Mercantile Investments and Finance PLC

Integrated Annual Report 2013/14

Yesterday and Tomorrow

...are but steps on the same ladder of value creation

OUR VISION

To be a leading financial institution committed to excellence in our sphere of activities with a deep sense of social responsibility.

OUR MISSION

To achieve our strategic vision, we would harness all our resources in the most productive way to be prudently managed and to serve our valuable customers in keeping with national objectives.

OUR CORPORATE VALUES

- To build a lasting relationship with our customers by identifying their needs and focusing on customer care.
- To be highly competitive, and aggressively seek to expand our client base. However, we will always be fair competitors and must never denigrate other firms.
- To recognise the contribution of our employees and to foster team spirit among them.
- To be responsible to society by adopting effective corporate policies and adhering to high ethical standards.
- To our providers of capital by generating superior financial returns and securing their investment.

Joint Gold Award 2012/13

The Company has won the Annual Report Gold Award thirteen times, in the finance companies category at the Annual Report competition organised by the CA Sri Lanka. This endorses the Company's strong commitment towards maintaining high reporting standards at all times.

Mercantile Investments and Finance PLC (MI) is a listed company which has been in business for close to five decades. It is a licensed finance company under the Finance Business Act No. 42 of 2011. Being a premier finance company specialising in business of leasing, hire purchase financing, loans and advances and mobilisation of deposits, the Company caters to customers that come from all walks of life. In support of this, MI has a diverse branch network scattered across the country supported by a highly skilled workforce together with the right technology to deliver an extraordinary service.

Yesterday and Tomorrow

...are but steps on the same ladder of value creation

By any definition, Mercantile Investments is the proud possessor of an illustrious past. Every step up the ladder of time has been accompanied by significant achievement. We are emboldened and fortified to take the next step up into the future by considerations such as true sustainability and the long standing and solid customer and business relationships we are privileged to share; the impeccable and unblemished reputation the Company continues to enjoy; our undiminished capital strength and asset quality and the industry of the passionate team who drive our business with such vigour.

The transition from yesterday to tomorrow is really but a step upon the same ladder of value creation – the abundance of our past truly breeds an unquenchable faith in a sustainable future.

CONTENTS OF INTEGRATED ANNUAL REPORT

1 To Our Shareholder

04 - 27 pages

2 Management Discussion and Analysis

28 - 145 pages

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5 Additional Information

330 - 340 pages

3

Stewardship

146 - 253 pages

4

Financial Reports

254 - 329 pages

TRIPLE BOTTOM LINE HIGHLIGHTS

For the year ended 31 March	Actuals 2014 Rs. '000	Actuals 2013 Rs. '000	% Change	Budgeted 2014 Rs. '000	Forecasted 2015 Rs. million
Results for the year					
Gross Income	**4,095,811**	3,370,086	22	4,534,333	> 6,130
Interest Income	**3,861,558**	3,087,726	25	4,302,584	> 5,920
Interest Expenses	**2,215,483**	1,867,700	19	2,623,155	> 3,610
Profit before Tax	**824,331**	732,069	13	859,977	> 1,240
Provision for Taxation	**148,969**	101,278	47	100,000	> 270
Profit after Tax	**675,362**	630,791	7	759,977	> 960
Financial Position at the year end					
Shareholders' Fund (Stated Capital and Reserves)	**6,266,385**	5,706,358	10	6,466,034	>7,350
Deposits from Customers	**11,417,741**	8,424,720	36	11,412,801	>15,240
Loans & Advances, Leases and Hire Purchases	**16,187,399**	13,844,647	17	18,750,477	>24,390
Total Assets	**23,499,218**	21,222,946	11	25,425,231	>31,780
Investors					
Gross Dividend	**30,060**	82,665	-64	54,108	>30
Earnings per Share (Rs.)	**224.67**	209.84	7	252.82	>320
Dividends per Share (Rs.)	**10.00**	27.50	-64	18.00	>10
Net Assets per Share (Rs.)	**2,084.63**	1,898.32	10	2,151.04	>2,400
Ratios					
Return on Shareholders' Funds (%)	**10.78**	11.05	-3	11.75	>13
Return on Average Assets (%)	**3.02**	3.25	-7	3.26	>3
Year-on-Year Growth in Dividends on Ordinary Shares (%)	**-63.6**	25.0	-355	24.1	<0
Interest Cover (Times)	**1.37**	1.39	-1	1.33	>1
Dividend Cover (Times)	**22.47**	7.63	194	14.05	>32
Equity: Assets (%)	**26.67**	26.89	-1	25.43	>23
Debt: Equity (%)	**82.92**	109.20	-24	105.36	>111
Dividend Payout Ratio (%)	**4.45**	13.10	-66	7.12	>3
P/E Ratio (Times)	**9.79**	10.48	-7	8.70	>6.5
Non-Performing Loans Ratio (%)	**3.69**	3.10	19	3.25	>3
Advance Growth (%)	**16.92**	33.00	-49	35.43	>30
Deposit Growth (%)	**35.53**	37.26	-5	35.47	>33
Statutory Ratios					
Liquid Assets (%)	**12.78**	17.11	-25	16.09	>12
Core Capital Ratio (%) - Minimum Required 5%	**21.10**	20.83	1	20.32	>19
Total Risk Weighted Capital Ratio (%) - Minimum Required 10%	**22.53**	22.40	1	21.64	>20
Government					
Revenue to the Government	**258,871**	175,263	48	212,279	> 440
Customers					
Number of Branches	**18**	17	6		
Number of Service Centres	**4**	2	100		
Employees					
Profit Per Employee	**1,329**	1,424	-7		
Total Training Hours	**3,854**	2,897	33		
Staff Related Cost Per Employee	**661**	659	0		
Community					
Total Investments in Community	**1,178**	1,275	-8		
Number of Community Projects Completed	**10**	11	-9		
Environment					
Number of Projects Completed	**1**	1	0		

Operational Growth

Growth in Deposits

36%

MI's deposits base grew by 36% year-on-year surpassing Rs. 10 billion mark.

New Branches Opened

01

New Service Centres Opened

02

Net Lending Growth

17%

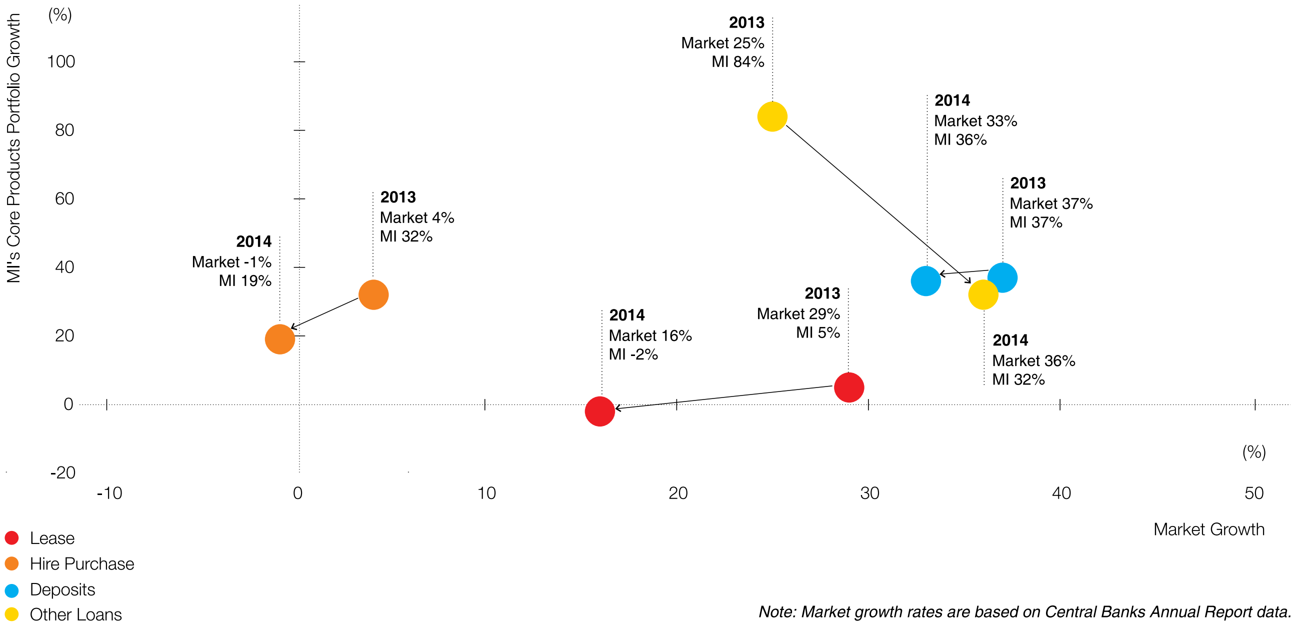
Net lending growth momentum of MI was maintained at 17% in 2013/14

Growth in Workforce

15%

In the year under review the workforce was further strengthened and grew by 15%

CORE PRODUCT PORTFOLIO POSITION AGAINST MARKET



Note: Market growth rates are based on Central Banks Annual Report data.

MI'S LADDER OF VALUE CREATION

Then

1964 | 1970 | 1980 | 1990 | 2000 | 2010

1964 Established

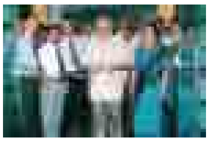
1968 Established Mercantile Motors

1964 Founding of Mercantile Investment and launch of our products, hire purchase, lease and deposits

Mercantile Investments Ltd.

1989 launch of new Group symbol of MI

1993 Shifted to own premises at 236, Galle Road



1st Branch

2004 MI opened first branch in Negombo

2008 MI opened first branch in Sabragamuwa Province

5th Branch

2009 MI opened first branch in Southern Province

2010 MI opened first branch in Eastern Province

Post-Independence Era

Adoption of Nationalisation Policies of Key Economic Industries

Adoption of Open Market and Liberalisation Policies in 1977

1983 Start of the Civil War in Sri Lanka

1995 Sri Lanka became World Largest Tea Exporter with a 23% share of Global Tea Exports

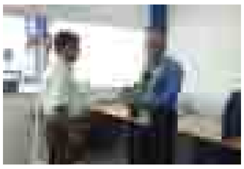
Tsunami Disaster in 2004

2009 end of the Civil War in Sri Lanka

Now

2011 MI opened
first branch in
North-Western
Province

2012 MI opened
first branch in
North-Central
Province



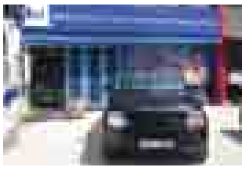
10th Branch

2012 MI opened
10th branch in
Anuradhapura

15th Branch

2012 MI Opened
15th Branch in
Tissamaharama

2012 Listed in Colombo
Stock Exchange in the
name of Mercantile
Investments and
Finance PLC



2013 MI opened 1st
Service Centre in
Kottawa

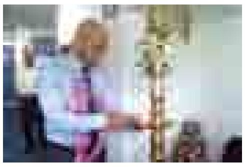
Future

2014

2020

Interest Income in
2020 > Rs. 10 billion

2014 MI opened
Corporate Premier Centre



Last Service
Center Opened in
Nittambuwa

- **Profit after Tax > Rs. 1 billion**
- **Enhance the Provincial Customer Reach to all Provinces.**
- **Market Share in terms of Revenue > 5%**

18th Branch

2014 MI opened
18th branch in
Polonnaruwa

20th Branch

20th Branch
in 2015

First Medium-Term Management Plan

	2013/14	2014/15
Interest Income	Rs. > 4 billion	Rs. > 6 billion
Operating Income	Rs. > 2 billion	Rs. > 3 billion

Post-War Development Era of Sri Lanka

Stable Growth

BRIEF ABOUT MI'S ANNUAL REPORT

INTEGRATED REPORTING

This Annual Report for financial year 2013/14 has been presented as an '**integrated report**' to enhance reporting levels to new heights, articulating Mercantile Investments (MI) unique value creation story. Our Report has been structured in keeping with the International Integrated Reporting Council's (IIRC) consultation draft on the international integrated reporting framework.

ABOUT OUR INTEGRATED REPORT

As a company that has been in the forefront of financing business on the verge of celebrating 50 years in operation, MI has progressed steadily over the years in creating value to its stakeholders namely our investors, customers, employees, suppliers, and other interested parties which include the society at large. To better communicate the enormous effort that goes into our business model and level of performance achieved for the concluded period, we highlight our **unique value creation system** which has brought our Company to this level of success.

Our report goes on to explain how we utilised available capital resources to best use, adopting an effective business model that revolves around planning, developing strategy and an apt governance and risk management framework to sustain sound returns to our capital providers and meet other stakeholder expectations. At the same time, as part of MI's vision, we reflect upon the importance of MI being a socially responsible enterprise. Thus we go-on to disclose our sustainability efforts and the triple bottom line value created this year.

