	Yes
Organisational profile			
G4-3	Name of reporting organisation	Mercantile Investments and Finance PLC	Yes
G4-4	Primary brands, products and/or services	MI's products offered on page 5	Yes
G4-5	Location of the organisation headquarters	236, Galle Road, Colombo 03, Sri Lanka	Yes
G4-6	Countries where the organisation operates, has significant operations or that are specifically relevant to sustainability topics covered	Operations carried out entirely in Sri Lanka	Yes
G4-7	Nature of ownership and legal form	Legal Form, nature of ownership and operational structure on pages 4 to 7	Yes
G4-8	Markets served	Markets served on page 6	Yes
G4-9	Scale of the reporting organisation	MI's scale of operation on page 7	Yes
G4-10	a. Total employees by employment contract and gender	Staff on contract is immaterial	Yes
	b. Total number of permanent employees by employment type and gender.	Sustainability Section pages 167 to 171	Yes
	c. Total workforce by employees, supervised workers and by gender	Based on nature of operations, supervised form of workers are immaterial	
	d. Total workforce by religion and gender	Sustainability Section pages 168 to 171	
	e. Whether substantial portion of work is done by self-employed or other outside parties other than employees	Substantial portion of work is carried out by workers employed by the Company on a permanent basis	
	f. Significant variations in employment numbers	Based on the nature of business, there are no significant variations in employee numbers	Yes
G4-11	Percentage of total employees covered by collective bargaining agreements	Sustainability Section page 179	Yes
G4-12	Description of the organisation's supply chain	Sustainability Section page 151	Yes
G4-13	Material changes regarding size, structure, ownership or supply chain	Overview Section page 7	Yes
G4-14	How organisation addresses precautionary approach or principle	Sustainability Section page 135	Yes
G4-15	Externally developed economic, environmental and social charters and principles or other initiatives to which the organisation subscribes or endorses	Sustainability Section pages 195 and 196	Yes
G4-16	Memberships in associations and national or international advocacy organisations in which the organisation holds position, participates in projects and committees, provides funding and views membership as strategic	Sustainability Section page 134	Yes
G4-17	Identified Material Aspects and Boundaries		
	a. List of entities included in the organisation's Consolidated Financial Statements	Overview Section page 20	Yes
	b. Entities not covered in report pertaining to (a.) above		
G4-18	a. Process for defining the report content and the Aspect Boundaries	MD and A pages 35 to 45	Yes
	b. Approach to implementing the report principles for Defining Report Content	MD and A pages 42 to 45	
G4-19	Identified material aspects, in the process for defining report content	MD and A pages 42 to 45	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-20	For identified Material Aspect, the Aspect Boundary within the organisation	MD and A pages 42 to 45	Yes
G4-21	For identified Material Aspect, the Aspect Boundary outside the organisation	MD and A pages 42 to 45	Yes
G4-22	Effect of any restatement of information provided in previous reports with reason for such restatements	Non-material to report	Yes
G4-23	Significant changes from previous reporting periods in the scope and Aspect Boundaries	Non-material to report except the change from core to comprehensive GRI G4 reporting	Yes
Stakeholder Engagement			
G4-24	List of stakeholder groups engaged by the organisation	MD and A page 36	Yes
G4-25	Basis for identification and selection of stakeholders with whom to engage	MD and A pages 35 to 40	Yes
G4-26	<ul style="list-style-type: none"> Approach to stakeholder engagement, including frequency of engagement by type and by stakeholder group Indication of whether any of the engagements were undertaken specifically as part of the report preparation process 	MD and A pages 35 to 40 Majority of engagements were carried out in the normal course of business. Selectively, specific engagements were carried out with customers, employees, society etc. depending on organisational needs	Yes
G4-27	<ul style="list-style-type: none"> Key topics and concerns raised through stakeholder engagement and how the organisation responded to those key topics and concerns Stakeholder groups that relate to key topics and concerns 	MD and A pages 37 to 40	Yes
Report Profile			
G4-28	Reporting period for information provided	1 April 2015 to 31 March 2016	Yes
G4-29	Date of most recent previous report	31 March 2015	Yes
G4-30	Reporting cycle	In annual cycle's	Yes
G4-31	Contact point for questions regarding the report or its contents	Overview Section page 21	Yes
G4-32	a. "In accordance" option chosen b. GRI Content Index c. External Assurance Report	Overview Section page 20 Sustainability Section pages 200 to 209 Sustainability Section page 210	Yes
G4-33	Policy and current practice with regard to seeking external assurance for the report	External Assurance was sought from MI's External Auditors who are independent of the Company, its Board and shareholders Overview Section page 20	Yes
Governance			
G4-34	Governance Structure and Composition Governance structure including Committees under the highest governance body responsible for economic, social and environment decision-making	Sustainability Section pages 132 to 135 Corporate Governance Report on pages 286 to 296	Yes
G4-35	The process for delegating authority for economic, environmental and social topics from the highest governance body to Senior Executives and other employees	Sustainability Section page 132	Yes
G4-36	Appointment of executive level positions with responsibility for economic, environmental and social topics and reporting mechanism to highest governance body	Sustainability Section pages 132 and 133	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-37	Processes for consultation between stakeholders and the highest governance body on economic, environmental and social topics	Sustainability Section pages 133 and 134	Yes
G4-38	Composition of highest governance body and its committees	Sustainability Section page 133 Corporate Governance Report pages 221, 262, 283 to 294	Yes
G4-39	Whether chair of the highest governance body is an Executive Officer	Sustainability Section page 134	Yes
G4-40	The nomination and selection processes for the highest governance body and its committees and the criteria used for nominating and selecting highest governance body members	Sustainability Section page 134 Corporate Governance Report page 290	Yes Yes
G4-41	Process adopted in ensuring conflicts of interest related to the highest governance body is avoided and managed and reported in related disclosures	Sustainability Section page 134 Corporate Governance Report page 276 Disclosure is given on Directors' Interests in Contracts and related party notes to the accounts on pages 339 to 340 and pages 400 to 402	Yes Yes Yes
Highest Governance Body's Role in Setting Purpose, Values and Strategy			
G4-42	Roles of the highest governance body's and senior executives in the development, approval and updating of the organisation's purpose, value or mission statement, strategies, policies and goals related to economic, environmental and social impacts	Sustainability Section pages 134 and 135	Yes Yes
Highest Governance Body's Competencies and Performance Evaluation			
G4-43	Measures taken to develop and enhance the highest governance body's collective knowledge of economic, environmental and social topics	Sustainability Section page 134	Yes
G4-44	Process and actions taken in relation to the evaluation of the highest governance body's performance with respect to governance of economic, environmental and social topics	Sustainability Section page 135	Yes
Highest Governance Body's Role in Risk Management			
G4-45	Role of the highest governance body in the identification and management including implementation of due diligence processes in relation to economic, environmental and social impacts, risks and opportunities. A further level of stakeholder consultation is needed in this process	Sustainability Section page 135 Risk Report page 303	Yes
G4-46	Role of the highest governance body's involved in reviewing the effectiveness of the organisation's risk management processes for economic, environmental and social topics	Sustainability Section Report page 135 Risk Report page 303	Yes
G4-47	Frequency of the highest governance body's in reviewing of economic, environmental and social impacts, risks and opportunities	Sustainability Section Report page 135 Risk Report page 303	Yes Yes
Highest Governance Body's Role in Sustainability Reporting			
G4-48	Highest committee or position that formally reviews and approves the organisation's Sustainability Report	Sustainability Section pages 132 and 133	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
Highest Governance Body's Role in Evaluating Economic, Environment and Social Performance			
G4-49	Process adopted to communicate critical concerns to the highest governance body	Sustainability Section pages 134 and 135	Yes
G4-50	Nature and total number of critical concerns communicated to the highest governance body and the mechanisms used to address and resolve them.	Sustainability Section page 134 and 135	Yes
Remuneration and Incentives			
G4-51	Remuneration policies including performance criteria for the highest governance body and senior executives in relation to economic, environmental and social objectives	Sustainability Section page 135	Yes
G4-52	Process of determining remuneration including whether Remuneration Consultants are independent	Sustainability Section page 135 Corporate Governance Report page 288	Yes Yes
G4-53	Views of stakeholders in relation to remuneration including results of votes on related policies and proposals, if applicable	Sustainability Section pages 135 and 136	Yes
G4-54	Ratio of the annual total compensation for the highest-paid individual in each country to the median annual total compensation for all employees in the same country	Sustainability Section page 136	Yes
G4-55	Ratio of percentage increase in annual total compensation for the highest-paid individual in each country to the median percentage increase in annual total compensation for all employees in the same country	Sustainability Section page 136	Yes
Ethics and Integrity			
G4-56	Organisation's values, principles, standards and norms of behaviour adopted	Overview Section page 4	Yes
G4-57	Internal and external mechanisms for seeking advice on ethical and lawful behaviour and matters related to organisational integrity, such as helplines or advice lines	Corporate Governance Report page 272	Yes
G4-58	Internal and external mechanisms for reporting concerns about unethical or unlawful behaviour and matters related to organisation's integrity including whistle-blowing mechanisms or hotlines	Corporate Governance Report page 272	Yes
Category: Economic			
G4-DMA	<ul style="list-style-type: none"> Economic Performance Management Approach Financial services sector specific DMA on economic performance 	Disclosure on DMA is given on page 138	Yes
G4-EC1	<ul style="list-style-type: none"> Direct economic value generated, distributed and retained Economic performance financial services sector specific disclosure 	Disclosure on this aspect is given on pages 139 and 140	Yes
G4-EC2	Financial implications and other risks and opportunities for the organisation's activities due to climate change	Disclosure on this aspect is given on page 141	Yes
G4-EC3	Coverage of Defined Benefit Plan obligations	Disclosure on this aspect is given on page 141	Yes
G4-EC4	Financial assistance received from the Government	Disclosure on this aspect is given on page 147	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-DMA	Market Presence Management Approach	Disclosure on DMA is given on page 147	Yes
G4-EC5	Ratios of standard entry level wage by gender compared to local minimum wage at significant locations of operation	Disclosure on this aspect is given on page 148	Yes
G4-EC6	Proportion of senior management personnel hired from local communities at significant locations of operation	Disclosure on this aspect is given on page 148	Yes
G4-DMA	Indirect Economic Impacts Management Approach	Disclosure on DMA is given on page 149	Yes
G4-EC7	Development and impact of infrastructure investments and service supported	Disclosure on this aspect is given on page 149	Yes
G4-EC8	Significant indirect economic impacts, including impact extent	Disclosure on this aspect is given on page 149	Yes
G4-DMA	Procurement practices Management Approach	Disclosure on DMA is given on page 151	Yes
G4-EC9	Proportion of spending on local suppliers at significant location of operations	Disclosure on this aspect is given on page 151	Yes
Category: Environmental			
G4-DMA	Materials	Disclosure on DMA is given on page 154	Yes
G4-EN1	Materials used by weight or volume	Disclosure on this aspect is given on page 154	Yes
G4-EN2	Percentage of materials used that are recycled input materials	Disclosure on this aspect is given on page 154	Yes
G4-DMA	Energy Management Approach	Disclosure on DMA is given on page 154	Yes
G4-EN3	Energy consumption within the organisation	Disclosure on this aspect is given on pages 154 and 157	Yes
G4-EN4	Energy consumption outside the organisation	Disclosure on this aspect is given on pages 154 and 157	Yes
G4-EN5	Energy intensity	Disclosure on this aspect is given on pages 156 and 157	Yes
G4-EN6	Reduction in energy consumption	Disclosure on this aspect is given on pages 154 to 157	Yes
G4-EN7	Reductions in energy requirements of products and services	Disclosure on this aspect is given on page 157	Yes
G4-DMA	Water Management Approach	Disclosure on DMA is given on page 157	Yes
G4-EN8	Total water withdrawal by source	Disclosure on this aspect is given on page 157	Yes
G4-EN9	Water sources significantly affected by withdrawal of water	Disclosure on this aspect is given on page 157	Yes
G4-EN10	Percentage and total volume of water recycled and reused	Disclosure on this aspect is given on page 157	Yes
G4-DMA	Bio-Diversity Management Approach	Disclosure on DMA is given on page 158	Yes
G4-EN11	Operational sites owned, leased, managed in protected areas and areas of high bio-diversity value outside protected areas.	Disclosure on this aspect is given on page 158	Yes
G4-EN12	Description of significant impacts of activities, products and services on bio-diversity in protected areas and areas of high bio-diversity value outside protected areas	Disclosure on this aspect is given on page 158	Yes
G4-EN13	Habitats protected or restored	Disclosure on this aspect is given on pages 158 to 160	Yes
G4-EN14	Total number of IUCN red listed species and national conservative list species with habitats in areas affected by operations by level of extinction risk	Only two branches are in the vicinity of a sanctuary or a forest and therefore review of red listed birds were deemed not a necessity	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-DMA	Emissions Management Approach	Disclosure on DMA is given on page 156 and 157	Yes
G4-EN15	<ul style="list-style-type: none"> • Direct Greenhouse Gas (GHG) emissions (scope 1) • Sector Specific additional disclosure 	Disclosure on this aspect is given on pages 156 and 157 Disclosure on this aspect is given on pages 156 and 157	Yes Yes
G4-EN16	<ul style="list-style-type: none"> • Energy indirect GHG emissions (scope 2) • Sector Specific additional disclosure 	Disclosure on this aspect is given on pages 156 and 157 Disclosure on this aspect is given on pages 156 and 157	Yes Yes
G4-EN17	<ul style="list-style-type: none"> • Other indirect GHG emissions (scope 3) • Sector Specific additional disclosure 	Disclosure on this aspect is given on pages 156 and 157 Disclosure on this aspect is given on pages 156 and 157	Yes Yes
G4-EN18	GHG emissions intensity	Disclosure on this aspect is given on page 157	Yes
G4-EN19	Reduction of GHG emissions	Disclosure on this aspect is given on page 156	Yes
G4-EN20	Emissions of ozone depleting substances (ODS)	Disclosure on this aspect is given on page 157	Yes
G4-EN21	NOx, SOx and other significant air emissions	Disclosure on this aspect is given on page 157	Yes
G4-DMA	Effluents and Waste Management Approach	Disclosure on DMA is given on page 161	Yes
G4-EN22	Total water discharge by quality and destination	Disclosure on this aspect is given on page 161	Yes
G4-EN23	<ul style="list-style-type: none"> • Total weight of waste by type and disposal method, reuse, recycling, composting • Financial services sector specific disclosure 	Disclosure on this aspect is given on page 161 Disclosure on this aspect is given on page 161	Yes Yes
G4-EN24	Total number and volume of significant spills	Disclosure on this aspect is given on page 161	Yes
G4-EN25	Weight of transported, imported, exported, or treated waste deemed hazardous under the terms of the BASEL Convention and percentage of transported waste shipped internationally	Disclosure on this aspect is given on page 161	Yes
G4-EN26	Identity, size, protected status, and biodiversity value of water bodies and related habitats significantly effected by the organisation's discharge of water and run-off	Disclosure on this aspect is given on page 161	Yes
G4-DMA	Products and Services Management Approach	Disclosure on DMA is given on page 157	Yes
G4-EN27	Extent of impact mitigation of environmental impacts of products and services	Disclosure on this aspect is given on page 157	Yes
G4-EN28	Percentage of products sold and their packaging materials that are reclaimed by category	Disclosure on this aspect is given on page 157	Yes
G4-DMA	Compliance Management Approach	Disclosure on DMA is given on page 161	Yes
G4-EN29	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	Disclosure on this aspect is given on page 161	Yes
G4-DMA	Transport Management Approach	Disclosure on DMA is given on pages 154 and 155	Yes
G4-EN30	Impacts of transporting products and other goods and materials for operations, and transporting members of the workforce	Disclosure on this aspect is given on pages 154, 155 and 157	Yes
G4-DMA	Overall Management Approach	Disclosure on DMA is given on page 161	Yes
G4-EN31	Total environmental protection expenditures and investments by type	Disclosure on this aspect is given on page 161	Yes
G4-DMA	Supplier Environment Assessment Management Approach	Disclosure on DMA is given on page 161	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-EN32	Percentage of new suppliers that were screened using environmental criteria	Disclosure on this aspect is given on page 161	Yes
G4-EN33	Significant actual and potential negative environmental impacts in the supply chain and actions taken	Disclosure on this aspect is given on page 161	Yes
G4-DMA	Environment Grievance Mechanisms Management Approach	Disclosure on DMA is given on page 161	Yes
G4-EN34	Number of grievances about environmental impacts filed, addressed and resolved through formal grievance mechanisms	Disclosure on this aspect is given on page 161	Yes
Category: Social			
Subcategory – Labour Practices and Decent Work			
G4-DMA	Employment Management Approach	Disclosure on DMA is given on page 166	Yes
G4-LA1	Total number and rate of new employee hires and employee turnover by age group, gender and region	Disclosure on this aspect is given on pages 167 to 170	Yes
G4-LA2	Benefits provided to full-time employees that are not provided to temporary or part-time employees, by significant locations of operation	Disclosure on this aspect is given on page 177	Yes
G4-LA3	Return to work and retention rates after parental leave, by gender	Disclosure on this aspect is given on pages 172	Yes
G4-DMA	Labour/Management Relations Management Approach	Disclosure on DMA is given on page 179	Yes
G4-LA4	Minimum notice periods regarding operational changes, including whether it is specified in collective agreements	A statement to this effect is given on page 179	Yes
G4-DMA	Occupational Health and Safety • Management Approach • Sector specific additional DMA	Disclosure on DMA is given on pages 175 and 176 Disclosure on DMA is given on pages 175 and 176	Yes Yes
G4-LA5	Percentage of total workforce represented in formal joint management-worker health and safety committees that help monitor and advise on occupational health and safety programmes	A statement to this effect is given on page 175	Yes
G4-LA6	Type of injury and rates of injury, occupational diseases, lost days, absenteeism and total number of work-related fatalities, by region and by gender	Disclosure on this aspect is given on pages 175 and 176	Yes
G4-LA7	Workers with high incidence or high risk of diseases related to their occupation	A statement to this effect is given on pages 175 and 176	Yes
G4-LA8	Health and safety topics covered in formal agreements with trade unions	A statement to this effect is given on pages 175 and 176	Yes
G4-DMA	Training and Education Management Approach	Disclosure on DMA is given on page 173	Yes
G4-LA9	Average hours of training by gender and by employee category undertaken during the reporting period by employees	Disclosure on this aspect is given on pages 173 to 175	Yes
G4-LA10	Programmes for skills management and lifelong learning that support the continued employability and managing career endings	Disclosure on this aspect is given on page 173	Yes
G4-LA11	Percentage of employees receiving regular performance and career development reviews by gender and employee category	Disclosure on this aspect is given on page 177	Yes
G4-DMA	Diversity and equal opportunity Management Approach	Disclosure on DMA is given on page 179	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-LA12	Composition of governance bodies and breakdown of employees category according to gender, age group, minority group membership and other indicators of diversity	Disclosure on this aspect is given on pages 133, 167 to 171	Yes
G4-DMA	Equal Remuneration for Men and Women Management Approach	Disclosure on DMA is given on page 177	Yes
G4-LA13	Ratio of basic salary and remuneration of women to men by employee category, by significant locations of operation	Disclosure on this aspect is given on pages 177 and 178	Yes
G4-DMA	Labour Practices and Grievance Mechanisms Management Approach	Disclosure on DMA is given on pages 176 and 177	Yes
G4-LA16	Number of grievances about labour practices filed, addressed and resolved through formal grievance mechanisms	Disclosure on this aspect is given on pages 176 and 177	Yes
Subcategory – Human Rights			
G4-DMA	Investment Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR1	Total number and percentage of significant investment agreements and contracts that include human rights clauses or that underwent human rights screening	Disclosure on this aspect is given on page 192	Yes
G4-HR2	Total hours of employee training on human rights policies	Disclosure on this aspect is given on page 192	Yes
G4-DMA	Non-Discrimination Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR3	Total number of incidents of discrimination and corrective actions taken	Disclosure on this aspect is given on page 192	Yes
G4-DMA	Child Labour Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR5	Operations and significant suppliers identified as having significant risk of forced or compulsory labour and measures taken to contribute to the effective abolition of child labour	Disclosure on this aspect is given on page 192	Yes
G4-DMA	Forced or Compulsory Labour Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR6	Operations and suppliers identified as having significant risk for incidents of forced or compulsory labour, and measures to contribute to the elimination of all forms of forced or compulsory labour	Disclosure on this aspect is given on page 192	Yes
G4-DMA	Security Practices Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR7	Percentage of security personnel trained in the organisation's human rights policies or procedures that are relevant to operations	Disclosure on this aspect is given on page 192	Yes
G4-DMA	Assessment Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR9	Total number and percentage of operations that have been subject to human rights reviews or impact assessments	Disclosure on this aspect is given on page 192	Yes
G4-DMA	Human Rights Grievance Mechanism Management Approach	Disclosure on DMA is given on page 192	Yes
G4-HR12	Number of grievances about human rights impacts filed, addressed and resolved through formal grievance mechanisms	Disclosure on this aspect is given on page 192	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
Subcategory – Society			
G4-DMA	Local Communities Management Approach	Disclosure on DMA is given on page 184	Yes
G4-SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	Disclosure on this aspect is given on pages 185 to 191	Yes
G4-SO2	Operations with significant actual and potential negative impacts on local communities	Disclosure on this aspect is given on pages 185 to 191	Yes
G4-FS13	Sector Specific Indicators Access points in low populated or economically disadvantaged areas by type	Disclosure on this aspect is given on pages 185 to 190	Yes
G4-FS14	Initiatives to improve access to financial services for disadvantaged people	Disclosure on this aspect is given on pages 185 to 190	Yes
G4-DMA	Anti-Corruption Management Approach	Disclosure on DMA is given on page 191	Yes
G4-SO3	Total number and percentage of operations assessed for risks related to corruption and the significant risks identified	Disclosure on this aspect is given on page 191	Yes
G4-SO4	Communication and training on anti-corruption policies and procedures	Disclosure on this aspect is given on page 191	Yes
G4-SO5	Confirmed incidents of corruption and actions taken	Disclosure on this aspect is given on page 191	Yes
G4-DMA	Compliance Management Approach	Disclosure on DMA is given on page 191	Yes
G4-SO8	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with laws and regulations	Disclosure on this aspect is given on page 191	Yes
G4-DMA	Grievance Mechanism for Impacts on Society Management Approach	Disclosure on DMA is given on page 191	Yes
G4-SO11	Number of grievances about impacts on society filed, addressed and resolved through formal grievance mechanisms	Disclosure on DMA is given on page 191	Yes
Subcategory – Product Responsibility			
G4-DMA	Customer Health and Safety	Disclosure on DMA is given on page 194	Yes
G4-PR1	Percentage of significant products and service categories for which health and safety impacts are assessed for improvement	Disclosure on this aspect is given on page 194	Yes
G4-PR2	Total number of incidents of non-compliance with regulations and voluntary codes concerning the health and safety impacts of products and services during their life cycle, by type of outcomes	Disclosure on this aspect is given on page 195	Yes
G4-DMA	Product and Service Labelling <ul style="list-style-type: none"> • Management Approach • Sector specific DMA 	Disclosure on DMA is given on page 194 Disclosure on DMA is given on page 194	Yes Yes
G4-PR3	Type of product and service information required by the organisation's procedures for product and service information and labelling and percentage of significant products and service categories subject to such information requirements	Disclosure on this aspect is given on page 194	Yes
G4-PR4	Total number of incidents of non-compliance with regulations and voluntary codes concerning product and service information and labelling by type of outcomes	Disclosure on this aspect is given on page 195	Yes

G4 index	Description of disclosure required	Related disclosure reference/remarks	Externally assured
G4-PR5	Results of surveys measuring customer satisfaction	Disclosure on this aspect is given on page 194	Yes
G4-DMA	Marketing Communications Management Approach	Disclosure on DMA is given on pages 193 and 194	Yes
G4-PR6	Sale of banned or disputed products	Disclosure on this aspect is given on page 193	Yes
G4-PR7	Total number of incidents of non-compliance with regulations and voluntary codes concerning marketing communications, including advertising, promotion and sponsorship by type of outcomes	Disclosure on this aspect is given on page 195	Yes
G4-DMA	Customer privacy Management Approach	Disclosure on DMA is given on page 194	Yes
G4-PR8	Total number of substantiated complaints regarding breaches of customer privacy and losses of customer data	Disclosure on this aspect is given on page 194	Yes
G4-DMA	Compliance Management Approach	Disclosure on DMA is given on page 195	Yes
G4-PR9	Monetary value of significant fines for non-compliance with laws and regulations concerning the provision and use of products and services	Disclosure on this aspect is given on page 195	Yes
G4-DMA	Product portfolio		
	• Management Approach	Disclosure on DMA is given on page 194	Yes
	• Sector specific DMA	Disclosure on DMA is given on page 194	Yes
G4-FS6	Sector Specific Indicators Percentage of the portfolio for business lines by specific region, size and by sector	Disclosure on this aspect is given on pages 194 and 195	Yes
G4-FS7	Monitory value of products and services designed to deliver a specific social benefit for each business line broken down by purpose	Disclosure on this aspect is given on pages 194 and 195	Yes
G4-FS8	Monitory value of products and services designed to deliver a specific environmental benefit for each business line broken down by purpose	Disclosure on this aspect is given on pages 194 and 195	Yes
	Stand-alone disclosure on product responsibility: • Audit Management Approach	Disclosure on this aspect is given on page 193	Yes

External Assurance Report on Sustainability



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INDEPENDENT ASSURANCE REPORT TO THE STAKEHOLDERS OF MERCANTILE INVESTMENTS AND FINANCE PLC ON THE SUSTAINABILITY REPORT – 2016

INTRODUCTION AND SCOPE OF THE ENGAGEMENT

The management of Mercantile Investments and Finance PLC ("the company") engaged us to provide an independent assurance on the following elements of the Sustainability Report 2016 ("the Report").

- Reasonable assurance on the information on financial performance as specified on pages 139 and 140 of the Report.
- Limited assurance on key performance indicators and other information presented in the Report prepared in accordance with the requirements of Global Reporting Initiative G4 in accordance with – comprehensive guideline.

RESPONSIBILITY OF THE MANAGEMENT ON THE REPORT

The Management of the company is responsible for the preparation and presentation of the Report in accordance with the company's sustainability practices and policies which are derived from Global Reporting Initiatives GRI (G4) in accordance with – Comprehensive Sustainability Reporting Guidelines. These responsibilities include among other things, identification of stakeholders and material issues, determining the sustainable performance criteria for reporting and establishing appropriate processes and internal control systems to measure and report the sustainability performance criteria.

OUR RESPONSIBILITY

Our responsibility is to perform a reasonable and limited assurance engagement and express conclusions based on the work performed in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ('CASL').

Reasonable assurance is a high level of assurance. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

This Report is made solely to the company in accordance with our engagement letter dated 21 March 2016. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for professional Accountants issued by the CASL.

ASSURANCE PROCEDURES CARRIED OUT FINANCIAL INFORMATION

We reconciled the information on financial performance as reported on pages 139 and 140 of the Report with the audited financial statements of the company for the years ended 31 March 2015 and 2016.

KEY PERFORMANCE INDICATORS

We reviewed the reliability of the data/information on Key Performance Indicators for the year ended 31 March 2016 based on reviews of:

- the systems used to generate, aggregate and report these information;
- the information reported by the relevant business units to corporate level;
- the information validation processes at corporate and business level;
- the information trends in discussions with management and
- the calculation performed by the company on a sample basis through recalculation.

OTHER INFORMATION

We planned and performed following assurance procedures on other information presented in the Report:

- Inquiring relevant company's personnel to understand the process for collection, analysis, aggregation and presentation of information in the Report.
- Reviewing the system used to generate, aggregate and report the information in the Report.
- Interviewing the senior management and relevant staff at corporate level and selected business unit level and obtained the evidence concerning sustainability strategy and policies for material issues and implementation of those across operation of the company.
- Reviewing and validating the information contained in the Report.
- Reading the information presented in the Report to determine whether that information is in line with our overall knowledge of, and experience with, sustainability performance of the company.
- Comparison of the content of the report against the criteria for a Global Reporting Initiatives G4 in accordance with – comprehensive guideline.

CONCLUSION

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

- The information on financial performance as specified on pages 139 and 140 of the Report is properly derived from the audited financial statements of the company for the years ended 31 March 2015 and 2016.
- Nothing has come to our attention that causes us to believe that key performance indicators and other information presented in the Report are not presented, in all material respects, in accordance with the company's sustainability practices and policies which are derived from GRI (G4) in accordance with – Comprehensive Sustainability Reporting Guidelines.

BDO Partners

CHARTERED ACCOUNTANTS

Colombo
 13 June 2016
 TS/cc

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : S. Rajapakse FCA, FCMA, MBA. Tishan H. Subasinghe FCA, ACMA, CISA, MBA. H.S. Rathnaweera FCA, ACMA.
 Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H.M. Saman Siri Lal FCA, ACMA, MBA. Hasanthi D. Amarakoon ACA, ACMA

Stewardship

Our Tree of Life is rock solid...only because it is firmly rooted by exemplary governance and risk management protocols, administered by a professional, highly-skilled and motivated Board of Directors and Management.

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Board of Directors



1

**SAROJA HEMAKUMAR
JAYAWICKREMA WEERASURIYA**

Chairman (Independent Non-Executive)

First appointed to the Board on
26 January 2011.

Holder of BSc (Lond.), MICE, FIE (SL),
FSSE (SL), C.Eng.

Director of Kognoscenti (Pvt) Limited and
Ceylinco Insurance PLC.

Proprietor of Saro Weerasuriya Associates.

Counts over 37 years experience as a
Consultant in Civil/Structural Engineering
Design and Project Management in UK,
Sri Lanka, India and Maldives.

No. of shares held: Nil

2

GERARD GEORGE ONDAATJIE

Managing Director (Executive)

First appointed to the Board on
2 December 1993.

Holder of a BSc Degree in Accountancy
from Arizona State University, United
States.

Chairman and Managing Director of Fair
View Hotel (Pvt) Limited.

Chairman of Nilaveli Hotels (Pvt) Limited.

Executive Deputy Chairman of Nilaveli
Beach Hotels (Pvt) Limited.

Managing Director of Mercantile Fortunes
(Pvt) Limited, The Nuwara Eliya Hotels Co.
PLC, Mercantile Orient (Pvt) Limited.

Director of Tangerine Beach Hotels PLC,
Royal Palms Beach Hotels PLC, Security
Ceylon (Pvt) Limited, Tangerine Tours (Pvt)
Limited, Global Films Limited, International
Fortunes (Pvt) Limited.

Possesses almost 24 years experience
in the Financial Services, Tourism and
Trading sectors.

No. of shares held: 477,213 (Voting)

3

PATHIRANAGE MAHES AMARASEKARA

Deputy Managing Director (Executive)

First appointed to the Board on
18 December 1995.

Appointed as Deputy Managing Director
on 28 June 2013. Previously held the
position of Director – Recoveries.

Director of Security Ceylon (Pvt) Limited
and Fair View Hotel (Pvt) Limited.

Possesses almost 31 years experience in
the Financial Service sector.

No. of shares held: Nil

4

SHERMAL HEMAKA JAYASURIYA*Finance Director (Executive)*

First appointed to the Board on 5 January 2001.

Fellow Member of The Institute of Chartered Accountants of Sri Lanka.

Fellow Member of the Chartered Institute of Management Accountants – UK and has CGMA status (Chartered Global Management Accountants).

Fellow Member of the Society of Certified Management Accountants of Sri Lanka.

Holder of a Master's Degree in Business Administration (MBA) from the Postgraduate Institute of Management of the University of Sri Jayawardenapura, Sri Lanka.

Director of Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited.

Currently Director of The Finance Houses Association of Sri Lanka.

Counts over 25 years experience in the Financial Services, Insurance, Manufacturing and Trading sectors.

No. of shares held: Nil

5

ANGELINE MYRESE ONDAATJIE*Director (Executive)*

First appointed to the Board on 20 January 1992.

Holder of Master's Degree from the University of Texas in Austin.

Holder of BSc Degree from the Massachusetts Institute of Technology USA.

Managing Director of Tangerine Tours (Pvt) Limited

Joint Managing Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC

Director of The Nuwara Eliya Hotels Co. PLC, Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Nilaveli Beach Hotels (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited, Mercantile Orient (Pvt) Limited, Fair View Hotel (Pvt) Limited, Nilaveli Hotels (Pvt) Limited.

She is also a Board member of Sri Lanka Tourism Promotion Bureau.

Counts over 24 years experience in the financial services, Tourism and Manufacturing sectors.

No. of shares held: 477,213 (Voting)

6

TRAVICE JOHN ONDAATJIE*Director (Executive)*

First appointed to the Board on 13 July 1995.

Holder of BSc Degree from the Arizona State University USA.

Managing Director of Nilaveli Beach Hotels (Pvt) Limited, Nilaveli Hotels (Pvt) Limited.

Director of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, The Nuwara Eliya Hotels Co. PLC, Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Fair View Hotel (Pvt) Limited, Tangerine Tours (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited, Mercantile Orient (Pvt) Limited.

Counts over 21 years experience in the Financial Services and Tourism sectors.

No. of shares held: 477,213 (Voting)

7

PUNYAKANTHI TIKIRI KUMARI NAVARATNE*Director (Independent Non-Executive)*

First appointed to the Board on 17 January 2012.

Holder of Bachelor of Laws (LLB) Degree from the University of Colombo and an Attorney-at-Law.

She has been associated with Paul Ratnayake Associates as an Associate Lawyer from 1995 to 1997 and has been a Partner of the same firm from 1997 to December 1998.

Joined WSO2 Lanka (Private) Limited in April 2009 and currently, Vice President – Legal Affairs.

No. of shares held: Nil

8

NAWAGAMUWAGE HASANTHA VIRAJ PERERA*Director (Non-Executive)*

First appointed to the Board on 9 February 2012.

On completing his higher education Mr. N. H. V. Perera joined the legal firm of Lucian Perera Associates on or about the year 1999 and is attached to the said firm since. He also sits on the Boards of Tangerine Beach Hotels PLC, Royal Palms Beach Hotels PLC, Blue Oceanic Beach Hotel Limited, Yala Safari Beach Hotels Limited, Yala Properties (Private) Limited, Southasia Economic and Trade Corporation (Private) Limited, Ceylon Electro Mechanical Services (Private) Limited, Desano Investments Limited, Tisara Hotels (Private) Limited and Koggala Beach Hotel (Private) Limited. He also holds Diplomas in Business Management, Organisational Behavior and HR Management.

No. of shares held: 10,020

9

SINGAPPULI MUDIYANSELAGE SUSANTHA SANJAYA BANDARA*Director (Independent Non-Executive)*

First appointed to the Board on 9 February 2012.

Fellow Member of The Institute of Chartered Accountants of Sri Lanka.

Fellow Member of the Association of Accounting Technicians of Sri Lanka.

Holder of a Master's Degree in Business Administration (MBA) from the University of Colombo, Sri Lanka.

Holder of a Bachelor's Degree in Accountancy from the University of Sri Jayewardenapura.

He has been a Partner of B.R. De Silva & Co., Chartered Accountants since 2004.

Director of Nexia Management Services (Private) Limited and Nexia BPO (Private) Limited.

No. of shares held: Nil

10

PATHMANATHAN CUMARASAMY GUHASHANKA*Director (Independent Non-Executive)*

First appointed to the Board on 28 June 2013.

Holder of a Master's Degree in Business Administration at American University of Asia affiliated University of Texas USA.

A founder member of Micro Cars Limited with 11 years experience in the automotive industry and has overall work experience of 23 years.

Presently serves as the Group Director of Micro Holdings (Pte) Limited and its Subsidiaries and also serves as the CEO of Micro Constructions (Pte) Limited.

He is also a Director of Micro Cars Limited, Transmec International (Pte) Limited, Transmec Engineering (Pte) Limited & Euro Sports Auto Lanka (Pte) Limited.

No. of shares held: Nil

Corporate Management Team





1
DHANUSHKA FONSEKA

Director (Non-Board) – Credit & Marketing

Mr. Fonseka currently serves as the Director (Non-Board) – Credit & Marketing. He has over 18 years experience in the Financial Service sector and is a member of Chartered Institute of Marketing and Holds a Master's Degree in Business Administration (MBA) from the University of Wales. He also serves as a member of the Credit Committee of the Company.

2
DEVA ANTHONY

General Manager – Finance

Mr. Anthony currently serves as the General Manager – Finance. He is a Fellow Member of The Institute of the Chartered Accountants of Sri Lanka and also an Associate Member of Chartered Institute of Management Accountants (UK) and holds CGMA status (Chartered Global Management Accountant). He is also a member of Associate Certified Management Accountants (Sri Lanka) and an Associate Member of Chartered Institute of Marketing. Mr. Anthony has over 13 years experience in Financial Service Sector and 5 years experience in audit and accounting.

3
RAVI EKANAYAKE

General Manager – Workshop

Mr. Ekanayake currently functions as the General Manager – Workshop. Mr. Ekanayake has over 32 years experience in the same field and holds a Diploma in Engineering from City and Guilds (UK).

4
HIRANTHA PANDITHASEKERA

Assistant General Manager – Corporate Leasing

Mr. Pandithasekera currently functions as the Assistant General Manager – Corporate Leasing with over 14 years experience in the Financial Services sector and 2 years experience in the insurance field.

5
DHARSHANA SENERATH

Assistant General Manager – Leasing

Mr. Senerath currently serves as the Assistant General Manager – Leasing. He has over 18 years experience in the Financial Services sector.

6
LAHIRU DAYANANDA

Assistant General Manager – Credit & Marketing

Mr. Dayananda currently serves as the Assistant General Manager – Credit & Marketing. He has over 16 years experience in the Financial Services sector.

7
PRASAD INDIKA

Assistant General Manager – IT

Mr. Prasad currently serves as the Assistant General Manager – IT. He holds a Diploma in NIBM and is a Fellow Member of British Computer Society and has over 13 years experience in the Financial Services sector.

8
JAYANKA KAHAWEVITHANA

Assistant General Manager – Legal

Mrs. Kahawevithana currently serves as the Assistant General Manager – Legal. She has over five years experience in the Financial Service sector and is an Attorney-at-Law, Notary Public, Commissioner for Oaths and also holds a LLB (Hons.).

9
ROSHINI INDURUWAGE

Assistant General Manager – Deposits & Marketing

Mrs. Induruwage currently serves as the Assistant General Manager – Deposits & Marketing and holds a Master's Degree in Business Administration (MBA) from the University of ECU Australia. She has over 15 years experience in the Banking and Financial Service sector.

10
ASANTHI GUNARATNE

Assistant General Manager – Human Resources

Ms. Gunaratne currently serves as Assistant General Manager – Human Resources. She is an Attorney-at-Law and holds a Master's Degree in Law from Kings' College London. She counts over 9 years of experience in Human Resources at one of the largest conglomerates in the country. She also has over five years of experience in the legal field and two years as a Company Secretary. She is also the winner of the Zonta Women of Achievement award in the Management Category in 2014.

11
SHEHAN COORAY

Assistant General Manager – Recoveries

Mr. Cooray currently serves as the Assistant General Manager – Recoveries, and has over 16 years experience in the Financial Services sector and one and half years in inbound sectors.

12
PRASAD WICKRAMASINGHE

Senior Manager – Payments

Mr. Wickramasinghe serves as the Senior Manager – Payments with over 28 years' experience in the Financial Services sector. He holds a Diploma in Taxation from The Chartered Institute of Accountants of Sri Lanka.

13
CHANDANA NANAYAKKARA

Senior Manager – Finance

Mr. Nanayakkara currently serves as the Senior Manager – Finance. He is an Associate Member of The Institute of Chartered Accountants of Sri Lanka, an Associate Member of Associate of Certified Management Accountants of Sri Lanka and also a Chartered Tax Advisor. Mr. Nanayakkara has over 11 years experience in the Financial Service sector and six years experience in audit and assurance field.

14
THAMAL DE SILVA

Senior Manager – Marketing & Communication

Mr. De Silva currently serves as the Senior Manager – Marketing & Communication and has over 18 years experience in Marketing, comprising nine years in Brand Management and five years in Advertising.

15
THARANGA DEEPAL PEIRIS

Senior Manager – Microfinance

Mr. Peiris currently serves as the Senior Manager – Microfinance. He has over 15 years experience in the Financial Services sector and holds a Diploma in Microfinance from Institute of Bankers of Sri Lanka.

16
AVINDRA WIJESUNDARA

Senior Manager – Credit Operations

Mr. Wijesundara currently functions as the Senior Manager – Credit Operations for Credit and Marketing Division and has over 18 years experience in the Financial Services sector.

17
DINESH PERERA

Regional Manager – Leasing Negombo

Mr. Perera currently serves as the Regional Manager – Leasing Negombo. He has over 18 years experience in the Financial Service sector and is a member of the Association of Business Executives (ABE) and Holds a Master's Degree in Business Administration (MBA) from AIB Australia.

18
SONALI PETHIYAGODA

Company Secretary

Ms. Pethiyagoda currently serves as the Company Secretary. She has over 25 years experience in Financial Services and tourism sector. She is an Associate Member of the Institute of Chartered Secretaries and Administrators (UK) and an Associate Member of the Institute of Chartered Corporate Secretaries of Sri Lanka.

19
DINESH PRABHATH

Manager – Internal Audit

Mr. Dinesh currently serves as the Manager – Internal Audit. He is an Associate Member of The Institute of the Chartered Accountants of Sri Lanka and Holds a Bachelor's Degree in Accountancy from the University of Sri Jayewardenapura. Mr. Dinesh has over four years experience in Financial Services sector and three years experience in audit and assurance sector.

20
SHEHAN SANDANAYAKA

Manager – Risk and Compliance

Mr. Sandanayaka currently serves as the Manager – Risk and Compliance. He is an Associate Member of Chartered Institute of Management Accountants (UK) and holds CGMA status (Chartered Global Management Accountant) and also a finalist of The Institute of Chartered Accountants of Sri Lanka. Mr. Sandanayaka has over four years experience in Accounting and Financial Services sector and four years experience in audit and assurance. He is functioning as the Secretary to Ml's Integrated Risk Management Committee.

Irresponsibility We Don't Buy Into...

Governance with responsibility is what we espouse. Keeping business on the well proven, ethical path is what MI does well, every day.



Corporate Governance Report



CHAIRMAN'S STATEMENT

The need for good governance which is talked about at national level is also certainly of high importance to corporates. We at MI believe that high quality governance is essential for meeting the stakeholder expectations and to build strong relationships. Finance companies should ensure that there is a strong governance framework within the organisation in order to secure the interests of all its stakeholders. Extensive attention on Corporate Governance has been placed by the regulator for institutions in the financial services sector, including the key LFC sector as finance companies comprise multiple stakeholders. I believe it is of utmost importance that respective institutions adopt the right approach to prudently manage their businesses.

The extensive efforts undertaken by the regulator as well as The Institute of Chartered Accountants of Sri Lanka, the Securities and Exchange Commission of Sri Lanka and the Central Bank of Sri Lanka are highly appreciated. The introduction of an up-to-date Corporate Governance prerequisite to strengthen governance practices of LFCs and the timely introduction of stringent prudential regulations, combined with increased emphasis on Corporate Governance, has indeed strengthened the sector than before.

UPHOLDING CORPORATE GOVERNANCE AT MI

In order to strengthen our own governance, Mercantile Investments Board restructured the whole framework of governance and other governance

requisites since 2012 and has attained successful completion to date. MI's Board is well balanced in terms of having equal representation of both Executive and Non-Executive Directors. The Directors are high calibre individuals possessing vast experience in their fields to impart invaluable knowledge to the Board, for effectively discharging duties towards the Company. They actively participate at meetings and continue to provide invaluable advice for the betterment of the Company.

Broader aspects such as strategy formulation and implementation, resolution of unsolved matters and responding to developments in the market which is volatile and competitive, are some of the main aspects that the Board oversees by meeting regularly. The Directors' active participation in Board affairs and in Board Sub-Committees continued to enrich the Company in better managing its strategic and operational aspirations.

GOVERNANCE INITIATIVES

FY 2015/16, is a special year for MI in many aspects; and this includes the subject of Corporate Governance, where many improvements were initiated. By establishing a Related Party Transaction Committee and taking steps to monitor relevant transactions under the supervision of the Audit Committee, the Chairman has further strengthened the governance framework and transparency at MI.

As another major initiative, the new strategic plan for the next three years was approved by our Board in order to direct the Company's affairs for the next three years. The plan incorporated key requisites on governance of the Company and these were aligned to the day-to-day operations of MI to enhance the quality of compliance procedures. Of course, FY 2015/16 was certainly another commendable year, where we initiated a stream of other measures also, to improve governance practices, which is summarised on page 223 in this supplement.

As in previous years, all the Sub-Committees functioned effectively as directed by the regulator and I would like to take this as an opportunity to thank all the heads of the Sub-Committees on assisting me on our journey towards achieving the goals set at the beginning of the year. This year's Corporate Governance Report provides extensive disclosures about the organisation's Board governance, corporate governance framework, performance governance practices and other practices adopted, while mapping them out against best recommended practices and prevailing regulations.

FUTURISTIC VIEW ON GOVERNANCE

The future will remain challenging as the markets move ahead with rapid developments. In order to cater to such developments, LFC sector will have to be more vigilant and aggressive in its strategy. The authorities will continue to impose increased rules and regulations to maintain the discipline within the sector companies. On the other hand, with the planned growth trajectory, we will place more focus on the quality of governance that we apply across the structure from top to bottom.

As the Chairman, I reaffirm MI Board's stance on upholding good governance at all times. Despite market complexities, the Board will provide the necessary leadership and guidance to all those working within, to prudently reach our aspirations.

Saro Weerasuriya
Chairman
13 June 2016

UPHOLDING SOUND BUSINESS GOVERNANCE

The governance framework at Mercantile Investments (MI) is well established and it clearly sets out the roles, responsibilities and rights of each individual from the Board level, cascading down to all other levels of the corporate structure. The formal structure together with a streamlined process of the framework is mainly built on a comprehensive system of internal controls and procedures to prudently manage the entire operation of the Company. The Board holds the sole responsibility to govern the affairs of the organisation and in this process; the Directors provide leadership and supervision guiding the Corporate Management and their staff in a prudent manner. The prime objective of the Board of Directors remains the optimisation of shareholder wealth by striving towards sustainable growth in volumes and without falling back on quality and standards. The attention towards all other stakeholders has been kept intact as their interests are looked into and safeguarded from various angles.

As the apex of the organisation, the Board provides a visionary leadership in order to contribute to the effective governance of business operations, setting further objectives, devising strategy and instilling an effective monitoring system. In making the Company tag line, 'Service that extends beyond' a reality, MI's governance is directed in going beyond just profit oriented mindset and to remain committed towards the subject of sustainability and value creation for the betterment of the society and environment.

The Company's strategic aims are set by the Board of Directors establishing appropriate policies and procedures, while allocating financial, human and other resources, which are necessary for the achievement of corporate objectives. Internal controls are effectively in place in order to provide assurance on proper conduct of business operations to expectations, which conforms also to prevailing laws and regulations.

Within the governance system, lies the overall risk management structure, designed and tailored to handle key risks associated with our business, to minimise risk and associated weaknesses up to an acceptable level. The day-to-day business

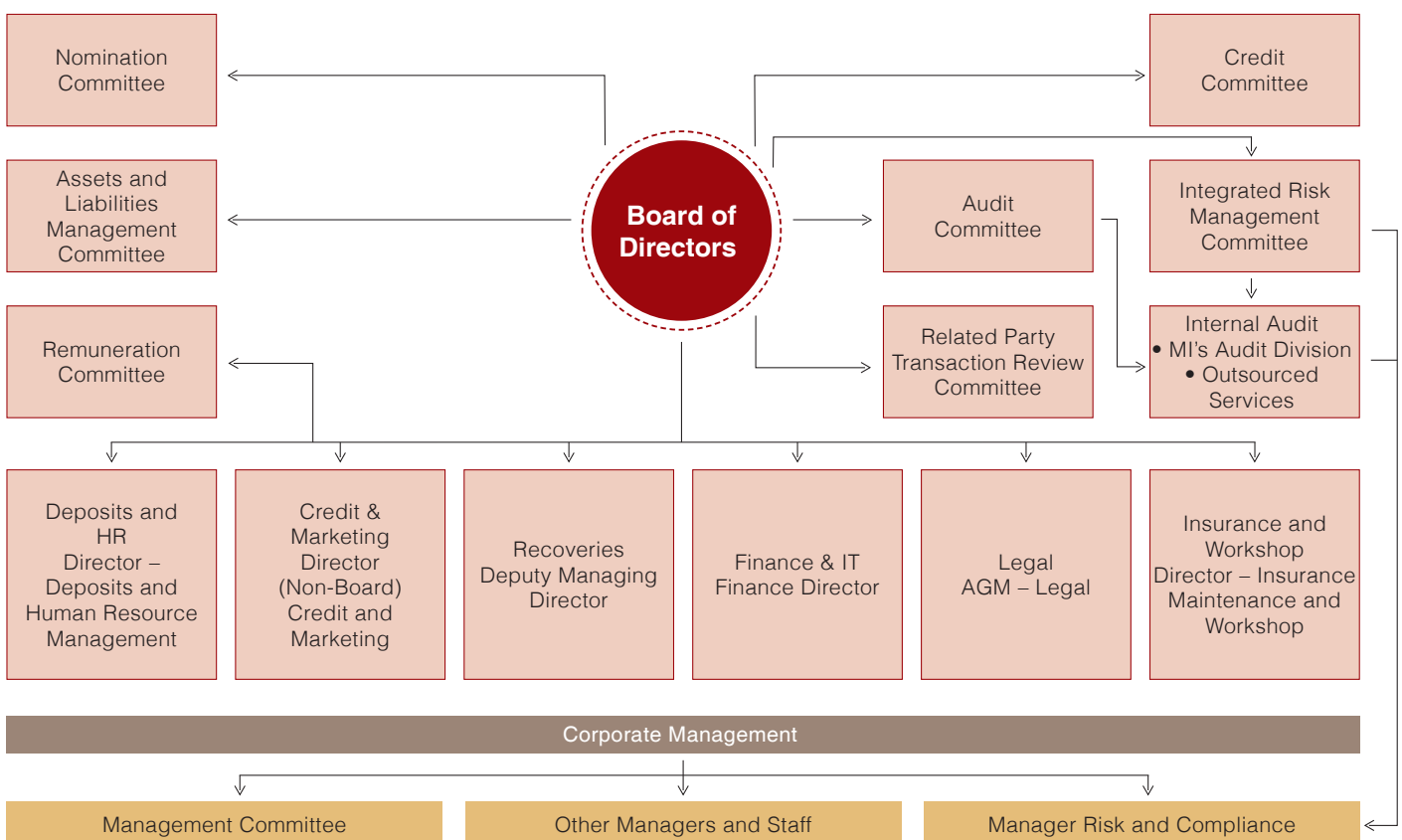
operation is conducted in accordance with defined best practices on governance, which extend beyond the regulatory requirements of the industry, to ensure high standards on Corporate Governance procedures are upheld.

We at MI are renowned for shining in the area of financial reporting, thus portraying our commitment towards transparency, a key feature of an entity that is built on sound Corporate Governance principles. The corporate actions of MI have always been accountable and this has been a salient feature of the organisation right through its five decade journey.

CORPORATE GOVERNANCE FRAMEWORK OF MI

The Corporate Governance framework has been established based on recommended best practices and industry standards, which are embedded in the enterprise's culture. The framework was further strengthened in the recent decade to adopt additional requirements of the regulator and best practices recommended for corporates by The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and Securities and Exchange Commission of Sri Lanka (SECSL).

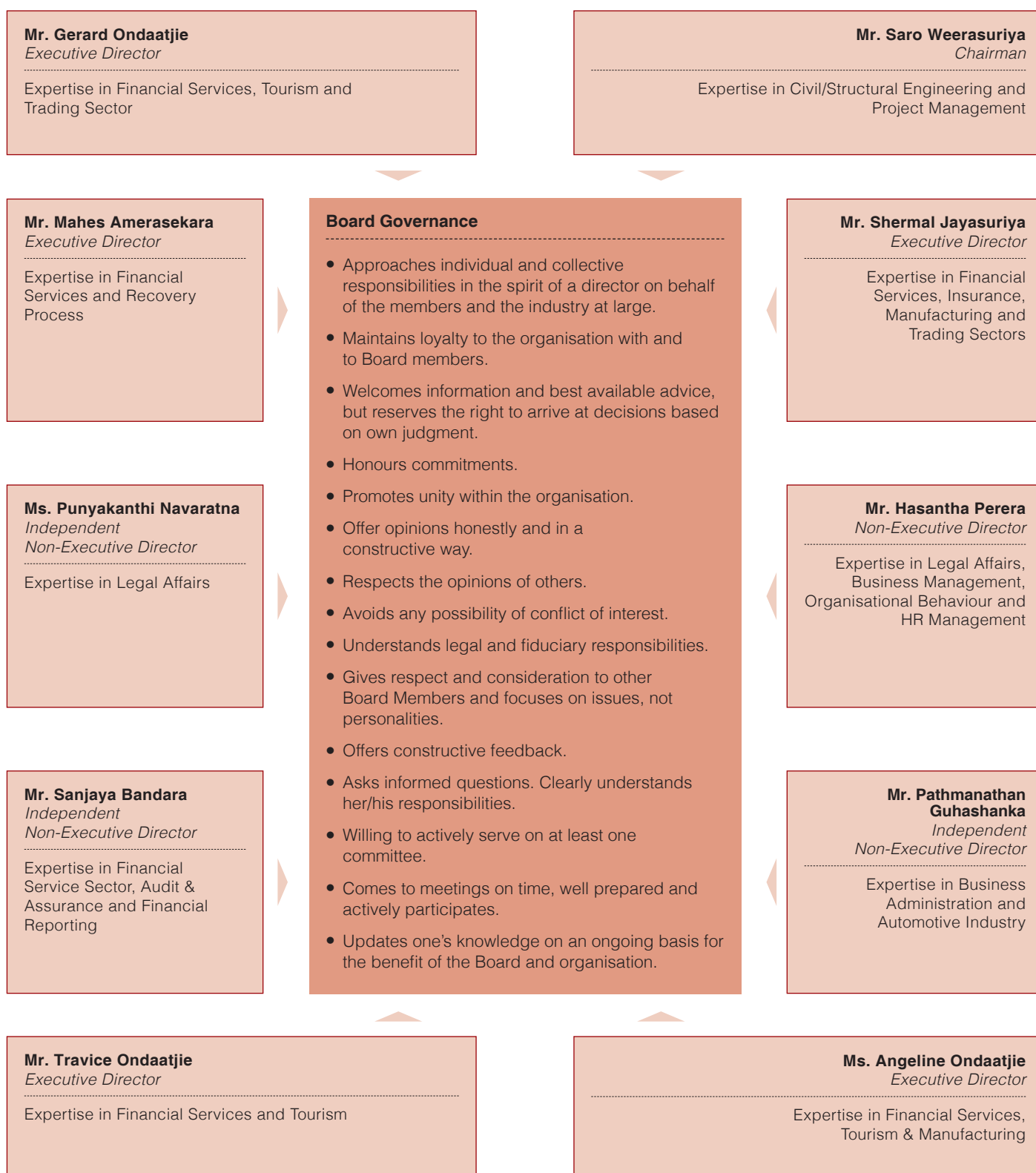
THE GOVERNANCE FRAMEWORK ADOPTED



BOARD OF DIRECTORS' ROLE IN MI'S GOVERNANCE

A streamlined standard top-down approach is practiced forming part of MI's governance structure, where various levels of the hierarchy receives, instructions and decisions flow down to them from the Board of Directors and Management at the top. Several Sub-Committees are in place to monitor and provide feedback to the Board on key areas of business. Delegating authority to the Corporate Management, MI Board has ensured that the routine business operations function in an orderly manner. However, key strategic decisions and other material decisions are kept under the full control of the Board.

THE GOVERNANCE FRAMEWORK ADOPTED



CORPORATE MANagements' ROLE IN MI'S GOVERNANCE

The day-to-day operation comes under the purview of the MD and his Corporate Management. Decision-making is done in the best interest of the Company. The Corporate Management team guide and provide a supervisory role to all staff members, ensuring they perform their duties with due care in line with corporate policies and procedures. The monitoring of employee duties is done vigilantly in order to ensure all officers abide by the established corporate policies and procedures at all times.

To ensure the performance related to business functions are up to required standards, regular senior level meetings of the management are held in the presence of Executive Directors. Each division held periodic meetings so that divisions such as Credit and Marketing, Recoveries and Deposit Divisions are able to maintain strong control over their performance and look into concerns that arise on an ongoing basis. The Management Committee meets weekly to track and assess performance of key strategic business units, while timely information is made available to manage their departmental processes.

GOVERNING BUSINESS STRATEGICALLY THROUGH A FORMAL PROCESS

In year 2015, the Board approved the strategic plan for the next three years of the Company and from the start of the initial year of the plan, a clear professional approach was undertaken to govern the operations of the enterprise, particularly to ensure required divisions implement their strategy as expected. All departmental heads were involved in devising the plan; while an Independent Consultant's input was gained to ensure effective innovative ideas were plugged into the proposed plan. The plan laid down clear medium-term corporate objectives, proposing strategies for all key business functions that all employees at MI should follow. As a result, all within the organisation is able to clearly understand their role to work as one team towards fulfilling the Corporate Mission and Vision. The Management periodically monitored performance goals and targets against the strategic plan to assess the progress level of strategy implementation. Due to the latest market developments and trends, actual strategy adopted in certain instances varied with the original plan.

The unique business model adopted and strategy implemented during FY 2015/16, are given in pages 17 to 19, reflecting MI's streamlined approach bringing greater value to our investors.

KEY CORPORATE GOVERNANCE INITIATIVES CARRIED OUT IN FY 2015/16

INITIATIVE

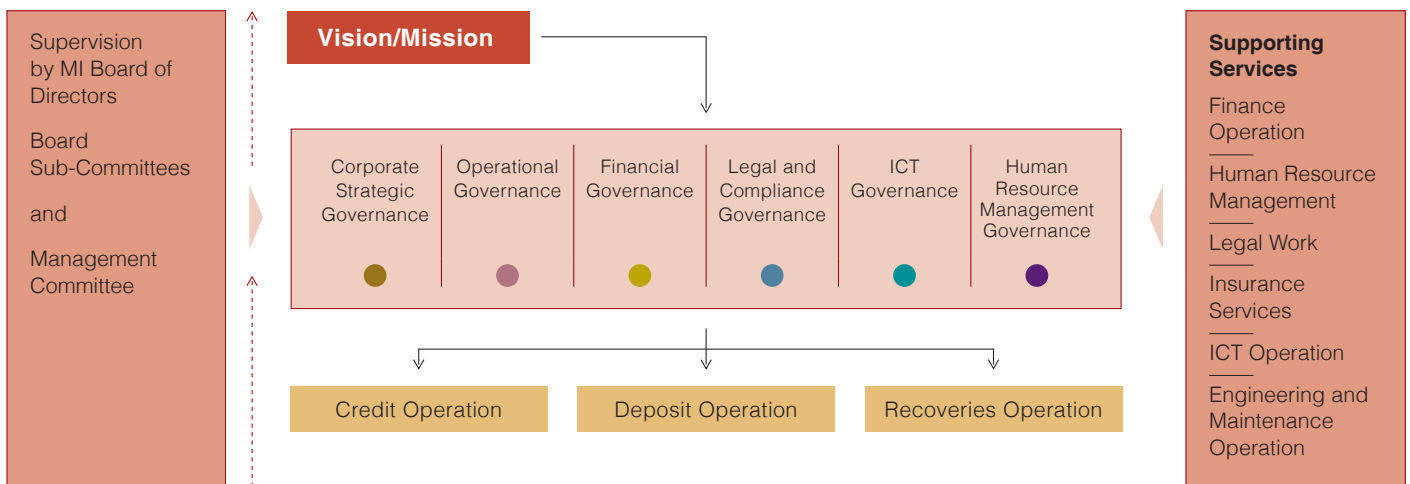
- Development and approving the corporate plan and its 1st year initiation
- Approving Credit Committee terms of reference
- Expanding the role of the Related Party Transactions Review Committee E.g. Tabling of a quarterly Related Party Transactions Report to the Related Party Transactions Review Committee by the Manager – Risk and Compliance
- Establishing authorisation limit layers for newly introduced online payment methods E.g. SLIPS (Sri Lanka Interbank Payment System)
- Developing a Comprehensive Deposit Department User Manual with the assistance of Ernst & Young
- The Audit Committee met 6 times to ensure effectiveness of the risk management process and Governance Structure
- Incorporated sustainability associated with the evaluation in the Directors' Performance Appraisal Checklist
- The implementation of the online version of 'The Branch Compliance Checklist'
- Widening risk management practices of the Company. Please refer pages 298 to 330 of the Risk Report in this regard
- Obtained a carbon footprint certificate to ascertain MI's level of carbon emission
- Review of sustainability efforts in keeping to expectations quarterly by the Manager – Risk and Compliance oversight by the IRM Committee through the CFO

PERFORMANCE GOVERNANCE

Performance governance is considered a key governance mechanism at MI and its all about governing various interlinks in our business model to derive the anticipated results. This entails a strong mechanism to monitor performance of each key facet of business so that, the Board has strong control over ultimate outcomes.

The approach towards performance governance revolves around understanding the strategic Vision and Mission of the entity and then breaking it down to identifiable corporate goals and objectives. Moreover, it involves cultivating the performance governance values MI has inherited since inception to our workforce in order to achieve desired results. As a result, a performance driven culture is adopted, encouraging creativity that orients individuals to pursue breakthrough corporate gains, to maximise value created to key stakeholders. Corporate Management faced the first year of the corporate plan doing business with vigor, ending the year with mix results. In the face of stiff competition and changing market dynamics, the Corporate Management dealt with their level best to keep overall performance in line with the plan.

The broad overview of MI's performance governance mechanism is as follows:



CORPORATE STRATEGIC GOVERNANCE

OBJECTIVE:

To identify potential future developments anticipated in the business environment and being able to react to them effectively in an anticipatory manner.

RESPONSIBILITY:

The Board of Directors and the Corporate Management holds the prime responsibility on strategic governance. Strategic governance is given a higher priority governance necessity, over and above to all other governance aspects handled by the MI Board.

Key considerations are evaluated when embracing the strategy development process every three years.

MI BOARD STRATEGIC GOVERNANCE PROCESS

CORPORATE STRATEGIC GOVERNANCE

<p>Business Maturity (Over 50 years in Financial Service Sector)</p> <ul style="list-style-type: none"> • Compliance • Control Mechanisms • Resources • Awareness • Information Security 	<p>Organisational Fit</p> <ul style="list-style-type: none"> • Strategic Alignment • Communication • Willingness • Training 	<p>Implementation</p> <ul style="list-style-type: none"> • Internal Capacity • Operational Governance • Support • Deployment
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MI BOARD STRATEGIC GOVERNANCE PROCESS

<p>Policies and Procedures of Strategic Governance</p> <ul style="list-style-type: none"> • Vision, Mission and Objective setting • Development of a Strategic Plan of MI for 3 Years • Annual Budget 2015/16 	<p>Structure of Strategic Governance</p> <ul style="list-style-type: none"> • A Strategic Planning process, under the leadership of Managing Director is handled by the Finance Director (CFO) and his finance team • Input from Corporate Management for the development of strategy • The three year strategic plan is approved by the Board and implemented through the Managing Director and Corporate Management team 	<p>Strategic Governance Mechanisms</p> <ul style="list-style-type: none"> • Assessment of Strategic Corporate Plan by Corporate Management and the Board • Capital and operational budget review meetings • Monthly, quarterly and annual performance reviews by Corporate Management and the Board • Variance review of actual results against budgeted/targeted is done periodically
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OPERATIONAL GOVERNANCE

OBJECTIVE:

Ensuring quality of the operational decisions that are made by the appropriate authorised personnel upfront and operationally reviewing its effectiveness later.

RESPONSIBILITY:

There is clear segregation of roles, authority and responsibility, based on employee’s grade and level of experience and qualification towards related operation, for each core business function at MI.

The main areas of operations of MI have been identified and developed with the operational governance process for each of them as depicted below:

OPERATIONAL GOVERNANCE

	Policies and Procedures of Operational Governance	Structure of Operational Governance	Operational Governance Mechanisms
Credit Operation Governance	<p>Credit Policy</p> <ul style="list-style-type: none"> • Credit Risk Appetite Limits • Comprehensive Credit Procedure Manual • Anti-Money Laundering Policy • Monthly Targets 	<p>Credit Committee</p> <ul style="list-style-type: none"> • Integrated Risk Management Committee • Corporate Management • Operation Managers • Cluster Heads/Branch Managers/ Officers 	<ul style="list-style-type: none"> • Updating of procedure manuals and guidelines on regular basis to keep abreast of current changes in business environment • Quarterly review of the Risk Appetite limits. i.e. single borrower limits and industry concentration levels • Periodic reviews covering the “Financial Transaction Reporting Act” requirements and Anti-Money Laundering Guidelines of FIU
Marketing & Branding Governance	<ul style="list-style-type: none"> • Budget on Marketing and Branding • Monthly Targets • Above the line and below the line planning 	<ul style="list-style-type: none"> • Credit Committee • Director (Non-Board) – Credit and Marketing • Corporate Management/Cluster Assistant General Managers • Branch Managers 	<ul style="list-style-type: none"> • Review of annual marketing agenda • Marketing budget review by Credit Committee, Head of Credit/ Deposits Divisions and Corporate Management • Targets on retention and new business capturing for lending and deposits
Recoveries Operation Governance	<ul style="list-style-type: none"> • Recoveries Procedure Manual • Credit Policy 	<ul style="list-style-type: none"> • The Board • Recoveries Committee • Credit Committee • Operation Managers • Branch Managers 	<ul style="list-style-type: none"> • Monitoring of NPL/Contract in arrears weekly overall, SBU wise, officer wise at review meetings • Provision of detailed MIS daily, weekly and monthly to corporate Management from core lending modules
Deposits Operation Governance	<ul style="list-style-type: none"> • Deposit Procedure Manual • Periodic Deposit Targets 	<ul style="list-style-type: none"> • Integrated Risk Management Committee • Assets and Liabilities Management Committee • Management Committee 	<ul style="list-style-type: none"> • Updating of deposit procedure manuals and guidelines on regular basis to line up to the current changes in business environment • Comprehensive KYC covering all the Financial Transaction Reporting and Anti-Money Laundering Guidelines • Review of Risk Appetite limits related to deposit business • Review of daily/weekly/monthly new business reports

FINANCIAL GOVERNANCE

OBJECTIVE:

Maintain financial discipline and financial soundness of the organisation in a way that it avoids consequences of financial loss and failures.

RESPONSIBILITY:

Overall financial management including treasury function comes under the purview of the CFO and his finance team ably supported by GM – Finance and other qualified and experienced officers.

FINANCIAL GOVERNANCE

	Policies and Procedures of Governance	Structure of Governance	Governance Mechanisms
Finance	<ul style="list-style-type: none"> • General Ledger/ Accounting system • Finance Procedure Manual • Statutory Accounts/Interim results • Payment Process • Payroll 	<ul style="list-style-type: none"> • Finance Director/CFO • Audit Committee • Corporate Management 	<ul style="list-style-type: none"> • Weekly review of financial performance with corporate management team • Budget Review meetings and variance analysis of budgeted vs. actuals, annually • Adherence to SLFRS/LKAS standards and other requirements related to financial reporting by External Audit review and Internal Audit review
Treasury	<ul style="list-style-type: none"> • Investment Policy • Liquidity Policy • Pricing System • Fund Management 	<ul style="list-style-type: none"> • Finance Director/CFO • Assets and Liabilities Management Committee • Management Committee • Integrated Risk Management Committee 	<ul style="list-style-type: none"> • Periodic oversight of liquidity by IRMC/ALCO • Risk review reporting on liquidity by manager risk and compliance on a quarterly basis • Review of interest rate structure of the Company on an ongoing basis • Proposing strategies to counter prevalent mismatches both in the short and long-term • Independent audits on Treasury Management by Internal Auditors

LEGAL AND COMPLIANCE GOVERNANCE

OBJECTIVE:

Ensuring that MI adheres to the laws, regulations, guidelines and circulars of various regulators that is relevant to the industry and the business.

RESPONSIBILITY:

MI staff members of all functional areas are expected to abide by prevailing legal and compliance requirements consistently for all business transactions and related business activities.

LEGAL AND COMPLIANCE GOVERNANCE

Legal and Compliance Governance		
Policies and Procedures of Governance	Structure of Governance	Governance Mechanisms
<ul style="list-style-type: none"> • Document Retention Policy • CBSL Compliance Checklist • Anti-Money Laundering Policy • Branch Compliance Checklist 	<ul style="list-style-type: none"> • Audit Committee • Legal Division • Compliance Department • Corporate Management • Internal Auditors • External Auditors 	<ul style="list-style-type: none"> • Review of all outstanding litigation issues and recovery issues by Legal Division • Monthly compliance status reports on prevailing CBSL Rules and Guidelines submitted through Manager Risk and Compliance to the Board • Review of Branch network compliance level through monthly Branch Compliance Checklist • Provide training on compliance requirements in house and external as well

ICT GOVERNANCE

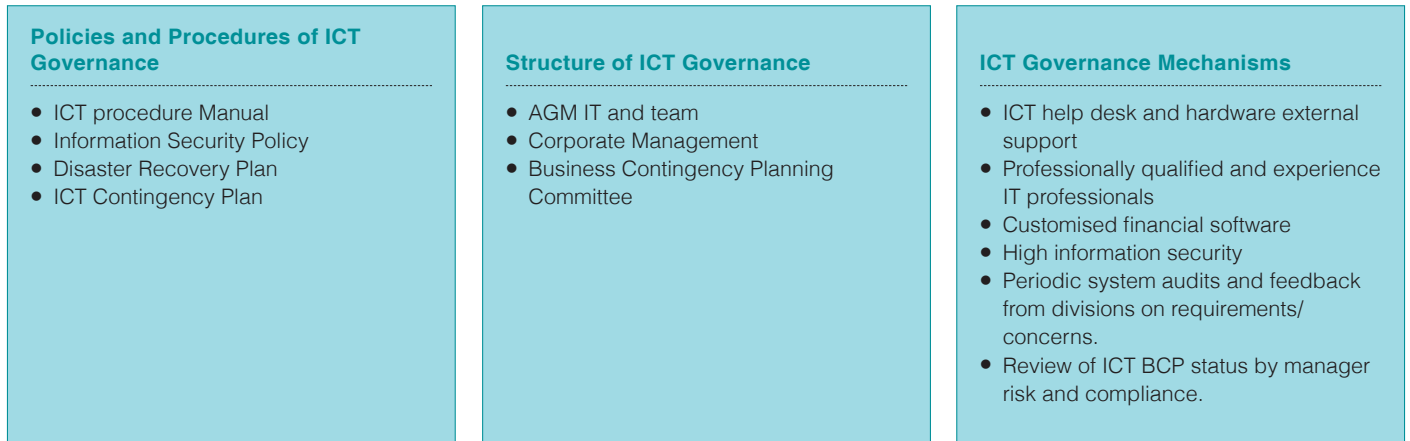
OBJECTIVE:

As a key supporting function, ensuring that ICT strategic goals are kept in line with the Company's primary strategic goals so that ICT plays an integral role in improving performance of main business units and other functions.

RESPONSIBILITY:

Head of ICT, who reports to the CFO, is entrusted with the tasks of co-ordinating with users, their requirements and safeguarding the ICT systems and its data, in keeping to internal ICT policies.

ICT GOVERNANCE



HUMAN RESOURCE GOVERNANCE

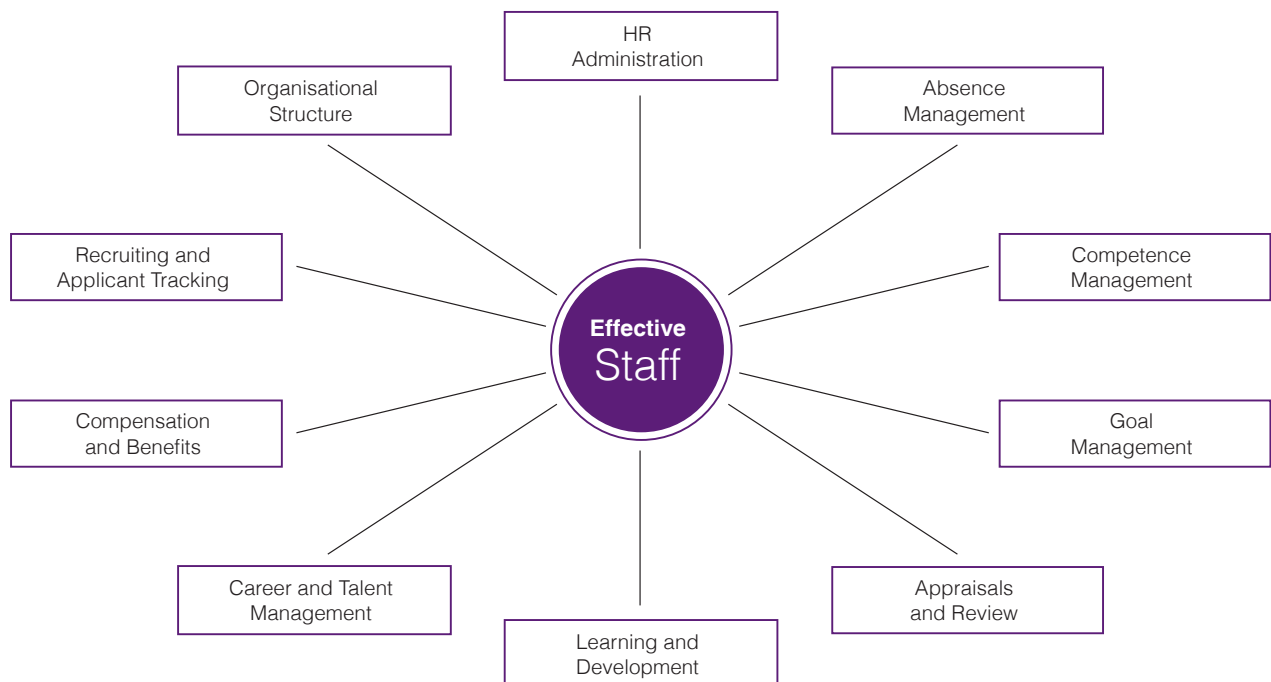
OBJECTIVE:

In order to manage the workforce productivity and to comply with legal and ethical obligations related to people management practices, instilling and practicing the right background and governance processes with proper HR rules and regulations. Also, setting up a proper HR governance structure that enhances the quality of the decision-making process at all levels of the hierarchy.

RESPONSIBILITY:

The Head of HR and her team, together with members of the Corporate Management are required to ensure respective HR policies and practices so developed are adhered by everyone and to report any lapses to the Board.

HUMAN RESOURCE GOVERNANCE



Policies and HR Procedures of Governance

- Terms of Reference of Remuneration Committee
- Human Resource Management Policy
- Employees Hand Book
- Performance appraisal process
- Whistle-blowing policy

Structure of HR Governance

- Remuneration Committee
- Corporate Management
- Internal Audit

Governance Mechanisms

- Bi-annual performance appraisals of employees
- Constant review and updation of Human Resource policies and practices to strengthened productivity, controls and employee motivation
- Periodic employee feedback analysis
- Salary surveys
- Annual review of career advancements and promotion/ succession planning
- Internal Audit review of HR compliance and follow-up

ENHANCING THE OVERSIGHT FUNCTION

EXPANSION OF THE INTERNAL AUDIT FUNCTION

In order to strengthen MI's own Internal Audit Division, a junior staff member was recruited during this year. This need arose as the increasing number of new branches of MI demanded more heads to support the function. According to the previous year, part of the internal audit function was handled through Ernst & Young Advisory Services (Pvt) Limited. The review of the compliance status at Head Office and branch level, in relation to laid down procedures and prevailing regulations, are the main focus of MI's own internal audit. A close supervision was kept by the Audit Committee of the manner in which MI's internal audit function reviews observations on control lapses, financial reporting and compliance.

STRENGTHENING THE COMPLIANCE FUNCTION

MI's compliance statuses on the ever-increasing regulations from various regulatory bodies' demands are entrusted to Manager – Risk and Compliance, as he oversees the compliance function of MI. A report indicating the compliance status on CBSL regulations and guidelines is submitted to the Board periodically by the Manager – Risk and Compliance, where Board of Directors are then expected to take necessary actions against any concerns.

'The Branch Compliance Checklist' which was initiated under the supervision of Manager – Risk and Compliance, was upgraded to an online version. This minimised the paper work and increased the accuracy and the efficiency of the required feedback on their compliance status of key criterion. Commencing from this year, the Board was appraised on a monthly basis on MI's level of compliance to CBSL regulations.

STRENGTHENING THE RISK MANAGEMENT PROCESS

With the oversight executed by the Manager – Risk and Compliance, MI took a number of new initiatives that strengthened the risk management process even more for the financial year. Page 299 provides a snapshot of such initiatives.

MI'S COMPLIANCE STATUS TO KEY CORPORATE GOVERNANCE BEST PRACTICES/REGULATIONS

In order to reflect the extent of MI's Compliance to Regulations and Best Practices on Corporate Governance, four separate statements have been provided to illustrate MI's level of conformity with prevailing regulations and best practices on Corporate Governance.

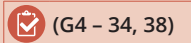
Part one provides disclosure on MI's level of conformity with the recommended Code of Best Practice on Corporate Governance, issued to public companies jointly by the Securities and Exchange Commission of Sri Lanka (SECSL) and The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued in September 2013.

Part two provides disclosure on MI's level of compliance to the Direction issued on Corporate Governance to Finance Companies by the Central Bank of Sri Lanka, under Direction No. 03 of 2008 and amendments issued under Direction No. 04 of 2008 and Direction No. 06 of 2013.

Part three provides disclosure on MI's level of compliance with the Section 7.10 of the Listing Rules of the Colombo Stock Exchange (CSE) on Corporate Governance.

Part four provides disclosure on MI's level of compliance with the Rules and Guidelines issued by the Central Bank of Sri Lanka to the LFC sector.

MI'S COMPLIANCE TO CODE OF BEST PRACTICE ON CORPORATE GOVERNANCE



Section 1

The Company:

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)																																																																																																																																																																																																																																																																																																																			
A. Directors																																																																																																																																																																																																																																																																																																																						
A.1 The Board	Principle – A.1	Adopted	<p>The Board provides leadership, control and direction in managing the affairs of the Company. MI's Board consists of professionals in the fields of Accounting, Legal, Audit, Engineering and leading entrepreneurs in other businesses with vast experience and knowledge. The profile of the Board and Corporate Management is provided on pages 212 to 218.</p> <p>MI's Board reflects a sound balance of independence comprising of an Independent Non-Executive Chairman, who is well supported by the Managing Director and other Executive and Non-Executive Directors.</p> <p>MI Board Competency Matrix</p> <table border="1"> <thead> <tr> <th rowspan="2">Expertise</th> <th colspan="10">Name of Director</th> </tr> <tr> <th>Mr. S.H.J. Weerasuriya</th> <th>Mr. G.G. Ondaatje</th> <th>Mr. P.M. Amarasekara</th> <th>Mr. S.H. Jayasuriya</th> <th>Ms. A.M. Ondaatje</th> <th>Mr. T.J. Ondaatje</th> <th>Ms. P.T.K. Navaratne</th> <th>Mr. N.H.V. Perera</th> <th>Mr. S.M.S.S. 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Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)																						
1. Board meetings	Code – A.1.1	Adopted	<p>The Board usually meets on monthly intervals to review the performance of the Company.</p> <p>The Board met 12 times during the year. A formal Notice of Meeting with agenda is sent by the Company Secretary at least 7 days prior to the meeting with all Directors expected to be present. Details of Board meetings and Board Sub-Committee meetings information are given on pages 288 to 296 of this Annual Report.</p> <p>There were no special Board meetings held during the financial period 2015/16.</p> <p>Attendance at Board Meetings No. of Meetings</p>  <table border="1" data-bbox="748 779 1490 1097"> <thead> <tr> <th>Director</th> <th>No. of Meetings</th> </tr> </thead> <tbody> <tr><td>A</td><td>10</td></tr> <tr><td>B</td><td>12</td></tr> <tr><td>C</td><td>12</td></tr> <tr><td>D</td><td>10</td></tr> <tr><td>E</td><td>12</td></tr> <tr><td>F</td><td>11</td></tr> <tr><td>G</td><td>10</td></tr> <tr><td>H</td><td>11</td></tr> <tr><td>I</td><td>12</td></tr> <tr><td>J</td><td>7</td></tr> </tbody> </table> <p>A - Mr. S.H.J. Weerasuriya E - Ms. A.M. Ondaatjie I - Mr. S.M.S.S. Bandara B - Mr. G.G. Ondaatjie F - Mr. T.J. Ondaatjie J - Mr. P.C. Guhashanka C - Mr. S.H. Jayasuriya G - Ms. P.T.K. Navaratne D - Mr. P.M. Amarasekara H - Mr. N.H.V. Perera</p>	Director	No. of Meetings	A	10	B	12	C	12	D	10	E	12	F	11	G	10	H	11	I	12	J	7
Director	No. of Meetings																								
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2. Board Responsibilities	Code – A.1.2	Adopted	<p>The Board is responsible to the shareholders for creating and delivering long-term sustainable value through the oversight of business.</p> <p>The Board takes responsibility for setting the overall strategy, risk appetite and approves capital and operating plans presented by the management, for the achievement of the objectives it has set. This ensures the effective and efficient utilisation of MI's resources for the achievement of corporate objectives.</p>																						
<ul style="list-style-type: none"> Formulation and implementation of a sound business strategy 			<p>During the financial year 2015/16, an effective 3 year strategic plan was formulated and approved by the Board to direct the affairs of the Company.</p> <p>The Board ensured that corporate objectives along with corporate values and strategies were communicated to the management team by way of the strategic plan for its implementation. The Board reviews the progress of the plan and the compliance status to annual targets at regular intervals. MI's actual financial performance against annual targets for the year 2015/16 is provided on page 10.</p>																						
<ul style="list-style-type: none"> The CEO and management team possess the skills, experience and knowledge to implement the strategy 			<p>Implementation of the strategy set by the Board is delegated to the Managing Director and the Corporate Management team who have the necessary skills, experience and knowledge to execute the strategic plan devised. The biographical particulars of each member of the Corporate Management team are provided on pages 216 to 218.</p>																						

Corporate Governance Principles Reference to SEC and CA Sri Lanka Code Adoption Status MI's Extent of Adoption (2015/16 Update)

Senior Management Competency Matrix

Name	Division	Designation	Areas of Expertise														
			Marketing	Legal	Finance	IT	Leasing	Recoveries	HR	Insurance	Company Secretarial	Motor Mechanics	Banking	Tax	Microfinance	People Management	Strategic Management
1. Dhanushka Fonseka	Credit	Director – Credit & Marketing (Non-Board)	√				√								√	√	√
2. D.S. Pethiyagoda	Secretarial Department	Company Secretary															√
3. C.J.S. Devadunne Anthony	Finance	General Manager (Finance)	√		√										√	√	√
4. Ravi Ekanayake	Workshop	General Manager (Workshop)															√
5. Asanthi Gunaratne	HR	AGM – HR			√				√								√
6. M.D.N.R. Induruwage	Deposits	AGM – Deposits & Marketing						√							√		√
7. Hirantha Pandithasekara	Corporate	AGM – Corporate Leasing	√						√								√
8. H.P. Arjuna L Dayananda	Credit	AGM – Credit & Marketing	√						√								√
9. S.H.T.P. Indika	IT	AGM – IT								√							√
10. Senarath Dharshana Vishvanath	Credit	AGM – Leasing	√						√								√
11. Jayanka Kahaweithana	Legal Dept	AGM – Legal			√												√
12. C.V. Nanayakkara	Finance	Senior Manager – Finance						√							√		√
13. P. Dhanushka Shehan Cooray	Recoveries	Senior Manager – Recoveries								√							√
14. P.D.C. Wickramasinghe	Finance	Senior Manager – Payments									√			√			√
15. L. Thamal De Silva	Credit	Senior Manager – Marketing & Communication	√														√
16. S. Tharanga D. Peiris	Credit	Senior Manager – Microfinance	√						√						√	√	√

• Adoption of an effective CEO and Senior Management succession plan

The Board approved succession plan was devised for all key managerial positions indicating career paths for individuals and providing the Company with a well thought out contingency plan in the event of an emergency.