MI REMAINS SUPREME IN FINANCIAL REPORTING

Indeed, we were privileged to be recognised for our excellence in financial reporting yet again. Our Annual report for financial year 2012/13 brought recognition with number of accolades,indicative of our relentless efforts in maintaining high reporting standards and is an endorsement of our commitment towards transparency. For our efforts we were awarded the following accolades:

Annual Report Awards Ceremony Organised by The Institute of Chartered Accountants of Sri Lanka in 2013

MI was adjudged joint winners of the Gold Award, for 2012/13 Annual Report, in the Finance Company Sector category. Previous to this achievement we have won the Gold Award for twelve consecutive years under the same category.

Gerard Ondaatjie, Managing Director receiving the Gold Award at the CA Sri Lanka Annual Report Competition

- **Annual Report Awards organised by the League of American Communications Professionals (LACP) held in New York in 2013**

  MI's Annual Report 2012/13 won the Bronze Award in the Financial Diversified (below US$ 100 million turnover) Category at the LACP Awards held in New York in 2013, beating some of the world's most prestigious Annual Reports.

- **2013 International ARC Awards held in United States**

  MI's Annual Report 2012/13 won the Bronze Award for best presented financial data, in the Financial Services General Category, at the ARC Awards held in New York. ARC Awards attracts over 2,000 entries from 32 countries around the world and is popularly dubbed as the Academy Awards of Annual Reports.

COMPLIANCE TO REPORTING REQUIREMENTS

The Financial Statements contained in the Annual Report comply with requirements of the Sri Lanka Accounting Standards (LKAS) and Sri Lanka Financial Reporting Standards (SLFRS). Similarly, wherever applicable, financial information contained in other reports or sections such as the Management Discussion and Analysis correspond with these standards issued by The Institute of Chartered Accountants of Sri Lanka. Reporting requirements arising from other regulations that include the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and disclosure rules of the Colombo Stock Exchange have also been complied with.

In presenting an integrated report, we referred to the prototype integrated reporting framework issued by the International Integrated Reporting Council (IIRC) as guidance, as applicable. The sustainability disclosure section forming part of our integrated report adheres to guidelines issued by the Global Reporting Initiative (GRI) framework (G3.1) and discloses MI's extent of adoption to key principles on Global compact considerations.

To report on our corporate governance practices,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) and also the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and related amendments issued by the Central Bank of Sri Lanka.

EXTERNAL ASSURANCE

The Company has obtained external assurance on following reports contained in the Annual Report:

Description of Report/Assurance Obtained	External Assurance Obtained from	Page Reference
1. Audit Report	Messrs BDO Partners, Chartered Accountants	269
2. Assurance Report Related to Section on sustainability	Messrs BDO Partners, Chartered Accountants	145
3. Report on Agreed-upon Procedures performed on Company's Compliance to Corporate Governance requirements.	Messrs BDO Partners, Chartered Accountants	219
4. Assurance Report on the Directors' Statement on Internal Control.	Messrs BDO Partners, Chartered Accountants	221

SCOPE AND BOUNDARY OF REPORTING

In explaining the Company's operations and financial performance, financial information so disclosed has been extracted from the Audited Financial Statements for the financial year ended 2013/14 with relevant comparative information. The Audited Financial Statements contained in the Annual Report covers information pertaining to Mercantile Investments and Finance PLC and as necessary incorporates effects of Associate Companies Nuwara Eliya Hotels Company PLC and Fair View Hotels (Pvt) Limited in accordance with SLFRS/LKAS. Information disclosed of a non-financial nature have been extracted from internally maintained records reported for the Statement of Financial Position, unless otherwise stated that it is from another source.

The Sustainability section forming part of the integrated report provides disclosure of sustainability performance purely related to Mercantile Investments and Finance PLC. Sustainability reporting is limited to the activities of the Company as no subsidiary companies are under its control and the impact arising from activities of its associates is insignificant for reporting purpose.

The scope of our Annual Report comprises of activities that have been carried out within the geographical boundaries of Sri Lanka as MI's operation is local based without having any branches or subsidiaries in other countries. Further, there have not been any significant changes to the scope, boundary and reporting basis since the last reporting date of 31 March 2013.

AVAILABILITY OF OUR ANNUAL REPORT

All shareholders are sent a hard copy of MI's Annual Report similar to the practice adopted in previous year. (No necessity currently to issue the report in CD form since the Company's shareholder list is relatively small) In parallel, for the benefit of our other stakeholders, our Report has been made available on MI's website www.mi.com.lk apart from lodging a soft copy on 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:

Finance Director,
236, Galle Road, Colombo 03.
E-mail: Accounts@mi.com.lk

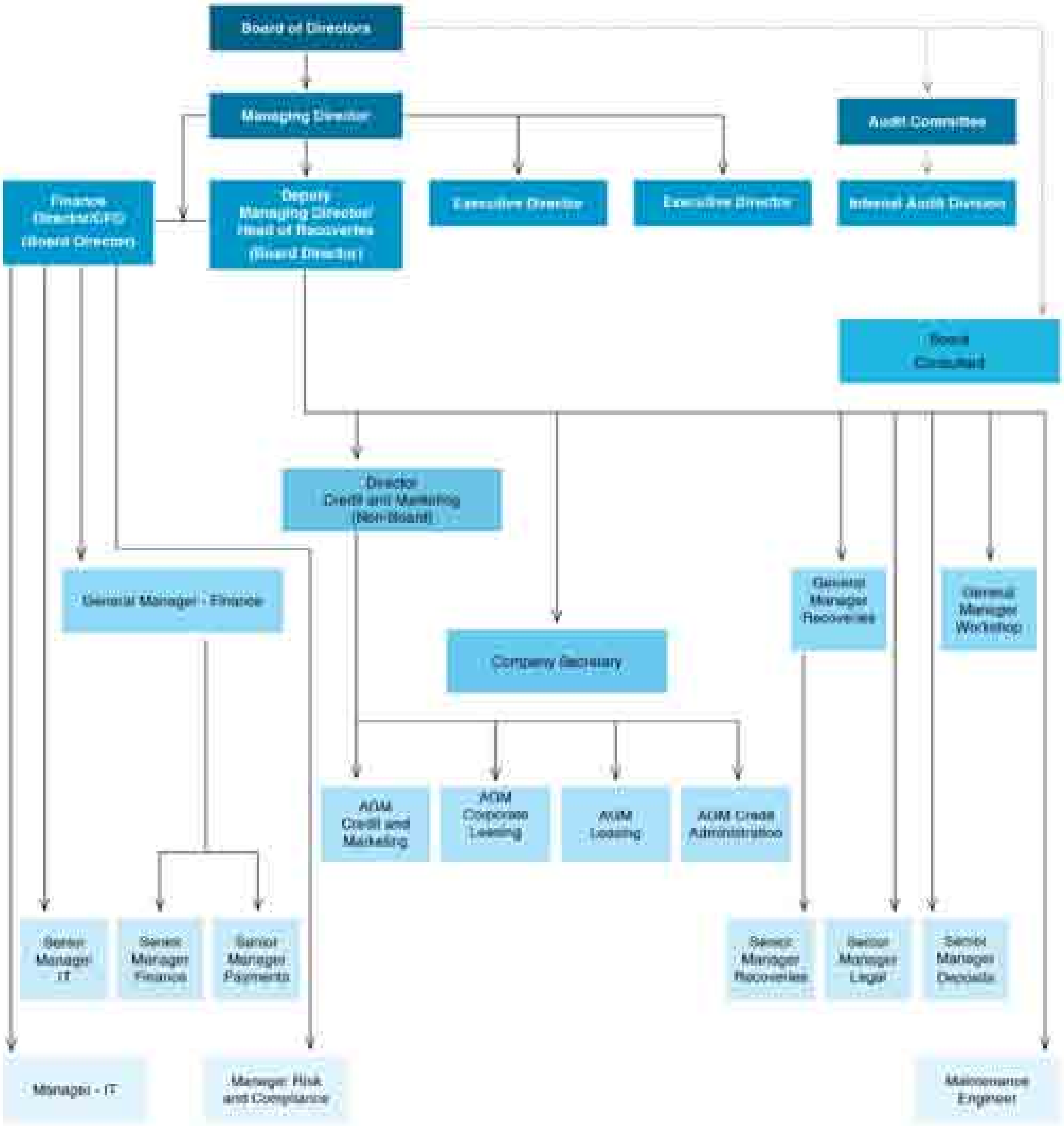
BACKGROUND ABOUT MERCANTILE INVESTMENTS

Legal Form, Nature of Ownership and Operational Structure

MI is a Licensed Finance Company under the Finance Business Act No. 42 of 2011, listed on the *DiriSavi* Board of the Colombo Stock Exchange. We are 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. The ownership of the Company lies with a few large investors.

As a Finance Company MI's core business revolves around granting of credit and deposit mobilisation. These functions are operated independently, headed by respective heads of divisions reporting directly to the Managing Director. MI possess a team of skilled individuals who have been trained to efficiently expedite related tasks to the satisfaction of our customers. Other divisions which mainly include Recoveries, Legal, Finance and Human Resource carry out specialised functions and provide necessary support to core business divisions.

MI's Organisation Structure



Primary Brands, Products and Services

MI's lending business primarily revolves around MI's lease financing and hire purchase product range which in the last decade has expanded to cover term loans, personal loans and property mortgage loans and more recently, micro financing and professional loans. Deposit business mainly revolves around mobilisation of fixed deposits which remain MI's core deposit product since inception and on a relatively smaller scale MI's savings deposits business. For purpose of branding, all lending products and MI fixed deposits are promoted under MI's common logo while savings is branded under MI Max and MI kids logos separately. Full range of MI product offerings is disclosed on page 47 in the MD&A.

Markets Served

We cater to varying financial needs of customers specifically addressing financing needs of individuals who come from all walks of life from various locations of the country. Our target market for core business lines is broad based and focuses on various strata of society, individual or corporate, whose needs vary from being personal to entrepreneurial. MI's operation spans over 20 locations across the country and continues to expand to better serve customers.

Information pertaining to MI's branch network is given on page 110.

Scale of Operations

MI's total turnover, total assets, lending book and deposits have grown aggressively in the last decade thus moving the organisation from a small scale enterprise from what it started, to a larger scale operation. A summarised view of this transformation over the last decade is as follows:

Areas depicting scale of operations	**2014**	2013	2012	2011	2010
Number of Employees	**508**	443	377	313	286
Number of Operations	**3**	3	2	2	2
Quantity of Products and Services Provided	**10**	10	7	7	7
Total Revenue (Rs. '000)	**4,095,811**	3,370,086	2,394,235	2,214,120	1,806,966
Total Assets (Rs. '000)	**23,499,218**	21,222,946	17,607,235	13,748,687	8,523,507
Market Capitalisation (Rs. '000)	**6,613,200**	6,613,200	6,613,200	–	–
Debt (Rs. '000)	**4,917,129**	5,232,331	4,638,644	2,318,481	403,599
Equity (Rs. '000)	**6,266,385**	5,706,359	5,474,606	6,293,078	3,776,015
Lending (Rs. '000)	**16,187,399**	13,844,647	10,446,514	6,416,176	4,447,126
Deposits (Rs. '000)	**11,417,741**	8,424,720	6,137,896	4,297,801	3,479,291

** 2012, 2013 and 2014 - Income Statement information is SLFRS/LKAS Based.*
2011, 2012, 2013 and 2014 - Statement of Financial Position Information is SLFRS/LKAS Based.

'The Decade at a Glance' given on page 337 provides financial information in summary to portray the steady progress made by MI thus far. Furthermore, MI's business segment performance is disclosed on page 314 while MI's performance geographically is given on page 74.

OUTSOURCING

The Company has not outsourced any of its core functions, operational or otherwise to any outside party as a prudent measure thus keeping a hold on the overall operation and ensuring there is proper integration. Following support functions are outsourced:

- Part of cash transportation.
- Security services.
- IT support services.
- Internal audit (In parallel with MI's own Internal Audit Division).

Material Changes in Size, Structure or Ownership

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

APPROACH TO INTEGRATED REPORTING

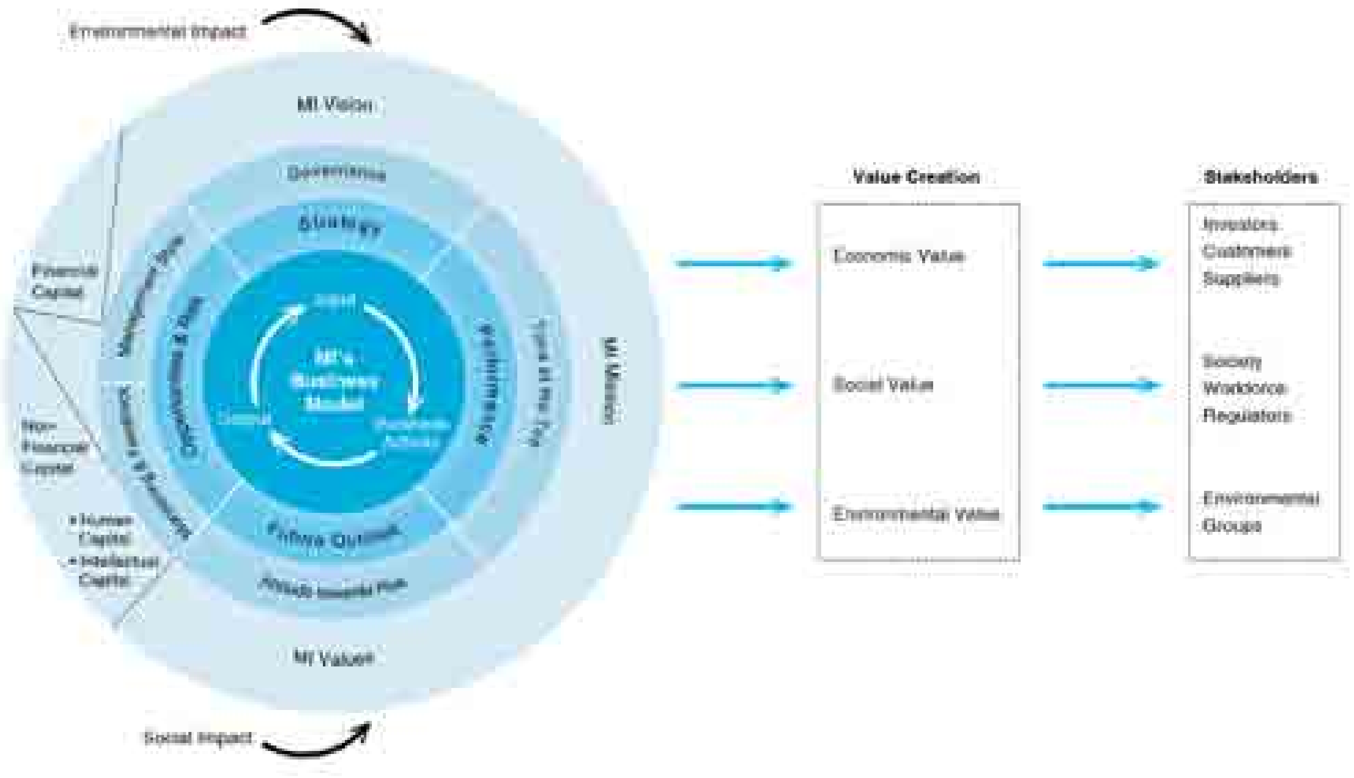
Our aim of presenting an Integrated Report from this year was to communicate better how we as an organisation effectively managed intricacies associated with our business model to deliver to expectations posting yet another solid performance while cementing a solid platform to pursue aspirations going to the future. The Report articulates MI's own value creation process towards key stakeholders including dimensions of sustainability presenting performance in terms of the triple bottom line value creation. The Report captures MI's efforts in creating economic prosperity, environmental quality and social well-being considered integral facets for a sustainable future.

PROCESS OF VALUE CREATION AT MI

Based on the vision, mission and internal value system that we uphold, we strive in creating triple bottom line value that encompasses commercial profit making aspirations with sustainable ideologies of economic, social and environmental expectations. We maximised available resources which consist both financial capital and non-financial capital in a productive way, to enhance stakeholder value annually. In doing so, we embrace a strong governance structure that inculcates prudent management of operations, with an ethical and transparent upbringing. We have inbuilt systems and procedures to capture potential risk associated with our form of business, so that it is managed appropriately to minimise losses.

We adopt an exemplary business model that compliments a structured strategic approach in fulfilling organisational objectives which eventually enhances overall value. Foremost, we have instilled an effective operational process that enables us to derive optimum benefit from the capital inputs that go into business. For us, apart from financial capital being the key resource, our human resources, business premises and equipment and our know how in the financing field are the other key capital that form the base for our inputs.

MI's Value Creation Process



To be competitive, we remain highly receptive to market changes and customer preferences and hence carry out the necessary business environmental analysis and internal gap analysis prior to deciding on setting objectives, goals and developing appropriate strategy for its achievement. We place heavy importance on developing strategy for our key lines of business and operational components.

Management monitors triple bottom line performance based on a broad spectrum of Key Performance Indicators (KPI's) and Key Risk Indicators (KRI's), periodically. Whilst, monitoring actual performance against expectations arising from the strategic plan, as necessary, we continue to modify or change proposed strategy when necessitated due to changes that could occur in the industry because of shifts in customer needs and changes in economic variables.

When deciding on business intricacies, we do not base our decisions purely on historic and current information but extend our understanding to the future as well. We take into account future predictions and patterns that are unfolding in the finance company sector as well as outside our sector and overall economy that could have a bearing on how we do business. We go on to assess future in terms of key components of our business such as products, processes, policies, procedures, human resource, information technology and other elements integral to our operation.

The value created either in rupees and cents and other intangibles are finally passed down to our key stakeholders to meet their expectations. For our investors, wealth creation is secured by our sound profitability whilst value created beyond this mostly intangible, transcending in terms of economic, social and environment benefits is passed down to other key stakeholders.

STAKEHOLDER IDENTIFICATION

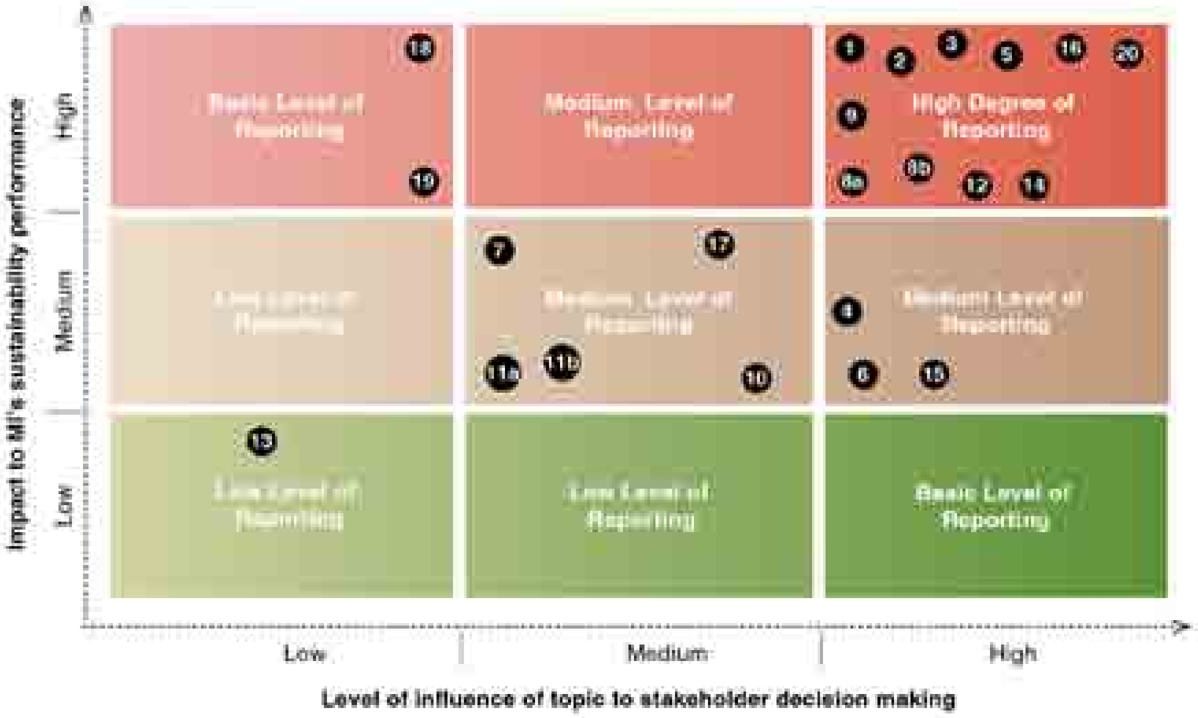
We understand the need to distinguish who our key stakeholders are and their expectations, so that we can work towards fulfilling their expectations to bring value to them. While our investors remain the primary stakeholder, our customers, employees, suppliers, the local community and regulatory authorities are the other key stakeholders considered integral to the Company.

STAKEHOLDER ENGAGEMENT AND MATERIAL TOPIC SELECTION

We engage in numerous ways with our key stakeholders as part of conducting our business and have identified our investors, customers, employees, suppliers, regulatory bodies, local community and environmental groups as our key stakeholders. By continuously interacting with these key parties over time, we have zeroed in on matters deemed important to them and those that would eventually have an impact on our sustainability performance and value creation process.

Depending on the degree of materiality of topic, variant on the level of influence such topic will have on the stakeholder decision-making and impact to MI's sustainability performance, we prioritised identified topics and then decided on extent of disclosure to be given. Accordingly, topics marked as high in terms of materiality have been discussed in-depth while matters marked as medium or basic were discussed moderately and others have been emphasised without much deliberation as depicted in the 'Materiality Gauge Matrix'.

Materiality Gauge Matrix



Stakeholder Engagement and Topic Selection Schedule

Stakeholder	Engagement/communication methods	Frequency	Topics related to stakeholder	Expectations of the stakeholder in relation to topic	Materiality of topic High/Medium/Low	MI's progress in relation to topic Page No. reference
Investors/ Shareholders	• Shareholder meetings/ AGM/Releasing of Annual Report and obtaining feedback form	AGM - Annual Other Ad-hoc	1. Effectiveness of business model with annual performance/ outcomes of value creation process	• Seeking sound returns for capital invested	High	29 to 93
	• Announcements and issuing of Annual/Interim results to CSE	At least Quarterly	2. Appraising plans, future prospects and identifying areas needing improvement	• Understanding MI's future potential and seeking improvement	High	29 to 93
	• MI website information updates	Regular basis				
	• Press releases and articles in magazines	At least one release per quarter				
Customers	• Marketing visits/Field visits	Credit customers - Mostly once prior to transacting	3. Customer satisfaction	• Obtain maximum benefit/ satisfaction from MI offerings	High	109 to 112
		Deposit customers - Ad-hoc periods and selective	4. Customer health and safety	• Transacting with physical safety	Medium	135
	• Direct customer feedback to our service points/One to one meetings	Regular basis	5. Customer privacy	• Safeguarding information placed with the Company	High	135
	• Use of customer suggestion box	Ad-hoc basis	6. Ethical marketing communication	• High ethical standards and concise communication expected from the Company	Medium	135
	• Telephone discussions/ E-mails	Regular basis	7. Product and service labelling	• Apt adherence to product and service labelling requirements	Medium	135
	• Advertising campaigns	Regular basis				
	• SMS Alerts	Ad-hoc frequency				
	• MI corporate website	Regular basis				
Employees	• An 'open door policy' that fosters effective dialogue between employer and employee	Regular basis	8. (a) Recruiting right personnel	• A recruitment that will churn a win-win position for either party	High	123
	• Internal training programmes	Regular basis	(b) Employee motivation	• Being rewarded financially and otherwise including creating a path to excel in career	High	126 to 127
	• Performance appraisal	Bi-annual				
	• Corporate Newsletters	Annual	9. Employee knowledge accretion	• Continuous flow of knowledge to handle one's job function efficiently and for career progress	High	123 to 124
	• Management meetings	Weekly				
	• Corporate communiqués via circulars, memos and e-mails	Regular	10. Employee health and safety	• Adequate health and safety measures	Medium	125
	• Company events including get-togethers, sports day and celebrations and religious events	MI Get-together - Annual	11. (a) Employee diversity, equal opportunity	• Enough job opportunity and career progression without biasness	Medium	119 to 121
		Other events - ad-hoc	(b) Labour relations	• Sound Employer - employee relationship	Medium	127
	• Strategic planning sessions	Once in three years	12. Appraising employee performance	• Linkage of reward to performance	High	126