• Effective systems to secure integrity of information, risk management and internal controls

The Board has established formal Information Communication Technology (ICT) Standards, approving an ICT policy document and an Information System Security Document, in line with international standards to maintain the integrity of the Management Information System. MI's Board takes adequate steps to ensure the reliability and safety of Information Systems generated by the Company.

Identifying and managing risks related to MI is the responsibility of the Board. An Integrated Risk Management Committee and an Audit Committee has been set-up to maintain oversight over the risk management process and internal controls with the Board being constantly updated on developments.

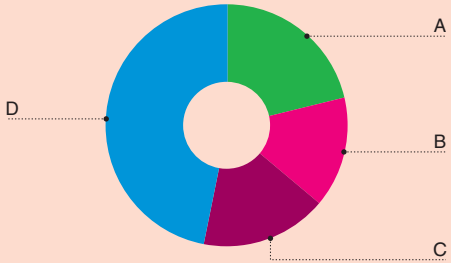
The Board closely monitors processes, controls and procedures to ensure adherence with policies, regulations and reporting standards.

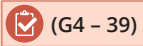
Report by the Board/Independent Assurance Report on Internal Controls is set out on pages 348 and 349 of this Annual Report.


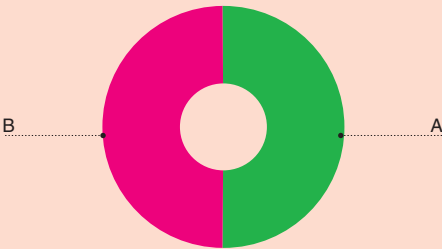
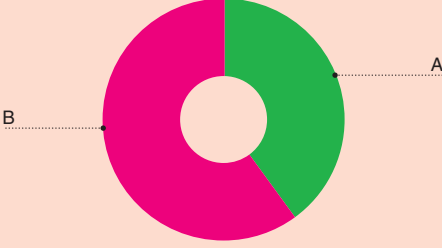
Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
<ul style="list-style-type: none"> Compliance with laws, regulations and ethical standards 			<p>The Manager for Risk and Compliance submits a monthly report to the Board on MI's extent of compliance to CBSL regulation, highlighting any issues. The Board has hand-picked knowledgeable individuals to head core divisions who are adept at ensuring that MI meets the applicable regulations. Through the various Sub-committees there is regular feedback given to the Board on MI's compliance status to both internal and external regulation.</p>
<ul style="list-style-type: none"> All stakeholder interests are considered in corporate decisions 			<p>In fulfilling stakeholder expectations the Board adopts an integrated business model which is unique to MI, aimed at creating and enhancing stakeholder value as envisaged.</p> <p>The Board identifies the importance of effective communication and takes responsibility of the communication channel adopted, through a prior approved 'Communication Policy'. MI's Board adopts a two-way communication policy when dealing with stakeholders, in order to gain a clear understanding of the latest developments in stakeholder interests.</p>
<ul style="list-style-type: none"> Sustainable business development in corporate strategy, decisions and activities 			<p>The Board as a practice, reviewed current trends in the finance business industry and was able to recognise sustainable business development areas, projects needing attention such as new product development and pursuing new markets to serve as a corporate strategy within its defined business and financial boundaries. In keeping to MI's fundamentals, its business strategy is directed at creating long-term sustainable growth and enhancing stakeholder value as a constant exercise.</p> <p>MI's integrated business model articulated in pages 17 to 19 highlights the sustainable value generated through the Company's business process.</p>
<ul style="list-style-type: none"> Ensuring the Company's values and standards are set with emphasis on adopting appropriate accounting policies and fostering compliance with financial regulations 			<p>MI's accounting policies are reviewed annually to ensure adaptation to the changing business requirements. MI placed significant emphasis on compliance with the Finance Business Act, Anti-Money Laundering Regulations, Listing Rules and all other relevant regulations applicable to the LFC sector. Regular Government policy changes have been reflected in the Company's accounting practices with immediate effect.</p> <p>Quality of financial reporting is maintained under the leadership of the CFO and oversight by the Audit Committee.</p> <p>Please refer "Independent Auditors' Report" on page 350, which provides an affirmation on the Company's Financial Statements that it is in line with applicable reporting standards and regulations and Directors' Statement on Internal Control Over Financial Reporting on page 348.</p>

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)																																																								
<ul style="list-style-type: none"> Fulfilling other Board functions are vital given the scale, nature and complexity of the organisation 			<p>Executive Board members and the Director Non-Board are heads of key functional areas of business that include Credit, Deposits, Recoveries, Finance and HR to ensure adequate supervision and monitoring of critical activities.</p> <p>The Board delegates operational activities to various divisions under the Corporate Management team, who in turn are responsible and accountable for activities coming under their purview. Regular meetings were held between Executive Directors, the Management team and other key officers to monitor progress on the achievement of corporate objectives.</p> <p>Key strategic financial decisions in relation to funding, pricing, liquidity, decisions on capital expenditure and reviewing annual budgets are handled by the Board.</p> <p>Key Policy Documents Issued</p> <table border="1" data-bbox="748 837 1469 1883"> <thead> <tr> <th>Document</th> <th>Issued Year</th> </tr> </thead> <tbody> <tr><td>Procedure Manual</td><td>2010</td></tr> <tr><td>Business Continuity Plan</td><td></td></tr> <tr><td>AML and CFT Policy</td><td>2015</td></tr> <tr><td>Investment Policy</td><td>2011</td></tr> <tr><td>Communication Policy</td><td>2011</td></tr> <tr><td>HR Policy</td><td>2013</td></tr> <tr><td>Liquidity Risk Management Policy</td><td>2014</td></tr> <tr><td>Risk Management Policy</td><td>2013</td></tr> <tr><td>Information Systems Security Policy</td><td>2012</td></tr> <tr><td>Procedure to Seek Independent Professional Advice</td><td>2012</td></tr> <tr><td>Terms of Reference of Remuneration Committee</td><td>2014</td></tr> <tr><td>Areas of Authority and Key Responsibilities of the Board</td><td>2013</td></tr> <tr><td>Whistle-Blowing and Corporate Fraud Policy</td><td>2013</td></tr> <tr><td>Schedule of Matters Reserved for the Board (Revised)</td><td>2013</td></tr> <tr><td>Nomination Committee Terms of Reference</td><td>2013</td></tr> <tr><td>Terms of Reference for the Integrated Risk Management Committee</td><td>2011</td></tr> <tr><td>Terms of Reference for the Audit Committee</td><td>2011</td></tr> <tr><td>Remuneration Policy</td><td>2014</td></tr> <tr><td>Terms of Reference for Remuneration Committee</td><td>2014</td></tr> <tr><td>ICT Manual</td><td>2014</td></tr> <tr><td>Liquidity Risk Management Policy</td><td>2014</td></tr> <tr><td>Terms of Reference of Remuneration Committee</td><td>2014</td></tr> <tr><td>Credit Policy</td><td>2013</td></tr> <tr><td>Recovery Policy</td><td>2013</td></tr> <tr><td>Assets and Liabilities Committee (ALCO) Terms of Reference</td><td>2014</td></tr> <tr><td>Credit Committee Terms of Reference</td><td>2015</td></tr> <tr><td>Related Party Terms of Reference</td><td>2016</td></tr> </tbody> </table>	Document	Issued Year	Procedure Manual	2010	Business Continuity Plan		AML and CFT Policy	2015	Investment Policy	2011	Communication Policy	2011	HR Policy	2013	Liquidity Risk Management Policy	2014	Risk Management Policy	2013	Information Systems Security Policy	2012	Procedure to Seek Independent Professional Advice	2012	Terms of Reference of Remuneration Committee	2014	Areas of Authority and Key Responsibilities of the Board	2013	Whistle-Blowing and Corporate Fraud Policy	2013	Schedule of Matters Reserved for the Board (Revised)	2013	Nomination Committee Terms of Reference	2013	Terms of Reference for the Integrated Risk Management Committee	2011	Terms of Reference for the Audit Committee	2011	Remuneration Policy	2014	Terms of Reference for Remuneration Committee	2014	ICT Manual	2014	Liquidity Risk Management Policy	2014	Terms of Reference of Remuneration Committee	2014	Credit Policy	2013	Recovery Policy	2013	Assets and Liabilities Committee (ALCO) Terms of Reference	2014	Credit Committee Terms of Reference	2015	Related Party Terms of Reference	2016
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Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
3. Compliance with laws and access to independent professional advice	Code – A.1.3	Adopted	<p>The Board collectively and Directors individually, act in accordance of the laws of Sri Lanka when engaging in Business activities. Any instances of non-compliance are disclosed in the financial accounts sub-note No. 22.1, given on page 378.</p> <p>An affirmation to applicable laws and regulations are given on page 338 by the Board of Directors.</p> <p>A procedure is in place for Directors to obtain independent professional advice, in furtherance of their duties. Directors have complete access to all relevant information and can take independent professional advice if necessary at the Company's expense.</p>
4. Company Secretary	Code – A.1.4	Adopted	<p>The Company Secretary is responsible in advising the Board on procedures to be followed and compliance with applicable rules and regulations including Corporate Governance.</p> <p>All Directors have access to the Company Secretary who is a qualified Chartered Secretary with over 20 years experience. Her services were available to all Directors, particularly the Non-Executive Directors who needed additional support to ensure they received timely and accurate information to fulfil their duties.</p> <p>She co-ordinates the scheduling of Board meetings and other Sub-Committee meetings, maintaining minutes and other relevant records. Currently, the role prescribed under Schedule F of the Code for Company Secretaries is undertaken by Mrs. Pethiyagoda, in executing her routine functions.</p>
5. Independent Judgment	Code – A.1.5	Adopted	<p>Board of Directors are responsible for bringing independent and objective judgment and scrutinising the recommendations/proposals made by Heads of Divisions and other Corporate Management Officers, on issues of strategy, performance, resource utilisation and business conduct.</p> <p>The majority of the Directors, both Executive and Non-Executive, have been appointed to various Board Sub-Committees, enabling them to exercise effective control over strategic, financial, compliance and governance issues.</p>


Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)								
6. Dedication of adequate time and effort by the Board	Code – A.1.6	Adopted	<p>Directors of MI have dedicated adequate time for Board and Board Sub-Committee meetings, to fulfil their duties and obligations owed to the Company.</p> <p>The Directors pass down their knowledge independently and provide a considerable degree of technical advice based on the experience they have gained from their respective fields.</p> <p>All Executive and Non-Executive Directors have attended a majority of meetings and have devoted their time adequately.</p> <p>Information pertaining to Directors' participation levels at Board meetings and Board Sub-Committee meetings are given on page 230 and pages 286 to 294.</p> <p>Board Meeting Discussion Composition %</p>  <table border="1" data-bbox="748 1144 1198 1249"> <tr> <td>A - Risk Management</td> <td>21%</td> </tr> <tr> <td>B - Other</td> <td>15%</td> </tr> <tr> <td>C - Performance</td> <td>17%</td> </tr> <tr> <td>D - Strategic, Governance and Compliance</td> <td>47%</td> </tr> </table>	A - Risk Management	21%	B - Other	15%	C - Performance	17%	D - Strategic, Governance and Compliance	47%
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C - Performance	17%										
D - Strategic, Governance and Compliance	47%										
7. Training needs of Directors	Code – A.1.7	Adopted	<p>The Nomination Committee conducts a thorough assessment of a potential candidate before recruiting them as a new Board member, thus ensuring all Board members have adequate experience, knowledge and skills to deal with matters of the Board. The Directors have sufficient exposure and expertise in their relevant areas to fulfil their duties and responsibilities owing to the Board.</p> <p>Considering the evolving complexities in the finance industry, knowledge and skill levels of Directors are continuously assessed to identify training needs. Directors are encouraged by the Board to attend seminars and workshops covering technical and other current topics.</p> <p>All Directors regularly updated themselves on the evolving Non-Banking Finance Sector operations and regulatory aspects.</p> <p>Non-Executive Directors serving on key committees updated themselves continuously on matters related to the respective committees.</p>								

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
A.2 Chairman and Chief Executive Officer	Principle – A.2	Adopted	The roles of the Chairperson and Managing Director/Chief Executive Officer have been segregated at MI since 2012, ensuring a balance of power and authority in such a way that no individual has unfettered power of decisions.
8. Division of responsibility between the Chairperson and MD/CEO	Code – A.2.1	Adopted	<p>The roles of the Chairperson and Chief Executive have been kept separate at MI.</p> <p>The Chairperson's main responsibility is to lead, direct and manage the Board, ensuring that it operates effectively and fully discharges its legal and regulatory responsibilities.</p> <p>The Managing Director (MD) is in charge of the Company's Chief Executive role, managing the day-to-day running of the Company. As part of his role, he leads the Corporate Management team in making and executing operational decisions. The MD is also responsible for recommending strategy to the Board.</p>
A.3 Chairman's Role  (G4 – 39)	Principle – A.3	Adopted	Mr. Saro Weerasuriya, the Chairman of the Board is an Independent Non-Executive Director. He leads and manages the Board, ensuring that it discharges its legal and regulatory responsibilities effectively, preserving order and facilitating the effective discharge of the Board function. The Chairman is supported by a balanced Board comprising an equal number of Executive and Non-Executive Directors.
9. Chairperson's role in conducting Board proceedings	Code – A.3.1	Adopted	With years of experience behind him, Mr. Weerasuriya is able to maintain a high level of independency and impartiality in Board matters. He can obtain advice from across the Board, given the knowledge and experience of MI's Directors. A formal agenda for the Board is prepared and circulated under his supervision to ensure important issues are taken up at Board meetings promptly. Active communication was maintained with shareholders and the public by conducting the Annual General Meeting within the specified regulatory time frame.
A.4 Financial Acumen 10. Availability of sufficient financial acumen and knowledge within the Board	Principle – A.4	Adopted	<p>The Board is equipped with qualified Directors in the field of finance and accountancy and possesses adequate financial wisdom. MI possesses a highly qualified Finance Director to advise the Board on matters relating to finance.</p> <p>The Finance Director demonstrates vast experience in financial management, together with the necessary qualifications in finance. Please refer Directors' profiles on page 214.</p> <p>The Board has the privilege of having two other Directors, in the form of the Managing Director and the Chairman of the Audit Committee that possess relevant qualifications in the field of finance and accounting to obtain advice. Please refer pages 213 and 215.</p> <p>The finance function is well equipped in financial capabilities, having qualified and experienced personnel to support the Finance Director/CFO.</p>


Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)				
A.5 Board Balance  (G4 - 38)	Principle – A.5	Adopted	According to the Finance Companies Corporate Governance Direction No. 03 of 2008 Issued by CBSL, MI Board maintained the required Board balance throughout the Financial Year 2015/16, so that no individual or small group of individuals can dominate the Board's decision-taking.				
11. Presence of Non-Executive Directors	Code – A.5.1	Adopted	Five out of ten Directors on MI's Board are Non-Executive Directors including the Board Chairman. The ratio of 50% maintained throughout the period, is well above the minimum requirement prescribed by the code which is two Non-Executive Directors or one-third of the total number of Directors, whichever is higher. <p data-bbox="751 757 1094 784">Executive vs Non-Executive Directors</p> <p data-bbox="751 786 769 813">%</p>  <table data-bbox="751 1126 1192 1171"> <tr> <td>A - Executive Directors</td> <td>50%</td> </tr> <tr> <td>B - Non-Executive Directors</td> <td>50%</td> </tr> </table>	A - Executive Directors	50%	B - Non-Executive Directors	50%
A - Executive Directors	50%						
B - Non-Executive Directors	50%						
12. Independent Directors	Code – A.5.2	Adopted	Four out of five, Non-Executive Directors are independent in terms of the criteria defined by CSE Rule 7.10.4 on Corporate Governance. The ratio of 80%, Independent Non-Executive Directors to total Non-Executive Directors maintained throughout the year is above the minimum guidelines prescribed by the code, which requires one-third of the Non-Executive Directors to be independent. <p data-bbox="751 1417 1000 1444">Independent Directors vs Non-Independent Directors</p> <p data-bbox="751 1447 769 1473">%</p>  <table data-bbox="751 1787 1192 1832"> <tr> <td>A - Independent Directors</td> <td>40%</td> </tr> <tr> <td>B - Non-Independent Directors</td> <td>60%</td> </tr> </table>	A - Independent Directors	40%	B - Non-Independent Directors	60%
A - Independent Directors	40%						
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Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
13. Criteria for evaluating the independence of Non-Executive Directors	Code – A.5.3	Adopted	All four Independent Non-Executive Directors remained distant from management and free from any other business relationships, which could impair independence in decision-making. The Independent Non-Executive Directors complied with the criteria stipulated by the CBSL, SECSL and ICASL guidelines during the financial year 2015/16.
14. Signed Independence declaration by the Non-Executive Directors	Code – A.5.4	Adopted	Each Non-Executive Director of the Company has made a written submission as to their independency according to schedule J of the code.
15. Determination of independence of Non-Executive Directors	Code – A.5.5	Adopted	Based on the written submissions made by the following Non-Executive Directors and taking into account the criteria specified, in Section 4.4 of the Corporate Governance Direction issued by CBSL, the Board deems the said Directors 'Independent' as at 31 March 2016. <ol style="list-style-type: none"> 1. Mr. S.H.J. Weerasuriya 2. Ms. P.T.K. Navaratne 3. Mr. S.M.S.S. Bandara 4. Mr. P.C. Guhashanka
16. Appointment of an Alternate Director by a Non-Executive Director	Code – A.5.6	N/A	Not applicable as no Alternate Director was appointed during 2015/16.
17. Senior Independent Director (SID)	Code – A.5.7	N/A	Chairman's and Managing Director's roles have been separated since 2012, therefore no requirement to appoint a Senior Independent Director.
18. Confidential discussion with SID	Code – A.5.8	N/A	Please see Code – A.5.7 above.
19. Meeting of Non-Executive Directors	Code – A.5.9	Adopted	The Chairman meets the Non-Executive Directors without the presence of Executive Directors whenever required. The Chairman held a meeting with Non-Executive Directors without the presence of the Executive Directors on 26 March 2016.
20. Recording of concerns in Board minutes	Code – A.5.10	N/A	Company Secretary records any concerns raised by the Directors during the year in Board minutes with sufficient details. There were no issues or concerns raised that could not be unanimously resolved, requiring same to be recorded.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)									
A.6 Supply of Information	Principle – A.6	Adopted	Management provides time bound information which is relevant to enable the Board discharge its duties. Financial and non-financial information are analysed and circulated seven days prior to the Board meeting to make informed and accurate decisions.									
21. Information to the Board by Management	Code – A.6.1	Adopted	<p>Through submission of Board documents and other updates, MI Board receives adequate and timely information by the Management team.</p> <p>The Board received regular reports and presentations on strategies and developments in relation to its business lines, geographical areas and overall plans and performance. Regular reports also provided the Board and Board Sub-Committees information on risk management, credit exposures, asset and liability management including liquidity, compliance and other vital matters.</p> <p>The agenda and supporting papers are distributed in advance to the Board and Sub-Committee meetings, to allow time for reviewing and to facilitate discussion at the meetings. All Directors have full and timely access to relevant information. Directors are free to raise inquiries and request for additional information as necessary.</p>									
22. Adequate time for effective Board meetings	Code – A.6.2	Adopted	<p>The Company Secretary ensured that the required Notice of Meeting, agenda and information documents including Board papers are circulated to all Directors at least seven days prior to holding of Board meetings. This ensured that the Board members had adequate time to analyse the related papers and prepare appropriately for Board meetings.</p> <p>Executive Directors constantly briefed the Board on the functional areas of Credit, Finance and Recoveries that they oversee. The Board, on other functional matters, dealt with the Managing Director or the heads of those respective departments when necessary. The Directors have free and open contact with the management of all levels.</p> <p>Table on Credit and Recoveries Meeting</p> <table border="1"> <thead> <tr> <th>Meeting</th> <th>No. of Meetings</th> <th>Participation by</th> </tr> </thead> <tbody> <tr> <td>Credit Committee</td> <td>10</td> <td>Members of the Credit Committee (Given on page 291) Assistant General Managers of Credit and Marketing Division Branch Managers</td> </tr> <tr> <td>Recoveries Meeting</td> <td>12</td> <td>Deputy Managing Director Senior Manager – Recoveries Recovery Team Leaders</td> </tr> </tbody> </table>	Meeting	No. of Meetings	Participation by	Credit Committee	10	Members of the Credit Committee (Given on page 291) Assistant General Managers of Credit and Marketing Division Branch Managers	Recoveries Meeting	12	Deputy Managing Director Senior Manager – Recoveries Recovery Team Leaders
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Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
A.7 Appointments to the Board  (G4 - 40)	Principle – A.7	Adopted	A formal and transparent procedure should be followed for the appointment of new Directors to the Board. MI established a Nomination Committee in 2013. Mr. Saro Weerasuriya is the Chairman of the Committee who is also the Independent Non-Executive Chairman of MI.
23. Nomination Committee	Code – A.7.1	Adopted	All new appointments to the Board are considered and recommended by the Nomination Committee. Based on such recommendations, final decisions on appointments/re-elections are made by the Board in an objective and transparent manner. During this financial year, no new appointments were made to the Board under the recommendation of the Committee. Page 290 provides information of the Nomination Committee's composition, attendance at Committee meetings and other related details. The Nomination Committee Report for the financial period 2015/16 is given on page 345.
24. Assessment of Board Composition by the Nomination Committee	Code – A.7.2	Adopted	The Nominations Committee carried out an annual assessment of MI Board's composition to assess the level of skills, experience, qualifications and knowledge of the members to address the growing strategic needs of the Company. The Committee also reviewed the complexities associated with the industry in terms of business dynamics, regulatory changes and other relevant factors that took place during the financial period. The Committee recommended that the current Board possesses individuals with required competencies to meet the upcoming challenges in growth of the enterprise as well as in the finance sector. As a result, there was no necessity for the appointment of any new Directors during the financial period.
25. Disclosure of new Director appointments to Shareholders	Code – A.7.3	Adopted	All new Board appointments are communicated to shareholders via the Colombo Stock Exchange and the CBSL is informed as a practice. MI ensures dissemination of new Board appointments to shareholders of the Company without any delay, in addition to the CSE announcement. However, there were no new Board appointments for the year 2015/16.
A.8 Re-election	Principle – A.8	Adopted	The Nominations Committee provides recommendations on Directors who are retiring by rotation for shareholder approval at the AGM. One third of the Directors for the time being are required to submit them for re-election by the shareholders at every Annual General Meeting. The Managing Director, while holding office will not be subject to retirement by rotation.
26. Appointment of Non-Executive Directors	Code – A.8.1	Adopted	As explained in Principle A.8 above, following Non-Executive Directors retire by rotation in the financial year 2015/16 and eligible for reappointment: 1. Mr. S.H.J. Weerasuriya 2. Mr. P.C. Guhashanka
27. Election of Directors by shareholders	Code – A.8.2	Adopted	As explained in Principle A.8 above.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)																		
A.9 Appraisal of Board performance	Principle – A.9	Adopted	The annual appraisal by each Director on the Board performance was carried out for FY 2015/16 under the co-ordination of the Company Secretary. The appraisal took into account important business aspects such as meeting shareholders' expectations and priorities, strategic focus, financial performance, regulations, corporate governance issues and other important matters within the financial period under review.																		
28. Appraisal of Board performance	Code – A.9.1	Adopted	<p>A self-assessment was carried out by each Director at the end of the financial year based on a specified evaluation checklist. A summary report of all assessments made was tabled at the Board meeting, which highlighted areas requiring improvements to ensure the efficiency and effectiveness of the Board.</p> <p>Highlighted Summary Points:</p> <ul style="list-style-type: none"> • Board's contribution towards developing and monitoring strategy. • Board and Committees mix of knowledge and skills to maximise performance in light of future strategy. • Board's commitment towards enhancing Economic, Social and Environmental Value. • Board contribution towards the development of risk management. • Updating Board knowledge on latest developments in the Regulatory Environment, Corporate Governance, Financial Reporting and Market Conditions. 																		
29. Annual self-assessment of the Board and its Committees	Code – A.9.2	Adopted	Please see A.9.1 above.																		
30. Disclosure of the method of Appraisal of Board and Board Sub-Committee performance	Code – A.9.3	Adopted	Please see A.9.1 above.																		
A.10 Disclosure of information on Directors	Principle – A.10	Adopted	Information pertaining to all MI Directors is made available to the shareholders through the Annual Report.																		
31. Director information	Code – A.10.1	Adopted	<p>The following information pertaining to Directors are provided in the Annual Report:</p> <table border="1"> <thead> <tr> <th>Information</th> <th>Pages</th> </tr> </thead> <tbody> <tr> <td>Brief Profile with Qualification, Experience and Expertise</td> <td>212 to 215</td> </tr> <tr> <td>Composition of the Board Sub-Committees</td> <td>286 to 293</td> </tr> <tr> <td>Board Expertise Matrix</td> <td>229</td> </tr> <tr> <td>Directors' Interest in Transactions</td> <td>339 & 340</td> </tr> <tr> <td>Directors' Shareholdings</td> <td>336</td> </tr> <tr> <td>Directors' Remuneration</td> <td>400</td> </tr> <tr> <td>Directors' Attendance at Board Meetings</td> <td>230</td> </tr> <tr> <td>Directors' Attendance at Sub-committee Meetings</td> <td>286 to 294</td> </tr> </tbody> </table>	Information	Pages	Brief Profile with Qualification, Experience and Expertise	212 to 215	Composition of the Board Sub-Committees	286 to 293	Board Expertise Matrix	229	Directors' Interest in Transactions	339 & 340	Directors' Shareholdings	336	Directors' Remuneration	400	Directors' Attendance at Board Meetings	230	Directors' Attendance at Sub-committee Meetings	286 to 294
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Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
A.11 Appraisal of the Chief Executive Officer	Principle – A.11	Adopted	
32. Targets for Managing Director	Code – A.11.1	Adopted	<p>Being the apex Chief Executive of the Company, the Managing Director is entrusted by the Board to conduct day-to-day operations effectively to attain strategic targets, giving necessary consideration to market realities and changes in strategic variables.</p> <p>The Board upon approving the Strategic Plan of the Company expects to attain these aspirations through the Managing Director and Corporate Management team. Following key performance indicators of the Managing Director are reviewed on an on going basis by the Board:</p> <ul style="list-style-type: none"> • Growth in turnover and profitability targets achieved • Management of short-term and long-term funding cost • Brand development initiatives • New product development • Improvement of customer reach • Prudent management of investment portfolio of the Company • Overall risk management • CSR programmes and sustainability activities
33. Evaluation of MD's Performance	Code – A.11.2	To be adopted	A formal appraisal is being finalised in order to assess the financial and non-financial targets of the Managing Director and will be implemented within the next financial period.
B. Directors' Remuneration			
B.1 Remuneration Procedure	Principle – B.1	Adopted	MI has an established, formal and transparent procedure in place to decide on remuneration of Executive Directors. No Director is involved in deciding his or her own remuneration package.
34. Remuneration Committee	Code – B.1.1	Adopted	<p>The Board has established a Remuneration Committee authorised to evaluate and recommend Executive Directors' remuneration as per the Terms of Reference of the Remuneration Committee.</p> <p>Key points related to Remuneration Committee Terms of Reference</p> <ul style="list-style-type: none"> • Consider and recommend the policy on remuneration and incentives of the Executive Directors. • Determine the terms of employment of Executive Directors including the scope of termination payments and pension arrangements. • Approve the total remuneration and incentive package of Executive Directors. In determining such packages, the Committee shall give due regard to contents of the Corporate Governance Code and other applicable laws and regulations. • Approve the grant of long-term incentive awards, such as share appreciation rights and performance shares. • Review the design of all share incentive schemes, including the setting of performance conditions, to be put forward for approval by the Board and shareholders.
35. Remuneration Committee composition	Code - B.1.2	Adopted	The Remuneration Committee comprises of three Non-Executive Directors. The Chairman of the Board chairs the Committee.
 (G4 - 52)	Code - B.1.3	Adopted	The report of the Remuneration Committee is given on page 344 The Committee composition and details of meetings held and participation status are given on page 288.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
36. Remuneration of Non-Executive Directors	Code - B.1.4	Adopted	The Board decides on Non-Executive Directors' remuneration packages, which is made as a collective decision. The Non-Executive Directors are paid a fee for attending Board, Committee meetings or carrying out other Non-Executive duties based on their responsibilities assigned. The Non-Executive Directors do not perform any executive functions, as a result are not entitled to receive any fees that are performance driven.
37. Remuneration Committee's access to Managing Director and professional advice	Code - B.1.5	Adopted	Based on the Remuneration Committee composition, the advice of the Chairman of the Company is already available, since he chairs the Committee as well. When deciding on the remuneration of other Executive Directors, the Committee obtains advice from the Managing Director as necessary.
B.2 The level and make up of remuneration structure	Principle – B.2	Adopted	The Board together with the Remuneration Committee aims to attract, retain and motivate high calibre individuals for top executive positions. As a service oriented organisation, trust and relationships are key and as a result, our policy is to identify those who are committed in either devoting their time towards the Board or making a lifelong career with the organisation. Therefore, remuneration policy of the Company has been devised in a way that it considers retention requirements. The evaluation takes into account the individual's performance level for a given year, based on overall goals achieved by the organisation that relates to him/her.
38. Managing Director's remuneration	Code – B.2.1	Adopted	The Remuneration Committee ensures alignment between Executive Director remuneration and MI's business strategy. Accordingly, the MD's remuneration is determined through an assessment of his performance and by evaluating prevailing market remuneration levels for CEO positions. To ensure fair policy on remuneration, all Executive Directors including the Managing Director are afforded with a suitable and competitive remuneration package.
39. Comparison of remuneration with other institutions	Code – B.2.2	Adopted	The Remuneration Committee reviews information related to the Executive Directors' pay level against the industry. This mechanism ensures remuneration packages of the Directors are on par with the industry/market while ensuring alignment with MI's strategic and short-term objectives.
40. Remuneration comparison with other group companies	Code – B.2.3	Adopted	MI's does not have subsidiary companies or a Parent Company under its structure to which it could draw reference to. However, pay levels of peer Directors within the Company are considered when deciding on Executive Director remunerations.
41. MD's performance related payments	Code – B.2.4	Adopted	Please refer principle B.2 and Code – B.2.1 above.
42. Executive share options	Code – B.2.5	N/A	There was no executive share option schemes offered to any Director during 2015/16 period.
43. Deciding Executive Director remuneration	Code – B.2.6	Adopted	In deciding remuneration of Executive Directors, the Remuneration Committee referred provisions set out in Schedule E of the Code. Please see comments given in Principle B.2 for details on Executive Director – Remuneration. There were no long-term incentive schemes or share option schemes proposed for Executive Directors during this period.
44. Early termination clauses in service contract of Directors	Code – B.2.7	Adopted	The Remuneration Committee has identified early termination clauses in the service contract of Directors and has incorporated the information in the committees policy document.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
45. Early terminations of Directors	Code – B.2.8	To be adopted	No terminations were effected during this financial period.
46. Level of Remuneration of Non-Executive Directors	Code – B.2.9	Adopted	The Non-Executive Directors are paid a fee for their services as mentioned in Code B.1.4. No share options schemes were afforded to Non-Executive Directors during FY 2015/16.
B.3 Disclosure of Remuneration	Principle – B.3	Adopted	A statement on MI's Remuneration policy is provided on page 344. Details of remuneration of the Board as a whole are mentioned in Code B.3.1 below.
47. Names of members in the Remuneration Committee and remuneration paid to Directors	Code – B.3.1	Adopted	Details of Remuneration Committee composition with meetings held and participation status of members is provided on page 288. 'Related Party Disclosure Note' on page 400 in the Notes to Financial Statements provides information on remuneration paid to Executive and Non-Executive Directors in aggregate.
C. Relations with Shareholders			
C.1 Constructive use of AGM	Principle – C.1	Adopted	MI Board facilitates effective communication with shareholders by holding the Annual General Meeting. Directors are expected to take a positive approach to the views of all shareholders during such meetings. Shareholders may raise any queries related to the Company with the Board of Directors. According to MI's policy, shareholders are encouraged to participate at AGMs and convey their views and make recommendations.
48. Level of proxies at AGMs	Code – C.1.1	Adopted	Proxy Forms are made available in the Annual Report with adequate prior notice to all shareholders in accordance with the Companies Act. An effective mechanism is in place through the Company Secretarial Division, to record all proxy votes logged for each resolution.
49. Separate resolutions for each separate issue	Code – C.1.2	Adopted	Resolutions are proposed for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately. The Company passed a separate resolution for the adoption of the 'Report of Directors', the 'Statement of Financial Report and the Report of the Auditors' included in the Annual Report.
50. Availability of all Board Sub-Committees Chairmen at the AGM	Code – C.1.3	Adopted	In answering any questions, Chairpersons of all the Board Sub-Committees, namely, Audit, Integrated Risk Management, Asset and Liability Management, Nomination, Remuneration, Credit and Related Party Transactions Review Committees were present at the AGM held on 30 June 2015. Same practice will be adopted for future AGMs.
51. Adequate Notice of the AGM	Code – C.1.4	Adopted	The Annual Report, including the Financial Statements and Notice of the Meeting, are sent to shareholders at least 15 working days prior to the date of the AGM, by the Company Secretary, complying with the Companies Act No. 07 of 2007. The Annual Report of FY 2014/15 was submitted to the Colombo Stock Exchange on 8 June 2015 and was delivered to all shareholders on the same day. MI's AGM was held on 30 June 2015. This mechanism improves the stewardship and transparency of MI's activities and provides an opportunity for shareholders to review progress early and seek clarifications at the AGM.
52. Voting procedures at General Meetings	Code – C.1.5	Adopted	Except for the AGM, there were no other general meetings held during the FY 2015/16. All notices circulated to shareholders of General Meetings, carry a summary of the procedures governing the voting at such Meetings.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
C.2 Communication with Shareholders	Principle – C.2	Adopted	MI's Board has identified the importance of maintaining constant communication in ensuring effective dialogue with MI's stakeholders. Extensive financial and non-financial information of the Company's activities are provided to shareholders through the Annual Report and the Interim Reports published on a quarterly basis. Page 37 provides additional disclosure on the shareholder communication process with the Company.
53. Channel to reach all shareholders of the Company	Code – C.2.1	Adopted	<p>Apart from holding meetings with shareholders, MI maintains communication with them by mainly providing feedback of Company status by disseminating information.</p> <p>Financial information such as Annual Reports and Interim Reports are made available to shareholders via the CSE website or by registered post according to the Communication Policy of MI. The Company encourages the attendance of all shareholders for the Annual General Meeting and any Extraordinary Meetings held during the period.</p>
54. Policy and methodology for communication with shareholders	Code – C.2.2 & C.2.3	Adopted	Based on a Board-approved 'Communication Policy', specific communication methods and channels have been adopted, to interact with MI's shareholders. The Corporate Communication Policy document was distributed to divisional heads, who in turn adopt policies through their subordinates.
55. Disclosure of Contact person for shareholders	Code – C.2.4	Adopted	According to the general practice of the Company, the main point of contact for shareholders to voice their concerns and obtain clarifications is the Company Secretary, who will act as the intermediary between shareholders and the Board.
56. Process to make aware of major issues and concerns of shareholders	Code – C.2.5	Adopted	Significant issues and concerns impacting shareholders are communicated by the Company by holding direct meetings with shareholders. In addition, the Company Secretary maintains records of all enquiries sent by shareholders and directs those enquires to the relevant Director or the Board as per the materiality of the issue. In addition, a stakeholder feedback form is given at the end of the Annual Report which can be used as a medium of communication by shareholders.
57. Person to Contact in relation to shareholder matters	Code – C.2.6	Adopted	The main point of contact for shareholders' is the Company Secretary. According to the open-door policy of the Company, shareholders are welcome to contact any Executive Director or members of the Corporate Management to obtain clarifications on any matter.
58. The process in responding to shareholder matters	Code – C.2.7	Adopted	Shareholder-related material matters are handled promptly and attentively by the Board upon being informed. The Company Secretary is responsible to convey shareholder enquiries to the Board and revert to shareholders. When reverting to shareholders the Secretary can decide on the channel of communication based on the materiality of the matter.
C.3 Major transactions	Principle – C.3	Adopted	An established process is in place to disclose any material transactions that would alter or vary the net asset position of the Company either through its audited Financial Statements, interim publications or by making an announcement to the Colombo Stock Exchange. To consolidate this area further, MI's Board has established a Related Party Transaction Review Committee within the previous financial period, comprising of Independent Non-Executive and Executive Directors.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
59. Disclosure of material facts on major transactions	Code – C.3.1	Adopted	MI had not engaged in or have committed to any material-related party transactions or corporate transactions involving acquisitions, mergers or disposals, which materially affect MI's net assets position.
D. Accountability and Audit			
D.1 Financial reporting	Principle – D.1	Adopted	<p>To ensure disclosure of MI's financial position, performance and prospects to its stakeholders, a comprehensive Annual Report is presented which incorporates the Audited Financial Statements together with comprehensive management commentary on MI's performance and outlook.</p> <p>The Financial Statements provide a sound overview of MI's performance and position for the financial year ended 31 March 2016 in a true and fair manner. The Company complied with applicable Sri Lanka Accounting Standards (SLFRS/LKAS) and other regulations specified, in the Finance Business Act No. 42 of 2011, Colombo Stock Exchange Listing Rules and the Companies Act No. 07 of 2007.</p>
60. Balanced and understandable assessment of the Company	Code – D.1.1	Adopted	<p>MI's Interim Financial Statements were published on a quarterly basis in a timely manner in three languages. The interim accounts comply with the State Language Policy, regulatory interim publication formats and the applicable accounting standards.</p> <p>All publications released through, either as press releases or the Colombo Stock Exchange website and reports to regulators and other information made available on the MI's website are accurate and transparent.</p>
61. Directors' Report	Code – D.1.2	Adopted	<p>The Report of the Board of Directors provided on pages 333 to 338 covers all areas of this section. This includes –</p> <ul style="list-style-type: none"> • Compliance status to laws and regulations. • Affirming on MI's going concern. • Reporting on the effectiveness of the internal control system. <p>Transactions related to Directors or Key Management Personnel have been disclosed under the Directors' Interest in Contracts on pages 339 to 341 and in the Notes to the Financial Statements on page 400.</p> <p>All material related party transactions of the Company have been reviewed by the Related Party Transaction Review Committee. The Committee is provided a quarterly report on all types of transactions that occurred with total balances.</p>
62. Directors' and Auditors' responsibility statement	Code – D.1.3	Adopted	Statement of Directors' Responsibility for Financial Reporting on page 342 sets out the responsibilities of the Board for the preparation and presentation of the Financial Statements. Statement of Internal Controls issued by the Board provided on page 348 complies with content of Annexure K of the Code. Auditors reporting responsibility is given in their Audit Report on page 350.
63. Management Discussion and Analysis	Code – D.1.4	Adopted	A comprehensive management commentary covering all requirements of the sector is given on pages 33 to 122 in the 'Management Discussion and Analysis'. The Management Discussion and Analysis comprising of a sustainability section, highlights MI's integrated approach to reporting and should be read in conjunction with the Risk report, Corporate Governance report and the audited Financial Statements.
64. Directors' affirmation of going concern	Code – D.1.5	Adopted	The Annual Report of the Board of Directors provides disclosure affirming the going concern of the Company, in keeping to aspects mentioned in schedule G of the Code.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
65. Calling of an EGM when net assets fall below 50% of shareholders' funds	Code – D.1.6	N/A	With net assets exceeding Rs. 7.65 billion as at 31 March 2016, the chance that it would drop below 50% of the value of shareholders' funds is very remote. If such a situation was to arise an EGM will be called and shareholders will be notified.
66. Adequacy and accuracy of related third party transaction disclosures	Code – D.1.7	Adopted	<p>All Directors submit signed and dated declarations to the Company Secretary on an annual basis declaring the transactions they have had with MI, if any.</p> <p>Under the co-ordination of the Company Secretary an 'Interest Register' is maintained to record related party transactions as and when they occur.</p> <p>There is adequate disclosure provided in the audited Financial Statements on Related Party Transactions in keeping to the requirements of this section.</p>
D.2 Internal Controls Maintaining a sound system of internal controls	Principle – D.2	Adopted	<p>MI's Board has established an effective system of internal controls to safeguard the assets of the Company. The control system is designed to counter potential risks that could arise from dealing with financial transactions or risks that could arise from other event changes in the environment and business conditions.</p> <p>MI understands the importance of adopting effective internal controls in managing risks and has established an on going process for identifying, evaluating and managing significant risks faced by MI. This process includes evaluating the control system, as and when there are changes to the business environment or regulatory guidelines apart from carrying out a periodic assessment. Internal controls have been embedded as part of MI's compliance culture with employees required to adhere to set corporate procedures.</p>
67. Reviewing effectiveness of internal control system	Code – D.2.1	Adopted	<p>Internal Auditors have been entrusted to periodically review the adequacy and effectiveness of internal controls of the Company with feedback passed on to the higher level Audit Committee. The Audit Committee comprising of Non-Executive Directors, make an independent assessment on the adequacy and application of internal controls, based on feedback by Audit and Corporate Management. They report to the Board on matters deemed material.</p> <p>MI's Board was able to make due assessment of the adequacy and effectiveness of the Company's control mechanism and obtained clarifications from corporate management and Audit Committee, as deemed necessary. The Statement on Internal Controls provided on page 348 complies with the contents of Annexure K of the Code.</p> <p>The oversight process carried out by the Integrated Risk Management Committee to oversee MI's risk management process, cuts down potential risks and helps strengthen controls in mitigating possible losses.</p>
68. Internal Audit function	Code – D.2.2	Adopted	<p>MI's Internal Audit Division, which is centrally located, provides independent and objective assurance in respect of the adequacy of the design, operating effectiveness of internal controls and the governance process across the Company. The Internal Audit Division with three qualified and experienced officers' conduct independent audits in areas of high risk focusing on branch review, in keeping to the annual audit plan.</p> <p>MI also has entrusted Ernst & Young Advisory Services (Pvt) Limited to handle the internal audit function of high risk business areas of the Company. Internal Auditors submit monthly/quarterly full audit/spot audits in keeping to the Audit Committee approved annual audit plan.</p>

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
69. Audit Committee to review process and effectiveness of risk management and internal controls and to report to the Board	Code – D.2.3	Adopted	<p>With the recruitment of additional staff, the Company continued to enhance its risk management framework so that risks can be proactively managed within acceptable levels. MI's systems and procedures were enhanced to identify, control and report on the major risks such as credit, market, liquidity and reputation risks.</p> <p>The Audit Committee with the support of the Integrated Risk Management Committee continuously reviewed the effectiveness of the risk management process and internal controls, to ensure the soundness of the systems in place and reported any deficiencies to the Board along with its recommendations.</p>
70. Statement of Internal Control	Code – D.2.4	Adopted	<p>The Statement by the Board on Internal Controls given on page 348 complies with the contents in Annexure K of the Code. Some of the salient aspects highlighted are –</p> <ul style="list-style-type: none"> • External Auditors review of content of the Board's internal control statements and affirmation that the process in place is in-line with the statement • Internal Control linkage to Financial Reporting • Audit Committee's role in reviewing internal controls • Mechanism to identify, evaluate and manage risks
D.3 Audit Committee – A Committee to review financial reporting aspects, internal controls and maintaining relationships with Company Auditors	Principle – D.3	Adopted	<p>The Board of MI has established an Audit Committee that operates independently under specified terms of reference. Requirements of this section is covered by the Committee by reviewing the financial reporting aspects, internal controls and maintaining relationships with the Company Auditors, both internal and external.</p>
71. Audit Committee composition	Code – D.3.1	Adopted	<p>The Chairman of the Audit Committee is Mr. S.M.S.S. Bandara, who is a Chartered Accountant, with years of experience behind him in the Financial and Auditing field, being a partner of Messrs B.R. De Silva, Chartered Accountants.</p> <p>The Committee met 6 times during the year. The names of members forming the Audit Committee, their participation level, secretary and invitees of the Committee are disclosed on pages 286 to 287.</p>
72. Reviewing objectivity, effectiveness and independence of External Auditors	Code – D.3.2	Adopted	<p>The Audit Committee, in keeping to its terms of reference monitors the objectivity, effectiveness and independence of the External Auditors of the Company.</p> <p>Messrs BDO Partners were reappointed by the Audit Committee as the External Auditor of the Company for the FY 2015/16 statutory audit. In accordance with CBSL regulations and best practices, the Audit Committee selection process assessed External Auditors' capacity, resources, availability and level of independence prior to selection.</p> <p>According to the Terms of Reference on Engagement of an External Audit Partner to provide 'non-audit services', Messrs BDO Partners do not handle a substantial volume of non-audit services. The Company refers most of the non-audit services to Messrs Ernst & Young, Chartered Accountants.</p>

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
73. Terms of Reference of the Audit Committee	Code – D.3.3	Adopted	<p>A Board approved written terms of reference govern all activities of the Audit Committee. The Terms of Reference have been drawn after giving due consideration to the 'Code of Best Practices on Audit Committees' issued by The Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka.</p> <p>Objectives of the Committee comprises –</p> <ul style="list-style-type: none"> • Ensuring compliance to disclosure requirements arising from accounting standards and regulations specified by regulatory bodies including CBSL. • Providing oversight on the quality of financial reporting, ensuring relevant accounting policies are adopted. • Evaluating the adequacy and effectiveness of the internal control system and setting up a process that provides continuous feedback. • Dealing in matters related to the External Auditors and their nominations annually. • Informing the Board on any significant matters that comes to their attention. • Following up on the observations and recommendations of Internal Auditors and reviewing their scope of work. • Frequently assessing MI's going concern by correlating information presented to the Committee. • Carrying out independent reviews as deemed necessary on feedback regarding employee concerns. • Engaging in meetings with the Corporate Management, External and Internal Auditors separately, on a periodic basis. <p>During the FY 2015/16, the Audit Committee performed the following tasks to meet stated objectives:</p> <ul style="list-style-type: none"> • Followed up with the Corporate Management on material observations highlighted by Internal Auditors. At each meeting, Internal Auditors were requested to present key observations to the Committee, including due recommendations for rectification and to provide a status report on the remedial action taken by the Management. • Reviewed the scope, functions and resources of the internal audit function and adequacy of audit programmes. The Committee approved audit programmes tabled by MI's own Internal Audit Division and outsourced part given to EY on 21 July 2015. • Reviewed integrity of the financial information generated by the Finance Department in consultation with the CFO. The Committee evaluated the accounting policies, accounting standards including IFRS new requirements adopted and other reporting requirements in accordance with the Companies Act, Finance Business Act and Colombo Stock Exchange rules. • Evaluated external audit scope of work and its cost effectiveness with final results. Ensured that the required level of independence and objectivity was maintained when giving their audit opinion. • Followed up on material observations highlighted in the management letter by the External Auditor, during their statutory audit of the previous period. The Committee invited the External Auditors thrice this period to meet and discuss key matters. • The Committee ensured that ICT system review is included into the annual audit process of the Company from 2015 onwards. • Reviewed the process of risk management to ensure the Company meets required risk management standards.

Corporate Governance Principles	Reference to SEC and CA Sri Lanka Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
74. Disclosures of the Audit Committee	Code – D.3.4	Adopted	<p>Information regarding the composition, objectives and duties of the Audit Committee is given in Sections 8.2 (a) to 8.2 (q) in Part 2 of this supplement pages 268 to 272.</p> <p>The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on pages 286 and 287.</p> <p>Report of the Audit Committee is given on page 346. The Report clearly specifies the determination made by the Committee in relation to External Auditors' independence.</p>
D.4 Code of Business Conduct & Ethics	Principle – D.4	Adopted	<p>High standards in business conduct and ethics is an integral part of MI's culture. In keeping to MI's human resource value system, an organisation-wide human resource policy document is in place, defining HR policies and procedures to all staff. The policy document upholds best corporate practices on HR management and expects employees to uphold sound business conduct.</p>
75. Compliance to requirements on business conduct and ethics	Code – D.4.1	Partially Adopted	<p>The 'Human Resource Handbook' sets out clear HR policies that include rules on business conduct and values, for staff to adhere.</p> <p>The Board is not aware of any material violations by any Director or employee going against the laid down policies on business conduct and ethics, in keeping to Schedule (I) of the Code. The Board made a declaration in this year's Director's Report on page 338, stating "All members of the Board of Directors and Key Management Personnel, have complied with the code of business conduct and ethics introduced in the HR Handbook".</p>
76. Affirmation by Chairman that no individual has violated business conduct and ethical requirements of the Company	Code – D.4.2	Adopted	<p>The Chairman's affirmation that he is not aware of any violations of requirements of the Company on specified business conduct and ethics is given in the "Chairman's Message" on page 22.</p>
D.5 Corporate Governance disclosure	Principle – D.5	Adopted	<p>MI's Board of Directors upholds adopting sound Corporate Governance practices, while improving the overall governance year-on-year.</p>
77. Disclosure on Corporate Governance	Code – D.5.1	Adopted	<p>The Corporate Governance Report of FY 2015/16 provides a comprehensive disclosure on MI's solid Corporate Governance framework and practices. The report mentions MI's level of compliance to CBSL's Directions and Code of Best Practices on Corporate Governance issued in 2013.</p>

Section 2

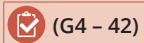
Shareholders:

Corporate Governance Principles	Reference to SECSL & ICASL Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
E. Institutional Investors			
E.1 Shareholder Voting	Principle – E.1	Adopted	MI's shareholder base comprises of a small number of investors with institutional shareholding being the main component. The Company obtained listing status in the Colombo Stock Exchange, <i>Diri Savi</i> Board in 2011.
78. Constructive dialogue between shareholders and the Company.	Code – E.1.1	Adopted	MI's shareholders are free to express their views at AGMs and communicate any matter even unrelated to such meetings. The Board interacts with shareholders freely at General Meetings. Shareholders views and other matters are taken up at Board and Sub-Committee meetings depending on the materiality and urgency of the matter at hand. The Chairman communicated opinions and views of shareholders on material matters to both the Board and Corporate Management.
E.2 Evaluation of Governance Disclosure	Principle – E.2	Adopted	There is adequate disclosure of governance related matters which are communicated to all shareholders via the Annual Report and the AGM as mentioned above in Code E.1.1.
F. Other Investors			
F.1 Individual shareholders	Principle – F.1	Adopted	MI's Annual Report provides adequate information for prospective investors to carry out a thorough analysis of the Company. Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing or divesting decisions. Further, MI publishes accounts in the CSE website on a quarterly basis so that retail investors could make judgments on the performance of the Company.
F.2 Shareholder voting	Principle – F.2	Adopted	MI's shareholder base comprises of a small number of investors with institutional shareholding being the main component. As per MI's practice, all investors are encouraged to actively participate at general meetings.  (G4 - 34)
G .Sustainability Reporting	Principle – G.1	Adopted	Being a responsible corporate, MI believes in meeting most of the responsibilities towards key stakeholders namely; shareholders, customers, employees, suppliers and the community in the optimal way through our business activities. Hence, we strive to create a sustainable society and environment, not only with regards to the financial performance of the Company, but also in areas of environmental conservation, social development and sustainability. The Board, its Sub-Committees, the Sustainability Governance Committee and Corporate Management are responsible to ensure economic, social and environmental requirements are safeguarded as part of their individual scope. MI's business model is designed to deliver sustainable value in terms of economic, social and environmental facets. We have embraced suitable sustainability strategy to enhance MI's impact towards the economy, society and the environment in keeping to MI's sustainability vision, goals and ideologies.

Corporate Governance Principles	Reference to SECSL & ICASL Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
79. Economic Sustainability	Code – G.1.1	Adopted	<p>MI's contribution to 'Economic Sustainability' continued to be addressed by the Corporate Management through growth in business diversification in to new business lines such as microfinance and expanding presence beyond the Western Province has assisted people of all walks of life, in turn contributing to the GDP of the Sri Lankan economy.</p> <p>A comprehensive disclosure on economic sustainability covering all requirements referred in Code G.1.1 is provided on pages 137 to 151 under 'Economic Value Creation' in the Sustainability Section.</p>
80. Environmental Sustainability	Code – G.1.2	Adopted	<p>In safeguarding the environment, MI's 'Sustainability Governance Committee' was able to initiate key projects during this period. The Committee effectively delegated the responsibility of ensuring smooth running of initiatives to the Corporate Management.</p> <p>An environmental friendly initiative was carried out at the Yala Wild Life Sanctuary through the installation of notice boards, informing the general public on the preservation of the ecosystem. In addition, the Company took adequate measures in gaining the Carbon Footprint Certification to measure MI's impact on the environment, thus being an advocate to minimise the carbon footprint as much as possible.</p> <p>A comprehensive disclosure on environmental practices covering all requirements referred to in Code G.1.2 is provided on pages 152 to 161 under 'Environmental Value Creation' in the Sustainability Section.</p>
81. Labour practices	Code – G.1.3	Adopted	<p>The Company carried out several initiatives to enhance the sustainability of labour during the year. Induction programmes were held giving new-comers an initial knowledge on the Company's values, principles, internal rules and procedures. A series of training and awareness sessions were also conducted in order to improve the skills and knowledge of MI's workforce. Selected staff members attended workshops conducted by regulators, such as The Central Bank of Sri Lanka, at the Company's expense in order to keep up to date with new rules and regulations.</p> <p>A comprehensive disclosure on labour practices, covering all requirements referred to in Code G.1.3 is provided on pages 164 to 181 under 'Review of Labour Practices and Decent Work' in the Sustainability Section.</p>
82. Society governance disclosures	Code – G.1.4	Adopted	<p>Several social value enhancing campaigns were conducted during the year in order to give back to society. Donations were made to orphanages at Anuradhapura and Ratmalana, the Senior Artists' Foundation and to a school in a rural area. A house was also built in Polonnaruwa for the underprivileged and handed over.</p> <p>A comprehensive disclosure of society governance covering all requirements referred to in Code G.1.4 is provided on pages 182 to 191 under 'Social Review' in the Sustainability Section.</p>
83. Product responsibility disclosures	Code – G.1.5	Adopted	<p>Marketing campaigns were carried out in a factual and unbiased manner, enabling MI to effectively communicate extensions and modifications to product lines.</p> <p>A comprehensive disclosure of product responsibility practices covering all requirements referred to in Code G. 1.5 is provided on pages 193 to 196 under 'Product Responsibility Review' in Sustainability Section.</p>

Corporate Governance Principles	Reference to SECSL & ICASL Code	Adoption Status	MI's Extent of Adoption (2015/16 Update)
84. Stakeholder identification, engagement and effective communication	Code – G.1.6	Adopted	<p>MI has identified its key stakeholder groups as given on page 36. The disclosure identifies 'Material Topics' and aspects that are deemed key and material to the relevant stakeholder. The materiality level of each aspect is given on page 45. Applicable material topics are thoroughly explained in this year's Management Discussions and Analysis and other reports forming parts of MI's Integrated Annual Report.</p> <p>MI stands committed in transparently reporting on economic, social and environmental aspects relevant to our stakeholders on an on-going basis. We have summarised the triple bottom line value created this period against past in the 'Triple Bottom line Financial and Non-Financial Highlights' given on pages 10 to 13.</p> <p>A survey was carried out to gain effective feedback from key stakeholders in order to monitor market trends and identify their expectations and concerns. The survey enabled MI to identify and analyse areas of concern and effectively revert back with solutions to the concerned parties.</p>
85. Formalised Sustainability Reporting Process	Code – G.1.7	Adopted	<p>In line with the Company's integrated approach to reporting and sustainability reporting framework, MI has established a process to capture and report information pertaining to triple bottom line value creation, annually.</p> <p>The Sustainability Report was structured based on updated Global Reporting Initiative Guideline (G4) version and also discloses MI's level of adherence to 'Global Compact Consideration' principles.</p> <p>The Finance Division is responsible to capture the value creating activities executed from various facets of MI's business processes and compile an overall review report annually. Initiatives of the Corporate Management, the Sustainability Governance Committee, HR Division and all other supporting functions including the Engineering Division were taken into account when drafting the report.</p>

MI'S COMPLIANCE STATUS OF FINANCE COMPANIES (CORPORATE GOVERNANCE) DIRECTION NO. 03 OF 2008 AND ITS RELATED AMENDMENTS



(G4 - 42)

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
2.1 The Responsibilities of the Board of Directors	Complied	<p>Board Approved Strategic Objectives and Corporate Values</p> <p>MI's Strategic objectives revolved around gaining a higher market share in terms of core business, thus enhancing the value of MI's shareholders with above average market returns. The strategic plan for the next three years was approved by the Board on 30 June 2015. The plan specified strategic objectives, corporate values and risk management aspects that were deliberated by the Directors and Corporate Management and decided upon in keeping to the Vision and Mission Statements of MI.</p> <p>Updates on the execution of the strategic plan are regularly monitored by the Board through monthly meetings with the Corporate Management. After the first year of the Corporate plan, a separate annual budget is prepared in keeping to the strategic plan, incorporating changes in market variables and the business climate. In upholding MI's corporate values, the strategic plan highlighted the Company's aspirations on enhancing corporate social activity and widening MI's sustainability impacts to complement its triple bottom line expectations.</p> <p>Communication of the Strategic Plan</p> <p>The strategic plan was communicated to all divisions through a presentation and the handing over of hard copies for Managers and staff to plan their individual operational targets to meet overall objectives. The Company demonstrated dual communication, with feedback on the effectiveness of the strategies conveyed back to the Board, by the relevant departmental heads.</p>
<p>(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 the immediate three years to follow</p>	Complied	<p>Approving of Business Strategy</p> <p>Business strategies of various departments within the Company were set in line with MI's overall strategic plan. The strategy formulation process revolved around devising separate strategies for core businesses and support functions of the Company namely; Credit, Recoveries, Finance, Deposits and HR for the attainment of the corporate objectives. The Board approved these separate strategies with measurable goals for the next three years incorporating same in the Company's medium-term strategic plan.</p> <p>Approving of the Risk Policy</p> <p>The Board places significant importance in shaping the Company's risk management process, to effectively manage risks arising from executing strategy and related operational activities. MI's risk policy identified key risks associated with MI's business operations, laying down a formal structure to manage risks. The policy was developed and formulated in keeping to MI's successful strategic framework that is well aligned with overall corporate objectives. Prominent features of the policy document include –</p> <ul style="list-style-type: none"> • The Risk appetite which demonstrates the Company's tolerance towards the potential risks that could materialise in the future. • Defining the main Key Risk Indicators of the Company. • The Board's role in the management of risks and corporate management's duties towards risk management. • Aligning the corporate plan and strategic business objectives with the risk objectives. • Segregation of duties in relation to risk management for various levels of the hierarchy. • Accountability of staff for the identification, assessment and management of risks, within their scope of assigned responsibilities/job functions.

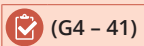
Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
		<p>Risk Management Framework</p> <p>The Board is responsible for ensuring adequate risk management of key business areas, thus entrusting the IRMC an overall supervisory role on overseeing the risk management process and providing feedback on vital aspects. The IRMC being a Board Sub-Committee is responsible for approving overall risk policy and reviewing risk management procedures. Quarterly risk reports submitted by the Manager Risk and Compliance are evaluated by the IRMC, while calling for additional information from various divisions as deemed necessary.</p> <p>There is an on-going development of a formal risk management procedural document covering key risks associated with MI's business, laying down formal procedures cum evaluations to be followed by divisions for effective management of risks to be implemented during the course of the next financial period.</p>
<p>(c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p>	<p>Complied</p>	<p>Risk Management</p> <p>Each division is entrusted with assessing risks related to their functional areas and to apply suitable controls to managing key risks, according to the approved risk policy. (MI's risk management process is outlined on pages 297 to 330 in the Annual Report) In better managing risks, the management has set forth the following mechanisms:</p> <ul style="list-style-type: none"> • Higher level supervisory Committees. • Periodic review of Assets and Liabilities mismatch gaps against the limits approved by the Board, taking up gaps with Directors and the Corporate Management to identify means of bridging any fluctuations over/under the specified limits. • Specified risk appetite limits for key risks, with maximum tolerance limits. • Approving operational procedure/s manuals for each business function and carrying out regular compliance reviews. • The Branch Compliance Checklist (BCC) was updated during the period in order to comply with the new requirements and changes to the existing control systems. The report submission status was reported to the Audit Committee and any non-compliance identified by the Internal Auditors during their branch reviews was reported to the Audit Committee and rectified. In order to speed up the reporting process of BCC, steps have been taken to introduce an online version with the support of the Company's IT Division. Currently, the online version is at the testing stage and is planned to be implemented by April 2016. • As recommended by the CBSL, a Risk Based approach was introduced when selecting branches for Internal Audits. The Company's Internal Audit Division developed a risk-based audit plan, based on the risk indicators/KPI applicable for branches. The plan was put in to operation with the approval of the Audit Committee.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
		<p>Risk Reports Generated</p> <p>Following reports aid in better management of risks:</p> <ul style="list-style-type: none"> • Submission of Quarterly risk reports by Risk and Compliance Manager to the IRMC. • Quarterly 'Risk Activity Report' submitted by the IRMC in providing continuous feedback to the Board. • A summary report related to assets and liabilities including a mismatch position, liquidity and interest rate risks and possible solutions which are submitted to the Board periodically by ALCO. • Various other Committee reviews make recommendations to combat risks coming under their purview. i.e. The Credit Committee reviews large credit transactions and proposes suitable credit policies. • Periodic reports submitted by Internal Audit to the Audit Committee covers issues on non-compliance, to procedure breakdowns in internal controls and potential risks facing the business. The Committee then reviews and recommends counter actions in turn to the Board.
<p>(d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers</p>	<p>Complied</p>	<p>Stakeholder Communication policy</p> <p>MI's Board approved communication policy demonstrates the way in which the Company communicates with its key stakeholders. The policy specifies the communication approach and methods to be adopted when dealing with various external parties.</p> <p>The AGM is utilised as the main communication method to interact with MI's shareholders to obtain their views and communicate important aspects related to business activities. Numerous effective communication methods are specified to deal with MI's broad stakeholder list that includes customers, suppliers, borrowers and the society.</p>
<p>(e) Reviewing the adequacy and the integrity of the Finance Company's internal control systems and management information systems</p>	<p>Complied</p>	<p>Instilling a solid Internal Control system</p> <p>The Board has established a comprehensive system of internal controls to manage risks associated with the business. The Audit Committee monitors the effectiveness of internal control systems on a continuous basis and reports to the Board on its findings.</p> <p>A comprehensive 'Procedure Manual' is in place incorporating all key business functions of MI. Additional subsequent procedural instructions are conveyed through memos, circulars and addendums. There is a clear delegation of duties across the organisation, based on a formal organisational structure, with Managers and their subordinates handling routine operations with clear communication of envisaged internal controls, that should be adhered to at all times.</p> <p>Review of Internal Controls</p> <p>The Board is updated on material concerns and lapses in internal controls by the Audit Committee with recommendations and solutions on an on-going basis. Monthly and Quarterly, internal audit review reports are submitted by MI's own internal audit division as well as Ernst & Young Advisory Services (Pvt) Limited to the Audit Committee, specifying any lapses with due recommendations.</p> <p>Review of Management Information Systems (MIS)</p> <p>At the request of the Audit Committee, a follow-up review on independent System Audit [done by Ernst & Young Advisory Services (Pvt) Limited] has been carried out by BDO Partners as a part of their statutory audit for the financial year 2014/15. The report on the follow-up review was tabled at the Audit Committee on 21 July 2015. The Audit Committee noted that most of the issues highlighted have been addressed and rectified by the Management and necessary instructions were given to achieve full compliance. Remaining issues were rectified subsequently.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
(f) Identifying and designating Key Management Personnel, who are in a position to: (i) significantly influence policy (ii) direct activities; (iii) exercise control over business activities, operations and risk management;	Complied	<p>High Calibre Board</p> <p>The Company's Board comprises highly qualified individuals possessing vast experience and knowledge to direct MI's affairs in a prudent and effective manner. They are automatically deemed as Key Management Personnel of the Company.</p> <p>Identification, Recruitment and Retention of Officers in Key Positions</p> <p>The Corporate Management team, holding vital positions in the organisation, have been carefully selected, recruited and retained. They are expected to handle key functional areas of MI's business. Job descriptions, career path identification and required authority and responsibility have been clearly specified for such individuals.</p> <p>Nomination Committee</p> <p>The Nomination Committee is entrusted with the task of selecting future Director appointments through a transparent and formal process, while recruiting the best talent to the Board.</p> <p>The Board reviewed the Nomination Committee Terms of Reference during this financial year for effective governance of the Committee.</p>
(g) Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel	Complied	<p>Board Authority</p> <p>MI's Board, at the apex of the organisational hierarchy, makes the strategic decisions regarding the future of the Company. It delegates responsibilities to the Corporate Management and exercises the authority to make adequate changes in the management of MI, as and when required.</p> <p>Defining the Board's Responsibility</p> <p>A "Board's Responsibility" document has been prepared illustrating each Board member's role, specifying job descriptions for the Managing Director, Chairman, Executive Directors and the Non-Executive Directors.</p> <p>Defining Key Management's Role</p> <p>Executive Directors and the Corporate Management are expected to understand their responsibilities, work duties and levels of authority, based on the formal job descriptions laid down for each of the top managerial positions.</p>
(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;	Complied	<p>Oversight Process to Govern Affairs of the Company</p> <p>Board meetings are held on monthly intervals. This enables Directors to keep a close review of the Company's performance and to monitor the key areas of business on an on-going basis. Feedback is provided on any material matters to the Board by the Board Sub-Committees that have been entrusted to closely oversee specific aspects in relation to the operations of MI.</p> <p>Separately, key operational functions have been delegated to corporate management by the Board of Directors. Most Divisional Heads are at Executive Director capacity or are very senior officers of the Company, who report to the Managing Director directly. To oversee performance and manage operations effectively, the Directors initiate periodic meetings with the Corporate Management. This includes separate credit, marketing and recoveries meetings that enable the Corporate Management to keep a close watch on the operations on an on-going basis. Moreover, weekly Corporate Management meetings are held in the presence of the Executive Directors and the Corporate Management members to monitor performances closely.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
		<p>Setting forth clear procedures and processes for key functions</p> <p>A comprehensive 'Procedure Manual' has been made available to all departments so that a consistent and professional approach can be executed by all employees who form part of MI's total work operation. This facilitates discipline and acts as a safety measure, as adequate controls are inbuilt to the process.</p> <p>Clear Human Resource Policies</p> <p>Information regarding MI's HR policies and the Company's value system are illustrated in the 'Employee Handbook', which has been issued to employees through the HR Division. The specified policies set the appropriate platform and culture for implementing the operational framework.</p>
(i) Periodically assessing the effectiveness of its governance practices, including: (i) the selection, nomination and election of Directors and appointment of Key Management Personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary;	Complied	<p>The strong Corporate Governance framework established by MI is periodically assessed by the Board as follows:</p> <p>MI's Board carries out independent reviews on a continuous basis to assess the effectiveness of the overall governance framework and on the adherence to related regulations. To bridge gaps identified, the Board takes numerous measures which include the establishing of best practice guidelines to improve the existing framework as necessary. Manager – Risk and Compliance is required to submit periodic reports on MI's compliance status at each Board meeting, on CBSL Rules and Guidelines.</p> <p>As bold measures towards better governance, the Company restructured the Board and its Sub-committees in 2013 to set best governance standards to comply with the prevailing regulations.</p> <p>To uphold good governance for FY 2015/16, the Company implemented additional governance initiatives summarised on page 223 of this supplement.</p>
(j) Ensuring that the Finance Company has an appropriate succession plan for Key Management Personnel;	Complied	<p>A Board approved succession plan is in place for identified Key Management Personnel of various divisions, laying the career paths for such individuals under their respective functional areas. The succession plan was approved on 30 June 2015.</p>
(k) Meeting regularly with Key Management Personnel to review policies, establish lines of communication and monitor progress towards the corporate objectives;	Complied	<p>Directors communicate with each other on an on going basis apart from their interaction at Board meetings. Executive Directors meet with each other and line managers frequently on routine matters.</p> <p>Executive Directors meet with the Corporate Management on a frequent basis, at least weekly to assess the performance and to decide on key matters. Management Committee meetings are held comprising Executive Directors, Corporate Management and other Key Officers to assess the performance, asset and liability management and risk implications closely.</p> <p>In addition, marketing meetings are held by Director Credit and Marketing (Non-Board) with the entire Credit and Marketing Staff on a monthly basis to review credit related aspects. Recovery Division meetings are also held on a monthly basis headed by the Deputy Managing Director and the Recoveries staff to discuss progress covering recovery targets, formulating strategies to maintain lower NPL levels and taking decisions on recovery related processes.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
(l) Understanding the regulatory environment;	Complied	<p>New developments in the regulatory environment are briefed to the Board of Directors at Board meetings by fellow Directors and members of the Corporate Management via circulars, reports and presentations. As part of the Company's training and development programme, Directors, Corporate Management and other Key Officers are provided training on key technical aspects and other requirements including regulatory matters.</p> <p>The Manager – Risk and Compliance, follows up on adherence to regulations related to money laundering and also updates the Board on a monthly basis through the Finance Director on the compliance status of the Company in relation to CBSL directions, rules and other requirements.</p> <p>The advice of the Legal Division is sought by other divisions when new regulations are imposed or when changes to regulations occur. Divisions maintain close co-ordination and relationships with respective regulatory bodies to seek clarification and maintains due compliance.</p>
(m) Exercising Due Diligence in the hiring and oversight of External Auditors.	Complied	<p>The hiring and oversight of External Auditors is handled by the Audit Committee on behalf of the Board.</p> <p>Messrs BDO Partners were reappointed by the Audit Committee as the External Auditor of the Company for FY 2015/16, in accordance with CBSL regulations on selecting regulatory approved External Auditors for the sector. The Committee evaluates the quality of work carried out by External Auditors by reviewing the audited accounts, management letter and other submitted documents.</p>
2.2 Appointment of the Chairman and the Chief Executive Officer and defining and approving their functions and responsibilities.	Complied	<p>The functions and responsibilities of the Non-Executive Chairman and the Chief Executive Officer have been separately defined and approved by the Board. The Chief Executive Officer's role is performed by the Managing Director as he leads the Executive Management team of MI.</p> <p>The Chairman provides leadership to the Board to ensure the Board effectively discharges its responsibilities. The Managing Director on the other hand being an Executive Director oversees the effective running of the day-to-day operations of the Company.</p>
2.3 Availability of a procedure determined by the Board to enable Directors, to seek independent professional advice at the Company's expense.	Complied	<p>To discharge one's duties, any Board Director has the liberty to seek independent professional advice at the expense of the Company, whenever needed. A formal procedure on seeking independent professional advice was approved by the Board and has been in effect since 2013.</p> <p>The formal document refers to instances upon which, Directors can seek independent professional advice and is not limited by the references given in the document. All Directors have been informed of this new procedure. Approval limits on related fee payments have been specified so that Directors could seek advice without delay.</p>
2.4 Avoidance of conflicts of interest.	Complied	<p>The Board identified the importance of avoiding matters with conflict of interest, between obligations of MI and their personal interests. The Board took steps to ensure that when such situations arise, Directors disclose such instances to the Board so that the relevant Director can refrain from voting or presenting their views on such matters.</p> <p>In keeping to best practices on the identification of related party transactions, a separate 'Related Party Transaction Review Committee' was set up from last year to monitor related party transactions and report any concerns to the Board. A quarterly report is submitted to the Related Party Transactions Review Committee regarding details on related party transactions, in order to review if objectivity was maintained in conducting such transactions.</p>



Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
2.5 A formal schedule of matters specifically reserved for the Board, to ensure that the direction and control of the Finance Company is firmly under its authority.	Complied	<p>Systems and controls have been set-up by the Board in order to effectively discharge Board functions. A formal schedule of matters has been approved, to ensure the direction and control of the Company is firmly under the Board's control and authority.</p> <p>The agenda together with relevant supporting information is circulated to the Directors in advance prior to a Board meeting. The agenda and documents circulated under the supervision of the Chairman, ensures critical matters and general performance updates are taken up in keeping with the Board's expectations.</p>
2.6 Disclosure of insolvency to the Director of the Department of Supervision of Non-Bank Financial Institutions.	Complied	<p>The Company fulfilled its obligations to all its depositors and creditors, thus having no requirement to inform any concerns in this regard.</p> <p>MI made interest and capital payments on due maturity dates to its depositors and also to its borrowers as required.</p> <p>The Company is solvent and is a going concern as declared in the 'Annual report of the Board of Directors' on page 337.</p>
2.7 Inclusion of an annual Corporate Governance Report on compliance with the Corporate Governance Directions in the Annual Report.	Complied	The Corporate Governance Report provides a comprehensive disclosure of MI's compliance status, to the Corporate Governance Direction issued by the CBSL.
2.8 The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually and maintain records of such assessments.	Complied	The Board adopted a self-assessment mechanism, which was undertaken by each Director and was carried out for the financial period 2015/16. The summary of findings, together with areas for further improvements, was tabled for the deliberation of the Board.
3. Meetings of the Board	Complied	<p>Twelve Board meetings were held for the financial period 2015/16.</p> <p>Please refer Section A.1.1 of the SEC and CA Sri Lanka Code given on page 230 for full disclosure in this regard.</p> <p>Board papers and other matters needing Board consent are taken up directly at Board meetings, while very urgent matters needing Directors attention are sent on circulation for the Board's approval, prior to Board meetings.</p>
3.2 The Board shall ensure that arrangements are in place to enable all Directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the Finance Company.	Complied	<p>The agenda prepared by the Company Secretary, under the guidance of the Chairman, covers proposals submitted by Directors on business development and also matters on the management of risks etc. As a standard practice, the following information is passed down to the Directors;</p> <p>The following reports are circulated periodically:</p> <ul style="list-style-type: none"> • Monthly financial ratios/statutory and otherwise • Monthly management accounts • Quarterly integrated risk assessment reports <p>Apart from standard reports, special department reports/circulars and presentations formed part of the Board information during FY 2015/16:</p> <ul style="list-style-type: none"> • Succession Plan Document • MI Loan Policy Document • Operations Manual

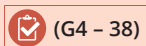
Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>3.3 A notice of at least seven days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.</p>	Complied	<p>At least seven days of notice is given to all Directors providing them with adequate time, to review circulated Board papers to take up concerns and raise other matters of importance at Board meetings.</p> <p>In addition to regular Board meetings, the Company Secretary ensures that reasonable notice is given, for any other meetings held by the Board.</p>
<p>3.4 A Director, who has not attended at least two-thirds of the meetings in the period of 12 months immediately preceding or has not attended the immediately preceding three consecutive meetings held, shall cease to be a Director. Provided that participation at the Directors' meetings through an Alternate Director shall, however, be acceptable as attendance.</p>	Complied	<p>All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held in financial year 2015/16.</p> <p>No Directors have been absent from three consecutive Board meetings during 2015/16 financial period.</p> <p>There were no instances where an Alternate Director was required to be nominated during this financial year.</p> <p>Attendance status of each Director at Board meetings is given on page 230.</p>
<p>3.5 The Board shall appoint a Company Secretary, whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.</p>	Complied	<p>Company Secretary's responsibilities and services extended to MI's Board are given on page 234 of Section A.1.4 of the SEC and CA Sri Lanka Code.</p>
<p>3.6 If the Chairman has delegated to the Company Secretary, the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.</p>	Complied	<p>The responsibility for the preparation of the agenda for Board meetings has been delegated to the Company Secretary under the supervision of the Chairman.</p> <p>Prior to circulation, the Company Secretary obtains the Chairman's approval for the Notice of Meeting and the agenda.</p>
<p>3.7 All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.</p>	Complied	<p>The Company Secretary attends all Board meetings and is readily accessible to all Directors if they require her advice and services.</p> <p>Mrs. S. Pethiyagoda has over 20 years of experience in the Company Secretarial position and keeps herself updated on all current regulations applicable on Board procedures, Corporate Governance requirements and other requirements related to the Company Secretarial responsibilities.</p>
<p>3.8 The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any Director.</p>	Complied	<p>Minutes of all Board meetings are duly perfected and maintained in safe custody by the Company Secretary. The Board of Directors can inspect Board minutes at any point in time.</p> <p>The approval of the Chairman is obtained for the minutes prior to its circulation to Directors by the Company Secretary.</p>
<p>3.9 Minutes of Board meetings shall be recorded in sufficient detail.</p>	Complied	<p>Minutes of all Board meetings are recorded in a timely manner, in sufficient detail and retained by the Company Secretary under the supervision of the Chairman.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
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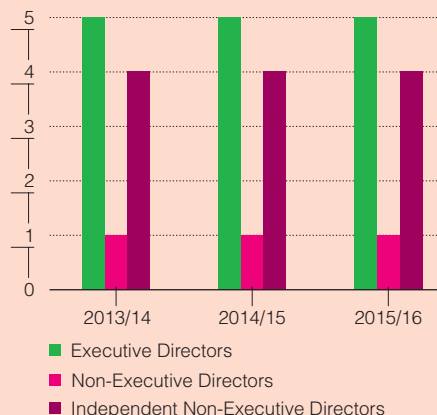
4. Composition of the Board

4.1 Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than five and not more than 13.

MI's Board comprised ten Directors in keeping to the provisions of this section and did not fall below five or go over ten Directors due to Directors' resignations or appointments during the year.



Composition of MI Board Last 3 Years
No. of Directors



4.2 Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction, the total period of service of a Director, other than a Director who holds the position of Chief Executive Officer or Executive Director, shall not exceed nine years.

Complied

In keeping with this section, no Non-Executive Director holds his/her position exceeding nine years as given below:

Name of Director	Directorship Status	Number of years in position as at 31 March 2016
Mr. S.H.J. Weerasuriya	Chairman (Independent Non-Executive Director)	4 years completed
Ms. P.T.K. Navaratne	Independent Non-Executive Director	4 years completed
Mr. N.H.V. Perera	Non-Executive Director	4 years completed
Mr. S.M.S.S. Bandara	Independent Non-Executive Director	4 years completed
Mr. P.C. Guhashanka	Independent Non-Executive Director	2 years and 9 months completed

4.3 Subject to the transitional provisions contained herein, 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 of the number of Directors of the Board. In such an event, one of the Executive Directors shall be the Chief Executive Officer of the Company.

Complied

There is equal 50% representation by both Executive Directors (Five Directors) and Non-Executive Directors (Five Directors) and is within the provisions of this section.