Stakeholder	Engagement/communication methods	Frequency	Topics related to stakeholder	Expectations of the stakeholder in relation to topic	Materiality of topic High/Medium/Low	MI's progress in relation to topic Page No. reference
Suppliers	• Arrange meetings/ telephone discussions	Regular basis	13. Mutual sustenance with suppliers	• Maintaining a business partnership that is beneficial for both parties	Low	113
	• Call for quotations/ estimates for general supplies	Regular basis				
	• Visits made by either party	Regular basis				
Local Community/ Society as a whole	• Identification of social needs via meetings, social media and interaction with local community.	Regular	14. Addressing local community needs including health, education, poverty alleviation and sanitation	• Meeting varying needs of individuals and society beyond provision of financial assistance	High	129 to 133
	• Interacting through community events and other corporate events	Monthly to Annual	15. Safeguarding human rights principles	• Upholding essential requirements related to human rights fundamentals when doing business	Medium	134
			16. Curbing practices detrimental to society	• Being a financial institution,upholding sound anti-money laundering policies and practices	High	133
Environmentally interested parties/Groups	• Mentioning environmental initiatives in MI Annual Report available to public via corporate web page	Annual	17. Safeguarding the environment	• Being a responsible corporate by safeguarding the environment and securing the well- being of living things when doing business	Medium	115 to 118
			18. Use of natural resources	• Sparing use of natural resource without waste	Medium	115 to 118
			19. Consumption of energy	• Optimal use of energy	Medium	117 to 118
Regulatory bodies	• Discussions, Correspondence, submission of returns and status reports	Regular	20. Adopting applicable regulations aptly	• Adherence to requirements imposed by regulator and other governing bodies	High	217 to 219
	• Meetings/Workshops with regulatory bodies	Monthly to Annual				
	• Submission of special reports	Ad-hoc				

REPORT CONTENT

In determining the content of the Integrated Report in presenting a balanced and reasonable representation of our operational, financial and sustainability performance, we followed GRI principles on materiality, stakeholder inclusiveness, sustainability context, completeness and report quality. A summary of the Report content covered under various sections and statements forming our Integrated Report this year are as follows:

Section/statement	Reporting content
1. Triple bottom line highlights	Highlights of MI's economic, social and environmental achievements
2. Sustainable growth trajectory	MI's growth trajectory since inception mapped against historic national events and anticipated growth path for the future
3. Chairman's Message and Managing Director's Review	Salient aspects of the year and valuable thoughts expressed from the very top of MI's hierarchy
4. Management Discussion and Analysis	A comprehensive report that analyses business environment, outlines how MI's value creating business model cum strategy assisted operational and financial performance with relevant statistics for the year and outlook for the future
5. Sustainability section	Approach taken and achievements in the creation of economic, social and environmental value integral to organisation's aspirations on contributing to a sustainable nation
6. Stewardship	
a. Our Board and Corporate Management	The leadership profile that governs the enterprise in all its endeavours
b. Corporate Governance Report	Governance approach adopted for the prudent running of the Company
c. Risk Management Report	Approach taken in managing risk inherent in MI operations
7. Financial Report Section	
a. Audited Financial Statements	Level of financial value created during 2013/14 financial year with comparatives
b. Supplementary Financial Reports	Other financial information that portrays MI's value creation story
c. Other Reports	Provides other information necessitated to complete a comprehensive Annual Report

CHAIRMAN'S MESSAGE

"In keeping with MI's vision, we were able to go beyond thresholds of investor wealth creation, extending our value creation process to enhance value to other key stakeholders…"

My Dear Shareholders,

As we conclude another year with heartening results, let me gladly welcome you all to Mercantile Investments and Finance PLC's (MI) Fifty-First Annual General Meeting. I would like to present to you the Company's Annual Report and the Audited Financial Statements for the financial year ended 31st March 2014. My message touches upon the economic conditions that prevailed together with our salient accomplishments for 2013/14. It also lays forth broadly the management approach taken in moving towards our goals and highlights key prospects for the future, in conclusion.

GLOBAL ECONOMY

The unprecedented economic setbacks that resulted from the global financial crises in early 2008 continued to hamper world economic growth prospects to date. However, the impact of the crises has seemingly worn-off somewhat with time. Economic giants such as the United States and other Western counterparts show steady signs of recovery but at a gradual pace. Despite the increased dominance played by Asian region with China emerging as the key world economic force, Asian Region experienced its own setbacks while Japan's economy too was hit by recession in recent times.

Being close to India and other parts of Asia, Sri Lanka remains well positioned with right business environment to boost domestic economy by dealing in international trade activities. It was therefore necessary to strengthen business ties with the regional counterparts so that local enterprises can compete internationally to broad-base horizons.

DOMESTIC ECONOMY

Sri Lankan economy remained resilient despite global drawbacks, driven by postwar development including infrastructural improvements and policy changes taking place. The national economy showed steady progress recording a GDP growth of 7.3% moving ahead from 6.3% growth recorded last year, having to overcome local as well as international challenges, despite improving business conditions.

To share some of the accomplishments made in terms of the Sri Lankan economic progress, I would like to summarise key economic indicators as at 31 December 2013, as follows:

- Inflation YOY stood at single digit level for the fifth consecutive year dropping further to 6.9%.
- The unemployment rate marginally rose and stood at 4.4% but yet was well below global unemployment levels.
- National savings stood at 25.7% of GDP higher than previous years recorded.
- Investments of both private and Government sectors remained at 22.7% and 6.9% of GDP, respectively without a notable change from last year.
- Export volumes index stood positive at 5.9% compared to a negative of 0.2% last year.
- Government debt decreased to 78.3% from 79.2% of GDP by the end of the year.
- Market capitalisation of institutions in the capital market grew to Rs. 2,459.9 billion from Rs. 2,167.6 billion reported for last year.

Hosting the Commonwealth Heads of Government Meeting (CHOGM) in November 2013 was yet another milestone for the nation. This improved Sri Lanka's standing globally and set the stage for attracting international interest, a boost to improving tourist arrivals. The growth in influx of FDI's nonetheless remained subdued and slow-paced despite improving business conditions and investment opportunities since postwar.

Staunch effort of the business community in capitalising on postwar positives, equally assisted the economic revival process in terms of rejuvenating economic activity particularly in the North and the East. The services sector in particular recorded notable progress with real output change at 6.4% up from 4.6% reported in 2012.

FINANCE COMPANY SECTOR CONDITIONS

The constant fall in market interest rates almost 300 basis points YOY during this financial period impacted Licensed Finance Companies (LFC) sector positively in terms of accelerating credit growth whilst keeping Non-Performing Loans (NPL) intact for new lending. However, on the flip side, eventual lowering of deposit interest rates to sustain core margins, made deposit mobilisation tough for the sector.

For most in the sector, maintaining asset quality in the midst of deteriorating credit worthiness of borrowers was a cause for concern, with accelerating repossession levels experienced than in the last few years with build-up of vehicle yards. The already hampered vehicle sales market on account of prevailing high duty structures was dealt another blow with drop in vehicle prices for second hand vehicles due to excess supply. Nonetheless, improved economic conditions and increasing wealth and savings levels of the public continued to sustain finance-related business despite stumbling upon these challenges.

The proposed financial sector consolidation programme that commenced early 2014 remained high priority for all LFC's to pursue acquisitions/mergers, posing fresh challenges to respective companies, at the same time creating the path for a more resilient financial system.

INVESTOR VALUE CREATION

I am proud of our efforts this year and the commitment displayed to our primary cause of investor wealth creation, despite being in a highly competitive environment and facing numerous challenges as a sector. MI for the financial year 2013/14 satisfactorily posted a pre-tax profit of Rs. 824 million and a post-tax profit of Rs. 675 million staying true to our promises, indicative of a profitability growth of 13% and 7% respectively year-on-year.

From the commencement of the period, we remained committed to our strategic framework and business model that we advocate and pursued on accomplishing goals set out in the Strategic Plan. We consolidated on the excellent platform set-up in the past few years by boosting volumes from the strengthened branch network and remained conservative in setting-up further branches this period. While pursuing on proposed strategy, we were compelled to restrategise and improvise on some of our plans based on prevailed market volatility, to keep to key operational goals and budgeted financial targets.

By taking an aggressive stance towards core business development, MI was able to positively influence customer behaviour and sustain repeat business and more so succeeded in attracting fresh businesses in the process. As a result, annual portfolio growths in both our lending and deposit business lines were maintained healthily over 15% YOY, despite experiencing stiff competition, particularly in terms of pricing.

We constantly reviewed market conditions against pursued strategy and was receptive towards the gradual deterioration in credit repayment experienced by the sector. Maintaining credit quality and curtailing Non-Performing Lendings (NPL's) was a big challenge for most in the sector this period. We therefore remained focused right from the start to ensure NPL's are curtailed and therefore succeeded in maintaining the overall NPL ratio below 4%. I applaud the hard work of our recoveries division in keeping to expectations.

CREATING OTHER STAKEHOLDER VALUE

In keeping to MI's vision, we were able to go beyond thresholds of investor wealth creation, extending our value creation process to enhance value to other key stakeholders mostly through intangible value building which we consider integral to our long-term success. Towards this endeavour, we recognised past efforts of the talented MI Team and continued nurturing them in advancing their skills to sustain competitiveness.

From a social and environmental perspective, we showed commitment again this year initiating a number of CSR programmes for the benefit of a sustainable society while extending support to safeguard the environment, in our own little ways possible. I believe these efforts will accrue reciprocal benefits to the Company especially in terms of positive public perception about MI.

INTEGRATED BUSINESS APPROACH AND REPORTING

The report theme adopted this year conceptualises MI's yearning in bringing about a positive sustainable impact to our key stakeholders through a defined integrated value creation process. The Board and myself stand committed to this integrated approach that contributes to the accumulation of value financial and non-financial annually. In ensuring optimal results both financial and non-financially, we maintained a clear interlink between various components of our business maintaining co-ordination between sub-departmental goals versus overall organisational expectations.

In terms of reporting, presenting an Integrated Annual Report compliments what we as an organisation practice, in a transparent manner. Our financial reporting has been further enriched since adopting the International Financial Reporting Standards (IFRS) from last financial period.

STRENGTHENING GOVERNANCE, REPORTING AND CORE VALUES

The Company made several changes this period strengthening its already strong governance framework, embracing most of the requirements mentioned in revised Code on Corporate Governance issued in 2013. This is subsequent to the significant changes effected in the past few years to improve the governance framework within the organisation including restructuring of the Board in 2012. I would like to emphasise that your Board stands committed to the safety and soundness of the enterprise and will continue to adopt prudent governance practices at all times.

PROFOUND CORPORATE CULTURE

At MI, we create a professional working environment for all employees and highlight the significance of practicing sound corporate values. We expect all who become part of the MI team to display the highest level of integrity and resort to ethical practices at all times, a reflection of unblemished MI virtues that have been practiced since inception. I affirm that no material violation of disciplined business conduct and ethical requirements of the company has taken place during the year either at Board level or from any employees of MI.

OUTLOOK FOR THE FUTURE

The unprecedented transformation taking place should sustain national real GDP growth levels well-above 6% in the medium term, with enough opportunity for businesses to thrive, if conditions are exploited successfully. I wish to reiterate here that the corporate sector will have to take the initiative and play an integral role in supporting the nation in its march towards anticipated national growth targets, if the nation is to move past US$ 100 billion economy and achieve the set goal of US$ 4,000 per capita income.

Mercantile Investments being an 'A' grade institution will pursue possible consolidation options with a 'B' grade finance company, in the near future. We hope to complete this task keeping focus on our core competencies, without wavering on our current progress and future plans.

The Company hopes to remain highly receptive to market changes happening at national level when executing strategy and implementing new plans. In sustaining growth in the medium term, we expect to recoup increased business volumes from outside the Western Province in the next few years. Greater emphasis will be placed in strengthening presence in the Northern and the Eastern Provinces, considering such provinces' growing contribution towards national GDP. Similarly, taking note of the macroeconomic policy and ongoing structural changes, it is fair to expect shifts in sectorial composition of GDP, which will require MI to rethink core business strategy to capitalise on sectors that have greater potential.

Our risk management practices will be beefed-up to detect changes to risk profiles occurring due to the dynamism happening in the current macroeconomic environment with specific emphasis on asset quality. Going forward, as a priority, we plan to reassess all facets of the business environment and hope to evaluate effectiveness of adopted strategy to develop the next three-year strategic plan for the periods 2015/16 and beyond.

EXPRESSING GRATITUDE TO RESIGNED NON-EXECUTIVE DIRECTOR MR. H.A.S.T. SENANAYAKE

Mr. Senanayake resigned from the Board on 24 June 2013 having served as an Independent Non-Executive Director. Being a qualified Chartered Accountant by profession, he headed the Audit Committee of the Company during his short tenor. The Board warmly extends gratitude to him for the invaluable service given by him since February 2011.

APPOINTMENT TO THE BOARD

The Board appointed Executive Director Mr. Mahes Ameresekara as the Company's Deputy Managing Director (DMD) on 28 June 2013. He previously held the position of Director Recoveries and would continue to head the Recoveries Division upon his new appointment and will also assist the Managing Director in overseeing the overall operations of the Company. I wish him all success on his new appointment.

Upon the resignation of Mr. H.A.S.T. Senanayake, for maintaining the Executive and Non-Executive balance of the Board, the Board appointed Mr. P.C. Guhashanka as an Independent Non-Executive Director on 28 June 2013. He has gained experience for over a decade in the automotive industry and is a founder member of Micro Cars Limited and possess over 20 years overall work experience. He holds number of Directorships currently including the position of Group Director of Micro Holdings (Pvt) Limited and its subsidiaries. On behalf of the Board and shareholders, I warmly welcome him to our organisation and wish him success.

WORDS OF APPRECIATION

Given the astounding commitment displayed by those responsible towards MI's successes, it is pertinent that I take time to thank all of them at this juncture. Firstly, I wish to sincerely thank all members of the MI Board, for sharing their valued expertise in all possible instances and extending eternal support for the betterment of the Company.

Similarly, my sincere appreciation goes out to the members of the Corporate Management and all other staff comprising the strong MI team, for their dedicated efforts in making mere aspirations a reality. The MI team displayed true potential, staying focused on priorities, rising pleasingly to whatever challenges placed upon themselves in a tough competitive work environment.

On behalf of the Board of Directors and Management, I would like to thank the Governor, Deputy Governor, Director, Non-Banking Supervision Department and staff of the Central Bank of Sri Lanka for their valued guidance and for extending their fullest corporation to us while continuing to carry-out a yeoman service towards the betterment of the financial services sector in all respects.

I wish to also take this opportunity to thank our dear customers who have chosen MI as their financial business partner, displaying true loyalty towards the Company all this while. Your loyalty has made us proud and has given us the needed impetus to improve our business activity each year and has driven us all the way in serving you better. I extend a special note of thanks to our intermediaries at this moment, namely the agents who continue to promote MI's lending business.

Our shareholders deserve a special word of appreciation as they forge along with us, standing as our true pillars of strength while placing immense trust in the Board to deliver successful results annually. I affirm that myself and the Board will stand committed to enhancing value to our stakeholders, importantly our shareholders. We will devise prudent business strategies to pursue these expectations to the best of our abilities. Once again I thank you for keeping the faith in the Board, the Management and myself in both good and challenging times.

CONCLUDING REMARKS

Reaching yet another milestone in the Company's rich history, we plan to celebrate MI's Golden Jubilee in June 2014. It is pertinent therefore that we go back and recollect MI's accomplishments along the way, which make us a proud Institution. For highlighting key milestones during last 50 years of MI's steady climb towards success depicted against national events, a graphical representation is provided at the commencement of the Annual Report.

In conclusion, I wish to affirm our stance on upholding stakeholder inclusivity in all our endeavours. Mercantile Investments will strive to cement closer bonds with members of the society and hope to constantly endeavour excellence in all what we do. In essence, our professionalism is bound to fast-track MI's value creation process as we go along, bring about a positive sustainable impact to our stakeholders and finally the nation as a whole.

Saro Weerasuriya
Chairman

23 May 2014

MANAGING DIRECTOR'S REVIEW

"The focus was to remain glued to our fundamentals of pursuing sustainable growth as opposed to taking a path that guarantees short-term success only."

NOTEWORTHY YEAR WITH SOLID PERFORMANCE

As yet another year concludes, it was rather gratifying for me to be part of Mercantile Investments steadfast progress ending the period on a highly positive note. We remained firm and un-rattled by the challenging business conditions and were geared profoundly to go above most of the financial and operational goals planned for the period. MI remained well receptive to market changes, adopting a proactive approach, keeping abreast of developments unfolding in the industry as well as at national level.

It was an all-out effort from the MI team, right from the Corporate Management down to all other levels of the hierarchy, from all facets of our business to strive for excellence. In elaborating our successes for the financial year 2013/14, I would like to outline the business environment that prevailed and then summarise our operational and financial performance for the given period and what we can expect for the future.

MIXED BUT HOPEFUL CONDITIONS FOR BUSINESS

While post-war consolidation again took center-stage in the nation's march towards economic prosperity, spearheaded by the Government's economic development programmes, the business community strived to capitalise on emerging opportunities but had to encounter varying challenges along the way. In propelling economic growth, considerable progress was made in terms of completing key infrastructural development projects including the Colombo-Katunayake highway and striking deals to attract foreign investments to develop the hotel sector and other key industries which gave impetus to the postwar rejuvenation of the Sri Lankan economy. However, as a rising concern, despite keeping inflation single digit, there was pressure on price stability due to global effects as well as domestic supply side drawbacks. Furthermore, expected benefits from postwar development taking place and macro-economic policy adopted including recent fiscal policy changes was slow paced and not immediately visible due to its long-term nature.

The financial services sector in this backdrop was attuned to prevailed economic volatility and was resilient to challenges particularly in managing the gradual deterioration in borrower credit repayment during this period. To remain competitive, most afforded attractive pricing solutions to customers, thus thinning enjoyed margins to a degree. Moreover, high import duty and the depreciated exchange rate continued to deplete the brand new vehicle sales market, but in contrast the sector continued to reap sound demand levels for financing second hand vehicles and other forms of credit which helped sustain growth momentum.

For the LFC sector, acceleration in economic activity due to postwar positives, with most sectors including services, industry and transport having picked up during the last few years, had a direct impact on business volumes with demand for non-traditional lending such as personal loans, property mortgage loans and microfinance showing growth potential. In terms of investment, fixed deposits continued to be the preferred choice for most individuals and corporates alike, despite share market's gradual pick up again in early 2014 while property prices remaining somewhat stagnant.

The financial services sector consolidation policy introduced in 2014 by the regulator, intended to strengthen the financial system further became a central area of focus for the industry with ongoing spade work being carried out by respective institutions in the last quarter of financial year 2013/14.

MI'S PERFORMANCE IN FY 2013/14

Maintained Robust Profits

Fulfilling MI's primary aspiration, the Company was able to enhance investor wealth recording sound profitability levels yet again. We concluded the financial year 2013/14 registering a pre-tax profit of Rs. 824 million compared to Rs. 732 million recorded for the previous financial year, which reflected a noteworthy 13% growth YOY. Same time, the Company recorded a post-tax profit of Rs. 675 million compared to Rs. 631 million posted for same period last year, reflecting a growth of 7% year on year.

Countering challenges posed on the sector, particularly the impact on vehicle sales market due to high import duty and falling prices of second hand market due to easing of permit transfers and other concerns required impeccable planning and an all-out effort to reach set targets at the end. Continuing from last year, we stayed heavily focused on boosting our core lines of business, pursuing on our goals with great optimism. However we exercised a degree of caution than before considering the volatility in some of the macroeconomic variables affecting customer demand, pricing and other factors including rising risks for certain types of products.

Noteworthy Transformation Over the Past Decade

From a broader perspective, Mercantile Investments has undergone a noteworthy transformation during the past decade progressing steadily along, surpassing important financial milestones, and moving to a position of an 'A' grade LFC.

	Then (A Decade Ago) FY 2003/04	Last Year FY 2012/13	**Today FY 2013/14**
Net Profit before Tax (Rs. million)	284	732	**824**
Net Profit after Tax (Rs. million)	265	631	**675**
Total Equity (Rs. million)	1,222	5,706	**6,266**
Total Assets (Rs. million)	3,250	21,223	**23,499**
Lending Outstanding (Rs. million)	2,126	13,844	**16,187**
Deposit Outstanding (Rs. million)	1,418	8,425	**11,418**
Branches/Service Centres (No.)	Nil	19	**22**
Number of Staff (No.)	234	443	**508**

In towering along to these levels of performance, the Company underwent radical changes in strategy especially in the last few years, concentrating more on developing success factors associated with our main lines of business. To rise above the rest, to be competitive in a challenging environment we stood dedicated in implementing plans identified in the strategic plan of the Company. However, considering the market changes that occurred since last year especially with the slow-down in demand for specific business lines, we had to make few changes along the way to reach overall goals.

Salient factors that contributed towards this period's sound performance both operationally and financially include:

A Fruitful Business Model

In striving towards our aspirations, we stuck to our unique business model which has been bringing constant success to us, even in tough times. Our approach to business encompassed concise planning, strategy development, instilling of strict operational processes and constant review of performance to ensure we pursue growth sustainably. We took an aggressive approach towards planned strategy, acknowledging the widened scope in business opportunities placed upon the corporate sector since postwar.

The entire management team together with all other staff stayed committed in achieving entrusted divisional targets right-throughout. Through a close monitoring process we reviewed key facets of our business conducting open review secessions weekly, taking pre-emptive measures in times of heightened risk and volatility. The integrated business approach undertaken helped us pursue value creation from all key facets, in a more purposeful sustainable way.

Sound Core Business Performance

In boosting volumes and sustaining business growth from our core business lines, we intensified our campaigns to promote related businesses while at the same time focusing on expanding our reach via branch expansion. In the backdrop of slow economic activity and emerging pressure on NPL's, we had to slow down the pace of opening operations in new locations as a conscious conservative move. Rather, we stressed the importance of raising service standards further, to meet growing customer expectations, to keep satisfaction levels high. Accordingly, during this period, certain operational process changes were effected targeting reduced lead-times, improved speed of service and to generate wealth of MIS to serve customers better.

Net Interest Income rose handsomely surpassing the Rs. 1.5 billion mark growing by 35% from total recorded last year. Keeping to our strategy, we placed less reliance on non-fund based income, especially our dependence on gains from trading in shares and moved towards building our core business revenue again this period.

The witnessed slow pick up of the stock market continued to hamper realised share trading gains enjoyed for the year. As a result capital gains from sale of shares and Government Securities declined to Rs. 81 million from previous year recorded gain of Rs. 123 million.

Balanced Lending Growth with Asset Quality

MI's loans and advances grew satisfactorily by 17%, with the portfolio surpassing the Rs. 16 billion mark in spite of rising competitiveness for financing-related business stemming particularly from the banking sector. In maintaining these growth levels, we conducted aggressive credit marketing campaigns across our widened branch network, assigning difficult lending targets. We increased business derived from our non- traditional term based lending than before which helped us to balance the lending mix and keep to targeted volumes and anticipated average yields.

However, as the year unfolded, the sector observed a noticeable decline in borrower repayments with collections slowing down. To manage asset quality deterioration, we resorted to an effective recovery process which kept overall NPL ratio growth controlled at 3.69%. In this backdrop, it was pertinent of us in setting up an Internal Valuation and Asset Disposal unit in 2014 to sustain credit quality and to support Recoveries speed up the repossession and disposal process.

Healthy Pace Kept in Deposit Mobilisation

Weathering heavy competition particularly for pricing, we managed to commendably maintain deposit growth at 36%, surpassing the Rs. 10 billion mark in total deposit base along the way. We strengthened further the marketing arm of the deposit division to promote business, specially drawing attention to deposit mobilisation at branch level, considering our widened presence. Accordingly, we experienced a noteworthy rise in deposit mobilisation levels from branches than from a year before.

Sound Asset Growth cum Capital Accretion

The total assets of the Company grew by 11% and stood at Rs. 23,499 million compared to a 21% growth witnessed in FY 2012/13 mainly on account of core business growth. By staying committed to our goals, we were able to sustain healthy business growth that yielded sound profitability levels thus helping to strengthen the capital base which stood in excess of Rs. 6 billion as at the financial year end. Having these levels of capital reaffirmed MI's financial strength in the minds of general public and assisted MI to retain as well as attract many new customers from all corners of the nation.

Managed to Source Optimal Funding Lines

To counter pressure exerted on business margins in the midst of rising competitiveness within the sector, we optimised cost of funding by balancing traditional deposits funding with alternative sources of funding. Nonetheless, total borrowings as at the Balance Sheet date fell 17% and stood at Rs. 5,196 million as at 31 March 2014. Borrowings were mainly driven by utilising of bank funding lines together with issue of Commercial Paper as the other key source of borrowing. The treasury division continued to pursue various other funding options that included issue of debentures and seeking foreign funding lines which we hope to finalise next financial period.

Propelled Workforce Contribution

To strengthen branch operation, we expanded the total workforce, recruiting number of new staff members to fit into a dynamic target-oriented culture. We intensified training activity to boost skills of employees to gear them for the tough competitive working environment. The commitment displayed by each individual during this year played a significant role in our reaching this commendable position. Mercantile Investments is proud to possess a high calibre team of professionals, experienced in their fields who have the potential to reach new boundaries.

The Company continues to remain a life-long partner to our employees, maintain competitive remuneration levels whilst affording career advancement opportunities for all levels of the hierarchy.

Instilled an Effective Governance System

As an institution that advocates good governance, we enhanced our governance system embracing additional practices, keeping with some of the broadened requirements mentioned in the revised Code on Corporate Governance issued during this period. We made progress in the area of Risk Management broadening risk review, furthering last year's initiatives. Efforts of the Assets and Liabilities Committee (ALCO) in overseeing Balance Sheet risk and the supervision undertaken by the Integrated Risk Management Committee (IRMC) since its establishment has strengthened governance enormously.