Since the Board is equally balanced between the Executives and Non-Executives, the Managing Director carries out the duties of the Chief Executive Officer at MI.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption																																							
<p>4.4 With effect from three years from the date of this Direction, the number of independent Non-Executive Directors of the Board shall be at least one fourth of the total number of Directors.</p>	Complied	<p>MI's Board consists of four Independent Non-Executive Directors as against a total of ten Directors (40%) and hence is within the requirement to have one-fourth (25%) of the total number of Directors as Independent Non-Executive Directors.</p> <p>Please refer pie chart on page 237.</p> <p>Please refer page 238 of Section A.5.5 of the SEC and CA Sri Lanka Code for information pertaining to Independent Non-Executive Directors.</p>																																							
<p>4.5 In the event an Alternate Director is appointed to represent an Independent Non-Executive Director, the person so appointed shall also meet the criteria that apply to the Independent Non-Executive Director.</p>	N/A	<p>Not applicable since there were no Alternate Director appointments necessitated during this period.</p>																																							
<p>4.6 Non-Executive Directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.</p>	Complied	<p>Non-Executive Directors of MI's Board possess adequate skills and experience in effectively discharging their duties to the Board.</p> <p>Pages 213 to 215 provide a brief on the experience and qualification level of each Non-Executive Director.</p>																																							
<p>4.7 With effect from three years from the date of this Direction, a meeting of the Board shall not be duly constituted, although the number of Directors required to constitute the quorum at such meetings are present, unless at least one-half of the number of Directors that constitute the quorum at such meetings are Non-Executive Directors.</p>	Complied	<p>In keeping to this section, in all Board meetings convened in 2015/16 financial period, the number of Non-Executive Directors present was more than one-half of the number that constituted the quorum.</p> <p>Monthly Quorum Status of the Board Meetings No. of Directors</p> <table border="1"> <caption>Monthly Quorum Status of the Board Meetings</caption> <thead> <tr> <th>Month</th> <th>Executive Directors</th> <th>Non-Executive Directors</th> </tr> </thead> <tbody> <tr><td>Apr. 15</td><td>5</td><td>4</td></tr> <tr><td>May 15</td><td>5</td><td>3</td></tr> <tr><td>Jun. 15</td><td>5</td><td>4</td></tr> <tr><td>Jul. 15</td><td>5</td><td>3</td></tr> <tr><td>Aug. 15</td><td>5</td><td>4</td></tr> <tr><td>Sep. 15</td><td>4</td><td>5</td></tr> <tr><td>Oct. 15</td><td>4</td><td>4</td></tr> <tr><td>Nov. 15</td><td>5</td><td>4</td></tr> <tr><td>Dec. 15</td><td>5</td><td>5</td></tr> <tr><td>Jan. 16</td><td>5</td><td>5</td></tr> <tr><td>Feb. 16</td><td>4</td><td>5</td></tr> <tr><td>Mar. 16</td><td>5</td><td>4</td></tr> </tbody> </table>	Month	Executive Directors	Non-Executive Directors	Apr. 15	5	4	May 15	5	3	Jun. 15	5	4	Jul. 15	5	3	Aug. 15	5	4	Sep. 15	4	5	Oct. 15	4	4	Nov. 15	5	4	Dec. 15	5	5	Jan. 16	5	5	Feb. 16	4	5	Mar. 16	5	4
Month	Executive Directors	Non-Executive Directors																																							
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Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>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.</p>	Complied	<p>The Annual Report and all other corporate communications, discloses the names of Directors, expressly identifying the Non-Executive Directors. The Annual Report clearly specifies each Independent Non-Executive Director in the Corporate Governance Report given on page 237 and the Directors' brief profiles given on pages 213 to 215.</p> <p>The following disclosures cover requirements of this section:</p> <ul style="list-style-type: none"> • Composition of the Board given on page 237. • Category of Directors given on page 237.
<p>4.9 There shall be a formal, considered and transparent procedure for the appointment of new Directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.</p>	Complied	<p>All new appointments and re-elections to the Board require the approval of the Nominations Committee. Please refer page 240 of Section A.7 of the SECSL and CA Sri Lanka Code for details on the Nomination Committee composition, duties, related matters and appointments to the Board.</p> <p>The Board Nomination Committee Report is given on page 345.</p>
<p>4.10 All Directors appointed to fill a casual vacancy, shall be subject to election by shareholders at the first general meeting after their appointment.</p>	N/A	<p>No Directors were appointed to fill casual vacancies during the 2015/16 financial period.</p>
<p>4.11 If a Director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the Director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant Director's disagreement with the Board, if any.</p>	Complied	<p>No Director resignations took place this period that required reporting to the CBSL.</p> <p>Director resignations will be duly informed to the Department of Supervision of Non-Bank Financial Institutions and to the Colombo Stock Exchange by the Company Secretary, in complying with this section and related provisions as per the Colombo Stock Exchange rules.</p>
<p>5. Criteria to assess the fitness and propriety of Directors</p>		
<p>5.1 Subject to the transitional provisions contained herein, a person over the age of 70 years shall not serve as a Director of a Finance Company.</p>	Complied	<p>No Director of MI's Board is over the age of 70 years as at 31 March 2016. Sustainability section on page 133 provides the age ranges of the Board of Directors.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>5.2 A Director of a finance company shall not hold office as a Director or any other equivalent position in more than 20 companies/societies/corporate bodies, including associate companies and subsidiaries of the Finance Company.</p>	Complied	<p>No Director of MI's Board holds office in over 20 companies contravening the provisions of this section.</p> <p>Pages 283 to 286 provides a schedule detailing Directorships held by each MI Director in other companies as at 31 March 2016.</p>
<p>6. Delegation of functions</p>		
<p>6.1 The Board shall not delegate any matters to a Board Committee, Chief Executive Officer, Executive Directors or Key Management Personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.</p>	Complied	<p>The Board evaluates delegated authority, assessing the capabilities of various Board Sub-Committee limits given on credit disbursements, payment authorisations, authorisation on rebates and approving authority for various corporate documents such as the issue of deposit certificates. MI's Board is satisfied that the ability to discharge their functions is not significantly reduced or hindered due to delegation.</p> <p>The Board has delegated Directors and specified authorised signatories to approve payments and sign key binding documents limiting delegation of certain key functions.</p> <p>No material changes were effected to the delegation process in the financial year 2015/16. The delegated authority given to Executive Directors, Corporate Management or Other Key Officers did not vary materially from the previous period.</p>
<p>6.2. The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the Finance Company.</p>	Complied	<p>MI's Board reviews the delegated powers vested with Directors, Corporate Management and other employees periodically to ensure relevance to the needs of the Company. Please refer comments given on 6 (1) in this section.</p>
<p>7. The Chairman and the Chief Executive Officer</p>		
<p>7.1 The roles of Chairman and Chief Executive Officer shall be separated and shall not be performed by the one and the same person after 3 years commencing from 1 January 2009.</p>	Complied	<p>An Independent Non-Executive Director appointed by the Board, acts as the Chairman of the Company in keeping to this section while there is a separate Managing Director/Chief Executive Officer in an Executive Director capacity thus, keeping the two roles segregated.</p> <p>Please refer page 236 of Sections A.2 and A.3 of the SEC and CA Sri Lanka Code for further details.</p>
<p>7.2 The Chairman shall be a Non-Executive Director. In the case where the Chairman is not an Independent Non-Executive Director, the Board shall designate an Independent Non-Executive Director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the Finance Company's Annual Report.</p>	Complied	<p>Mr. Saro Weerasuriya, being an Independent Non-Executive Director, was appointed as the Chairman to the Board in January 2011 and continued to operate in this capacity during this period.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
7.3 The Board shall disclose in its Corporate Governance Report, which shall be an integral part of its Annual Report, the name of the Chairman and the Chief Executive Officer and the nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairman and the Chief Executive Officer and the relationships among members of the Board.	Complied	No material relationship including financial, business or family exists between Chairman Mr. Saro Weerasuriya and Managing Director/Chief Executive Officer, Mr. Gerard G. Ondaatjie. However, Executive Directors, Mr. Gerard G. Ondaatjie, Ms. Angeline M. Ondaajie and Mr. Travice J. Ondaatjie are of the same family.
7.4 The Chairman shall: (a) Provide leadership to the Board; (b) Ensure that the Board works effectively and discharges its responsibilities; (c) Ensure that all key issues are discussed by the Board in a timely manner.	Complied	The Chairman of the Company provided leadership, in dealing closely with other Directors of the Board in all substantial matters to effectively discharge Board responsibilities. The Chairman, in conducting Board related affairs, obtained the fullest cooperation of other fellow Directors. At the same time, he sought advice from the Company Secretary on Board procedures when necessary. At monthly meetings, the Board ensured attention was given to all high impact and urgent matters concerning MI. Please refer page 236 of Sections A.2 and A.3 of the SEC and CA Sri Lanka Code for further details on the Chairman's role.
7.5 The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied	The Company Secretary prepared the formal agenda under the supervision of the Chairman for Board meetings. The agenda covered key matters to be discussed, supported by information on Company performance for the period for Directors to equip themselves, for upcoming meetings. The Chairman ensures, that all Directors are properly informed on matters to be discussed at Board meetings.
7.6 The Chairman shall ensure that all Directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied	The agenda with Notice of Meeting is duly circulated to the Directors at least seven days prior to the meeting, giving sufficient time for the Directors to be prepared on the issues raised at the meeting.
7.7 The Chairman shall encourage each Director to make a full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the Finance Company.	Complied	All Directors, both Executive and Non-Executive, are encouraged to actively participate in the affairs of the Board, for the effective governance of the Company.
7.8 The Chairman shall facilitate the effective contribution of Non-Executive Directors in particular and ensure constructive relationships between Executive and Non-Executive Directors.	Complied	All Non-Executive Directors including the Chairman effectively contributes to the Board, through their immense experience and knowledge gained within the finance industry and experience gained from their professional fields. A constructive relationship is maintained amongst all categories of Directors. Apart from Board meetings, Directors maintain a close rapport engaging in Corporate events, direct interaction etc. All Directors were able to attend a majority of the Board meetings and contributed to matters brought up at meetings, individually as well as collectively. They were able to raise concerns, recommend suitable solutions and deliberate with each other to make effective decisions.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
7.9 Subject to the transitional provisions contained herein, the Chairman, shall not engage in activities involving direct supervision of Key Management Personnel or any other executive duties whatsoever.	Complied	The Chairman, being an Independent Non-Executive Director, does not directly supervise the Key Management Personnel or handle executive duties. The duties of the Chairman have been defined and approved by the Board. This does not involve executive duties whatsoever.
7.10 The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.	Complied	As the key interaction method, shareholders have the opportunity of expressing their views at the Annual General Meeting, in order to voice their concerns and make recommendation for the betterment of the Company. Shareholders can also meet with the Board members on a one-to-one basis, by arranging a meeting to raise any concerns. Matters raised by shareholders at the AGM are taken up subsequently and followed up by the Board depending on its relevance and materiality.
7.11 The Chief Executive Officer shall function as the apex executive-in-charge of the day-to-day-management of the Finance Company's operations and business.	Complied	The Managing Director/ Chief Executive Officer, Mr. Gerard G. Ondaatjie functions as the apex executive-in-charge of managing routine operations of the Company. He works closely with other Executive Directors and the Corporate Management team to ensure the smooth running of day-to-day operations. His role and responsibilities as the Managing Director/Chief Executive Office, have been defined and approved by the Board.

8. Board appointed Committees

8.1 Every Finance Company shall have at least the two Board Committees set out in paragraphs 8.2 and 8.3 hereof. Each committee shall report directly to the Board. Each Committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the Chairman of the Committee. The Board shall present a report on the performance, duties and functions of each Committee, at the Annual General Meeting of the Company.

Complied Several Board Sub-Committees have been established by MI's Board for close supervision of the Company's affairs. The Board appointed Sub-Committee's compliance level to this section can be summarised as follows:


Committee	Reporting status	Secretary	Meeting minutes kept supervision under a Chairman of the Committee	Committee Report/ information given in Annual Report (page reference)
Audit Committee	Direct to Board	Company Secretary	Yes	346
Integrated Risk Management Committee	Direct to Board	Manager – Risk and Compliance	Yes	343
Remuneration Committee	Direct to Board	Company Secretary	Yes	344
Nomination Committee	Direct to Board	Company Secretary	Yes	345
Credit Committee	Direct to Board	Director – Credit and Marketing (Non-Board)	Yes	291
Board Related Party Transactions Review Committee	Direct to Board	Company Secretary	Yes	347
Assets and Liabilities Management Committee	Direct to Board	Manager – Risk and Compliance	Yes	292

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>8.2 Audit Committee The following shall apply in relation to the Audit Committee:</p> <p>8.2 (a) The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.</p>	Complied	<p>The Chairman of the Audit Committee, Mr. S.M.S.S. Bandara, is a qualified Chartered Accountant and is an Independent Non-Executive Director of the Company. While possessing two accounting qualifications, he has a wealth of experience in the field of Audit and financial reporting being a partner of B.R. De Silva, Chartered Accountants. Therefore, he is able to effectively oversee the Committee's functions.</p>
<p>8.2 (b) The Board members appointed to the Committee shall be Non-Executive Directors.</p>	Complied	<p>All three members forming the Audit Committee are Non-Executive Directors, who operate independently to ensure impartiality of the Committee. The Committee composition remained unchanged throughout the period.</p> <p>Please refer to page 248 of Section D.3 of the SEC and CA Sri Lanka Code for details.</p>
<p>8.2 (c) The Committee shall make recommendations on matters in connection with: (i) The appointment of the External Auditor for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank Guidelines issued to Auditors from time to time; (iii) The application of the relevant accounting standards; and (iv) The service period, Audit fee and any resignation or dismissal of the Auditor, provided that the engagement of an audit partner shall not exceed five years and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term.</p>	Complied	<p>The Audit Committee was able to take the following decisions in the relation to this section:</p> <ul style="list-style-type: none"> • Made recommendations for the appointment of Auditors for FY 2016/17. The Committee made this recommendation on the basis that this is the fourth year for the External Auditors. • Decided on the audit fee of both the External and Internal Auditors. • Reviewed draft Financial Statements, to ensure application of accounting standards are in accordance with requirements and industry standards. • The Committee ensured that the same audit partner can continue, as the audit assignment is in its third year of service, in keeping to rotation guidelines specified by the regulator.
<p>8.2 (d) The Committee shall review and monitor the External Auditors' independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	Complied	<p>The Audit Committee met the External Auditors during this period to discuss outstanding matters, which were carried forward from the FY 2014/15 in order to discuss and review the effectiveness of the auditing process being adopted by the External Auditors, based on auditing standards and industry practices. The Committee is vigilant and provides timely feedback on the independence and objectivity of, Messrs BDO Partners as the External Auditors to the Board and recommended their reappointment for the financial year 2016/17.</p>
<p>8.2 (e) The Committee shall develop and implement a policy with the approval of the Board on the engagement of an External Auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines.</p>	Complied	<p>MI's non-audit requirements are mainly routed to Ernst and Young, the Committee ensures that any non-audit assignment performed by Messrs BDO Partners is carried out under the supervision of a different partner, who is not involved in conducting the External Audit. With this practice, the Committee affirms MI's adherence to the relevant statutes, regulations, requirements and guidelines.</p> <p>Please refer page 249 of Section D.3.3 of the SEC and CA Sri Lanka Code for further details.</p>
<p>8.2 (f) The Committee shall, before the audit commences, discuss and finalise with the External Auditors, the nature and scope of the audit.</p>	Complied	<p>The Audit Committee met the External Auditor, Messrs BDO Partners and finalised the nature and scope of the audit. Areas needing special attention and recommendations of the Auditors were incorporated into the discussions.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>8.2 (g) The Committee shall review the financial information of the Finance Company, in order to monitor the integrity of the Financial Statements of the Finance Company, its Annual Report, accounts and periodical reports prepared for disclosure and the significant financial reporting judgments contained therein.</p>	Complied	<p>The Financial Statements and the Annual Report was reviewed by the Audit Committee to ascertain the quality and integrity of the information.</p> <p>Based on the review and recommendations of the Committee, necessary changes were made by the Finance Department to the Financial Statements and other information contained in the Annual Report, before submitting to the Board for their approval. Significant financial reporting judgments were taken where necessary, adhering to the applicable financial reporting standards in the following areas:</p> <ul style="list-style-type: none"> • Valuation of Gratuity Liability • Valuation of Investment Property • Impairment provision • Fair value valuation of Available-for-Sale financial instruments
<p>8.2 (h) The Committee shall discuss issues, problems and reservations arising from the interim and final audits and any matters the Auditor may wish to discuss, including those matters that may need to be discussed in the absence of Key Management Personnel, if necessary.</p>	Complied	<p>The Committee met the External Auditors three times this financial period, of which two occasions were without the presence of the Executive Directors in order to discuss matters arising from the management letter issued for the past audit period and to discuss other concerns.</p>
<p>8.2 (i) The Committee shall review the External Auditors' management letter and the management's response.</p>	Complied	<p>The Committee reviewed the FY 2015/16 Management Letter issued by the External Auditors, together with management responses to ascertain material concerns requiring immediate attention for resolution, in the presence of the Finance Director.</p>
<p>8.2 (j) The Committee shall take the following steps on internal audit:</p>	Complied	<p>(i) Review the adequacy of the scope, functions and resources of the Internal Audit Department and satisfy itself that the Department has the necessary authority to carry out its work;</p> <p>Internal Audit scope, functions and resources of the department were ascertained for both MI's own Internal Audit Division as well Ernst & Young Advisory Services (Pvt) Limited. It was decided to strengthen MI's own Internal Audit in the next few years to ensure adequate audit coverage. A new recruitment was carried out to enhance the internal audit function and to widen its scope.</p>
<p>(ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the Internal Audit Department;</p>	Complied	<p>Separate audit Programmes were submitted by Ernst & Young and the Internal Audit Division of the Company for the financial year 2015/16, which were affirmed by the Audit Committee. The Audit Committee met six times with the Internal Auditors and reviewed full audit/spot review reports. As and when required, the Corporate Management was summoned when their related observations were discussed, to ensure corrective action was initiated.</p>
<p>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;</p>	Complied	<p>An assessment by the Audit Committee was made on the performance of Ernst & Young as Auditors, during this period. The Committee concluded that all required audit deadlines were met and that the quality of reports was satisfactory. There were no changes to the partner in charge during this period. Separately, the Committee reviewed the performance of the officers of MI's own Audit Division in this financial year and concluded that all required audit deadlines were met and the quality of the reports was satisfactory.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	Complied	<p>The services of Ernst & Young Advisory Service (Pvt) Limited were continued to be obtained by the Audit Committee in parallel with MI's own audit team, to ensure that the total branch network is reviewed at least once annually. The level of resources allocated by Ernst & Young Advisory Service (Pvt) Limited was accepted by the Committee and no suggestions were raised.</p> <p>There was a single recruitment made by MI's own Internal Audit Division under the review of the Audit Committee members.</p>
(v) Ensure that the Committee is informed 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;	Complied	<p>There were no resignations of senior officers handling MI's internal audit function from MI's own Internal Audit Division, during this period.</p> <p>Similarly, no changes were observed to the senior officers handling MI's internal audit function, pertaining to Ernst & Young Advisory Service (Pvt) Limited's internal audit services extended to MI.</p>
(vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care;	Complied	<p>Messrs Ernst & Young Advisory Services (Pvt) Limited is an independent institution from MI, having the resources and expertise to handle internal audit services impartially with professionalism.</p> <p>MI's own Internal Audit Division functions independently from other divisions and reports directly to the Audit Committee. The Audit Division is headed by a fully qualified Chartered Accountant, who is assisted by both qualified and part qualified Chartered Accountants.</p>
8.2 (k) The Committee shall consider the major findings of internal investigations and management's responses thereto;	Complied	<p>There were no special investigations carried out by internal audit or any other party in FY 2015/16 period. Based on periodic internal audit reports, the Audit Committee took steps to avoid the repetition of specific shortcomings at branch level.</p> <p>As required by the Management, special audits were carried out outside the annual audit programme to ascertain any concerns from those operational areas, which were reported to the Committee. The reviews involved –</p> <ul style="list-style-type: none"> • A special audit was carried out on inventory vehicles, covering all the locations where inventory vehicles are maintained. It was observed that recommendations given by the Internal Auditors during their previous audit, was implemented by the management. • The review on maintenance items was carried out by Ernst & Young Advisory Services (Pvt) Limited as a part of their routine audit and any lapses identified were reported to the Audit Committee. • As requested by the management, a special independent review was planned and carried out by Ernst & Young Advisory Services (Pvt) Limited, covering the operations and internal control systems in the vehicle yard and Internal Valuation Unit. The Management has recognised the importance of the yard operation and internal valuation and therefore is of the view that a sound internal control system and accepted best practices should be in place within the above units. Once the final report is received, the recommendations will be implemented.


Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>8.2 (l) The Chief Finance Officer, the Chief Internal Auditor and a representative of the External Auditors may normally attend meetings. Other Board members and the Chief Executive Officer may also attend meetings upon the invitation of the Committee. However, at least once in six months, the Committee shall meet with the External Auditors without the Executive Directors being present.</p>	Complied	<p>The Finance Director/CFO attended meetings on invitation in addition to the Head of Internal Audit of Ernst & Young as well as MI's own Internal Audit Officers being present.</p> <p>The External Auditors were invited thrice to meet the Committee and discuss matters arising from their statutory audit.</p> <p>The Committee met the External Auditors without the presence of the Executive Directors twice during the financial year 2015/16.</p>
<p>8.2 (m) The 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.</p>	Complied	<p>Terms of Reference of Audit Committee</p> <p>The Board approved terms of reference of the Audit Committee, permits the Committee to investigate any matter that it deems necessary within its wide powers. In line with this section, the terms of reference afford the Committee:</p> <ul style="list-style-type: none"> • Full access to information from the Management as it deems necessary for their investigation. • To invite any party internal or outside with experience to enlighten the Committee on the concerns at hand. • To decide on resource requirements to carry out special assignments and investigations if deemed necessary by them. • Authority to seek external professional advice if needed.
<p>8.2 (n) The Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p>	Complied	<p>The Committee met six times during the financial year 2015/16.</p> <p>The Audit Committee minutes captures the essence of the meeting, discussions and conclusions duly perfected by the Secretary to the Audit Committee.</p> <p>The brief on the 'Audit Committee' given on page 286 provides details on how the Committee records its decisions.</p>
<p>8.2 (o) The Board shall, in the Annual Report, disclose in an informative way, (i) Details of Audit Committee activities; (ii) The number of Audit Committee meetings held in the year; and (iii) Details of attendance of each individual member at such meetings</p>	Complied	<p>The activities of the Audit Committee and meetings held during this period with participation status, have been disclosed on pages 286 to 288.</p> <p>Further information is disclosed in Section D.3 of the SEC and CA Sri Lanka Code on the Committee's Scope of Activities.</p> <p>The Audit Committee Report for financial year 2015/16 is given on page 346.</p>
<p>8.2 (p) The secretary to the Committee (who may be the Company Secretary or the head of the internal audit function) shall record and keep detailed minutes of the Committee meetings.</p>	Complied	<p>The Company Secretary, Mrs. S. Pethiyagoda, acts as the Secretary to the Audit Committee, keeping records of proceedings at meetings.</p> <p>Please refer 8. 2 (n) above for further information on keeping minutes.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>8.2 (q) The Committee shall review arrangements by which employees of the Finance Company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Committee shall ensure that proper arrangements are in place for 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>	Complied	<p>MI's 'Open-Door Policy'</p> <p>An employee may approach any member of the Corporate Management, Human Resource Department or failing which, the Managing Director in order to express their views and concerns at any given moment, given MI's open door policy.</p> <p>Employee issues and disciplinary matters are channelled through the HR Division and appropriate action taken accordingly. Any violations of regulations are channelled through Manager Risk and Compliance.</p> <p>Based on employee feedback to the Corporate Management and other collaborative information gathered, Management would decide and initiate investigation. The investigation process is laid down in the 'Whistle-Blowing and Corporate Fraud Policy' document issued in 2013. During the financial year 2015/16, no material matters were reported to the Human Resource Division necessitating investigation by audit or any other assigned party.</p> <p>Whistle-Blowing and Investigation</p> <p>The Whistle-Blowing and Corporate Fraud Policy developed by the Internal Auditors were approved by the Audit Committee formalising the process of 'whistle-blowing and investigation'. A clear formal process is laid down, by which employees could raise concerns of a possible fraud and how the investigation process would take place.</p> <p>These are in line with the principles on good corporate governance, either handled through Manager Risk and Compliance or in the event of employees handled by HR.</p> <p>Relationship with External Auditors</p> <p>The Audit Committee meets with the External Auditors at least once annually to discuss matters. The External Auditors have direct access to the Committee to raise any concerns so that any such matter could be followed upon independently without hindrance or distortion.</p>
 (G4 - 57,58)		
<p>8. (3) Integrated Risk Management Committee (IRMC)</p> <p>The following shall apply in relation to the Integrated Risk Management Committee:</p> <p>8.3 (a) The Committee shall consist of at least one Non-Executive Director, CEO and Key Management Personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Committee shall work with Key Management Personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the Committee.</p>	Complied	<p>Integrated Risk Management Committee (IRMC)</p> <p>The IRMC was established by the Board in 2012 under clear Terms of Reference. Non-Executive Director – Mr. N.H.V. Perera is the Chairman of IRMC, while Mr. Gerard G. Ondaatjie – Managing Director and two other Executive Directors, Mr. P.M. Amarasekera – Deputy Managing Director and Mr. S.H. Jayasuriya – Finance Director comprise the other members of the Committee.</p> <p>The Committee met four times during the 2015/16 financial year to expedite its obligations based on the scope specified.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
Risk	Scope	New areas looked into in FY 2015/16 to improve Risk Management
Credit Risk	Reviewing mechanisms in place to identify and manage credit risks. Recommending effective credit risk mitigation measures including monitoring risks exceeding risk appetite limits.	Broad basing MI's credit review on Loan to Value (LTV), registered, unregistered and repossessed.
Liquidity Risk	Periodic review of maturities of MI's assets and liabilities to identify maturity gaps both short and long-term. Proposing measures to counter any imminent liquidity risks. Review of the effectiveness of the ALCO.	Strategy and efforts in bringing down one year mismatch to zero.
Interest Rate Risk	Studying rate structures and carrying out sensitivity analysis to understand impacts to profitability and to propose counter measures.	Developing plans to generate 'Rate Shock Reports' periodically.
Operational Risk	Review of the effectiveness of the Management Committee. Reviewing periodically the Business Continuity Plan of the Company and obtaining a status report from each responsible department through the Manager – Risk and Compliance.	<ul style="list-style-type: none"> Looking into additional ICT configuration changes proposed and ongoing work on acquiring fresh modules to enhance operations. Recommending reviews on cash flows and deposit operations in order to support the overall lending business.
Governance and Compliance Risk	Governing the 'Risk Policy' for the Company as means of streamlining the risk management process in a formal manner. Overseeing MI's compliance status on the existing rules and statutory regulations through MI's Manager – Risk and Compliance.	The Committee recommended the focus on long-term deposits in order to match long-term investments with long-term sources of finance to mitigate risks further. The Committee also observed that the Core Capital Ratio was well above minimum regulatory requirement of 5%.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption									
		<table border="1"> <thead> <tr> <th data-bbox="672 383 716 412">Risk</th> <th data-bbox="846 383 906 412">Scope</th> <th data-bbox="1170 383 1398 456">New areas looked into in FY 2015/16 to improve Risk Management</th> </tr> </thead> <tbody> <tr> <td data-bbox="672 472 813 501">Overall Risk</td> <td data-bbox="846 472 1138 815">Studying the quarterly 'Risk Report' prepared by Manager-Risk and Compliance tabled through the Finance Director, to assess initial risk aspects. Keeping Board apprised of concerns and recommendations of each key risk element through a quarterly 'Activity Report' to the Board.</td> <td data-bbox="1170 472 1446 658"> <ul style="list-style-type: none"> Reviewed ongoing systemisation of the branch compliance checklist Specifying limits for online payment methods </td> </tr> <tr> <td data-bbox="672 831 813 904">Sustainability Risk</td> <td data-bbox="846 831 1138 1039">Reviewing the effectiveness of MI's approach towards sustainability and assessing the risk associated with broader aspects related to Economic, Environment and Social Factors.</td> <td data-bbox="1170 831 1446 1016">Reviewed projects initiated and comparisons were made on predetermined objectives which were set at the beginning of the period.</td> </tr> </tbody> </table> <p data-bbox="646 1099 1490 1167">Corporate Governance Report provides additional information pertaining to the IRMC on page 289.</p>	Risk	Scope	New areas looked into in FY 2015/16 to improve Risk Management	Overall Risk	Studying the quarterly 'Risk Report' prepared by Manager-Risk and Compliance tabled through the Finance Director, to assess initial risk aspects. Keeping Board apprised of concerns and recommendations of each key risk element through a quarterly 'Activity Report' to the Board.	<ul style="list-style-type: none"> Reviewed ongoing systemisation of the branch compliance checklist Specifying limits for online payment methods 	Sustainability Risk	Reviewing the effectiveness of MI's approach towards sustainability and assessing the risk associated with broader aspects related to Economic, Environment and Social Factors.	Reviewed projects initiated and comparisons were made on predetermined objectives which were set at the beginning of the period.
Risk	Scope	New areas looked into in FY 2015/16 to improve Risk Management									
Overall Risk	Studying the quarterly 'Risk Report' prepared by Manager-Risk and Compliance tabled through the Finance Director, to assess initial risk aspects. Keeping Board apprised of concerns and recommendations of each key risk element through a quarterly 'Activity Report' to the Board.	<ul style="list-style-type: none"> Reviewed ongoing systemisation of the branch compliance checklist Specifying limits for online payment methods 									
Sustainability Risk	Reviewing the effectiveness of MI's approach towards sustainability and assessing the risk associated with broader aspects related to Economic, Environment and Social Factors.	Reviewed projects initiated and comparisons were made on predetermined objectives which were set at the beginning of the period.									
<p>8.3 (b) The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks of the Finance Company on a monthly basis through appropriate risk indicators and management information.</p>	Complied	<p>The IRMC meet on a quarterly basis and monitors key risks covering credit risk, interest rate risk and market risk, operational and other risks deemed necessary in accordance with its terms and reference.</p> <p>Please refer Section 8.3 (a) above on scope and tasks handled by the Committee.</p>									
<p>8.3 (c) The Committee shall review the adequacy and effectiveness of all management level committees such as the Credit Committee and the Asset Liability Committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the Committee.</p>	Complied	<p>The Committee reviewed the effectiveness of the Management Committee; studying management information presented at weekly forums and also reviewed the effectiveness of the Assets and Liabilities Management Committee, Credit Committee and Management Committee.</p>									
<p>8.3 (d) The Committee shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond prudent levels decided by the Committee on the basis of the Finance Company's policies and regulatory and supervisory requirements.</p>	Complied	<p>Based on the risk appetite level and judgment, the Committee did not come across risks that went beyond the prudent levels of risks. However, immediate follow-up was initiated whenever risks material in nature was brought before the Committee or when observed.</p> <p>Made recommendations when specific risks exceeded risk appetite limits/regulations to Management.</p> <p>In reviewing specified risk appetite limits for credit and liquidity risk, actual risk levels were compared against such limits and reported to the Committee by the Manager – Risk and Compliance. Summary of variances is disclosed on pages 312 to 329.</p>									

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
8.3 (e) The Committee shall meet at least quarterly to assess all aspects of risk management, including updated Business Continuity Plans.	Complied	IRMC meetings were held in quarterly intervals during this financial year. Page 289 provides information on meetings held and the level of participation by Directors. Section 8.3 (a) provides key risk management areas overseen by the Committee.
8.3 (f) The Committee shall take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the Committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.	N/A	The Committee did not come across any material violations by staff in relation to breakdowns in internal controls, risk management procedures and not taking appropriate measures to avoid material risks during the financial year under review. However, any material non-compliance to regulations would be followed with the Board for its resolution as and when detected.
8.3 (g) The Committee shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied	As per the 'Risk Policy' of the Company an 'activity report' was submitted by the IRMC to the Board within seven days after having an IRMC meeting, detailing a summary of key risks identified for the period, specifying risk mitigating actions proposed by the Committee for the Board's approval. Accordingly, four activity reports have been submitted to the Board for the 2015/16 financial year.
8.3 (h) The Committee shall establish a compliance function to assess the Finance Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the Committee periodically.	Complied	A dedicated compliance officer at a senior level oversees the compliance function of the Company. He provides feedback to the IRMC and the Board on MI's adherence to key regulations, specifying CBSL and FIU and FTRA requirements. To support the compliance officer, a new recruitment was made during this financial year. A compliance status report was prepared and tabled monthly through the Finance Director for the Committee's information purposes. Accordingly, a total of twelve status reports were submitted in 2015/16 financial year.
9. Related Party Transactions		
9.1 The following shall be in addition to the provisions contained in the Finance Companies (Lending) Direction, No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 or such other Directions that shall repeal and replace the said Directions from time to time.	Complied	Directions relating to the Finance Companies (Lending) No. 1 of 2007 and the Finance Companies (Business Transactions with Directors and their Relatives) Direction, No. 2 of 2007 have been complied as mentioned in page 427 In the previous financial year, MI established the Board Related Party Transactions Review Committee (RPTRC) which reviews all related party transactions including accommodations to related parties. No lending has been made to Directors of the Company as per the above Direction.

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
<p>9.2 The Board shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the Finance Company with any person and particularly with those who shall be considered as 'related parties' for the purposes of this Direction.</p> <p> (G4 - 41)</p>	Complied	<p>No favourable treatment has been given to related parties for transactions effected by the Company directly with such parties. Transactions with related parties are done only after necessary due diligence and is reviewed by the RPTRC.</p> <p>Any transaction entered into by the Company with any such related party has been carried out on an arm's length basis at prices that were applicable to similar other unrelated customers of the Company, depending on the risk profile of the entity and MI's pricing structure.</p> <p>An external review was carried out on the transfer pricing method adopted between related parties in order to comply with tax regulations, to improve the documentation and reporting process.</p> <p>The process of capturing and reporting related party transaction information was streamlined further during this period, in accordance with the provisions of this Section and Sri Lanka Accounting Standard (LKAS - 24) on 'Related Party Transactions' for purpose of internal and external reporting.</p>
<p>9.3 The transactions with a related party that are covered in this Direction shall be the following:</p> <p>(a) Granting accommodation,</p> <p>(b) Creating liabilities to the Finance Company in the form of deposits, borrowings and investments,</p> <p>(c) Providing financial or non-financial services to the Finance Company or obtaining those services from the Finance Company,</p> <p>(d) Creating or maintaining reporting lines and information flows between the Finance Company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</p>	Complied	<p>Required disclosures on related party transactions have been disclosed in the Notes to the Financial Statements, while, pages 339 to 340 discloses information relating to Directors' Interests in Contracts.</p> <p>Related party transactions affected have been carried out on an arm's length basis as per the provisions of this Section. The Committee reviewed related party transactions carried out during this year to ensure they were at 'an arm's length'. As planned, the Committee carried out these reviews on a quarterly basis.</p>
<p>9.4 The Board shall ensure that the Finance Company does not engage in transactions with a related party in a manner that would grant such party 'more favourable treatment' than that is accorded to other similar constituents of the Finance Company.</p>	Complied	<p>MI has not entered into any transactions in a manner that would grant the related party 'more favourable treatment' than if dealt with an unrelated customer.</p> <p>Please see Section 9.3 above that refers to the 'Related Party Transactions' and 'Directors' Interests in Contracts' disclosures.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption
10. Disclosures		
<p>10.1 The Board shall ensure that:</p> <p>(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</p> <p>(b) Such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.</p>	Complied	<p>The Company complied with applicable SLFRS/LKAS and other regulatory formats prior to publishing its annual audited accounts and interim financials.</p> <p>The Financial Statements also conform to other regulatory requirements including the Finance Business Act, the Companies Act and rules specified by the Colombo Stock Exchange.</p> <p>Quarterly publications of interim results were published in all three languages to conform to the regulatory interim publication format and the applicable accounting standards.</p>
<p>10.2 The Board shall ensure that at least the following disclosures are made in the Annual Report:</p> <p>10.2 (a) A statement to the effect that the Annual Audited Financial Statements has been prepared in-line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.</p>	Complied	<p>The Statement on Directors' Responsibility given on page 334 provides an affirmation that the Annual Audited Financial Statements have been prepared in line with the applicable accounting standards and applicable regulatory requirements.</p>
<p>10.2 (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 for external purposes has been done in accordance with relevant accounting principles and regulatory requirements.</p>	Complied	<p>The 'Report by the Board on Internal Controls' stating the effectiveness of the Company's internal controls mechanism over financial reporting, given on page 348 in this Annual Report provides the required disclosure to comply with this section.</p>
<p>10.2 (c) The External Auditors' certification on the effectiveness of the internal control mechanism referred to in subparagraph (2) (b) above, in respect of any statements prepared or published from the date of this Direction.</p>	Complied	<p>The External Auditors' certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2015/16. No significant matters needing attention was highlighted as per the Report.</p> <p>The External Auditors' Assurance Report on the effectiveness of the internal controls over financial reporting has been disclosed on page 350 in the Annual Report.</p>
<p>10.2 (d) Details of Directors, including names, transactions with the Finance Company.</p>	Complied	<p>Director information including their names and other details are provided on pages 213 to 215 while their transaction details are disclosed under the 'Directors Interest In Contracts' on pages 339 and 340 and in the 'Related Party Disclosures' in the Notes to the Financial Statements on pages 400 to 402.</p>
<p>10.2 (e) Fees/remuneration paid by the Finance Company to the Directors in aggregate, in the Annual Reports published after 1 January 2010.</p>	Complied	<p>Details of Director remuneration in aggregate is disclosed on page 400 in the Notes to the Financial Statements.</p>

Direction Requirement (with Section Number of the Direction)	Compliance Status	Extent of Adoption												
10.2 (f) Total net accommodation as defined in paragraph 9 (4) outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the Finance Company's capital funds.	Complied	<p>Total accommodation to related parties of MI has been disclosed on page 401 in the Notes to the Financial Statements.</p> <p>The net accommodation granted to each category of related party is given below as a percentage of the Company's capital funds:</p> <table border="1"> <thead> <tr> <th>Category of Related Party</th> <th>Amount Rs. '000</th> <th>% Against Company's Capital Funds</th> </tr> </thead> <tbody> <tr> <td>Key Management Personnel</td> <td>–</td> <td>–</td> </tr> <tr> <td>Associate Companies</td> <td>–</td> <td>–</td> </tr> <tr> <td>Other</td> <td>14,331</td> <td>0.21</td> </tr> </tbody> </table> <p>There have not been related party transactions exceeding 10% of the equity during the financial year 2015/16.</p>	Category of Related Party	Amount Rs. '000	% Against Company's Capital Funds	Key Management Personnel	–	–	Associate Companies	–	–	Other	14,331	0.21
Category of Related Party	Amount Rs. '000	% Against Company's Capital Funds												
Key Management Personnel	–	–												
Associate Companies	–	–												
Other	14,331	0.21												
10.2 (g) The aggregate values of remuneration paid by the Finance Company to its Key Management Personnel and the aggregate values of the transactions of the Finance Company with its Key Management Personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the Finance Company.	Complied	The aggregate value of remuneration paid and transactions carried out by Key Management Personnel are disclosed under "Directors' Interest in Contracts" on pages 339 to 341 and in the 'Related Party Disclosure' in the Notes to the Financial Statements. According to the Company's classification, Directors solely come under the definition of Key Management Personnel for the provisions of this section.												
10.2 (h) A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied	'The Annual Report of the Board of Directors' signed by the Directors given on pages 333 to 338 includes collective confirmation on MI's compliance with applicable laws and regulations. In addition, the Statement of 'The Directors Responsibility for Financial Reporting' given on page 341 confirms MI's compliance to regulations on financial reporting.												
10.2 (i) A statement of the regulatory and supervisory concerns on lapses in the Finance Company's risk management or non-compliance with the Act, 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 with the measures.	Complied	Except for the matter disclosed on pages 369 and 378 in the Financial Statements, there were no other matters brought to the attention to be disclosed.												
10.2 (j) The External Auditors' certification of the compliance with the Corporate Governance Directions in the annual Corporate Governance Reports published from the date of this Direction.	Complied	External Auditors BDO Partners reviewed MI's compliance status to CBSL's Corporate Governance Direction. Accordingly, they issued a certification in this regard for the financial year 2015/16.												

MI'S COMPLIANCE STATUS TO LISTING RULES SECTION 7.10 (CORPORATE GOVERNANCE) OF THE COLOMBO STOCK EXCHANGE

CSE Rule No.	Requirement	Compliance Status	Extent of Adoption (FY 2015/16 update)
7.10	Overall compliance position in relation to SEC 7.10 (Corporate Governance)	Complied	(a) The Company is in compliance with the Corporate Governance rules specified by CSE for all listed companies and also comply with Section 7.10 requirements specified under this Section. (b) The Company has complied with CBSL's Corporate Governance Direction No. 03 of 2008 Compliance status is given on pages 254 to 278.
7.10.1	Non-Executive Directors of a Listed Company	Complied	Five out of ten Directors at MI function as Non-Executive Directors. MI maintained a 50% composition of Non-Executive Directors in the Board, throughout this period, complying with this requirement.
7.10.2	Independent Directors (a) Two or one-third of the Non-Executive Directors of the Board, whichever is higher should be independent. (b) Submission of a declaration of independence by Independent Non-Executive Directors according to the prescribed format.	Complied	Four out of five Non-Executive Directors at MI are Independent accordingly, complying with requirements of this Section. Declarations have been submitted by all Non-Executive Directors of MI according to the format provided in the CSE Code on Corporate Governance for 2015/16 financial year.
7.10.3	Disclosures Related to Directors (a) Disclosure of the names of Independent Non- Executive Directors. (b) In the event a Director does not qualify as 'independent' against any of the criteria set out by Section 7.10.4 of the Rule, but if the Board, taking 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) Disclosure of a brief résumé of Directors in Annual Report. (d) Upon appointment of a new Director to its Board, the Entity shall forthwith provide to the Exchange, a brief résumé of such a Director for dissemination to the public. Such résumé shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	Complied	As per Section 7.10.4, the names of all four Independent Non-Executive Directors are mentioned on page 238 of the Corporate Governance Section A5.5 of the SEC and CA Sri Lanka Code. No such circumstance has occurred during the financial year 2015/16. Brief résumé of each Director of MI is provided on pages 213 to 215, covering requirements of this Section. As a practice of MI, an announcement will be made to CSE upon appointment of a new Director.
7.10.4	Criteria for Defining 'Independence'	Complied	All the Independent Non-Executive Directors of MI have fulfilled the eight criterion of independence stipulated in this Section.
7.10.5	Remuneration Committee A listed entity should have a Remuneration Committee.	Complied	MI's Remuneration Committee information is provided on page 288.

CSE Rule No.	Requirement	Compliance Status	Extent of Adoption (FY 2015/16 update)
	(a) Composition of the Remuneration Committee		Two out of three members of the Remuneration Committee are Independent Non-Executive Directors. The Board Chairman who is an Independent Non-Executive Director, chairs the Remuneration Committee.
	(b) The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company.		Page 243 Section B.2.1 of the SEC and CA Sri Lanka Code provides necessary information
	(c) Disclosure of the Remuneration Committee in the Annual Report		
	<ul style="list-style-type: none"> Name of the Directors serving in the Committee 		Names of Directors in the Remuneration Committee are provided on page 288.
	<ul style="list-style-type: none"> Statement of Remuneration Policy 		Please refer page 344 for the Remuneration Committee Report.
	<ul style="list-style-type: none"> Aggregate remuneration paid to Executive Directors and Non-Executive Directors 		Aggregate remuneration paid to Executive and Non-Executive Directors, is provided on page 400.
7.10.6	<p>Audit Committee</p> <p>A listed entity should have an Audit Committee.</p> <p>Composition of the Audit Committee –</p> <ul style="list-style-type: none"> Audit Committee shall comprise Non-Executive Directors, a majority of whom shall be independent. One Non-Executive Director shall be appointed as Chairman of the Committee. The Chief Executive Officer and the Chief Financial Officer of the listed Company shall attend Audit Committee meetings. The Chairman or one member of the Committee should be a Member of a recognised professional accounting body. 	Complied	<p>Particulars relating to MI's Audit Committee is provided on page 286.</p> <p>All three members of the Audit Committee are Non-Executive Directors, two of whom are independent.</p> <p>Chairman of the Audit Committee is Mr. S.M.S.S. Bandara, who is an Independent Non-Executive Director.</p> <p>During the financial year 2015/16, the Finance Director (CFO) attended the Audit Committee meetings by invitation. Calling of Managing Director was not necessitated this period.</p> <p>The Chairman of the Audit Committee is a Chartered Accountant, with years of experience behind him in the Financial and Auditing fields and is a partner of B. R. De Silva & Co., Chartered Accountants.</p>
	(b) Functions of the Audit Committee		<p>Functions of the Audit Committee are disclosed on page 249 in Section D.3.3 of the SEC and CA Sri Lanka Code details.</p> <p>Composition of the Audit Committee is provided on page 286.</p>
	(c) Disclosures in the Annual Report–		
	<ul style="list-style-type: none"> The Name of the Directors comprising the Audit Committee. The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination. Annual Report shall contain a report by the Audit Committee, setting out the manner of compliance by the entity in relation to the Section 7.10 of CSE Listing Rules. 		<p>Please refer page 248 Section D.3.2 of the SEC and CA Sri Lanka Code for disclosure in this regard.</p> <p>The Audit Committee report is disclosed on page 346 in the Annual Report.</p>

MI'S COMPLIANCE STATUS TO CBSL RULES, DIRECTIONS, DETERMINATIONS, NOTICES AND GUIDELINES

MI's compliance to laws and regulations with specific focus on CBSL Directions is reported by the Manager-Risk and Compliance to the Board. The Company has complied with the following regulation as at 31 March 2016:

MI'S COMPLIANCE STATUS TO CBSL RULES, DIRECTIONS, DETERMINATIONS, NOTICES AND GUIDELINES

Rule/Direction/Guideline Number	Description of Rule/Direction/Guideline	Status as at 31 March 2016
Licensing of Finance Companies		
Rule No. 01 of 2012	Finance Companies (Application)	Complied
Rule No. 01 of 2013	Annual License Fee	Complied
Capital		
Direction No. 01 of 2003	Capital Fund	Complied
Direction No. 02 of 2006	Risk-Weighted Capital Adequacy Ratio	Complied
Direction No. 01 of 2011	Minimum Core Capital Adequacy	Complied
Lending		
Direction No. 03 of 2006	Provision for Bad and Doubtful Debts	Complied
Direction No. 04 of 2006	Single Borrower Limit	Complied
Direction No. 01 of 2007	Finance Companies (Lending) Direction No. 01 of 2007	Complied
Direction No. 03 of 2013	Debt Instrument	Complied
Liquidity		
Direction No. 04 of 2013	Liquid Assets	Complied
Operational		
Direction No. 02 of 2013	Writing-off of Loans & Advances	Complied
Direction No. 10 of 1991	Register of Written-off Loans	Complied
Direction No. 01 of 2005	Deposits	Complied
Direction No. 02 of 2007	Business Transactions with Directors and their Relatives	Complied
Direction No. 02 of 2010	Insurance of Deposit Liabilities	Complied
Direction No. 04 of 2012	Information System Security Policy	Complied
Direction No. 01 of 2014	Interest Rates	Complied
Corporate Governance		
Direction No. 03 of 2008	Corporate Governance	Complied
Direction No. 04 of 2008	Corporate Governance Amendment	Complied
Direction No. 06 of 2013	Corporate Governance Amendment	Complied
Direction No. 03 of 2011	Assessment of Fitness and Propriety of Directors and Officers Performing Executive Function	Complied
Reporting Requirement		
Direction No. 16 of 1991	Audited Accounts	Complied
Direction No. 02 of 2011	Reporting Requirements	Complied
Other Directions		
Direction No. 04 of 1991	Transfer of Assets	Complied
Direction No. 11 of 1991	Fixed Assets	Complied
Direction No. 15 of 1991	Accrued Interest	Complied
Direction No. 05 of 2001	Deposits – Incentive Schemes	Complied
Direction No. 04 of 2005	Closure of Office/s for Business	Complied
Direction No. 01 of 2013	Structural Changes	Complied
Direction No. 06 of 2005	Opening/Shifting/Closure of Branches /Offices	Complied
Direction No. 03 of 2009	Stimulus Package Conditions	Complied
Rules		
Rule No. 01 of 2006	Advertisements	Complied

Rule/Direction/Guideline Number	Description of Rule/Direction/Guideline	Status as at 31 March 2016
Circulars		
Circular No. 01 2006	Panel of External Auditors	Complied
Determination and Notices	Determination of the Inclusion of Unsecured Debentures in Capital Funds of Finance Companies	Complied
Guidelines		
Guidelines No. 01 of 2006	Opening of Branches/Offices	Complied
Guidelines No. 02 of 2006	Publication of Half Yearly Financial Statements	Complied
Guidelines No. 01 of 2007	Maintenance of Savings Accounts for Minors	Complied
Instructions		
	Collection of Information for the Facts Book	Complied
	Operation of Investment Fund Account	Complied
Circular issued by Bank Supervision Department	Regulations	
	Sri Lanka Deposit Regulations No. 01 of 2010	Complied
	Sri Lanka Deposit Regulations No. 01 of 2011	Complied
	Sri Lanka Deposit Regulations No. 02 of 2010	Complied
	Circulars	
	Sri Lanka Deposit Insurance Scheme Circular No. 01 of 2010	Complied
	Sri Lanka Deposit Insurance Scheme Circular No. 02 of 2010	Complied
	Sri Lanka Deposit Insurance Scheme Circular No. 01 of 2011	Complied
Financial Intelligence Unit		
No. 06 of 2006	Compliance with the Reporting Requirements under the Financial Transaction Reporting Act (Address verification process)	Complied
Rule No. 01 of 2011 and Amendment Rule No. 01 of 2011	Know Your Customer (KYC) and Customer Due Diligence (CDD)	Complied
Circular No. 03 of 2012	Compliance with the reporting requirements under the Financial Transaction Reporting Act No. 06 of 2006	Complied

In parallel, the Internal Auditors carry out periodic reviews on MI's compliance level in relation to key laws and regulations and provide feedback to the Audit Committee. The Audit Committee in turn appraises the Board on any unresolved matters and other concerns arising from such reviews for their attention and resolution.

BOARD MEETINGS

 (G4 – 34, 38)

MI Board meetings were held on a monthly basis to ensure close supervision and direction of the affairs of the Company, in meeting stakeholder expectations. The Company Secretary dispersed the agenda supported by related circulars/information packs including the Notice of the Meeting, at least seven days prior to the meeting date. The information circulated, included the monthly management accounts with key statistics, together with information pertaining to other matters that are planned to be taken up for the meeting. The Directors were able to freely incorporate significant matters, proposals and statistics in the agenda, to be taken up at such meetings.

Board papers passed on by the heads of divisions were taken up for discussion and approved during meetings. The Board being equally balanced, possessed the necessary experience and qualifications to take quality and pertinent decisions for the prudent running of the business.

During FY 2015/16, MI's Board was able to deliberate and take decisions and also approve key plans/actions as follows:

- Devised future strategies and approved medium term corporate plan
- Approved branch relocation/new branch setups
- Periodically reviewed management accounts, financial and non-financial information
- Reviewed compliance reports submitted by Manager – Risk and Compliance
- Reviewed IRMC, ALCO and other Committee feedback reports
- Other key strategic, operational and financial matters were taken up at meetings

Please refer page 230 for information pertaining to Directors attendance at Board meetings for the financial year 2015/16.

DIRECTORATES/EQUIVALENT POSITIONS HELD BY DIRECTORS AS AT 31 MARCH 2016

Name of the Director	No. of Directorates/ Equivalent Positions Held in Other Companies/Societies/ Bodies Corporate	No. of Directorates/ Equivalent Positions Held in Specified Business Entities
01. Mr. S.H.J. Weerasuriya	03	01
02. Mr. Gerard G. Ondaatjie	12	03
03. Mr. S.H. Jayasuriya	02	–
04. Mr. P.M. Amarasekara	02	–
05. Ms. Angeline M. Ondaatjie	15	04
06. Mr. Travice J. Ondaatjie	12	03
07. Ms. P.T.K. Navaratne	01	–
08. Mr. N.H.V. Perera	10	02
09. Mr. S.M.S.S. Bandara	01	–
10. Mr. P.C. Guhashanka	06	–

(1) Mr. G.G. Ondaatjie

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
Mercantile Fortunes (Pvt) Limited	Managing Director	No	23.33
Nilaveli Beach Hotels (Pvt) Limited	Ex. Deputy Chairman	No	23.3
Tangerine Beach Hotels PLC	Director	Yes	0.66
Royal Palms Beach Hotels PLC	Director	Yes	0.34
The Nuwara Eliya Hotels Company PLC	Managing Director	Yes	10.64
Tangerine Tours (Pvt) Limited	Director	No	14.0
Security Ceylon (Pvt) Limited	Director	No	5.0
Global Films Limited	Director	No	0.04
International Fortunes (Pvt) Limited	Director	No	1.33
Mercantile Orient (Pvt) Limited	Director	No	–
Fair View Hotel (Pvt) Limited	Managing Director	No	–
Nilaveli Hotels (Pvt) Limited	Chairman	No	20.0

Status	Total Number of Papers Approved in 2015/16						
	Main Board	Integrated Risk Management Committee	Audit Committee	Remuneration Committee	Nomination Committee	Related Party Transactions Review Committee	Assets and Liabilities Management Committee
Submitted	95	04	15	01	02	02	12
Approved	06	–	03	01	–	–	12
Tabled	89	04	12	–	02	02	–

(2) Ms. A.M. Ondaatjie

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
Mercantile Fortunes (Pvt) Limited	Director	No	23.33
Nilaveli Beach Hotels (Pvt) Limited	Director	No	23.3
Tangerine Beach Hotels PLC	Jt. Managing Director	Yes	0.82
Royal Palms Beach Hotels PLC	Jt. Managing Director	Yes	0.4
The Nuwara Eliya Hotels Company PLC	Director	Yes	0.57
Tangerine Tours (Pvt) Limited	Managing Director	No	14.5
Security Ceylon (Pvt) Limited	Director	No	5.0
Global Films Limited	Director	No	0.04
International Fortunes (Pvt) Limited	Director	No	1.33
Mercantile Orient (Pvt) Limited	Director	No	–
Fair View Hotel (Pvt) Limited	Director	No	–
Nilaveli Hotels (Pvt) Limited	Director	No	20.0
The Light House Hotel PLC	Director	Yes	–
Phoenix Industries Limited	Director	No	–
Brushco (Pvt) Limited	Director	No	–

(3) Mr. T.J. Ondaatjie

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
Fair View Hotel (Pvt) Limited	Director	No	23.33
Nilaveli Beach Hotels (Pvt) Limited	Managing Director	No	23.4
Tangerine Beach Hotels PLC	Director	Yes	0.89
Royal Palms Beach Hotels PLC	Director	Yes	1.0
The Nuwara Eliya Hotels Company PLC	Director	Yes	0.57
Tangerine Tours (Pvt) Limited	Director	No	14.0
Security Ceylon (Pvt) Limited	Director	No	5.0
Global Films Limited	Director	No	0.04
International Fortunes (Pvt) Limited	Director	No	1.33
Mercantile Orient (Pvt) Limited	Director	No	–
Fair View Hotel (Pvt) Limited	Director	No	–
Nilaveli Hotels (Pvt) Limited	Managing Director	No	20.0

(4) Mr. P.M. Amarasekara

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
Security Ceylon (Pvt) Limited	Director	No	
Fair View Hotel (Pvt) Limited	Director	No	

(5) Mr. S.H. Jayasuriya

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity
Mercantile Fortunes (Pvt) Limited	Director	No
Security Ceylon (Pvt) Limited	Director	No

(6) Mr. S.H.J. Weerasuriya

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity
Ceylinco Insurance PLC	Director	Yes
Saro Weerasuriya Associates	Proprietor	No
Kognoscenti (Pvt) Limited	Director	No

(7) Mr. N.H.V. Perera

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity
Royal Palms Beach Hotels PLC	Director	Yes
Tangerine Beach Hotels PLC	Director	Yes
Blue Oceanic Beach Hotel Limited	Director	No
Yala Safari Beach Hotel Limited	Director	No
Yala Properties (Private) Limited	Director	No
South Asia Economic and Trade Corporation (Pvt) Limited	Director	No
Ceylon Electro Mechanical Services (Pvt) Limited	Director	No
Desano Investments Limited	Director	No
Tisara Hotels (Private) Limited	Director	No
Koggala Beach Hotel (Pvt) Limited	Director	No

(8) Ms. P.T.K. Navaratne

Companies/Societies/Corporate Bodies Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity
WSO2 Lanka (Pvt) Limited	Vice-President	No

(9) Mr. S.M.S.S. Bandara

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity
B.R. De Silva & Co.	Partner	No
Nexia Management Services (Pvt) Limited	Director	No
Nexia BPO (Pvt) Limited	Director	No

(10) Mr. P.C. Guhashanka

Companies/Societies/Corporate Bodies including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
Micro Holdings (Pvt) Limited	Director	No	7
Micro Cars Limited	Director	No	-
Micro Constructions (Pte) Limited	Director	No	25
Transmec International (Pte) Limited	Director	No	25
Transmec Engineering (Pte) Limited	Director	No	-
Euro Sports Auto Lanka (Pte) Limited	Director	No	25

ROLE OF BOARD SUB-COMMITTEES IN GOVERNANCE

In effectively discharging the Board's duties several Sub-Committees have been set-up. The selection criteria of each member for the respective Sub-Committees are based on the levels of experience and expertise so that each committee performs its specific role effectively. The Sub-Committees in essence oversee critical business facets handled by the Corporate Management to whom authority has been delegated by the Board for the conduct of daily tasks.

The Sub-Committees oversee the critical functional areas such as finance, credit, liquidity, interest rates and operations in ensuring that the management exercises its authority within the framework stipulated by the Board. The oversight and reporting process enables the Board to obtain vital feedback from Sub-Committees on the status of strategic implementation and policies set forth by them. The Board then is able to assess the potential risks and takes effective decisions as proactive counter measures.

The seven Sub-Committees of the Board and tasks executed during FY 2015/16 are elaborated below:

THE AUDIT COMMITTEE

Composition/type of directorship	Other committee information	
Mr. S.M.S.S. Bandara (Independent Non-Executive Director)	Chairman (Independent Non-Executive Director)	Mr. S.M.S.S. Bandara (<i>Appointed w.e.f. 28 June 2013</i>)
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director)	Terms of Reference	Available
Mr. N.H.V. Perera (Non-Executive Director)	Minimum Meeting Frequency	Quarterly (06 times during the year)
	Circulation of the agenda and papers	7 days prior to the meeting
	Invitees	Managing Director/Finance Director/Internal Auditors/External Auditors and members of the Corporate Management
	Professional advice	Have the option to obtain advice whenever necessary
	Secretary	Mrs. Sonali Pethiyagoda
	Meeting Minutes Availability	Available in the custody of Company Secretary

Composition/type of directorship	Other committee information
Objectives of the Committee	<ul style="list-style-type: none"> • Ensuring compliance to disclosure requirements arising from accounting standards and regulations specified by regulatory bodies including CBSL. • Providing oversight on the quality of financial reporting, ensuring relevant accounting policies are adopted. • Evaluating the adequacy and effectiveness of the internal control system and setting up a process that provides continuous feedback. • Dealing in matters related to the External Auditors and their nominations annually. • Following up on the observations and recommendations of Internal Auditors and reviewing their scope of work and engaging with External Auditors, Corporate Management to identify and resolve concerns.
Key duties performed during FY 2015/16	<ul style="list-style-type: none"> • Followed up with Corporate Management on material observations highlighted by Internal Auditors. At each meeting, Internal Auditors were requested to present key observations to the Committee, including due recommendation for rectification and to provide a status report on the remedial action taken by the Management. • Reviewed the scope, functions and resources of the Internal Audit function and adequacy of audit programmes. The Committee approved audit programmes tabled by MI's own Internal Audit Division and outsourced part given to EY on 21 July 2015. • Reviewed integrity of the financial information generated by the Finance Department in consultation with the CFO. The Committee evaluated the accounting policies, accounting standards including IFRS new requirements adopted and other reporting requirements in accordance with the Companies Act, Finance Business Act and Colombo Stock Exchange rules. • Reappointed BDO Partners after making a thorough evaluation of their capability and partner standings within the audit fraternity. • Evaluated External Auditor's scope of work and its cost effectiveness with final results. Ensured that the required level of independence and objectivity was maintained when giving their audit opinion. • Followed up on material observations highlighted in the letter to the Management by the External Auditor during their statutory audit of the previous period. The Committee invited the External Auditors to meet and discuss key matters. • The Committee ensured that ICT system review is included into the annual audit process of the Company from 2015 onwards. • Reviewed the process of risk management to ensure the Company meets required risk management standards.

ATTENDANCE AT AUDIT COMMITTEE MEETINGS

Name of the Director	Type of directorship			Attendance at meeting during 2015/16					
	Executive	Non-Executive	Independent Non-Executive	19 May 2015	21 July 2015	28 October 2015	24 November 2015	27 January 2016	17 March 2016
Mr. S.M.S.S. Bandara (Chairman of the Committee)			√	√	√	√	√	√	√
Mr. S.H.J. Weerasuriya			√	√	√	√	√	√	√
Mr. N.H.V. Perera	√			x	√	√	√	√	√
External Auditors – BDO				√	√	x	√	x	x

BOARD PAPER SUBMISSION STATUS OF THE AUDIT COMMITTEE

Number of papers submitted	Number of papers approved
15	04 (Approved)
	11 (Tabled)

THE REMUNERATION COMMITTEE

Composition/type of directorship	Other committee information	
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director)	Chairman (Independent Non-Executive Director)	Mr. S.H.J. Weerasuriya <i>(Appointed w.e.f. 24 February 2012)</i>
Mr. N.H.V. Perera (Non-Executive Director)	Terms of Reference	Available
Ms. P.T.K. Navaratne (Independent Non-Executive Director)	Minimum Meeting Frequency	At least once a year (01 meeting held in this financial year)
	Circulation of the agenda and papers	7 days prior to the meeting
	Invitees	Managing Director
	Professional advice	Can seek advice whenever necessary
	Secretary	Mrs. Sonali Pethiyagoda
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives of the Committee	To identify and decide on Executive Director remuneration levels and non-executive fees for the purpose of retaining high calibre individuals
	Key duties performed during FY 2015/16	Approved annual increments for Executive Directors

ATTENDANCE AT REMUNERATION COMMITTEE MEETINGS

Name of the Director	Type of directorship			Attendance at meetings during 2015/16
	Executive	Non-Executive	Independent Non-Executive	17 March 2015
Mr. S.H.J. Weerasuriya (Chairman)			√	√
Ms. P.T.K. Navaratne			√	x
Mr. N.H.V. Perera		√		√

BOARD PAPER SUBMISSION STATUS OF THE REMUNERATION COMMITTEE

Number of Papers Submitted	Number of papers approved
01	01

THE INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

Composition/type of directorship	Other committee information	
Mr. N.H.V. Perera (Non-Executive Director)	Chairman (Non-Executive Director)	Mr. N.H.V. Perera (<i>Appointed w.e.f. 24 February 2012</i>)
Mr. G.G. Ondaatjie (Managing Director)	Terms of Reference	Available
Mr. S.H. Jayasuriya (Finance Director)	Minimum Meeting Frequency	Quarterly intervals (04 meetings held in this financial year)
Mr. P.M. Amarasekara (Deputy Managing Director)	Circulation of the agenda and papers	7 days prior to the meeting
	Invitees	Divisional Heads whenever necessary
	Professional advice	Obtain advice whenever necessary
	Secretary	Mr. Shehan Sandanayaka (Manager Risk and Compliance)
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives of the Committee	To oversee MI's risk management function and to identify risks, recommend solutions and report key risk concerns to the Board regularly
	Key duties performed during FY 2015/16	<ul style="list-style-type: none"> • Determined the appropriate risk appetite and MI's level of exposure • Established a method for overseeing the overall risk management process of the Company • Identified risks and monitored the management of fundamental risks to reduce the likelihood of unwelcome surprises • Approved major decisions affecting MI's risk profile and exposure • Periodically reviewed MI's approach to risk management and approved changes/improvements to key elements of its processes and procedures <p>Refer the Integrated Risk Management Committee Report on page 343 for further details on the Committee</p>

ATTENDANCE AT INTEGRATED RISK MANAGEMENT COMMITTEE MEETINGS

Name of the Director	Type of directorship			Attendance at meeting during 2015/16			
	Executive	Non-Executive	Independent Non-Executive	23 June 2015	22 September 2015	22 December 2015	21 March 2016
Mr. N.H.V. Perera (Chairman of the Committee)		√		√	√	√	√
Mr. G.G. Ondaatjie	√			√	√	√	√
Mr. S.H. Jayasuriya	√			√	√	√	√
Mr. P.M. Amarasekara	√			√	√	√	√

BOARD PAPER SUBMISSION STATUS OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

Number of Papers Submitted	Number of papers approved
04	04

THE NOMINATION COMMITTEE

Composition/type of directorship	Other committee information	
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director)	Chairman (Non-Executive Director)	Mr. S.H.J. Weerasuriya (<i>Appointed w.e.f. 14 February 2013</i>)
Mr. N.H.V. Perera (Non-Executive Director)	Terms of Reference	Available
Mr. S.M.S.S. Bandara (Independent Non-Executive Director)	Minimum Meeting Frequency	At least once a year (01 meeting held in this financial year)
Mr. G.G. Ondaatjie (Managing Director)	Circulation of the agenda and papers	7 days prior to the meeting
	Invitees	None
	Professional advice	Can seek advice whenever necessary
	Secretary	Mrs. Sonali Pethiyagoda
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives of the Committee	Nominate members to MI's Board with the relevant knowledge, expertise and also identifying right calibre individuals for future succession
	Key duties performed during FY 2015/16	<ul style="list-style-type: none"> Recommended re-election of Directors retiring by rotation Assessed the composition of the Board

ATTENDANCE AT NOMINATION COMMITTEE MEETINGS

Name of the Director	Type of directorship			Attendance at meetings during FY 2015/16
	Executive	Non-Executive	Independent Non-Executive	28 March 2016
Mr. S.H.J. Weerasuriya (Chairman)			√	√
Mr. G.G. Ondaatjie	√			√
Mr. N.H.V. Perera		√		√
Mr. S.M.S.S. Bandara			√	√

THE CREDIT COMMITTEE

Composition/type of directorship	Other committee information	
Mr. G.G. Ondaatjie (Managing Director)	Chairman (Executive Director)	Mr. G.G. Ondaatjie (<i>Appointed w.e.f. 20 March 2013</i>)
Mr. P.M. Amarasekara (Deputy Managing Director)	Terms of Reference	Available
Mr. S.H. Jayasuriya (Finance Director)	Minimum Meeting Frequency	Whenever necessary, at least monthly
Mr. Danushka Fonseka (Director – Non-Board – Credit and Marketing)	Circulation of the agenda and papers	7 days prior to the meeting
	Invitees	Assistant General Managers of Credit and Branch Managers
	Professional advice	Advice process will be mentioned in 'Term of Reference' being prepared
	Secretary	Mr. Dhanushka Fonseka
	Meeting Minutes Availability	Will be available in the custody of Director – (Non Board) Mr. Dhanushka Fonseka
	Objectives of the Committee	Maintaining a sound credit review and disbursement and recovery process while approving credit as per entrusted authority
	Duties performed during FY 2015/16	(a) Appraised existing lending policies and assessed credit risk evaluations of large lendings and high risk accounts including guarantors (b) Reviewed existing credit practices, monitored large accounts in arrears and assessed lending trends to decide on the best course of action, in order to minimise credit-related risks (c) Reviewed existing and proposed exposure limits on customers against set parameters giving consideration to aspects such as lending growth, exposure values, risk levels of counterparties, overall sector exposure levels and demographic exposure levels (d) Recommended stringent action on problematic accounts in consultation with the legal division (e) Approved credit over a specified Board approved limit

RELATED PARTY TRANSACTION REVIEW COMMITTEE

Composition/type of directorship	Other committee information	
Mr. S.M.S.S. Bandara (Independent Non-Executive Director)	Chairman (Independent Non-Executive Director)	Mr. S.M.S.S. Bandara (<i>Appointed w.e.f. 29 January 2015</i>)
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director)	Terms of Reference	Available
Mr. N.H.V. Perera (Non-Executive Director)	Minimum Meeting Frequency	Quarterly
	Circulation of the agenda and papers	7 days prior to the meeting
	Invitees	Managing Director/Finance Director
	Professional Advice	Have the option to obtain advice whenever necessary
	Secretary	Mrs. Sonali Pethiyagoda
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives of the Committee	To assist the Board in reviewing material – related party transactions carried out by MI and to provide feedback in the event of concerns
	Duties performed during FY 2015/16	<ul style="list-style-type: none"> Reviewed and monitored related party transactions of MI Formulated, revised and approved policies on related party transactions Advised management on reporting format to committee

ATTENDANCE AT RELATED PARTY TRANSACTION REVIEW COMMITTEE MEETINGS

Name of the Director	Type of Directorship			Attendance at Meetings during FY 2015/16	
	Executive	Non-Executive	Independent Non-Executive	01 December 2015	17 March 2016
Mr. S.M.S.S. Bandara (Chairman of the Committee)			√	√	√
Mr. S.H.J. Weerasuriya			√	√	√
Mr. N.H.V. Perera		√		x	√

MANAGEMENT COMMITTEE

Composition/type of directorship	Other committee information	
Mr G.G. Ondaatjie (Managing Director)	Chairman	Mr. G.G. Ondaatjie
Mr. P.M. Amarasekara (Deputy Managing Director)	Meeting Frequency	Weekly
Mr. S.H. Jayasuriya (Finance Director)	Circulation of Information	Daily to all members by way of e-mail
Corporate Management Team	Invitees	Non-Executive Directors Officers under purview of corporate management as and when required
	Meeting Information Availability	Presented information available with Finance Division
	Objectives of the Committee	Review management information on performance closely to identify early warning signs and to assess performance gaps so that prompt steps could be taken
	Duties performed during FY 2015/16	<ul style="list-style-type: none"> The Finance Division conducted weekly and monthly meetings and presented a stream of financial information in relation to lending, deposits, profitability, spread levels, market statistics and forecast Financial and non-financial performance, actual versus past and against expected targets were revised and discussed Monthly performance review with respective cluster AGMs, Regional Managers and other Key Officers

RULES AND REGULATIONS ADOPTED IN GOVERNING

Internal	External
Articles of Association	Directions, rules, determinations, notices and guidance issued by CBSL
Procedure Manual	Finance Business Act No. 42 of 2011 Finance Leasing Act No. 56 of 2000
Terms of Reference for Committees <ul style="list-style-type: none"> Audit Committee Integrated Risk Management Committee Nomination Committee Remuneration Committee Assets and Liabilities Management Committee 	Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka – 2013
Investment Policy	Listing Rules of Colombo Stock Exchange
Liquidity Policy	Companies Act No. 07 of 2007
Branch Compliance Checklist	<ul style="list-style-type: none"> Sri Lanka Deposit Insurance Scheme Regulations and Circulars
Human Resource Handbook	<ul style="list-style-type: none"> Financial Transaction Reporting Act No. 06 of 2006 – Know Your Customer (KYC)
Communication Policy	<ul style="list-style-type: none"> Consumer Due Diligence (CDD) Rules
Liquidity Risk Management Policy	<ul style="list-style-type: none"> Inland Revenue Act No. 10 of 2006

SUBMISSION OF CBSL WEB RETURNS

All required CBSL web returns were submitted by the Company on or before the due dates for submission.

Report	Periodicity	Number of Reports Submitted in 2015/16
Liquid Assets	Weekly/Monthly	64
Deposit Liability	Weekly	52
Advances	Monthly	12
Rate of Interest	Monthly	12
Balance Sheet	Monthly	12
Profit and Loss	Monthly	12
Classification of Advances	Monthly	12
Secured Large Exposures	Monthly	12
Unsecured Large Exposures	Monthly	12
Advances to Related Parties	Monthly	12
Investments in Equity	Monthly	12
Maturity Gap Analysis	Monthly	12
Interest Rate Sensitivity	Monthly	12
Capital Adequacy Ratio	Monthly	12
Sector-wise Credit Exposure	Monthly	12
Interest Spread	Monthly	12
Balance Sheet – Audited	Annually	1
Profit & Loss Account – Audited	Annually	1
Capital Adequacy Ratio – Audited	Annually	1
Classification of Advances – Audited	Annually	1
Branch Details	Quarterly	4
Financial Intelligence Unit Report – More than 1 million Cash Transaction Report	Bimonthly	24
Total Reports Submitted		316

RETURNS SUBMITTED AS PER PREVAILING REGULATIONS

Key Regulations Applicable 2015/16	No. of Returns
CSE	05
Inland Revenue	33
EPF and ETF	26
Registrar of Companies	01
Central Bank of Sri Lanka	377
Municipal Council	04
SLAASMB	01
Financial Intelligence Unit	24

EMPLOYEE TRAINING ON REGULATIONS

Employees were provided training to ensure strict adherence to rules and regulations applicable to licensed finance businesses in Sri Lanka. Induction programmes were held giving new comers an initial knowledge on the finance industry regulations and MI's internal rules and procedures. Training was also conducted for teams in the Credit and Recoveries Department on regulations related to lending practices focusing on legal aspects, documentation and regulatory requirements. Selected employees were sent on special training conducted by the Central Bank, The Institute of Chartered Accountants, The Institute of Certified Management Accountants of Sri Lanka and Finance House Associations and other bodies that provide technical knowledge on prevailing regulations.

HUMAN RESOURCE MANAGEMENT

The 'Employee Review' on pages 164 to 181 in the sustainability section provides detailed information on MI's Human Resource Management practices. This section grants information on human resource policies and practices including aspects on career development, processes on staff appraisal, the working environment, staff benefits and human resource initiatives applicable to the period under review.

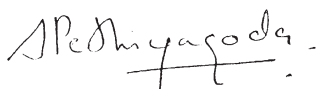
CORPORATE SOCIAL RESPONSIBILITY

We at MI understand the need to bring forth sustainable development practices with the hope of bettering our future as a nation. As a key player in the corporate sector, MI continues to play an integral role in creating value to stakeholders, the LFC sector and the Sri Lankan economy. A comprehensive account of sustainable initiatives undertaken by the Company under economic, social and environmental dimensions is provided in the Sustainability Report on pages 123 to 209.


EXTERNAL AUDITORS' CERTIFICATION

The services of External Auditors were obtained to certify the contents stated in the Corporate Governance Report in relation to the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and related amendments, Corporate Governance best practices issued by the Securities and Exchange Commission of Sri Lanka and The Institute of Chartered Accountants of Sri Lanka issued in 2013 and disclosures pertaining to Corporate Governance practices, processes and policies adopted by the Company.

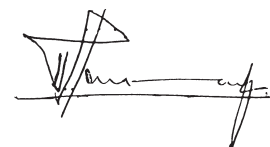
External Auditors confirmed that the disclosures given are in order according to their report on agreed procedures dated 13 June 2016.



S. Pethiyagoda
Company Secretary



Shehan Sandanayaka
Manager – Risk and Compliance



Saro Weerasuriya
Chairman

13 June 2016

Recklessness We Don't Buy Into...

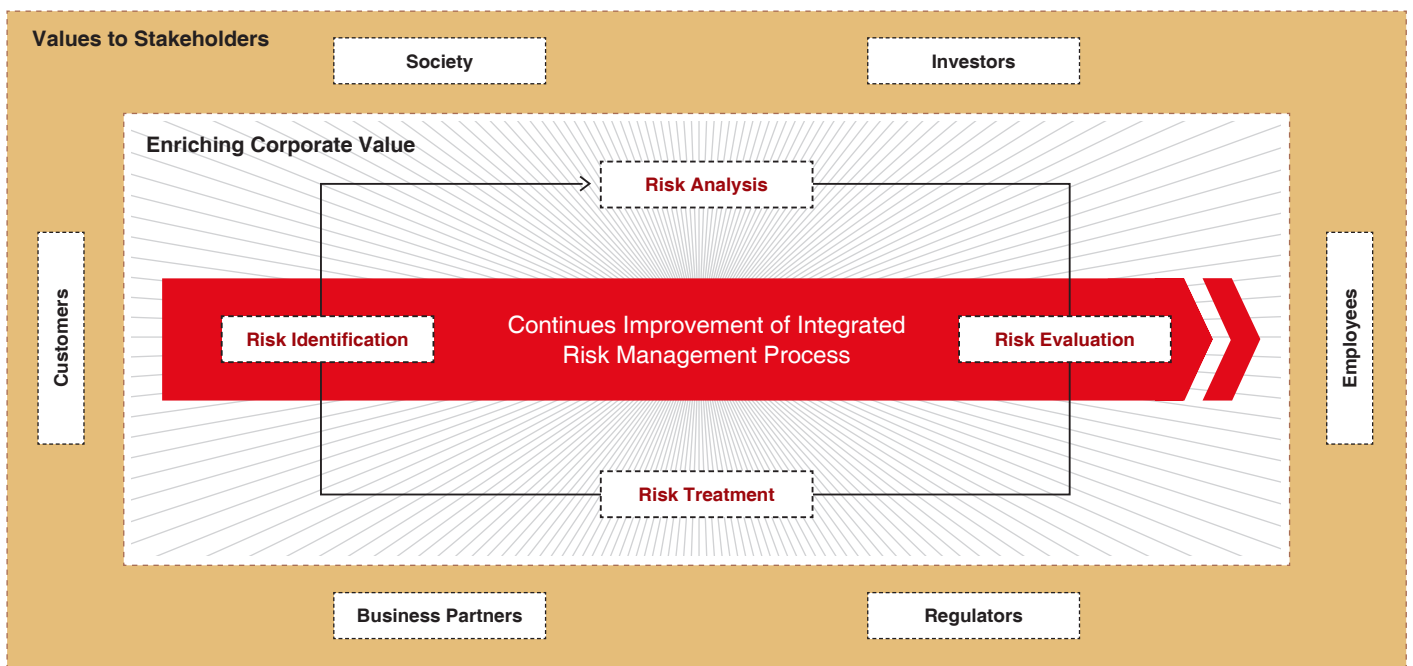
For over 50 years we've been navigating the waters of enterprise, charting a far-sighted course that sees the dangers ahead and avoids them well before they become a problem. And should we happen on them suddenly, we have the acumen and safeguards that mitigate them effectively.



MI'S APPROACH TO MANAGING RISK

Risk Management is a key function of a finance company as finance business is associated with a gamut of risks that is potent and even lethal. As a result, Risk Management has become an integral part of our business strategy each year. MI understands the importance of aligning Risk Management objectives of the Company in a way that it strikes an appropriate balance between risk and rewards in order to maximise stakeholder value as a core objective. Integrated Risk Management process of the Company benefits all stakeholders of the Company as depicted below:

MI'S RISK PROCESS



As a finance company, MI face potential risks, mainly from credit risk, liquidity risk, market risk and operational risk. The Company understands the importance of managing these core risks appropriately as otherwise; it may result in financial losses, creating a negative impact to MI's value creation process. Given below are the main drivers of risk that are focused upon by the Board, its Sub-Committees and the Corporate Management.



By establishing a sound risk management framework, coupled with risk review techniques, MI was able to detect and counter potent risks inherent in our business that eventually helped in sustaining profitability throughout the year. Further, the surge of regulations that have been imposed by the regulator in the past few years too, have also strengthened internal risk management practices to counter emerging market volatility within the LFC sector.

MI's decision of gradually strengthening the risk management functions through new recruitments has already yielded immense benefits. This helped enhance the evolving risk management system especially, strengthening associated analysis techniques besides reporting and forming the base for continuous risk monitoring. IRMC closely worked with the Risk Manager and Heads of Divisions, to evaluate risk levels and to set risk appetite levels suited to MI's business model and applicable regulations.

JOURNEY IN RISK MANAGEMENT

Key risk indicators	Last FY 2014/15	Now FY 2015/16
Liquidity gap (Less than 1 year) (Rs. billion)	2.4	1.7
Loan provision cover (%)	82	79
Capital adequacy (%) – Tier	21.7	19.4
– Total Capital	15.3	15.8

Highlights of MI's Risk Management Process in FY 2015/16

- Approval of Credit Committee Terms of Reference including best practices of credit risk management.
- Tabling of a quarterly Assets and Liability Management Committee report to the Board, highlighting key observations and recommendations.
- As part of the corporate planning process, established risk management goals, strategy and other specific plans for the medium-term.
- Managed to reduce the Asset & Liability, less than one year period mismatch, by Rs. 700 million.
- Maintained the NPL ratio of 3.39%, even with a 28.69% growth in Lending Book.
- Strengthened risk reviews by generating additional risk information to management. Eg. Interest Rate mismatch to Corporate Management.
- Risk based audit incorporated some of the risk management areas of focus. Eg. Asset quantity versus size of portfolio.

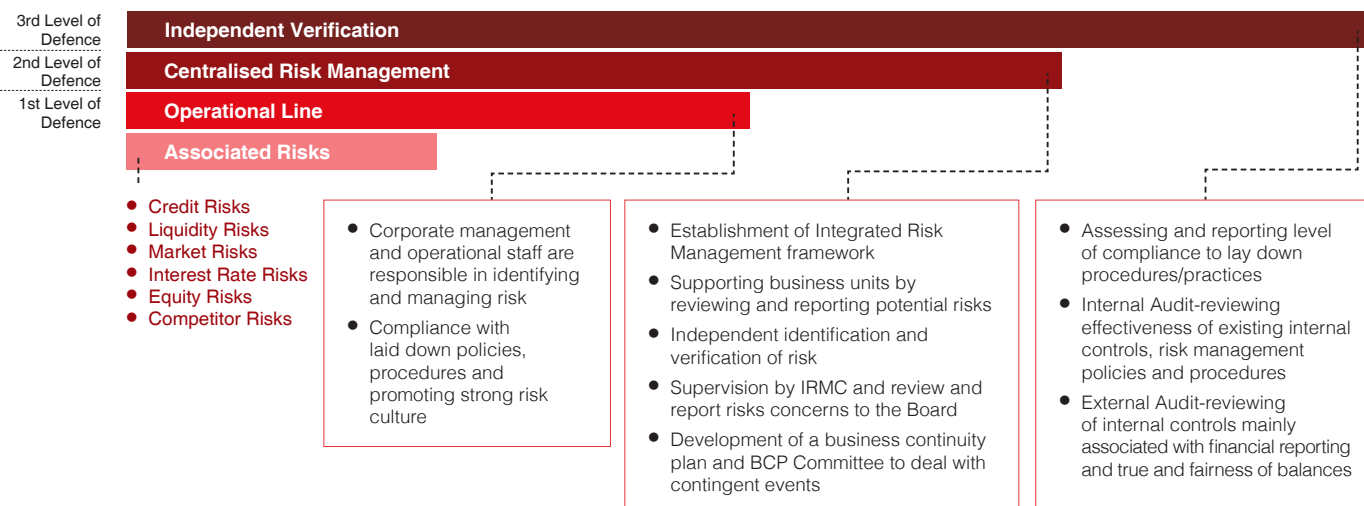
RISK MANAGEMENT STRATEGY

Risk management traditionally has been viewed as a controlling and loss mitigation function, which supports the organisation to minimise potential risks. MI believes in the use of risk management beyond traditional boundaries, by considering risk management as a strategic business tool. The strategic approach of MI is to optimise stakeholders' value through pre-emptive risk exposure management, identifying the best trade-off between risks and rewards in all major business decisions.