The adoption of International Financial Reporting Standards (IFRS) since last year has raised MI's financial reporting to new levels. We were able to improve our financial and non-financial disclosure given in our Annual Report to provide a very comprehensive, report this year.

Returns to Shareholders

We were successful in meeting our goals on investor wealth creation, considering another year of commendable performance. We paid dividends totaling Rs. 30 million this financial period compared to Rs. 83 million declared in FY 2012/13. I can assure all investors that we will pursue business excellence in all instances and stay focused in maintaining a solid financial position to broaden shareholder wealth in the years to come.

> "In boosting volumes and sustaining business growth from our core business lines, we intensified our campaigns to promote related businesses while at the same time focusing on expanding our reach via branch expansion".

Our Contribution to Sustainability

Embracing an integrated business approach, we emphasised the importance of focusing upon a much broader sphere, contributing commercially and otherwise for the economic, social and environmental enrichment, towards building a sustainable nation. Our efforts went beyond just wealth creation fulfilling our aspirations on social upliftment, initiating a wide array of CSR campaigns targeting local community, and through the adoption of practices that safeguard the environment, in our own unique style.

Our business model and value generation process adopted is elaborated upon in the Management Discussion and Analysis which includes a section on sustainability.

FUTURE OUTLOOK

In achieving expected future economic growth and moving towards the anticipated national goals of US$ 100 billion economy and a US$ 4,000 per capita income, more tangible progress is needed from all key economic fronts in a short time frame if these aspirations are to transpire. Based on recent national performance, we could expect GDP growth to approximate at around 7% in the medium term, thus laying a stable economic platform for the business community to capitalise on in the future.

Within the next few years, we could expect to reap advantages accruing from the macroeconomic policy and development programmes undertaken thus far including uplifting existing infrastructure and roadway. The recent opening of Colombo - Katunayake high way and proposed extension of the Southern Highway beyond Matara would facilitate better access for all. This is sure to afford the business community easy access to various segments of society even highly remote areas to better their future horizons. We could expect better turn-around of tourist in the next few years with greater emphasis being placed on boosting tourism including the completion of the beautification work being carried out in Colombo and other parts of the country.

The need to manage inflation effects and devaluation in rupee exchange rate while garnering higher level of FDI's and export earnings will be vital for the nation's steady economic progress even in the future. Nurturing sound relationships with international community including global business partners and simultaneously managing whatever negative perceptions lingering post war, would be equally important, if the nation is to capitalise on the current excellent economic footing. It would create the required atmosphere for attracting high net worth foreign investors back to our shores. This would provide the needed impetus for the Colombo Stock Market to pick up and reach peak levels as before.

The financial services sector could anticipate the low interest rate regime to continue into the future, at least in the short term, but however expect the decline to slow down materially and stabilise without much deviation from current levels. This should provide enough stimuli for Sri Lankan economy to progress to next level including LFC's to pursue their projected business growth.

As the proposed mergers/acquisitions reach finalisation by end 2014, we could expect public sentiments of LFC sector to improve further and see the sector enjoying greater influx of business as a result. Nevertheless, LFC's will have to be watchful of post consolidation issues especially when dealing with human resource aspects, products and services and market segments and territories that are unfamiliar. To stay competitive and maintain core business spreads, the sector will have to look for innovative offerings and pursue low cost funding options including attracting more long-term international funding lines. For most, to compensate for escalating operating costs, productivity of workforce will need to be enhanced to derive higher income levels if anticipated profitability levels are to be maintained.

MI'S APPROACH TO FUTURE

As the nation advances in economic development with great optimism anticipating again with commendable GDP growth levels, MI remains well placed to capitalise on emerging opportunities of a growing economy and has devised plans and strategies accordingly. Our hope is to maintain a satisfying growth trajectory in the medium-term, consolidating on the excellent platform that we have built in the past few years in terms of expanded presence, building up quality staffing levels and creating a sound customer base.

Despite anticipating market volatility in the foreseeable future, we hope to play within the parameters of the medium-term strategic plan which will remain the guiding instrument for the third consecutive year running. However, we hope to devise the next three year Corporate Plan, during next financial period hoping to make due revisions to previous plans, strategy and estimates based on trends in interest rates, exchange rates and other macroeconomic factors and changes expected within the industry in the future.

In the longer horizon, we hope to stamp our focus around following:

Advocating Sustainable Growth

Based on economic growth projections, we can expect credit growth to average over 20% even in the next 2 - 3 years. In the light of these prospects, we plan to further consolidate on the strengthened branch network that we have established to maintain core business growth. Simultaneously, we will pursue furthering our aspirations on increasing presence beyond Western Province which of course will be done with a degree of caution while being receptive to market volatility that will change demand and risk profiles going forward.

Pursuing Business Excellence in a Dynamic Environment

We can expect LFC sector to display high levels of dynamism and sophistication as each year passes. To beat competition and maintain anticipated core business margins, MI would need to remain receptive and persevere on its plans in a bold manner. Our immediate focus however would be to evaluate proposals for the proposed financial sector consolidation.

In tightening the grip on operations, we hope to keep adequate budget for training and development activity than past years and emphasise on furthering productivity levels. Our ICT systems are to be reviewed and enhanced in the near future to embrace imminent advances in technology and also to capture fresh user requirements resulting from changes that are bound to occur in finance business.

Augmenting Product Value to Customers

In broad basing the customer base, we hope to improvise on the existing product range and expand services we offer and expect to be as innovative as possible. We will further enhance value of our products, and continue to afford attractive interest rates. Our yearn to seek cheaper sources of funding and instilling an effective cost management system is certain to help this cause. In improving our quality of service, we hope to strengthen operational functions across the branch network by easing lead-times with use of technology. We expect to provide extended finance business hours in more locations and plan to evaluate introducing ATM facilities and easy payment methods as next few initiatives.

Nurturing Workforce to Face Future Sophistication

In improving productivity and motivation, to better deal with growing complexities in finance business, we hope to groom the workforce focusing on knowledge accretion programmes on a continuous basis. The infrastructure for training is in place with the recent establishment of the Premier Centre at Cotta Road which houses a separate training unit that can accommodate over 50 individuals at a time. In grooming individuals, we will stress upon and inculcating in them the apt corporate value system and culture we uphold to secure MI's good name in all instances.

WORD OF THANKS

My sincere gratitude goes out to the Chairman and fellow Directors for giving me support in abundance through invaluable advice, guidance and encouragement. I would also like to extend my appreciation to all employees who form MI's dedicated workforce for their commitment shown for bringing this degree of success, despite tough challenges.

I wish to thank the Governor of the Central Bank and his able staff for their continued support and co-operation extended to us throughout the year. I further take this opportunity to thank our valued customers for keeping faith in us and choosing MI yet again to be your trusted business partner. My gratitude is extended finally to our dear shareholders, who have kept faith in myself and the Board during both good and challenging times.

As Mercantile Investments plans to celebrate its Golden Jubilee in June 2014, I would like to pause and reflect upon briefly our successful business journey since inception. I would like to dwell on the achievements made thus far including the solid performance displayed yet again this year in the backdrop of tough business conditions. As the Managing Director, I firmly assure all our stakeholders that Mercantile Investments will stay dedicated towards meeting both its short and long-term aspirations. We hope to churn greater corporate value in the future, thus being an integral cog in the ongoing economy's transformation process.

Gerard G. Ondaatjie
Managing Director

23 May 2014

Management Discussion & Analysis

Building stakeholder value
through a committed performance

MANAGEMENT DISCUSSION AND ANALYSIS

COMMENTARY ON OPERATIONAL AND FINANCIAL PERFORMANCE

OUR UNIQUE VALUE GENERATING BUSINESS MODEL

Using a combination of resources, MI's unique business model which encompasses a plethora of value adding activities strives to create value to our key stakeholders by ultimately delivering output of par excellence. For purpose of objective setting and strategy building and for better understanding of the performance and outcomes, we go on to assess the business environment thoroughly and carry out an assessment of the future outlook for each key facet of our business. In managing this model, we resort to the measuring of performance cum value creation levels through a structured performance evaluation and monitoring mechanism that encompasses both qualitative with quantitative indicators that comprise specifically identified Key Performance Indicators (KPI's) and Key Risk Indicators (KRI's).

This whole process of value creation is outlined in our business model given in next page. The ensuing paragraphs in the Management Discussion and Analysis (MD&A) provide a concise description and explanation of each of the key components forming our business, highlighting the various strands of value created in the concluded 2013/14 financial year.

IDEOLOGIES EMBRACED WHEN STRIVING TOWARDS VISIONARY ASPIRATIONS

Right through our business journey, we have aspired in meeting our vision, mission and values, eternally striving for the fulfilment of our strategic objectives, with this year being no exception. The basis of our creating value thus revolved around these broader aspirations that required an eternal dedicated effort from all facets of our business right through. It emphasises the need for business excellence not only for the benefit of our investors, but other key stakeholders including MI customers, employees and others whom we interact with and finally extending to national level and the society at large.

Our Vision

To be a leading financial Institution committed to excellence in our sphere of activities with a deep sense of social responsibility.

Our Mission

To achieve our strategic vision, we would harness all our resources in the most productive way to be prudently managed and to serve our valuable customers in keeping with national objectives.

Our Key Values

- Customer Bondage
- Securing Investor Capital
- Recognising Employee Efforts
- Socially Responsible and Ethical Actions
- Team Spirit
- Fair But Aggressive Competitor

Our Key Principles

- Fulfill Customer Needs Beyond Expectations
- Deliver Customers a Service that is World Class
- Create Lasting Bonds with People
- Business Practices to Compliment Core Values

MI's Value Creating Integrated Business Model

Visionary Leadership Style

Page Ref. 32

Objective Setting and Strategy Development	**Page Ref.**
Goals in the short, medium and long-term	46
Strategy adopted on core business	51 to 62 and 70

Capital Inputs Utilised	**Page Ref.**
Inputs utilised for business	46
Financial capital	87
Human Resource deployed and Intellectual businesses knowhow	52 to 53 and 119 to 125
Information technology	56 to 59
Premises and equipment	46 and 82

Analysis of Business Environment	**Page Ref.**
World and Sri Lankan economy	32 to 38
SWOT and PESTEL analysis	40 to 45
Risk and opportunities	39 and 101 to 102

Value Adding Activities/Strategy	**Page Ref.**
Business Value Chain	48
Business Strategy development	51
Enhancing effectiveness of success factors	52
Effective work processes	48 to 62 and 70
Human resource value matrix	52
Advanced Information communication and technology support	56 to 59
Treasury management and pricing process	54
Cost Management	54 to 55
Sustainability value creation/Focus on triple bottom line achievement	99 to 144

Stewardship	**Page Ref.**
Profile of Directors	146 to 149
Corporate Governance	155 to 219
Risk Management	223 to 253
Compliance to regulations	217 to 219

Future Outlook	**Page Ref.**
Economy and LFC sector	92
Business outlook	65 to 72 and 92 to 93
Futuristic view on sustainability	137

Outputs	**Page Ref.**
Outputs of business	47
Lending business	60
Deposit mobilisation	70
Other services	73

Performance and Outcomes	**Page Ref.**
Operational Performance	49 to 62 and 70
Financial performance	63 to 91 270 to 329
Dividends/Share price	108
Value addition	90
Employee productivity	89
Sustainability performance	107 to 144
Risk appetite level	230 to 253
Extent of Compliance to requirements	217 to 219

Visionary Leadership Style

MI's founder Chairman George Ondaatjie, since inception aspired MI to reach the pinnacle in its sphere of activity, to become a premier finance company despite market competition and enormous challenges anticipated. The Company has since progressed, accumulating wealth to its investors, value to customers and other stakeholders, and bringing about a positive impact to the sector and the economy during almost five decades in successful business. While aspiring for business excellence, we remained deep rooted in our vision and value system to be a socially responsible enterprise, reaching out to society in many ways, commercial and otherwise.

MI has excelled during the past decade under the staunch leadership of the Managing Director, Gerard Ondaatjie, who has been successful in expanding MI's business presence in a short time span to offer financial solutions to various strata of society. In this time period, the tone at the top emulated one of vigor coupled with certain degree of caution, perusing sustainable growth strategies as opposed to ad hoc short-sighted plans and decisions. MI remained close to its ideologies and values during this transformation phase. We ensured that our business remains viable in all respects, sticking close to our fundamentals which has made our establishment a rock solid enterprise since inception. The unique business model that we practice recognises the importance of thorough planning for the future and seeking consensus of all towards the achievement of strategic objectives.

Management has taken initiative to strengthening the governance framework of the Company with considerable changes made in recent times. This facilitates a conducive work environment that upholds prudent management of all activities of the Company to secure varying interest of our key stakeholders. MI continues to uphold sound prudent business practices at all times whilst being an ethical and transparent enterprise. The Board of MI is equipped with the right blend of individuals who come from various professional backgrounds, who have necessary skills and aptitude to discharge their duties to the expectations of the organisation. Same way, to meet growing organisational demands, the Company continued to focus on grooming employees to meet complex demands of the industry through focused training and development programmes. Our employees are leaders by themselves who drive their subordinates to reach their individual targets, who are required to take initiative wherever possible despite any adversity or challenge.

BUSINESS ENVIRONMENT ANALYSIS

World Economy

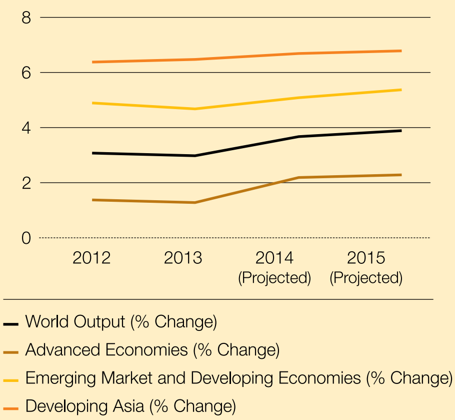
World output grew modestly at 3% year on year for 2013, as most of the world economies, particularly the advanced economies were yet to emerge completely out of recession-related setbacks. Nonetheless, based on International Monetary Fund's world economic outlook assessment, global growth is expected to rise to 3.7% for 2014 and thereafter to grow at 3.9% for 2015 on an optimistic note, considering the expected recovery of the advanced economies.

World Economic Growth Trajectory

	Year Over Year 2012 (%)	Year Over Year 2013 (%)	Projections 2014 (%)	Projections 2015 (%)
World Output	3.1	3.0	3.7	3.9
Advanced Economies	1.4	1.3	2.2	2.3
Emerging Market and Developing Economies	4.9	4.7	5.1	5.4
Developing Asia	6.4	6.5	6.7	6.8

** Source IMF - World economic outlook update January 2014*

WORLD GROWTH TRAJECTORY (%)



Global activity and world trade picked up in the second half of 2013. Much of the upward surprise in growth came as a result of higher inventory demand that contributed to advanced economies expanding. In emerging market economies, an export rebound was the main driver behind better activity, while domestic demand generally remained subdued, except in China. While financial conditions have eased somewhat in advanced economies, emerging market economies remained tight following US tapering announcements, notwithstanding fairly resilient capital flows. Equity prices too are yet to fully recover while many sovereign bond yields have edged up, and some currencies have been subject to pressure.

Overall, growth in emerging markets and developing economies in which developing Asia is included, optimism prevailed with forecasted growth for 2014 to increase upto 5.1% and is expected to rise to 5.4% by 2015. Growth in economic giants China, and India arising from the acceleration in investment and higher export growth continues to drive the Asian region forward. Many other emerging markets and developing economies have started to benefit from stronger external demand arising from advanced economies and China.

Going forward, emerging market economies including Sri Lanka, will need to be mindful of increased financial market and capital flow volatility. Turning to effective policies, ensuring robust growth and managing vulnerabilities will remain global priorities, to better economic prospects. Sri Lanka being strategically placed in the Asian region, should pursue strengthening its ties with its counterparts to widening international trade options and create fresh opportunities from recovering advanced economies.

SRI LANKAN ECONOMY

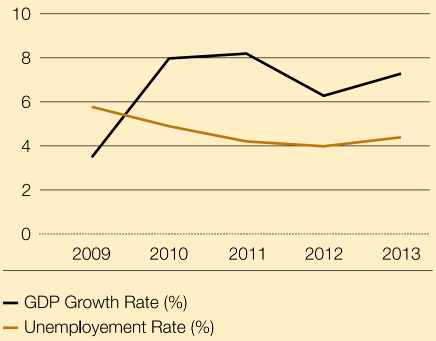
Synopsis of the State of Economy in 2013

In spite of the global economy including emerging market and developing economies slowing down moderately based on overall growth statistics, the Sri Lankan economy progressed at a noteworthy pace, bettering previous year's growth levels in GDP terms. The Sri Lankan economy rebounded commendably recording an annual real GDP growth of 7.3% for 2013 compared to 6.3 % in 2012. All sectors of the economy contributed positively to growth, propelled by the favourable economic environment since post war. Furthermore, favourable weather conditions and gradual recovery in external demand supported the steady rise in economic growth over the year.

Despite significant upward adjustment to domestic energy prices, prudent monetary management and improved food supply resulted in a gradual decline in headline inflation while core inflation moderated to its lowest levels. It was commendable to witness inflation declining further to reach mid-single digits by the end of the year, remaining at single digit level for the fifth consecutive year. Continued low inflation allowed the Central Bank of Sri Lanka (CBSL) to ease monetary policy during the year to fuel economic activity further. There was marked improvement in the balance of payments (BOP), resulting from productive policies adopted by the Government and the CBSL in 2012 coupled with the gradual recovery of major export markets. This enabled the build-up of official reserves and supported in keeping the exchange rates stable.

As the labour productivity continued to improve during the year, the labour force expanded by 4.1%, thus resulting in both employed and unemployed levels to rise. The unemployment rate increased from 4% recorded last year to 4.4% in 2013, nevertheless still commendably lower than global unemployment levels experienced by some of the key nations.

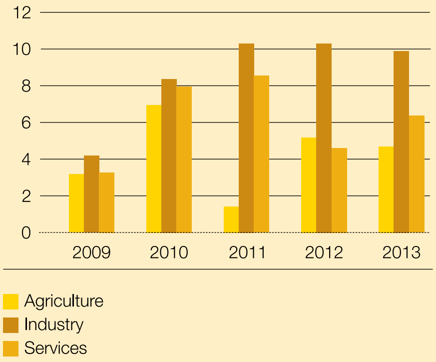
GDP GROWTH RATE AND UNEMPLOYMENT RATE (%)



SECTORIAL PERFORMANCE THAT IMPACTED THE ECONOMY

Economic growth was broad-based with strong growth stemming from the Industry sector, a recovery in the service sector and a revival in the agriculture sector during the latter half of 2013.

ANNUAL SECTORIAL GROWTH (%)



Agriculture Sector

Agriculture sector recorded a 4.7% growth in 2013, registering increased production levels in a number of agriculture-based commodities. The growth resulted from effective policies adopted by the Government to improve the sector, remunerative producer prices and favourable weather conditions. It was heartening to observe paddy production growing by 20% while vegetables and other domestic produce too growing in output benefitted by focused Government policies.

Industry Sector

Factory industry output accounted for 90% of the manufacturing output, and recorded a positive growth for the period driven mainly by the recovery of global trading partner economies, higher tourist arrivals and a conducive business climate. There was increased focus by industrialists to boost productivity levels, in addition to the said driving factors. The Government's industry policy thrust was directed towards the promotion of knowledge-based technology intensive industry, while supporting the development of small and medium enterprise (SME's) and regional industrialisation.

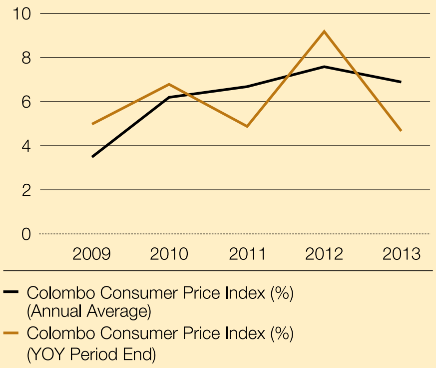
Services Sector

The services sector achieved a commendable growth of 6.4% in 2013 compared to 4.6% recorded in 2012. Overall buoyancy seen in all subsectors during the year boosted the sector, recording commendable expansion in related subsectors of transport, wholesale and retail trade, hotels and restaurants as well as banking, insurance and real estate.

Inflation

Inflation remained in the single digit zone for the fifth consecutive year with the annual average headline inflation measured by the Colombo Consumers Price Index (2006/07 = 100) declining from June 2013, ending at 6.9% by end of the year. Year on year headline inflation too has moved on a decelerating path since March 2013 with the improvements in supply conditions of domestic agriculture commodities, easing of some commodity prices in the international market and prudent demand management policies of the Central Bank of Sri Lanka. Nevertheless, in early part of the year, inflation reached upper single digit levels, on account of supply disruptions caused by adverse weather conditions that prevailed in major producing areas, increase in gas and fuel prices and the low base in 2012.

COLOMBO CONSUMER PRICE INDEX (%)



** Information based on: Colombo Consumer Price Index (2006/07=100) percentage change*

Wages

Nominal wages of employees increased during this period, with the informal private sector recording the highest increase. The overall nominal wage rate index of the formal private sector, as measured by the minimum wage rate indices of employees whose wages are governed by regulations under the Wages Boards Trades, increased by 5.7% in 2013. This increase was entirely due to the sharp upward revision in the minimum wages of workers in the industry and commercial sector and the services sector.

Fiscal and Monetary Sector Developments

Government revenue as a percentage of GDP declined to 13.1% of GDP in 2013 compared to 13.9% of GDP recorded in the previous year, although revenue increased by 8.2% over 2012 in nominal terms. Total revenue collection in 2013 at Rs 1,137.4 billion was significantly below the annual estimate in the budget. In terms of monetary sector developments, easing of the monetary policy stance, from previous period continued in 2013, with the aim of supporting economic activities to adjust and graduate to a higher growth trajectory given the low inflation environment. As a result, rupee liquidity in the domestic money market rose notably and remained in excess throughout 2013.

Interest Rates

Financial markets remained liquid during much of 2013 and market interest rates adjusted downwards gradually during the year, responding to the easing of the Central Bank's monetary policy stance. Yield rates in the Government Securities market declined significantly during the year, in view of prudent debt management strategies implemented alongside the easing of monetary policy by the Central Bank. Accordingly, lending and deposit interest rates of the LFC sector continued to decline falling by over 3% YOY.

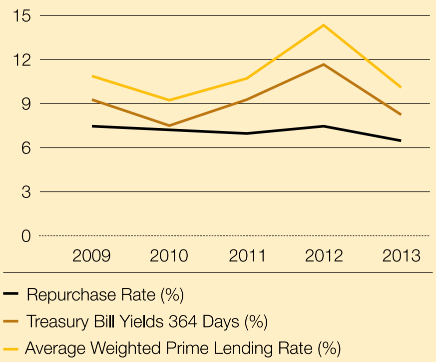
Interest Rate Trends

Interest Rates (%)	2009	2010	2011	2012	2013 (a)
Treasury Bill Yield (364 days)	9.33	7.55	9.31	11.69	8.29
Repurchase Rate	7.50	7.25	7.00	7.50	6.50
Commercial Banks' Average Weighted Prime Lending Rate (AWPR)	10.91	9.29	10.77	14.40	10.13

(a) Provisional.

** Source: Annual Report 2013 of Central Bank of Sri Lanka.*

MARKET INTEREST RATES (%)



Equity Market

The All Share Price Index (ASPI) and the S & P Sri Lanka 20 index of the Colombo Stock Exchange (CSE) recorded gains for 2013. With the ASPI increasing by 4.8% in 2013, the CSE outperformed several regional markets. The downward trend in domestic interest rates, which resulted in a significant drop in interest rates during the year, relatively stable exchange rates vis-à-vis the Sri Lankan Rupee, and the favourable impact of the gradual recovery of the global economy on domestic macroeconomic performance were amongst those factors that were supportive of stock market performance. It was also pleasing to see increased participation by foreign investors including institutional investors contributing positively to CSE performance.

Share Market Performance

	2012	2013
All Share Price Index (1985 = 100) (a)	5,643.0	5,912.8
Year on year Change (%)	(7.0)	4.8
S & P Sri Lanka 20 Index (17 December 2004 = 1,000) (a)	3,085	3,264
Year on year Change (%)	8.0	5.8
Market Capitalisation (Rs. billion)(a)	2,167.6	2,459.9
As a percentage of GDP (%)	28.6	28.4
Market Price Earnings Ratio (a)	15.9	15.9
Turnover to Market Capitalisation (%)	9.9	8.7
Average Daily Turnover (Rs. million)	884.0	828.0
Value of Shares Traded (Rs. billion)	213.8	200.5
Number of Shares Traded (million)	9,691	9,054
Number of Companies Listed	287	289
Introductions	11	1
Number of Initial Public Offers (IPO's)/Offers for Sale	6	1
Number of Rights Issues	19	9
Amount Raised through Rights Issues and IPO's (Rs. billion)	13.3	26.0

Source: Colombo Stock Exchange.