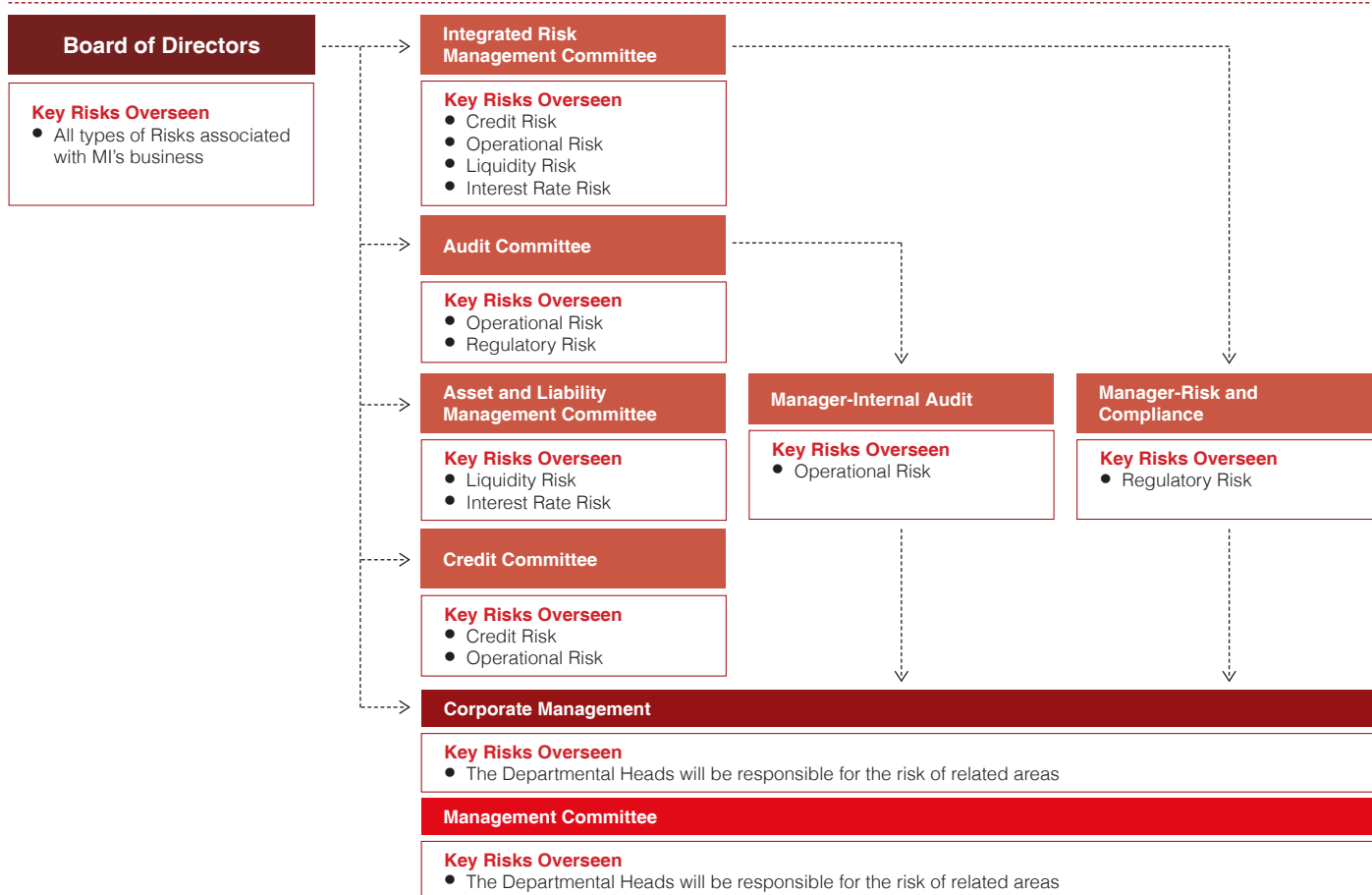
As part of MI's risk management strategy, the Company adopts an on-going process of risk identification, which encompasses the assessment and measuring of risk levels and includes making improvements to existing risk mitigation practices on a case-by-case basis. MI's risk management process encapsulates a stream of policies and procedures, laid forth for officers to follow as a means of eliminating or mitigating risks at various levels. At the same time, the Company monitors risks on a continuous basis, in certain instances, comparing actuals against prudent norm to identify material deviations. This provides MI the opportunity to assess the level of risk exposure that the Company faces and enables it to take timely counter measures. It also enables MI to constantly keep appraised of the effectiveness of existing risk mitigation techniques.

The Company possesses a strong risk governance structure at the core of its robust risk management framework. Risk governance of the Company is based on a three line defence system that ensures required accountability, independence and transparency of reporting, which is kept at high standards. MI's three line defence system in governing risks is depicted below and has been an effective counter mechanism against potential risks associated with the Company's type of finance business;

MI'S RISK GOVERNANCE MECHANISM



MI RISK MANAGEMENT STRUCTURE



Risk management structure of this Company complements the three lines of defence practises and adopts a clear top down hierarchical approach for its effective governance. The Board of Directors passes down the responsibility of Risk Management to Corporate Management and other core officers of MI. Divisional Heads and Senior Management have been entrusted with the responsibility of managing day-to-day risks within their scope. The structure maps out the importance of specific committees and the importance of the audit function, other than the role played by the Board and Corporate Management. The Manager – Risk and Compliance plays a key role in the risk framework being a reporter and reviewer of the smooth functioning of the risk framework, which makes this process a well-balanced and a dynamic one.

MI'S BOARD ROLE IN GOVERNING AN EFFECTIVE RISK MANAGEMENT FRAMEWORK

The MI's Board leads from the front, overseeing Corporate Management actions by establishing necessary

committees and other initiatives to expedite their responsibilities on management of risks related to the Company. The Board has established several Sub-Committees for monitoring of key forms of risk with the intention of the discharging its obligations related to risk management. i.e. various risks covered by each of these key committees is outlined in the risk management structure diagram. Directors active participation in such Sub-Committee meetings on a periodic basis helps discharge Sub-Committees' duties effectively.

ROLE OF CORPORATE MANAGEMENT'S IN RISK MANAGEMENT

MI's Corporate Management comprising of Senior Managerial Officers, have been entrusted with the task of implementing risk management policies and procedures within their functional areas and monitoring them on a continuous basis to ensure its constant application. MI's Corporate Management structure has been established with clear

separation of organisational functions and responsibilities, on a set of tools and procedures. This encompasses a system of in-house control checks that sets the needed precision for officers to execute their tasks well, in keeping to the expectation of the Board.

Divisional Heads have direct responsibility of ensuring that necessary risk assessments related to their departmental functions are done, including assessing the adequacy of prevailing risk management practices within the relevant divisions. Respective divisions are required to review existing processes and controls on a constant basis in the light of the changing environment, so that appropriate updating and improvements could be made to existing procedures and controls. Necessary procedural updating was affected, during this financial year, through addendums made to the Company's 'Procedure Manual', for the purpose of strengthening specific operations.

ROLE OF THE INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

The Integrated Risk Management Committee established in 2009, comprising a four member committee, who operate under Board approval terms of reference, is empowered with task of reviewing risk management policies, practices of the Company. The Committee met on a quarterly basis and reviewed reports and statistics tabled by respective heads of divisions for the purpose of assessing risks such as credit risk, liquidity risk, interest rate risk and operational risk.

Through a thorough risk assessment process, IRMC makes suitable recommendations, to avert impending risk or to improve risk management controls. For the Committee to make assessment, they review the Company’s maturity profile of assets and liabilities periodically and propose strategies to counter prevalent mismatches both in the short and long-term. In terms of managing market risk, the Committee reviewed the prevalent interest rate structure, for both MI’s lending and deposits business, to ascertain the adequacy of spreads enjoyed from core business.

RISKS REVIEWED BY INTEGRATED RISK MANAGEMENT COMMITTEE

Risk area	Analysed data/information	Proposed action/recommendations of IRMC	Actions in FY 2015/16 to fulfil IRMC recommendation																		
Liquidity risk review	<ul style="list-style-type: none"> • Maturity gap analysis of Assets and Liabilities. • Liquidity Risk Statement. • Loan to Deposit Ratio. • CBSL regulatory compliance status on liquidity. • Interest rate trend of the market. 	<ul style="list-style-type: none"> • Target low cost long-term borrowings in the market. • Recommended Deposits Division to device strategies to improve retention levels and at the same time, promote branch businesses more extensively. • To reduce the loans to deposits ratio below industry average by next quarter. 	<ul style="list-style-type: none"> • Negotiated and secured number of long-term funding lines from MI’s main Banking Partners. • Over one year deposit base improved by Rs. 793 million during the twelve-month period. 																		
				<table border="1"> <thead> <tr> <th>Period (Months)</th> <th>Average interest rate (%)</th> <th>Value (Rs. billion)</th> </tr> </thead> <tbody> <tr> <td>Below 12 months</td> <td>8.83</td> <td>3.70</td> </tr> <tr> <td>Over 12 months</td> <td>9.18</td> <td>6.45</td> </tr> <tr> <td>Over 24 months</td> <td>9.49</td> <td>2.70</td> </tr> <tr> <td>Over 36 months</td> <td>9.60</td> <td>0.87</td> </tr> <tr> <td>Over 48 months</td> <td>9.70</td> <td>0.16</td> </tr> <tr> <td>Over 60 months</td> <td>10.16</td> <td>1.30</td> </tr> </tbody> </table>	Period (Months)	Average interest rate (%)	Value (Rs. billion)	Below 12 months	8.83	3.70	Over 12 months	9.18	6.45	Over 24 months	9.49	2.70	Over 36 months	9.60	0.87	Over 48 months	9.70
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Credit risk review	<p>Credit concentration analysis</p> <ul style="list-style-type: none"> • Industry wise • Province wise • Product wise concentration <p>Single borrower limits group wise and individual</p> <p>NPL ratio</p> <ul style="list-style-type: none"> • Branch wise • Product wise • Gross NPL • Net NPL 	<ul style="list-style-type: none"> • Recommended to remain well focused on keeping. • Non-performing lending to manageable levels, whilst instilling stringent recovery measures. • Proposed closer review of contracts in arrears, at least weekly, including repayment pattern and position of lendings. • Recommended to revisit credit policies and strengthened weak areas. • Development of a credit risk appetite limit alert system. • Development of a credit risk assessment model to assess risk. 	<ul style="list-style-type: none"> • Updated credit manual and issued additional credit procedures and instructions to strengthen the credit process. • Established an effective recovery mechanism to curtail the rise of NPL level of the Company. <ul style="list-style-type: none"> - Improving the efficiency of Internal Valuation Unit by making an additional recruitment. - Swift repossession process. - Professional training provided for internal values. - Implementing the special recovery task force team this year as well, right throughout. • Developed MIS to obtain detailed information on contract in arrears to further analyse and manage slow moving accounts prudently. • MI’s plans to develop a comprehensive credit risk appetite limit alert system in financial year 2016/17. • Plans are under way to develop a Company specific credit risk rating system going forward. 																		

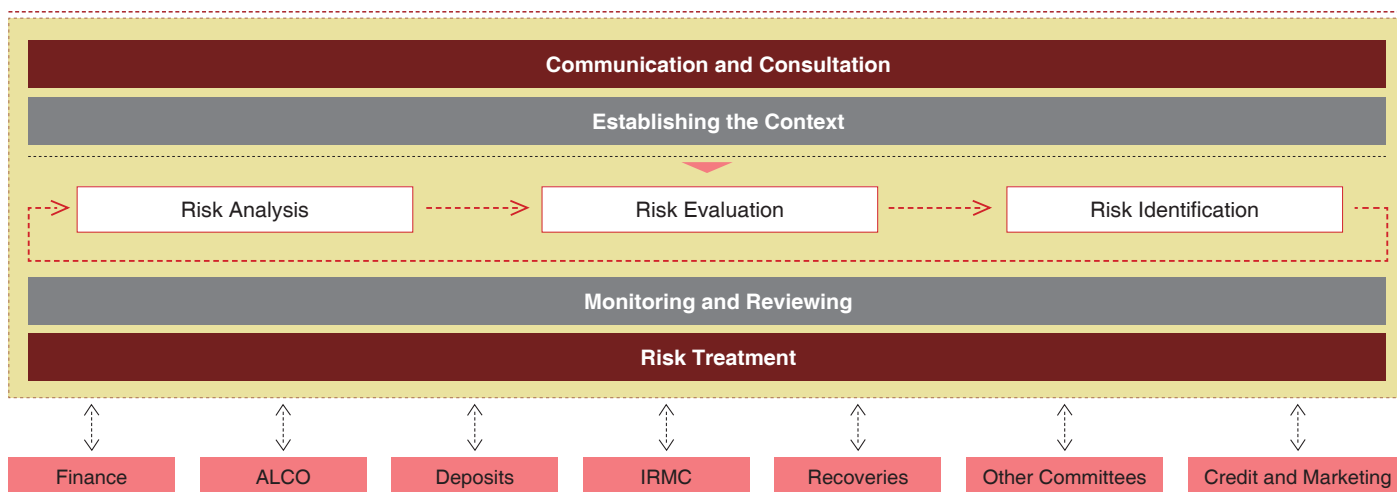
Risk area	Analysed data/information	Proposed action/recommendations of IRMC	Actions in FY 2015/16 to fulfil IRMC recommendation																										
Interest rate risk	<ul style="list-style-type: none"> Market Interest rate trend Review of policy rates/ Government Security rates Net interest margin Pricing and interest rate structure Loans to deposits ratio Monthly ALCO reports and minutes 	<ul style="list-style-type: none"> Proposed to improve the net interest margin, by increasing MI's deposit base to fund the lending business. In doing so, reducing external high interest rate borrowings, by making every effort to find best source of funds that match our assets in an optimal way, which will minimise our interest rate risk. E.g. lower interest rate foreign borrowing, issue of lower priced borrowing instruments etc. 	<ul style="list-style-type: none"> Deposit base improved to Rs. 15.8 billion in financial year 2015/16 from last year. Settled higher interest rate short-term and long-term loans to improve margins from core business. Managed to secure low interest rate borrowings both short and long-term. 																										
			<p>MI's Weighted Average Cost of Capital Movement 2015/16 %</p> <table border="1"> <caption>MI's Weighted Average Cost of Capital Movement 2015/16 %</caption> <thead> <tr> <th>Month</th> <th>WACC (%)</th> </tr> </thead> <tbody> <tr><td>Apr.</td><td>10.6</td></tr> <tr><td>May</td><td>10.7</td></tr> <tr><td>Jun.</td><td>11.0</td></tr> <tr><td>Jul.</td><td>11.3</td></tr> <tr><td>Aug.</td><td>11.1</td></tr> <tr><td>Sep.</td><td>10.8</td></tr> <tr><td>Oct.</td><td>10.7</td></tr> <tr><td>Nov.</td><td>10.6</td></tr> <tr><td>Dec.</td><td>10.7</td></tr> <tr><td>Jan.</td><td>10.8</td></tr> <tr><td>Feb.</td><td>10.4</td></tr> <tr><td>Mar.</td><td>10.6</td></tr> </tbody> </table>	Month	WACC (%)	Apr.	10.6	May	10.7	Jun.	11.0	Jul.	11.3	Aug.	11.1	Sep.	10.8	Oct.	10.7	Nov.	10.6	Dec.	10.7	Jan.	10.8	Feb.	10.4	Mar.	10.6
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Feb.	10.4																												
Mar.	10.6																												
Operational risk	<ul style="list-style-type: none"> Policies Procedure manuals Directives/best industry practices Service Level Agreements Audit findings and recommendations 	<ul style="list-style-type: none"> Recommended to all core division of MI to carry out annual risk assessments for their business processes in order to identify and review the inherent risks and controls available to mitigate or manage associated risks. Proposed to constantly review policies and procedures to ensure appropriate risk mitigation strategies are embedded as market changes occur. Recommended to carry out a comprehensive system audit to assess quality of system developments, new system acquisitions and upgrades based on operational risk aspects. 	<ul style="list-style-type: none"> Updated the credit manual of MI evaluating related risks and incorporating additional risk mitigation strategies. Followed up on system audit recommendations. All future systems developments, new system acquisitions and upgrades would be reviewed based on operational risk aspects. Annual risk assessment process to be extended to all key divisions from next financial year onwards. External review conducted by Ernst & Young on Deposits and Microfinance units to be extended to other business functions and support departments to document and list down formal operational procedures. Business Continuity Plan was reviewed during this financial year and to be updated in financial year 2016/17. 																										

Risk area	Analysed data/information	Proposed action/recommendations of IRMC	Actions in FY 2015/16 to fulfil IRMC recommendation
Regulatory and compliance risk	<p>Compliance review on –</p> <ul style="list-style-type: none"> • Finance Business Act • All the CBSL rules, guidelines and circulars • Review of prudential ratios on capital and liquidity • Other acts applicable to corporates: <ul style="list-style-type: none"> ○ Companies Act ○ Inland Revenue Act ○ Listing Rules of Colombo Stock Exchange ○ Financial Transactions Reporting Act ○ Know Your Customer (KYC) and Consumer Due Diligence (CDD) Rules ○ All other legal and internal policies and procedures 	<ul style="list-style-type: none"> • Proposed to submit a monthly compliance status on CBSL rules, procedures and guidelines to the Board. • Proposed to obtain bimonthly branch level compliance checklist from all the branches/ service centres. • Developing a comprehensive compliance checklist covering all key regulations applicable to the Company. 	<ul style="list-style-type: none"> • Manager – Risk and Compliance submitted compliance status on CBSL rules, procedures and guidelines to the Board monthly. • Branch Managers submitted branch compliance checklist bimonthly. • Issued Board approved updated Anti-Money Laundering and Combating the Financing of Terrorism Policy. • Establishment of an IT warning system for users to monitor the FIU designated black list • A comprehensive compliance checklist is being developed to be effective from financial year 2016/17. • Conducting annual Anti-Money Laundering and countering terrorist financing training for all branches/ Service Centres. • Induction training on policies and procedures including AML regulations once in two months to all newcomers. • Implementation of changes to acts and regulations when applicable.
Equity risk	<p>Monthly Share Investment Statement. Quarterly Risk Report.</p>	<p>IRMC emphasised the importance of the diversification of the MI's share portfolio.</p>	<p>MI's main investments are in banking and hotel sectors that are uncorrelated share investments. It was predicted that share investment in hotels, banking, finance and insurance sectors would appreciate, considering the pickup in tourism and economy as a whole. Refer page 316 equity risk analysis.</p>
Sustainability risk	<p>CSR Project Status Report</p>	<p>IRMC acknowledges the fact that the organisation is driven by a wide range of other business risks, that should be actively managed and this includes sustainability risk.</p> <p>To manage associated risk, considerable resources and effort is placed in reviewing the triple bottom line considerations namely economic, social and environmental aspects associated risks.</p>	<ul style="list-style-type: none"> • Incorporated sustainability risk review in the internal audit check list • Board evaluated MI's performance on sustainability, as part of the annual Board of Director's evaluation check list. • IRMC was reported on sustainability efforts and concerns quarterly by the Manager Risk and Compliance.

OTHER BOARD SUB-COMMITTEES/ MANAGEMENT COMMITTEES AND THEIR REVIEWS OF RISKS

Committee	Risk management	Represented by	Risk aspects reviewed in FY 2015/16
Audit Committee	<ul style="list-style-type: none"> To review the adequacy of internal controls that have been incorporated across MI operations, processes and also to verify the level of compliance to regulations. To ensuring accuracy of MI's financial reporting process, keeping up with required regulations, accounting standards and reporting expectations. 	<ul style="list-style-type: none"> Audit Committee Members on invitation the Finance Director, Internal Auditors and other Heads of Divisions when necessary. 	<ul style="list-style-type: none"> Reviewed the integrity of accounting and reporting system against new regulations and standards and made recommendations for improvement of disclosure and processes. Reviewed the internal audit programmes and periodic reports of both Internal Auditors of MI namely, MI's own Internal Audit Division and Ernst & Young Advisory Services (Pvt) Limited. Followed up with heads of divisions to manage identified control weaknesses and shortcomings for their resolution. Reviewed a risk based internal audit plan, developed for the calendar year 2016 and followed up actual audit coverage. Recommended the strengthening of audit function and coverage considering increasing volumes and complexity.
Credit Committee	<ul style="list-style-type: none"> Ensuring the quality of credit granted by proposing policy to manage risk inherent to lending. Regular monitoring of high value lending. Identifying risk areas/ industries that could increase credit risk. 	<ul style="list-style-type: none"> Managing Director Credit Division Recoveries Division Finance Division 	<ul style="list-style-type: none"> Approved high value credit. Monitored material value overdue accounts and proposed recovery actions. Established strategies to improve quality of credit, reducing overdue levels and decided on the Company's exposure to various sectors to curtail credit. Reviewed key credit policies and made recommendations to strengthen the credit review of high risk lending.
Asset and Liabilities Committee (ALCO)	<ul style="list-style-type: none"> Review of Liquidity Risks and proposing policy/ Risk appetite limits. Review of Interest rate risk impacts and proposing policy/Risk appetite limits. Monitored liquidity and Interest rate risk and making recommendations to the Board. 	Managing Director, together with the Key Heads of Divisions	<ul style="list-style-type: none"> Reviewed the Balance Sheet liquidity mismatch regularly. Established and reviewed bucket wise mismatch and made recommendations to resolve gaps. Analysed the economy and market status and outlook to predict cycles. Reviewed pricing and margins. Conducted on going impact studies, including interest rate shock analysis/stress testing, interest rate sensitivity and reported prevailing concerns to the Board.
Management Committee	Close monitor of core business actual performance against targets and finding remedies and fix gaps.	<ul style="list-style-type: none"> Managing Director Credit Division Marketing Division Finance Division Deposit Division Insurance Division Recoveries Division 	<p>The Committee closely reviewed –</p> <ul style="list-style-type: none"> Profitability of core business operations. Volumes achieved. Non-performing and collection patterns. Spreads and stream of other financial information. Decided on strategy to tackle gaps. Recommended product diversification, stringent recovery and tougher volume targets.

MI'S RISK MANAGEMENT PROCESS



MI's Board has adopted an effective risk management process that encompasses best in the industry policies and procedures and is aligned to international standard on risk practices, ISO 31000. The strategic plan developed last year, translated risk strategy into tactical and operational objectives, assigning risk management responsibilities to Divisional Heads. The plan methodically addressed key risks associated with all core and supporting activities of the organisation. The management process so adopted, strengthened MI's chances of success, encouraged by proactive management of activities identifying opportunities and threats early; improving governance, complying with regulatory requirements; encouraging stakeholder confidence and trust; enhancing strategic planning; minimising financial, environmental and safety losses; and improving organisational resilience and performance. The risk management processes is an integral part of MI's organisational culture, driven by the sound leadership and direction, given by the Board right down to other levels of the hierarchy. Numbers of initiatives/developments were executed to improve MI's risk management process, which involved the following key stages.

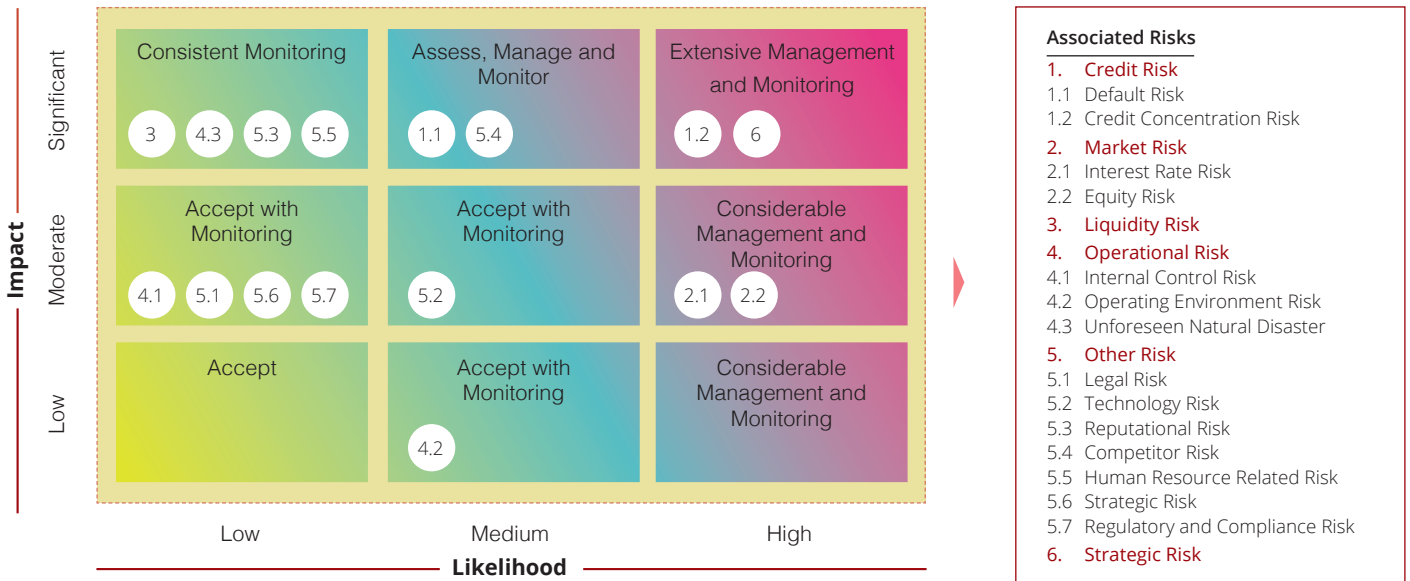
RISK MANAGEMENT PROCESS WITH INITIATIVES

Strategy in MI's risk management process	Initiatives in FY 2015/16 to improve risk management process
Risk identification – establishes the exposure of the organisation to risk and uncertainty.	<ul style="list-style-type: none"> Identified expert judgment from experienced employees who have been in the same field for more than 10 years. Initiated brainstorming sessions on risk management to identify key risks associated with each process. Process mapping for all key processes of MI for risk identification. Historical data analysis and mining for risk and risk trend identification. i.e. failure analysis. Developing a risk based internal audit programme for the first time. Separate Risk Dashboards for each key risk.
Risk analysis – is the systematic study of uncertainties and risks we encounter in our business.	<p>Working closely with an IT Consultant to develop a data mining ICT module to analyse past data for –</p> <ul style="list-style-type: none"> Decision-making and market risk trend analysis. Developed a risk matrix for all core risks of the Company, considering the source of risk, impact and likelihood of risk. Equity risk of the Company was analysed by tracking pricing movements of MI's investments in shares. Finance and non-financial variance analysis and root cause analysis for identified major variances during the financial period. Stress testing/sensitivity analysis of Interest rate risks and measure of maturity mismatches and comparing with bucket limits.
Risk evaluation – Likelihood and magnitude of event and possible impact or consequences should the risk materialise at current level.	<ul style="list-style-type: none"> Through quarterly risk reports provided by the Manager – Risk and Compliance, IRMC was able to evaluate risks and come up with their recommendations. Through a risk based internal audit plan, increased audit review in risky locations. Evaluated probability of risk materialising, cost benefit analysis of proposed risk control actions and effectiveness of existing risk treatments to cover evolving risks.
Risk treatment – Deciding and implementing measures to eliminate/mitigate identified risks.	<ul style="list-style-type: none"> For each identified and assessed risks implemented numerous actions/measures.

RISK ASSESSMENT AND RISK MANAGEMENT APPROACH

The IRMC with the assistance of Manager – Risk and Compliance carried out an on going risk assessment covering a broad range of risks associated with MI's finance business. A 'Risk Heat Map', was compiled, based on likelihood of occurrence and potential impacts, resulting as a consequence of each key risk, for the purpose of specifying different risk management strategies to tackle such risks. For this assessment, high, medium and low probabilities were assigned against each risk type, based on the likelihood of an event happening. Impact of each risk was then assessed by determining the financial and non-financial loss of each event. Based on the seriousness of each risk related impact, risk impact of each associated risk was thereafter classified as low, moderate and significant. For risks, where the likelihood and impact were high, were taken seriously for extensive management and monitoring (Red Zone). Accordingly, as the impact and the likelihood decreased, continuous monitoring was proposed.

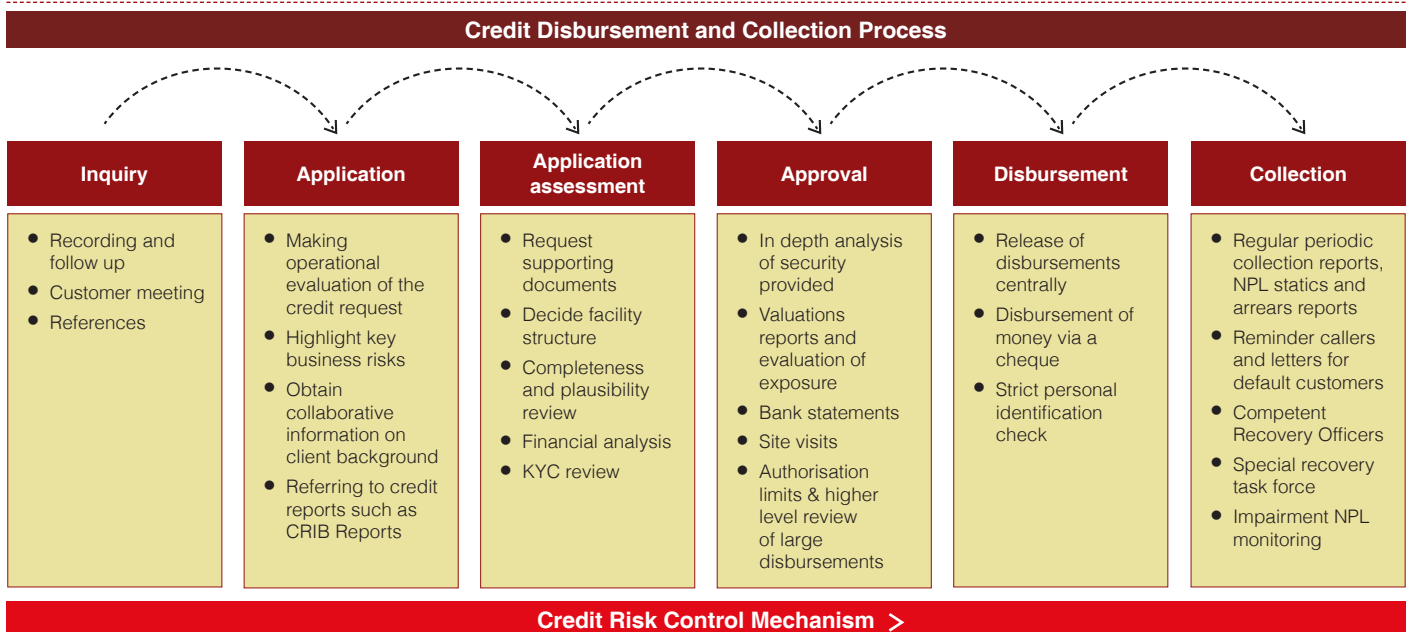
RISK HEAT MAP



1. CREDIT RISK

MI's core business, being its lending operation, requires the management to keep abreast of possible credit risk concerns, through consistent monitoring and to implement appropriate credit risks control measures. When the borrowers fail to discharge their contractual obligations towards the lender, credit risk arises. For LFCs, this remains the most potential and lethal risk since they deal with large volumes of lendings. Therefore, MI has developed a well-structured risk management mechanism to manage this vital risk. Stringent policies and procedures are in place as a means of countering credit risk through a comprehensive credit manual, developed for credit operations. In addition, we developed a separate credit operation manual for the microfinance division this year. The credit operational manual specifies clear policies, processes and procedures to follow when disbursing credit, until full recovery of dues covering all the stages of the credit cycle as depicted below:

CREDIT RISK MANAGEMENT PROCESS



LOAN ORIGATION AND RISK ASSESSMENT

In keeping to MI's credit operation manual, loans are originated from MI's Head Office and branches with majority lending arising from branch level. For this purpose, Credit Division adopts a streamlined verification process to ascertain credit quality and repayment capacity of a borrower. As part of this 'credit review process', credit division ensures following key aspects are looked into, prior to making the final disbursement;

- Physical verification of moveable and immovable assets
- Documentary evidence verification
- References
- Income sources
- Assessing past payment history i.e. CRIB Report
- Assessing repayment capacity
- In further managing credit associated risks, the Credit and Marketing Officer/ Credit Manager (risk owner) is required to identify and evaluate the credit risk exposure connected to the credit proposal and is given authority to act within the designated authority limit, risk management policies and risk appetite levels which are defined. i.e. credit concentration level.

LOAN APPROVAL

The guidelines for credit approval is clearly defined and is setup in a way that it is subject to an independent review by the next level of authority with higher approval limits. Large exposures over designated values or credit deemed high risk are referred to the Credit Committee or up to Board level; as shown below in the diagram. Over and above the authority limits, there are other standard control mechanisms in place to adhere to counter credit risk. This includes requests for additional documents i.e. Vehicle Valuation Reports, Bank Statements, Financial Statements, Site Visits etc.

Further, through ICT driven system controls, some of the credit policies and procedures are predefined at different levels; either by segregation of duties, setting authority limits etc. which mitigates credit operational risk.

LOAN APPROVAL CYCLE



CREDIT MONITORING AND RECOVERY

In identifying early warning signals on credit, especially deterioration of creditworthiness or financial health of the borrowers, MI adopts a strong credit measurement and monitoring system, including impairment assessments. To minimise credit exposure, MI ensures that its lending is backed by adequate realisable security, in line with prevailing regulations on lending. The Recoveries Division works closely with the Credit and Marketing Divisions, to ensure subsequent collections are received promptly. A vigorous collection monitoring system has been put in place, where the Recoveries Division, daily tracks contracts moving in to arrears and accordingly,

sends reminder letters to borrowers when instalments fall due, to minimise delay in collections. A special recovery task force is in place, to speed up the recovery process for overdue problematic accounts. The credit recovery statistics are reviewed by the credit and recovery teams, based on daily, weekly and monthly performance reports, which are taken up at weekly management meetings.

Recovery officers are able to follow up overdue clients and provide feedback of problematic accounts to their manager to pursue tougher recovery action. Continuous recovery related training is also given to relevant staff to enhance recovery skills. By adopting well-integrated lending and collection process, MI is fortunate to possess a quality lending portfolio, which is reflected from the non-performing lending ratio that remained below 4% for the period under review.

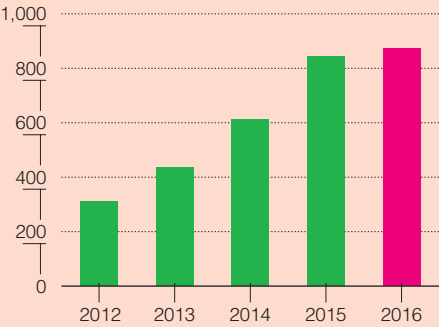
COMPLIANCE AND AUDIT REVIEW OVER CREDIT PROCEDURES

Internal Auditors cover organisation's compliance to established credit policies and procedures continuously, as part of the annual audit programme. The Audit Committee and Head of Credit regularly, observe and recommends on improving existing control systems and processes related to credit. The Director (Non-Board) – Credit and Marketing and respective cluster AGMs – Credit takes up all significant concerns highlighted in audit reports, which is supervised by the Audit Committee. All material credit concerns and due recommendations were appraised by the Audit Committee to the Board to handle credit risk associated with greater credit operational expansion and decentralisation. MI's internal audit division has widened their scope of audit coverage and adopts a risk based approach from this year.

CREDIT RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<p>Credit Risk</p> <p>Risk of failure to make settlements by borrower</p> <ul style="list-style-type: none"> • Credit disbursement process effectiveness 	Medium	Significant	<ul style="list-style-type: none"> • In order to ensure effectiveness of credit disbursement process, regular reviews are conducted on the existing credit policies and procedures including ICT support on credit processing. • Across financial services sector, decline in credit quality was visible, with increased repossession of assets being made by LFCs. The credit deterioration impacted lending quality and increased impairment charges and NPL ratios. • MI's non-performing lending ratio was at 3.39% considerably lower, despite witnessing this general deteriorating credit condition of certain borrowers. 	<ul style="list-style-type: none"> • To strengthen the credit granting and review process, credit Committee and the Credit Division updated the credit operational manual and this covered the Microfinance operation. • Ensured stringent credit review process for risky products, mostly non-traditional term based lendings. • In order to minimise disbursement risk, the Finance Department located at MI's Head Office, released disbursements mostly by cheque and adhered to strict payee identification procedures. • To improve customer relationship building, geared marketing officers through training and provided system support to track borrower payment patterns. • Ensured close interaction with borrowers, by assessing individual borrower circumstances provided pertinent solutions like rescheduling, refinancing etc. • In maintaining an effective credit and recovery operation, embedding the risk assessment into the operation process, staffing at Recoveries Division, Credit and Marketing Division was strengthened. • Product wise risk assessment, impairment testing and LGD computations were initiated to evaluate credit quality.

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<ul style="list-style-type: none"> Effectiveness of credit policies 	Low	Moderate	<ul style="list-style-type: none"> Whenever credit policy amendments do not update with the pace and changes' happening in regulatory and market environment this risk arises. The Credit Committee is entrusted to implement credit policies and to introduce and revise related policy to cater to new products or change in credit risk profiles. 	<ul style="list-style-type: none"> The credit policy manual and the lending guidelines being quite comprehensive were strictly followed and thus ensured consistent high quality lending discipline. A well-defined delegated approval process, based on corporate hierarchy, supported by well-established industry specific policies and procedures provide a robust framework for the organisation's lending business and the management of credit risk. The IRMC and the Credit Committee regularly reviewed the risk management policies on credit to keep up with the local financial environment changes both at micro and macro levels. The IRMC and management monitored actual credit positions against specified credit risk appetite limits. Changes/New credit policy instructions were duly informed to all locations and supported by training to ensure its smooth implementation.
<ul style="list-style-type: none"> Availability, accuracy and completeness of credit information for decision-making and follow up on borrower requirements 	Low	Moderate	<p>Daily, weekly, monthly credit related reports are made available through the ICT system.</p>	<p>28 new system reports were developed during this period to support Credit, Recoveries and Finance divisions to support routine credit operations. The ICT systems will be revamped through new system developments and system enhancement, under the guidance of an IT Consultant, in order to facilitate all major credit operational changes earmarked as in the strategic plan.</p>

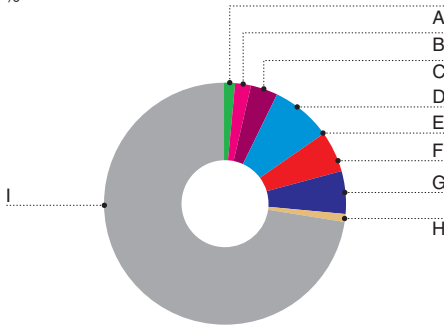
Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update																																				
<ul style="list-style-type: none"> Credit Portfolio monitoring process effectiveness 	Low	Moderate	<p>We have developed a solid monitoring system to oversee more than 20,000 lending customers with the support of ICT systems and able credit staff.</p> <p>Apart from system reports, CRIB reports, were obtained for borrowers and field visits carried to assess the creditworthiness of potential borrowers.</p> <p>Non-Performing Level – Overall Rs. million</p>  <table border="1"> <caption>Non-Performing Level – Overall (Rs. million)</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2012</td><td>300</td></tr> <tr><td>2013</td><td>450</td></tr> <tr><td>2014</td><td>600</td></tr> <tr><td>2015</td><td>800</td></tr> <tr><td>2016</td><td>850</td></tr> </tbody> </table> <p>Non-Performing – HP Rs. million</p>  <table border="1"> <caption>Non-Performing – HP (Rs. million)</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2012</td><td>180</td></tr> <tr><td>2013</td><td>250</td></tr> <tr><td>2014</td><td>300</td></tr> <tr><td>2015</td><td>450</td></tr> <tr><td>2016</td><td>480</td></tr> </tbody> </table> <p>Non-Performing – Lease Rs. million</p>  <table border="1"> <caption>Non-Performing – Lease (Rs. million)</caption> <thead> <tr><th>Year</th><th>Value</th></tr> </thead> <tbody> <tr><td>2012</td><td>80</td></tr> <tr><td>2013</td><td>140</td></tr> <tr><td>2014</td><td>160</td></tr> <tr><td>2015</td><td>200</td></tr> <tr><td>2016</td><td>210</td></tr> </tbody> </table>	Year	Value	2012	300	2013	450	2014	600	2015	800	2016	850	Year	Value	2012	180	2013	250	2014	300	2015	450	2016	480	Year	Value	2012	80	2013	140	2014	160	2015	200	2016	210	<ul style="list-style-type: none"> Both Credit and Recoveries Divisions, extensively reviewed credit disbursement process of the Company during monthly meetings. Through the core lending module, management daily received information pertaining to borrower repayments together with analysis on contracts in arrears, Branch wise and heap of asset quality monitoring related data. Functional managers obtained other exception reports from the system for credit operations performance monitoring purposes. On a monthly basis, regional credit managers/branch managers presented their performance against their predetermined targets. Monitored NPL levels, impairment charges, collection ratios and actual recovery efforts against given targets. Management initiated appropriate action on long overdue contracts, starting from repossessions to legal action for problematic cases. By having set up an effective special recovery task force, the overall collections improved. High value accounts and high risk accounts and also accounts under litigation were focused upon by the Credit Committee. In arriving at the accurate impairment calculation on lending, MI embraced SLFRS/LKAS requirements and accordingly analysed the probability of default and loss given default, based on three years of historical data.
Year	Value																																							
2012	300																																							
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Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<p>Credit Concentration Risk</p> <p>Credit portfolio Concentration Risk arises when there is uneven distribution of Company loans to individual borrowers (Single name concentration), or in industry and services sectors and geographical regions (sectorial concentration)</p>	High	Significant	<p>Concentration risk is assessed on the basis of quarterly studies on prospective different sectors in the market using available business publications and in-house research information through these studies, MI identifies warning indicators, high risk level of any related industry or particular location such as provinces that have higher credit risk than others.</p>	<p>In order to mitigate concentration risk arising from changes due to the market condition risk exposure, the Company's credit portfolios were reviewed on a regular basis, based on industry, products and geographical limit, market conditions and analytical reports.</p> <p>To mitigate the location wise credit concentration risk, MI's branch network has been diversified satisfactorily islandwide. We managed to open four branches in Akuressa, Kuliypitiya, Godagama, Ratnapura and a service centre in Moratuwa this period to serve MI clients diversifying further to different locations.</p> <p>To improve the penetration level of low risk sectors and geographical areas in the market, the Company developed a strategy, which will conversely to reduce the exposure to high risk sectors, geographical areas and single group concentration. The credit committee, IRMC or credit division reviewed the following credit aspects:</p> <ul style="list-style-type: none"> • Limits on maximum exposure guidelines • CBSL guidelines on single borrower limits and related party transactions • Classification of borrower/sector • Analysis of credit exposure limits against actuals • Exposure volume trend analysis <p>MI is within regulatory single borrower limits and not exposed unnecessarily to a few credit customers.</p> <p>There is a reasonable blend of both corporates and individuals with varying lending levels in MI's credit portfolio and it is not exposed unnecessarily to risky lending sectors.</p>

CONCENTRATION OF CREDIT PROVINCE WISE IN 2016

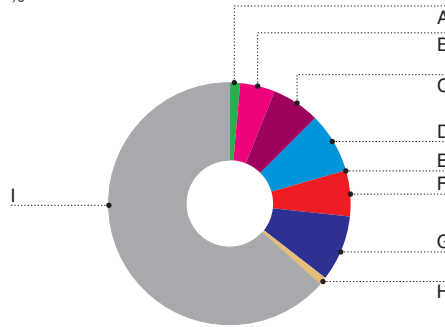
Province	Hire purchase Rs. '000	Lease Rs. '000	Other loans Rs. '000	Lending outstanding Rs. '000
Central	91,551	152,601	68,159	312,310
Eastern	156,646	452,422	42,592	651,661
North Central	263,548	657,616	114,279	1,035,443
North Western	582,808	811,867	177,008	1,571,683
Northern	2,678	2,622	539	5,838
Sabaragamuwa	390,325	615,858	412,811	1,418,995
Southern	398,499	903,071	803,786	2,105,357
Uva	72,120	120,862	48,178	241,160
Western	5,171,839	6,395,139	6,920,647	18,487,625
Total	7,130,014	10,112,059	8,588,000	25,830,073

Hire Purchase Province Wise Concentration
%



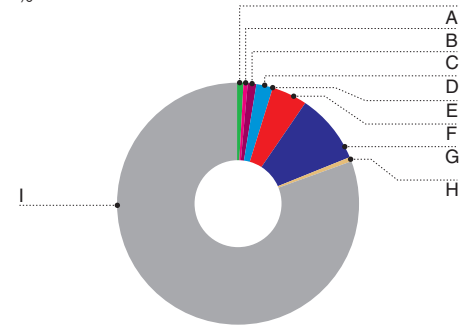
A - Central	1%
B - Eastern	2%
C - North Central	4%
D - North Western	8%
E - Northern	0%
F - Sabaragamuwa	5%
G - Southern	6%
H - Uva	1%
I - Western	73%

Lease Province Wise Concentration
%



A - Central	2%
B - Eastern	4%
C - North Central	7%
D - North Western	8%
E - Northern	0%
F - Sabaragamuwa	6%
G - Southern	9%
H - Uva	1%
I - Western	63%

Other Loan Province Wise Concentration
%

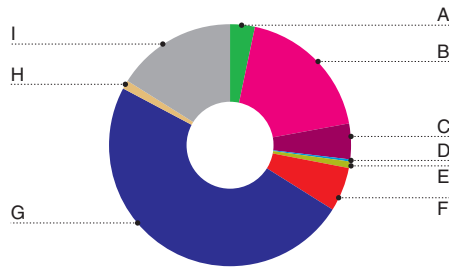


A - Central	1%
B - Eastern	0%
C - North Central	1%
D - North Western	2%
E - Northern	0%
F - Sabaragamuwa	5%
G - Southern	9%
H - Uva	1%
I - Western	81%

CONCENTRATION OF CREDIT SECTOR WISE IN 2016

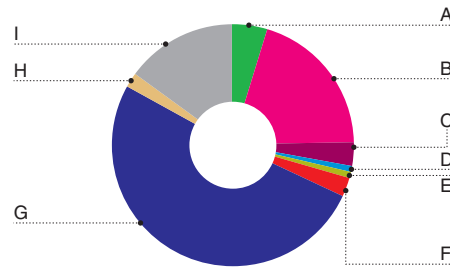
Sector	Hire purchase Rs. '000	Lease Rs. '000	Other loans Rs. '000	Lendings outstanding Rs. '000
Agriculture	232,466	476,303	145,812	854,582
Commercial	1,347,403	2,033,062	2,051,143	5,431,608
Consumption	342,349	304,265	166,856	813,470
Finance	27,018	88,209	56,368	171,595
Housing and property	52,022	72,159	570,878	695,059
Industrial	419,000	259,094	174,796	852,889
Services	3,477,684	5,155,464	4,172,069	12,805,217
Tourism	78,426	211,002	64,937	354,365
Others	1,153,645	1,512,500	1,185,142	3,851,287
Total	7,130,014	10,112,059	8,588,000	25,830,073

Hire Purchase Sector Wise Concentration
%



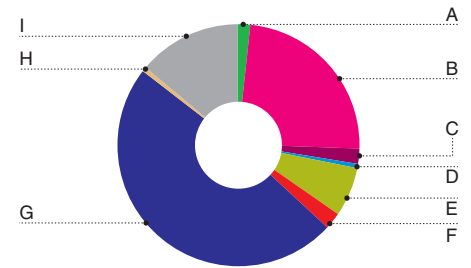
A - Agriculture	3%
B - Commercial	19%
C - Consumption	5%
D - Finance	1%
E - Housing and Property	1%
F - Industrial	6%
G - Services	48%
H - Tourism	1%
I - Other	16%

Lease Sector Wise Concentration
%



A - Agriculture	5%
B - Commercial	20%
C - Consumption	3%
D - Finance	1%
E - Housing and Property	1%
F - Industrial	3%
G - Services	50%
H - Tourism	2%
I - Other	15%

Other Loan Sector Wise Concentration
%

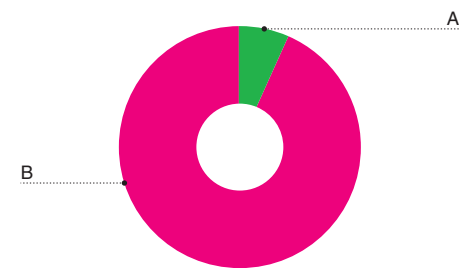


A - Agriculture	2%
B - Commercial	23%
C - Consumption	2%
D - Finance	1%
E - Housing and Property	7%
F - Industrial	2%
G - Services	48%
H - Tourism	1%
I - Other	14%

TEN LARGEST CREDIT AS A % OF TOTAL EXPOSURE

	2015/16	2014/15
Ten largest credit as a % of exposure	7.19	8.04
Ten largest credit Rs.	1,856,385	1,618,261
Total exposure Rs.	25,830,073	20,137,269

Ten Largest Credit Exposure Against Total Credit Exposure
%

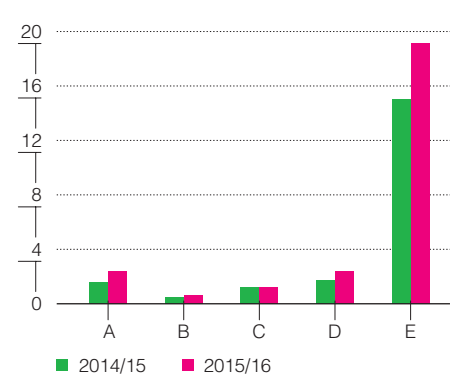


A - Ten Largest Credit as % of Exposure	8%
B - Total Exposure	92%

EXPOSURE BY COUNTERPARTY

	2015/16 Rs. '000	2014/15 Rs. '000
Corporates over Rs. 10 million	2,401,445	1,644,330
Corporates below Rs. 10 million and above Rs. 5 million	627,657	477,081
Corporates below Rs. 5 million	1,247,792	1,251,968
Individuals over Rs. 5 million	2,372,903	1,730,770
Individuals below Rs. 5 million	19,180,277	15,033,120
Total	25,830,073	20,137,269

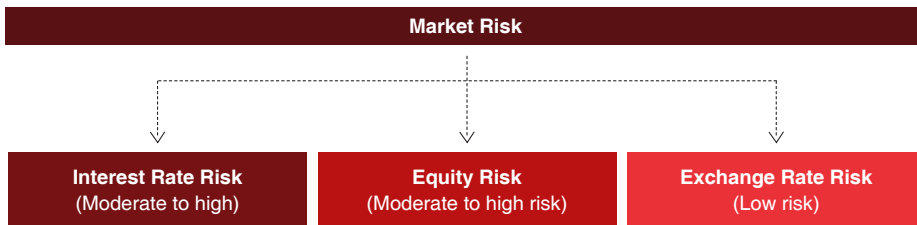
Credit Exposure by Counterparty
Rs. billion



A - Corporate Over Rs. 10 million
B - Corporate below Rs. 10 million and above Rs. 5 million
C - Corporates below Rs. 5 million
D - Individuals Over Rs. 5 million
E - Individuals below Rs. 5 million

CREDIT RISK APPETITE CRITERIA		
Risk appetite criteria	Policy range	Current position as at 31 March 2016
Credit quality		
Gross NPA (%)	Below 3.5	3.4
Provision cover	Above 50	79
Credit Concentration – Sector Wise		
• Agriculture (%)	Below 5	3.3
• Consumption (%)	Below 4	4.8
• Services (%)	Below 50	48.8
Single borrower limit (individual) (%)	As per Central Bank of Sri Lanka	10.8

2. MARKET RISK



For MI, Market risk arises when the fair value or future cash flows of financial instruments of the Company fluctuate due to changes in market variables, mainly interest rates and equity prices. The risk of exchange rate movements does not impact MI directly, despite dealing in currency, because as a registered exchange dealer, the Company's dealership currently is insignificant.

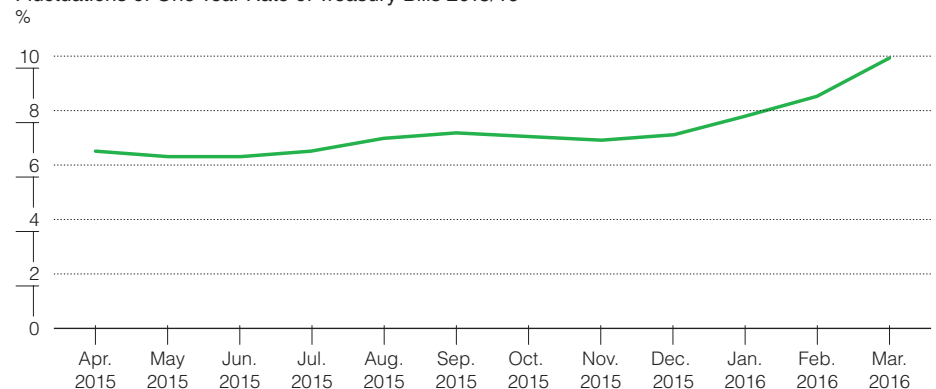
Interest rate risk, being a significant risk factor for the industry, is managed closely by the Company, to ensure there are no erosion of spreads and no impact to final profitability. For MI, equity risk remains the other main market risk, considering the Company has an equity portfolio in excess of Rs. 4 billion. This is managed at individual investment level, as well as on a portfolio basis, based on whether the portfolio is trading or non-trading. These two main market risks are discussed separately below:

2.1 INTEREST RATE RISK

Interest rate risk arises when changes in interest rates have an impact to the future cash flows of financial instruments' fair values. This remained a potential concern for the finance industry, as market interest rates continued to rise during the period. As MI deals in a number of interest-bearing financial assets that are mainly grouped under loans and receivables, Finance Leases, Hire Purchase Receivables and Other Financial Assets there was close focus on safeguarding core business interest spreads.

Upward movements in interest rates were continued to be influenced by monetary policy changes that increased the interest paid on deposits and borrowings for the industry. Nevertheless, the rise in lending rates remained at a relatively slower pace and resulting increases in interest income too was relatively lower as the industry lending were mostly fixed for a longer term, unlike deposit rates that were revised much quicker. Apart from the resulting pressure exerted on our core margins, interest rate fluctuations continued to also influence; (i) our ability to canvass deposits and grant loans (ii) the fair values of financial assets and liabilities and (iii) average duration of mortgage backed lease and hire purchase portfolios and other interest earning assets. The tendency was for depositors to invest more in short-term, less than one year deposits, given the upward movement in rates. To stay competitive, MI had to revise deposit rates during various times of the year.

Fluctuations of One Year Rate of Treasury Bills 2015/16



FIXED AND FLOATING INTEREST BEARING ASSETS AND LIABILITIES AS AT 31 MARCH 2016

	Fixed rate Rs. '000	Floating rate Rs. '000	Total Rs. '000
Interest bearing assets			
Placements with bank	464,984		464,984
Financial investments – available-for-sale	4,570,688		4,570,688
Loans and advances	8,302,333		8,302,333
Finance lease rentals receivable	9,925,519		9,925,519
Hire purchase installments receivable	6,825,676		6,825,676
Total interest bearing assets	30,089,200		30,089,200
Interest bearing liabilities			
Bank overdraft		412,472	412,472
Bank borrowings	6,115,300	2,411,869	8,527,169
Deposits due to customers	15,815,590		15,815,589
Total interest bearing liabilities	21,930,890	2,824,341	24,755,230

As Supervisory Committee, ALCO regularly reviewed MI's interest rate risk and initiated appropriate action to minimise overall interest risk exposure within the Company's risk appetite limits. The Treasury Division remained responsible to manage funding and the market rates on an ongoing basis and was the manager of MI's total interest rate structure

for its deposits and lending. The Chief Financial Officer reviewed reports on MI's funding position, profitability levels, economic fundamentals, current trends and was able to furnish ad hoc reports to ALCO through Manager – Risk and Compliance. Accordingly, decisions on product pricings were made and the Committee was able to ascertain the interest rate sensitivity of the Company, by analysing the interest sensitive assets and liabilities and their maturities and gaps. ALCO also reviewed impact of interest rate change on MI's bottom line, by carrying out rate shock analysis, taking note of the upward movement in rates observed. As part of the Management Committee's scope, MI's interest rate structure was monitored closely against market trends, through which the Management was able to predict interest rate cycles and resulting concerns to take prompt decisions. IRMC too carried out its reviews on interest rates and made recommendations. By having a strict monitoring system MI is able to maintain the Company's interest rate risk at moderate levels.

INTEREST RATE RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<p>Interest Rate Risk</p> <p>This is the probability that an unexpected change in interest rates will negatively affect the value of a financial asset and will result in negatively impacting MI's Net Interest Income.</p>	High	High	<p>Based on interest rate assessments, the continued rise in market rates impacted core business spreads and Net Interest Income. With MI's deposits base comprising of shorter duration investments, the potential for repricing at higher costs was inevitable. As a result, there was an immediate need to strategies and manage any resulting impact on Net Interest Income and margins.</p>	<p>Based on the oversight carried out by IRMC, ALCO and Management Committee, the following measures were initiated to tackle interest rate risk:</p> <ol style="list-style-type: none"> To minimise repricing risks on deposits, it was recommended to enhance longer term funding at optimal cost, either by way of deposit mobilisation or through borrowing. To bring down cost of funding, the Treasury Division was able to secure longer term borrowings, one year and more totalling to Rs. 8.5 billion at very attractive rates. As a policy, new lending tenor periods did not exceed more than five years except for few lendings. Interest rates applied on both deposits and lending were monitored closely and revised on a number of occasions, to ensure viability of the product line. The Management predicted interest cycles closely and was able to make appropriate pricing decisions and funding decisions in a pertinent manner. Was able to settle higher cost funding obtained, utilising funding at optimal rates.

MI's Borrowing Cost of Financial Year 2015/16

%

Quarter	Short-Term Borrowing (%)	Long-Term Borrowing (%)
1st Qtr.	7.2	9.2
2nd Qtr.	7.5	9.8
3rd Qtr.	7.8	9.8
4th Qtr.	8.5	9.8

— Short-Term Borrowing
— Long-Term Borrowing

INTEREST RATE RISK APPETITE CRITERIA

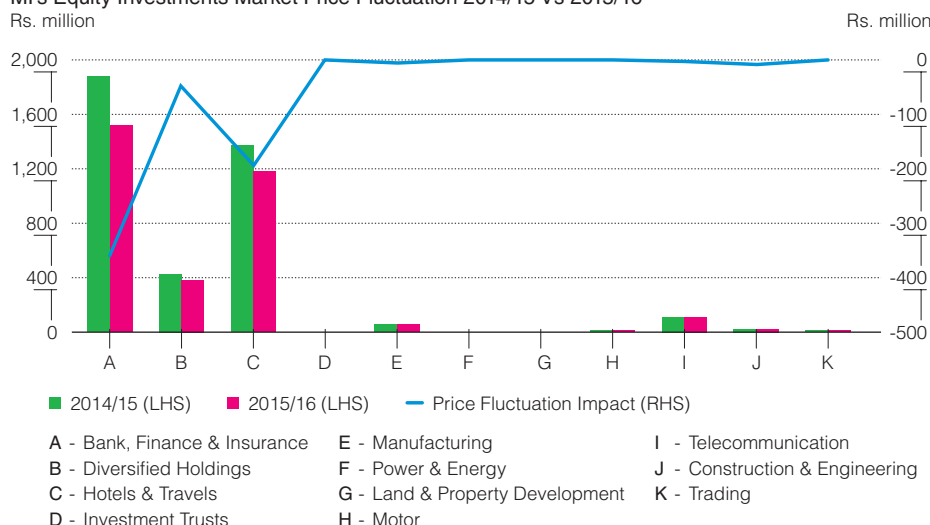
Risk appetite criteria	Policy range	Current position as at 31 March 2016
Interest rate 1% + (1%) impact on profitability (million)	<50	20.32
Net interest margin (%)	>10	8.94

2.2 EQUITY RISK

Equity risk for MI arises from holding equities or equity based instruments (Investments in share market, Government Securities etc.) as available-for-sale financial investments. This creates exposure due to fall in the market prices of such equities or equity instruments. The persistent fall in share prices and the bearish nature of the stock market impacted the significant equity portfolio held by the Company. MI monitored share price movements closely and remained passive in purchasing additional equity and was focused on optimising its realised gains on equity. The Company's accounting policies ensure that MI reflect share investments at fair value recognising any realised gains/losses through the profit and loss and unrealised

gains/losses through equity. Under the financial risk note in page 416 MI has analysed potential impacts to share prices and its effect on profitability/equity based on predefined percentage movements in share prices of relevant stock.

MI's Equity Investments Market Price Fluctuation 2014/15 Vs 2015/16

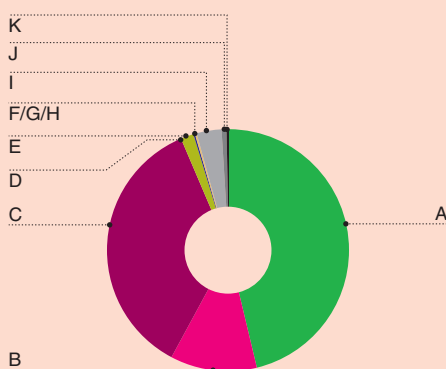


EQUITY RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
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Equity risk Risk that Company's investments value (investments in share market) will depreciate because of falling stock prices causing both realised and unrealised losses.	Moderate	High	Having Rs. 3.3 billion investments in the equity market; MI remained vulnerable to equity risk, especially with the continued drop in share prices this period. Capital market conditions remained volatile, due to outflows in foreign investments and changing economic policy. MI executes stress testing on the Company's equity portfolio, based on possible downward conditions.	Despite possessing a well-diversified equity portfolio, mostly in blue chips, the persistent volatility and drop in share prices affected the fair value of equity. MI's share portfolio had a high percentage in hotel and banking, finance and insurance shares, which are bound to appreciate in the future due to the existing development phase of the Sri Lankan economy. MI reviewed capital market analysis reports, return of equity portfolio movements in stock market and resulting fair value impacts and decided to hold most of the portfolio until market revives.
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Sector-wise Equity Based Investment Portfolio %



A - Bank, Finance & Insurance	46%
B - Diversified Holdings	12%
C - Hotels & Travels	36%
D - Investment Trust	0%
E - Manufacturing	2%
F - Power & Energy	0%
G - Land & Property Development	0%
H - Motor	0%
I - Telecommunication	3%
J - Construction & Engineering	1%
K - Trading	0%

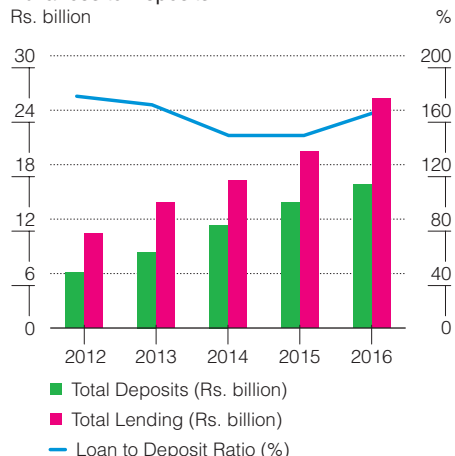
3. LIQUIDITY RISK

Any corporate liquidity risk arises, when it encounters difficulty in meeting its obligations associated with financial liabilities that require to be settled either through cash or through any other financial asset. For the industry, there is a certain degree of funding mismatch on core businesses as most deposits mobilised are of a shorter term compared to lending which are mostly over one year and up to four years. Therefore, liquidity management is an essential function to meet financial obligations on time and to ensure adequacy of funding to fulfil short-term and long-term financial needs appropriately, even under stressed conditions. To better manage liquidity risk MI have developed a close liquidity monitoring process, that encompasses daily liquidity information review and liquidity safeguard measures based on specified regulator limits.

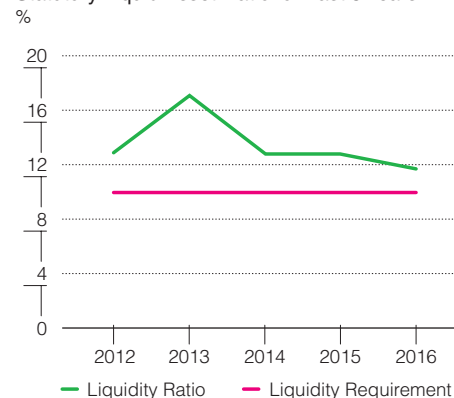
To strengthen liquidity management, MI has formed a Board approved Asset and Liability Management Committee (ALCO) to oversee the liquidity status of the Company. ALCO, being the overall supervisory committee in managing liquidity risk of MI, meets monthly to evaluate the Company's health in terms of short-term and longer term liquidity and to propose risk mitigating measures. The impact arising from all strategic and medium-term decisions taken by the Board and the Corporate Management on liquidity, is also ascertained by this high level Committee, comprising key divisional heads.

Being a financially solid institution that has been strong in liquidity right throughout, the Company resorts to an array of diversified funding sources, in addition to its core deposit mobilisation business. MI adopts a strict policy of managing its assets, keeping liquidity as a vital focus and has entrusted the Treasury Division to monitor liquidity on a daily basis. The Company possesses adequate cash and other liquid assets that include bank funding lines and access to money market instruments, to meet any urgent funding needs. Operational cash outflows arise from normal lending operations and also for meeting of overhead expenses and other payments that include borrowing repayments etc.

Advances to Deposits



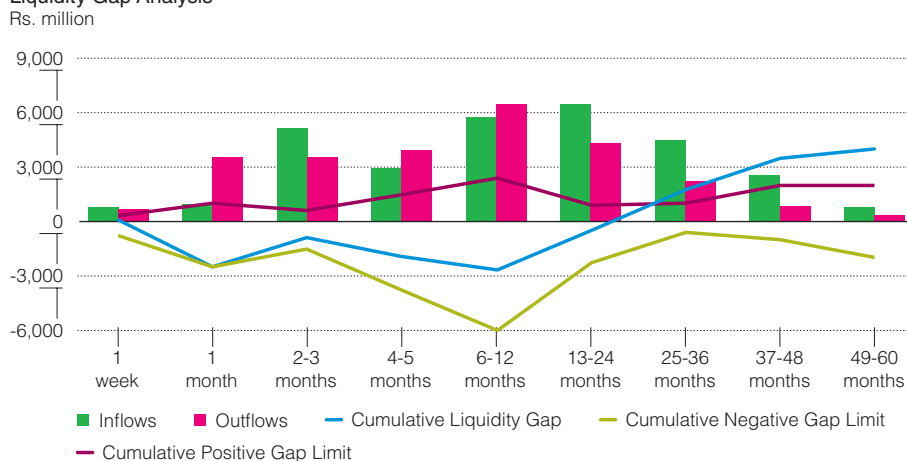
Statutory Liquid Asset Ratio for Last 5 Years



The Company, having built up a strong capital base, has enough flexibility to pursue on its growth aspirations, to incur capital expenditure especially for branch expansion plans.

Apart from the Assets and Liabilities Committee – Terms of Reference on liquidity risk oversight, MI has a Liquidity Management Policy which provides clear policy and guidance to the Treasury and relevant committees. Under the leadership of the Finance Director, who oversees the Treasury function of the Company, daily liquidity and statutory liquidity position is kept above minimum thresholds. MI's liquidity risk measurement is carried out by assessing both actual liquidity available and expected cash flow basis. The actual liquidity available basis, evaluates the liquidity on day-to-day funding requirements, as well as against statutory ratio requirements and other requirements monitored by Supervisory Committees. The cash flow basis analyses the forecasted cash inflows and outflows in different time buckets, based on the level of maturity of the assets and liabilities assessed.

Liquidity Gap Analysis

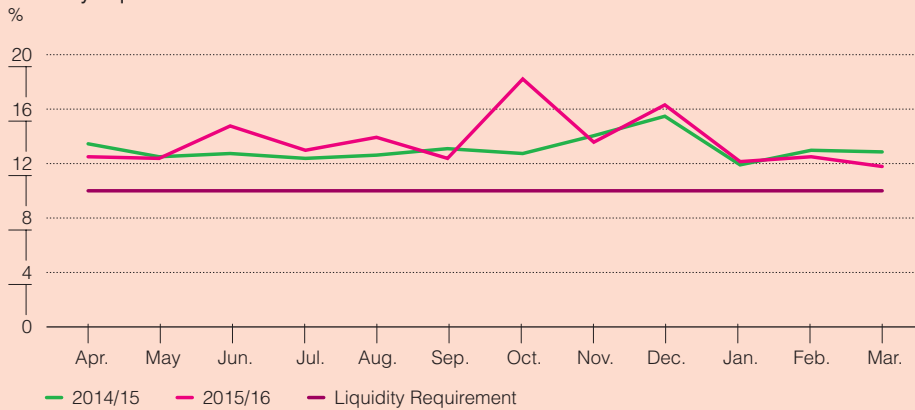


By contributing towards the deposit insurance scheme established by the regulator there is an additional safety against liquidity risk. From a supervisory perspective, MI's Board had strong reviews over liquidity risk through its Supervisory Committees IRMC and ALCO.

LIQUIDITY RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<p>Liquidity risk</p> <p>Risk arising from inability to meet Company liabilities, including depositor liabilities upon their maturity.</p>	Low	Significant	<p>Liquidity risk measurement is carried out through the following key ratios:</p> <ul style="list-style-type: none"> • Net advances to total assets ratio • Liquid assets ratio • Liquid assets to short-term liabilities ratio • Net advances to deposits ratio <p>These key measurement indicators of liquidity are monitored regularly to sustain a strong liquidity position.</p> <p>Corporate Management and Supervisory Committees such as ALCO and IRMC regularly review assets and liability maturity statements, comparing actuals against predefined maturity buckets. This assists in managing the short-term and long-term fund deficiencies and surpluses efficiently.</p> <p>MI has stringent procedures and policies in place to monitor and prudently manage the liquidity of the Company. ALCO, by meeting monthly, ensures there is smooth management of the liquidity position of the Company. The Board is then kept apprised of the liquidity position and related concerns. The need to bring down the Rs. 4.8 billion mismatch in less than one year that prevailed at the commencement was taken as top priority by the Management.</p>	<p>Greater emphasis was placed in decentralising deposits operation, down to branches to boost deposit mobilisation. Attention was paid in mobilising longer term funding and to ensure retention to bridge the one year mismatch.</p> <p>Fresh long-term funding sources were also secured from banks to bridge the assets and liability mismatch.</p> <p>In this context, MI managed to bring down the total one year mismatch to only Rs. 1.8 billion by 31 March 2016.</p> <p>In terms of deriving liquidity and statutory liquidity ratio requirements, the Company ensured that there were adequate liquid assets by investing in bank deposits and Government Securities.</p> <p>By instilling strong recovery measures, collections on lending were also kept at satisfactory levels. Recovery ratio was maintained at 97% in line with the target to boost cash inflows. The Company reviewed and made changes to related policies and procedures within this financial year namely:</p> <p>ALCO, in co-ordination with the IRMC, monitored and reviewed liquidity risk appetite limits.</p> <p>MI's exposure to property investment stood at Rs. 448 million, thus limiting investments in assets deemed low on immediate liquidity.</p> <p>MI made premium payments totalling to Rs. 19.7 million to the CBSL managed Deposits Insurance Scheme, which further strengthened the safety of the deposit base against liquidity risk.</p>

Statutory Liquid Assets Ratio



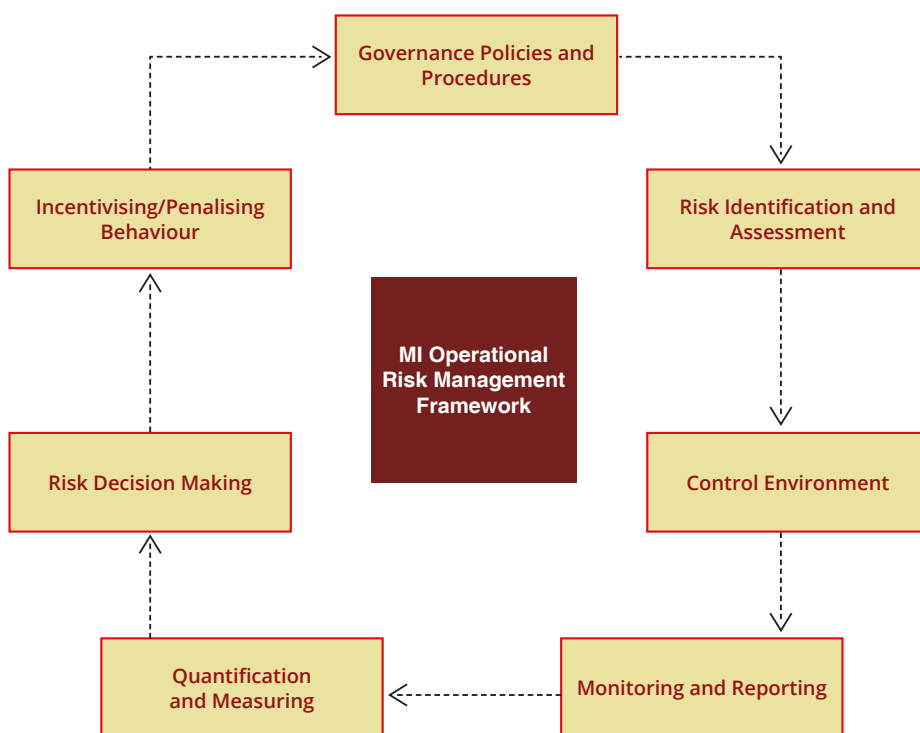
LIQUIDITY RISK APPETITE CRITERIA		
Risk appetite criteria	Policy range	Current position as at 31 March 2016
Net advances to deposit (%)	Below 90	158
Liquidity gap (cumulative)		
• 1-7 days bucket (Rs. million)	300	105
• 1 month bucket (Rs. million)	(2,500)	(2,494)
• 2-3 month bucket (Rs. million)	(1,500)	(873)
• 4-6 month bucket (Rs. million)	(3,750)	(1,901)
• 7-12 month bucket (Rs. million)	(6,000)	(2,666)

4. OPERATIONAL RISKS

Operational risk could arise from inadequate or failed internal processes, people and systems or risks arising from external events, leading to financial losses. MI has instilled various internal controls to detect possible human errors, fraud, faulty internal processes and systems, non-adherence to procedures and non-compliance to regulations. A company-wide effective internal control system is in place, requiring all staff to adhere to set policies and procedures. To ensure clarity in required practices, the Company has developed a comprehensive procedure manual, covering all key functions. Failure to manage operational risk can often result in other risks emerging such as reputational losses, which may also cause brand erosion and would raise regulatory penalties.

Operational risk management techniques adopted directly linked to people including segregation of staff duties, job rotation, staff training and development, employee operations, while inbuilt ICT controls, maintaining of documentation and keeping backup of documents and systems remain other forms of measures.

MI OPERATIONAL RISK MANAGEMENT FRAMEWORK



The responsibility to establish internal controls, lies with respective heads of divisions for their operational activities, while overall leadership for it, and stems from the Board. To ensure effectiveness of established controls, respective divisions are expected to monitor such controls over time and make changes as and when needed. The inherent nature of operational risk is such, that it cannot be totally mitigated. MI relies on ICT systems to support in providing necessary safety measures to counter related risks. Numerous security controls have been inbuilt to core systems to eliminate possibility of unauthorised access, infiltration of data and system errors. Specific user limits have been established at various levels for authorisation of a transaction and a system of dual control has been instilled in core systems for specific operational activities of importance.

Core systems provide a stream of management information, including exception and ad hoc reports for the purpose of monitoring and analysing operational efficiency. As a standard practice, daily back up is done of the database and secured at an off-site location, as a prudent measure in countering potential risk of system malfunction and corruption of data. MI is fortunate to possess a team of in-house ICT professionals, having hands-on experience in their field, to

manage software development and network administration. System testing is made a must, when new modules are introduced or any material changes are made to existing modules.

Through the overall supervision of the Human Resource Management Division, human resource policy and practices have been put to practice and any non-compliance to rules and procedures detected through Audit or otherwise is dealt with seriously. The internal audit function acts as an early warning mechanism for management, providing

insights into any operational lapses that may prevail, so that proactive measures can be taken early to avoid operational losses. Numerous operational process improvements were made, based on their recommendation, apart from new and improved procedures introduced by functional management on an ongoing basis.

The Business Continuity Plan (BCP) of the Company spells out potential risks to operations and what needs to be done by employees in the event of a company-wide contingency event occurring such as a fire,

flood, tsunami etc. The BCP specifies a clear path the management should follow and strategies that need to be implemented to minimise potential impact from such disaster events. In addition, all new product developments and introductions of new processes have to be routed through risk management, Audit and Compliance Divisions. Appropriate sign off is obtained prior to implementing new or improved products. MI's strong capital base stands as a buffer against potential losses, due to operational risks/contingency events if they were to materialise.

OPERATIONAL RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update																								
<p>Operational risk</p> <ul style="list-style-type: none"> Risk arising from faulty processes control systems, acts of fraud and natural disasters 	Low	Moderate	<p>Under the supervision of the Board, Board Sub-Committees and Corporate Management internal procedures, policies and internal control mechanisms are continuously evaluated to their adequacy and appropriateness in the light of sophistication in the industry, to minimise operational faults and risk impacts. Comprehensive internal controls and procedures have been established as safety devices to secure Company assets and also to remain competitive in the industry.</p> <p>There is a monthly assessment of statutory capital adequacy ratios, which is an indicator of the capital cushion available against operational losses.</p> <p>Capital Base Rs. billion</p> <table border="1"> <caption>Capital Base Data (Rs. billion)</caption> <thead> <tr> <th>Year</th> <th>Supplementary Capital (Tier ii)</th> <th>Core Capital (Tier i)</th> <th>Total Capital Base</th> </tr> </thead> <tbody> <tr> <td>2012</td> <td>3.5</td> <td>0.5</td> <td>4.0</td> </tr> <tr> <td>2013</td> <td>4.0</td> <td>0.5</td> <td>4.5</td> </tr> <tr> <td>2014</td> <td>4.5</td> <td>0.5</td> <td>5.0</td> </tr> <tr> <td>2015</td> <td>5.0</td> <td>0.5</td> <td>5.5</td> </tr> <tr> <td>2016</td> <td>5.5</td> <td>1.0</td> <td>6.5</td> </tr> </tbody> </table>	Year	Supplementary Capital (Tier ii)	Core Capital (Tier i)	Total Capital Base	2012	3.5	0.5	4.0	2013	4.0	0.5	4.5	2014	4.5	0.5	5.0	2015	5.0	0.5	5.5	2016	5.5	1.0	6.5	<ul style="list-style-type: none"> Improved operational procedures of each functional area and was able to document Microfinance and Deposit Division procedures. MI's internal audit function and Ernst & Young Advisory Services (Pvt) Limited broad based operational audit coverage and reported on procedural losses and shortcomings to the Audit Committee for follow up. Under the guidance of a specialist IT Consultant, a number of ICT related improvements, supported by due system changes, have been proposed and will be prioritised, leading to the next financial year. IRMC monitored operational risk appetite limits against actuals and noted significant variances to report to the Board. Manager – Risk and Compliance was able to review and recommend operational improvements to ensure effective compliance to some of the regulations.
Year	Supplementary Capital (Tier ii)	Core Capital (Tier i)	Total Capital Base																									
2012	3.5	0.5	4.0																									
2013	4.0	0.5	4.5																									
2014	4.5	0.5	5.0																									
2015	5.0	0.5	5.5																									
2016	5.5	1.0	6.5																									

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<ul style="list-style-type: none"> Operating Environment Risk – Operating risk immerging due to disruptions to physical setting of business. 	Medium	Low	<p>To ensure there is adequate insurance cover for MI's property, equipment and other physical items that can get damaged, disrupted or stolen, due to various events, was assessed again by Insurance Department managers.</p>	<ul style="list-style-type: none"> Most of the operating environment risk is passed down to external risk takers (Insurance Companies) through insurance policies. Contingency management team of MI, which comprises key officers attached to core and support divisions, ensured this risk is well managed by executing periodic maintenance and routine checks, monitoring process and follow-up of actions stated in the Business Continuity Plan.
<ul style="list-style-type: none"> Unforeseen Natural Disasters Large scale contingency events that could disrupt business operations fully or partly. 	Low	Significant	<p>MI's contingency management team closely monitored probability of losses caused by unusual climate conditions including fire, heat, flood, drought, cold, storms, tsunami etc.</p> <p>MI continued to adopt most of the proposed contingency strategies according to the organisational wide Business Continuity Plan.</p>	<ul style="list-style-type: none"> Insurance Policies were continued to be taken to cover for unforeseen disasters. The Insurance division has taken precautions to ensure adequacy and effectiveness of insurance coverage in key areas, considering natural disasters and other potential events in mind. MI's ICT Division continued to retain backups of the system and its data in an off-site storage disaster recovery site, located away from the Head Office. MI preserves important documents through the 'Document Management System', which involves a 'soft' archiving process. Additionally, the Company uses fire proof cabinets to safeguard important hard documents. Any shortcomings/improvements were brought to the attention of respective Heads of Divisions; who made assessments and proposed solutions.

OPERATIONAL RISK APPETITE CRITERIA

Risk appetite criteria	Policy range	Current position as at 31 March 2016
Internal frauds	Below 3 incidents	2
External frauds/Theft	Below 2 incidents	1
Physical assets damages	Below 2 incidents	1
Business disruptions due to system failure	Below 2 incidents	1

5. OTHER RISKS

5.1 LEGAL RISK

The possibility of Legal risk can arise due to several reasons such as (i) a defective transaction or (ii) a claim (including a defense to a claim or a counterclaim) being made or some other event occurring, which results in a liability for the Company or other loss (for example, as a result of a termination of a contract) or; (iii) failing to take appropriate measures to protect assets (for example, intellectual property) owned by the Company; or (iv) change in laws and regulations. As a result, there is an immediate need to deal in financial transactions with higher scrutiny, in a highly regulated finance industry. Regulatory changes would result in additional cost of compliance, may limit the type of financial services and products that could be offered in the market and in certain instances, increase the chances of competitors capitalising on their own offerings. Legal risk is managed carefully, to avoid undue impact to business financially and to avoid damage to reputation that could lead to a loss of confidence. To tackle associated risks

therefore, MI conducts a detailed legal risk assessment of our business across each of the following areas:

LEGAL RISK

Regulator Risk

Insurers Risk

Unknown Risk

Suppliers Risk

Competitors Risk

Borrowers Risk

Stakeholders Risk

Employees are required to be conversant with regulations related to daily work they handle and are continuously trained to update their knowledge on changes in statutes, regulations including changes in interpretation or implementation of statutes, regulations and policies for due compliance.

MI's Compliance, functions daily operations, that comes under the purview of the Manager – Risk and Compliance and together, with the expanding internal audit function that is able to monitor MI's adherence status, to prevailing laws and acts, rules and regulations. Material non-adherences to laws are reported immediately to the Board through the Audit Committee.

Moreover, in countering legal risks, MI's Legal Division under the leadership of AGM – Legal, provides continuous advice and assistance to all business units and support divisions on prevailing laws and regulations. When new laws are enacted and whenever changes happen to existing laws, required clarifications and guidance are given by the division. Legal advice is sought, when finalising customer agreements; additional clauses and changes to agreements, recovery proceedings and whenever regulations related to products and services are introduced or are changed. The Board, Corporate Management and all staff are required to understand the nitty-gritties involved in MI's operations and to apprise themselves of prevailing laws and regulation that are changing constantly.

LEGAL RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
<p>Legal risk</p> <p>Risk of faulty documentation or business not being operated according to the regulatory framework of LFC sector.</p>	Low	Moderate	<p>Existing binding documentation formats used in business has been reviewed by the Legal Division and is changed whenever there are amendments to laws or when the need arises.</p> <p>Separately the Compliance Department provides monthly status updates to the Board on MI's adherence to CBSL requirements.</p>	<p>Legal Division advises and works closely with Credit and Recoveries Divisions in order to enhance the documentation requirements and also to execute necessary litigations against defaulters in an efficient manner. The following was reviewed by the Legal division from a legal perspective:</p> <ul style="list-style-type: none"> • All legal documents/service level agreements. • Adequacy of legal coverage for key control policies and procedures. • Advice was given to strengthen executing documents with sufficient legal clauses. • External legal advice was sought for complicated matters or matters needing an expert opinion.

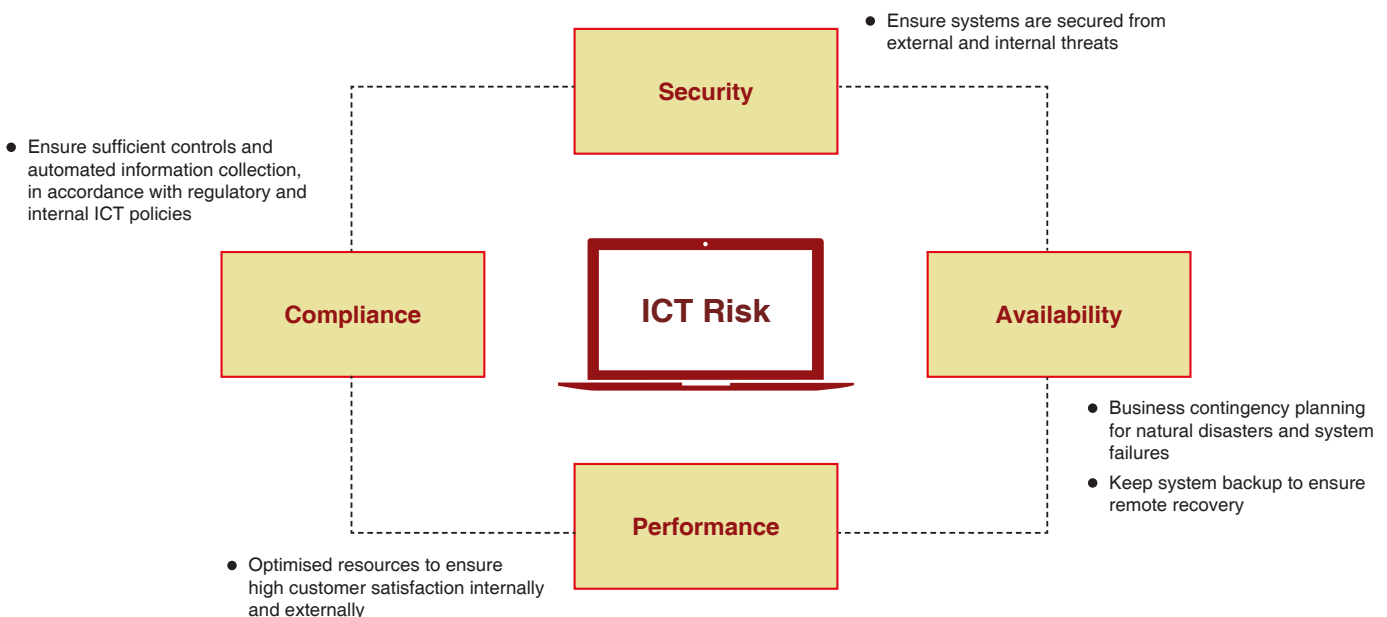
5.2 TECHNOLOGY RISK

Technology remains at the heart of the Finance Industry's business operations in order to gain that extra competitive edge in providing customers a better service. With the increasing reliance on technology, its incorrect management or lack of understanding of use of various technologies, could lead to various negative consequences to an organisation. MI remains dependent on information systems for the daily running of operations and accordingly, MI is exposed to

technology risk especially in instances of system failures and interruptions. System failures over long periods would adversely affect the customer monitoring systems, general ledger, deposits, loans and other subsystems. Break down in technology also can extend to breaches in security and confidentiality policies that could lead to other consequences. Technology risk could damage the Company's reputation, affect business volumes and even subject the Company to additional regulatory scrutiny.

Our ICT system has evolved over the years to meet business requirements and is a home grown system that has been upgraded and integrated onto our business activities. To keep pace of rapid changes in the industry, MI has been in the forefront of embracing advanced ICT technology features. The fully integrated network system supports on-going branch expansion and growing product range and other business requirements.

MAIN COMPONENT OF MI'S ICT RISK MANAGEMENT



Board apprised ICT policies and procedures that include information system security policies that govern the ICT operating environment. These ICT related policies are reviewed annually and updated when changes are necessitated. Periodically, ICT related audits are conducted by external audit/special review teams and their reports are furnished to the Audit Committee for their follow up on lapses/concerns.

RISK LEVEL VS. MODELS

Officers recruited to the ICT Division are technology savvy, having a good understanding of the systems operated within the Company and possesses the capability to grasp system issues early and have the experience to resolve them. Our specialised software developers have the necessary technical know how and follows software development

standards, including adoption of user requirement documentation, system testing, and implementation of standards, user acceptance testing procedures, as part of MI's ICT Policy framework. When selecting hardware for MI's core systems, the Company remain with reputable organisations for its purchases and sign up for maintenance agreements with them to cope with equipment breakdowns and malfunction.

TECHNOLOGY RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update																		
<p>Technology risk</p> <ul style="list-style-type: none"> Risks mainly arising due to ICT system break down. Non-availability of systems, errors and disruptions or not keeping pace with the technological changes. 	Medium	Moderate	<p>This was a period that MI extensively analysed the Company's total ICT systems, going through the main modules of lending, deposits, general ledger, payments and receipts etc.</p> <p>Each user division, in coordination with the IT Consultant, was required to come up with their business requirements for both current and future periods to identify prevailing gaps. All system changes underwent required user testing, prior to live implementation.</p> <p>Annual assessment of system functionalities was again carried out by the External Auditors to evaluate the accuracy and reliability of the system.</p> <p>Management Information Report Developed 2015/16</p> <p>No. of New Reports</p> <table border="1"> <caption>Management Information Report Data</caption> <thead> <tr> <th>Division</th> <th>2014/15</th> <th>2015/16</th> </tr> </thead> <tbody> <tr> <td>A - Credit Division</td> <td>2</td> <td>5</td> </tr> <tr> <td>B - Finance Division</td> <td>3</td> <td>7</td> </tr> <tr> <td>C - Recoveries Division</td> <td>2</td> <td>1</td> </tr> <tr> <td>D - Deposits Division</td> <td>7</td> <td>12</td> </tr> <tr> <td>E - Insurance Division</td> <td>1</td> <td>3</td> </tr> </tbody> </table> <p>A - Credit Division B - Finance Division C - Recoveries Division D - Deposits Division E - Insurance Division</p>	Division	2014/15	2015/16	A - Credit Division	2	5	B - Finance Division	3	7	C - Recoveries Division	2	1	D - Deposits Division	7	12	E - Insurance Division	1	3	<p>In mitigating ICT related risks there was continuous monitoring of users of ICT systems to ensure strict adherence to information security policies, confidentiality rules and to maintain the accuracy of information. ICT Division conducted a comprehensive staff training programme on information system security awareness to Head Office and branch staff.</p> <p>Future technological needs of the Company were reviewed and identified as part of the strategic plan development process for the next three financial years and followed up by bringing in an IT Expert to guide us through in moving towards our broad ICT goals for the future.</p> <p>ICT Division reviewed policies in relation to, hardware and software procurement and maintenance procedures, business contingency plan on ICT, system licensing procedures etc. Updates were done in accordance with best practices in the industry.</p> <p>Based on MI's ICT risk policy, the Company continued to ensure daily backing up of the database and off-site storage. The number of technical break downs or technical glitches was kept almost negligible as MI ensured proper compliance to prevailing ICT best practices and procedures in managing, developing and safeguarding the ICT system.</p> <p>MI plans to invest on the latest ICT technologies in the next financial period to cater to evolving business needs to remain competitive.</p>
Division	2014/15	2015/16																				
A - Credit Division	2	5																				
B - Finance Division	3	7																				
C - Recoveries Division	2	1																				
D - Deposits Division	7	12																				
E - Insurance Division	1	3																				

5.3 REPUTATION RISK

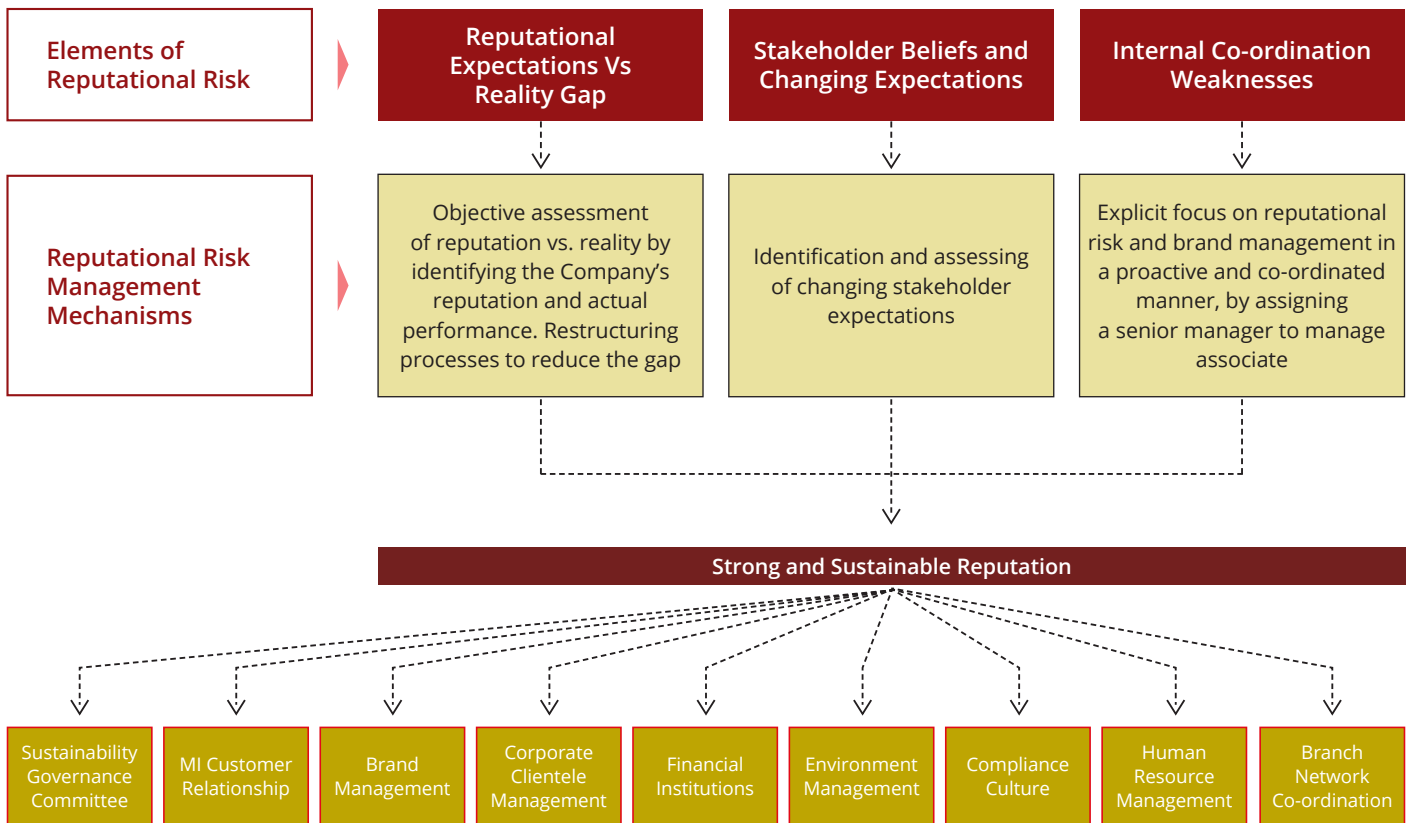
Reputational risks could arise as a direct or indirect consequence of all other key risks explained before actually transpiring and negatively impacting the goodwill and brand name built up over a period of time. This risk could also arise when companies engage with other parties who do not abide by right standards and ethical business practices. Reputational damage will lead to companies experiencing deterioration in confidence

of their customers, which can directly affect business volumes and profitability. The Finance industry, particularly the LFC sector is highly sensitive to reputational risk as investments are made mostly on public confidence and brand built up over the years.

For MI, reputation risk is broadly managed through various systems and controls implemented across the Company. A considerable amount of resources and efforts are placed in reviewing the

business environment and MI's activities to ensure operations remain smooth and as anticipated, without glitches. The Company has distinctively aligned its operations and practices, especially front end processes, to guide the Company to perfection. MI provides greater autonomy to its Managers to reduce lead times in completing transactions, whilst placing a higher level of supervision and control over transactions that are material in nature. MI has developed a reputational risk management framework as follows:

REPUTATIONAL RISK MANAGEMENT FRAMEWORK



With clear job roles and duties at hand and by having an experienced and skilled team of financial experts, MI has the ability to respond well to the changes in markets and regulations governing the industry. Through Senior Manager Communications and Branding, a number of promotions and events were arranged at various locations to build the brand image of the Company. This Senior Manager – Communications and Branding is entrusted with managing the intricacies of reputational risk for MI in co-ordination with

the heads of the core business divisions. MI remained focused on tackling pressing issues and has maintained a good track record in resolving any shortcomings that tend to arise as part of its daily operations. The Company adopts sound confidentiality policies and practices and use customer information responsibly. In safeguarding MI's reputation, the Company stuck to its fundamentals that inculcate practices of sound values and high ethical standards that are adopted across all our business activities. MI resorts to strict disciplinary

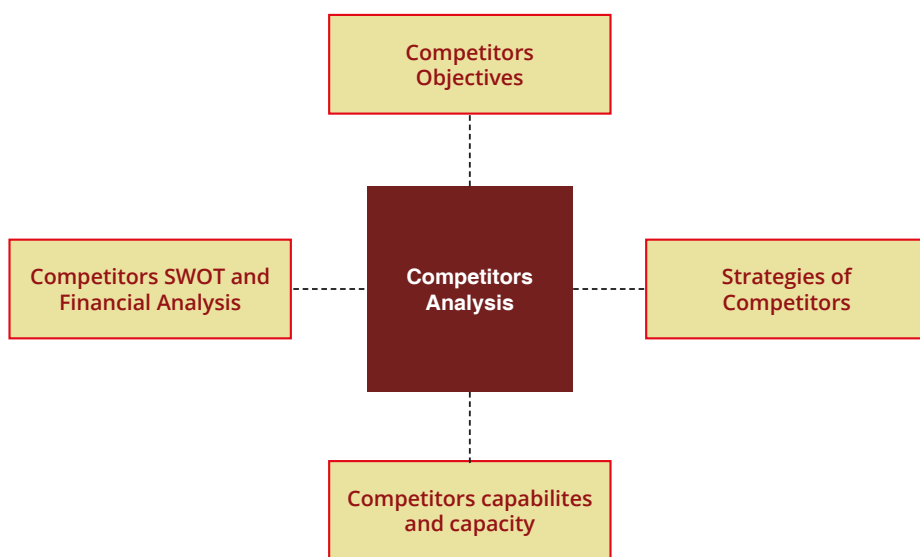
action against individuals who fail to abide by set Company procedures and rules and adopt a zero tolerance approach in such instances. To ensure there is no reputational damage from financial transactions dealt with MI's customers, the Company abides to rules on Know Your Customer (KYC) and implement a strong Board approved anti-money laundering policy for its business lines.

REPUTATIONAL RISK CONTROL DASHBOARD

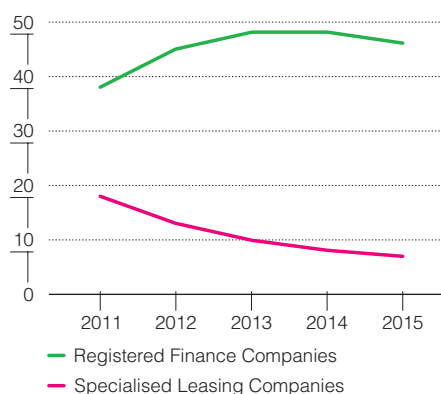
Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update										
<p>Reputational risk A threat or danger to the good name or standing of a business or entity.</p>	Low	Significant	MI, as a premier player within the financial services sector, remained very receptive to public sentiments through the year. There was constant feedback from the front line business divisions to the functional heads and then to Corporate Management on aspects needing special attention.	<p>By instilling a sound corporate governance culture, risk management measures and checking employee adherence to corporate procedures and rules, MI conducted business in an ethical and prudent manner.</p> <p>Suggestion boxes were placed in key divisions and surveys were carried out to obtain formal feedback from the public.</p> <p>Regardless of corporate hierarchy, all employees were expected to live by core values of the Company. Deviation to MI's strict policies and procedure guidelines and rules resulted in strict disciplinary action for employees.</p>										
Risks arising from poor operational practices that could lead to reputational risk.	Low	Significant		<p>MI's Divisional Heads were asked to revisit and review their respective departmental procedures and improve existing practices to minimise glitches. The Company reviewed the divisions' professional standards, benchmarking against best practices in the market.</p> <p>Additional recruitments strengthened operations, while extensive training programmes extended across all functional divisions, enhanced task executions, minimising operational shortcomings.</p>										
Lack of corporate attention to societal and environmental responsibility.	Low	Medium	<p>There was constant feedback generated from MI location on various societal needs and concerns of the environment that was routed back to the Sustainability Governance Committee and Corporate Management for necessary review and action.</p> <p>MI's Financial Contributions for CSR Projects %</p> <table border="1"> <tr> <td>A - Community Contribution – Housing</td> <td>82%</td> </tr> <tr> <td>B - Environmental Contributions</td> <td>9%</td> </tr> <tr> <td>C - Community Contribution – Other</td> <td>5%</td> </tr> <tr> <td>D - Community Contribution – Health</td> <td>2%</td> </tr> <tr> <td>E - Community Contribution – Education</td> <td>2%</td> </tr> </table>	A - Community Contribution – Housing	82%	B - Environmental Contributions	9%	C - Community Contribution – Other	5%	D - Community Contribution – Health	2%	E - Community Contribution – Education	2%	<p>A number of social and environmental worthy projects were initiated as explained in the section on sustainability, that continued to maintain MI's image as a socially responsible corporate, in keeping to its vision.</p>
A - Community Contribution – Housing	82%													
B - Environmental Contributions	9%													
C - Community Contribution – Other	5%													
D - Community Contribution – Health	2%													
E - Community Contribution – Education	2%													

5.4 COMPETITOR RISK

Owing to the potential for financing and other financial offerings, the LFC sector remains a lucrative industry. Large number of institutions competes aggressively in the industry to secure market share. The sector caters to a wide customer audience through a broad product range that has expanded from mere financing and deposit taking to tailor-made product offerings that meet varying customer needs. As a result, the industry has become very sophisticated and competitive. Number of finance companies merged or acquired during last financial year, according to the financial sector consolidation plan of the CBSL. With the Banking sector taking more interest in motor vehicle financing in the recent decade competition is now intense, narrowing core business spreads unlike in the years gone by. In terms of deposit mobilisation, availability of other alternative potential investment options such as the share market and investment in property have intensified competition further.



Expansion of the LFC Sector
No. of Companies



MI has invested a considerable level of resources in sustaining its core capabilities and critical success factors over the years; namely to maintain a superlative service and excellence in delivery. The Company has been able to provide tailor-made solutions and affordable pricing. Refinements made to the Company's operational practices, to meet market expectations and challenges, have improved MI's competitiveness. Business divisions analysed competitor behaviour

changes and trends in the banking and LFC sector on a continuous basis looking at following elements.

Mercantile Investments customer-centric approach and innovativeness, coupled with competitive prices, has made the Company a fierce competitor.

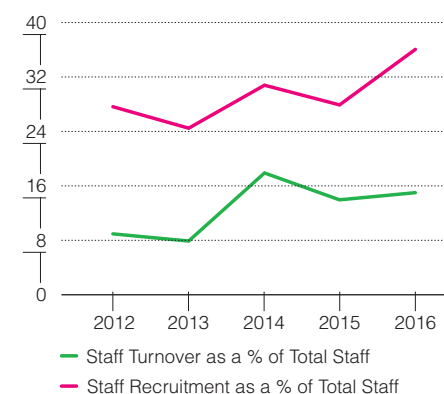
The use of advanced technology to execute core operations has improved MI's service and delivery times tremendously. Moreover, the Company's unique human resource management style encourages a work-life balance for its staff sustaining their motivation for improved productivity. To stay competitive and to expand MI, had the required flexibility for investment, having possessed a strong capital base, built up for five decades.

5.5 HUMAN RESOURCE-RELATED RISK

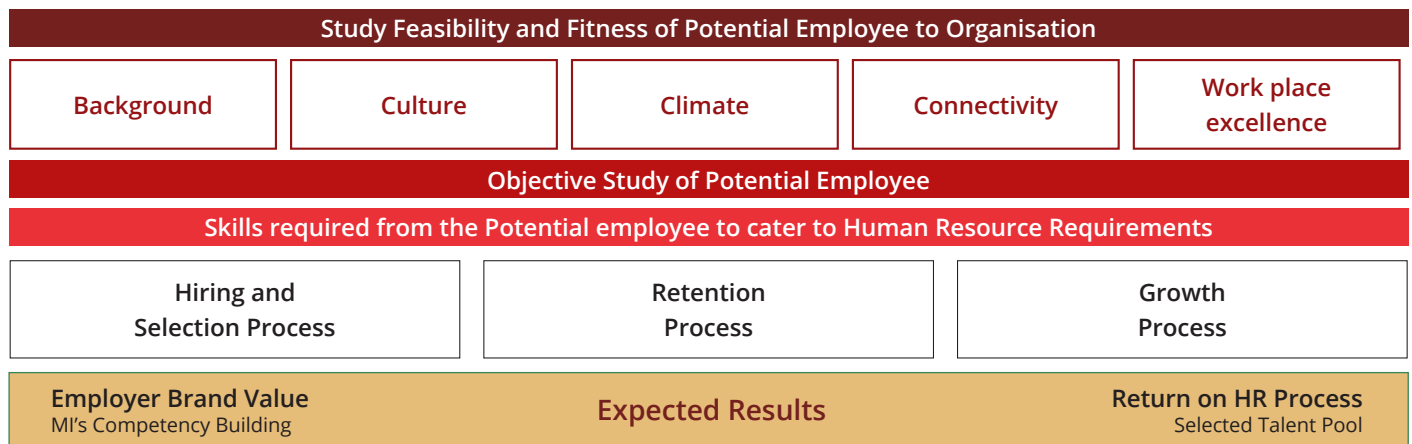
As a service intensive industry, there is high dependency on MI's human capital, meeting anticipated service standards. A lot depends on the performance of the Company's workforce in the achievement of organisational objectives and other aspirations to remain successful. Accordingly, attracting and retaining high calibre staff, who possesses the necessary experience and skills to perform duties is integral, if MI is to continue on its path to success. As most of MI's workforce has extended long service periods, losing services of these experienced personnel could create a vacuum in meeting anticipated standards and may disrupt smooth running of operations at least temporarily. The Company is mindful of the fact that finding suitable replacements in the short-term would be challenging.

In managing human resource risk, MI resorts to specific human resource management practices that ensure staff morale and motivation is kept high to generate required productivity levels. In motivating employees, the Company recognises valuable input of its staff by showing appreciation by offering competitive remuneration packages annually through salary increments, handing out special recognition awards and letters of recommendations. In improving staff morale, clear communication channels have been established between management and staff, in promoting concise dialogue that has helped to minimise misunderstandings. Training and development remained a key tool in increasing the intrinsic value of MI's employees, grooming staff to face complex business challenges. MI's exceptionally low turnover levels suggest that the Company is a preferred employer especially because of our reputation that it holds as a financially sound institution. MI's financial stability continued to be a source of strength for its employees, affirming job security and career prospects for all dynamic individuals.

Staff Turnover Vs Staff Recruitments
%



PEOPLE RISK MANAGEMENT PROCESS OF MI



HUMAN RESOURCE-RELATED RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
People risk Inability to attract and retain quality staff or the risk of competitors grabbing experienced staff.	Low	Significant	Through the process of manpower planning, each division was able to sustain their cadre requirements. Management stayed focused on understanding their staff's needs and assessed their motivational levels and productivity status when doing the biannual reviews. When job tasks increased or when there were resignations, HR Division was quickly notified to identify suitable candidates.	<ul style="list-style-type: none"> Increased training programmes were conducted to enhance overall knowledge and capability so that staff members were not demoralised, due to increasing job demands. Top performers were periodically recognised by rewarding or by career advancement. Continued to maintain an open door policy that helped pick up staff grievances. All recruitments were done after careful scrutiny to minimise recruiting people either over qualified or incompetent for the tasks at hand. Annual increments and biannual bonus schemes brought remuneration levels to competitive standards.

5.6 STRATEGIC RISK

Strategic risk is defined as the risk associated with applying ineffective and non-implementable strategy and future business strategies, including plans on entering new business lines, expanding existing services through organic business growth, mergers and acquisitions or the potential loss that could result from a strategy that turned out to be defective or detrimental to MI.

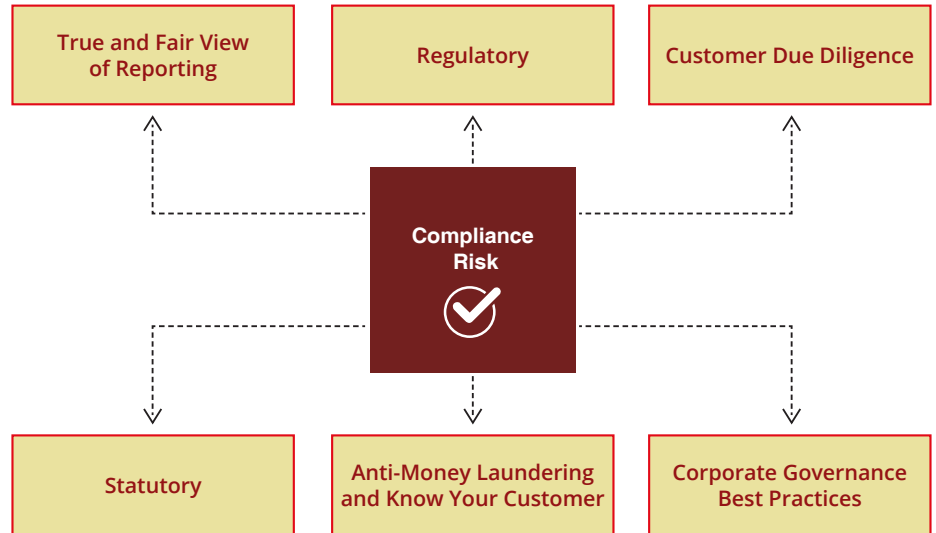
STRATEGIC RISK CONTROL DASHBOARD

Risk type	Likelihood	Impact level to MI	Risk assessment	Strategies on risk mitigation – FY 2015/16 update
Strategic risk Loss that could occur due to pursuing of defective strategic decisions making poor business decisions, substandard execution of decisions, inadequate resource allocations or failure to respond well to changes in the business environment.	Low	Moderate	As a part of MI Board of Directors role in directing and controlling the operations, steps were taken to plan for the future and therefore, with the support of the Corporate Management, developed a comprehensive three year strategic plan. To evaluate the success of current strategies adopted and goals and targets envisaged, the Board continued to monitor MI's financial and operational progress monthly. The Corporate Management weekly reviewed the KPI's/ KRI's to make pertinent decisions when there were gaps.	<ul style="list-style-type: none"> Each divisional head was asked to come up with their three year strategy and to evaluate success of the on going strategy. Functional heads monitored their KPI's and KRI's and proposed suitable strategic changes and fresh strategies focusing on improving overall business and service levels. The Director Board and Senior Management were encouraged to attend higher strategic level training to improve their knowledge to come up with innovative thinking. Participation of external consultants, to support in the development of the Corporate Strategy, was another initiative.

5.7 COMPLIANCE RISK

Compliance risk arises when there is legal or regulatory sanctions, causing financial losses or loss to the Company's reputation as a result of the Company's failure to comply with applicable laws, regulations, acts and good practices etc. MI's compliance function, coming under the Manager – Compliance and Risk is accountable for independently assuring that operating business divisions are complying with regulatory and internal controls. Accordingly, the Manager – Compliance and Risk plays a key role on ensuring implementation of stipulated requirements, in accordance with the directions, rules and guidelines issued by various regulatory bodies. The Board, with the assistance of the Compliance Officer, strives to instil an organisation wide compliance culture, emphasising characteristics such as integrity and honesty. Training and awareness programmes were carried out during this financial year to Corporate Management and relevant officers to ensure that

employees are apprised of MI's compliance requirements, policies and procedures and changes there to i.e. Anti-Money Laundering (AML) and Combatting the Financing of Terrorism (CFT). The Compliance Officer takes a proactive approach to promoting the compliance culture and considers the compliance function as a strategic partner for all other core and support business divisions.



REGULATORY AND COMPLIANCE RISK APPETITE CRITERIA		
Risk appetite criteria	Policy range	Current position as at 31 March 2016
Statutory liquid asset ratio (%)	Above 10	11.73
Core capital ratio (%)	Above 6	19.35
Total risk-weighted capital ratio (%)	Above 11	15.75
Single borrower limit (%)	Below 15	10.8
Penalties paid	Nil	600,000
Late submission of reports	Below 2	1

STRESS TESTING

A fundamental role of risk management is to ensure organisations do anticipate for worst-case events early and strategies appropriately as they plan their path to success. Stress testing helps MI's to evaluate potential impacts to its key financial variables due to adverse changes in business conditions or market variables so that we could be better prepared.

Base Data (All figures are in Rs. '000 and as 31 March 2016)

Capital adequacy ratio (CAR) (%)	19.35
Capital base (Rs.)	4,776,954
Risk-weighted assets (Rs.)	30,272,868
Total gross NPA (Rs.)	876,043
Equity market value (Rs.)	3,292,519
Deposit liability (Rs.)	15,815,590
Liquid assets (Rs.)	1,879,908
Liquid assets ratio (%)	11.73
Gross loans (Rs.)	25,830,073
NPL ratio (%)	3.39

Stress tests	Exposure Rs. '000	Original position 31 March 2016 CAR %	Magnitude of shock		
			5%	10%	15%
			Revised CAR %		
A. Credit Risk					
Negative shift in non-performing advances*	876,043	19.35%	15.64%	15.51%	15.37%
B. Equity Price Risk					
Fall in stock market prices	3,292,519	19.35%	15.37%	14.97%	14.55%

Conclusion: No significant impact to capital adequacy due to shocks from credit risk or equity risk.

Stress tests	Exposure Rs. '000	Original position 31 March 2016 Statutory liquid assets ratio %	Magnitude of shock		
			5%	10%	15%
			Revised statutory liquid assets ratio %		
Liquidity Risk					
A. Fall in statutory liquid assets	1,879,908	11.73%	11.29%	10.70%	10.10%

Conclusion: Even after worse case scenario the liquid asset ratio would remain above regulatory requirements.

Stress tests	Exposure Rs. '000	Original position 31 March 2016 NPL %	Magnitude of shock		
			5%	10%	15%
			Revised NPL %		
A. Credit Risk					
Negative shift in Non-Performing Loans*	876,043	3.39%	3.56%	3.73%	3.90%

Conclusion: The rise in NPA is above 3.5 % anticipated level forecasted in the medium term. Company's NPL was considerably lower than the LFC sector average NPL of 5.7% even after worse case scenario.

Financial Reports

Our financial report can be likened to an ‘account of the harvest’...an overview of the fruits yielded by every branch of our ‘Tree of Life’...it is a great barometer of our fortunes over the year gone by.

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Notes to the Financial Statements

Financial Calendar

	2015/16	2016/17
Dividend for the year paid/payable	4 December 2015	October 2016
Annual Report and Accounts for the year signed/to be signed	13 June 2016	May 2017
Annual General Meeting to be held	14 July 2016	June 2017

Submission of the Interim Financial Statements in Terms of the Rule 7.4 of the Colombo Stock Exchange and as per the Requirements of the Central Bank of Sri Lanka

	2015/16 submitted on	2016/17 to be submitted on or before
For the 3 months ended 30 June – (unaudited)	27 July 2015	15 August 2016
For the 3 and 6 months ended 30 September – (unaudited)	30 October 2015	15 November 2016
For the 3 and 9 months ended 31 December – (unaudited)	28 January 2016	15 February 2017
For the 3 months and year ended 31 March – (unaudited)	30 May 2016	31 May 2017



May 2015
Annual and
Quarter Four Results



June 2015
Annual Report
Release



June 2015
Annual General
Meeting



July 2015
Interim Report
Quarter One



October 2015
Interim Report
Quarter Two



January 2016
Interim Report
Quarter Three

Annual Report of the Board of Directors

Annual Report of the Board of Directors on the affairs of the Company and Statement of Compliance of the Contents of the Annual Report.

The details set out herein provide the information required by the Section 168 of the Companies Act No. 07 of 2007 and recommended best accounting practices.

1. GENERAL

The Directors of Mercantile Investments and Finance PLC have pleasure in presenting to the shareholders this Report together with the Audited Financial Statements for the year ended 31 March 2016 and the Auditors' Report on those Financial Statements, conforming to the requirement of the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and the Directions issued thereunder.

Mercantile Investments and Finance PLC is a public limited liability company incorporated in Sri Lanka on 15 June 1964 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 and a licensed Finance Company under the Finance Business Act 42 of 2011.

The ordinary shares of the Company are quoted on the *Diri Savi* Board of the Colombo Stock Exchange since June 2011. The senior unsecured redeemable debentures issued by the Company are also listed on the Colombo Stock Exchange. Fitch Ratings Lanka Limited has assigned BBB- (lka) long-term financial institution ratings respectively to the Company.

The registered office of the Company is situated at No. 236, Galle Road, Colombo 03, which is also its Head Office.

This Report provides the information as required by the Companies Act No. 07 of 2007, Finance Companies (Corporate Governance) Direction No. 03 of 2008 and subsequent amendments thereto, Listing Rules of the Colombo Stock Exchange and recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on 13 June 2016.

Section 168 of the Companies Act No. 07 of the 2007, requires the following information to be published in the Annual Report, prepared for the year under review (i.e., for the year ended 31 March 2016).

Information required to be disclosed	Reference to the Companies Act
(I) The nature of the business of the Company together with any change thereof during the accounting period.	Section 168 (1) (a)
(II) Completed and signed Financial Statements of the Company for the accounting period completed.	Section 168 (1) (b)
(III) Auditors' Report on Financial Statements of the Company and the Group.	Section 168 (1) (c)
(IV) Any changes made to the accounting policies during the year under review.	Section 168 (1) (d)
(V) Particulars of the entries in the Interests Registers of the Company during the accounting period.	Section 168 (1) (e)
(VI) Remuneration and other benefits paid to Directors of the Company during the period.	Section 168 (1) (f)
(VII) Total amount of donations made by the Company during the period.	Section 168 (1) (g)
(VIII) Information on Directorate of the Company during and at the end of the accounting period.	Section 168 (1) (h)
(IX) Separate disclosure on amounts payable by the Company to the Auditor as Audit Fees and fees for other services rendered during the accounting period.	Section 168 (1) (i)
(X) Auditors' relationship or any interest with the Company.	Section 168 (1) (j)
(XI) Acknowledgment of the contents of this Report/signatures on behalf of the Board by two Directors and the Secretary of the Company.	Section 168 (1) (k)

2. REVIEW OF BUSINESS

2.1 VISION, MISSION AND CORPORATE CONDUCT

The Company's Vision and Mission are given on page 04 of this Report. The business activities of the Company are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission, which reflects our commitment to high standards of business conducts and ethics.

2.2 REVIEWS ON OPERATIONS OF THE COMPANY

The Company has established delivery points across all key regional hubs of the country. During the year, 5 new delivery points were added (4 in 2015), bringing the total number of delivery points in the country to 31 at the end of 2016 (26 at the end of 2015).

A review of operations of the Company during the financial year and results of those operations are contained in the Chairman's Review, Managing Director's Review on pages 22 to 25 and pages 26 to 31 of this Annual Report

Segment-wise contribution to revenue, results, assets and liabilities is disclosed in Note 51 to the Financial Statements on pages 403 to 405.

2.2.1 PRINCIPAL ACTIVITIES OF THE COMPANY

The principal business activities of the Company consist of finance leasing, hire purchase financing, term loan financing, fleet management, microfinancing, share trading and mobilisation of deposits. There have been no significant changes in the nature of the principal activities of the Company during the financial year under review.

2.2.2 ASSOCIATE COMPANY

Company has a 26.12% (2015 – 26.12%) holding in The Nuwara Eliya Hotels Company PLC which is a quoted public company and involving in the business of the hoteliering. Details of the investments in associate is given in Note 29 to Financial Statements on pages 384 and 385 of this Annual Report.

2.3 FINANCIAL STATEMENTS OF THE COMPANY

The Financial Statements of the Company duly certified by the Chief Financial Officer and approved by two Directors in compliance with the requirements of Sections 151 and 168 (1) (b) of the Companies Act No. 07 of 2007 are given on page 353 of this Annual Report.

2.4 DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Directors are responsible for the preparation of Financial Statements of the Company to reflect a true and fair view of the state of its affairs. The Directors are of the view that Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Cash Flow Statement, Significant Accounting Policies and Notes thereto appearing on pages 352 to 406 have been prepared in accordance 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 Business Act No. 42 of 2011 and the Listing Rules of the Colombo Stock Exchange. The Statement of "Directors' Responsibilities" appearing on page 341 of this Annual Report forms an integral part of this Report.

2.5 AUDITORS' REPORT

Company's Auditors, Messrs BDO Partners performed the audit on the Financial Statements for the year ended 31 March 2016 and the Auditors' Report on the Financial Statements is given on page 350 of this Annual Report as required by Section 168 (1) (c) of the Companies Act No. 07 of 2007.

2.6 ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

The Company prepared its Financial Statements for all periods up to and including the year ended 31 March 2016, in accordance with Sri Lanka Accounting Standards (SLFRS/LKAS) which were in effect up to that date. The Significant Accounting Policies adopted in the preparation of Financial Statements of the Company are given on pages 357 to 363 of the Annual Report as required by Section 168 (1) (d) of the Companies Act No. 07 of 2007. The Board of Directors wish to confirm that there were no changes to the Accounting Policies used by the Company during the year.

2.7 INTERESTS REGISTER

The Interests Register is maintained by the Company, as per the Section 168 (1) (e) of the Companies Act No. 07 of 2007. All Directors have made declarations as provided for in Section 192 (1) and (2) of the Companies Act aforesaid. The related entries were made in the Interests Register during the year under review. The share ownership of Directors is disclosed on page 337 of this Report. Entries were made in the Interests Register on share transaction, Directors' interest in contracts, and remuneration paid to the Directors etc. The Interests Register is available for inspection by shareholders or their authorised representatives as required by the Section 119 (1) (d) of the Companies Act No. 07 of 2007.

2.8 DIRECTORS' REMUNERATION AND OTHER BENEFITS

Directors' remuneration and other benefits, in respect of the Company for the financial year ended 31 March 2016 is given in Note 48.2 to the Financial Statements on page 400 of this Annual Report as required by Section 168 (1) (f) of the Companies Act No. 07 of 2007.

2.9 CORPORATE DONATIONS

During the year, Company made donations amounting to Rs. 6.064 million (2015 – Rs. 1.2 million). The donations made to the Government approved charities from the above amounted is Rs. Nil (2015 – Nil). The information given above on donations forms integral part of the Report of the Board of Directors as required by Section 168 (1) (g) of the Companies Act No. 07 of 2007.

2.10 FUTURE DEVELOPMENTS

Future development activities of the Company is discussed under the Managing Director's Report on pages 26 to 31 of this Annual Report.

3. GROSS INCOME

The income of the Company for the year ended 31 March 2016 was Rs. 4,500 million (year ended 31 March, 2015 – Rs. 4,286 million). An analysis of income is given in Notes 6 & 7 to the Financial Statements on page 364 of this Annual Report.

4. DIVIDEND AND RESERVES

4.1 PROFIT AND APPROPRIATIONS

The profit before income tax of the Company for the year ended 2016 was Rs. 802 million (Rs. 911 million in 2015) and the profit after tax for the year ended 2016 was Rs. 505 million (Rs. 631 million in 2015).

The details of profit relating to the Company are tabled below:

As at March 31	2016 Rs. '000	2015 Rs. '000
Profit before Tax	802,645	911,884
Taxation	297,626	280,602
Profit after Tax	505,019	631,272
Other comprehensive income	(10,435)	1,709
Balance brought forward	900,184	442,659
Available for Appropriation	1,394,768	1,075,640
Transfer to statutory reserve	(50,000)	(60,000)
Transfer to general reserve	(200,000)	(200,000)
Transfer to investment fund	—	173,220
Interim dividend paid	(21,042)	(88,677)
Balance carried forward	1,123,726	900,183

4.2 DIVIDEND ON ORDINARY SHARES

Details of information on dividends are given in Note 17 to the Financial Statements on page 371.

The following interim dividends were declared and paid for the financial year ended 2016 (Rs. 19.50 per share – 2015):

Dividend	Rate of payment
1st interim	Rs. 7.00 per share

The Board of Directors provided the Statement of Solvency to the Auditors and obtained Certificate of Solvency from the Auditors in respect of each dividend payment in term of Section 56 (2) of the Companies Act No. 07 of 2007.

The Board of Directors also fulfilled the requirement of the Solvency Test in terms of Section 56 (3) of the Companies Act No. 07 of 2007 immediately after the payment of interim dividend.

4.3 PROVISION FOR TAXATION

Income tax for 2016 has been provided at 28% (28% – 2015) on the taxable income arising from the operations of the Company and has been disclosed in accordance with Sri Lanka Accounting Standards. Profits of the Company are also liable for Value Added Tax on Financial Services at the rate of 11% (11% – 2015), Nation Building Tax on Financial Services 2% (2% – 2015), Crop Insurance Levy of 01% Which was introduced from January 2014.

The Company has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standards – LKAS 12 on 'Income Taxes'.

Information on Income Tax Expenses and Differed Taxes is given in Notes 15 & 37 to the Financial Statements on pages 370 and 396 respectively, of this Annual Report.

4.4 RESERVES

A summary of reserves of the Company as at year ended 31 March 2016 is as follows:

	2016 Rs. '000	2015 Rs. '000
Statutory reserve fund	631,400	581,400
Revaluation reserve	1,084,346	1,100,437
Associate company reserve	455,270	382,497
General reserve	4,086,430	3,886,430
Available-for-Sale reserve	237,060	892,817
Retain earnings	1,123,728	900,184

The Company's total Reserves as at 31 March 2016 amounted to Rs. 7,654 million (2015 – Rs. 7,780 million). The movement of the reserves are given on page 399 under Statement of Changes in Equity and Notes 40 to 44 to the Financial Statements of this Annual Report.

5. PROPERTY, PLANT & EQUIPMENT, LEASEHOLD PROPERTY AND INTANGIBLE ASSETS

Capital expenditure incurred on property plant & equipment, intangible assets, leasehold property are as follows:

Year	2016 million	2015 million
Property, plant & equipment	106	151
Leasehold property	Nil	Nil
Intangible assets	9.4	3.5

Details of which are given in Note 31 on pages 387 to 392 in the Financial Statements. Capital expenditure approved and contracted for is given in Note 45 to the Financial Statements on page 400 of this Annual Report.

6. MARKET VALUE OF FREEHOLD PROPERTIES

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer as at 31 March 2015, and brought into the Financial Statements. The Directors are of the opinion that the revalued 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 31.3 to the Financial Statements on page 390.

7. STATED CAPITAL AND DEBENTURES

The stated capital of the Company as at 31 March 2016 was Rs. 36 million comprising 3,006,000 ordinary shares (2015 – Rs. 36 million). The details of the stated capital are given in Note 39 to the Financial Statements on page 398 of this Annual Report.

The Company had issued 2,000,000 unsecured, subordinated, redeemable debentures of Rs. 100/- each to the value of Rs. 200 million as at year ended 31 March 2016.

The Company did not issue any debenture during the financial year ended 31 March 2016.

8. SHARE INFORMATION

8.1 INFORMATION ON EARNING, DIVIDEND, NET ASSETS AND MARKET VALUE

Information relating to earnings, dividends, net assets per share and market value per share is given in the Triple Bottom Line Highlights on page 10 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 'Investor Relations', on pages 423 to 427.

8.2 DISTRIBUTION SCHEDULE OF SHAREHOLDINGS

Information on the distribution of shareholding and the respective percentages are given in the Section on 'Investor Relation' on page 427.

8.3 ISSUE OF SHARES

The Company did not make any share issues during the year under review:

Class of shares	Voting ordinary shares	
	2016	2015
Number of shares issued	Nil	Nil

9. SUBSTANTIAL SHAREHOLDINGS

The list of 20 Largest Shareholders as at 31 March 2016 are as follows:

Nilaveli Beach Hotel (Pvt) Limited	626,240
Mr. G.G. Ondaatjie (MD)	477,213
Ms. A.M. Ondaatjie	477,213
Mr. T.J. Ondaatjie	477,213
Mercantile Fortunes (Pvt) Limited	410,820
Mr. G.L.A. Ondaatjie	268,535
Tangerine Tours (Pvt) Limited	200,469
Mrs. P.R. Divitotawela/ Mr. R.D. Madugalla	12,525
Mrs. P.R. Divitotawela/ Mr. A.D. Galagoda	12,525
Mr. N.H.V. Perera	10,020
Mr. R.M.D. Abeygunewardena	10,020
Mr. J.A.S.S. Adhihetty	10,020
Mr. S. Fernando	5,010
Mr. S. Senanayake	5,010
Mr. C.A. Ondaatjie	2,004
Mr. A.D. Rajapaksha	501
Mr. A.M. Rajapaksha	501
Mr. A.M. Dominic & J.S. Dominic	151
Mr. H.W.M. Woodward	10

Names of the top twenty shareholders' shares, percentages of their respective holdings and percentage holdings of the public, etc. are given in the Section on 'Investor Relations' on page 427.

9.1 EQUITABLE TREATMENT TO ALL STAKEHOLDERS

While valuing the patronage of all our stakeholders, the Company has made all endeavours to ensure equitable treatment to all our shareholders.

10. DIRECTORS

10.1 INFORMATION ON DIRECTORS OF THE COMPANY

10.1.1 LIST OF DIRECTORS

The Board of Directors of the Company as at 31 March 2016 comprised of Ten Directors (Ten Directors as at 31 March 2015) with extensive financial and commercial knowledge and experience. The qualifications and experience of the Directors are given in the 'Board of Directors – Profile' on pages 212 to 215 of this Annual Report.

Names of the persons holding office as Directors of the Company as at the end of the year and the names of persons, who ceased to hold office as Directors of the Company any time during the year 2016, as required by Section 168 (1) (h) of the Companies Act No. 07 of 2007 are given below:

Name of the Director	Executive/ Non-Executive	Independence/ Non-Independancy
Mr. S.H.J. Weerasuriya	Non-Executive	Independent
Mr. G.G. Ondaatjie	Executive	Non-Independent
Mr. P.M. Amarasekara	Executive	Non-Independent
Ms. A.M. Ondaatjie	Executive	Non-Independent
Mr. T.J. Ondaatjie	Executive	Non-Independent
Mr. S.H. Jayasuriya	Executive	Non-Independent
Ms. P.T.K. Navaratne	Non-Executive	Independent
Mr. N.H.V. Perera	Non-Executive	Non-Independent
Mr. S.M.S.S. Bandara	Non-Executive	Independent
Mr. P.C. Guhashanka	Non-Executive	Independent

10.1.2 NEW APPOINTMENTS AND RESIGNATIONS

The information on new appointments and resignations to and from the Board of Directors of the Company are given below:

NEW APPOINTMENTS

There were no new appointments during the financial year.

RESIGNATION/CESSATIONS

There were no resignations/cessations during the financial year.

10.1.3 RECOMMENDATION FOR RE-ELECTION

In terms of Article 23 (7) of the Articles of Association, Mr. S.H. Jayasuriya, Mr. S.H.J. Weerasuriya and Mr. P.C. Guhashanka retire by rotation and being eligible offer themselves for re-election.

10.1.4 DIRECTORS' MEETINGS

Details of the meetings of the Board of Directors are presented on page 230.

10.1.5 BOARD SUB-COMMITTEES

Information with regard to Board Sub-Committees is given under Corporate Governance on pages 286 to 293 of this Annual Report.

BOARD AUDIT COMMITTEE

All members of the Audit Committee are Non-Executive Directors. The MD/CEO, Senior Management Committee members, Internal and External Auditors attend the meetings by invitation. The Board Audit Committee Report is given on pages 286 to 288 of this Annual Report.

INTEGRATED RISK MANAGEMENT COMMITTEE

The Board of Directors has established a comprehensive risk management system in the Company to identify, evaluate and manage the risks associated with the operations of the Company. A detailed overview of the process is set out in the Integrated Risk Management Committee Report on the page 289 of this Annual Report.

REMUNERATION AND NOMINATION COMMITTEE

The Report of the Remuneration and Nomination Committee is given on pages 288 and 290. of this Annual Report.

RELATED PARTY TRANSACTION REVIEW COMMITTEE

The Report of the Related Party Transaction Review Committee is given on page 293 of this Annual Report.

11. DISCLOSURES OF DIRECTORS DEALING IN SHARES

11.1 DIRECTORS' INTEREST IN ORDINARY SHARES OF THE COMPANY

	2015/16	%	2014/15	%
Mr. G.G. Ondaatjie (Managing Director/CEO)	477,213	15.87	477,213	15.87
Ms. A.M. Ondaatjie	477,213	15.87	477,213	15.87
Mr. T.J. Ondaatjie	477,213	15.87	477,213	15.87
Mr. S.H. Jayasuriya	Nil		Nil	
Mr. P.M. Amarasekera	Nil		Nil	
Mr. S.H.J. Weerasuriya	Nil		Nil	
Ms. P.T.K. Navaratne	Nil		Nil	
Mr. N.H.V. Perera	10,020	0.33	10,020	0.33
Mr. S.M.S.S. Bandara	Nil		Nil	
Mr. P.C. Guhashanka	Nil		Nil	

11.1.1 Mr. G.G. Ondaatjie serves as the Managing Director as well as Chief Executive Officer to the Company.

11.1.2 The number of ordinary shares held by the public as at 31 March 2016 was 326,812 shares (2016 – 326,812) which amounted to 10.87% (2015 – 10.87%) of the stated capital of the Company.

11.1.3 DIRECTORS' INTEREST IN DEBENTURES

There were no debentures registered in the name of any Director as at the beginning and at the end of the year.

12. DIRECTORS INTERESTS IN CONTRACTS OR PROPOSED CONTRACTS AND RELATED PARTY TRANSACTIONS

Directors have no direct or indirect interest in any contract or proposed contract with the Company for the year ended 31 March 2016. Further information is given on pages 339 to 340 of this Annual Report. The Directors have also disclosed transactions if any that could be classified as Related Party Transactions in terms of the Sri Lanka Accounting Standard – LKAS – 24 on 'Related Party Disclosures'. Please refer Note 48 to the Financial Statements on pages 400 to 402 for those transactions disclosed by the Directors. These interests have been declared at Related Party Transaction Review Committee meetings.

There are no related party transactions which exceed 10% of the total Equity or 5% of the total assets whichever is lower and the Company has complied with the requirements of the listing rules of the Colombo Stock Exchange on Related Party Transactions.

The Directors have disclosed their interest in other companies so as to ensure that they refrain from voting on a matter in which they have an interest.

13. EMPLOYEE SHARE OPTION PLANS AND PROFIT SHARING PLANS

The Company do not have any employee profit sharing plan or employee share option plans.

14. ENVIRONMENTAL PROTECTION

The Directors, to the best of their knowledge and belief, are satisfied that the Company has not engaged in any activities, which have caused adverse effects on the environment and it has complied with the relevant environmental regulations.

15. STATUTORY PAYMENTS

The Directors, to the best of their knowledge and belief, are satisfied that all statutory payments in relation to the Government and employees have been paid up to date.

16. EVENTS AFTER THE REPORTING DATE

There have been no material events occurring after the balance sheet date that would require adjustments to or disclosure in the Financial Statements as disclosed in Note 50 to the Financial Statements on page 403 of this Annual Report.

17. GOING CONCERN

The Board of Directors had reviewed the Company's business plans and is satisfied that the Company has adequate resources to continue its operation in the foreseeable

future. Accordingly, the Financial Statements of the Company prepared based on the going concern concept.

18. APPOINTMENT OF EXTERNAL AUDITORS

According to the guideline issued by the Monetary Board of the Central Bank of Sri Lanka under Section 30 (2) of the Finance Business Act No. 42 of 2011, the Company required to appoint an External Auditor from the panel of External Auditors listed in the said guideline. Therefore, Messrs BDO Partners were appointed as Auditors of the Company.

The retiring Auditors, Messrs BDO Partners have signified their willingness to continue to function as the Auditor to the Company.

A resolution to reappoint BDO Partners as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

19. AUDITORS' REMUNERATION AND INTEREST IN CONTRACTS WITH THE COMPANY

The Auditors, Messrs BDO Partners were paid Rs. 1.4 million (Rs 1.4 million in 2015 to Messrs BDO Partners) as audit fees by the Company. Apart from that the Company has not engaged External Auditors for any other permitted non-audit services.

As far as the Directors are aware, the Auditors do not have any other relationship or interest in contracts with the Company.

20. RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

20.1 RISK MANAGEMENT

Specific steps that have been taken by the Company in place to identify, evaluate and manage both business risk and financial risk are detailed on pages 407 to 420 of this Annual Report.

20.2 SYSTEM OF INTERNAL CONTROLS

The Board of Directors has established an effective and comprehensive system of internal controls to ensure that proper controls are in place to safeguard the assets of the Company, to detect and prevent fraud and irregularities, to ensure that proper records are maintained and Financial Statements presented are reliable. Monthly Management Accounts are prepared, giving management with relevant, reliable and up to date Financial Statements and key performance indicators.

The Audit Committee reviews on regular basis, the reports, policies and procedures to ensure a comprehensive Internal control framework is in place. More details in this regard can be seen in the 'Audit Committee Report' on page 346 of this Annual Report.

20.3 AUDIT COMMITTEE

The composition of the Audit Committee and their Report is given on page 346 of this Annual Report.

21. CORPORATE GOVERNANCE

DIRECTORS' DECLARATIONS

The Directors' Declare that –

- The Company has not engaged in any activity which contravenes laws and regulations.
- The Company has made all endeavours to ensure the equitable treatment of shareholders.
- The business is going concern.
- Effectiveness and successful adherence of internal controls and risk management is practiced by the Company.
- The measures taken in this regard are set out in the Corporate Governance Report on pages 219 to 296 this Annual Report.
- To the best of their knowledge, there has not been any violation of the Code of Business Conduct and Ethics of the Company.

The measures taken and the extent to which the Company has complied with the Code of Best Practice on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and Securities and Exchange Commission of Sri Lanka, the CSE and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 219 to 296.

22. HUMAN RESOURCES

The Company continues to regard communication with its employees as a key aspect of its policies. Information is given to employees about employment matters and about the financial and economic factors affecting the Company's performance. Employees are encouraged to discuss operational and strategic issues with their line management and to make suggestions aimed at improving performance. Specific measures taken in this regard are detailed in the Human Capital Report on pages 164 to 181 of this

Annual Report. Further, the Board made a declaration in this year's Directors' Report stating "All the Members of Board of Directors and Key Management Personnel have complied with Code of Business Conduct and Ethics introduced in the HR Handbook".

23. COMPLIANCE WITH APPLICABLE LAWS AND REGULATIONS

To the best of our knowledge there has been no violation or possible violation of laws or regulations in any jurisdiction other than the matter discussed under Note 22 to the Financial Statements on page 378. There have been no irregularities involving management or employees that could have material financial effect or otherwise.

24. OUTSTANDING LITIGATION

In the opinion of the Directors and in consultation with the Company Lawyers, litigation currently pending against the Company will not have material impact on the reported financial results or future operations of the Company.

25. NOTICE OF MEETING

The details of the Annual General Meeting are given in the Notice of Meeting on page 439 of this Annual Report.

26. ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

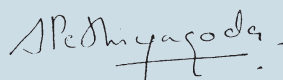
As required by Section 168 (1) (k) of the Companies Act No. 07 of 2007 the Board of Directors hereby acknowledge the contents of this Report.



G.G. Ondaatje
Managing Director



A.M. Ondaatje
Director



Ms. Sonali Pethiyagoda
Company Secretary

Colombo
13 June 2016

Directors' Interests in Contracts with the Company

OUTSTANDING BALANCES OF ACCOMMODATION GRANTED/ DEPOSIT RECEIVED/ RECEIVABLE IN RESPECT OF SERVICES RENDERED AS AT REPORTING DATE WITH THE ENTITIES WHERE THE CHAIRMAN OR A DIRECTOR OF THE COMPANY IS THE CHAIRMAN OR DIRECTOR OF SUCH ENTITIES.

Company	Relationship	Accommodation granted/Deposits/Receivable for service rendered	As at 31.03.2016 Rs. '000	As at 31.03.2015 Rs. '000
G.G. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Managing Director	Deposits	-	-
		Loans	-	-
		Motor vehicle hires, repairs & others	10	1,006
Tangerine Beach Hotels PLC	Director	Deposits	114,802	101,026
		Loans	9,678	13,980
		Motor vehicle hires, repairs & others	79	438
Royal Palms Beach Hotels PLC	Director	Deposits	161,407	25,000
		Loans	4,653	6,201
		Motor vehicle hires, repairs & others	109	513
The Nuwara Eliya Hotels Company PLC	Managing Director	Deposits	456,794	199,712
		Loans	-	-
		Motor vehicle hires, repairs & others	3	1,182
Tangerine Tours (Pvt) Limited	Director	Deposits	105,128	97,757
		Loans	-	-
		Motor vehicle hires, repairs & others	125	1,166
Nilaveli Beach Hotels (Pvt) Limited	Ex. Deputy Chairman	Deposits	161,039	174,547
		Loans	-	8,201
		Motor vehicle hires, repairs & others	-	12
Security Ceylon (Pvt) Limited	Director	Deposits	3,072	3,319
		Loans	-	-
		Other Payable	-	-
		Motor vehicle hires, repairs & others	-	162
Mercantile Orient (Pvt) Limited	Director	Deposits	4,894	4,809
		Loans	-	-
		Motor vehicle hires, repairs & others	-	-
Global Films Limited	Director	Deposits	1,169	1,302
		Loans	-	-
		Motor vehicle hires, repairs & others	-	-
Fair View Hotel (Pvt) Limited	Managing Director	Deposits	14,000	-
		Loans	-	-
		Motor vehicle hires, repairs & others	-	57
A.M. Ondaatjie				
Mercantile Fortune (Pvt) Limited	Director	Deposits	-	-
		Loans	-	-
		Motor vehicle hires, repairs & others	10	1,006
Tangerine Beach Hotels PLC	Jt. Managing Director	Deposits	114,802	101,026
		Loans	9,678	13,980
		Motor vehicle hires, repairs & others	79	438
Royal Palms Beach Hotels PLC	Jt. Managing Director	Deposits	161,407	25,000
		Loans	4,653	6,201
		Motor vehicle hires, repairs & others	109	513
The Nuwara Eliya Hotels Company PLC	Director	Deposits	456,794	199,712
		Loans	-	-
		Motor vehicle hires, repairs & others	3	1,182
Tangerine Tours Limited	Managing Director	Deposits	105,128	97,757
		Loans	-	-
		Motor vehicle hires, repairs & others	125	1,166
Nilaweli Beach Hotels (Pvt.) Limited	Director	Deposits	161,039	174,547
		Loans	-	8,201
		Motor vehicle hires, repairs & others	-	12
Security Ceylon (Pvt) Limited	Director	Deposits	3,072	3,319
		Loans	-	-
		Other Payable	-	-
		Motor vehicle hires, repairs & others	-	162

Company	Relationship	Accommodation granted/Deposits/Receivable for service rendered	As at 31.03.2016 Rs. '000	As at 31.03.2015 Rs. '000
Mercantile Orient (Pvt) Limited	Director	Deposits	4,894	4,809
		Loans	—	—
		Motor vehicle hires, repairs & others	—	—
Global Films Limited	Director	Deposits	1,169	1,302
		Loans	—	—
		Motor vehicle hires, repairs & others	—	—
Fair View Hotel (Pvt) Limited	Director	Deposits	14,000	—
		Loans	—	—
		Motor vehicle hires, repairs & others	—	57
T.J. Ondaatjie				
Mercantile Fortunes (Pvt) Limited	Director	Deposits	—	—
		Loans	—	—
		Motor vehicle hires, repairs & others	10	1,106
Tangerine Beach Hotels PLC	Director	Deposits	114,802	101,026
		Loans	9,678	13,980
		Motor vehicle hires, repairs & others	79	438
Royal Palms Beach Hotels PLC	Director	Deposits	161,407	25,000
		Loans	4,653	6,201
		Motor vehicle hires, repairs & others	109	513
The Nuwara Eliya Hotels Company PLC	Director	Deposits	456,794	199,712
		Loans	—	—
		Motor vehicle hires, repairs & others	3	1,182
Tangerine Tours (Pvt) Limited	Director	Deposits	105,128	97,757
		Loans	—	—
		Motor vehicle hires, repairs & others	125	1,166
Nilaweli Beach Hotels (Pvt) Limited	Managing Director	Deposits	161,039	174,547
		Loans	—	8,201
		Motor vehicle hires, repairs & others	—	12
Security Ceylon (Pvt) Limited	Director	Deposits	3,072	3,319
		Loans	—	—
		Other Payable	—	—
		Motor vehicle hires, repairs & others	—	162
Mercantile Orient (Pvt) Limited	Director	Deposits	4,894	4,809
		Loans	—	—
		Motor vehicle hires, repairs & others	—	—
Global Films Limited	Director	Deposits	1,169	1,302
		Loans	—	—
		Motor vehicle hires, repairs & others	—	—
Fair View Hotel (Pvt) Limited	Director	Deposits	14,000	—
		Loans	—	—
		Motor vehicle hires, repairs & others	—	57
S.H. Jayasuriya				
Mercantile Fortunes (Pvt) Limited	Director	Deposits	—	—
		Loans	—	—
		Motor vehicle hires, repairs & others	10	1,106
Security Ceylon (Pvt) Limited	Director	Deposits	3,072	3,319
		Loans	—	—
		Other Payable	—	—
		Motor vehicle hires, repairs & others	—	162
P.M. Amarasekara				
Security Ceylon (Pvt) Limited	Director	Deposits	3,072	3,319
		Loans	—	—
		Other Payable	—	—
		Motor vehicle hires, repairs & others	—	162
N.H.V. Perera				
Tangerine Beach Hotels PLC	Director	Deposits	114,802	101,026
		Loans	9,678	13,980
		Motor vehicle hires, repairs & others	79	438
Royal Palms Beach Hotels PLC	Director	Deposits	161,407	25,000
		Loans	4,653	6,201
		Motor vehicle hires, repairs & others	109	513

Directors' Responsibility for Financial Reporting

The following statement sets out the responsibilities of the Directors in relation to the preparation and presentation of the Financial Statements of the Company

As per Section 148 (1) and 151 (1) of the Companies Act No. 07 of 2007, Directors of the Company have the responsibility for ensuring that the Company keeps proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the state of affairs and of the profits/losses for the year.

Accordingly, the Directors have caused the Company to maintain proper books of account and reviewed the financial reporting system at their regular meetings and through the Audit Committee. The Audit Committee Report is given on page 346 of this Annual Report. The Financial Statements consist of the Statement of Financial Position as at 31st March 2016 and the Statement of Comprehensive Income, Statement of Changes in Equity and Statement of Cash Flows for the year then ended and notes thereto, prepared and presented in this Annual Report are consistent with the underlying books of account and are in conformity with the requirements of the Companies Act, Sri Lanka Accounting Standards, the Finance Business Act No. 42 of 2011.

Further, the Directors have responsibility to ensure that the Company maintains sufficient accounting records to disclose, with reasonable accuracy, the financial position of the Company. The Directors consider that, in preparing the Financial Statements exhibited from page 352 to 420 inclusive, they have adopted appropriate accounting policies and standards on a consistent basis and supported by reasonable and prudent judgments and estimates.

As required by Section 56 (2) of the Companies Act No. 07 of 2007, the Board authorised the distribution of dividends paid and proposed upon being satisfied that the Company would satisfy the solvency test after such distributions are made in accordance with Section 57 of the Companies Act No. 07 of 2007 and have obtained the necessary certificate of solvency from the External Auditors.

The Directors ensure that the Company has adequate resources to continue in operation to justify applying the going concern basis in preparing these Financial Statements.

The Directors also have the responsibility to ensure that the Company maintains adequate general supervision, control and administration of the affairs and business of the Company.

The Directors are of the opinion that the Internal Control System, in place, is capable of safeguarding the assets, preventing and detecting fraud and errors, ensures accuracy and completeness of the accounting records and timely preparation of reliable financial information.

The Board of Directors accepts responsibility for the integrity and objectivity of the Financial Statements presented in this Annual Report.

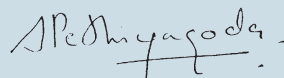
The Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the Company as at the reporting date have been paid or where relevant, provided for.

The Company's Auditors, Messrs BDO Partners, carry out reviews and sample checks on the system of internal controls as they consider appropriate and necessary for expressing their opinion on the Financial Statements.

Messrs BDO Partners, the Auditors of the Company have examined the Financial Statements made available by the Board of Directors together with all financial records, related data and minutes of Shareholders and Directors' meetings and express their opinion which appears as reported by them on page 350 of this Annual Report.

Accordingly, the Directors are of the view that they have discharged their responsibilities as set out in this statement.

By order of the Board,



Mercantile Investments & Finance PLC
Ms. Sonali Pethiyagoda
Company Secretary

13 June 2016

Managing Director's and Chief Financial Officer's Statement of Responsibility

The Financial Statements of Mercantile Investments and Finance PLC are prepared and presented in accordance with the following requirements:

- Sri Lankan Financial Reporting Standards (SLFRS/LKAS) issued by The Institute of Chartered Accountants of Sri Lanka.
- The Companies Act No. 07 of 2007.
- Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.
- Directions issued to Finance Companies by the Central Bank of Sri Lanka (CBSL) under the Finance Business Act No. 42 of 2011.
- Listing Rules of the Colombo Stock Exchange; and
- The Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

The Accounting Policies adopted in the preparation of the Financial Statements are appropriate and have been consistently applied during the financial year under review. There are no departures from the prescribed Accounting Standards in their adoption. Comparative information has been reclassified wherever necessary to comply with the current presentation and material departures, if any, have been disclosed and explained. Significant accounting policies and estimates that involved a high degree of judgment and complexity were discussed with External Auditors and the Board Audit Committee.

The Board of Directors and the Management of the Company accept responsibility for the integrity and objectivity of these Financial Statements to the best of our knowledge. Material estimates and judgment relating to the

Financial Statements were made on a prudent and reasonable basis, in order to ensure that the Financial Statements are reflected in a true and fair manner. The form and substance of transactions reasonably represent MI's state of affairs. To ensure this, the Company has taken sufficient care in installing a system of Internal Control and accounting records, for safeguarding assets and for preventing and detecting frauds as well as other irregularities, which is reviewed, evaluated and updated on an ongoing basis.

The Internal Auditors have conducted periodic audits to provide reasonable assurance that the established policies and procedures of the Company were consistently followed. However, there are inherent limitations that should be recognised in weighing the assurances provided by any system of internal controls and accounting. Further, the Board assessed the effectiveness of the Company's internal controls over financial reporting during the year ended 31 March 2016, as required by the Finance Companies (Corporate Governance) Direction on No. 3 of 2008, result of which is given on page 348 of this Annual Report, the 'Directors Statement on Internal Control'.

The Audit Committee meets periodically with the Internal and External Auditors to review the manner in which the auditors carry out their responsibilities in performing their duties and to discuss audit findings, and any deficiencies in internal controls that may impact the accuracy and completeness of the financial reporting process.

The Financial Statements of the Company were audited by Messrs BDO Partners and their Audit Report is given on page 350 of this Annual Report.

The Audit Committee has reviewed and recommended the scope and fees of audit and non-audit services, provided by the External Auditors for approval of the Board of Directors to ensure that the provision of such services does not impair the Auditor's independence and objectivity. Both Internal and External Auditors have full and free access to the members of the Audit Committee to discuss any matter of substance.

We confirm that the Company has complied with all applicable laws, regulations and prudential requirements, and there are no material litigations pending against MI other than those disclosed in Note 46 of the Financial Statements in this Annual Report. All taxes, duties and statutory payments by the Company and in respect of the employees of MI as at 31 March 2016 have been paid or where relevant accrued.



G.G. Ondaatje
Managing Director



Sermal Jayasuriya
Finance Director/Chief Financial Officer

13 June 2016

Integrated Risk Management Committee Report

THE COMPOSITION OF THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Committee consists of the following members:

Name	Membership status	Directorship status/position held in the Company
Mr. N.H.V. Perera	Chairman	Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Executive Director
Mr. P.M. Amarasekara	Member	Executive Director
Mr. S.H. Jayasuriya	Member	Executive Director
Mr. Shehan Sandanayaka	Secretary	Manager – Risk and Compliance

INTEGRATED RISK MANAGEMENT COMMITTEE (IRMC)

The IRMC was established by the Board of Directors, in keeping with Sections 8.1 and 8.3 of the Finance Companies (Corporate Governance) Direction No. 3 of 2008 issued by the Monetary Board under the Finance Companies Act No. 78 of 1988. The scope and functions of the Committee conforms to the provisions of Section 8.3.b of the aforesaid Direction.

The Committee held four meetings for the year under review. The attendance of each member at meetings is illustrated in the table given on page 289 of the Annual Report.

DUTIES AND RESPONSIBILITIES OF THE COMMITTEE

Based on the Board approved 'Terms and Reference' and 'Risk Policy' developed, following are the key responsibilities of the Integrated Risk Management Committee:

- a. Establish a method of overseeing the overall risk management procedures of the Company. Set the tone and influence the culture of risk management within Mercantile Investments and Finance PLC.

This includes:

- Communicating MI's approach to risk.
 - Determining what types of risk are acceptable and which are not.
 - Setting the standards and expectations of staff with respect to conduct and integrity.
- b. Determine the appropriate risk appetite or tolerable exposure ranges for the purpose of assessing risk, where risk tolerance levels help to ensure appropriate reporting and monitoring processes, for the effective management of identified risks.

- c. Approve major decisions affecting MI's risk profile or exposure and ensure risk assessment decisions are taken within the framework of the authority and responsibility assigned to the Committee.
- d. Identify risks and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.
- e. Satisfy that the less fundamental risks are being actively managed, with the appropriate controls in place and working effectively.
- f. Periodically review MI's approach to risk management and approve changes or improvements to key elements of its processes and procedures.

APPROACH ADOPTED BY THE INTEGRATED RISK MANAGEMENT COMMITTEE

The Committee has the right blend of members who currently represent core divisions covering areas in credit, recoveries and finance while its Chairman appointed in 2012 is a Non-Executive Director of the Board.

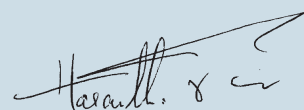
During this financial period, the Committee activities revolved around the following broad functions:

- Assessed risk related to liquidity, credit, market and operational by making reference to reports and other risk indicators tabled at meetings by relevant Heads of Divisions.
- Ensured that the risks of the Company are within prudent levels accepted by the Committee. When necessary, the Committee deliberated corrective course of action to manage risk to prudent levels.
- Communicated with the relevant Heads of Divisions on the needed course of action to improve the overall effectiveness of risk management at MI.

- Reviewed and approved risk parameters and limits against various categories of risks and assessed whether they are aligned with the relevant laws and regulations and MI's policies.
- Submitted quarterly 'Activity Reports' to the Board to update Directors on key risk related matters and to convey recommendations made by the Committee.

Reviewed the operation of ALCO and the Management Committee and verified following:

- ALCO was able to review and resolve mismatches in maturity profiles of assets and liabilities and lending and borrowing behaviour of the Company along with competitor strategy review.
- Management committee reviewed ongoing performance to provide early warning signs and a platform for decision-making through provision of MIS.
- Reviewed efforts of the Sustainability Governance Committee in meeting MI's economic, social and environmental obligations and associated risks, if not handled properly.
- Reviewed compliance status of MI to prevailing laws and regulations with specific focus on CBSL requirements.



N.H.V. Perera
Chairman
Integrated Risk Management Committee

13 June 2016

Remuneration Committee Report

COMMITTEE COMPOSITION

The Committee comprises of three Non-Executive Directors and is chaired by Mr. S.H.J. Weerasuriya who is an Independent Non-Executive Director of the Company.

Name	Membership status	Directorship status/position held in the Company
Mr. S.H.J. Weerasuriya	Chairman	Independent Non-Executive Director
Mr. N.H.V. Perera	Member	Non-Executive Director
Ms. P.T.K. Navaratne	Member	Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

TERMS OF REFERENCE

- Recommend and approve total remuneration package and incentivisation package of the Executive Directors.
- Consider and recommend to the Board the broad policy for the remuneration and incentivisation package.
- Review the Company's remuneration practices and policies to ensure fairness in Directors' Remuneration.
- Determine the policy for the terms of employment of the Executive Directors.
- Monitor performance conditions subject to which any long-term incentive awards may be granted under the schemes adopted by the Company and approve grant of long-term incentive awards, such as share appreciation rights and performance shares.
- Review the design of all share incentive schemes.
- Bear the responsibility for selecting and appointing any remuneration consultants who advise the Committee.

COMMITTEE'S ROLE

The Committee is responsible for setting up the remuneration policy and making recommendations to the Board on the following matters:

- A competitive and fair remuneration package payable to the Executive Directors including the Managing Director of the Company, which is satisfactory to both interests of shareholders and members in concern.
- Evaluating prevailing market remuneration levels when making remuneration policy amendments.

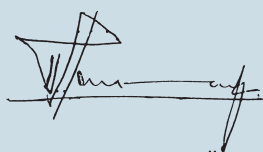
GUIDING PRINCIPLES WHEN SETTING REMUNERATION

In order to remunerate individuals in an effective manner, the Board has set forth guiding principles that should be followed when deciding on remuneration:

- Deciding on standard pay that will enable the Company to attract and retain high calibre personalities.
- Remuneration should be aligned in a way that it satisfies both shareholders and members interests.
- The Committee to meet annually to recommend increments to the Managing Director and Executive Directors.
- Evaluating the prevailing remuneration levels in the market in general when deciding on salary revisions.

MEETING INFORMATION

Number of Committee meetings held during 2015/16 with attendance status of members is given on page 288 in the Annual Report.



Saro Weerasuriya
Chairman
Remuneration Committee

13 June 2016

Nomination Committee Report

COMPOSITION OF THE NOMINATION COMMITTEE

The Nomination Committee comprise of the following Directors of MI:

Name	Membership status	Directorship status
Mr. S.H.J. Weerasuriya	Chairman	Independent Non-Executive Director
Mr. Gerard G. Ondaatjie	Member	Managing Director
Mr. N.H.V. Perera	Member	Non-Executive Director
Mr. S.M.S.S. Bandara	Member	Independent Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

OBJECTIVES OF THE COMMITTEE

The Nomination Committee was established by the Mercantile Investments and Finance PLC Board of Directors in order to strengthen the Director appointment process specifically focusing on:

- i. Identifying individuals qualified to serve as Board members, consistent with criteria approved by the Board.
- ii. Recommending to the Board the Director nominees for election or appointment after ascertaining the necessity of additional Directors.

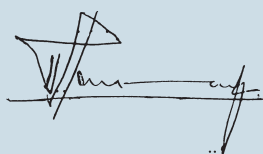
COMMITTEE DUTIES, RESPONSIBILITIES AND PROCESS:

- i. Conduct continuing study of the size, structure and composition of the Board and periodically recommend to the Board whether to increase the number of Directors, or whether to decrease the number of Directors.
- ii. Seek out possible candidates to fill Board positions and aid in attracting qualified candidates to the Board.
- iii. Evaluate nominees based on criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of Director or key management submitted by any shareholder of the Company.
- iv. Recommend to the Board, prior to the solicitation of proxies, an account of qualified candidates for election to the Board at each meeting of shareholders of the Company at which Directors are to be elected and, in the case of a vacancy on the Board, a candidate to fill that vacancy.

- v. Evaluate the performance of incumbent Directors upon the expiration of their terms.
- vi. Ensure balance of skill, knowledge and experience of members forming part of the Board and also ensure that the members are fit and proper persons to hold the position as required by statutes.
- vii. Prepare evaluation forms for all Board members and all members of Board committees and, at least annually, receive comments from all members of the Board and report to the Board with an assessment of the Board's performance.
- viii. Oversee the orientation and training of new Directors.
- ix. Recommend ways in which the Board could improve its performance.

MEETING INFORMATION

Number of Committee meetings held during financial year 2015/16 with attendance status of members is given on page 290 in the Annual Report.



Saro Weerasuriya
Chairman
Nomination Committee

13 June 2016

Audit Committee Report

The Board of Directors has established the Audit Committee in accordance with Best Practices on Audit Committees. The Audit Committee comprises of three Independent Non-Executive Directors and a Secretary for the Committee. The Committee is chaired by an Independent Non-Executive Director while the Company Secretary functions as the Secretary to the Committee.

Name	Membership status	Directorship status/position held in Company
Mr. S.M.S.S. Bandara	Chairman	Independent Non-Executive Director
Mr. S.H.J. Weerasuriya	Member	Independent Non-Executive Director
Mr. N.H.V. Perera	Member	Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

During the period, the Finance Director and representatives from Internal Auditors and External Auditors were present at meetings by invitation.

The Board of Directors have empowered amongst other things, to examine any matter in connection with financial and other related affairs of the Company, to review internal audit programmes, internal control system and procedures, accounting policies and the compliance to statutory and regulatory requirements etc., thus ensuring that a sound financial reporting framework is in place, which is well-monitored to provide accurate, appropriate and timely information to the Board of Directors, Management, Regulatory Authorities and Shareholders.

The Audit Committee assures that the Company's policies and activities comply with rules and regulations and accepted ethical guidelines. Establishing an effective risk management process that enable the proper identification and mitigation of risk is one of the key objectives of the Audit Committee. Assisting the Board of Directors in fulfilling its oversight responsibilities in the financial reporting process and auditing Financial Statements by monitoring the integrity and reliability of the Financial Statements is another key function of the Audit Committee.

The Committee held six meetings during the financial year 2015/16 and performed the under mentioned tasks:

1. Reviewed Internal Audit Reports on Head Office and branch activities and discussed measures to be taken on deficiencies and shortcomings that have been pointed out.
2. Regularly monitored the effectiveness of the internal controls and the procedures established by the management to safeguard the assets of the Company.

3. Met with the External Auditors at the conclusion of annual audit and reviewed the Auditors' Management Letter together with the management's response thereto.
4. Reviewed the Annual Report in order to ensure consistency of the accounting policies, methods and compliance with Sri Lanka Accounting Standards. The Annual Financial Statements were also reviewed with the External Auditors.
5. Reviewed periodically the Company's compliance with regulatory bodies and other statutory requirements.

The Audit Committee submits their report to the Board of Directors on a regular basis. The effectiveness of the Committee is evaluated by the Board of Directors at the end of each financial year.

INTERNAL AUDIT

The Committee ensures that the Internal Audit Division of MI is independent of the operational activities of the Company and internal audit performs its activities impartially, diligently and professionally.

The internal audit programme is structured to ensure there is adequate audit cover both at head office and branch level. The Audit Committee regularly reviewed audit reports and follow-up with management on material audit observations with recommendations.

INDEPENDENCE OF EXTERNAL AUDITORS

The Audit Committee reviews audit and non-audit functions of External Auditors which are segregated as those require independent view and other advisory services. Messrs BDO Partners does not handle substantial volume of non-audit services of the Company in keeping to terms of reference of engagement of external audit partners to provide non-audit services.

The Audit Committee ensures that the provision of such services does not impair independence and objectivity of External Auditors and that work is assigned in such manner as to prevent any conflict of interest.

The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the Company's assets are safeguarded and that the financial position of the Company is well monitored.

Audit Committee has recommended to the Board of Directors that Messrs BDO Partners be reappointed as the External Auditor of the Company for the year ending 31 March 2017, subject to the approval of shareholders at the Annual General Meeting, in accordance with CBSL Regulations on selecting regulatory-approved External Auditors for the sector. Audit Committee's selection and review of External Auditors was based on capability, resource availability of the firm and their level of independence from MI and Board of Directors. The Audit Committee recommended the fees payable to the Auditors in 2015/16 financial year and approved by the Board.



S.M.S.S. BANDARA
Chairman
Audit Committee

13 June 2016

Board Related Party Transactions Review Committee Report

COMPOSITION OF THE COMMITTEE

The Company established the Board Related Party Transactions Review Committee (BRPTRC) during the last financial year. BRPTRC comprises of the following:

Name	Membership status	Directorship status/position held in the Company
Mr. S.M.S.S. Bandara	Chairman	Independent Non-Executive Director
Mr. S.H.J. Weerasuriya	Member	Independent Non-Executive Director
Mr. N.H.V. Perera	Member	Non-Executive Director
Ms. Sonali Pethiyagoda	Secretary	Company Secretary

OBJECTIVE

Ensure interest of MI shareholders as a whole when entering into related party transactions, to have a mechanism to comply with requirements of the Code of Best Practice on Related Party issued by the Securities and Exchange Commission of Sri Lanka. Specify a process to capture related party transactions and to report to the Board as per the code of best practice.

SCOPE OF THE COMMITTEE

Identify all related parties of the Company and review all related party transactions to ensure that they are carried out on an arm's length basis. At each subsequent scheduled meeting of the Committee, the management shall update the Committee as to changes in any previously Identified related parties.

MANDATE OF THE COMMITTEE

- Developing terms of reference of the BRPTRC for adoption by the Board of Directors of the Company.
- Adopting policies and procedures to identify related party review related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- Updating the Board of Directors on the related party transactions of the Company on a quarterly basis.
- Making immediate market disclosures on applicable related party transactions as required by Colombo Stock Exchange (CSE).
- Making appropriate disclosure on related party transactions in the Annual Report as required by CSE.

- Determining whether related party transactions require the approval of the Board of Directors.
- Any concerning transactions, to be highlighted to the Board.

COMMITTEE MEETINGS AND DUTIES

- Two Committee meetings were held during the year under review. Finance Division submitted comprehensive reports on related party transactions to the Committee. Attendance of the members of the Committee is provided on page 293. Any concerns of the Committee will be reported to the Board of Directors on a continuous basis.
- Terms of reference of the Committee was submitted to the Board for approval on 28 March 2016.
- The Committee reviewed and monitored related party transactions that the Company has entered into.
- Formulated, revised and approved policies on Related Party Transactions.
- Advised Management on the reporting format to the Committee.



S.M.S.S. Bandara
*Chairman
 Related Party Transactions
 Review Committee*

13 June 2016

Report by the Board on Internal Control

BOARD'S RESPONSIBILITY

This Report on internal control has been presented in accordance with Section 10.2 (b) of the Finance Companies (Corporate Governance) Direction, No. 03 of 2008 and Corporate Governance – Amendment Direction No. 06 of 2013.

The Board of Directors is responsible for the adequacy and effectiveness of the Company's system of internal controls. The system of internal control has been however, designed to manage the Company's key risk areas within an acceptable risk profile, rather than to eliminate the risk of failure to achieve Company's policies and objectives. Hence, MI's internal control system can only provide reasonable but not absolute assurance against material misstatements of management and financial information and records or against financial losses.

The Board has established a mechanism for identifying, evaluating and managing material risks. This process includes enhancing the system of internal controls when needed in-line with changes in the business environment or regulation. The management of MI assists the Board in the implementation of the policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to control risks.

BROAD PROCESS ADOPTED IN APPLYING AND REVIEWING THE DESIGN AND EFFECTIVENESS OF THE INTERNAL CONTROL MECHANISM ON FINANCIAL REPORTING

The salient processes that have been established in reviewing the adequacy and integrity of the system of internal controls pertaining to financial reporting are as follows:

- Relevant Heads of Divisions have been delegated the task of applying controls to capture their related transactions on to a defined and structured recording information system that supports in financial reporting. At the same time, the Finance Department headed by the Finance Director has been delegated the task of preparing the accounts and Annual Financial Statements in line with Sri Lanka Accounting Standards and other applicable regulations.

- MI's own Internal Audit Division and Ernst and Young Advisory Services (Pvt) Limited have been jointly entrusted with the task of carrying out the Company's internal audit function on a periodic basis to verify the compliance with policies and procedures and the effectiveness of the internal control systems and providing feedback of such reviews to the Audit Committee on any non-compliance.
- The Audit Committee of the Company meets to review internal control issues identified by Internal Auditors in their periodic reviews, External Auditors' queries raised from their statutory reviews and other matters that are important to financial reporting. The Committee evaluates the adequacy and effectiveness of Company's risk management process and internal control systems. The Committee further reviews work of Internal Auditors on their scope and quality of audits. The Committee follows up with relevant management and in turn provides feedback to the Board on any concerning matters for their deliberation and resolution.
- Other Sub-Committees appointed by the Board assist the Board in reviewing and providing feedback to the Board on the effectiveness of areas specifically entrusted upon to such Committees through periodic supervision. This includes reviewing related operations to ensure they are in line with corporate objectives, policies and established procedures.
- To strengthen reporting, additional ICT controls were established and MIS reports generated during FY 2015/16.
- Manager – Risk and Compliance submitted compliance status reports covering all applicable CBSL Rules and Regulation to the Board on monthly basis. A branch compliance checklist, covering all the regulation and internal controls is signed off by branch managers on a bi-monthly basis to ensure higher level of compliance within MI branch network.

CONFIRMATION BY THE BOARD

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. Based on the established internal control mechanism explained above, the Board confirms that the financial reporting system of the Company has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes is done in line with Sri Lanka Accounting Standards and requirements of the regulator.

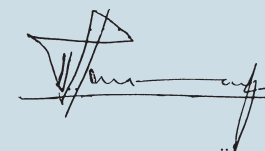
EXTERNAL AUDITORS REVIEW OF THE STATEMENT

The External Auditors have reviewed the above 'Report of the Board on Internal Control' for the year ended 31 March 2016 included in the Annual Report of the Company. They reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the Internal Control System of the Company over financial reporting.

By order of the Board,



S.M.S.S. Bandara
Chairman
Audit Committee



Saro Weerasuriya
Chairman



G.G. Ondaatje
Managing Director

13 June 2016

Independent Assurance Report on the Directors' Statement on Internal Control



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Chartered Accountants
 "Charter House"
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 Colombo 02
 Sri Lanka

TO THE BOARD OF DIRECTORS OF MERCANTILE INVESTMENTS AND FINANCE PLC

INTRODUCTION

We were engaged by the Board of Directors of Mercantile Investments and Finance PLC ("The Company") to provide assurance on the Directors' Statement on Internal Control ("the Statement") included in the annual report for the year ended 31 March 2016.

MANAGEMENT'S RESPONSIBILITY

Management is responsible for the preparation and presentation of the Statement as required by Section 10 (2) (b) of Finance Companies (Corporate Governance) Direction, No. 3 of 2008 and Corporate Governance – Amendment Direction, No. 06 of 2013. In the absence of specific detail guidelines with respect of preparation and presentation of the Statement for finance companies, in preparing and presenting the statement, the Company has considered "Guidance for Directors of Banks on the Directors' Statement on Internal Control" issued in compliance with Section 3 (8) (ii) (b) of the Banking Act Direction No. 11 of 2007, by The Institute of Chartered Accountants of Sri Lanka.

OUR RESPONSIBILITIES AND COMPLIANCE WITH SLSAE 3050

Our responsibility is to issue a report to the Board on the Statement based on the work performed. In the absence of specific detail guidelines with respect of providing assurance report for finance companies on the Director's Statement on Internal Control, we conducted our engagement in accordance with Sri Lanka Standard on Assurance Engagements SLSAE 3050 – Assurance Report for Banks on Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka.

SUMMARY OF WORK PERFORMED

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

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

1. We had an initial meeting with the Senior Manager-Finance and other relevant key management of the Company and discussed the Company's approach in assessing, designing and effectiveness of the Company's internal controls over financial reporting.
2. Requested all correspondence related to Directors' Assessment on design and effectiveness of the Internal Control of the Company and performed further procedures including the followings:
 - 2.1 We independently reviewed the documentation of internal controls related to the key processes provided by the management and confirmed the completeness of such documentation by performing walkthroughs and test of controls.
 - 2.2 We reviewed the findings by Internal Auditors related to internal control weaknesses including suggestions for improvements.
 - 2.3 Reviewed the minutes of the meetings of the Board of Directors and of relevant Board Committees such as the Audit Committee.
3. Considered whether the Directors' Statement on Internal Control covers the year under review and that adequate processes are in place to identify any significant matters arising.

4. Considered whether the Directors have disclosed that there is an ongoing process for identifying, evaluating and managing the significant risks faced by the Company, whether it has been in place for the year under review, whether it is regularly reviewed by the Board. Further, we considered whether the explanations given by in the statement is consistent with our understanding.
5. Reviewed the other documentation prepared by or for the Directors to support their Statement on Internal Control.
6. Obtained written representations from Directors on matters material to the Statement on Internal Control when other sufficient appropriate audit evidence cannot reasonably be expected to exist.

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

OUR CONCLUSION

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

CHARTERED ACCOUNTANTS
 Colombo 02
 13 June 2016
 TS/um

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : S. Rajapakse FCA, FCMA, MBA. Tishan H. Subasinghe FCA, ACMA, CISA, MBA. H.S. Rathnaweera FCA, ACMA.
 Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H.M. Saman Siri Lal FCA, ACMA, MBA. Hasanthi D. Amarakoon ACA, ACMA

Independent Auditors' Report



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TO THE SHAREHOLDERS OF MERCANTILE INVESTMENTS AND FINANCE PLC

REPORT ON THE FINANCIAL STATEMENTS

We have audited the accompanying Financial Statements of Mercantile Investments and Finance PLC, which comprise the statement of Financial Position as at 31 March, 2016, and the Statement of Comprehensive Income, Statement of Changes in equity and Statement of Cash Flow for the year then ended, and a summary of significant accounting policies and other explanatory information as set out on pages 357 to 420.

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 the Board determines is necessary to enable the preparation of Financial Statements that are free from material misstatement, whether due to fraud or error.

AUDITOR'S RESPONSIBILITY

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

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

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

OPINION

In our opinion, the Financial Statements give a true and fair view of the financial position of Mercantile Investments and Finance PLC as at 31st March, 2016 and its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

- a) The basis of opinion and scope and limitations of the audit are as stated above.
- b) In our opinion:
 - We have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Company.
 - The Financial Statements of the Company, comply with the requirements of Section 151 of the Companies Act No. 07 of 2007.

CHARTERED ACCOUNTANTS

Colombo
 13 June 2016
 TS/um

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners : S. Rajapakse FCA, FCMA, MBA. Tishan H. Subasinghe FCA, ACMA, CISA, MBA. H.S. Rathnaweera FCA, ACMA.
 Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H.M. Saman Siri Lal FCA, ACMA, MBA. Hasanthi D. Amarakoon ACA, ACMA

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Statement of Comprehensive Income

<i>For the year ended 31 March</i>	Note	2016 Rs. '000	2015 Rs. '000
Gross income	6	4,500,275	4,286,288
Interest income	7.1	4,301,828	4,129,395
Interest expenses	7.2	(2,098,378)	(1,947,783)
Net interest income		2,203,450	2,181,612
Fee and commission income	8	58,927	47,554
Net fee and commission income		58,927	47,554
Other operating income	9	139,520	109,339
Total operating income		2,401,897	2,338,505
Impairment charge/(reversal) for loans and receivables	10	(234,816)	(295,741)
Net operating income		2,167,081	2,042,764
Less: Operating expenses			
Personnel expenses	11	(532,029)	(437,628)
Depreciation and amortisation	12	(49,994)	(86,896)
Other operating expenses	13	(732,998)	(600,225)
Total operating expenses		(1,315,021)	(1,124,749)
Operating profit before value added tax and NBT on financial services		852,060	918,015
Value Added Tax and NBT on financial services		(141,090)	(119,926)
Operating profit after value added tax and NBT on financial services		710,970	798,089
Add: Share of associate company's profit after taxation	14	91,675	113,795
Profit before taxation from operations		802,645	911,884
Less: Income tax expenses	15	(297,626)	(280,612)
Profit for the year		505,019	631,272
Net other comprehensive income/(expenses)			
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods			
Changes in fair value of available-for-sale financial assets		(655,757)	781,062
Other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		(655,757)	781,062
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			
Net change in revaluation surplus		-	261,556
Deferred tax effect on revaluations surplus on building		(16,092)	(67,004)
Share of other comprehensive income of associates		72,773	(6,538)
Actuarial gain/(loss) on retirement benefit obligation (Note 38)		(11,278)	(8,265)
Deferred tax effect on actuarial gain		844	9,974
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		46,247	189,723
Other comprehensive income/(expenses) for the year (net of tax)		(609,510)	970,785
Total comprehensive income/(expenses) for the year (net of tax)		(104,491)	1,602,057
Earnings per share			
Basic earnings per share (Rs.)	16	168.00	210.00
Diluted earnings per share (Rs.)	16	168.00	210.00
Dividend per ordinary share (Rs.)	17	7.00	19.50

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 357 to 420 form an integral part of these Financial Statements.

Statement of Financial Position

As at 31 March	Note	2016 Rs. '000	2015 Rs. '000
Assets			
Cash and cash equivalents	20	344,062	406,648
Placements with banks	21	464,984	438,372
Financial investments – available-for-sale (quoted)	22	4,570,688	5,071,846
Loans and receivables	23	8,302,333	6,660,003
Finance leases receivables	24	9,925,519	5,409,676
Hire purchase receivables	25	6,825,676	7,398,614
Financial investments – available-for-sale (unquoted)	22	70,427	70,427
Other financial assets	26	110,440	97,711
Inventories	27	16,467	14,193
Other assets	28	72,414	45,640
Current tax receivables		27,212	–
Investment in associates	29	927,318	794,381
Investment property	30	448,234	198,769
Property, plant & equipment	31	1,803,939	1,756,125
Leasehold property	32	42,608	43,076
Intangible assets	33	12,386	3,344
Total assets		33,964,707	28,408,825
Liabilities			
Bank overdraft		412,472	272,634
Deposits due to customers	34	15,815,590	13,720,729
Debt instruments issued and other borrowings	35	8,527,169	5,682,640
Other financial liabilities	36	1,052,327	561,318
Current tax liabilities		–	46,999
Deferred tax liabilities	37	343,259	221,601
Other liabilities		13,423	3,021
Retirement benefit obligations	38	146,235	120,118
Total liabilities		26,310,475	20,629,060
Shareholders' Funds			
Stated capital	39	36,000	36,000
Revaluation reserve	40	1,539,615	1,482,934
Statutory reserve fund	41	631,400	581,400
General reserves	42	4,086,430	3,886,430
Retained earnings	43	1,123,727	900,184
Available-for-sale reserve	44	237,060	892,817
Total shareholders' funds		7,654,232	7,779,765
Total liabilities and shareholders' funds		33,964,707	28,408,825
Net assets per share (Rs.)		2,546	2,588
Capital commitments and contingencies	45 & 46		

The significant accounting policies and the Notes from pages 357 to 420 form an integral part of these Financial Statements.

Certification

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



Shermal H. Jayasuriya
Finance Director

The Board of Directors is responsible for the preparation and the presentation of these Financial Statements.
Approved and signed for and on behalf of the Board,



Gerard G. Ondaatjie
Managing Director



Angeline M. Ondaatjie
Director

Colombo
13 June 2016

Statement of Changes in Equity

	Stated Capital	Revaluation Reserves Land and Buildings	Associate Company Reserve	Statutory Reserves	General Reserves	Investments Fund	Available- for-Sale Reserve	Retained Earnings	Total
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
As at 1 April 2014	36,000	905,885	389,035	521,400	3,686,430	173,220	111,755	442,660	6,266,385
Total Comprehensive Income for the Year									
Profit for the year	–	–	–	–	–	–	–	631,272	631,272
Other comprehensive income/(expenses)	–	194,552	(6,538)	–	–	–	781,062	1,709	970,785
Total comprehensive income/(expenses)	–	194,552	(6,538)	–	–	–	781,062	632,981	1,602,057
Dividends paid to equity shareholders	–	–	–	–	–	–	–	(88,677)	(88,677)
Transfer to statutory reserve	–	–	–	60,000	–	–	–	(60,000)	–
Transfer to general reserve	–	–	–	–	200,000	–	–	(200,000)	–
Transfer to investment fund	–	–	–	–	–	28,780	–	(28,780)	–
Transfer from investment fund	–	–	–	–	–	(202,000)	–	202,000	–
As at 31 March 2015	36,000	1,100,437	382,497	581,400	3,886,430	–	892,817	900,184	7,779,765
Total Comprehensive Income for the Year									
Profit for the year	–	–	–	–	–	–	–	505,019	505,019
Other comprehensive income/(expenses)	–	(16,092)	72,773	–	–	–	(655,757)	(10,434)	(609,510)
Total comprehensive income/(expenses)	–	(16,092)	72,773	–	–	–	(655,757)	494,585	(104,491)
Dividends paid to equity shareholders	–	–	–	–	–	–	–	(21,042)	(21,042)
Transfer to statutory reserve	–	–	–	50,000	–	–	–	(50,000)	–
Transfer to general reserve	–	–	–	–	200,000	–	–	(200,000)	–
As at 31 March 2016	36,000	1,084,345	455,270	631,400	4,086,430	–	237,060	1,123,727	7,654,232

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 357 to 420 form an integral part of these Financial Statements.

Statement of Cash Flows

The Statement of Cash Flow has been prepared by using the 'Direct Method', in accordance with Sri Lanka Accounting Standard – LKAS 7 on 'Statement of Cash Flow' whereby gross cash receipts and gross cash payments of operating activities, finance activities, and investing activities have been recognised. Cash and cash equivalents include cash in hand, balances with banks and highly liquid investment instruments with an original maturity of three months or less as given in the Note 20.

<i>For the year ended 31 March</i>	Note	2016 Rs. '000	2015 Rs. '000
Cash Flow from Operating Activities			
Interest and commission receipts		4,360,755	4,176,949
Interest payments		(2,098,378)	(1,947,783)
Cash receipts from customers		21,815	11,067
Cash payments to employees, suppliers and tax authority		(1,391,278)	(1,154,603)
Operating profit before changes in operating assets and liabilities (Note A)		892,914	1,085,630
(Increase)/Decrease in Operating Assets			
Short-term funds			
Deposits held for regulatory or monetary control purposes		(177,118)	(424,653)
Funds advanced to customers		(5,820,051)	(3,576,635)
Other short-term negotiable securities		139,838	(6,635)
Other receivables		(41,777)	80,770
Increase/(decrease) in Operating Liabilities			
Other payables		501,412	171,131
Deposits from customers		2,094,861	2,302,988
		(2,409,921)	(367,404)
Income taxes paid		(248,156)	(176,163)
Net cash from operating activities		(2,658,077)	(543,567)
Cash Flows from Investing Activities			
Dividends received		84,053	91,843
Dividends received from associates		14,239	10,684
Proceeds from sale of non-dealing securities and government securities		20,068	123,478
Purchase of non-dealing securities		–	(297,096)
Proceeds from sale of property, plant & equipment		50,076	78,476
Purchase of property, plant & equipment and investment property	30, 31	(386,940)	(151,650)
Acquisition of intangible assets	33	(9,491)	(3,536)
Net cash from investing activities		(227,995)	(147,801)
Cash Flows from Financing Activities			
Borrowings obtained during the year		12,329,545	5,553,543
Borrowings repaid during the year		(9,485,017)	(4,788,032)
Dividends paid		(21,042)	(88,677)
Net cash from financing activities		2,823,486	676,834
Net increase in cash and cash equivalents		(62,586)	(14,534)
Cash and cash equivalents at the beginning of the period		406,648	421,182
Cash and cash equivalents at the end of the period (Note B)		344,062	406,648

<i>For the year ended 31 March</i>	Note	2016 Rs. '000	2015 Rs. '000
Reconciliation of Profit before Tax with Cash Inflow from Operating Activities (Note A)			
Profit before tax		802,645	911,884
Capital gain from sale of quoted shares and treasury bonds	9	(5,143)	(13,049)
Dividend from investing securities	9	(103,072)	(91,843)
Share of profit of associates	14	(91,675)	(113,795)
(Profit)/loss on sale of property, plant & equipment	9	(9,490)	6,989
Depreciation of property, plant & equipment and investment property	30, 31	49,077	82,522
Amortisation of leasehold property	32	468	468
Amortisation of intangible assets	33	449	3,906
Provision for bad and doubtful debts	10	234,816	295,741
Retirement benefit provision	38.2	23,456	21,267
Retirement benefit paid	38.1	(8,617)	(18,091)
Profit/(loss) from loss of control over associate company		—	(369)
		892,914	1,085,630
Cash and Cash Equivalents at the end of the period (Note B)			
Cash in hand	20	239,161	256,061
Balance with bank	20	104,901	150,587
		344,062	406,648

Figures in brackets indicate deductions.

The significant accounting policies and the Notes from pages 357 to 420 form an integral part of these Financial Statements.

Significant Accounting Policies

1. REPORTING ENTITY

1.1 CORPORATE INFORMATION

Mercantile Investments and Finance PLC is a public limited liability company, listed on the Colombo Stock Exchange, incorporated on 15 June 1964 and domiciled in Sri Lanka. It is a licensed finance company regulated under the Finance Business Act No. 42 of 2011. The Company was re-registered under the companies Act No. 07 of 2007. The registered office of the Company is located at No. 236, Galle Road, Colombo 03.

The staff strength of the Company as at 31 March 2016 was 738 (588 as at 31 March 2015).

1.2 PRINCIPAL ACTIVITIES AND NATURE OF OPERATIONS

COMPANY

The Company provides a comprehensive range financial services including accepting deposits, granting of loans, lease financing, hire purchase financing, fleet management and share trading.

ASSOCIATES

The principal activity of the Company's associate, namely Nuwara Eliya Hotels Company PLC is engaged in the business of hoteliering.

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

1.3 PARENT ENTERPRISE AND ULTIMATE PARENT ENTERPRISE

The Company doesn't have an identifiable parent of its own.

1.4 APPROVAL OF FINANCIAL STATEMENTS BY THE BOARD OF DIRECTORS

The Financial Statements of Mercantile Investments and Finance PLC for the year ended 31 March 2016 (including comparatives) were approved and authorised for issue by the Board of Directors on 13 June 2016.

2. BASIS OF PREPARATION

This section provides a summary of significant accounting policies, judgments, estimates and assumptions used and other general accounting policies.

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

2.1 STATEMENT OF COMPLIANCE

The Financial Statements of the Company have been prepared and presented in accordance with Sri Lanka Accounting Standards comprising SLFRS and LKAS (hereafter 'SLFRS'), as issued by The Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007 and Finance Business Act No. 42 of 2011 and amendments thereto, provide appropriate disclosures as required by Listing Rules of the Colombo Stock Exchange. These Sri Lanka Accounting Standards are available at www.casrilanka.com.

The Company did not adopt any inappropriate accounting treatments which are not in compliance with the requirements of the SLFRSs and regulations governing the preparation and presentation of the Financial Statements.

The formats used in the preparation of the Financial Statements and the disclosures made therein also comply with the specified format prescribed by the Central Bank of Sri Lanka for the preparation, presentation and publication of annual audited Financial Statements of licensed finance companies.

2.2 RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board of Directors is responsible for the preparation and fair presentation of the Financial Statements of the Company as per the provision of the Companies Act No. 07 of 2007 and the Sri Lanka Accounting Standard.

The Board of Directors acknowledges their responsibility for the Financial Statements in the Statement of Financial Position on page 353.

These Financial Statements include the following components:

- Statement of Comprehensive Income providing the information on the financial performance of the Company for the year under review (refer page 352).
- Statement of Financial Position providing the information on the financial position of the Company as at year end (refer page 353).
- A Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review (refer page 354).
- Statement of Cash Flow providing the information on the users on the ability of the Company to generate cash and cash equivalents and the needs to utilisation of those cash flow (refer page 355).
- Notes to the Financial Statements comprising accounting policies used and other explanatory information (refer pages 357 to 420).

2.3 BASIS OF MEASUREMENT

The Financial Statements have been prepared on a historical cost basis, except for the following material items in the Statement of Financial Position.

Items	Basis of measurement	Note No.
Available-for-sale financial investments	Fair value	22
Land and buildings	Stated at valuation	31
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

2.4 FUNCTIONAL CURRENCY AND PRESENTATION CURRENCY

Items included in the Financial Statements are measured using the currency of the primary economic environment in which the Company operates (the functional currency).

These Financial Statements are presented in Sri Lankan Rupees, which is the Company's functional and presentation currency except when otherwise indicated.

2.5 PRESENTATION OF FINANCIAL STATEMENTS

The assets and liabilities of the Company presented in its Statement of Financial Position are grouped by nature and listed in an order that reflects their relative liquidity and maturity pattern. No adjustments have been made for inflationary factors affecting the Financial Statements. An analysis on recovery or settlement within 12 months after the reporting date (current) and more than 12 months after the reporting date (non-current) is presented in the Note 52 to the Financial Statements.

2.6 MATERIALITY AND AGGREGATION

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

2.7 ROUNDING

The amounts in the Financial Statements have been rounded-off to the nearest Rupees thousands, except where otherwise indicated as permitted by the Sri Lanka Accounting Standards LKAS 1 – 'Presentation of Financial Statements'.

2.8 OFFSETTING

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position only when there is a legally enforceable right to offset the recognised amount and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income, unless required or permitted by an Accounting Standards or interpretation, and as specifically disclosed in the Accounting Policies of the Company.

2.9 COMPARATIVE INFORMATION

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

2.10 GOING CONCERN BASIS OF ACCOUNTING

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

2.11 SIGNIFICANT ACCOUNTING JUDGEMENTS, ESTIMATES AND ASSUMPTIONS

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of revenues, expenses, assets and liabilities, and the accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these assumptions and estimates could result in outcomes that require a material adjustment to the carrying amount of the asset or liability affected in future periods and thus the actual results may differ from these estimates.

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

The most significant areas of estimation, uncertainty and critical judgments in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows:

2.11.1 FAIR VALUE OF FINANCIAL INSTRUMENTS

When the fair value of financial assets and financial liabilities recorded in the Statement of Financial Position cannot be

derived from active markets, their fair value is determined using valuation techniques including the discounted cash flow model. The inputs to these models are taken from observable markets where possible, but where this is not possible, a degree of judgment is required in establishing fair values. The judgments include considerations of inputs such as liquidity risk, credit risk and volatility. Changes in assumptions about these factors could affect the reported fair value of financial instruments. The valuation of financial instruments is described in more detail in the Note 19 to the Financial Statements.

2.11.2 FINANCIAL ASSETS AND LIABILITIES CLASSIFICATION

The accounting policies of the Company provide scope for assets and liabilities to be classified at inception into different accounting categories under certain circumstances. The classification of financial instrument is given in the Note 18 to the Financial Statements.

2.11.3 IMPAIRMENT LOSSES ON LOANS AND ADVANCES

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

Loans and advances that have been assessed individually and found not to be impaired and all individually insignificant loans and advances are then assessed collectively, in groups of assets with similar risk characteristics, to determine whether provision should be made due to incurred loss events for which there is objective evidence, but the effects of which are not yet evident.

The collective assessment takes account of data from the loan portfolio (such as levels of arrears, credit utilisation, loan-to-collateral ratios, etc.), and judgments on the effect of concentrations of risks and economic data (including levels of unemployment, real estate prices indices, country risk and the performance of different individual groups). The impairment loss on loans and receivables is disclosed in more detail in Notes 10, 23, 24 and 25 to the Financial Statements.

2.11.4 IMPAIRMENT OF AVAILABLE-FOR-SALE INVESTMENTS

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

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

2.11.5 IMPAIRMENT OF NON-FINANCIAL ASSETS

Impairment exists when the carrying value of an asset or cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs to sell and its value in use. The fair value less costs to sell calculation is based on available data from binding sales transactions, conducted at arm's length observable market prices less incremental costs for disposing of the asset. The value in use calculation is based on a discounted cash flow model. The Cash Flows are derived from the budget for the next five years and do not include restructuring activities that the Company is not yet committed to or significant future investments that will enhance the asset discount rate used for the discounted cash flow model as well as the expected future cash-inflows and the growth rate used for extrapolation purposes.

2.11.6 DEFERRED TAX ASSETS

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that future taxable profit will be available against which the losses can be utilised. Significant Management judgment is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and the level of future taxable profits together with future tax planning strategies.

2.11.7 DEFINED BENEFIT OBLIGATIONS

The cost of defined benefit plans are determined using actuarial valuations. An actuarial valuation involves making

various assumptions which may differ from actual developments in the future. These include the determination of the discount rate, future salary increases, mortality rates and future pension increases. Due to the complexity of the valuation and long-term nature, a defined benefit obligation is subject to significant uncertainty.

2.11.8 USEFUL ECONOMIC LIVES OF PROPERTY, PLANT & EQUIPMENT

The Company reviews the residual values useful lives and method of depreciation of property, plant & equipment at each reporting date. Judgment of the Management is exercised in the estimation of these values, rates, methods and hence, they are subject to uncertainty.

2.11.9 REVALUATION OF PROPERTY, PLANT & EQUIPMENT

The Company measures land and buildings at revalued amounts. The Company engaged an independent professional valuer to assess fair value of land and buildings as at 31 March 2015. The key assumptions used to determine the fair value of the land and buildings are provided in the Note 31.4 to the Financial Statements.

2.11.10 PROVISIONS FOR LIABILITIES, COMMITMENTS AND CONTINGENCIES

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

SIGNIFICANT ACCOUNTING POLICIES

The Accounting Policies set out below have been applied consistently to all periods presented in the Financial Statements, unless otherwise indicated.

3. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF ASSETS AND LIABILITIES

3.1 FINANCIAL INSTRUMENTS – INITIAL RECOGNITION, CLASSIFICATION AND SUBSEQUENT MEASUREMENT

3.1.1 DATE OF RECOGNITION

All financial assets and liabilities except 'regular way trades' are initially recognised on the trade date, i.e., the date that the Company becomes a party to the contractual provisions of the instrument.

'Regular way trades', means purchases or sales of financial assets that require delivery of assets within the time frame generally established by regulation or convention in the market place. Those trades are initially recognised on the settlement date.

3.1.2 INITIAL MEASUREMENT OF FINANCIAL INSTRUMENTS

The classification of financial instruments at initial recognition depends on their purpose and characteristics and the Management's intention in acquiring them. All financial instruments are measured initially at their fair value plus transaction costs, except in the case of financial assets and financial liabilities recorded at fair value through profit or loss as per the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instrument: Recognition and Measurement'.

Transaction cost in relation to financial assets and financial liabilities at fair value through profit and loss are dealt with through the Statement of Comprehensive Income.

3.1.2.1 'DAY 1' PROFIT OR LOSS

When the transactions price differs from the fair value of other observable current market transactions in the same instruments, or based on a valuation technique shows variables include only data from observable markets, the Company immediately recognises the difference between the transaction price and fair value (a 'Day1' profit or loss) in "interest income and personnel expenses". In cases where fair value is determined using data which is not observable, or when the instrument is recognised, The 'Day 1 loss' arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using 'Effective Interest Rates' (EIR) over the remaining service period of the employees or tenure of the loan whichever is shorter.

3.1.3 CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL ASSETS

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

- At fair value through profit or loss:
 - Held for trading or;
 - Designated at fair value through profit or loss;
- Loans and receivables;
- Held-to-maturity; or
- Available-for-sale

The subsequent measurement of financial assets depends on their classification.

Details on different types of financial assets recognised on the Statement of Financial Position are given in the Note 18 to the Financial Statements.

3.1.3.1 AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition at fair value through profit or loss which are discussed below:

3.1.3.1.1 HELD-FOR-TRADING

Financial assets are classified as held for trading if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. This category also includes derivative financial instruments entered into that are not designated as hedging instruments in hedge relationships as defined by the Sri Lanka Accounting Standard – LKAS 39 on ‘Financial Instruments: Recognition and Measurement’.

Financial assets held-for-trading are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised 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 Company has not designated any financial assets upon initial recognition as held for trading.

3.1.3.1.2 DESIGNATED AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial assets designated 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 and liabilities designated at fair value through profit or loss’. Interest earned is accrued in ‘interest income’, using the EIR, while dividend income is recorded in ‘other operating income’ when the right to receive the payment has been established.

The Company has not designed any financial assets upon initial recognition as at fair value through profit or loss.

3.1.3.2 LOANS AND RECEIVABLES

Loans and receivables include, loans and receivables, finance leases receivables, hire purchase receivables and placements with the bank.

Details of loans and receivables are given in following Notes to the Financial Statements:

Items	Note No.
Loans and receivables	23
Finance leases receivables	24
Hire purchase receivables	25
Placements with the bank	21

3.1.3.3 HELD-TO-MATURITY

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

The Company has not designated any financial instrument as held-to-maturity financial investment.

3.1.3.4 AVAILABLE-FOR-SALE FINANCIAL INVESTMENTS

Details of financial investments – available-for-sale are given in the Note 22 to the Financial Statements.

3.1.3.5 CASH AND CASH EQUIVALENTS

Details of cash and cash equivalents are given in the Note 20 to the Financial Statements.

3.1.4 CLASSIFICATION AND SUBSEQUENT MEASUREMENT OF FINANCIAL LIABILITIES

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

- At fair value through profit or loss
 - Held for trading; or
 - Designated at fair value through profit or loss
- At amortised cost

The subsequent measurement of financial liabilities depends on their classification.

Details on different types of financial liabilities recognised on the Statement of Financial Position are given in the Note 18 to the Financial Statements.

3.1.4.1 AT FAIR VALUE THROUGH PROFIT OR LOSS

Financial liabilities at fair value through profit or loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

The Company has not designated any financial liabilities upon initial recognition as at fair value through profit or loss.

3.1.4.2 FINANCIAL LIABILITIES AT AMORTISED COST

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under ‘due to customers’, ‘debt securities issued’ or ‘subordinated term debts’ as appropriate, where the substance of the contractual arrangement results in the Company 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 owned equity shares.

After initial recognition, such financial liabilities are subsequently measured at amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are an integral part of the EIR. The EIR amortisation is included in ‘interest expenses’ in the Statement of Comprehensive Income. Gains and losses too are recognised in the Statement of Comprehensive Income when the liabilities are derecognised as well as through the EIR amortisation process.

Details of financial liabilities at amortised cost are given in the following Notes to the Financial Statements:

Items	Note No.
Deposits due to customers	34
Debts instruments issued and other borrowings	35

3.1.5 RECLASSIFICATION OF FINANCIAL ASSETS AND LIABILITIES

Reclassifications are recorded at fair value at the date of reclassification, which becomes the new amortised cost.

For a financial asset reclassified out of the 'available-for-sale' category, any previous gain or loss on that asset that has been recognised in equity is amortised to profit or loss over the remaining life of the investment using the EIR. Any difference between the new amortised cost and the expected cash flows is also amortised over the remaining life of the asset using the EIR. If the asset is subsequently determined to be impaired, then the amount recorded in equity is recycled to the Statement of Comprehensive Income.

The Company may reclassify a non-derivative trading asset out of the 'held for trading' category and into the 'loans and receivables' category if it meets the definition of loans and receivables and the Company has the intention and ability to hold the financial asset for the foreseeable future or until maturity. If a financial asset is reclassified and if the Company subsequently increases its estimates of future cash receipts as a result of increased recoverability of those cash receipts, the effect of that increase is recognised as an adjustment to the EIR from the date of the change in estimate.

Reclassification is at the election of Management, and is determined on an instrument by instrument basis. The Company does not reclassify any financial instrument into the fair value through profit or loss category after initial recognition.

3.1.6 DERECOGNITION OF FINANCIAL ASSETS AND FINANCIAL LIABILITIES

3.1.6.1 FINANCIAL ASSETS

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

- The rights to receive cash flows from the asset have expired;
- The Company has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - The Company has transferred substantially all the risks and rewards of the asset; or

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

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

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

3.1.6.2 FINANCIAL LIABILITIES

A financial liability is derecognised when the obligation under the liability is discharged or cancelled or expires.

Where 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 recognised in the Statement of Comprehensive Income.

3.1.7 FAIR VALUE OF FINANCIAL INSTRUMENTS

Fair value measurement of financial instruments including the fair value hierarchy is explained in the Note 19 to the Financial Statements.

3.1.8 IDENTIFICATION AND MEASUREMENT OF IMPAIRMENT OF FINANCIAL ASSETS

The Company assesses at each reporting date, whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or a group of financial assets is deemed to be impaired if, and only if, there is objective evidence of impairment as a result of one or more events that have 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 reorganisation; 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.

In addition, for an investment in an equity security a significant or prolonged decline in its fair value below its cost is considered as an objective evidence of impairment.

3.1.8.1 IMPAIRMENT OF FINANCIAL ASSETS CARRIED AT AMORTISED COST

Details of the individual and collective assessment of impairments are given in the Note 10 to the Financial Statements.

3.1.8.2 IMPAIRMENT OF FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

For available-for-sale financial investments, the Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in equity through other comprehensive income is removed from equity and recognised in the Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in the other comprehensive income.

3.1.9 OFFSETTING OF FINANCIAL INSTRUMENTS

Financial assets and financial liabilities are offset and the net amount reported in the Statement of Financial Position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net

basis, or to realise the assets and settle the liabilities simultaneously. This is not generally the case with master netting agreements, therefore, the related assets and liabilities are presented gross in the Statement of Financial Position.

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

3.2 IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Company's non-financial assets, other than deferred tax assets are reviewed at each reporting date whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required, the Company estimates the asset's recoverable amount. An asset's recoverable amount is the higher of an asset's or cash-generating unit's fair value less costs to sell and its value in use. Where the carrying amount of an asset or cash-generating unit exceeds its recoverable amount, the asset is considered 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, an appropriate valuation model is used. These calculations are corroborated by valuation multiples, quoted share prices for publicly traded subsidiaries or other available fair value indicators. Impairment losses of continuing operations are recognised in the Statement of Comprehensive Income under those expense categories consistent with the function of the impaired asset, except for property previously revalued where the gain or loss on revaluation was taken to equity. In this case, the impairment is also recognised in equity upto the extent of any previously recognised revaluation gains.

For assets, an assessment is made at each reporting date as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Company estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss is reversed only if there has been a change in the assumptions

used to determine the asset's recoverable amount since the last impairment loss was recognised. 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/amortisation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Comprehensive Income.

3.3 LEASES

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 fulfilment of the arrangement is dependent on the use of a specific asset or assets and the arrangement conveys a right to use the asset.

3.3.1 OPERATING LEASES

3.3.1.1 OPERATING LEASES – COMPANY AS A LESSEE

Leases that do not transfer to the Company substantially all risks and benefits incidental to ownership of the leased assets are operating leases. Operating lease payments are recognised as an expense in the Statement of Comprehensive Income on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

The Company does not have any operating leases as a lessee.

3.3.1.2 OPERATING LEASES – COMPANY AS A LESSOR

Leases where the Company does not transfer substantially all risks and benefits of ownership of the asset are classified as operating leases.

Details of 'operating leases' are given in Notes 9, 26 and 31 to the Financial Statements.

3.3.2 FINANCE LEASES

3.3.2.1 FINANCE LEASES – COMPANY AS A LESSEE

Finance leases that transfer substantially all risks and benefits incidental to ownership of the leased item to the Company, are capitalised 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.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Company will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

The Company does not have any finance leases as a lessee.

3.3.2.2 FINANCE LEASES – COMPANY AS A LESSOR

When the Company is the lessor under finance leases the amounts due under the leases, after deduction of unearned charges, are included in 'finance leases receivables'. The finance income receivable is recognised in 'interest income' over the periods of the leases so as to give a constant rate of return on the net investment in the leases.

Details of 'finance leases receivables' are given in the Note 24 to the Financial Statements.

3.4 HIRE PURCHASE RECEIVABLE

Advances granted under agreements that transfer substantially all risks and rewards associated with ownership other than legal title, are classified as 'hire purchases receivables'.

Details of hire purchase receivables are given in the Note 25 to the Financial Statements.

3.5 PROPERTY, PLANT & EQUIPMENT

Details of property, plant & equipment are given in the Note 31 to the Financial Statements.

3.5.1 DEPRECIATION

Details of depreciation are given in the Note 12 to the Financial Statements.

3.6 INTANGIBLE ASSETS

Details of intangible assets are given in the Note 33 to the Financial Statements.

Amortisation recognised during the year in respect of intangible assets is included under the item of amortisation of intangible assets under depreciation and amortisation in the Statement of Comprehensive Income.

3.7 INVESTMENT PROPERTY

Details of investment property are given in the Note 30 to the Financial Statements.

3.8 PROVISIONS

When the Company has a present obligation (legal or constructive) as a result of a past event, where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and the Company can reliably estimate the amount of the obligation, we recognise it as a provision in accordance with LKAS 37 – ‘Provisions, Contingent Liabilities and Contingent Asset’.

3.9 BORROWING COST

Borrowing costs directly attributable to the acquisition, construction or production of a qualifying asset that necessarily takes

a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of the respective asset. All other borrowing costs are expensed in the period in which they occur. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

3.10 EMPLOYEE BENEFITS

3.10.1 DEFINED BENEFIT PLAN – GRATUITY

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan as defined in the Sri Lanka Accounting Standard – LKAS 19 on ‘Employee Benefits’.

Details of retirement benefit obligations are given in the Note 38 to the Financial Statements.

3.10.2 DEFINED CONTRIBUTION PLAN

Details of the defined contribution plans and amount recognised in the Statement of Comprehensive Income as expenses on defined contribution plans are given in the Note 11 to the Financial Statements.

4. SIGNIFICANT ACCOUNTING POLICIES – RECOGNITION OF INCOME AND EXPENSES

Details and recognition criteria of income and expenses are given in the Notes 6 to 13 to the Financial Statements.

4.1 INCOME TAX EXPENSES

Details of income tax expense are given in the Note 15 to the Financial Statements.

5. 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 preparing these Financial Statements. Accordingly, the following accounting standards have not been applied in preparing these Financial Statements and the Company plans to apply these standards on the respective effective dates.

Accounting standard	Requirement	Possible impact on the 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 and hedge accounting requirements. 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 1 January 2018.	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 9. Given the nature of the Company’s operations, this standard is expected to have a significant impact on the Company’s Financial Statements, since the calculation of impairment of financial instruments on an expected credit loss model is expected to result in an increase in the overall level of impairment allowances.
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 annual reporting periods beginning on or after 1 January 2017.	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 15.
SLFRS 16 – ‘Leases’	SLFRS 16 eliminates the classification of leases as either operating or finance for lessees and instead, introduce single lessee accounting model. This model reflects that leases result in a company obtaining the right to use an asset at the start of the lease and, because most lease payments are made over time, also obtaining financing. As a result, the new standard requires lessees to account for all of their leases in a manner similar to how finance leases were treated applying LKAS 17. SLFRS 16, supersedes the requirement in LKAS 17 leases and will become effective on 1 January 2019.	The Company is assessing the potential impact on its Financial Statements resulting from the application of SLFRS 16.

The following new Accounting Standards are not expected to have a significant impact on the Financial Statements of the Company.

- Regulatory deferral assets (SLFRS 14) – effective date – 1 January 2016.

Notes to the Financial Statements

6. GROSS INCOME

ACCOUNTING POLICY

Revenue is recognised to the extent that it is probable that the economic benefits will flow to the Company and such revenue can be reliably measured. The specific recognition criteria is given under the respective income notes.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Interest income (Note 7.1)	4,301,828	4,129,395
Fee and commission income (Note 8)	58,927	47,554
Other operating income (Note 9)	139,520	109,339
Total	4,500,275	4,286,288

7. NET INTEREST INCOME

ACCOUNTING POLICY

RECOGNITION OF INCOME AND EXPENSE

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

The calculation takes into account all contractual terms of the financial instrument (for example, pre-payment options) and includes any fees or incremental costs that are directly attributable to the instrument and are an integral part of the EIR, but not future credit losses.

The carrying amount of the financial asset or financial liability is adjusted if the Company revises its estimates of payments or receipts. The adjusted carrying amount is calculated based on the original EIR and the change in carrying amount is recorded as 'interest and similar income' for financial assets and 'interest and similar expense' for financial liabilities.

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 recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Discounts/premium on Treasury Bills and Treasury Bonds are amortised over the period to reflect a constant periodic rate of return. The coupon interest on Treasury Bonds is recognised on an accrual basis. The interest income on securities purchased under resale agreements is recognised in the Statement of Comprehensive Income on an accrual basis over the period of the agreement.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
7.1 INTEREST INCOME		
Income from finance lease	1,317,611	936,682
Income from hire purchase	1,459,426	1,696,824
Income from other loans and receivables	1,395,042	1,366,234
Income from Treasury Bills and Bonds	98,809	92,161
Income from fixed deposits	30,940	37,494
Total	4,301,828	4,129,395
7.2 INTEREST EXPENSE		
Interest on fixed deposits	1,423,019	1,448,536
Interest on savings deposits	3,492	2,548
Interest on certificate of deposits	2,165	5,237
Interest on bank overdraft	23,845	22,687
Interest on debts securities	8,311	34,315
Interest on bank and securitised borrowings	637,546	434,460
Total	2,098,378	1,947,783
Net interest income	2,203,450	2,181,612

8. FEE AND COMMISSION INCOME

ACCOUNTING POLICY

The Company earns fee and commission income from a diverse range of services it provides to its customers. Fee income can be divided into the following two categories:

FEE INCOME EARNED FROM SERVICES THAT ARE PROVIDED OVER A CERTAIN PERIOD OF TIME

Fees earned for the provision of services over a period of time are accrued over that period. These fees include commission income and asset management, custody and other management and advisory fees.

FEE INCOME FROM PROVIDING TRANSACTION SERVICES

Fees arising from negotiating or participating in the negotiation of a transaction for a third party, such as the purchase or sale of business is recognised on completion of the underlying transaction. Fees or components of fees that are linked to a certain performance are recognised after fulfilling the corresponding criteria.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Service charges	58,927	47,554
Total	58,927	47,554

9. OTHER OPERATING INCOME

ACCOUNTING POLICY

OTHER INCOME

Other income is recognised on an accrual basis.

DIVIDEND INCOME

Dividend income is recognised when the Company's right to receive the payment is established.

GAIN OR LOSSES ON DISPOSAL OF PROPERTY, PLANT & EQUIPMENT, INVESTMENTS IN GOVERNMENT SECURITIES, DEALING SECURITIES AND INVESTMENT SECURITIES

Gains or losses resulting from the disposal of property, plant & equipment, investments in Government Securities, Dealing Securities and Investment Securities are accounted for on cash basis in the Statement of Comprehensive Income, in the period in which the sale occurs.

RECOVERY OF BAD AND DOUBTFUL DEBTS WRITTEN OFF

Recovery of amounts written off as bad and doubtful debts is recognised on a cash basis.

OPERATING LEASE RENTAL INCOME

Income arising on operating leases is accounted for on a straight line basis over the lease terms on ongoing leases.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Capital gain from sale of quoted shares and Treasury Bonds	5,143	13,049
Dividend income	103,072	91,843
Rent income	14,842	9,986
Profit/(loss) from engineering workshop and service station	(6,683)	(10,597)
Profit/(loss) on disposal of property, plant & equipment	9,490	(6,989)
Operating lease rental income	3,785	2,926
Other income	4,553	4,477
Bad debts recovered	5,318	4,275
Profit/(loss) from loss of control over associate company	—	369
Total	139,520	109,339

10. IMPAIRMENT CHARGE/(REVERSAL) FOR LOANS AND RECEIVABLES

ACCOUNTING POLICY

The Company recognises the changes in the impairment provisions for loans and receivables which are assessed as per the LKAS 39 – 'Financial Instruments – Recognition and Measurement'. The methodology adopted by the Company is explained below:

INDIVIDUAL ASSESSMENT OF IMPAIRMENT

Individual assessment of impairment for financial assets carried at amortised cost (such as loans and advances to customers, finance leases and hire purchase receivable), the Company 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. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

If there is objective evidence that an impairment loss has been incurred, the amount of the loss is measured as the difference between the asset's 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 a provision account and the amount of impairment loss is recognised in Statement of Comprehensive Income. Interest income continues to be accrued and recorded in 'interest income' on the reduced carrying amount/impaired balance and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The present value of the estimated future cash flows is discounted at the financial asset's original EIR. The calculation of the present value of the estimated future cash flows of collateralised financial asset, reflects the cash flows that may result from foreclosure less costs for obtaining and selling the collateral, whether or not foreclosure is probable.

Loans together with the associated impairment provision are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Company. If, in a subsequent year, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the provision account. If a future write-off is later recovered, the recovery is credited to 'other income'.

COLLECTIVE ASSESSMENT OF IMPAIRMENT

If the Company 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.

For the purpose of a collective evaluation of impairment, financial assets are grouped on the basis of the Company's internal credit grading system, that considers credit risk characteristics such as asset type, industry, geographical location, collateral type, past-due status and other relevant factors.

Future cash flows on a group of financial assets that are collectively evaluated for impairment, are estimated on the basis of historical loss experience for assets with credit risk characteristics similar to those in the Company. Historical loss experience is adjusted on the basis of current observable data to reflect the effects of current conditions on which the historical loss experience is based and to remove the effects of conditions in the historical period that do not exist currently. Estimates of changes in future cash flows reflect and are directionally consistent with changes in related observable data from year-to-year such as changes in:

- Changes in unemployment rate
- Property prices
- Commodity prices
- Payment status
- Growth in gross domestic production (GDP)
- Inflation rates
- Changes in laws and regulations
- Interest rates
- Recent lending portfolio growth and product mix

The methodology and assumptions used for estimating provision for impairment including assumptions for projecting future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

IMPAIRMENT OF RESCHEDULED LOANS AND ADVANCES

Where possible, the Company seeks to reschedule loans and advances rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. In case of individually significant rescheduled credit facilities, once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan/advance is no longer considered past due. The Management continually reviews renegotiated loans and advances to ensure that all criteria are met and that future repayments are likely to occur.

COLLATERAL VALUATION

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The fair value of collateral is generally assessed, at a minimum at inception and based on the Company's annual reporting schedule.

To the extent possible, the Company uses active market data for valuing financial assets, held as collateral. Other financial assets which do not have a readily determinable market value are valued using models. Non-financial collaterals such as motor vehicles, real estate are valued based on data provided by third parties such as valuers and other independent sources.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Charge/(reversal) to the Statement of Comprehensive Income on impairment		
- Loans and receivables (Note 23.4)	198,289	27,048
- Finance leases receivables (Note 24.4)	49,100	78,779
- Hire purchase receivables (Note 25.4)	(12,573)	189,914
Total	234,816	295,741

11. PERSONNEL EXPENSES**ACCOUNTING POLICY**

Personnel expenses include salaries and bonus, terminal benefit charges and other related expenses.

BONUS

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 the obligation.

DEFINED CONTRIBUTION PLANS – EMPLOYEES' PROVIDENT FUND (EPF) AND EMPLOYEES' TRUST FUND (ETF)

A defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity (a fund) and will have no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employee benefits relating to employee service in the current and prior periods as defined in the Sri Lanka Accounting Standard LKAS 19 – 'Employee Benefits'.

The contribution payable to a defined contribution plan is in proportion to the services rendered to the Company by the employees and is recorded as an expense when they become due. Unpaid contributions are recorded as a liability.

The Company and the employees contribute 14% and 8% respectively on the salary of each employee to the Employees' Provident Fund where as the Company contributes 3% of the salary to the Employees' Trust Fund.

DEFINED BENEFIT PLAN – GRATUITY

Defined benefit plan contribution are recognised in the Statement of Comprehensive Income based on an actuarial valuation carried out for the gratuity liability in accordance with LKAS 19 – 'Employee Benefits'.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Salary and bonus	419,724	349,696
Employer's contribution to EPF	51,815	35,233
Employer's contribution to ETF	11,036	8,818
Defined benefit plan (Note 38)	23,456	21,267
Other allowances and staff-related expenses	25,998	22,614
Total	532,029	437,628

12. DEPRECIATION AND AMORTISATION

ACCOUNTING POLICY

DEPRECIATION OF PROPERTY, PLANT & EQUIPMENT

Depreciation is recognised in the Statement of Comprehensive Income on a straight-line basis over the estimated useful lives of each part of an item of property and equipment since this method most closely reflects the expected pattern of consumption of the future economic benefits embodied in the asset. Freehold land is not depreciated. The estimated useful lives are as follows:

Class of assets	Depreciation % per annum	Estimated useful life
Buildings	1.33 – 2.5	40 – 75 Years
Plant and machinery	20	5 Years
Computer equipment	25	4 Years
Office equipment	10	10 Years
Furniture and fittings	10	10 Years
Fixtures	10	10 Years
Motor vehicles	10 – 16.67	6 – 10 Years
Office bicycles	10	10 Years
Tools	25	4 Years

The depreciation rates are determined separately for each significant part of an item of property, plant & equipment and commence to depreciate when it is available for use, i.e., when it is in the location and condition necessary for it to be capable of operating in the manner intended by the management.

Depreciation of an asset ceases at the earlier of the date that the asset is classified as held-for-sale or the date that the asset is derecognised. Depreciation methods, useful lives and residual values are reassessed at each reporting date and adjusted if appropriate all classes of property, plant & equipment together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and at the end of the year are given in the Note 31 to the Financial Statements.

DEPRECIATION OF INVESTMENT PROPERTY

Investment property includes lands and buildings. Depreciation on buildings is recognised on a straight line basis over the estimated useful life of 40-75 years.

AMORTISATION OF INTANGIBLE ASSETS

Intangible assets are amortised using the straight line method to write-down the cost over its estimated useful economic lives as given below:

Class of assets	Depreciation % per annum	Estimated useful life
Computer software	20% – 50%	2 – 5 Years

The unamortised balances of intangible assets with finite lives are reviewed for impairment whenever there is an indication for impairment and recognised as expenses in the Statement of Comprehensive Income to the extent that they are no longer probable of being recovered from the expected future benefits.

The reconciliation of carrying amounts and accumulated amortisation and impairment at the beginning and end of the year are given in the Note 33 to the Financial Statements.

AMORTISATION OF LEASEHOLD PROPERTY

Leasehold property includes a land on 99 years lease which is amortised over the lease period using the straight line method.

For the year ended 31 March	2016 Rs. '000	2015 Rs. '000
Depreciation of investment property (Note 30)	2,435	–
Depreciation of property, plant & equipment (Note 31)	46,642	82,522
Amortisation of leasehold property (Note 32)	468	468
Amortisation of intangible assets (Note 33)	449	3,906
Total	49,994	86,896

The Company has reviewed the residual value and the useful lives of the assets as at 31 March 2016. As a result of the reassessment, the depreciation charge for the current/future periods has been reduced to Rs. 46,266,837/-. Had the assets been carried at the original residual values and the useful lives, the depreciation charge would have been Rs. 72,569,399/-.

13. OTHER OPERATING EXPENSES

ACCOUNTING POLICY

Other operating expenses are recognised in the Statement of Comprehensive Income 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 Comprehensive Income in arriving at the profit for the year.

CROP INSURANCE LEVY (CIL)

As per the provision of Section 14 of the Finance Act No. 12 of 2013, the CIL was introduced with effect from 1 April 2013 and is payable to the National Insurance Trust Fund.

Currently, the CIL is payable at 1% of the profit after tax and amount relevant for the year is accounted under 'others' category of other operating expense.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Directors' emoluments (Note 13.1)	53,628	55,063
Auditors' remuneration	1,430	1,400
Professional and legal expenses	13,776	16,027
Advertising and business promotion expenses	84,627	50,290
Insurance premium	33,946	29,681
Donations	6,064	1,186
Office and building maintenance	36,413	29,974
Computer equipment maintenance	12,141	8,653
Penalties	600	–
Others	490,373	407,951
Total	732,998	600,225

13.1. DIRECTORS' EMOLUMENTS

Directors' emoluments represents the fees, salaries and allowances paid to both Executive and Non-Executive Directors of the Company.

13.2 PENALTIES

This comprise only "penalties imposed by the Central Bank of Sri Lanka" for exceeding the investment limits stipulated in the Finance Companies (investments) Direction No. 7 of 2006 and for the delay in submission of a weekly return.

14. SHARE OF ASSOCIATES COMPANY'S PROFIT AFTER TAXATION

ACCOUNTING POLICY

Investment in associates are accounted by using the equity method in terms of the Sri Lanka Accounting Standard – LKAS 28 – 'Investment in Associate and Joint Ventures'.

The Company's share of profit or loss of an associate is recognised in the Statement of Comprehensive Income.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Nuwara Eliya Hotels Co. PLC (Note 29.1)	91,675	113,795
Total	91,675	113,795

15. INCOME TAX EXPENSES

ACCOUNTING POLICY

As per the Sri Lanka Accounting Standard – LKAS 12 on 'Income Taxes', tax expense (tax income) is the aggregate amount included in determination of profit or loss for the period in respect of current and deferred taxes. Income tax expense is recognised in the Statement of Comprehensive Income except to the extent it relates to items recognised directly in equity or in other comprehensive income (OCI), in which case it is recognised in equity or in OCI.

CURRENT TAXATION

Current tax assets and liabilities consist of amounts expected to be recovered from or paid to the taxation authorities in respect of the current as well as prior years. The tax rates and tax laws used to compute the amounts are those that are enacted or substantially enacted at the reporting date. Accordingly, provision for taxation is made on the basis of the accounting profit for the year as adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and the amendments thereto.

DEFERRED TAXATION

Detailed disclosure of accounting policies and estimate of deferred tax are available in the Note 37 to the Financial Statements.

VALUE ADDED TAX ON FINANCIAL SERVICES

The base for the computation of value added tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of value added tax charged in determining the profit or loss for the period is given in the Statement of Comprehensive Income on page 352.

NATION BUILDING TAX ON FINANCIAL SERVICES

The base for the computation of nation building tax on financial services is the accounting profit before emoluments paid to employees and income tax, which is adjusted for the depreciation computed on prescribed rates. The amount of nation building tax charged in determining the profit or loss for the period is given in the Statement of Comprehensive Income on page 352.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Income tax expenses on profit for the year (Note 15.1)	161,946	174,607
(Over)/under provision in respect of previous year	29,270	19,059
Deferred tax (reversal)/charged (Note 37)	106,410	86,946
Total	297,626	280,612

15.1 RECONCILIATION OF ACCOUNTING PROFIT TO INCOME TAX EXPENSE

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Profit before tax	802,645	911,884
Add: Tax effect on non-deductible expenses	2,861,589	1,851,827
Less: Tax effect on deductible expenses	(3,039,328)	(2,060,544)
Tax effect on exempt income/profit	(108,215)	(114,169)
Assessable income	516,691	588,998
Taxable income	516,691	588,998
Income tax expense @ 28%	144,674	164,919
Share of income tax of associates (Note 29.1)	17,272	9,688
	161,946	174,607
Effective tax rate (excluding deferred tax)	20.18%	19.15%

The Company is liable for income tax at 28% on the taxable income for the current year (2015 – 28%).

The Company has taken into account the full benefit of capital allowances arising in terms of Section 23 of the Inland Revenue Act No. 10 of 2006 and amendments thereto in determining the taxation on profits for the year.

The Company's land and buildings have been revalued in the financial year 2014/15 resulting in book values being written up by Rs. 261,556,000/- of which Rs. 190,623,000/- is related to land and this surplus if realised would not be liable to income tax.

15.2. NOTIONAL TAX CREDIT FOR WITHHOLDING TAX ON GOVERNMENT SECURITIES ON SECONDARY MARKET TRANSACTIONS

The Inland Revenue Act No. 10 of 2006 and the amendments thereto, provide that a Company which earns interest income from the secondary market transaction in Government Securities (earned on or after 1 April 2002) would be entitled to a notional tax credit (being one-ninth of the net interest income), provided such interest income forms part of statutory income of the Company for that year of assessment.

Accordingly, the net interest income earned by the Company on the secondary market transaction in Government Securities for the year, has been grossed up in the Financial Statements and the resulting notional tax credit amounted to Rs. 9,880,879/- (Rs. 10,329,630/- in 2015).

16. BASIC/DILUTED EARNINGS PER ORDINARY SHARE

ACCOUNTING POLICY

Basic earnings per share is calculated by dividing the net profit for the year attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year, as required by the LKAS No. 33 on Earning Per Share. The weighted average number of ordinary shares outstanding during the year and the previous year are adjusted for events that have changed the number of ordinary shares outstanding, without a corresponding change in the resources such as a bonus issue.

Diluted earnings per share is calculated by dividing the net profit attributable to ordinary shareholders by the weighted average number of ordinary shares outstanding during the year (adjusted for the effects all dilutive potential ordinary shares).

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Amount used as the numerator		
Net profit attributable to equity holders of the Company	505,019	631,272
Net profit attributable to equity holders of the Company for basic and diluted earnings per share	505,019	631,272

	Nos. '000	Nos. '000
Number of ordinary shares used as the denominator		
Weighted average number of ordinary shares	3,006	3,006
Weighted average number of ordinary shares used for basic and diluted earnings per share	3,006	3,006
Basic earnings per share (Rs.)	168.00	210.00
Diluted earnings per share (Rs.)	168.00	210.00

17. DIVIDEND PER ORDINARY SHARE

ACCOUNTING POLICY

Provision for final dividends is recognised at the time the dividend recommended and declared by the Board of Directors, is approved by the shareholders. Interim dividend payable is recognised when the Board approves such dividend in accordance with the Companies Act No. 7 of 2007.

<i>For the year ended 31 March</i>	2016			2015		
	Gross dividend Rs. '000	Dividend tax Rs. '000	Net dividend Rs. '000	Gross dividend Rs. '000	Dividend tax Rs. '000	Net dividend Rs. '000
1st Interim Dividend						
Out of dividend received – free of tax	21,042	–	21,042	7,515	–	7,515
Out of Normal Profits	–	–	–	–	–	–
Total Dividend	21,042	–	21,042	7,515	–	7,515
2nd Interim Dividend						
Out of dividend received – free of tax	–	–	–	51,102	–	51,102
Out of normal profits	–	–	–	–	–	–
Total dividend	–	–	–	51,102	–	51,102
Total	21,042	–	21,042	58,617	–	58,617
Dividend per ordinary share (Rs.)	7.00			19.50		

18. 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 the classes of financial instruments are measured and how income and expense, including fair value gains and losses are recognised. The following table analyses the carrying amounts of the financial instruments by category as defined in LKAS 39 – 'Financial Instruments: Recognition and Measurement' and by headings of the Statement of Financial Position.

18.1 ANALYSIS OF FINANCIAL INSTRUMENT BY MEASUREMENT BASIS AS AT 31 MARCH 2016

	Held for trading (HFT) Rs. '000	Held-to-maturity (HTM) Rs. '000	Loans and receivables (L & R) Rs. '000	Available-for-sale (AFS) Rs. '000	Total Rs. '000
Assets					
Cash and cash equivalents	–	–	344,062	–	344,062
Placements with bank	–	–	464,984	–	464,984
Financial investments – available-for-Sale	–	–	–	4,641,115	4,641,115
Loans and receivables	–	–	8,302,333	–	8,302,333
Finance leases Receivables	–	–	9,925,519	–	9,925,519
Hire purchase receivables	–	–	6,825,676	–	6,825,676
Other financial assets	–	–	110,440	–	110,440
Total financial assets	–	–	25,973,014	4,641,115	30,614,129

	Fair value through profit or loss (FVTPL) Rs. '000	At amortised cost Rs. '000	Total Rs. '000
Financial Liabilities			
Bank overdraft	–	412,472	412,472
Deposits due to customers	–	15,815,590	15,815,590
Debt instruments issued and other borrowed funds	–	8,527,169	8,527,169
Other financial liabilities	–	1,052,327	1,052,327
Total financial liabilities	–	25,807,558	25,807,558

18.2 ANALYSIS OF FINANCIAL INSTRUMENT BY MEASUREMENT BASIS AS AT 31 MARCH 2015

	Held for trading (HFT) Rs. '000	Held-to-maturity (HTM) Rs. '000	Loans and receivables (L & R) Rs. '000	Available-for-sale (AFS) Rs. '000	Total Rs. '000
Financial Assets					
Cash and cash equivalents	–	–	406,648	–	406,648
Placements with bank	–	–	438,372	–	438,372
Financial investments – available-for-sale	–	–	–	5,142,273	5,142,273
Loans and receivables	–	–	6,660,003	–	6,660,003
Finance leases receivables	–	–	5,409,676	–	5,409,676
Hire purchase receivables	–	–	7,398,614	–	7,398,614
Other financial assets	–	–	97,711	–	97,711
Total financial assets	–	–	20,411,025	5,142,273	25,553,298

	Fair value through profit or loss (FVTPL) Rs. '000	At amortised cost Rs. '000	Total Rs. '000
Financial Liabilities			
Bank overdraft	–	272,634	272,634
Deposits due to customers	–	13,720,729	13,720,729
Debt instruments issued and other borrowed funds	–	5,682,640	5,682,640
Other financial liabilities	–	561,318	561,318
Total financial liabilities	–	20,237,321	20,237,321

19. FAIR VALUE MEASUREMENT

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The Company uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs. External valuers are involved for valuation of significant assets such as properties.

19.1. DETERMINATION OF FAIR VALUE AND FAIR VALUE HIERARCHY

For all financial instruments where fair values are determined by referring to externally quoted price or observable pricing inputs to models, independent price determination or validation is obtained. In an inactive market, direct observation of a trade price may not be possible. In these circumstances the Company uses alternative market information to validate the financial instrument's fair value with greater weight given to information that is considered to be more relevant and reliable.

All assets and liabilities for which fair value is measured or disclosed in the Financial Statements are categorised using the following fair value hierarchy, which reflects the significance of the inputs used in the fair value measurement.

FAIR VALUES HIERARCHY

- Level 1 - Quoted market price (unadjusted): financial instruments with the quoted prices in active markets.
- Level 2 - Valuation technique using observable inputs: financial instruments with quoted prices for similar instruments in active markets or quoted prices for identical or similar instruments in inactive markets and financial instruments are valued using models where all significant inputs are observable.
- Level 3 - Valuation techniques with significant unobservable inputs: financial instruments are valued using valuation techniques where one or more significant inputs are unobservable.

19.2. VALUATION FRAMEWORK

The Company has established control framework with respect to the measurement of fair values of all significant assets and liabilities.

SPECIFIC CONTROLS INCLUDE

- * Review and approval process for significant judgments and assumptions
- * Periodic review of fair value measurements against observable market data

19.3 ASSETS AND LIABILITIES MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY

The following table provides an analysis of assets and liabilities measured at fair value as at the reporting date, by the level in the fair value hierarchy into which the fair value measurement is categorised. These amount were based on the values recognised in the Statement of Financial Position.

As at 31 March	2016				2015			
	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Non-Financial Assets								
Property, plant & equipment								
Land and buildings (Note 19.3.1)	–	–	1,444,100	1,144,100	–	–	1,144,100	1,144,100
	–	–	1,444,100	1,144,100	–	–	1,144,100	1,144,100
Financial Assets								
Financial investments – available-for-sale								
Quoted investments	3,292,519	–	–	3,292,519	3,913,847	–	–	3,913,847
Unquoted investments (Note 19.3.2)	–	–	70,427	70,427	–	–	70,427	70,427
Government debt securities	1,267,769	–	–	1,267,769	1,147,299	–	–	1,147,299
Corporate debts securities	10,400	–	–	10,400	10,700	–	–	10,700
	4,570,688	–	70,427	4,641,115	5,071,846	–	70,427	5,142,273

19.3.1 The fair value of the land & buildings are based on the valuation done by professionally qualified independent professional valuer on 31 March 2015 and there is no material change in the fair values as at 31 March 2016 as per the Management judgment.

19.3.2 Value of unquoted shares as at 31 March 2016 categorised under financial investments available-for-sale whose fair values cannot be reliably measured is stated at cost in the Statement of Financial Position as permitted by the Sri Lanka Accounting Standard – LKAS 39 on 'Financial Instruments: Recognition and Measurement'.

19.3.3 SIGNIFICANT UNOBSERVABLE INPUTS USED IN LEVEL 3 MEASUREMENT

Note 31.4 to the Financial Statements provides information on significant unobservable inputs used in measuring fair value of land and buildings categorised as Level 3 in the fair value hierarchy.

There were no transfer between Level 1 and Level 2 during the year 2015 and 2016.

19.4 FINANCIAL INSTRUMENTS NOT MEASURED AT FAIR VALUE AND FAIR VALUE HIERARCHY

The methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Statement of Financial Position are as follows:

19.4.1 ASSETS FOR WHICH FAIR VALUE APPROXIMATES CARRYING VALUE

For financial assets and liabilities that have a short-term maturity it is assumed that carrying amount approximate their fair value. This assumption is also applied to savings accounts which doesn't have specific maturity.

19.4.2 FIXED RATE FINANCIAL INSTRUMENTS

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated based on the Discounted Cash Flow approach. This approach employs the current market interest rate of similar financial instruments as a significant unobservable input in measuring the fair value and accordingly categorised under Level 3 in the fair value hierarchy.

19.4.3 SENSITIVITY OF SIGNIFICANT UNOBSERVABLE INPUTS USED TO MEASURE FAIR VALUE OF FIXED RATE FINANCIAL INSTRUMENTS

A significant increase/(decrease) in the market interest rate would result in lower/(higher) fair value being disclosed.

19.4.4 The following table shows the fair values of financial assets and liabilities not measured at fair value and related fair value hierarchy:

As at 31 March	2016					2015				
	Level 1	Level 2	Level 3	Total fair value	Total carrying amount	Level 1	Level 2	Level 3	Total fair value	Total carrying amount
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets										
Cash and cash equivalents	–	–	–	344,062	344,062	–	–	–	406,648	406,648
Placement with banks	–	–	–	464,984	464,984	–	–	–	438,372	438,372
Loans and receivables	–	–	8,376,878	8,376,878	8,302,323	–	–	6,968,939	6,968,939	6,660,003
Finance leases receivables	–	–	9,843,026	9,843,026	8,925,519	–	–	5,585,407	5,585,407	5,409,676
Hire purchase receivables	–	–	6,780,973	6,780,973	6,825,676	–	–	7,786,330	7,786,330	7,398,614
Other financial assets	–	–	110,440	110,440	110,440	–	–	97,711	97,711	97,711
Total financial assets	–	–	25,111,317	25,920,363	25,973,014	–	–	20,438,387	21,285,407	20,411,024
Financial Liabilities										
Bank overdraft	–	–	–	412,472	412,472	–	–	–	272,634	272,634
Deposits due to customers	–	–	15,737,921	15,737,921	15,815,590	–	–	13,785,957	13,785,957	13,720,729
Borrowings	–	–	8,527,169	8,527,169	8,527,169	–	–	5,682,640	5,682,640	5,682,640
Other financial liabilities	–	–	1,052,327	1,052,327	1,052,327	–	–	561,318	561,318	561,318
Total financial liabilities	–	–	25,317,417	25,729,889	25,807,558	–	–	20,029,915	20,302,549	20,237,321

19.5. RECLASSIFICATION OF FINANCIAL ASSETS

There have been no reclassification during the year 2015 and 2016.

20. CASH AND CASH EQUIVALENTS

ACCOUNTING POLICY

Cash and cash equivalents comprise cash in hand, balances with banks, money at call and short notice that are subject to an insignificant risk of changes in their value. Cash and cash equivalents are carried at amortised cost in the Statement of Financial Position.

There were no cash and cash equivalents held by the Company that were not available for use by the Company.

Details of cash and cash equivalents in the Statement of Financial Position are given below:

As at 31 March	2016 Rs. '000	2015 Rs. '000
Cash in hand	239,161	256,061
Balances with the banks	104,901	150,587
Total	344,062	406,648

As at 31 March 2016, the Company had available Rs. 714 million (2015 – Rs. 876 million) of undrawn committed borrowing facilities.

21. PLACEMENT WITH BANKS

ACCOUNTING POLICY

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

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Fixed Deposits	464,984	438,372
Total	464,984	438,372

22. FINANCIAL INVESTMENTS – AVAILABLE-FOR-SALE

ACCOUNTING POLICY

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

The Company has not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value.

Unrealised gains and losses are recognised directly in equity through other comprehensive income in the 'available-for-sale reserve'. When the financial investment is disposed of, the cumulative gain or loss previously recognised in equity is recognised in the Statement of Comprehensive Income in 'other operating income'. Where the Company holds more than one investment in the same security, they are deemed to be disposed of on a first in first out basis. 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 recognised in the Statement of Comprehensive Income as 'other operating income' when the right of the payment has been established. The losses arising from impairment of such investments are recognised in the Statement of Comprehensive Income 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 Company assesses at each reporting date whether there is objective evidence that an investment is impaired.

In the case of equity investments classified as available-for-sale, objective evidence would also include a 'significant' or 'prolonged' decline in the fair value of the investment below its cost. The Company treats 'significant' generally as 20% and 'prolonged' generally as greater than six months. Where there is evidence of impairment, the cumulative loss measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in equity through other comprehensive income is removed from equity and recognised in the Statement of Comprehensive Income. Increases in the fair value after impairment are recognised in other comprehensive income.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Government Securities and Quoted Investments		
Government debt securities	1,267,769	1,147,299
Equities (Note 22.1)	3,292,519	3,913,847
Corporate debt securities (Note 22.2)	10,400	10,700
	4,570,688	5,071,846
Unquoted Investments		
Equities (Note 22.3)	70,427	70,427
	70,427	70,427
Total financial investments – available-for-sale	4,641,115	5,142,273

22.1 EQUITIES (QUOTED)

As at 31st March	2016			2015		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
Banks, Finance and Insurance						
Commercial Bank of Ceylon PLC	10,509,737	1,335,963	1,318,972	10,405,566	1,317,233	1,721,081
Lanka Orix Finance PLC	100,000	1,213	280	100,000	1,213	370
LB Finance PLC	1,746,148	161,810	185,266	953,600	176,735	143,231
Sampath Bank PLC	22,020	6,065	4,977	21,458	5,949	5,410
Singer Finance PLC	400,000	19,351	7,240	400,000	19,351	7,320
Vallibel Finance PLC	50,000	2,463	2,685	50,000	2,463	2,250
		1,526,865	1,519,420		1,522,944	1,879,662
Diversified Holdings						
Aitken Spence & Co. PLC	15,000	343	1,103	15,000	343	1,493
John Keells Holding PLC	1,150,019	243,096	170,203	1,006,267	243,096	200,650
Richard Pieris & Co. PLC	16,035,995	96,582	115,459	16,035,995	96,582	118,666
Vallibel One PLC	5,176,000	144,896	92,133	5,176,000	144,896	105,073
		484,917	378,898		484,917	425,882
Hotels and Travels						
Amaya Leisure PLC	903,000	56,660	54,632	860,000	56,488	61,490
Eden Hotels PLC	1,049,600	17,738	16,794	1,049,600	17,738	22,042
Fortress Resource PLC	100,000	2,844	1,300	100,000	2,844	1,520
Hotel Sigiriya PLC	38,900	1,620	3,734	38,900	1,620	3,419
John Keells Hotels PLC	13,000,000	209,107	156,000	13,000,000	209,107	185,900
Light House Hotels PLC	7,736,677	224,407	409,270	7,736,677	224,407	464,201
Mahaweli Reach Hotel PLC	507,000	20,467	11,458	507,000	20,467	10,647
Palm Garden Hotel PLC	200,000	25,913	5,980	200,000	25,913	9,180
Royal Palms Beach Hotels PLC	8,576,700	124,582	261,589	8,576,700	124,582	308,761
Tangerine Beach Hotels PLC	3,899,644	26,343	260,106	3,899,644	26,343	308,072
		709,681	1,180,863		709,509	1,375,232
Investment Trust						
Lanka Century Investments PLC	61,800	7,157	618	61,800	7,157	834
		7,157	618		7,157	834
Manufacturing						
Royal Ceramic PLC	550,000	89,930	55,055	550,000	89,930	61,050
		89,930	55,055		89,930	61,050
Power and Energy						
Lanka IOC PLC	118,500	5,308	3,851	118,500	5,308	4,776
		5,308	3,851		5,308	4,776
Land and Property Development						
East West Properties PLC	50,000	2,471	675	50,000	2,471	600
Seylan Development PLC	375,000	4,607	4,575	375,000	4,607	4,950
		7,078	5,250		7,078	5,550
Motor						
United Motors PLC	150,000	18,701	12,450	150,000	18,701	13,215
		18,701	12,450		18,701	13,215
Telecommunication						
Dialog Axiata PLC	11,000,000	118,130	112,200	11,000,000	118,130	114,400
		118,130	112,200		118,130	114,400

As at 31st March	2016			2015		
	No. of shares	Cost Rs. '000	Market value Rs. '000	No. of shares	Cost Rs. '000	Market value Rs. '000
Construction and Engineering						
Colombo Dockyard PLC	161,000	44,966	17,404	161,000	44,966	26,646
		44,966	17,404		44,966	26,646
Trading						
Odel PLC	300,000	11,943	6,510	300,000	11,943	6,600
		11,943	6,510		11,943	6,600
Total		3,024,676	3,292,519		3,020,583	3,913,847
22.2 CORPORATE DEBT SECURITIES						
Debentures – Sampath Bank PLC		10,000	10,400		10,000	10,700
Total		10,000	10,400		10,000	10,700
22.3 EQUITIES (NON-QUOTED)						
Security Ceylon (Pvt) Limited	250	200	200	250	200	200
Credit Bureau of Sri Lanka	269	27	27	269	27	27
Finance Houses Consortium	20,000	200	200	20,000	200	200
Fair View Hotels (Pvt) Limited	7,000,000	70,000	70,000	7,000,000	70,000	70,000
Total		70,427	70,427		70,427	70,427

All unquoted available-for-sale equity investments are recorded at cost since the fair value of these investments cannot be reliably measured.

There is no market for these investments and Company intends to hold them in the long-term.

Investment in ordinary shares of Commercial Bank of Ceylon PLC as at 31 March 2016 represents 17% of the capital funds of the Company as shown in the last audited Statement of Financial Position which exceeded the limit of 5% stipulated in the Section 2 (ii) of Finance Companies (Investments) Direction No. 07 of 2006 issued by the Central Bank of Sri Lanka.

Further, aggregate amount invested in ordinary shares of quoted, unquoted and associate companies represents 41% of the capital funds of the Company as shown in the last audited Statement of Financial Position which exceeded the limit of 25% stipulated in the Section 2 (iii) of the Finance Companies (Investments) Direction No. 07 of 2006 issued by the Central Bank of Sri Lanka.

Central Bank of Sri Lanka has imposed penalty of Rs. 500,000/- due to non-compliance with aforesaid direction and payment made by the Company has been accounted under 'Other Operating Expenses' in the Statement of Comprehensive Income.

The Board of Directors expects to dispose the excess value over the limit once the share prices improve in the share market.

23. LOANS AND RECEIVABLES

ACCOUNTING POLICY

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

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

After initial measurement, 'loans and receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charge/reversal for loans and receivables'.

'DAY 1' DIFFERENCE FOR STAFF LOANS

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

WRITE-OFF OF LOANS AND RECEIVABLES

Loans (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is non-realistic prospect of recovery. Where loans are secured, this is generally after receipt of any proceeds from the realisation of security.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Gross loans and receivables	10,335,677	8,563,308
Prepaid rentals	(1,114)	(1,270)
Unearned interest	(1,745,292)	(1,808,752)
Allowance for impairment (Note 23.4)	(286,938)	(93,283)
Net loans and receivables	8,302,333	6,660,003
23.1 LOANS AND RECEIVABLES – WITHIN ONE YEAR		
Gross loans and receivables	5,543,855	3,735,851
Unearned interest	(919,701)	(864,718)
Net loans and receivables	4,624,154	2,871,133
23.2 LOANS AND RECEIVABLES – FROM ONE TO FIVE YEARS		
Gross loans and receivables	4,781,628	4,776,290
Prepaid rentals	(1,114)	(1,270)
Unearned interest	(824,812)	(940,448)
Net loans and receivables	3,955,702	3,834,572
23.3 LOANS AND RECEIVABLES – AFTER FIVE YEARS		
Gross loans and receivables	10,194	51,167
Unearned interest	(779)	(3,586)
Net loans and receivables	9,415	47,581

<i>As at 31st March</i>	2016 Rs. '000	2015 Rs. '000
23.4 MOVEMENT IN ALLOWANCE FOR IMPAIRMENT		
Balance at the beginning of the year	93,283	83,176
Bad debt written-off during the year	(4,634)	(16,941)
Charge/(reverse) to the statement of comprehensive income	198,289	27,048
Balance at the end of the year	286,938	93,283
23.4.1 INDIVIDUAL IMPAIRMENT		
Balance at the beginning of the year	75,889	69,885
Bad debt written-off during the year	(4,634)	(16,941)
Charge/(reverse) to the statement of comprehensive income	153,239	22,945
Balance at the end of the year	224,494	75,889
23.4.2 COLLECTIVE IMPAIRMENT		
Balance at the beginning of the year	17,394	13,291
Bad debt written-off during the year	—	—
Charge/(reverse) to the statement of comprehensive income	45,050	4,103
Balance at the end of the year	62,444	17,394
23.5 SECTOR-WISE ANALYSIS OF LOANS AND RECEIVABLES		
Agriculture	174,786	141,538
Industrial	207,643	239,193
Tourism	83,217	116,383
Trading	2,464,906	1,319,299
Construction	650,978	413,160
Services	5,074,495	4,914,005
Others	1,679,652	1,419,730
Total	10,335,677	8,563,308

24. FINANCE LEASES RECEIVABLES

ACCOUNTING POLICY

When the Company is the lessor in a lease agreement that transfers substantially all the risks and rewards incidental to ownership of the asset to the lessee, the arrangement is classified as finance lease. Amount receivable under finance leases net of initial rentals received, unearned interest and provision for impairment are classified as finance leases receivables in the Statement of Financial Position.

After initial measurement, 'finance leases receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charge/reversal for loans and receivables'.

<i>As at 31st March</i>	2016 Rs. '000	2015 Rs. '000
Gross finance leases receivables	12,948,251	7,205,678
Prepaid rentals	(3,318)	(4,492)
Unearned interest	(2,837,460)	(1,598,308)
Allowance for impairment (Note 24.4)	(181,954)	(193,202)
Net finance leases receivables	9,925,519	5,409,676
24.1 FINANCE LEASES RECEIVABLE – WITHIN ONE YEAR		
Gross finance leases receivables	4,353,852	2,725,519
Prepaid rentals	(456)	(1,741)
Unearned interest	(1,384,367)	(777,025)
Net finance leases receivables	2,969,029	1,946,753
24.2 FINANCE LEASES RECEIVABLE – FROM ONE TO FIVE YEARS		
Gross finance leases receivables	8,591,847	4,474,739
Prepaid rentals	(2,862)	(2,751)
Unearned interest	(1,453,011)	(820,970)
Net finance leases receivables	7,135,974	3,651,018
24.3 FINANCE LEASES RECEIVABLE – AFTER FIVE YEARS		
Gross finance leases receivables	2,552	5,420
Unearned interest	(82)	(313)
Net finance leases receivables	2,470	5,107
24.4 MOVEMENT IN ALLOWANCE FOR IMPAIRMENT		
Balance at the beginning the year	193,202	134,188
Bad debt written-off during the year	(60,348)	(19,765)
Charge/(reverse) to the statement of comprehensive income	49,100	78,779
Balance at the end the year	181,954	193,202
24.4.1 MOVEMENT IN INDIVIDUAL IMPAIRMENT		
Balance at the beginning of the year	116,611	91,487
Bad debt written off during the year	(60,348)	(19,765)
Charge/(reverse) to the statement of comprehensive income	16,725	44,889
Balance at the end of the year	72,988	116,611
24.4.2 MOVEMENT IN COLLECTIVE IMPAIRMENT		
Balance at the beginning of the year	76,591	42,701
Bad debt written-off during the year	–	–
Charge/(reverse) to the statement of comprehensive income	32,375	33,890
Balance at the end of the year	108,966	76,591
24.5 SECTOR-WISE ANALYSIS OF FINANCE LEASES RECEIVABLES		
Agriculture	611,404	346,970
Industrial	330,278	187,073
Tourism	271,109	150,078
Trading	2,592,583	1,612,334
Construction	93,506	31,555
Services	6,597,532	3,443,738
Others	2,451,839	1,433,930
Total	12,948,251	7,205,678

25. HIRE PURCHASES RECEIVABLES

ACCOUNTING POLICY

Advances granted under agreement that transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as hire purchase receivables. Amount receivable under hire purchases net of initial rental received, unearned interest and provision for impairment are classified as hire purchases receivable in the Statement of Financial Position.

After initial measurement, 'hire purchases receivables' are subsequently measured at amortised cost using the EIR, less allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'interest income' in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment charge/reversal for loans and receivables'.

<i>As at 31st March</i>	2016 Rs. '000	2015 Rs. '000
Gross hire purchases receivables	8,837,042	9,875,675
Prepaid rentals	(1,226)	(2,470)
Unearned interest	(1,708,145)	(2,100,333)
Allowance for impairment (Note 25.4)	(301,995)	(374,258)
Net hire purchases receivables	6,825,676	7,398,614
25.1 HIRE PURCHASES RECEIVABLE - WITHIN ONE YEAR		
Gross hire purchases receivables	3,907,022	4,314,434
Prepaid rentals	(135)	(2,129)
Unearned interest	(964,013)	(1,100,120)
Net hire purchases receivables	2,942,874	3,212,185
25.2 HIRE PURCHASES RECEIVABLE - FROM ONE TO FIVE YEARS		
Gross hire purchases receivables	4,919,553	5,556,013
Prepaid rentals	(1,091)	(341)
Unearned interest	(743,594)	(999,986)
Net hire purchases receivables	4,174,868	4,555,686
25.3 HIRE PURCHASES RECEIVABLE - AFTER FIVE YEARS		
Gross hire purchases receivables	10,467	5,228
Unearned interest	(538)	(227)
Net hire purchases receivables	9,929	5,001
25.4 MOVEMENT IN ALLOWANCE FOR IMPAIRMENT		
Balance at the beginning of the year	374,258	230,418
Bad debt written-off during the year	(59,690)	(46,074)
Charge/(reverse) to the statement of comprehensive income	(12,573)	189,914
Balance at the end of the year	301,995	374,258
25.4.1 MOVEMENT IN INDIVIDUAL IMPAIRMENT		
Balance at the beginning of the year	278,190	157,478
Bad debt written-off during the year	(59,690)	(46,074)
Charge/(reverse) to the statement of comprehensive income	(30,861)	166,786
Balance at the end of the year	187,639	278,190
25.4.2 MOVEMENT IN COLLECTIVE IMPAIRMENT		
Balance at the beginning of the year	96,068	72,940
Bad debt written-off during the year	-	-
Charge/(reverse) to the statement of comprehensive income	18,288	23,128
Balance at the end of the year	114,356	96,068

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
25.5 SECTOR-WISE ANALYSIS OF HIRE PURCHASES RECEIVABLES		
Agriculture	277,878	381,110
Industrial	519,444	430,900
Tourism	101,228	111,443
Trading	1,650,464	2,046,768
Construction	67,171	22,717
Services	4,325,421	4,855,232
Others	1,895,436	2,027,505
Total	8,837,042	9,875,675

26. OTHER FINANCIAL ASSETS

ACCOUNTING POLICY

INSURANCE RECEIVABLES

Premium receivables are recognised when due and measured on initial recognition at the fair value of the consideration received or receivable. The carrying value of premium receivables is reviewed for impairment whenever or circumstances indicate that the carrying amount may not be recoverable, with the impairment loss recorded in the Statement of Comprehensive Income.

OPERATING LEASE RECEIVABLES

All leases other than finance leases are classified as operating leases. When acting as lessor, the Company includes the assets subject to operating leases in 'property, plant & equipment' and accounts for them accordingly. Impairment losses are recognised to the extent that residual values are not fully recoverable and the carrying value of the assets is thereby impaired.

Rental receivable under operating leases are accounted for on a straight line basis over the periods of the leases to reduce the asset to its estimated residual value and are included in 'other operating income'. Estimated residual values are based on assumptions for used vehicle prices at lease termination and the number of vehicles that are expected to be returned.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Insurance receivables	96,890	79,298
Operating leases receivables	332	(46)
Other receivables	13,218	18,459
Total	110,440	97,711

27. INVENTORIES

ACCOUNTING POLICY

Inventory consists of spare parts, lubricants and others. Inventories are valued at the lower of cost and estimated net realisable value, after making due allowance for obsolete and slow moving items, using weighted average cost formula. The cost of inventory is determined at actual cost.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Spare parts	4,378	4,483
Lubricant and others	2,124	2,119
Vehicle stocks	9,965	7,591
Total	16,467	14,193

28. OTHER ASSETS

ACCOUNTING POLICY

Other assets mainly comprises deposits, prepayments, other advance payments, VAT receivable and sundry receivables carried at historical cost.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Other receivables	11,901	13,121
Deposit and prepayments	51,529	23,535
Unamortised staff cost	8,984	8,984
Total	72,414	45,640

29. INVESTMENT IN ASSOCIATES

ACCOUNTING POLICY

Investments in associates is accounted by using the equity method in terms of the Sri Lanka Accounting Standard – LKAS 28 on 'Investments in Associates'. An associate is an entity in which the Company has significant influence. Significant influence is presumed to exist when the Company holds between 20% and 50% of the voting power of another entity.

Under the equity method, the investment is initially recognised at cost. The carrying amount of the investment is adjusted to recognise changes in the Company's share of net assets of associate since acquisition date.

Goodwill relating to the associate is included in the carrying amount of the investment and is neither amortised nor individually tested for impairment.

The Statement of Comprehensive Income reflects the Company's share of results of operations of the associate. When there has been a change recognised directly in the equity of the associate, the Company recognises its share of any changes, when applicable, in the Statement of Changes in Equity. Unrealised gains and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate.

The Company's share of profit or loss of an associate is shown on the face of the Statement of Comprehensive Income and represents profit or loss after tax and non-controlling interests in the subsidiaries of the associate.

The Financial Statements of the associate are prepared for the same reporting period as the Company. When necessary, adjustments are made to bring the accounting policies in line with those of the Company.

After application of the equity method, the Company determines whether it is necessary to recognise an impairment loss on its investment in its associate. The Company 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 Company calculates the amount of impairment as the difference between the recoverable amount of the associate and its carrying value and recognises the amount in 'share of losses of an associate' in the Statement of Comprehensive Income.

Upon loss of significant influence over the associate, the Company measures and recognises any retained 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 recognised in the Statement of Comprehensive Income.

Company has a 26.12% (2015 - 26.12%) holding in Nuwera Eliya Hotels Company PLC which is a quoted public company and involved in the business of the hotellingiering.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Investment in associates – quoted (Note 29.1)	927,318	794,381
Total	927,318	794,381

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
29.1 INVESTMENT IN ASSOCIATES – QUOTED		
NUWARA ELIYA HOTELS COMPANY PLC		
Carrying value at the beginning of the year	794,381	707,496
Add: Share of associates profit before tax	91,675	113,795
Share of associates tax expenses	(17,272)	(9,688)
Less : Dividend received from associates	(14,239)	(10,684)
Current year retained profit	60,164	93,423
Share of other comprehensive income	72,773	(6,538)
Carrying value at the end of the year	927,318	794,381

SUMMARY OF ASSOCIATE'S STATEMENT OF FINANCIAL POSITION

<i>As at 31 March</i>	As per Audited Financial Statements 2016 Rs. '000	As per Audited Financial Statements 2015 Rs. '000
Current assets	794,949	550,696
Non-current assets	3,031,602	2,657,517
Current liabilities	(177,143)	(90,848)
Non-current liabilities	(99,187)	(76,089)
Net assets	3,550,221	3,041,276
Holding percentage of the Company	26.12%	26.12%
Share of net assets of the Company	927,318	794,381
Market value per share (Rs.)	1,374.90	1,452.40
Total market value of the investment (Rs. '000)	719,733	760,302

The Board of Directors is in the view of temporary decline of the market value will be recovered immediately after the reporting date and this investment will be held for considering strategic advantage in future and measured the investment in associates at equity method as per LKAS 28.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Summary of Associate's Revenue and Profit before Tax		
Revenue	1,042,749	837,811
Profit before tax	350,971	306,136
Share of associate's profit before tax	91,675	79,963
Adjustments	—	33,832
	91,675	113,795

30. INVESTMENT PROPERTY

ACCOUNTING POLICY

RECOGNITION AND MEASUREMENT

Investment property is property held either to earn rental income or for capital appreciation or for both, but not for sale in the ordinary course of business, use in the production or supply of goods or services or for administrative purposes.

Investment property is accounted for under cost model in the Financial Statements. Accordingly, after initial recognition, the property is carried at its cost, less accumulated depreciation and impairment losses.

DEPRECIATION

Depreciation is provided on a straight-line basis over the estimated useful life of the class of asset from the date of purchase upto the date of disposal. Estimated useful life of the buildings classified as investment property is 40 to 75 years.

DERECOGNITION

Investment properties are derecognised when they are disposed of, or permanently withdrawn from use since no future economic benefits are expected. Transfers are made to and from investment property only when there is a change in use.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Cost		
Balance at the beginning of the year	200,434	–
Additions during the year	280,000	–
Transfers from property, plant & equipment	–	200,434
Disposals during the year	(28,100)	–
Balance at the end of the year	452,334	200,434
Less: Accumulated Depreciation		
Balance at the beginning of the year	1,665	–
Charge for the year	2,435	–
Transfers from property, plant & equipment	–	1,665
Balance at the end of the year	4,100	1,665
Carrying value	448,234	198,769

The Company earned rental income from the property situated at No. 75A-23/2, Kollupitiya Road, Colombo 03 for which the details are given below:

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Rental income derived from investment properties	8,642	3,506
Direct operating expenses incurred generating rental income	(796)	(767)
Profit arising from investment properties	7,846	2,739

The Company has no restrictions on the realisability of its investment properties and no contractual obligations to purchase, construct or develop investment properties or for repairs, maintenance and enhancements.

30.1 INFORMATION ON THE INVESTMENT PROPERTY OF THE COMPANY

As at 31 March	Extent (Perches)	Building (Square feet)	2016		2015	
			Cost Rs. '000	Fair value Rs. '000	Cost Rs. '000	Fair value Rs. '000
Nilaweli						
Nilaweli Village, Pulmoddai Road, Trincomalee	438		59,000	65,700	59,000	65,700
Kurunegala						
Sapirimini Jeewa Pohora, Thanththiripitiya, Welipennegahamulla	80		2,500	3,000	2,500	3,000
Nugegoda						
28/2A, Jambugasmulla Road, Gangodawila, Nugegoda	7.5		—	—	7,000	7,000
Peliyagoda						
151/3A, Negombo Road, Peliyagoda	5		5,000	5,500	5,000	5,500
Nugegoda						
61,Raththanapitiya Road, Gangodawila	10.20		12,000	12,750	12,000	12,750
Homagama						
Ketakelagaha, Kurunduwatta, Henpita	10		1,400	1,500	1,400	1,500
Ganemulla						
Karukkuwa Group Galahitiyawa	60		2,400	2,400	2,400	2,400
Thalawathugoda						
Batadhombagahawatta,Thalawatugoda	23		—	—	14,000	14,000
Katana						
No. 345/1, Kimbulapitiya Road, Kimbulapitiya West, Katana	14		—	—	2,100	2,300
Kohuwela						
74, Woodland Avenue, Kalubowila	6		—	—	5,000	3,600
Pannipitiya						
1222, Hokandara Road, Pannipitiya	79.22		1,600	1,800	1,600	1,800
Kesbewa						
H.A.C. Alwis - 165/84, School Lane, Bokundara, Kesbewa	21.80		5,200	5,830	5,200	5,830
Kollupitiya						
No 75A-23/2, Kollupitiya Road, Colombo 03	—	2,636	83,234	89,900	83,234	89,900
Ratmalana						
No. 140/4, Temple Road, Ratmalana	12.6		15,000	15,000	—	—
Colombo 02						
S.S.Tower, 92, Glennies Street, Colombo 02	19	25,974	265,000	265,000	—	—
Total			452,334	468,380	200,434	215,280

The fair value of the investment properties as at 31 March 2015 was based on market valuations carried out in the year 2014/15 by a professionally-qualified independent valuer Mr. P.T.T. Mohideen, Chartered Valuation Surveyor, Bsc (Hons.) Estate Management and Valuation, Executive Diploma in Business Administration, FIV (Sri Lanka) and member of the Royal Institute of Chartered Surveyors – England and Directors are of the view that there is no material change in the fair values as at 31 March 2016 as per their judgment.

Fair value of the property at Colombo 02 which was acquired during the year was based on the market valuations carried out on 29 December, 2015 by a professionally-qualified independent valuer Mr. D. Prathapasinge, Chartered Valuation Surveyor, Bsc. Est. Mgt. & Val. (Sp) (Hons.) (SJP), MBA (UK), PG Dip. Eco.Dev. (Colombo), Dip. Surv. (Reading – UK), MRICS (UK), FIREV (SL), GMIV (SL).

31. PROPERTY, PLANT & EQUIPMENT

ACCOUNTING POLICY

The Company applies the requirements of the Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment' in accounting for its owned assets which are held for and use in the provision of services, for rental to others or for administrative purposes and are expected to be used for more than one year.

BASIS OF RECOGNITION

Property, plant & equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Company and cost of the asset can be reliably measured.

BASIS OF MEASUREMENT

An item of property, plant & equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing). The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring the site on which they are located and capitalised borrowing costs. Purchased software which is integral to the functionality of the related equipment is capitalised as part of computer equipment. When parts of an item of property or equipment have different useful lives, they are accounted for as separate items (major components) of property & equipment.

COST MODEL

The Company applies the cost model to all property, plant & equipment except freehold land and buildings and records at cost of purchase together with any incidental expenses thereon, less accumulated depreciation and any accumulated impairment losses.

REVALUATION MODEL

The Company applies the revaluation model for the entire class of freehold land and buildings for measurement after initial recognition. Such properties are carried at revalued amounts, being their fair value at the date of revaluation, less any subsequent accumulated depreciation on buildings and any accumulated impairment losses charged subsequent to the date of valuation. Freehold land and buildings of the Company are revalued every three to five years or more frequently if the fair values are substantially different from their carrying amounts to ensure that the carrying amounts do not differ from the fair values at the reporting date.

On revaluation of an asset, any increase in the carrying amount is recognised in other comprehensive income and presented in revaluation reserve in equity or used to reverse a previous loss on revaluation of the same asset, which was charged to the Statement of Comprehensive Income. In this circumstance, the increase is recognised as income only to the extent of the previous write down in value. Any decrease in the carrying amount is recognised as an expense in the Statement of Comprehensive Income or charged in other comprehensive income and presented in revaluation reserve in equity only to the extent of any credit balance existing in the revaluation reserve in respect of that asset. Any balance remaining in the revaluation reserve in respect of an asset, is transferred directly to retained earnings on retirement or disposal of the asset.

The Company has revalued all its freehold land and building as at 31 March 2015.

SUBSEQUENT COST

These are costs that are recognised in the carrying amount of an asset if it is probable that the future economic benefits embodied within that part will flow to the Company and it can be reliably measured. The costs of the day-to-day servicing of property & equipment are recognised in the Statement of Comprehensive Income as incurred.

RESTORATION COST

Expenditure incurred on replacement, repairs or maintenance of property, plant & equipment in order to restore or maintain the future economic benefits expected from the originally assessed standard of performance is recognised as an expense when incurred.

DERECOGNITION

An item of property, plant & equipment is derecognised upon disposal or when no future economic benefits are expected from its use. Any gain or loss arising on derecognising of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset), is recognised in 'other income/expenses' in the Statement of Comprehensive Income in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant & equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard – LKAS 16 on 'Property, Plant & Equipment'.

CAPITAL WORK IN PROGRESS

These are expenses of a capital nature directly incurred in the construction of buildings, major plant and machinery and system development, awaiting capitalisation. These are stated in the Statement of Financial Position at cost.

ASSETS ON OPERATING LEASES

Assets leased to customers under agreements in which we retain substantially all the risks and rewards associated with ownership and legal title are classified as operating leases. Such assets are recognised as property, plant & equipment in the Statement of Financial Position.

31.1 CARRYING VALUE OF PROPERTY, PLANT & EQUIPMENT

	At valuation		At cost							Total
	Land	Buildings	Motor vehicles	Plant and machinery	Computer hardware	Office equipment	Furniture, fixtures & fittings	Motor vehicle on operating leases	Capital work in progress	
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	
2016 – Current Year										
Cost/valuation										
Balance as at 1 April 2015	856,350	587,750	311,285	34,248	88,423	58,820	64,516	9,500	–	2,010,892
Additions during the year	–	–	15,769	5,133	23,255	12,330	10,437	16,100	23,918	106,942
Disposals during the year	–	–	(42,528)	–	–	(83)	–	–	–	(42,611)
Derecognition	–	–	–	(21,591)	(22,414)	(16,773)	(15,022)	–	–	(75,800)
Cost/valuation as at 31 March 2016	856,350	587,750	284,526	17,790	89,264	54,294	59,931	25,600	23,918	1,999,423
Accumulated Depreciation										
Balance as at 1 April 2015	–	–	105,614	25,726	62,928	30,202	29,370	927	–	254,767
Charge for the year	–	11,755	7,141	2,818	12,954	4,769	5,301	1,904	–	46,642
Disposals during the year	–	–	(30,096)	–	–	(29)	–	–	–	(30,125)
Derecognition	–	–	–	(21,591)	(22,414)	(16,773)	(15,022)	–	–	(75,800)
Accumulated depreciations at 31 March 2016	–	11,755	82,659	6,953	53,468	18,169	19,649	2,831	–	195,484
Net book value as at 31 March 2016	856,350	575,995	201,867	10,837	35,796	36,125	40,282	22,769	23,918	1,803,939
2015 – Previous Year										
Cost/Valuation										
Balance as at 1 April 2014	796,927	630,780	279,636	33,852	74,396	51,447	57,589	9,500	–	1,934,127
Additions during the year	20,700	999	101,214	396	14,027	7,387	6,927	–	–	151,650
Disposals during the year	(34,700)	–	(69,565)	–	–	(14)	–	–	–	(104,279)
Surplus on revaluation of property	190,623	39,205	–	–	–	–	–	–	–	229,828
Transfers/adjustments	(117,200)	(83,234)	–	–	–	–	–	–	–	(200,434)
Cost/valuation as at 31 March 2015	856,350	587,750	311,285	34,248	88,423	58,820	64,516	9,500	–	2,010,892
Accumulated Depreciation										
Balance as at 1 April 2015	–	21,611	76,275	23,088	52,228	25,998	24,775	476	–	224,451
Charge for the year	–	11,782	48,150	2,638	10,700	4,206	4,595	451	–	82,522
Disposals during the year	–	–	(18,811)	–	–	(2)	–	–	–	(18,813)
Transfers/adjustments	–	(1,665)	–	–	–	–	–	–	–	(1,665)
Transfer of depreciation on assets revalued	–	(31,728)	–	–	–	–	–	–	–	(31,728)
	–	–	105,614	25,726	62,928	30,202	29,370	927	–	254,767
Net book value as at 31 March 2015	856,350	587,750	205,671	8,522	25,495	28,618	35,146	8,573	–	1,756,125

31.2 REVALUATION OF PROPERTY, PLANT & EQUIPMENT

The land and buildings were revalued during the financial year 2014/15 by a professionally-qualified independent valuer, Mr. P.P.T. Mohideen, Chartered Valuation Surveyor, B Sc. (Hons) Estate Management & Valuation, Executive Diploma in Business Administration, FIV (Sri Lanka) and member of the Royal Institution of Chartered Surveyors – England. The results of such revaluation was incorporated in these Financial Statements from its effective date which was 31st March 2015. Such assets were valued on an open market value for an existing use basis. The surplus arising from the revaluation was transferred to revaluation reserve.

31.3 INFORMATION ON THE FREEHOLD LAND AND BUILDINGS OF THE COMPANY

As required by rule No. 7.6 (VIII) of the continuing listing requirements of the Colombo Stock Exchange

Location	Extent (Perches)	Buildings (Square feet)	Revalued amount of buildings Rs. '000	Revalued amount of land Rs. '000	Net book value as at 31.03.2016 Rs. '000	As a % of total NBV as at 31.03.2016 Rs. '000	Net book value as at 31.03.2015 Rs. '000	As a % of total NBV as at 31.03.2015 Rs. '000
Kollupitiya No. 236, Galle Road, Colombo 03	32.56	46,777	320,950	309,000	629,950	43.98	636,500	44.08
Maharagama No. 176, Lake Road, Maharagama	168.74	22,900	18,620	169,000	187,620	13.10	188,000	13.02
Maharagama No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	104.00	9,355	10,290	67,500	77,790	5.43	78,000	5.40
Kohuwala No. 28, Sunethra Devi Road, Kohuwala	88.00	27,543	67,326	220,000	287,326	20.06	288,700	19.99
Kohuwala No. 30/8, Sunethra Devi Road, Kohuwala	17.80	1,700	4,753	22,250	27,003	1.89	27,100	1.88
Borella No. 219, Dr. N.M. Perera Mawatha, Colombo 08	9.46	6,264	40,866	38,600	79,466	5.55	80,300	5.56
Negombo No. 26A, Colombo Road, Negombo	13.87	–	–	20,000	20,000	1.40	20,000	1.38
Kollupitiya No. 75-17/4, Kollupitiya Road, Colombo 03	–	1,210	28,420	–	28,420	1.98	29,000	2.01
Kollupitiya No. 89-28/4 & 89-28/5, Kollupitiya Road, Colombo 03	–	3,583	84,770	–	84,770	5.92	86,500	5.99
Negombo 814/24, Colombo Road, Negombo	17.20	–	–	10,000	10,000	0.70	10,000	0.69
Total	–	–	575,995	856,350	1,432,345	100.00	1,444,100	100.00

31.4 REVALUATION

Freehold land and buildings of the Company were revalued by a professionally-qualified independent valuer (Mr. P.P.T Mohideen) as at 31 March 2015.

Effective date of valuation as at 31 March 2015

Location	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	NBV before revaluation as at 31 March 2015		Revalued amount of		Revaluation gain/(loss) recognised on	
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Kollupitiya – No. 236, Galle Road, Colombo 03	Open market basis		285,854	227,900	327,500	309,000	41,646	81,100
	Price per perch of land (Rs.)	9,500,000						
	Price per square foot for building (Rs.)	7,001						
Maharagama – No. 176, Lake Road, Maharagama	Open market basis		20,001	135,000	19,000	169,000	(1,001)	34,000
	Price per perch of land (Rs.)	1,000,000						
	Price per square foot for building (Rs.)	829						
Maharagama – No. 16, Batadombagahawatta Lane, Godigamuwa, Maharagama	Open market basis		7,990	52,000	10,500	67,500	2,510	15,500
	Price per perch of land (Rs.)	650,000						
	Price per square foot for building (Rs.)	1,122						

Location	Method of valuation and significant unobservable inputs	Range of estimates for unobservable inputs	NBV before revaluation as at 31 March 2015		Revalued amount of		Revaluation gain/(loss) recognised on	
			Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Kohuwala – No. 28, Sunethra Devi Road, Kohuwala	Open market basis		57,121	176,000	68,700	220,000	11,579	44,000
	Price per perch of land (Rs.)	2,500,000						
	Price per square foot for building (Rs.)	2,494						
Kohuwala – No. 30/8, Sunethra Devi Road, Kohuwala	Open market basis		3,954	17,800	4,850	22,250	896	4,450
	Price per perch of land (Rs.)	1,250,000						
	Price per square foot for building (Rs.)	2,852						
Borella – No. 219, Dr. N. M. Perera Mw, Colombo 08	Open market basis		52,785	30,000	41,700	38,600	(11,085)	8,600
	Price per perch of land (Rs.)	4,500,000						
	Price per square foot for building (Rs.)	7,487						
Negombo – No. 26A, Colombo Road, Negombo	Open market basis		–	17,000	–	20,000	–	3,000
	Price per perch of land (Rs.)	1,450,000						
Kollupitiya – No. 75–17/4, Kollupitiya Road, Colombo 03	Investment method		22,372	–	29,000	–	6,628	–
	Gross annual rentals (Rs.)	1,680,000						
	Years purchase(present value of 1 unit per period)	23 Y.P						
Kollupitiya – No. 89–28/4 & 89–28/5, Kollupitiya Road, Colombo 03	Investment method		66,740	–	86,500	–	19,760	–
	Gross annual rentals (Rs.)	4,920,000						
	Years purchase(present value of 1 unit per period)	23.5 Y.P						
Negombo – No. 814/24, Colombo Road, Negombo	Open market basis		–	10,027	–	10,000	–	(27)
	Price per perch of land (Rs.)	585,000						
Total			516,817	665,727	587,750	856,350	70,933	190,623

Narrative descriptions on the sensitivity of fair value measurement to changes in significant unobservable inputs are tabled below:

Valuation technique	Significant unobservable valuation inputs	Sensitivity of the fair value measurement to inputs
<p>Market comparable method In determining the fair value of the property being revalued, this method considers the selling price of a similar property within a reasonably recent period of time. This involves evaluating recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of the specific property.</p>	<ul style="list-style-type: none"> • Price per perch for land • Price per square foot for building 	<p>Estimated fair value would increase (decrease) if;</p> <ul style="list-style-type: none"> • Price per perch would be higher (lower) • Price per square foot would be higher (lower)
<p>Investment method This method involves the capitalisation of the expected rental income over a specific period of time which is derived from the real estate market</p>	<ul style="list-style-type: none"> • Gross annual rentals years purchase 	<p>Estimated fair value would increase (decrease) if;</p> <ul style="list-style-type: none"> • Gross Annual Rentals would be higher (lower) • Years purchase would be higher (lower)

31.5 The carrying amounts of revalued assets, that would have been included in the Financial Statements, had the assets been carried at cost are as follows:

As at 31 March	2016			2015		
	Cost Rs. '000	Cumulative depreciation Rs. '000	Net carrying amount Rs. '000	Cost Rs. '000	Cumulative depreciation Rs. '000	Net carrying amount Rs. '000
Class of asset						
Freehold land	160,521	—	160,521	160,521	—	160,521
Freehold buildings	252,923	74,286	178,637	252,923	69,228	183,695
	413,444	74,286	339,158	413,444	69,228	344,216

31.6 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs. 83,022,926/- (2015 – Rs.151,650,573/-).

Cash payment amounting to Rs. 83,022,926/- (2015 - Rs. 151,650,573/-) were made during the year for purchase of property, plant & equipment.

31.7 Property, plant & equipment include assets under operating leases, where the Company is a lessor. The net carrying amount of those assets as at 31st March 2016 was Rs. 22,770,360/- (2015 – Rs. 8,574,237/-), on which the accumulated depreciation as at 31 March 2016 was Rs. 2,829,640/- (2015 - Rs. 925,763/-).

Summary of future operating lease receivable is as follows:

	Within one year Rs. '000	1-5 years Rs. '000	Over 5 years Rs. '000	Total Rs. '000
As at 31 March 2016				
Future operating lease receivable	7,958	23,691	—	31,649
As at 31 March 2015				
Future operating lease receivable	3,282	8,752	—	12,034

31.8 TEMPORARILY IDLE PROPERTY, PLANT & EQUIPMENT

There were no temporary idle property, plant & equipment or any asset retired from active use and held for disposal on the date of statement of Financial Position.

31.9 FULLY DEPRECIATED PROPERTY, PLANT & EQUIPMENT

The cost of property, plant & equipment as at reporting date includes the fully depreciated assets amounting to Rs. 28,299,699/- (2015 – Rs. 135,294,237/-).

31.10 PROPERTY, PLANT & EQUIPMENT PLEDGED AS SECURITY FOR LIABILITIES

There were no property, plant & equipment pledged as securities for liabilities except properties at Sri Vajiragnana Mawatha, Maharagama and No. 28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively for Rs. 100 million each.

31.11 TITLE RESTRICTION IN PROPERTY, PLANT & EQUIPMENT

There were no restrictions that existed in the title of the property, plant & equipment of the Company as at reporting date except properties at Sri Vajiragnana Mawatha, Maharagama and No. 28, Sunethradevi Road, Kohuwala pledged as securities for overdraft facilities obtained from Sampath Bank PLC and Hatton National Bank PLC respectively.

31.12 COMPENSATION FROM THIRD PARTIES FOR ITEMS OF PROPERTY, PLANT & EQUIPMENT

During the year the Company has received Rs. 2,991,900/- (2015 Nil) as compensation from third parties for items of property, plant & equipment that were impaired, lost or given up.

31.13 CAPITALISATION OF BORROWING COST

There were no borrowing costs that have been capitalised into the capital work-in-progress.

31.14 CAPITAL COMMITMENTS

There are no significant capital commitments which have been approved or contracted for by the Company as at 31 March 2016.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
32. LEASEHOLD PROPERTY		
Cost		
At the beginning of the year	46,354	46,354
Additions	—	—
Disposals	—	—
At the end of the year	46,354	46,354
Accumulated Amortisation and Impairment		
At the beginning of the year	3,278	2,810
Amortisation for the year	468	468
Disposals	—	—
Impairment	—	—
At the end of the year	3,746	3,278
Net book value as at 31 March	42,608	43,076

33. INTANGIBLE ASSETS

ACCOUNTING POLICY

BASIS OF RECOGNITION

An intangible asset is recognised 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 LKAS 38 – 'Intangible Assets'. Accordingly, these assets are stated in the Statement of Financial Position at cost, less accumulated amortisation and accumulated impairment losses, if any.

SUBSEQUENT EXPENDITURE

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in these assets. All other expenditure is charged to the Statement of Comprehensive Income when incurred.

USEFUL ECONOMIC LIVES, AMORTISATION AND IMPAIRMENT

The Company does not possess intangible assets with indefinite useful lives. Useful economic lives, amortisation and impairment of finite intangible assets are described below:

INTANGIBLE ASSETS WITH FINITE LIVES AND AMORTISATION

Intangible assets with finite lives are amortised over the useful economic lives. The amortisation period and the amortisation method for an intangible asset with finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefit embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Comprehensive Income as an expense.

COMPUTER SOFTWARE

All computer software costs incurred, licensed for use by the Company, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it is probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category of intangible assets and carried at cost, less accumulated amortisation and accumulated impairment losses, if any.

DERECOGNITION OF INTANGIBLE ASSETS

Intangible assets are derecognised on disposal or when no future economic benefits are expected from its use. Gains or losses arising from derecognition of an intangible asset are measured as the difference between the net disposal proceeds and the carrying amount of the asset and are recognised in the Statement of Comprehensive Income.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Cost		
At the beginning of the year	19,310	15,774
Disposals	9,491	3,536
At the end of the year	28,801	19,310
Accumulated Amortisation and Impairment		
At the beginning of the year	15,966	12,060
Amortisation for the year	449	3,906
At the end of the year	16,415	15,966
Net book value as at 31 March	12,386	3,344

34. DEPOSITS DUE TO CUSTOMERS

These include fixed deposits, savings deposits and certificate of deposits. Subsequent to initial recognition deposits are measured at their amortised cost using the Effective Interest Rate (EIR) method. Interest paid/payable on these deposits is recognised in the Statement of Comprehensive Income.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Fixed deposits (Note 34.1)	15,726,830	13,639,878
Certificate of deposits (Note 34.2)	24,921	37,775
Savings deposits	63,839	43,076
Total	15,815,590	13,720,729
34.1 ANALYSIS OF FIXED DEPOSITS BY MATURITY DATE		
1 to 90 days	4,472,980	3,766,997
91 to 365 days	7,308,820	6,351,551
More than 365 days	3,945,030	3,521,330
Total	15,726,830	13,639,878
34.2 ANALYSIS OF CERTIFICATE OF DEPOSITS BY MATURITY DATE		
1 to 90 days	12,785	15,438
91 to 365 days	12,136	22,337
More than 365 days	—	—
Total	24,921	37,775

35. DEBTS INSTRUMENTS ISSUED AND OTHER BORROWINGS

ACCOUNTING POLICY

These represent the funds borrowed by the Company for long-term funding requirements. Subsequent to initial recognition debt securities issued are measured at their amortised cost using the EIR method except where the Company designates debt securities issued at fair value through profit or loss. Interest paid or payable is recognised in the Statement of Comprehensive Income.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Money market borrowings	200,000	350,000
Short-term borrowings (Note 35.1)	2,308,330	1,350,000
Long-term borrowings (Note 35.2)	5,611,450	3,229,238
Debt instruments (Note 35.3)	200,000	521,080
Interest payable	207,389	232,322
Total	8,527,169	5,682,640

As at 31 March	Terms of repayment			2016 Rs. '000	2015 Rs. '000
	Interest rate %	Period	Payment terms		
35.1 SHORT-TERM BORROWINGS					
National Development Bank PLC	9.00	Quarterly	At maturity	750,000	400,000
Union Bank PLC	7.15	1 month	At maturity	—	200,000
Nations Trust Bank PLC	10.36	1 month	At maturity	200,000	350,000
Hongkong & Sanghai Bank Corporations Ltd.	9.50	1 month	At maturity	100,000	400,000
Hongkong & Sanghai Bank Corporations Ltd.	7.80	1 month	At maturity	400,000	—
Seylan Bank PLC	8.75	1 week	At maturity	400,000	—
Commercial Bank of Ceylon PLC	9.00	1 year	At maturity	458,330	—
Total				2,308,330	1,350,000

As at 31 March	Terms of repayment			2016 Rs. '000	2015 Rs. '000
	Interest rate %	Period	Payment terms		
35.2 LONG-TERM BORROWINGS					
Central Bank of Sri Lanka (Refinanced Borrowings)	6.00	8 years	Semi annual instalment	7,813	23,438
Securitised Borrowings	8.47 – 13.66	3 to 4 years	Variable monthly instalment	2,263,093	1,001,700
Sampath Bank PLC	AWPLR+1	4 years	Fixed monthly instalment	—	17,000
Commercial Bank of Ceylon PLC	AWPLR+0.5	4 years	Fixed monthly instalment	—	31,250
Hatton National Bank PLC	8.50	4 years	Fixed monthly instalment	333,120	458,280
Hatton National Bank PLC	9.50	4 years	Fixed monthly instalment	937,500	—
Hatton National Bank PLC	AWPLR+0.75	4 years	Fixed monthly instalment	—	43,750
Commercial Bank of Ceylon PLC	AWPLR+1.50	4 years	Fixed monthly instalment	143,000	269,000
Commercial Bank of Ceylon PLC	9.50	4 years	Fixed monthly instalment	300,500	426,500
Commercial Bank of Ceylon PLC	8.50	4 years	Fixed monthly instalment	708,240	958,320
Commercial Bank of Ceylon PLC	10.50	3 years	Fixed monthly instalment	486,100	—
Seylan Bank PLC	8.50	2 years	Fixed monthly instalment	354,167	—
Bank of Ceylon	8.50	15 months	Fixed monthly instalment	77,917	—
Total				5,611,450	3,229,238

Maturity analysis of borrowings and assets pledged details are given in Notes 52 and 49 to the Financial Statements respectively.

As at 31 March	2016 Rs. '000	2015 Rs. '000
35.3 DEBT INSTRUMENTS		
Commercial papers	—	321,080
Unsecured redeemable debentures (Note 35.3.1)	200,000	200,000
Total	200,000	521,080

35.3.1 UNSECURED REDEEMABLE DEBENTURES	
No. of debentures	2,000,000
Face value (Rs.)	200,000,000
Category	Fixed rate debenture 2014/2018
Colombo stock exchange listing	Listed
Interest payable frequency	Annually
Allotment date	07.11.2014
Maturity date	07.11.2018
Effective annual yield	10.50%

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
36. OTHER FINANCIAL LIABILITIES		
Vendor payable	892,270	428,845
Insurance payable	87,731	83,701
Other payable	72,326	48,772
Total	1,052,327	561,318

37. DEFERRED TAX LIABILITIES

ACCOUNTING POLICY

Deferred tax is provided on all 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, except:

- Where the deferred tax liability arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.
- 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 assets and unused tax losses can be utilised: except –
- Where the deferred tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and
- In respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

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

Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at 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.

The deferred tax relating to items recognised directly in equity are also recognised in equity, and not in the Statement of Comprehensive Income.

As at 31 March	2016		2015	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
Summary of Net Deferred Tax Liability				
Balance at the beginning of the year	791,438	221,601	277,236	77,625
Amount originating/(reversing) during the year	380,033	106,410	310,521	86,946
Deferred tax effect on revaluation surplus on PPE	57,463	16,092	239,301	67,004
Deferred tax effect on actuarial gain	(3,014)	(844)	(35,620)	(9,974)
Balance at the end of the year	1,225,920	343,259	791,438	221,601
Deferred Tax Asset				
Retirement benefit obligation	146,236	40,946	120,118	33,633
Tax loss from leasing activities	165,415	46,316	–	–
Unclaimed impairment provision	41,409	11,594	–	–
	353,060	98,856	120,118	33,633
Deferred Tax Liability				
Accelerated depreciation for tax purpose – leased assets	(1,022,151)	(286,203)	(519,398)	(145,431)
Accelerated depreciation for tax purpose – owned assets	(178,019)	(49,845)	(70,811)	(19,827)
Deferred tax effect on revaluation surplus	(378,810)	(106,067)	(321,347)	(89,976)
	(1,578,980)	(442,115)	(911,556)	(255,234)
Net temporary difference and deferred assets/(tax liability)	(1,225,920)	(343,259)	(791,438)	(221,601)

38. RETIREMENT BENEFIT OBLIGATIONS

ACCOUNTING POLICY

The Company 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 Sri Lanka Accounting Standard - LKAS 19 – on 'Employees Benefits'. The present value of the defined benefit obligation is determined by discounting the estimated future cash outflow using interest rates that apply to the currency in which the benefits will be paid.

The Company policy is to perform actuarial valuation in every year.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19 on 'Employees Benefits'.

However, under the Payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.

As at 31 March	2016 Rs. '000	2015 Rs. '000
38.1 PROVISION FOR RETIREMENT BENEFIT OBLIGATIONS		
Balance at the beginning of the year	120,118	108,677
Expenses recognised during the year (Note 38.2)	34,734	29,532
Payments made during the year	(8,617)	(18,091)
Balance at the end of the year	146,235	120,118
38.2 EXPENSES RECOGNISED IN THE STATEMENT OF COMPREHENSIVE INCOME		
Interest cost – statement of comprehensive income	12,012	11,954
Current service cost – statement of comprehensive income	11,444	9,313
	23,456	21,267
Actuarial (gain)/loss – other comprehensive income	11,278	8,265
	34,734	29,532

Actuarial valuation of the gratuity liability was carried out as at 31 March, 2016 by Messrs Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit (PUC) Method', the method recommended by the Sri Lanka Accounting Standard – LKAS 19 on 'Employee Benefits'.

38.3 ACTUARIAL ASSUMPTIONS – DEMOGRAPHIC

MORTALITY

In service – A 67/70 Mortality table issued by the Institute of Actuaries, London.

WITHDRAWAL

The withdrawal rate at an age represents the probability of an employee leaving within one year of that age due to reasons other than death, ill-health and normal retirement. Withdrawal rate of 11% used in this valuation have been determined based on the staff turnover statistics of the Company. (Previous year 9%).

DISABILITY

The disability rate at an age represents the probability of an employee leaving within one year of that age due to ill-health/disability. Assumptions similar to those used in other comparable plans for disability were used as the data required to do a 'scheme specific' study was not available.

NORMAL RETIREMENT AGE

55 to 60 years, the employees who are aged over the specified retirement age have been assumed to retire on their respective next birthdays. (Previous year 55 years to 60 years.)

ACTUARIAL ASSUMPTIONS – FINANCIAL

RATE OF DISCOUNT

In the absence of a deep market in long-term bonds in Sri Lanka, a long-term rate of discount of 10% has been used having given weight age to the anticipated long-term rate of inflation (Previous year 10%).

SALARY INCREASES

A 8% p.a. salary increment rate has been used in respect of the active employees (Previous year 8%).

38.4 SENSITIVITY ANALYSIS

In order to show the significance of the salary escalation rate and discount rate used in the actuarial valuation as at 31 March 2016, sensitivity analysis has been carried out as follows:

Discount rate	Salary escalation rate	Present value of defined benefit obligation Rs.
1% increase	As the rate above	138,863,069
1% decrease	As the rate above	154,404,615
As the rate above	1% increase	153,858,336
As the rate above	1% decrease	139,241,282

As at 31 March	2016 Rs. '000	2015 Rs. '000
39. STATED CAPITAL		
Value		
Ordinary shares	36,000	36,000
	36,000	36,000

As at 31 March	2016 Nos. '000	2015 Nos. '000
Number of shares in issue		
Ordinary shares	3,006	3,006
	3,006	3,006

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
40. CAPITAL RESERVE - REVALUATION RESERVE		
Balance at the beginning of the year	1,482,934	1,294,920
Increase during the year due to revaluation	72,773	261,556
Deferred tax effect	(16,092)	(73,542)
Balance at the end of the year	1,539,615	1,482,934

The revaluation reserve relates to revaluation of land and buildings of the Company and its associates company and represents the increase in the fair value of the land and buildings at the date of revaluation.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
41. STATUTORY RESERVE FUND		
Balance at the beginning of the year	581,400	521,400
Transfers during the year	50,000	60,000
Balance at the end of the year	631,400	581,400

Statutory reserve fund which is a capital reserve, was created in accordance with Finance Companies Direction No. 1 of 2003 issued by the Central Bank of Sri Lanka.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
42. GENERAL RESERVE		
Balance at the beginning of the year	3,886,430	3,686,430
Transfers during the year	200,000	200,000
Balance at the end of the year	4,086,430	3,886,430

The Company maintains the general reserve to retain funds for future expansion. This includes Rs. 200 million set aside by the management to cover general risk involved in its operations.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
43. RETAINED EARNINGS		
Balance at the beginning of the year	900,184	442,660
Total Comprehensive Income		
Profit for the year	505,019	631,272
Other comprehensive income	(10,434)	1,709
Transfer to investment fund reserve	—	(28,780)
Transfer from investment fund reserve	—	202,000
Transfer to general reserve	(200,000)	(200,000)
Transfer to statutory reserve	(50,000)	(60,000)
Dividend paid	(21,042)	(88,677)
Balance at the end of the year	1,123,727	900,184

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
44. AVAILABLE-FOR-SALE RESERVE		
Balance at the beginning of the year	892,817	111,755
Net gain and losses on remeasuring of AFS financial assets	(655,757)	781,062
Balance at the end of the year	237,060	892,817

The available-for-sale reserve comprises the cumulative net change in fair value of financial investment available-for-sale, until such investment are derecognised or impaired.

45. CAPITAL COMMITMENTS

There are no significant capital commitments which have been approved or contracted for by the Company as at 31 March 2016.

46. CONTINGENCIES

46.1 CONTINGENT LIABILITIES

ACCOUNTING POLICY

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 – LKAS 37 on 'Provisions, Contingent Liabilities and Contingent Assets'.

Contingent liabilities are not recognised in the Statement of Financial Position but are disclosed unless its occurrence is remote.

The Company does not anticipate any contingent liabilities to arise out of any contingent event as at the date of Statement of Financial Position except as disclosed below:

- The gratuity liability of the Company as at 31 March 2016 is based on the actuarial valuation carried out by Messrs Actuarial & Management Consultants (Pvt) Limited, a firm of professional actuaries. As per the actuarial valuation, the provision in respect of gratuity liabilities of the existing employees of the Company as at 31 March 2016 is Rs. 146,235,830/-. If the Company had provided for gratuity on the basis of Gratuities Act No. 12 of 1983, the liability would have been Rs. 146,622,448/-. Hence, there is a contingent liability of Rs. 386,618/-, which would crystallise only if the Company ceases to be a going concern.
- Few litigations filed by the customers against the Company.
Although there can be no assurance, the Directors believe, based on the information currently available, that the ultimate resolution of such legal procedures would not likely to have a material adverse effect on the results of operations, financial position or liquidity. Accordingly, no provision for any liability has been made in these Financial Statements.

46.2 CONTINGENT ASSETS

There are no contingent assets as at the date of Statement of Financial Position.

47. TRUST ACTIVITIES

The Company is not engaged in any trust activities which may have an impact on its financial results, financial position or liquidity of the Company.

48. RELATED PARTY DISCLOSURE

The Company carries out transactions in the ordinary course of business on an arm's length basis at commercial rates with related parties. Except for the transactions that Key Management Personnel (KMPs) have made under schemes uniformly applicable to all the staff at concessionary rates, transactions with the related parties listed below have been at commercial rates.

48.1 PARENT AND ULTIMATE CONTROLLING PARTY

The Company does not have an identifiable parent of its own.

48.2 TRANSACTIONS WITH THE KEY MANAGEMENT PERSONNEL

Key Management Personnel (KMP) are those persons having authority and responsibility for directing, planning and controlling the activities of the Company directly or indirectly. The Board of Directors (including Executive and Non-Executive) of the Company have been classified as Key Management Personnel.

Apartment No. 89-28/4 and 89-28/5, Kollupitiya Road, Colombo 03 is being currently used by one of the Key Management Personnel without any charges for residential purpose.

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Short-term employee benefits	23,447	16,757
Directors' remuneration	53,628	50,563
Post-employee benefits	–	–
	77,075	67,320

48.3 TRANSACTIONS INVOLVING KEY MANAGEMENT PERSONNEL (KMPS) AND THEIR CLOSE FAMILY MEMBERS (CFMS)

Close family members (CFMs) are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include children, spouse or domestic partner of KMPs.

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
Statement of Financial Position		
Liabilities		
Deposits	497,272	392,025
	497,272	392,025
Statements of Comprehensive Income		
Interest expenses	54,012	36,085
Other Transactions		
Dividend paid on shareholding	10,092	28,112

48.4 TRANSACTIONS WITH THE ENTITIES WHICH ARE CONTROLLED BY KEY MANAGEMENT PERSONNEL (KMPS) AND THEIR CLOSE FAMILY MEMBERS (CFMS)

<i>As at 31 March</i>	2016 Rs. '000	2015 Rs. '000
48.4.1 STATEMENT OF FINANCIAL POSITION		
Assets		
Loan and advances	14,331	28,382
Other receivables	326	4,536
Total	14,657	32,918
Accommodation as a % of capital funds	0.21%	0.47%
Liabilities		
Deposits	1,022,306	592,472
Accrued expenses	2,703	1,741
	1,025,009	594,213

<i>For the year ended 31 March</i>	2016 Rs. '000	2015 Rs. '000
Statements of Comprehensive Income		
Interest income on loans and advances	1,251	2,071
Interest expenses on fixed deposits	70,238	49,024
Rent income	4,800	4,800
Other income	7,314	1,944
Security expenses	26,308	23,049

As at 31 March	2016 Rs. '000	2015 Rs. '000
48.4.2 TRANSACTIONS WITH THE ASSOCIATES		
Statement of Financial Position		
Assets		
Other assets	3	1,182
Liabilities		
Deposits	456,794	199,712

For the year ended 31 March	2016 Rs. '000	2015 Rs. '000
Statements of Comprehensive Income		
Interest expenses on fixed deposits	26,966	15,379
Rent income	1,200	1,200
Other income	1,599	2,931
Other Transactions		
Dividend income	14,239	10,684

49. ASSETS PLEDGED

The following assets have been pledged as security for banking and loan facilities:

Name of the bank	Nature of the facility	Facility amount Rs. million	Outstanding as at 31.03.2016 Rs. '000	Securities/mortgages
Commercial Bank of Ceylon PLC	Overdraft	125	42,348	Mortgaged over investment in quoted shares by the Company.
	Money market loan	200	200,000	Mortgaged over hire purchase & leases receivables for Rs. 260 million.
	Term loan	500	143,000	Mortgaged over hire purchase & leases receivables for Rs. 650 million.
	Term loan	500	300,500	Mortgaged over hire purchase & leases receivables for Rs. 500 million.
	Term loan	500	486,100	Mortgaged over hire purchase & leases receivables for Rs. 500 million.
	Term loan	1,000	708,240	Mortgaged over hire purchase & leases receivables for Rs.1 billion.
	Short-term loan	500	458,330	Mortgaged over hire purchase & leases receivables for Rs. 500 million.
Hatton National Bank PLC	Overdraft	400	396,786	Mortgaged over investment in quoted shares by the Company.
	Term loan	500	333,120	Mortgaged over hire purchase & leases receivables for Rs. 700 million.
	Term loan	1,000	937,500	Mortgaged over hire purchase & leases receivables for Rs. 1 billion.
Hongkong & Shanghai Banking Corporations Limited	Short-term loan	400	400,000	Mortgaged over hire purchase & leases receivables for Rs. 400 million.
	Short-term loan	100	100,000	Mortgaged over hire purchase & leases receivables for Rs. 100 million.
Sampath Bank PLC	Overdraft	100	15,685	Mortgaged over Maharagama property at Vajiragnana Mawatha, Maharagama for Rs. 100 million. Promisory Note for Rs. 100 million.
Seylan Bank PLC	Term loan	500	354,166	Mortgaged over hire purchase & leases receivables for Rs. 1.5 billion.
	Short-term loan	500	400,000	

Name of the bank	Nature of the facility	Facility amount Rs. million	Outstanding as at 31.03.2016 Rs. '000	Securities/mortgages
Bank of Ceylon PLC	Term loan	166	74,168	Mortgaged over hire purchase & leases receivables for Rs. 266 million.
	Term loan	22.4	3,748	
Securitised borrowings	Term loan (Trust 15)	1,000	899,800	Mortgaged over hire purchase & leases receivables for Rs. 1 billion.
	Term loan (Trust 13)	824.6	129,400	Mortgaged over hire purchase & leases receivables for Rs. 824.6 million.
	Term loan (Trust 14)	567.061	233,892	Mortgaged over hire purchase & leases receivables for Rs. 567.06 million.
	Term loan BOC (Trust 1)	1,000	1,000,000	Mortgaged over hire purchase & leases receivables for Rs. 1 billion.
National Development Bank PLC	Short-term loan	750	750,000	Mortgaged over hire purchase & leases receivables for Rs. 2.375 billion.
Nations Trust Bank PLC	Short-term loan	200	200,000	Mortgaged over hire purchase & leases receivables with the collateral margin of 30%.

50. EVENTS AFTER THE REPORTING DATE

ACCOUNTING POLICY

Events after the reporting period are those events, favourable and unfavourable, that occur between the reporting date and the date when the Financial Statements are authorised for issue. In this regard, all material and important events that occurred after the reporting period have been considered and appropriate disclosures are made into the Financial Statements where necessary.

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosures in the Financial Statements.

51. FINANCIAL REPORTING BY SEGMENTS AS PER THE PROVISIONS OF SRI LANKA FINANCIAL REPORTING STANDARD – SLFRS 08

ACCOUNTING POLICY

An operating segment is a component of the Company that engages in business activities from which it may earn revenues and incur expenses, including revenues and incur expenses, that relate to transactions with any of the Company's other components, whose operating results are reviewed regularly by the Company Management Committee (being the chief operating decision-maker) to make decisions about resources allocated to each segment and assess its performance, and for which discrete financial information is available.

As per the provisions of Sri Lanka Reporting Standard – SLFRS 8, the operating segments of the Company has been identified based on the products and services offered by the Company of which level of risk and rewards are significantly differ from one another.

The operating business are organised and managed separately according to the nature of the products and services provided with each segment representing a strategic business unit that offers different products and serves different markets. The operating segments identified by the Company for are as follows:

Finance lease	This segment includes finance leasing products offered to the customers
Hire purchase	This segment includes hire purchase products offered to the customers
Loans and advances	This segment include vehicle loans, loans against property mortgages and microfinance lending
Investments	This segment includes the investments in equities and debt securities
Other	This segment includes all other business activities other than the above segments

The Company has aggregated all other business lines under 'other segment' considering the risks and rewards and the materiality criteria.

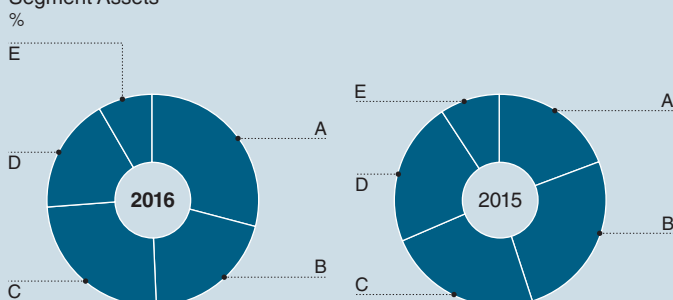
Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis. The accounting policies adopted for segment reporting are those accounting policies adopted for preparing Financial Statements of the Company. Inter-segment transfers are accounted at arm's length basis.

51.1 BUSINESS SEGMENTS

The following table presents the income, profit and assets and liability information on the Company business's segment for the year ended 31 March 2016 and comparative figures for the year ended 31 March 2015.

For the year ended 31 March	Finance lease		Hire purchase	
	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
External Operating Income				
Interest income	1,317,611	936,682	1,459,426	1,696,824
Interest expenses	629,510	436,326	697,264	790,417
Net interest income/(expenses)	688,101	500,356	762,162	906,407
Fee and commission income	–	–	–	–
Capital gains	–	–	–	–
Dividends	–	–	–	–
Others	–	–	–	–
Total operating income	688,101	500,356	762,162	906,407
Impairment charge/(reversal) for loans and receivables	49,100	78,779	(12,573)	189,914
Net operating income	639,001	421,577	774,735	716,493
Personnel expenses	159,608	98,034	176,787	177,591
Commission	62,456	20,653	37,353	42,847
Depreciation and amortisation	14,998	19,466	16,612	35,263
Disallowed VAT on expenses	3,606	1,724	3,994	3,123
Other overheads	181,034	115,487	200,518	209,208
	421,702	255,364	435,264	468,032
Operating profit before value added tax on financial services	217,299	166,213	339,471	248,461
Value added tax and NBT on financial services	41,309	26,207	45,755	47,475
Operating profit after value added tax on financial services	175,990	140,006	293,716	200,986
Share of associate company's profit before taxation				
Profit before taxation from operations				
Income tax expenses				
Profit for the year				
Other Information				
As at 31 March				
Segment assets	9,925,519	5,409,676	6,825,676	7,398,614
Segment liabilities	7,686,927	3,928,234	5,286,219	5,372,502
Net assets	2,238,592	1,481,442	1,539,457	2,026,112

Segment Assets

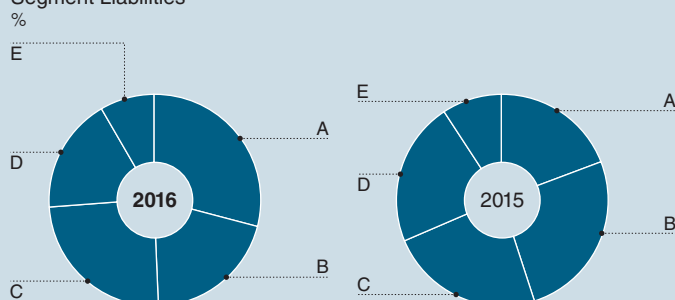


A - Finance Lease
B - Hire Purchase
C - Loans & Advances
D - Investments
E - Other

2016 2015

30 19
20 27
24 23
18 22
8 9

Segment Liabilities



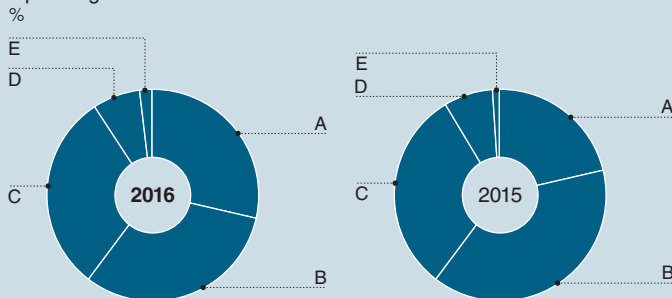
A - Finance Lease
B - Hire Purchase
C - Loans & Advances
D - Investments
E - Other

2016 2015

30 19
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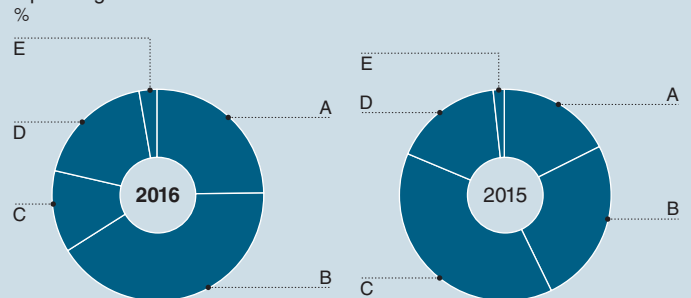
Loans & advances		Investments		Others		Total	
2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000	2016 Rs. '000	2015 Rs. '000
1,395,042	1,366,234	129,749	129,655	—	—	4,301,828	4,129,395
666,504	636,421	61,990	60,396	43,110	24,223	2,098,378	1,947,783
728,538	729,813	67,759	69,259	(43,110)	(24,223)	2,203,450	2,181,612
—	—	—	—	58,927	47,554	58,927	47,554
—	—	5,143	13,049	—	—	5,143	13,049
—	—	103,072	91,843	—	—	103,072	91,843
—	—	—	—	31,305	4,447	31,305	4,447
728,538	729,813	175,974	174,151	47,122	27,778	2,401,897	2,338,505
198,289	27,048	—	—	—	—	234,816	295,741
530,249	702,765	175,974	174,151	47,122	27,778	2,167,081	2,042,764
168,988	142,991	15,717	13,570	10,929	5,442	532,029	437,628
17,727	13,727	—	—	—	—	117,536	77,227
15,879	28,393	1,477	2,694	1,028	1,080	49,994	86,896
3,817	2,514	355	—	247	96	12,019	7,457
191,672	168,449	17,827	15,986	12,392	6,411	603,443	515,541
398,083	356,074	35,376	32,250	24,596	13,029	1,315,021	1,124,749
132,166	346,691	140,598	141,901	22,526	14,749	852,060	918,015
43,736	38,226	7,460	6,562	2,830	1,456	141,090	119,926
88,430	308,465	133,138	135,339	19,696	13,293	710,970	798,089
						91,675	113,795
						802,645	911,884
						(297,626)	(280,612)
						505,019	631,272
8,302,333	6,660,003	6,033,417	6,375,027	2,877,762	2,565,505	33,964,707	28,408,825
6,429,833	4,836,159	4,672,645	4,629,224	2,234,851	1,862,940	26,310,475	20,629,060
1,872,500	1,823,844	1,360,772	1,745,803	642,911	702,565	7,654,232	7,779,765

Operating Income



	2016	2015
A - Finance Lease	29	21
B - Hire Purchase	32	40
C - Loans & Advances	30	31
D - Investments	7	7
E - Other	2	1

Operating Profit



	2016	2015
A - Finance Lease	25	18
B - Hire Purchase	41	25
C - Loans & Advances	12	38
D - Investments	19	17
E - Other	3	2

52. CURRENT AND NON-CURRENT ANALYSIS OF ASSETS AND LIABILITIES

The table below shows an analysis of assets and liabilities analysed according to when they are expected to be recovered or settled:

As at 31 March	2016			2015		
	Within 12 months Rs. '000	After 12 months Rs. '000	Total Rs. '000	Within 12 months Rs. '000	After 12 months Rs. '000	Total Rs. '000
Assets						
Financial Assets						
Cash and cash equivalents	344,062	–	344,062	406,648	–	406,648
Placement with banks	463,842	1,142	464,984	438,372	–	438,372
Financial investments available-for-sale	3,852,148	788,967	4,641,115	3,379,049	1,763,224	5,142,273
Loans and receivables	4,355,208	3,947,125	8,302,333	2,762,933	3,897,070	6,660,003
Finance lease receivables	3,405,876	6,519,643	9,925,519	1,829,385	3,580,291	5,409,676
Hire purchase receivables	2,942,343	3,883,333	6,825,676	2,825,393	4,573,221	7,398,614
Other financial assets	110,440	–	110,440	97,711	–	97,711
Total financial assets	15,473,919	15,140,210	30,614,129	11,739,491	13,813,806	25,553,297
Non-Financial Assets						
Inventories	16,467	–	16,467	14,193	–	14,193
Current tax receivables	27,212	–	27,212	–	–	–
Investment in associates	–	927,318	927,318	–	794,381	794,381
Other assets	11,902	60,512	72,414	13,121	32,519	45,640
Property, plant & equipment	–	1,803,939	1,803,939	–	1,756,125	1,756,125
Leasehold property	–	42,608	42,608	–	43,076	43,076
Intangible assets	–	12,386	12,386	–	3,344	3,344
Investment property	–	448,234	448,234	–	198,769	198,769
Total non-financial assets	55,581	3,294,997	3,350,578	27,314	2,828,214	2,855,528
Total assets	15,529,500	18,435,207	33,964,707	11,766,805	16,642,020	28,408,825
Liabilities						
Financial Liabilities						
Bank overdraft	412,472	–	412,472	272,634	–	272,634
Deposits due to customers	11,870,560	3,945,030	15,815,590	10,199,399	3,521,330	13,720,729
Debt instruments issued and other borrowings	4,943,846	3,583,323	8,527,169	3,936,689	1,745,951	5,682,640
Other financial liabilities	1,052,327	–	1,052,327	561,318	–	561,318
Total financial liabilities	18,279,205	7,528,353	25,807,558	14,970,040	5,267,281	20,237,321
Non-Financial Liabilities						
Current tax liabilities	–	–	–	46,999	–	46,999
Deferred tax liability	–	343,259	343,259	–	221,601	221,601
Other liabilities	13,423	–	13,423	3,021	–	3,021
Retirement benefit obligation	–	146,235	146,235	–	120,118	120,118
Total non-financial liabilities	13,243	489,494	502,917	50,020	341,719	391,739
Total liabilities	18,292,628	8,017,847	26,310,475	15,020,060	5,609,000	20,629,060
Net assets/liabilities	(2,763,128)	10,417,360	7,654,232	(3,253,255)	11,033,020	7,779,765

53. FINANCIAL RISK MANAGEMENT

53.1 INTRODUCTION

Risk management and related reporting issues that are associated with financial institutions valuations of complex transactions and their impact to capital requirements, has received unstinted attention in the recent decade. Numerous Risks inherent to a financial institution due to its nature of business and also other factors, are managed through a process of ongoing identification, measurement and monitoring activities subject to risk limits and other controls. This process of risk management is critical to MI's continuing profitability and building reputation, with each individual in the Organisation being responsible and accountable for risk exposure relating to his/her scope of work. MI's risk management process is streamlined in effect to ensure there is appropriate balance between risk and rewards. By instilling various controls and strategies, the Management continuously strives to mitigate risks in the attempt of generating higher profits.

As a finance Company MI, is exposed to a number of risks arising from dealing in financial transactions, involving mainly financial assets and liabilities. Key risks associated with MI's business revolve around:

- Credit risk
- Liquidity risk
- Market risk
 - Interest rate risk
 - Equity risk
- Operational risk

This note provides disclosure about MI's exposure to each of the above identified risks and outlines management process for the identification, measurement and monitoring of associated risks.

53.2 MI'S RISK MANAGEMENT FRAMEWORK

53.2.1 MI'S BOARD ROLE IN RISK MANAGEMENT

MI's Board of Directors is responsible for establishing and oversight of the risk management framework and for approving risk management principles and strategies, related procedures and control measures. The Board discharges its governance responsibility through key Board Sub-Committees. Namely: the Board Integrated Risk Management Committee (IRMC), Assets and Liabilities Management Committee (ALCO) and the Audit Committee. Other Board Sub-Committees namely: the Credit, Remuneration, Nomination and Related Party Transaction Review Committees have been entrusted to oversee specific business areas or types of transactions to handle associated risks and for ensuring sound governance. These Sub-Committees either directly or indirectly assist IRMC in maintaining sound risk governance.

The Board Integrated Risk Management Committee (IRMC) has the overall responsibility for developing the risk strategy and overseeing the effectiveness of controls through implementing principles, frameworks, policies and limits. The IRMC is also responsible for managing and monitoring risk levels and reports on a quarterly basis to the Supervisory Board.

Based on IRMC's terms of reference, a formal risk management policy was established to identify and analyse key risks specific to MI's business and sets forth a mechanism to counter potential threats. The established risk management policy, controls and systems are reviewed on a continuous basis to ensure they are adequate in the light of market sophistication and changes occurring to products and services offered. At MI, risks are measured using appropriate techniques based on the type of risk involved and uses several measures to obtain correct measurement at any given time. The Management resorts to sensitivity analysis and stress testing to ascertain impacts from risks based on possible and worst case scenarios and forecast based on specific assumptions.

Risk management policies of the Company are aligned to the overall businesses strategy, based on accepted industry norms on risk tolerance levels and risk appetite levels of MI. The Board and its Sub-Committees set forth predetermined threshold risk limits for Sub-Committees management to follow. Corporate management is required to monitor deviations and to report to relevant Supervisory Committees and the Board periodically so that if there are concerns, suitable actions can be implemented.

Based on MI's risk policy, key risk management processes are audited annually by the Internal Audit function, which examines both adequacy of the procedures and MI's compliance with the procedures. Internal Audit discusses the results of all assessments with the Management and reports its findings and recommendations to the Audit Committee.

53.2.2 (A) CORPORATE MANAGEMENT'S ROLE IN RISK MANAGEMENT

In line with the Company's 'Risk Policy', Corporate Management handling key functions of MI's business operation is responsible to develop and implement required controls to ensure risks associated to their functional areas are avoided or mitigated to the expectations and risk appetite levels of the organisation. The key divisions coming under the Risk Policy 'framework include:

1. Credit and Marketing Division including branches.
2. Deposits Division
3. Recoveries Division
4. Finance Division
5. Legal Division
6. Other support Divisions

53.2.2 (B) RISK REVIEW COMMITTEES/BOARD SUB-COMMITTEES AND THEIR FUNCTIONS IN SUPPORTING RISK MANAGEMENT IN 2015/16 FINANCIAL YEAR

Committee	Risk Aspects Reviewed in 2015/16
Integrated Risk Management Committee (IRMC)	Refer pages 298 to 330 of the Risk Report for full disclosure in this regard
Audit Committee	
Credit Committee	
Assets and Liabilities Committee (ALCO)	
Management Committee	

53.3 CREDIT RISK

For MI credit risk could materialise to a financial loss to the Company if a borrower to a financial instrument fails to meet its specified contractual obligations. Since MI possesses over Rs. 25 billion loans and advances portfolio and other comparable financial instruments including investments in debt securities, MI is exposed to credit risk that need to be managed.

In managing credit risks which is deemed the main risk element to a finance company like ours, the Management takes into account all elements of credit risk exposures both at micro and macro levels. This includes analysing individual obligor default risk, industry specific risk and geographical risk as part of MI's comprehensive credit risk management process.

53.3.1 CREDIT RISK MANAGEMENT PROCESS

Under the leadership of Director Credit and Marketing (Non-Board) the Credit Division is responsible to strictly adhere to credit policies, procedures and practices, which is established on a sound control framework that aims to mitigate potential risk. From the moment of customer inquiry to final disbursement and then to the process of collection, that is handled at the Recoveries Division. The Management is expected to follow predetermine controls set to manage associated risk.

In mitigating credit risk, the Company resorts to obtaining collaterals which are valued by recognised external valuers and also by our own internal valuation and disposal unit who possess the expertise to generate accurate valuations. MI's 'Internal Valuation Unit' supports the credit disbursement process by providing valuation and inspection reports to improve the accuracy of collateral valuation process. The Credit Division takes collateral against the lending merely as a precaution, as a secondary source of payment in the event of a borrower default.

At macro level, the IRMC through the risk manager carries out monthly, quarterly and annual risk assessments related to credit risk and proposes suitable recommendations to counter any identified risk. The Board's Credit Committee is entrusted to review high value credit over a specified Board approved value, to ensure there is adequate expertise bearing down on high value lending to maintain credit quality.

CREDIT OPERATION MANUAL

MI's credit operation manual, which was revised with strengthened credit practices in 2015, specifies effective credit operational procedures for staff to follow. This provides clear guidance on collateral requirements, minimum documentation requirements, while specifying the required credit assessment process to be adopted together with applicable credit authority limits. The specified process covers aspects relating to customer selection, early alert reporting, due diligence, adherence to statutory requirements and portfolio monitoring. The manual was again reviewed this period and necessary instructions were sent as circulars forming part of the overall procedures. Management ensures that the credit manual is aligned at all times with MI's overall business strategy and changing business needs.

LOAN ORIGINATION

Loan origination process of MI encompasses initial screening and credit appraisal. This process focuses on appraising a customer's creditworthiness referring to financial documents submitted, CRIB and by carrying out site visits. As an integral part of the risk mitigation process, MI reviews type and the quality of collaterals given to the Company in the loan origination process. It recommends additional security and guarantors as deemed necessary for riskier lending and reduced exposure levels gradually.

CREDIT AUTHORISATION STRUCTURE

Credit authorisation limits have been specified for various levels of credit staff based on the relevant officer's grade and authority level. Credit facilities to be extended exceeding these threshold values require approval from the Head of Credit, Credit Committee or the Board of Directors depending on the value or type of lending in concern.

CREDIT APPRAISAL PROCESS

Credit to be extended is firstly reviewed and assessed by credit officers and then reviewed by relevant Manager/Senior Manager/Assistant General Manager/Director (Non-Board) – Credit & Marketing. They assess extent of credit exposure within their designated limits, prior to granting the facility to the customer in concern and assesses the adequacy of the collaterals given against proposed credit as a ratio, as a key risk mitigating factor. Renewal of facilities is also subject to the same risk appraisal process. The maximum loan to value ratio of 70% introduced in December 2015 was adhered to for vehicle backed lending, which strengthened the quality of lending.

CREDIT ADMINISTRATION AND DISTRIBUTION

MI's loan portfolio continued to be centrally administrated through the head office which ensures key credit functions covering from disbursement of credit, settlement recovery, processing renewal notices to customer educating and advising. Branches role involved bringing in credit business from various locations and initial credit documentation collection and review process, credit appraisal and recommending credit or approving them as appropriate. With the support of recovery staff, Branch Credit assisted in collection of instalments subsequent to disbursements.

CREDIT MEASUREMENT AND MONITORING

The IRMC measures and tracks the quality of the credit portfolio periodically, using tools such as scenario analysis, impact studies, and by identifying early warning signs. The Committee reviewed the credit risk dashboard prepared by the Manager – Risk and Compliance to identify any credit portfolio concerns. The oversight of the credit risk function vests with the IRMC of the Company. Identified concerns or adverse trends are addressed by the Committee in co-ordination with the relevant officers of the Corporate Management. As part of IRMC's periodic review of credit risk, actual credit exposures are compared against set internal limits, including those for selected industries, geographical areas and product types.

RECOVERY PROCESS

Recovery of periodic dues associated to MI's loan book including the problematic loan portfolio is managed by the Recoveries Division which is headed by the Deputy Managing Director. The division manages the overall aspects of non-performing loan facilities, restructuring of credit facilities, reviewing the value of collaterals, legal documentation and liaising with the customer for recovery collection. Recoveries Division functions are impeccably aligned with credit administration and credit risk management process to ensure a sound and effective credit disbursement and recovery system is maintained in line with organisational objectives on asset quality. The involvement of the Recovery Division in making individual impairment assessments on a monthly basis has enhanced the review and recovery process further.

REGULAR CREDIT AUDITS

Based on predefined annual audit programmes that cover credit review requirements, continuous internal audits are carried out by MI's internal audit division jointly with Ernst and Young Advisory Services (Pvt) Limited which focuses upon a thorough credit audit and reporting.

ASSETS NOT READILY CONVERTIBLE TO CASH AND ASSOCIATED RISK

During normal course of business the Company takes over property mortgages against lendings given, when they are in default by the borrower. The original lending has been made after carrying out a thorough assessment of the underlying security. So, the investment properties given in Note 30 are considered as prime properties which can be disposed at the given market price.

DEFINITIONS RELATED TO CREDIT

- **Impairment**
This occurs when the recoverable amount of an asset is less than its carrying amount. Please refer Note 2.11.3 to the Financial Statements for details on impairment methodology adopted and related policies.
- **Individual impairment**
Significant lendings are assessed individually for impairment. Assets are tested under individual impairment, if the carrying value of the underlying asset is greater than a predetermined threshold. The threshold specified at MI, varies product category-wise and this enables the Company to build defenses against the risk of high exposure contracts defaulting on payments.
- **Past due**
MI considers that any amount uncollected one day or more beyond their contractual due date are 'past due'.
- **Non-performing loans (NPL)**
A loan placed on a cash basis (i.e., interest income is only recognised when cash is actually collected) after when six instalments or more are overdue, as there is reasonable doubt regarding the collectability of its instalments of capital and interest.

53.3.2 CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

MI ascertains the credit quality of financial asset using a Company specific credit quality categorisation method based on collateral buffer and loss rate indicators. The table below discloses the credit quality of MI's financial assets by its class as at the end of the financial year based on the credit risk categorisation mechanism adopted by the Company.

53.3.2. A. CREDIT QUALITY BY CLASS OF FINANCIAL ASSETS

As at 31 March 2016

	Neither past due nor impaired high grade Rs. '000	Standard grade Rs. '000	Low grade Rs. '000	Past due not impaired Rs. '000	Individually impaired Rs. '000	Total Rs. '000
Financial Assets						
Cash and short-term fund	344,062					344,062
Placements with the banks	464,984					464,984
Financial investments – available-for-sale	4,641,115					4,641,115
Other financial assets	110,441					110,441
Hire purchase receivable	4,402,457	275,024	458,533	1,527,426	465,547	7,128,987
Finance lease receivables	7,575,901	407,322	308,922	1,288,655	529,991	10,110,791
Loans and advances	6,288,485	–	–	864,028	1,437,872	8,590,385
Total	23,827,445	682,346	767,455	3,680,109	2,433,410	31,390,765

COMMENTARY

More than 75% of MI's financial assets are of 'high grade' which are neither past due nor impaired mainly comprising of the lendings and financial investments – Available-for-sale. There is constant review of individual impaired past due not impaired and low grade accounts by MI's recovery division to sustain overall asset quality, taking appropriate recovery measures on a timely manner.

53.3.2.B. PAST DUE (FACILITIES IN ARREARS OF 1 DAY AND ABOVE) BUT NOT IMPAIRED AGE ANALYSIS BY CLASS OF FINANCIAL ASSETS

	Past due not impaired					Total Rs. '000
	Less than 30 days Rs. '000	31 to 60 days Rs. '000	61 to 90 days Rs. '000	91 to 120 days Rs. '000	120 and to 180 days Rs. '000	
Hire purchase receivables	776,777	406,581	65,834	22,639	255,595	1,527,426
Finance leases receivables	713,571	350,417	50,853	28,453	145,361	1,288,655
Loans and receivables	427,640	208,743	42,583	17,776	167,014	864,028
Total	1,917,988	965,741	159,540	68,868	567,971	3,680,108

53.3.2.C. TYPES OF COLLATERAL TAKEN MINIMISE CREDIT EXPOSURE

Type of lending	Collateral generally obtained
Lease	Agricultural land and vehicles, commercial property, computer hardware and equipment, dual purpose vehicles, land vehicles, motor bicycles, motor cars, motor coaches, motor lorries, motor tricycles, non-agricultural land vehicles, other equipment, other machinery, prime movers, tractor three wheels and tractor four wheels.
Hire purchase	Same as above
Personal loans/term loans	Same as above except residential property
Microfinance	Promissory Notes

Type of collateral	Value of collateral		
	Hire purchase	Lease	Personal loans/ term loans
	Rs. '000	Rs. '000	Rs. '000
Dual purpose vehicles	1,906,541	2,416,402	1,013,402
Motor cars	2,743,754	5,205,348	3,970,535
Motor coaches	367,710	490,384	152,073
Motor lorries	1,183,245	554,462	117,823
Others	927,647	1,444,195	1,101,414
Properties	—	—	2,235,138
Total	7,128,897	10,110,791	8,590,385

As an additional safeguard, guarantors are requested particularly for lease and hire purchase business. The Company resorts to repossession of assets kept as security when the borrowers default goes beyond the specified credit period. The sales proceeds resulting from the subsequent sale of such assets are then used to minimise credit risk exposure.

53.3.3 ANALYSIS OF RISK CONCENTRATION

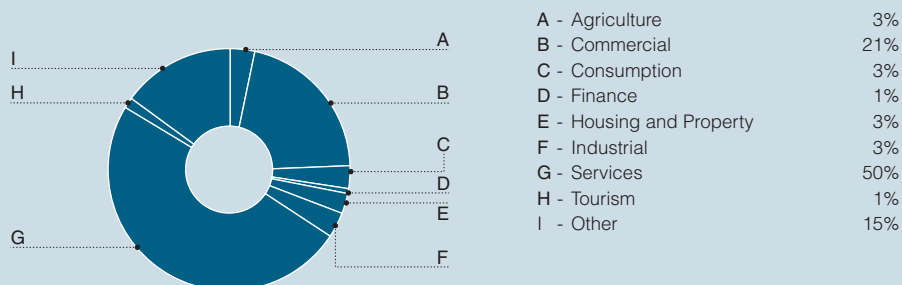
MI monitors credit concentration risk by referring to the degree of credit exposure by MI to various sectors and by geographic location.

53.3.3.A SECTOR-WISE ANALYSIS

The following table shows the maximum credit exposure of MI's loans and advances to various sectors as at the end of the financial year:

Concentration by sector	As at 31.03.2016 Rs. '000	%	As at 31.03.2015 Rs. '000	%	As at 31.03.2014 Rs. '000	%
Agriculture	854,582	3.3	689,826	3.4	666,833	4
Commercial	5,431,608	21.02	3,950,030	19.6	3,765,360	23
Consumption	813,470	3.15	534,806	2.7	352,921	2
Finance	171,595	0.66	99,679	0.5	89,496	1
Housing and property	695,059	2.69	314,565	1.6	124,085	1
Industrial	852,889	3.3	706,636	3.5	771,197	5
Others	3,851,287	14.91	3,099,147	15.4	2,350,096	14
Services	12,805,217	49.57	10,441,629	51.9	8,233,102	48
Tourism	354,365	1.4	300,951	1.5	292,046	2
Total	25,830,073	100	20,137,269	100	16,645,136	100

Sector Wise Credit Concentration 2015/16
%



COMMENTARY

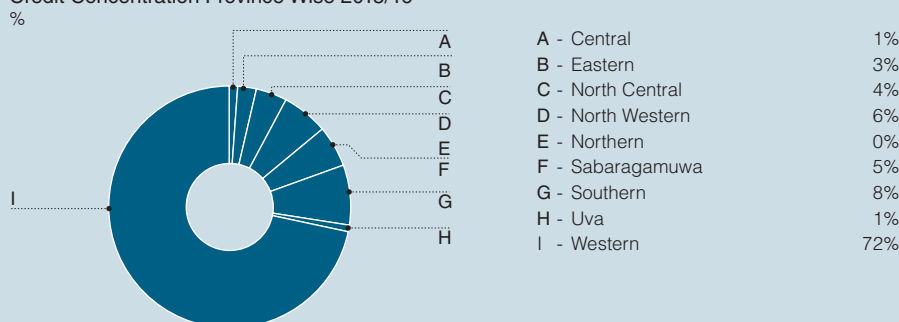
There is a high percentage lending to services sector reaching almost 50% of total lending mainly attributed to lending's carried out for transportation services. Management would monitor risk levels attached to these sectors on an ongoing basis. Currently, these sectors do not pose any significant risk.

53.3.3.B PROVINCE-WISE ANALYSIS

This table below discloses MI's credit exposure to various provinces based on the lending carried out by MI's branch network that is scattered across the country:

Concentration by sector	As at 31.03.2016 Rs. '000	%	As at 31.03.2015 Rs. '000	%	As at 31.03.2014 Rs. '000	%
Western	18,487,624	71.6	14,718,811	73.1	12,322,596	74.03
Central	312,311	1.21	225,143	1.01	168,196	1.01
Eastern	651,661	2.52	548,360	2.7	439,610	2.64
North Central	1,035,443	4.01	710,440	3.67	414,884	2.49
North Western	1,571,683	6.08	1,066,584	5.3	1,013,062	6.09
Northern	5,838	0.02	9,567	0.04	12,226	0.07
Sabaragamuwa	1,418,995	5.49	932,299	4.62	706,206	4.24
Southern	2,105,357	8.15	1,705,543	8.46	1,359,202	8.17
Uva	241,160	0.93	220,522	1.1	209,154	1.26
Total	25,830,073	100	20,137,269	100	16,645,136	100

Credit Concentration Province Wise 2015/16



COMMENTARY

MI's lending is mainly concentrated around the Western Province with a 72% contribution towards total lending compared to last year's 73%. In keeping to MI's expansion strategy and volume growth expectation outside the Western Province, there is already a clear indication of diversification to other regions, in particular the Southern, North Central, North Western and Sabaragamuwa Provinces.

53.4 LIQUIDITY RISK

For the finance industry which carries large values of liabilities, a Company may succumb to liquidity risk in instances where it encounters difficulties in meeting its financial liabilities which the Company is bound to settle either in cash or through another financial asset.

The key sources of funding for the Company is its capital base, core deposits mobilised from customers, borrowings obtained from money market instruments and bank funding lines. MI has implemented strict policies on managing of its assets, keeping liquidity as a vital focus, monitoring the liquidity position on a daily basis through the Finance Division under the leadership of the Finance Director. MI being a financially sound institution has maintained a solid financial position to meet its liabilities over its fifty-year history. To strengthen liquidity management MI Board established the Assets and Liability Management Committee (ALCO) to oversee liquidity risk aspects associated with MI's businesses. The IRMC was formed soon after CBSL issued the Corporate Governance Direction in 2013. It reviews independently the effectiveness of the liquidity risk management process and recommends suitable actions when necessary to the Board and the Management.

The Company has developed adequate control mechanisms to manage liquidity both in short and longer horizons by estimating future cash flows. The three-year strategic plan devised this period projected the long-term cash flow position so that appropriate strategic measures could be devised to manage future liquidity requirements.

During the year, in managing short and medium-term funding needs, the Treasury Division resorted to following borrowing options to mobilise funds in addition to encouraging deposits mobilisation as its primary source of fundings:

1. Utilising available borrowing lines from MI's traditional borrowing partners.
2. Seeking fresh long-term funding lines from banks and other financial sources at favourable terms.
3. Securitisations at variable rates.
4. Increased focus in mobilising major component of funding from the deposit business as opposed to borrowings.

53.4.1. A EXPOSURE TO LIQUIDITY RISK

Ratio	2016 %	2015 %	2014 %
Net loans/customer deposits	158	142	142
Net loans/total assets	74	69	69
Statutory liquid asset ratio (LAR):			
Average for the year	13	13	13
Minimum for the year	12	12	11
Maximum for the year	16	16	15

COMMENTARY

MI was able to maintain a statutory liquidity ratio well above the minimum requirement as at the balance sheet date. MI's net loans to deposits ratio is at 158% and Management plans to bring this ratio below 130% as per forecast within the next financial year with the planned growth in deposits.

53.4.2 FINANCIAL ASSETS AND LIABILITIES BY REMAINING CONTRACTUAL MATURITIES

The following tables show the maturity gap analysis of MI's financial assets and financial liabilities based on their remaining period to maturity undiscounted as at 31 March 2016.

	On demand Rs. '000	Up to 3 months Rs. '000	3 to 12 months Rs. '000	1 to 3 years Rs. '000	3 to 5 years Rs. '000	More than 5 years Rs. '000	Total Rs. '000
Assets							
Financial Assets							
Cash and cash equivalent	344,062	0	0	0	0	0	344,062
Placements with banks	0	0	463,842	0	0	1,142	464,984
Financial investments – available-for-sale	2,781,223	636,795	434,129	0	0	788,967	4,641,115
Loans and receivables	0	1,220,828	3,134,381	3,014,457	1,015,118	(82,449)	8,302,334
Finance lease receivable	0	894,131	2,511,744	4,764,255	1,728,289	27,099	9,925,519
Hire purchase receivables	0	876,617	2,065,726	3,103,318	605,688	174,327	6,825,675
Other financial assets	0	110,440	0	0	0	0	110,440
Inventories	0	14,473	1,994	0	0	0	16,467
Current tax receivables	0	0	27,212	0	0	0	27,212
Investment in associates	0	0	0	0	0	927,318	927,318
Total financial assets	3,125,285	3,753,284	8,639,028	10,882,030	3,349,095	1,836,404	31,585,126
Liabilities							
Financial Liabilities							
Bank overdraft	0	412,472	0	0	0	0	412,472
Deposits due to customers	0	4,549,604	7,320,956	3,401,930	543,100	0	15,815,590
Debt instruments issued and other borrowings	0	1,948,785	2,898,170	3,098,225	581,989	0	8,527,169
Other financial liabilities	0	857,867	194,460	0	0	0	1,052,327
Deferred tax liability	0	0	0	0	0	343,259	343,259
Total financial liabilities	0	7,768,728	10,413,586	6,500,155	1,125,089	343,259	26,150,817
Net financial assets/liabilities	3,125,285	(4,015,444)	(1,774,558)	4,381,875	2,224,006	1,493,145	5,434,309

COMMENTARY

MI continued to focus on obtaining deposits that of longer term and borrowed more medium-term or longer funding from its banking partners. Under the supervision of ALCO, MI's overall 1 year mismatch was brought down from Rs. 2.4 billion to Rs. 1.8 billion in 1 year's period.

Performance in Statutory Liquidity Position

Liquidity position is monitored on a daily basis under the supervision of the Finance Director/CFO and this covers the maintaining of the minimum statutory liquidity position. Further, periodic statutory liquid assets position reports were submitted to the regulator on due dates. MI's statutory liquid assets ratio and the minimum approved securities requirement were well above the minimum requirements specified by the regulator as shown below:

	CBSL minimum requirement as at 31 March 2016	Actual 31 March 2016	CBSL minimum requirement as at 31 March 2015	Actual 31 March 2015
Total liquid assets (Rs. '000)	1,605,562	1,881,722	1,406,334	1,773,833
Statutory liquid assets ratio (%)	11.67	11.73	11.67	12.45
Minimum approved securities (Rs. '000)	1,024,132	1,070,924	826,727	928,813

To avail as funds, the total unutilised credit lines stood at Rs. 714 million as at 31 March 2016. The Company was able to attract additional funding lines and also to pursue other sources of funding mainly from our Banking partners to meet temporary and longer term liquidity requirements.

53.5 MARKET RISKS

Market risk would arise when the fair value or future cash flows of financial instruments of the Company fluctuate due to changes in market variables such as interest rates, exchange rate and equity prices. MI's market risk exposure primarily revolves around interest rate risk and equity price risk. MI is not exposed to exchange rate risk materially at present, despite being an authorised money changer, due to negligible transaction levels recorded.

53.5.1 INTEREST RATE RISK

For MI, interest rate risk could arise due to fluctuations in the interest rate resulting in adverse impact to future cash flows or the fair values of financial instruments of the Company.

MI's approach in managing interest rate risk is to continuously monitor positions on a daily basis to levels that are viable and prudent. To keep interest rate risk moderate, MI's risk management function assists in analysing interest rate trends and predicting cycles so that the Company enters into transactions without unnecessarily exposing MI to such risks. In analysing impacts of interest rate on profitability, the Company analyses MI's interest rate sensitivity level based on MI's financial assets and liabilities terms of interest payments, thus helping to ascertain various interest rate movements.

53.5.1.A. INTEREST RATE SENSITIVITY ANALYSIS

Given below is a sensitivity analysis carried out as at 31 March 2016 that demonstrates possible impact to MI's income statement due to a given change in interest rates, keeping all other variables constant:

	Market rates up by 0.5% effect to the interest income/ (expenses) Rs. '000	Market rates drop by 0.5% effect to the interest income/ (expenses) Rs. '000	Market rates up by 1% effect to the interest income/ (expenses) Rs. '000	Market rates drop by 1% effect to the interest income/ (expenses) Rs. '000
Effect on rate sensitive assets	140,905	(140,905)	281,809	(281,809)
Effect on rate sensitive liabilities	(122,776)	123,776	(247,552)	247,552
Sensitivity/effect to income statement	17,129	(17,129)	34,257	(34,257)

COMMENTARY

MI possesses interest rate sensitive assets of Rs. 27.5 billion and rate sensitive liabilities of Rs. 24.8 billion. Currently the impact from an interest rate fluctuation of 1% + or (1%) is negligible.

ASSUMPTIONS AND LIMITATIONS

- The interest rates movements have been applied on the basis that both assets and liabilities pricing rates are on a fixed basis. i.e. assumed no floating rates applicable.
- The market rates are predicted not to change materially in the foreseeable future.
- The lending and deposit volumes are assumed to remain unchanged.

53.5.1.B. FINANCIAL ASSETS AND FINANCIAL LIABILITIES EXPOSED TO INTEREST RATE RISK

Disclosed below are the Company's financial assets and financial liabilities exposed to interest rate risk as at 31 March 2016. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorised by the earlier of contractual repricing or maturity dates:

	Up to 3 months Rs. '000	4-12 months Rs. '000	1 to 3 years Rs. '000	3 to 4 years Rs. '000	4 to 5 years Rs. '000	More than 5 years Rs. '000	Total Rs. '000
Assets							
Financial Assets							
Placement with banks		464,984					464,984
Financial investments – available-for-sale		1,081,325			196,844		1,278,169
Loans and receivables	242,306	1,597,700	2,483,999	4,002,082	68,127	196,171	8,590,385
Finance lease receivables	13,107	225,212	2,770,838	6,859,061	30,897	211,676	10,110,791
Hire purchase receivables	32,339	357,329	2,941,780	3,288,621	34,988	473,930	7,128,987
Total financial assets	287,752	3,726,550	8,196,617	14,149,765	330,856	881,777	27,573,316
Liabilities							
Financial Liabilities							
Bank overdraft		412,472					412,472
Deposits due to customers	4,549,603	7,320,956	3,401,930	241,203	301,897		15,815,590
Debt instruments issued and other borrowings	1,303,749	1,419,711	2,950,579	2,853,130			8,527,169
Total financial liabilities	6,265,824	8,740,667	6,352,509	3,094,333	301,897		24,755,231
Interest sensitivity gap	(5,978,072)	(5,898,598)	1,844,108	11,055,432	904,225	105,141	2,818,085

53.5.2 EQUITY RISK

Having a significant investment in equity, MI could be exposed to equity risk due to the volatility in the stock market affecting MI's invested stocks. The Company's equity investments value could decline because of share prices falling due to adverse events impacting the stock market. MI keeps close watch on movements in share prices to ascertain equity risk to manage the portfolio to derive maximum returns whilst minimising losses. MI possesses a well-diversified share portfolio that has been primarily invested in large blue chips institutions mostly in hotel and banking sectors.

To minimise equity risk, MI monitors the performance of the stock market and identifies existing conditions, identified trends and makes predictions and then base investments and disposal decisions on an ongoing basis. Through the Risk Manager, the Management and also the IRMC, ascertain potential equity risk and proposed remedial action as deemed necessary.

53.5.2.A RISK ANALYSIS OF EQUITY-BASED INVESTMENT PORTFOLIO

The table below demonstrates the maximum equity risk exposure as at 31 March 2016 industry-wise for the equity investment holding of MI:

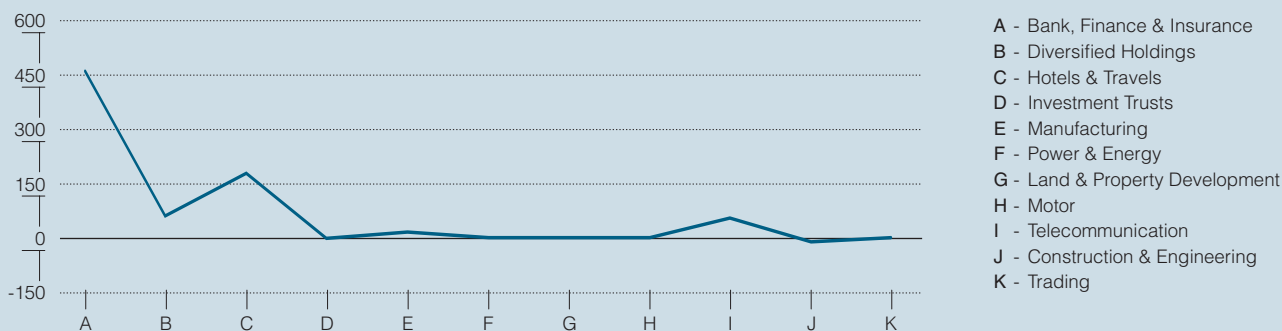
	Market price as at 31 March 2016	Lowest market price for last 5 years	Effect to the comprehensive statement of income if market drops to the recorded lowest market price Rs. '000	Effect to the comprehensive statement of income if market drops to the recorded lowest market price %
	Rs. '000	Rs. '000	Rs. '000	%
Banks, finance and insurance	1,519,420	1,057,638	461,782	59
Diversified holdings	378,898	316,763	62,135	8
Hotels and travels	1,180,863	1,002,066	178,797	23
Investment trust	618	612	6	0
Manufacturing	55,055	36,575	18,480	2
Power and energy	3,851	1,778	2,074	0
Land and property development	5,250	2,763	2,487	0
Motor	12,450	9,600	2,850	0
Telecommunication	112,200	56,100	56,100	7
Construction and engineering	17,404	26,581	(9,177)	-1
Trading	6,510	4,800	1,710	0
Total	3,292,519	2,515,275	777,244	100

COMMENTARY

The Company carried out a risk analysis on its share portfolio based on possible downward market changes, considering the last five years lowest market prices recorded in the Colombo Stock Market for this financial year. Based on this analysis, the maximum amount of equity risk effect to the other comprehensive statement of income is Rs. 777 million as at the end of 31 March 2016.

Effect to the Comprehensive Statement of Income if Market Drops to the Recorded Lowest Market Price

Rs. million



53.6 OPERATIONAL RISK

Operational risk is the risk of direct or indirect loss arising from an array of causes associated with MI business when dealing in operations that relate to processes, procedures, personnel, technology and infrastructure and from external factors other than credit, market and liquidity risks such as those arising from legal and regulatory requirements and generally accepted standard of corporate behaviour.

When managing operational risk, the Company strives to maintain an appropriate balance by avoiding financial losses and damage to MI's reputation because of poor operational procedures and practices, whilst ensuring overall cost effectiveness of selecting right policies and procedures, avoiding control procedures which restrict initiative and creativity.

The Corporate Management is primarily responsible for the development and implementation of controls to address operational risks. The Board Sub-Committee that include the Audit Committee, IRMC and ALCO carries out an oversight function, ascertaining risk levels and at the same time reviewing all the control procedures introduced by divisional heads of the Company. The Internal Audit department is entrusted to review and report operational weaknesses and lapses on the part of staff, to the Audit Committee on an ongoing basis.

MI has implemented following key procedures in order to mitigate the operational risk exposure to the Company:

- Segregation of the duties including the independent authorisation of transactions.
- Execution of reconciliation and monitoring of transactions.
- Establishment and documentation of comprehensive internal controls and procedures.
- Complying with required regulatory enactments and other regulations.
- Periodic assessment of the adequacy and effectiveness of controls and procedures.
- Reporting of operational losses with remedial actions.
- Updating of the status against expectations laid down in the Business Contingency Plan.
- Providing in-house and external professional development training.
- Application of risk mitigating techniques such as insurance cover to avert losses wherever effective.
- Introduction of ethical and business standards to employees through issue of the 'Human Resource Handbook'.
- Upholding a strong oversight function through Audit and Compliance Officers.

NATURE OF RELATIONSHIP BETWEEN THE ASSOCIATE AND THE COMPANY

MI has a stake of 26.12% of Nuwara-Eliya Hotels; so Nuwara-Eliya Hotels is an associate of MI. Currently, Nuwara-Eliya being in the tourism sector is enjoying steady profitability growth considering the positive economic environment towards tourism and the increasing influx of tourist arrivals to the country. MI expects this positive scenario to prevail in the foreseeable future, minimising associated risk to a significant degree.

A full disclosure on types of risk and the risk assessment process including risk dashboards are given on pages 298 to 330.

DEFINED BENEFIT PLANS ASSOCIATED RISK

For purpose of assessing risk associated with employee benefit plans annually the Company obtains support of an Independent expert to identify specific risk and make actuarial valuations and then to incorporate same in the Financial Statements. Page 398 in the Financial Statements Note 38.3 provides a detail breakdown of estimates including assumptions made.

53.7 CAPITAL MANAGEMENT

OBJECTIVE

MI is required to manage its capital taking into account the need to meet the regulatory requirements and to maintain a capital buffer against unexpected losses as well as to cater to the current and future business needs, stakeholder expectations and to seek available options for raising and generating capital.

For MI, capital management is deemed a pivotal assessment exercise in sustaining an adequate buffer against losses arising from any unforeseen risks. So Management monitors MI's capital adequacy position closely through the Finance Division and reports to the Board monthly. Capital adequacy is a measure of the Company's ability to tolerate associated risks in doing its finance business. The main objective of maintaining adequate capital in terms of regulatory capital adequacy ratios is to safeguard the depositors, whilst sustaining customer confidence. The capital adequacy measurement being a widely accepted concept specifies the limit up to which MI can expand in terms of its risk weighted assets. In pursuit of business expansion and diversification, MI engages itself in activities dealing in financial instruments that regularly change the risk and capital profile of the Company. Accordingly, regulatory capital requirements ensure the Company does not move into undue expansion beyond specified limits and signals the Company to be cautious and not to take undue risk through growth of its assets especially in areas risky than others.

In this context, MI's capital strength serves as a cushion in absorbing any unexpected losses that may arise and is a good indicator of MI's levels of safety towards stakeholders more importantly its depositors. MI's policy on capital is to retain a strong capital base at all times so as to ensure investor, creditor and market confidence and to back the sustainable growth of the Company.

MI reviews its capital adequacy ratios (CAR) on a monthly basis to ensure compliance to prudential requirements on capital. The Company's Core Capital Ratio and Total Risk Weighted Capital Ratio (TRWCR) were maintained well above the minimum regulatory requirements of 5% and 10% respectively throughout 2015/16 financial period.

The computation of the CAR ratios is in two parts and involves firstly a working to arrive at the Tier 1 capital and the capital base for the two ratios CCR and TRWCR respectively. A separate computation is carried out to derive at the total Risk Weighted Assets as at a given date.

The capital base comprises of two elements, namely Tier 1 and Tier 2 capital. Tier 1 capital comprises the stated capital, statutory reserve fund, retained profits, general and other reserves excluding the revaluation reserve.

Tier 2 capital consists of the revaluation reserve of which only 50% could be taken for the computation. Other Tier 2 components include the general provision, approved subordinated term debts and other hybrid capital instruments. The Tier 2 capital is not allowed to exceed 100% of the Tier 1 capital for the Total Risk Weighted Capital Ratio. In deriving at the Total Risk Weighted Assets, each asset category in the balance sheet is arranged in the order of their risk and available security and thereafter predefined risk weights are assigned to each such category to compute the total risk weighted value.

TOTAL RISK-WEIGHTED ASSETS COMPUTATION

As at 31 March	Principal amount of on-balance sheet items	Credit equivalent of off-balance sheet items	Total	Principal amount of on-balance sheet items	Credit equivalent of off-balance sheet items	Total	Risk weight factor	Risk weighted balance	Risk weighted balance
	2016			2015				2016	2015
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	%	Rs. '000	Rs. '000
Assets									
Cash and cash equivalents	344,062	–	344,062	406,648	–	406,648	0	–	–
Government debt securities	1,267,768	–	1,267,768	1,147,299	–	1,147,299	0	–	–
Financial investments – available-for-sale	2,781,245	–	2,781,245	2,909,693	–	2,909,693	100	2,781,245	2,909,693
Placements with banks	464,984	–	464,984	438,372	–	438,372	20	92,997	87,674
Loans against fixed deposits	169,408	182,635	352,043	101,656	–	101,656	0	–	–
Loans and advances	24,864,924	–	24,864,924	19,261,053	–	19,261,053	100	24,864,924	19,261,053
Inventories	16,467	–	16,467	14,193	–	14,193	100	16,467	14,193
Other assets	210,066	–	210,066	143,351	–	143,351	100	210,066	143,351
Investment properties	448,235	–	448,235	198,769	–	198,769	100	448,235	198,769
Property, plant & equipment	1,858,934	–	1,858,934	1,802,545	–	1,802,545	100	1,858,934	1,802,545
Total risk-weighted assets	32,426,093	182,635	32,608,728	26,423,579	–	26,423,579		30,272,868	24,417,278

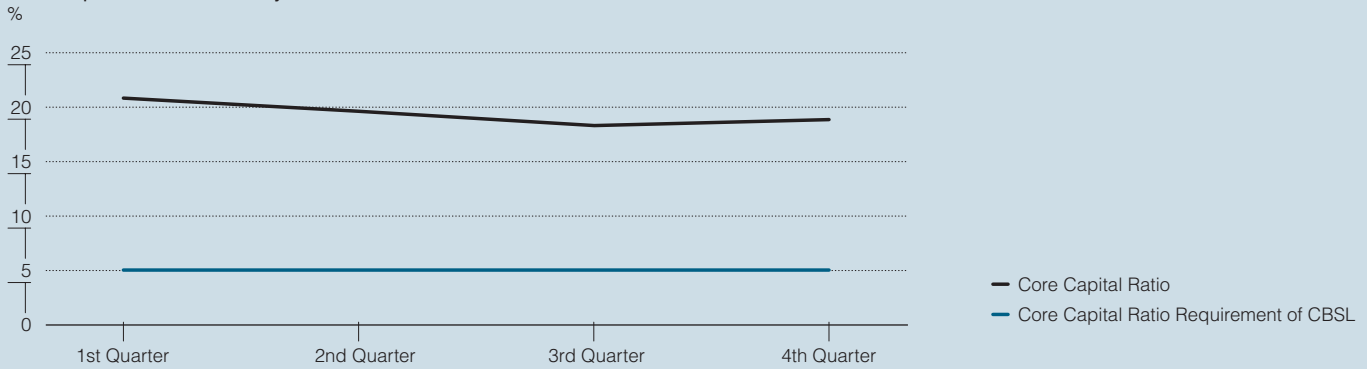
TOTAL CAPITAL BASE COMPUTATION

As at 31 March	2016 Rs. '000	2015 Rs. '000
Tier 1: Core Capital		
Stated capital	36,000	36,000
Statutory reserve fund	631,400	581,400
General reserve	3,980,846	3,802,233
Retained earnings	1,210,116	878,797
Total Tier 1 Capital	5,858,362	5,298,430
Tier 2: Supplementary Capital		
Revaluation reserves (as approved by CBSL)	428,012	309,814
Total Tier 2 capital	428,012	309,814
	6,286,374	5,608,244
Less		
Investments in capital of other Banks/Financial Associates	(1,519,420)	(1,879,662)
Capital Base	4,766,954	3,728,582

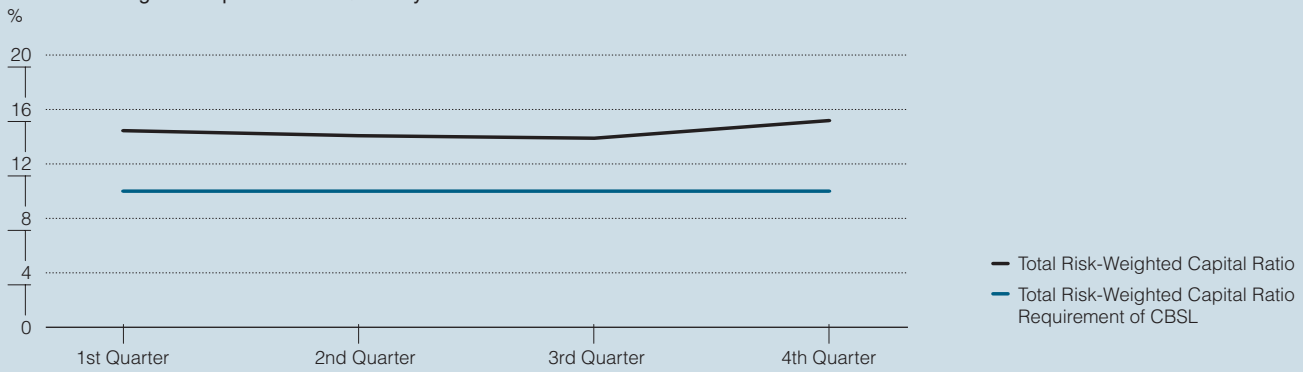
CAPITAL ADEQUACY RATIOS

As at 31 March	2016 %	2015 %
Core capital ratio = $\frac{\text{Tier 1 capital}}{\text{risk-weighted assets}}$	19.35	21.70
Total risk-weighted capital ratio = $\frac{\text{Capital base}}{\text{risk-weighted assets}}$	15.75	15.27

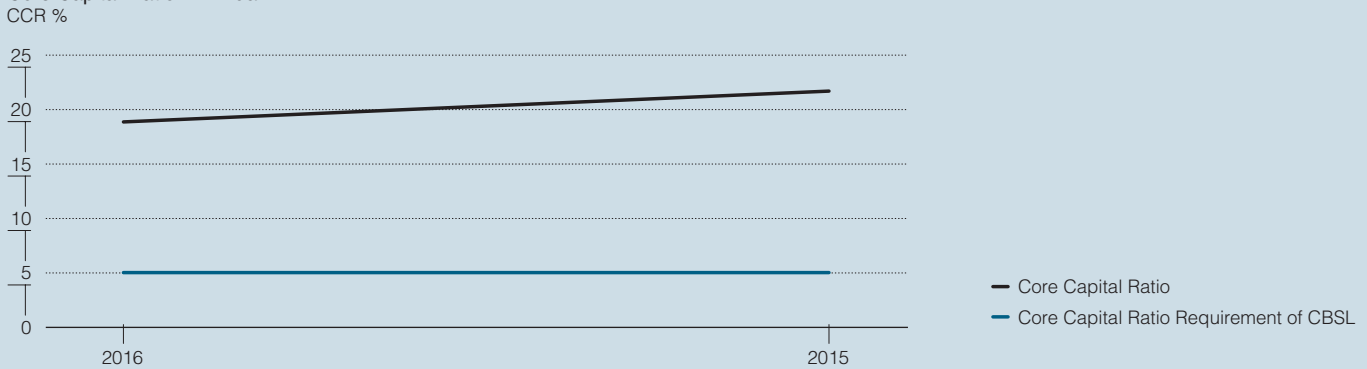
Core Capital Ratio – Quarterly



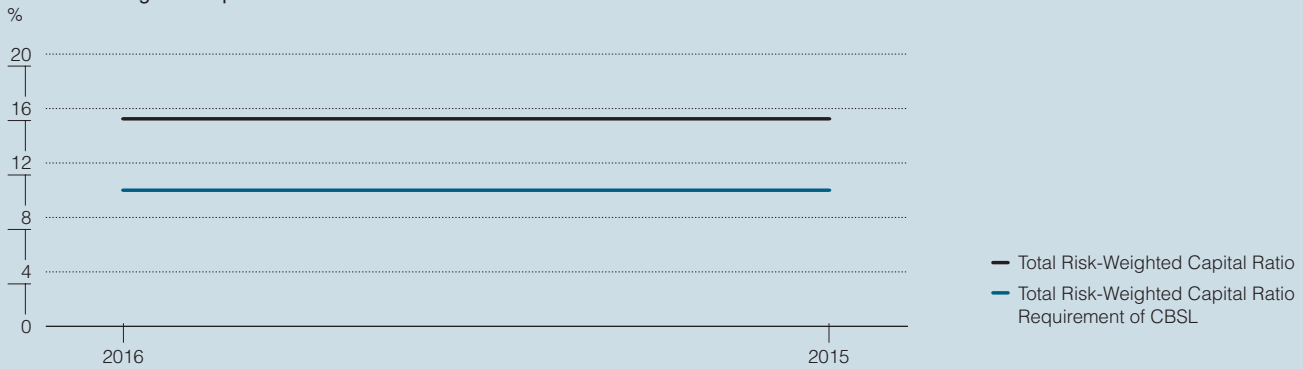
Total Risk-Weighted Capital Ratio – Quarterly



Core Capital Ratio – Annual



Total Risk-Weighted Capital Ratio – Annual



PERFORMANCE IN CAPITAL ADEQUACY POSITION

MI's capital adequacy ratios are well above the statutory limits at least by a 5% margin. The Company's capital adequacy ratios have remained intact from last year due to the generation of sound internally generated profits. MI is fortunate to possess this strong capital position on account of continued growth in accumulated retained earnings achieved by posting consistent annual profits for the last number of years.

	CBSL minimum requirement as at 31 March 2016	Actual 31 March 2016	CBSL minimum requirement as at 31 March 2015	Actual 31 March 2015
Total Tier I capital (Rs. '000)	1,512,287	5,858,362	1,220,864	5,298,430
Total capital base (Rs. '000)	3,024,574	4,766,954	2,441,728	3,728,582
Core capital ratio (%)	5	19.35	5	21.70
Total risk weighted capital ratio (%)	10	15.75	10	15.27

*Based on statutory basis reporting balances.

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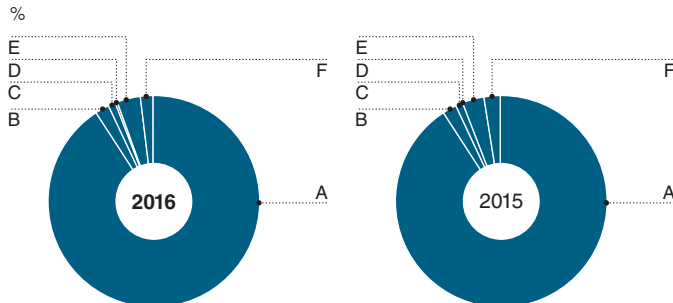
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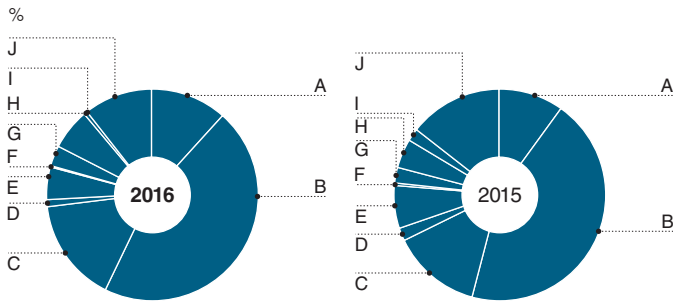
For the year ended 31 March	2016 Rs. '000	%	2015 Rs. '000	%	2014 Rs. '000	%	2013 Rs. '000	%	2012 Rs. '000	%
Sources of Income										
Loans and advances	4,172,079	90.86	3,999,741	90.90	3,731,971	88.82	2,994,935	86.42	1,620,785	66.51
Government securities	98,809	2.15	92,161	2.09	81,946	1.95	59,584	1.72	28,262	1.16
Commission income	58,927	1.28	47,554	1.08	44,402	1.06	45,936	1.33	31,968	1.31
Operating lease income	3,785	0.08	2,926	0.07	(2,738)	-0.07	14,270	0.41	19,140	0.79
Other income	166,675	3.63	143,906	3.27	240,229	5.72	255,360	7.37	694,080	28.48
Share of associate company profit	91,675	2.00	113,795	2.59	105,798	2.52	95,459	2.75	42,669	1.75
Total	4,591,950	100.00	4,400,083	100.00	4,201,608	100.00	3,465,544	100.00	2,437	100.00
Utilisation of Income										
To employees										
Personnel expenses	532,029	11.59	437,628	9.95	335,849	7.99	291,804	8.42	249,507	10.24
To Suppliers										
Interest paid	2,098,378	45.70	1,947,783	44.27	2,215,483	52.73	1,867,700	53.89	1,009,874	41.44
Other expenses	725,944	15.81	597,161	13.57	482,085	11.47	382,973	11.05	331,907	13.62
As depreciation/amortisation	49,994	1.09	86,896	1.97	71,174	1.69	50,876	1.47	45,610	1.87
As provision for credit losses/impairment	234,816	5.11	295,741	6.72	160,445	3.82	64,318	1.86	46,897	1.92
To community	7,053	0.15	3,063	0.07	2,339	0.06	1,820	0.05	1,697	0.07
To Government										
Value added tax and other taxes	141,090	3.07	119,926	2.73	109,902	2.62	73,985	2.13	125,657	5.16
Income tax	297,626	6.48	193,666	4.40	169,858	4.04	162,188	4.68	26,567	1.09
To Shareholders										
Dividends	21,042	0.46	88,677	2.02	30,060	0.72	82,665	2.39	66,132	2.71
To Reserves										
Retained profit	483,978	10.54	629,541	14.31	624,413	14.86	487,217	14.06	533,055	21.87
Total	4,591,950	100.00	4,400,083	100.00	4,201,608	100.00	3,465,546	100.00	2,437	100.00

Sources of Income



	2016	2015
A - Loans and Advances	91	91
B - Government Securities	2	2
C - Commission Income	1	1
D - Operating Lease Income	0	0
E - Other Income	4	3
F - Share of Associate Company Profit	2	3

Utilisation of Income



	2016	2015
A - Personal Expenses	12	10
B - Interest Paid	46	44
C - Other Expenses	16	14
D - As Depreciation/Amortisation	1	2
E - As Provision for Credit Losses/Impairment	5	7
F - To Community	0	0
G - Value Added Tax and Other Taxes	3	3
H - Income Tax	6	4
I - Dividends	0	2
J - Retained Profit	11	14

	2016 %	2015 %
A Loans and Advances	90.86	90.90
B Government Securities	2.15	2.09
C Commission Income	1.28	1.08
D Operating Lease Income	0.08	0.07
E Other Income	3.63	3.27
F Share of Associate Company Profit	2.00	2.59

	2016 %	2015 %
A Personal Expenses	11.59	9.95
B Interest Paid	45.70	44.27
C Other Expenses	15.81	13.57
D As Depreciation/Amortisation	1.09	1.97
E As Provision for Credit Losses/Impairment	5.11	6.72
F To Community	0.15	0.07
G Value Added Tax and Other Taxes	3.07	2.73
H Income Tax	6.48	4.40
I Dividends	0.46	2.02
J Retained Profit	10.54	14.31

Investor Relations

LISTING RULE NO. 7.6 – CONTENTS OF THE ANNUAL REPORT AT A GLANCE

Rule No.	Disclosure requirement	Section reference	Page reference
7.6 (i)	Names of persons who held the positions of Directors during the financial year	Annual Report to the Board of Directors on the Affairs of the Company	336
7.6 (ii)	Principal activities of the entity during the year and any changes therein	Significant accounting policies	357 to 363
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held	Investor relations (Section 10)	427
7.6 (iv)	The public holding percentage	Investor Relations (Section 2)	424
7.6 (v)	The statement of each Director's holding and Chief Executive Officer's holding in shares of the entity at end of financial year	Annual Report to the Board of Directors on the Affairs of the Company	337
7.6 (vi)	Information pertaining to material foreseeable risk factors of the entity	Risk Management	298
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the entity	Not applicable	N/A
7.6 (viii)	Extents, locations, valuations and the number of buildings of the entity's land holdings and investment properties	Notes to the Financial Statements	386 to 392
7.6 (ix)	Number of shares representing the entity's stated capital	Notes to the Financial Statements (Note 39) Investor Relations (Section 2)	398 427
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings	Investor Relations (Section 2)	427
7.6 (xi)	Equity ratios Market value	Investor Relations (Section 6) Investor Relations (Section 4)	425 425
7.6 (xii)	Significant changes in the equity's fixed assets and the market value of land, if the value differs substantially from the book value	Notes to the Financial Statements	387 to 392
7.6 (xiii)	Details of funds raised through public Issues, rights Issues and private placements during the year	Investor Relations (Section 9)	426
7.6 (xiv)	Information in respect of employee share option plan and employee share ownership plan	Notes to the Financial Statements	N/A
7.6 (xv)	Disclosures pertaining to corporate governance practices in terms of Listing Rules 7.10.3, 7.10.5 c. and 7.10.6 c. of Section 7 of the Listing Rules	Corporate Governance Report	219 to 296
7.6 (xvi)	Disclosure on 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	Investor Relations (Section 12)	427

1. STOCK EXCHANGE LISTING

The issued ordinary shares of Mercantile Investments and Finance PLC are listed with the Colombo Stock Exchange. The audited Income Statement for the year ended 31 March 2016 and the audited Balance Sheet of the Company as at date have been submitted to the Colombo Stock Exchange within three months of the Balance Sheet date.

Stock Exchange Code for Mercantile Investments and Finance PLC share is 'MERC'.

2. ORDINARY SHAREHOLDERS SHARE INFORMATION - VOTING

There were 3,006,000 registered voting shareholders as at 31 March 2016 (2015 – 3,006,000) distributed as follows:

2.1 SHARE INFORMATION - VOTING

	Resident			Non-resident			Total		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
1 – 1,000	3	1,153	0.04	1	10	0.00	4	1,163	0.04
1,001 – 10,000	3	12,024	0.40	–	–	–	3	12,024	0.40
10,001 – 100,000	5	55,110	1.83	–	–	–	5	55,110	1.83
100,001 – 1,000,000	7	2,937,703	97.73	–	–	–	7	2,937,703	97.73
Over 1,000,000	–	–	–	–	–	–	–	–	–
	18	3,005,990	100.00	1	10	–	19	3,006,000	100.00

2.1.1 ANALYSIS OF SHAREHOLDERS

RESIDENT/NON-RESIDENT

	31 March 2016			31 March 2015		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Resident	18	3,005,990	100.00	18	3,005,990	100.00
Non-resident	01	10	0.00	01	10	0.00
Total	19	3,006,000	100.00	19	3,006,000	100.00

INDIVIDUALS/INSTITUTIONS

	31 March 2016			31 March 2015		
	No. of shareholders	No. of shares	%	No. of shareholders	No. of shares	%
Individuals	16	1,768,461	58.83	16	1,768,461	58.83
Institutions	3	1,237,539	41.17	3	1,237,539	41.17
Total	19	3,006,000	100.00	19	3,006,000	100.00

As per the Rule No. 7.6 (iv) of Colombo Stock Exchange, percentage of public holdings as at 31 March 2016 was 10.87% (2015 – 10.87%).

2.2 SHARE INFORMATION - NON-VOTING

There were no non-voting shares issued by the Company.

3. SHARE TRADING

	2015/16	2014/15
Voting		
Number of transactions	—	—
Number of shares traded	—	—
Rank (As per CSE)	—	—
Value of shares traded	—	—
Rank (As per CSE)	—	—

4. MARKET VALUE

	Highest Rs.	Lowest Rs.	Year end Rs.
2014/15 – Voting	—	—	—
2015/16 – Voting	—	—	—

5. MARKET CAPITALISATION (AS AT 31 MARCH)

	Capital and reserves Rs. '000	MI Market capitalisation* Rs. '000	CSE Market capitalisation Rs. '000	MI Market capitalisation as a percentage CSE market capitalisation
2014/15	7,779,765	6,613,200	2,498,000,000	0.26%
2015/16	7,654,232	6,613,200	2,586,153,933	0.25%

* Mercantile Investments and Finance PLC Capitalisation includes only voting shares.

6. FINANCIAL INFORMATION ON SHARES

Financial information	2015/16	2014/15
Earning Per Share (EPS) (Rs.)	168.00	210.00
Dividend Per Share (DPS) (Rs.)	7.00	29.50
Dividend Per Share (DPO) (%)	70	295
Net Asset Value Per Share (NAVPS) – (Rs.)	2,546	2,588
Price Earning (PE) (TIMES)	13.09	10.47
Price to Book Value (PBV) (TIMES)	0.86	0.85
Dividend Yield (DY) – (%)	0.31	1.34
No. of Shares (million)	3.006	3.006
Share Capital (Rs. million)	30.06	30.06
Total Equity (Rs. million)	7,654.23	7,779.77
Total Financial Liability (Rs. million)	25,807.55	20,237.32
Core Capital Ratio (minimum statutory requirement 5%) (%)	19.35	21.70
Total Risk Weighted Capital Ratio (minimum statutory requirement 10%) (%)	15.75	15.27
Debt to Equity Ratio (Times)	1.17	0.77
Interest Cover (Times)	1.38	1.47
Current/Quick Ratio (%) (minimum 10%)	11.73	12.45

7. DEBENTURE – MARKET INFORMATION

Debtenture – Market information	2015/16	2014/15
Type of issue	Public	Public
CSE listing	Listed	Listed
Redemption	Redeemable	Redeemable
Tenure of debtenture	4 Years	4 Years
Issue date	11/7/2014	11/7/2014
Maturity date	11/7/2018	11/7/2018
Interest rate	Fixed	Fixed
Coupon rate (%)	10.50	10.50
Effective annual yield (%)	10.50	10.50
Interest rate comparable Government Security	11.87	8.92
Frequency of interest payable	Annually	Annually
Rating	BBB-(lka) by Fitch Ratings Lanka Limited	BBB+ by Lanka Ratings Agency Ltd.
Amount (Rs. million)	200	200
Market Information		
Market value – Highest (Rs.)	100.67	100.33
– Lowest (Rs.)	100.67	100.33
– Closed (Rs.)	100.67	100.33
Current yield (%)	10.43	10.25
Yield to maturity (%)	10.50	10.38

8. DETAILS OF SUBMISSION TO COLOMBO STOCK EXCHANGE

The following table presents the important disclosures made by the Company to the Colombo Stock Exchange during the year 2015/16.

Date of disclosure	Details of disclosures
26 May 2015	Submission of unaudited interim financial statements for the period ended 31 March 2015
27 July 2015	Submission of unaudited interim financial statements for the 1st quarter ended 30 June 2015
30 October 2015	Submission of unaudited interim financial statements for the 2nd quarter ended 30 September 2015
13 November 2015	Announcement of first interim dividend of Rs. 7.00 per share for the financial year 2015/16
24 November 2015	Announcement on the Company listed Debtenture rating that was assigned by Fitch Rating Lanka Limited
31 December 2015	Corporate disclosure relating to the maintenance of a minimum public holdings
28 January 2016	Submission of unaudited interim financial statements for the 3rd quarter ended 31 December 2015
31 May 2016	Submission of unaudited interim financial statements for the period ended 31 March 2016

9. INFORMATION ON MOVEMENT IN SHARE CAPITAL

Year	Issue	Basis	No. of shares
N/A	N/A	N/A	N/A

10. TWENTY MAJOR SHAREHOLDERS (VOTING) OF THE MI AS AT 31 MARCH 2016

Name	% on Total Capital	No. of Shares 2016	% on Total Capital	No. of Shares 2015
1. Nilaveli Beach Hotels (Pvt) Limited	20.83	626,240	20.83	626,240
2. G.G. Ondaatjie	15.88	477,213	15.88	477,213
3. A.M. Ondaatjie	15.88	477,213	15.88	477,213
4. T.J. Ondaatjie	15.88	477,213	15.88	477,213
5. Mercantile Fortunes (Pvt) Limited	13.67	410,820	13.67	410,820
6. G.L.A. Ondaatjie	8.93	268,535	8.93	268,535
7. Tangerine Tours (Pvt) Limited	6.67	200,469	6.67	200,469
8. P.R. Divitotawela and A.D. Galagoda	0.42	12,525	0.42	12,525
9. P.R. Divitotawela and R.D. Madugalle	0.42	12,525	0.42	12,525
10. N.H.V. Perera	0.33	10,020	0.33	10,020
11. J.A.S.S. Adhietty	0.33	10,020	0.33	10,020
12. R.M.D. Abeygunawardena	0.33	10,020	0.33	10,020
13. S. Fernando	0.17	5,010	0.17	5,010
14. S. Senanayake	0.17	5,010	0.17	5,010
15. C.A. Ondaatjie	0.07	2,004	0.07	2,004
16. A.D. Rajapakse	0.02	501	0.02	501
17. A.M. Rajapakse	0.02	501	0.02	501
18. A.M. Dominic & J.S. Dominic	0.01	151	0.01	151
19. H.W.M. Woodward	0.00	10	0.00	10
Total	100.00	3,006,000	100.00	3,006,000

11. TWENTY MAJOR SHAREHOLDERS (NON-VOTING) OF THE MI AS AT 31 MARCH 2016

Name	% on total capital	% on total voting capital	No. of shares 2016	No. of shares 2015
N/A	N/A	N/A	N/A	N/A

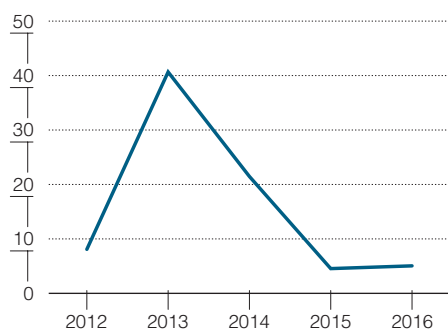
12. RELATED PARTY TRANSACTIONS EXCEEDING 10% OF THE EQUITY OR 5% OF THE TOTAL ASSETS

No any related party transactions which exceeds above limits during the year.

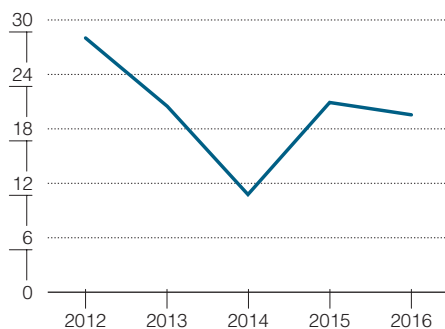
Decade at a Glance

For the year ended 31 March	Based on SLFRS/LKAS					Based on SLAS				
	2016 Rs. '000	2015 Rs. '000	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000	2011 Rs. '000	2010 Rs. '000	2009 Rs. '000	2008 Rs. '000	2007 Rs. '000
Operating Results										
Income	4,500,275	4,286,288	4,095,811	3,370,086	2,394,235	2,214,120	1,806,966	1,708,609	1,372,133	1,092,335
Interest expense	2,098,378	1,947,783	2,215,483	1,867,700	1,009,874	679,728	791,308	989,662	720,125	447,070
Non-interest expenses	1,690,927	1,540,416	1,055,997	770,317	726,397	485,795	574,623	464,225	420,723	307,953
Profit before tax	802,645	911,884	824,331	732,069	625,755	1,048,597	441,035	254,409	231,285	337,312
Provision for taxation	297,626	280,612	148,969	101,278	15,667	142,699	112,436	21,034	82,716	100,327
Net profit for the year	505,019	631,272	675,362	630,791	610,088	905,898	328,600	233,375	148,569	236,985
Dividends	21,042	88,677	30,060	82,665	66,132	30,000	13,800	9,750	14,049	60,080
As at 31 March										
Assets										
Liquid assets	1,879,970	1,773,833	1,455,405	1,389,107	787,268	522,280	483,483	462,636	416,332	261,874
Investments	3,559,791	4,202,760	2,892,173	2,980,019	3,390,331	4,779,213	1,761,332	930,836	1,196,974	1,189,991
Debentures	10,400	10,700	10,700	10,773	–	–	–	–	2,232	3,040
Advances	25,053,528	19,468,293	16,187,399	13,844,647	10,446,514	6,416,176	4,430,395	5,205,265	5,377,167	4,843,254
Other assets	226,533	157,544	419,479	718,304	741,769	271,242	309,509	217,281	268,717	350,865
Property, plant & equipment	1,803,939	1,756,125	1,709,676	1,535,732	1,565,620	1,214,750	1,037,007	1,015,271	888,378	859,202
Leasehold property	42,609	43,076	43,545	44,013	44,481	44,950	45,418	45,886	–	–
Intangible assets	12,386	3,344	3,714	4,681	2,855	6,521	–	–	–	–
Investment property	448,234	198,769	–	–	–	–	–	–	–	–
Investment in associates	927,318	794,381	777,127	695,670	628,397	493,555	456,363	–	–	–
Total assets	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174	8,149,800	7,508,226
Liabilities										
Bank overdraft	412,472	272,634	279,269	999,036	505,815	397,246	213,395	625,709	765,175	461,328
Borrowings	8,527,169	5,682,640	4,917,129	5,232,331	4,638,644	2,318,481	403,599	1,236,670	1,679,362	1,804,044
Deposits from customers	15,815,590	13,720,729	11,417,741	8,424,720	6,137,896	4,297,801	3,479,291	2,774,974	2,409,257	2,065,644
Other liabilities	1,555,244	953,057	618,694	860,501	850,274	442,081	651,206	545,411	583,950	593,987
	26,310,475	20,629,060	17,232,833	15,516,588	12,132,629	7,455,609	4,747,491	5,182,764	5,437,744	4,925,003
Shareholders' Funds										
Share capital	36,000	36,000	36,000	36,000	36,000	36,000	30,000	30,000	30,000	30,000
Reserves	7,618,232	7,743,765	6,230,385	5,670,358	5,438,606	6,257,078	3,746,016	2,664,410	2,682,056	2,553,223
	7,654,232	7,779,765	6,266,385	5,706,358	5,474,606	6,293,078	3,776,016	2,694,410	2,712,056	2,583,223
Total shareholders' funds and total liabilities	33,964,707	28,408,825	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174	8,149,800	7,508,226

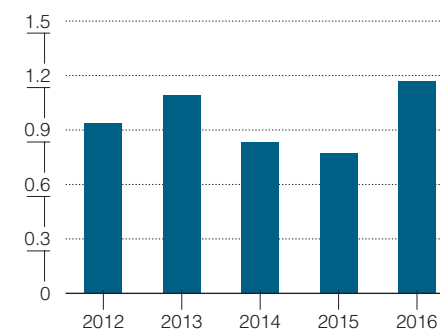
Growth in Income
%



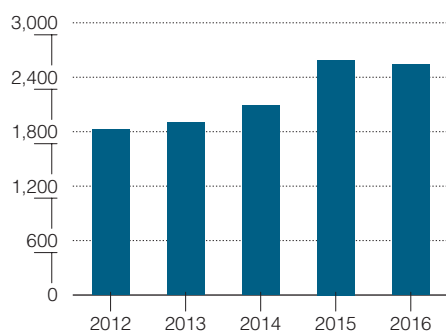
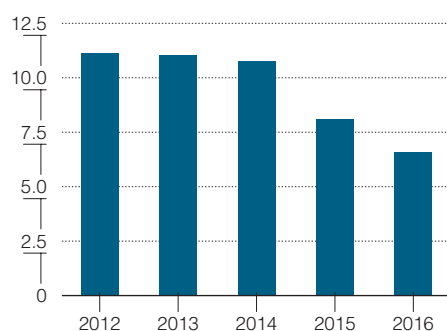
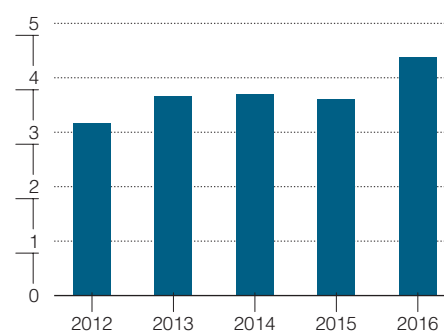
Growth in Total Assets
%



Debt to Equity
Times



For the year ended 31 March	Based on SLFRS/LKAS					Based on SLAS				
	2016	2015	2014	2013	2012	2011	2010	2009	2008	2007
Financial Position										
Total assets to shareholders' funds (Times)	4.44	3.65	3.75	3.72	3.22	2.18	2.26	2.92	3.01	2.91
Debt to equity (Times)	1.17	0.77	0.83	1.09	0.94	0.43	0.16	0.69	0.90	0.88
Liquid assets as a % of deposits	11.89	12.93	12.75	17.00	13.00	12.00	14.00	17.00	17.00	13.00
Investor										
Return on shareholders' funds (%)	6.60	8.11	10.78	11.05	11.14	14.40	8.70	8.66	5.48	9.17
Return on average assets	1.62	2.43	3.02	3.25	3.89	8.13	4.01	2.91	1.90	3.46
Net Assets per share (Rs.)	2,546.32	2,588.08	2,084.63	1,898.32	1,821.23	2,093.51	1,258.67	898.14	904.02	861.07
Earnings per share (Rs.)	168.00	210.00	224.67	209.84	202.96	301.36	109.53	77.79	49.52	79.00
Dividend per share (Rs.)	7.00	29.50	20.00	27.50	22.00	9.98	4.60	3.25	4.68	20.03
Dividend cover (Times)	24.00	7.12	11.23	7.63	9.23	30.20	23.81	23.94	10.58	3.94
Dividend payout (%)	4.17	14.05	8.90	13.10	10.84	3.31	4.20	4.18	9.46	25.35
Interest cover (Times)	1.38	1.47	1.37	1.39	1.62	2.54	1.56	1.26	1.32	1.75
Growth										
Growth in income (%)	4.99	4.65	21.53	40.76	8.13	22.53	5.76	24.52	25.61	12.09
Growth in interest expenses (%)	7.73	-12.08	18.62	84.94	48.57	-14.10	-20.04	37.43	61.08	33.30
Growth in other expenses (%)	9.77	45.87	37.09	6.05	49.53	-15.46	23.78	10.34	36.62	10.65
Growth in profit before tax (%)	-11.98	10.62	12.60	16.99	-40.32	137.76	73.36	10.00	-31.43	-6.51
Growth in profit after tax (%)	-20.00	-6.53	7.07	3.39	-32.65	175.68	40.80	57.08	-37.31	-16.46
Growth in total assets (%)	19.56	20.89	10.73	20.54	28.06	61.30	8.21	-3.35	8.54	21.10
Growth in advances (%)	28.69	20.27	16.92	32.53	62.82	44.82	-14.89	-3.20	11.02	13.08
Growth in deposit base (%)	15.27	20.17	35.53	37.26	42.81	23.53	25.38	15.18	16.63	14.06
Growth in shareholders' funds (%)	-1.61	24.15	9.81	4.23	-13.01	66.66	40.14	-0.65	4.99	29.08
Statutory Ratios										
Core capital ratio – (Minimum 5%)	19.35	21.70	22.52	20.83	22.4	28.5	30.52	24.02	20.5	19.5
Risk-weighted capital ratio – (Minimum 10%)	15.75	15.27	17.32	22.4	27.17	34.69	38.82	30.26	35.12	27.6
Liquid assets (%)	11.73	12.45	12.78	17.11	12.86	12.78	13.85	16.89	17.28	18.00

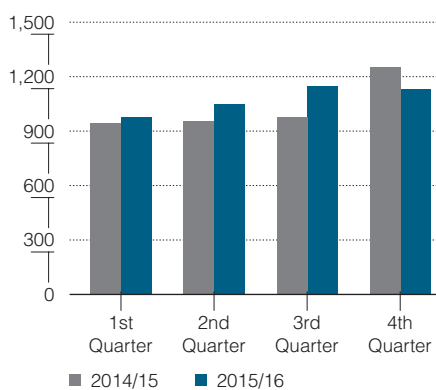
 Net Assets Per Share
Rs.

 Return on Shareholders' Funds
%

 Total Assets to Shareholders' Funds
Times


Quarterly Analysis

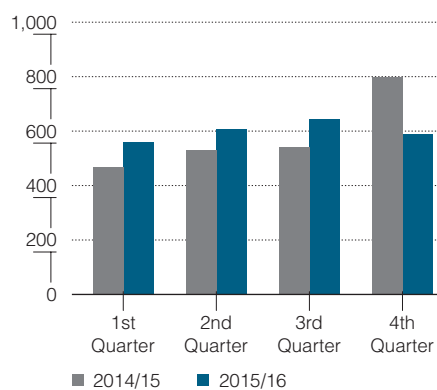
STATEMENT OF PROFIT OR LOSS

	1st Quarter		2nd Quarter	
	Apr. – Jun. 15 Rs. '000	Apr. – Jun. 14 Rs. '000	July – Sep. 15 Rs. '000	July – Sep. 14 Rs. '000
Interest income	979,968	943,357	1,044,768	957,449
Interest expense	(476,579)	(514,516)	(498,291)	(481,322)
Net interest income	503,389	428,841	546,477	476,127
Fee and commission income	13,482	10,722	14,701	12,634
Net fee and commission income	13,482	10,722	14,701	12,634
Other operating income	43,197	26,303	43,341	42,502
Total operating income	560,068	465,866	604,519	531,263
Impairment gain/(loss) or loans and receivables	(43,430)	(63,411)	(86,327)	(29,056)
Net operating income	516,638	402,455	518,192	502,207
Less: Operating Expenses				
Personnel expenses	150,124	109,568	129,343	119,924
Depreciation of property, plant & equipment	20,775	16,831	20,775	16,831
Amortisation of intangible assets	812	845	812	845
Amortisation of leasehold property	117	117	117	117
Defined benefit plans	6,711	6,471	6,711	6,951
Other operating expenses	130,535	139,313	165,604	133,787
Total operating expenses	309,074	273,145	323,362	278,455
Operating profit/(loss) before value added tax and NBT on financial services	207,564	129,310	194,830	223,752
Value added tax and NBT on financial services	(22,223)	(22,300)	(37,980)	(33,281)
Operating profit/(loss) after value added tax and NBT on financial services	185,341	107,010	156,850	190,471
Add: Share of associate Company's profit before taxation	6,034	6,700	29,235	27,878
Profit before taxation from operations	191,375	113,710	186,085	218,349
Income tax expenses	(42,853)	(25,000)	(55,350)	(44,400)
Profit after taxation	148,522	88,710	130,735	173,949
Earnings per share	49.4	29.5	43.5	57.9
Dividend per share	–	10.0	–	2.5

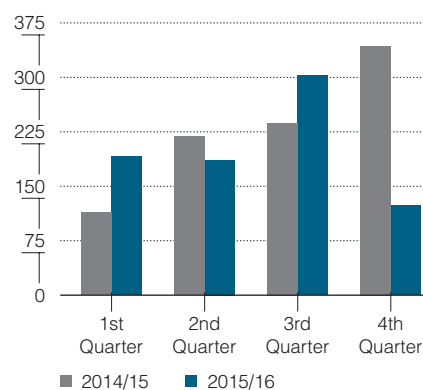
Interest Income
Rs. million



Total Operating Income
Rs. million

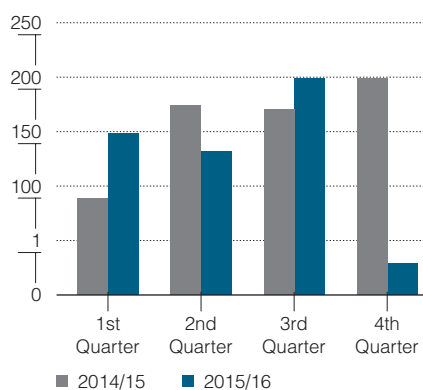


Profit Before Tax
Rs. million



3rd Quarter		4th Quarter		Total	
Oct. – Dec. 15 Rs. '000	Oct. – Dec. 14 Rs. '000	Jan. – Mar. 16 Rs. '000	Jan. – Mar. 15 Rs. '000	Apr. 15 – Mar. 16 Rs. '000	Apr. 14 – Mar. 15 Rs. '000
1,147,257	976,250	1,129,835	1,252,339	4,301,828	4,129,395
(547,029)	(472,059)	(576,479)	(479,886)	(2,098,378)	(1,947,783)
600,228	504,191	553,356	772,453	2,203,450	2,181,612
15,064	11,506	15,680	12,692	58,927	47,554
15,064	11,506	15,680	12,692	58,927	47,553
30,640	25,567	22,343	14,967	139,520	109,339
645,932	541,264	591,379	800,112	2,401,897	2,338,505
29,900	5,256	(134,960)	(208,530)	(234,816)	(295,741)
675,832	546,520	456,419	591,582	2,167,081	2,042,764
132,926	128,535	96,180	58,334	508,573	416,361
19,093	16,831	(11,567)	32,029	49,076	82,522
783	845	(1,957)	1,371	450	3,906
117	117	117	117	468	468
6,711	6,711	3,323	1,134	23,456	21,267
162,089	144,706	274,769	182,419	732,998	600,225
321,719	297,745	360,865	275,404	1,315,021	1,124,749
354,113	248,775	95,554	316,178	852,060	918,015
(65,849)	(34,528)	(15,038)	(29,817)	(141,090)	(119,926)
288,264	214,247	80,516	286,361	710,970	798,089
14,418	22,600	41,988	56,617	91,675	113,795
302,682	236,847	122,504	342,978	802,645	911,884
(104,964)	(66,559)	(94,459)	(144,653)	(297,626)	(280,612)
197,718	170,288	28,045	198,325	505,019	631,272
65.8	56.7	9.3	66.0	168.0	210.0
7.0	–	–	17.0	7.0	29.5

Profit After Tax
Rs. million

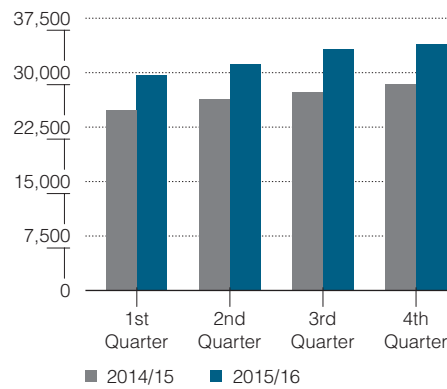


STATEMENT OF FINANCIAL POSITION

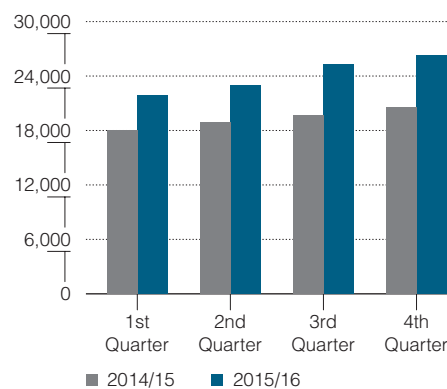
As at	1st Quarter		2nd Quarter	
	30 Jun 15 Rs. '000	30 Jun 14 Rs. '000	30 Sep 15 Rs. '000	30 Sep 14 Rs. '000
Assets				
Cash and short-term funds	562,028	338,766	297,269	379,297
Placement with other banks	445,396	415,810	451,489	423,137
Financial investments – Available-for-sale	5,118,884	4,546,575	5,344,772	5,164,207
Loans and advances	6,815,568	5,705,995	6,895,667	6,045,791
Lease receivable	6,497,441	4,033,922	7,892,166	4,202,881
Hire purchase receivable	7,304,058	7,013,127	7,217,968	7,210,744
Other financial assets	102,996	84,079	105,662	90,049
Inventories	16,080	101,635	14,918	67,889
Other assets	61,767	85,304	47,892	105,730
Current tax receivable	–	–	–	–
Investment in associates	800,415	783,826	829,650	811,704
Investments properties	198,769	–	213,769	69,027
Property, plant & equipment	1,741,623	1,689,380	1,742,079	1,626,009
Leasehold property	42,960	43,428	57,823	43,311
Intangible assets	2,428	4,795	4,675	3,950
Total assets	29,710,414	24,846,642	31,115,799	26,243,726
Liabilities				
Bank overdraft	179,092	329,159	306,658	172,130
Deposits due to customers	14,173,597	12,576,009	14,815,010	12,746,172
Debt instruments issued and other borrowings	6,534,293	4,407,713	6,848,456	5,291,697
Other financial liabilities	633,527	439,399	660,551	360,826
Current tax liabilities	56,346	9,510	(3,692)	26,189
Deferred tax liabilities	214,646	77,626	238,578	72,026
Other liabilities	268	16,747	71	20,238
Retirement benefit obligations	126,144	106,035	121,824	109,406
Total liabilities	21,917,912	17,962,199	22,987,455	18,798,684
Equity				
Stated capital	36,000	36,000	36,000	36,000
Revaluation reserve	1,482,934	1,294,920	1,482,934	1,294,920
Statutory reserve fund	581,400	521,400	581,400	521,400
General reserve	3,886,430	3,686,430	3,886,430	3,686,430
Investment fund reserve	–	188,720	–	202,000
Available-for-sale reserve	757,033	671,195	962,140	1,065,329
Retained earnings	1,048,705	485,779	1,179,440	638,963
Total equity	7,792,502	6,884,444	8,128,344	7,445,042
Total liabilities and shareholders' funds	29,710,414	24,846,642	31,115,799	26,243,726
Net assets per share	2,592	2,290	2,704	2,476

3rd Quarter		4th Quarter	
31 Dec 15 Rs. '000	31 Dec 14 Rs. '000	31 Mar 16 Rs. '000	31 Mar 15 Rs. '000
347,609	535,748	344,062	406,648
458,749	432,632	464,984	438,372
5,481,646	5,316,580	4,641,115	5,142,273
7,457,392	6,328,020	8,302,333	6,660,003
9,264,659	4,607,536	9,925,519	5,409,676
6,962,194	7,339,512	6,825,676	7,398,614
109,986	95,846	110,440	97,711
27,318	39,419	16,467	14,193
63,516	107,816	72,414	45,640
—	—	27,212	—
844,068	834,304	927,318	794,381
471,669	69,027	448,234	198,769
1,752,428	1,606,821	1,803,939	1,756,125
42,726	43,194	42,608	43,076
8,463	3,104	12,386	3,344
33,292,421	27,359,559	33,964,707	28,408,825
366,662	5,162	412,472	272,634
15,178,560	13,779,477	15,815,590	13,720,729
8,611,743	5,302,890	8,527,169	5,682,640
680,657	381,998	1,052,327	561,318
48,407	27,310	—	46,999
238,578	72,026	343,259	221,601
—	11,419	13,423	3,021
127,270	115,670	146,235	120,118
25,251,877	19,695,952	26,310,475	20,629,060
36,000	36,000	36,000	36,000
1,482,932	1,294,920	1,539,615	1,482,934
581,400	521,400	631,400	581,400
3,886,430	3,686,430	4,086,430	3,886,430
—	—	—	—
697,665	1,153,605	237,060	892,817
1,356,118	1,011,252	1,123,727	900,184
8,040,544	7,703,607	7,654,232	7,779,765
33,292,421	27,399,559	33,964,707	28,408,825
2,675	2,562	2,546	2,588

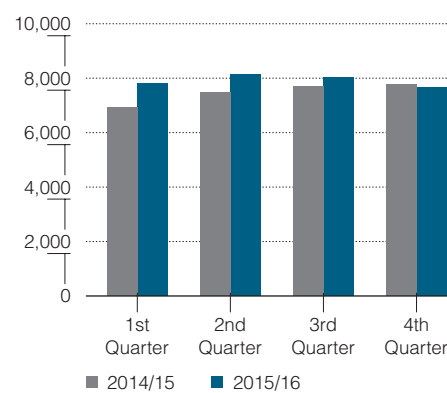
Total Assets
Rs. million



Total Liabilities
Rs. million



Total Shareholders' Funds
Rs. million



Glossary

A

ACCOUNTING POLICIES

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

ACCRUAL BASIS

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalents.

AMORTISATION

The systematic allocation of the depreciable amount of an asset over its useful life.

AMORTISED COST

Amount at which the financial asset or financial liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount and minus any reduction for impairment.

ASSOCIATE

An entity, including an unincorporated entity such as a partnership, over which the investor has significant influence and that is neither a subsidiary nor an interest in joint venture.

AVAILABLE-FOR-SALE

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

C

CAPITAL ADEQUACY RATIOS

The relationship between capital and the risk-weighted assets as prescribed by the Central Bank of Sri Lanka, developed by modifying International best practices on maintenance of Capital for financial Institutions, to suit the local requirements.

COLLECTIVE IMPAIRMENT PROVISIONS

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

CONTINGENCIES

A condition or situation existing at Balance Sheet date where the outcome will be confirmed only by occurrence or non-occurrence or more future events.

CORPORATE GOVERNANCE

The process by which Corporate Institutions are governed. It involves the way in which authority is exercised over the management and the Direction of the Company, the supervisions of executive roles and the responsibility and accountability towards owners and other parties.

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 distribution 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.

COST TO INCOME RATIO

Total operating expenses excluding impairment charge/(reversal) for loans and advances expressed as a percentage of operating income.

CREDIT RATING

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

CREDIT RISK

Credit risk is the risk of financial loss to the Company if a customer or counter party to a financial instrument fails to meet its contractual obligations that arises principally from the loans and advances to customers and banks and investment debt securities.

D

DEBT TO EQUITY

Total borrowings expressed as a percentage of equity.

DEFERRED TAX

Sum set aside in the Financial Statements for taxation that would become payable/receivable in a financial year other than the current financial year.

DERECOGNITION

The removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

DIVIDEND COVER

Profit after tax divided by gross dividends. This ratio measures the number of times dividends is covered by the current year's distributable profits.

DIVIDEND YIELD

Dividend earned per share as a percentage of its market value.

E

EARNINGS PER SHARE

Net profit after tax and after dividend on Preference shares divided by the number of ordinary shares in issue.

ECONOMIC VALUE ADDED

A measure to assess productivity of a business that takes into consideration cost of total invested equity.

EFFECTIVE INCOME TAX RATE

Provision for taxation divided by the net profit before taxation.

EFFECTIVE INTEREST RATE

Rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instruments or when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability

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 and other comprehensive income of the investor include the investor's share of the profit or loss and other comprehensive income of the investee.

F

FAIR VALUE

Fair Value is the amount for which an asset could be exchanged or a liability settled, between a knowledgeable, willing buyer and a knowledgeable, willing seller in an arm's length transaction.

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 amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all 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 other entity.

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.

IMPAIRMENT ALLOWANCES

Impairment allowances are a provision held as a result of the rising of a charge against profit for the incurred loss. An impairment allowance may either be identified or unidentified and individual (specific) or collective (portfolio).

IMPAIRMENT PROVISION COVER

Total impairment provision expressed as a percentage of non-performing loans.

INDIVIDUALLY ASSESSED IMPAIRMENT

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

INTANGIBLE ASSET

An Intangible Asset is an identifiable non-monetary asset without physical substance.

INTEREST COVER

Profits before interest and taxes divided by the interest cost. This ratio measures the number of times interest is covered by the current year's profits before interest and taxes.

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.

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 free from any charge or lien and Treasury Bills and Bonds.

LIQUID ASSETS RATIO

Assets that are held in cash or in a form that can be converted to cash readily (as prescribed by the Central Bank of Sri Lanka) divided by the total deposits and outstanding borrowings excluding secured borrowings and borrowings considered as capital funds.

LOANS AND RECEIVABLES

Conventional loan assets that are unquoted (originated).

LOSS GIVEN DEFAULT (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor default.

LOAN TO VALUE RATIO (LTV)

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

M**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.

MARKET VALUE ADDED (MVA)

The difference between the market value of a firm and the capital contributed by investors. Market value added represents the wealth generated by a company for its shareholders since inception. Since the main goal of a for-profit organisation is to maximise shareholders' wealth, market value added is an important measure to analyse how much value a company has added to the wealth of its shareholders. Higher market value added indicates higher wealth generation.

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 PER SHARE**

Shareholders' funds excluding preference shares divided by the number of ordinary shares in issue.

NET INTEREST INCOME (NII)

The difference between the amount a financial institution earns on assets such as loans and securities and what it incurs on liabilities such as deposits and borrowings.

NET INTEREST MARGIN

Net interest income expressed as a percentage of average assets.

NON-PERFORMING LOANS

A loan placed on a cash basis (i.e. interest income is only recognised when cash is actually collected) after when six instalments or more are overdue, as there is reasonable doubt regarding the collectability of its instalments of capital and interest.

NON-PERFORMING RATIO

Total non-performing loans expressed as a percentage of the total loans and advances.

O**OPERATIONAL RISK**

This refers to the risk of loss resulting from inadequate or failed internal processes, peoples and systems or from external events.

P**PRICE EARNINGS RATIO**

Market price of an ordinary share divided by earnings per share.

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.

RETURN ON AVERAGE ASSETS

Net profit after tax divided by the average assets.

RETURN ON SHAREHOLDERS' FUNDS

Net profit after tax divided by the shareholders' funds.

RISK-WEIGHTED ASSETS

On Balance Sheet assets and the credit equivalent of Off-Balance Sheet assets multiplied by the relevant risk-weighting factors prescribed by the Central Bank of Sri Lanka.

S**SEGMENTAL ANALYSIS**

Analysis of financial information by segments of an organisation specifically, the different industries and the different business lines in which it operates.

SHAREHOLDERS' FUNDS

Total of stated capital plus capital and revenue reserves.

SUSTAINABILITY REPORT

Sustainability reporting is a practice of measuring, disclosing and being accountable for organisational performance while working towards the goal of sustainable development. A sustainability report provides a balanced and reasonable representation of the sustainability performance of the reporting organisation.

T**TIER I CAPITAL**

Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

TIER II CAPITAL

Supplementary capital that consist of revaluation reserves, general provisions and debt instruments such as subordinated term debts and other hybrid capital instruments that combine characteristics of equity and debt.

V**VALUE ADDED**

Value of wealth created by providing financial and other related services less the cost of providing such services.

Basis of Ratios

Attrition rate (%)	= $\frac{\text{Number of Employees resigned during the year}}{\text{Number of Employees}}$
Carbon Footprint Intensity (per employee)	= $\frac{\text{Total Carbon Emmissions}}{\text{Number of Employees}}$
Cost to income ratio (%)	= $\frac{\text{Total operating cost with VAT on financial services}}{\text{Total operating income}} \times 100$
Debt to equity ratio (Times)	= $\frac{\text{Borrowings}}{\text{Equity}}$
Dividend cover (Times)	= $\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Total dividends}}$
Dividend payout (%)	= $\frac{\text{Total dividends}}{\text{Profit/loss attributable to ordinary shareholders}} \times 100$
Dividend yield (%)	= $\frac{\text{Dividend per ordinary share}}{\text{Market Price per share}} \times 100$
Earnings per share (EPS) (Rs.)	= $\frac{\text{Profit/loss attributable to ordinary shareholders}}{\text{Number of shares}}$
Equity asset ratio (%)	= $\frac{\text{Equity}}{\text{Total assets}} \times 100$
Gross non-performing advances ratio (%)	= $\frac{\text{Non-performing portfolio (net of unearned income)}}{\text{Gross portfolio (net of unearned income)}} \times 100$
Interest cover (Times)	= $\frac{\text{Profit before interest and tax}}{\text{Interest cost}}$
Interest spread (%)	= $\frac{\text{Yield on average interest earning assets} - \text{Cost on average interest bearing liabilities}}$

Local hiring of employees (%)	= $\frac{\text{Locally hired employees}}{\text{Total number of employees}} \times 100$
Market Capitalisation (Rs.)	= Market price per share X Number of shares
Net assets per share (Rs.)	= $\frac{\text{Total shareholder's funds}}{\text{Number of shares}}$
Net interest margin (%)	= $\frac{\text{Net interest income}}{\text{Average interest earning assets}} \times 100$
Operating profit margin (%)	= $\frac{\text{Operating profit after VAT on financial services}}{\text{Gross income}} \times 100$
Price earning (PE) (Times)	= $\frac{\text{Market price per share}}{\text{Earnings per share}}$
Price to book value (PVB) (Times)	= $\frac{\text{Market price}}{\text{Net assets per share}}$
Provision cover (Times)	= $\frac{\text{Cumulative impairment}}{\text{Non-performing loans and advances}}$
Return on asset (ROA) (%)	= $\frac{\text{Profit after tax}}{\text{Total average assets}} \times 100$
Return on shareholder's Funds (Equity)	= $\frac{\text{Profit after tax}}{\text{Equity}} \times 100$
Training hours per Employee (hrs)	= $\frac{\text{Total Training hours}}{\text{Number of employees}}$
Value added per employee (Rs.)	= $\frac{\text{Economic value generated}}{\text{Number of employees}}$

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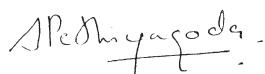
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Notice of Meeting

NOTICE IS HEREBY given that the Fifty-Third (53) Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No. 236, Galle Road, Colombo 3, on 14 July 2016, at 11.00 a.m. for the following purposes:

- To receive and consider the Report of Directors and the Statement of Accounts for the year ended 31 March 2016 and the Report of the Auditors thereon.
- To re-elect Directors retiring by rotation in terms of Article 23 (7) of the Articles of Association.
- To ratify an Interim Dividend of Rs. 7/- per share declared on 13 November 2015 as the final dividend for the financial year ended 31 March 2016.
- To reappoint Messrs BDO Partners, Auditors and to authorise the Directors to determine their remuneration.
- To authorise the Board of Directors to determine donations.

By Order of the Board,



Ms. Sonali Pethiyagoda
Company Secretary

Colombo
13 June 2016

Notes

1. A member who is entitled to attend and vote at the above-mentioned meeting is entitled to appoint a proxy, who need not also be a member to attend instead of him/her.
2. A Form of Proxy is enclosed in the Report.
3. The completed Proxy Form should be deposited at the Registered Office of the Company at No. 236, Galle Road, Colombo 3, not less than 48 hours before the time fixed for holding the meeting.

Form of Proxy

I / We*of

being a member/members* of MERCANTILE INVESTMENTS AND FINANCE PLC, do hereby appoint:.....

..... of or failing him/her

- Mr. Saroja Hemakumar Jayawickrema Weerasuriya or failing him
- Mr. Gerard George Ondaatjie or failing him
- Mr. Pathiranage Mahes Amarasekara or failing him
- Mr. Shermal Hemaka Jayasuriya or failing him
- Ms. Angeline Myrese Ondaatjie or failing her
- Mr. Travice John Ondaatjie or failing him
- Ms. Punyakanthi Tikiri Kumari Navaratne or failing her
- Mr. Nawagamuwage Hasantha Viraj Perera or failing him
- Mr. Singappuli Mudiyansele Susantha Sanjaya Bandara or failing him
- Mr. Pathmanathan Cumarasamy Guhashanka

as my/our* proxy to represent me/us* and to vote for me/us* on my/our* behalf at the Annual General Meeting of the Company to be held on 14 July 2016 at 11.00 a.m. at No. 236, Galle Road, Colombo 03 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

	FOR	AGAINST
1. To receive and adopt the Report of Directors and the Statement of Accounts for the year ended 31 March 2016, with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To elect Mr. S.H.J. Weerasuriya retiring in terms of Article 23 (7) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect Mr. S.H. Jayasuriya retiring in terms of Article 23 (7) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
4. To elect Mr. P.C. Guhashanka retiring in terms of Article 23 (7) of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
5. To ratify an Interim Dividend of Rs. 7/- per share declared on 13 November 2015 as the final dividend for the financial year ended 31 March 2016.	<input type="checkbox"/>	<input type="checkbox"/>
6. To reappoint Messrs BDO Partners as Auditors and authorise Directors to determine their remuneration.	<input type="checkbox"/>	<input type="checkbox"/>
7. To authorise the Directors to determine contributions for charities and other donations for the year 2016/17.	<input type="checkbox"/>	<input type="checkbox"/>

As witness my/our* hand this day of 2016.

.....
Signature of Shareholder/s

Note: *Please delete the inappropriate words.

Instruction as to completion

- Kindly perfect the Form of Proxy, after filling in legibly your full name and address by signing in the space provided and please fill in the date of signature.
- If the Proxy Form is signed by an Attorney, the relative Power of the Attorney should also accompany the Proxy Form for registration, if such Power of Attorney has not already been registered with the Company.
- In the case of a Company/Corporation, the proxy must be under its Common Seal which should be affixed and attested in the manner prescribed by its Articles of Association.
- The completed Form of Proxy should be deposited at the Registered Office of the Company at No. 236, Galle Road, Colombo 3, not less than 48 hours before the time of the meeting.

Voting at Meetings of Shareholders

Article 14 of the Articles of Association of the Company, dealing with voting is quoted below, for information of shareholders:

VOTING AT MEETINGS OF SHAREHOLDERS

1. In the case of a meeting of shareholders unless a poll is demanded, voting at the meeting shall be by whichever of the following methods as determined by Chairperson of the meeting:
 - (a) Voting by voice; or
 - (b) Voting by show of hands.
2. A declaration by the Chairperson of the meeting that a resolution is carried by the requisite majority is conclusive evidence of that fact, unless a poll is demanded in accordance with Article 14 (3).
3. At a meeting of shareholders, a poll may be demanded by –
 - (a) Not less than three (3) shareholders having the right to vote at the meeting; or
 - (b) A shareholder or shareholders representing not less than ten per centum of the total voting rights of all shareholders having the right to vote at the meeting.
4. A poll may be demanded either before or immediately after the vote is taken on a resolution.
5. If a poll is taken, votes must be counted according to the votes attached to the shares of each shareholder present and voting.
6. The Chairperson of a shareholders' meeting is not entitled to a casting vote.
7. If a poll is duly demanded (and the demand be not withdrawn) it shall be taken in such manner (including the use of ballot or voting papers or tickets) as the person presiding at the meeting may direct and the result of a poll shall be deemed to be the resolution of the meeting at which the poll was demanded. The person presiding may (and if so requested shall) appoint a scrutiner and may adjourn the meeting to some place and time fixed by him for the purpose of taking and declaring the result of the poll.
8. The demand for a poll shall not prevent the continuance of a meeting for the transaction of any business other than the question on which the poll has been demanded.
9. No objection shall be made to the validity of any vote except at the meeting or poll at which such vote shall be tendered and every vote to which no objection shall be made at such meeting or poll shall be deemed valid for all purposes of such meeting or poll whatsoever.

Stakeholder Feedback Form

For purpose of submitting a comment or query,
please complete the following and return this page to:

Finance Director,
Mercantile Investments and Finance PLC,
No. 236, Galle Road, Colombo 03.

Details of party submitting comment or query –

Name (Individual/Corporate) :

Permanent Mailing Address :

.....

Contact Number :

E-mail :

Stakeholder Category :

(Investor/Customer/Supplier/
General Public/Other)

Comment or query :

Corporate Information

NAME OF THE COMPANY

Mercantile Investments and Finance PLC

LEGAL FORM

Public Limited Liability Company incorporated in Sri Lanka under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007. A licensed finance company under the Finance Business Act No. 42 of 2011.

COMPANY REGISTRATION NUMBER

PB 76 PQ

TAX PAYER IDENTIFICATION NUMBER

104021794

VAT REGISTRATION NUMBER

104021794 7000

REGISTERED OFFICE

No. 236, Galle Road, Colombo 3

HEAD OFFICE

No. 236, Galle Road, Colombo 3

Telephone: 2343720-7

Fax: 2434524

Email: mercantile@mi.com.lk

Website: <http://www.mi.com.lk>

BOARD OF DIRECTORS

Saroja Hemakumar Jayawickrama
Weerasuriya (Chairman)

Gerard George Ondaatjie
(Managing Director)

Pathiranage Mahes Amarasekera
(Deputy Managing Director)

Shermal Hemaka Jayasuriya
(Finance Director)

Angeline Myrese Ondaatjie

Travice John Ondaatjie

Punyakanthi Tikiri Kumari Navaratne

Nawagamuwage Hasantha Viraj Perera

Singappuli Mudiyansele Susantha
Sanjaya Bandara

Pathmanathan Cumarasamy
Guhashanka

COMPANY SECRETARY

Sonali Pethiyagoda

AUDIT COMMITTEE

Singappuli Mudiyansele Susantha
Sanjaya Bandara
(Chairman of the Committee)

Saroja Hemakumar Jayawickrama
Weerasuriya

Nawagamuwage Hasantha Viraj Perera

Sonali Pethiyagoda –
Company Secretary
(Secretary to the Committee)

CREDIT COMMITTEE

Gerard George Ondaatjie
(Chairman of the Committee)

Pathiranage Mahes Amarasekera

Shermal Hemaka Jayasuriya

Dhanushka Fonseka – Director
(Non-Board) – Credit and Marketing –
(Secretary to the Committee)

REMUNERATION COMMITTEE

Saroja Hemakumar Jayawickrama
Weerasuriya (Chairman of the
Committee)

Nawagamuwage Hasantha Viraj Perera

Punyakanthi Tikiri Kumari Navaratne

Sonali Pethiyagoda – Company
Secretary – (Secretary to the Committee)

NOMINATIONS COMMITTEE

Saroja Hemakumar Jayawickrama
Weerasuriya (Chairman of the
Committee)

Gerard George Ondaatjie

Singappuli Mudiyansele Susantha
Sanjaya Bandara

Nawagamuwage Hasantha Viraj Perera

Sonali Pethiyagoda – Company
Secretary (Secretary to the Committee)

INTEGRATED RISK MANAGEMENT COMMITTEE

Nawagamuwage Hasantha Viraj Perera
(Chairman of the Committee)

Gerard George Ondaatjie

Pathiranage Mahes Amarasekera

Shermal Hemaka Jayasuriya

Shehan Sandanayaka – Manager –
Risk & Compliance –
(Secretary to the Committee)

ASSETS AND LIABILITY COMMITTEE

Gerard George Ondaatjie
(Chairman of the Committee)

Pathiranage Mahes Amarasekera
(Deputy Managing Director)

Shermal Hemaka Jayasuriya
(Finance Director)

Corporate Management

Shehan Sandanayaka – Manager –
Risk & Compliance –
(Secretary to the Committee)

RELATED PARTY TRANSACTION REVIEW COMMITTEE

Singappuli Mudiyansele Susantha
Sanjaya Bandara – (Chairman of the
Committee)

Saroja Hemakumar Jayawickrama
Weerasuriya

Nawagamuwage Hasantha Viraj Perera

Sonali Pethiyagoda – Company
Secretary – (Secretary to the Committee)

EXTERNAL AUDITORS

BDO Partners

Chartered Accountants

INTERNAL AUDITORS

Ernst & Young

Chartered Accountants

BANKERS

Commercial Bank of Ceylon PLC

Hatton National Bank PLC

Seylan Bank PLC

Sampath Bank PLC

NDB Bank PLC

Nations Trust Bank PLC

HSBC Limited

People's Bank

Bank of Ceylon

ICICI Bank Limited

Union Bank PLC

Pan Asia Bank PLC

CREDIT RATING

Long-term Financial Institution Rating
at BBB-(lka) (stable outlook) by Fitch
Ratings.

MANAGEMENT TEAM

Dhanushka Fonseka – Director
(Non-Board) – Credit and Marketing

Deva Anthony (GM – Finance)

Ravi Ekanayake (GM – Workshop)

Hirantha Pandithasekera
(AGM – Corporate Leasing)

Dharshana Senarath (AGM – Leasing)

Lahiru Dayananda
(AGM – Credit and Marketing)

Jayanka Kahawevithana (AGM – Legal)

Prasad Indika (AGM – IT)

Roshini Induruwage
(AGM – Deposits and Marketing)

Asanthi Gunaratne
(AGM – Human Resources)

Shehan Cooray (AGM – Recoveries)

Prasad Wickramasinghe
(Senior Manager – Payments)

Chandana Nanayakkara
(Senior Manager – Finance)

Thamal De Silva (Senior Manager –
Marketing and Communications)

Tharanga Deepal Peiris
(Senior Manager – Micro Finance)

Avindra Wijesundara –
(Senior Manager – Credit Operations)

Dinesh Perera – (Regional Manager –
Leasing Negombo)

Kumudini Jayasekara
(Manager – Insurance)

Chaminda Paranayapa
(Manager – Insurance)

Kingsly Lowe (Manager – Negombo)

Wiraj Arachchi (Manager – IT)

U.M.M.K. Bandara (Manager – Credit)

Wasantha Sisira Kumara
(Manager – Kurunegala)

Shehan Sandanayaka
(Manager – Risk and Compliance)

A.E. Ganegoda
(Manager – Recoveries – Cluster 2)

Rohitha Rupasinghe
(Manager – Recoveries Cluster 1)

Wasantha Petikiri (Manager – Legal)

Dinesh Prabhath
(Manager – Internal Audit)

Pubudu Dayaratne
(Manager – Branch Development)

Tanuj Senadeera (Manager – Leasing)

Nilusha Perera
(Manager – Branch Development)

Bimal Prashantha
(Manager – Branch Development)

Jagath Kahaduwa
(Manager – Branch Development)

Chaturani Jayanetti (Manager – Finance)

Indika Bandara
(Manager – Co-operate Leasing)



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