(a) End of the year.

Key Economic Indicators

	2009	2010	2011	2012	2013 (a.)
DEMOGRAPHY					
Mid year population ('000 persons)	20,450	20,653	20,869	20,328	20,483
Population density (persons per sq.km.)	326	329	333	324	327
Labour force ('000 persons)	8,074	8,108	8,555	8,454	8,802
Unemployment rate (percent of labour force)	5.8	4.9	4.2	4	4.4
OUTPUT					
GDP at current market prices (Rs. billion)	4,835	5,604	6,543	7,579	8,674
Per capita GDP at market prices (Rs.)	236,445	271,346	313,542	372,814	423,467
REAL OUTPUT (Percentage change)					
GNP	4.8	7.9	8.4	5.3	6.5
GDP	3.5	8.0	8.2	6.3	7.3
Sectoral Classification of GDP					
Agriculture	3.2	7.0	1.4	5.2	4.7
Industry	4.2	8.4	10.3	10.3	9.9
Services	3.3	8.0	8.6	4.6	6.4
AGGREGATE DEMAND AND SAVINGS (Percent of GDP)					
Domestic savings	17.9	19.3	15.4	16.9	20.0
Net factor income from abroad	5.8	6.0	6.7	7.0	5.7
National savings	23.7	25.3	22.1	24.0	25.7
PRICES AND WAGES (Percentage change)					
Colombo Consumers' Price Index (2006/07 = 100) - Annual Average	3.5	6.2	6.7	7.6	6.9
Colombo Consumer Price Index (2006/07=100) - year on year - end period	5.0	6.8	4.9	9.2	4.7
GOVERNMENT FINANCE (Percent of GDP)					
Revenue	14.5	14.6	14.8	13.9	13.1
Expenditure and net lending	24.9	22.9	21.9	20.5	19.2
Current account deficit (-)/surplus (+)	(3.7)	(2.1)	(0.9)	(1.0)	(0.8)
Overall deficit (-)/surplus (+)	(9.9)	(8.0)	(6.9)	(6.5)	(5.9)
Government debt	86.2	81.9	78.5	79.2	78.3
EXCHANGE RATES					
Annual Average					
Rs./US$	114.94	113.06	110.57	127.60	129.11
Rs./SDR	177.22	172.50	174.54	195.38	196.19
Year End					
Rs./US$	114.38	110.95	113.90	127.16	130.75
Rs./SDR	178.67	170.84	174.87	195.31	201.36
INTEREST RATES (Percent per annum at end period)					
Repurchase Rate (Overnight)	7.50	7.25	7.00	7.50	6.50
Reverse Repurchase Rate (Overnight)	9.75	9.00	8.50	9.50	8.50
Treasury Bill Rate 91 Days	7.73	7.24	8.68	10.00	7.54
Treasury Bill Rate 364 Days	9.33	7.55	9.31	11.69	8.29
Deposits Rates					
Commercial Bank's Average Weighted Deposit Rate (AWDR)	8.01	6.23	7.24	10.10	9.37
Lending Rates					
Commercial bank's average weighted prime lending rate (AWPR)	10.91	9.29	10.77	14.40	10.13
CAPITAL MARKET					
All share Price Index (ASPI) (1985=100)	3,385.6	6,635.9	6,074.4	5,643.0	5,912.8
Milanka Price Index (MPI) (1998 Dec. = 1000)	3,849.4	7,061.5	5,229.2	5,119.1	–
S & P SL 20 index (2004 Dec. = 1,000)	–	–	–	3,085.3	3,263.9
Value of Shares Traded (Rs. million)	142,463	570,327	546,256	213,827	200,468
Market capitalisation (Rs. billion)	1,092.1	2,210.5	2,213.9	2,167.6	2,459.9

(a) - Provisional.

Source: Annual Report 2013 of Central Bank of Sri Lanka.

Financial Sector Performance

Despite global financial markets volatility amidst uncertainties in major advanced economies, the financial sector remained resilient with financial system stability being preserved. The tepid recovery of global economic activity kept external demand subdued thus negatively affecting trade-related activity. Apart from this, the sharp decline in intentional gold prices from the high levels that prevailed previous period and the lag effects of the tight monetary policy stance adopted in 2012, slowed demand for domestic credit. Accordingly, credit growth in both Banks and LFC sector slowed down somewhat unlike previous period. As a result of slower credit growth, investments increased while non-performing loans rose mainly on account of non-performing pawning advances. The regulatory and supervisory regime was further strengthened by the regulator to ensure that potential risks to financial system stability are addressed in a prompt manner.

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

LFC's and SLC's sector expanded in 2013, with assets of the sector increasing despite the moderation in the sector's accommodation growth. The sectors together represented 7% of the nation's financial system while Banks continued to account for the major part of the system. The build-up of resilience and soundness of the sector is reflective of the effectiveness of the regulatory measures set in place. The notable feature during this period was the steps taken by the Central Bank to promote consolidation of the LFC and SLC sector, in the wake of envisaged growth in economic activity and to strengthen the ability of the sector to manage and absorb risk.

LFC's and SLC's Assets and Liabilities

Total assets base of both sectors put together grew by 20% during 2013 to Rs. 717 billion in comparison to a 22% growth recorded last year. Growth in accommodation and liquid assets were the main driving factors for recording sound asset growth. However, growth in lending decelerated from previous year's 21% to 17% in 2013 with the accommodation reaching Rs. 553 billion by end of the year. In terms of liabilities, the major source of funding came from deposits, for LFC's once again, representing 47% of the sector liability while borrowings stood at 27% of the sector liability. Deposits of the LFC's grew by 33% to Rs. 337 billion compared to a 37% growth in 2012.

LFC's and SLC's Profitability and Capital Status

Overall profitability of both sectors in total showed a decline, mainly because of increase in the operational cost and provisioning requirements. The sector recorded Rs. 8 billion as profit after tax for 2013 compared to Rs. 15 billion recorded previous year. Accordingly, sector Return on Assets and Return on Equity declined to 2% and 8% in 2013 from 4% and 19% respectively, in 2012. In terms of capital generation, internally generated funds enhanced capital by 10% this year as opposed to 27% growth posted in 2012. As such, the capital adequacy ratios of the sector remained above the required minimum levels although declining relatively from 2012 on account of growth in risk-weighted assets.

MI's Standing Against LFC and SLC Sector

Composition of Assets and Liabilities of LFC and SLC Sector

Item	Actual overall 31 December 2012 Rs. billion	Actual overall 31 December 2013 Rs. billion (a)	**MI's actual 31 March 2014 Rs. billion**	**MI's actual 31 March 2014 (as a % of sector item)**
Assets:				
Accommodation	471.7	553.1	**16.2**	**2.9**
Finance Leasing	214.9	249.1	**4**	**1.6**
Hire Purchase	123.0	122.2	**6.9**	**5.6**
Investments	15.4	15.8	**3.7**	**23.4**
Others	109.6	148.8	**3.6**	**2.4**
Liabilities:				
Total Deposits	254.1	337.3	**11.4**	**3.4**
Total Borrowings	176.0	192.3	**4.9**	**2.5**
Capital Elements	94.9	97.4	**6.3**	**6.5**
Total Funds	**525.0**	**627.0**	**22.6**	**3.6**
Others	71.6	90.6	**0.9**	**1**
Total Assets/Liabilities	**596.6**	**717.6**	**23.5**	**3.3**

Composition of Income and Expenses of LFC and SLC Sector

Item	Actual overall 31 December 2012 Rs. billion	Actual overall 31 December 2013 Rs. billion (a)	**MI's actual 31 March 2014 Rs. billion**	**MI's actual 31 March 2014 (as a % of sector item)**
Interest Income	92.9	117.3	**3.8**	**3.2**
Interest expense	52.6	73.2	**2.2**	**3**
Net Interest Income	40.3	44.1	**1.6**	**3.6**
Non-Interest Income	13.3	17.2	**0.2**	**1.2**
Non-Interest Expenses	30.1	39.3	**0.5**	**1.3**
Staff Cost	11.0	13.6	**0.3**	**2.2**
Loan Loss Provisions (Net)	1.5	8.1	**0.2**	**2.5**
Profit Before Tax	**22.7**	**13.8**	**0.8**	**5.8**
Tax	6.5	6.1	**0.1**	**1.6**
Profit After Tax	**14.9**	**7.7**	**0.7**	**9.1**

(a) Provisional.

(b) Source for Columns 2 and 3: Annual Report 2013 of Central Bank of Sri Lanka.

Supervisory and Regulatory Developments Related to LFC's

The Central Bank carried out on-site and spot examinations of LFC's based on a risk based approach while off-site surveillance was carried out on an ongoing basis. During 2013, the regulator introduced several policy measures and issued several regulations for the betterment of the sector.

Some of the Key CBSL Regulations Imposed in 2013/14 Applicable to LFC's

Directions/Circular	Key Requirements of the Direction
Finance Companies (Writing off of Accommodations) Direction No. 02 of 2013	Restrictions on write off of accommodation. Prior approval of the CBSL required for related party accommodation write off.
Finance Companies (Liquid Assets) Direction No. 04 of 2013	New liquid asset requirement on borrowings introduced, apart from having previous liquidity requirements.
Finance Companies (Debt Instruments) Direction No. 03 of 2013	New Direction covering requirements pertaining to debt instruments. Specifies minimum information to be captured in a debt instrument format while separately maintaining a register to capture required information of parties.
Finance Companies (Structural Changes) Direction No. 01 of 2013	The Direction specifies a list of structural changes requiring prior approval of either the Monetary Board of CBSL or Director of the non-Bank Financial Institutions supervision separately.

Key Risks and Challenges for the LFC Sector

Being in a dynamic and sophisticated industry, Finance Companies are posed with numerous challenges constantly. Changing customer needs, tougher regulation, heightened competition, technology advancement, human resource implications and broadening societal expectations pose enormous challenges to the sector.

MI's response to key risks/challenges affecting the LFC's is outlined below:

Key Risks/Challenges	MI's Response Update FY 2013/14
Pressure Exerted on Core Business Margins Seeking optimal sources of funding amidst competition and at times lack of credit availability in the market exerted pressure on cost of funding. On the other hand, lending interest rates being brought down in concurrence with the market too had an impact on core business margins to a degree, despite rise in sales volumes as a result.	● Deposit drive through support of branch network to canvass long-term funding at optimal pricing. ● Seeking alternate avenues of low cost funding. Striving to secure long-term funding by having negotiations on a potential foreign funding line and a debenture issue to be finalised next period. ● Concentrated on developing higher yield generating non-traditional lending product range to maintain overall yield. ● Maintained sound net interest income growth by boosting annual lending volumes, mainly through business expansion and striving for higher volume targets from all operational points.
General Deterioration in Borrower Creditworthiness Owing to growing instalment values arising on account of higher rates applied on lending, aggravated by negative business conditions and economic volatility deteriorated borrower creditworthiness in general. This impacted the non-performing lending and bad debt positions of the sector more than previous period.	● Strengthened credit evaluation policies and practices during this period especially focusing on non-traditional lending such as property mortgage lending, term-based lending and pledge facilities being relatively higher risk products. ● Keeping NPL growth restricted by being constantly vigilant and by initiating timely recovery action through a strengthened recovery task force.
Customer Sophistication Customer wants have changed overtime and have become complex and sophisticated than before. The new breed of customers in the recent decade is demanding and well-informed of market variables.	● Internal processes were revisited for improvement to ensure adapting to growing demands of customers which include timely delivery, flexibility and need for accuracy when doing business. ● Customer service-related training programmes were conducted to improve service standards of frontline staff including new recruits. ● Affording tailor-made solutions that fit the needs of customers and promoting our broad-based product offerings from all corners of the nation.
Heightened Competition LFC sector remains intense in competition especially because Banks and other financial institutions also compete for the same share of the financing market, done on a greater scale than before.	● Having a strategic approach to doing business, especially focusing on differentiating MI's offerings and targeting specific market segments. Eg. MI Kids Minor Savings product line. ● Affording competitive pricing by keeping internal cost of funding and processing cost as low as possible.
Contraction in Demand for Vehicle Trade Prevailing high duty structure for vehicle imports coupled with depreciating Rupee continue to negatively impact the vehicle sales market, which in-turn directly affected lending volumes of the sector.	● Affording tailor-made solutions to borrowers to fit their budgets. Continuing to offer structured lease and hire purchase and other flexible credit solutions. ● Strategically focusing on improving other forms of lending including financing second hand vehicle purchases, boosting personal lending than before and concentrating on uplifting recently introduced products such as microfinancing, pledge and professional loans.
Incurring High Overheads to Sustain Growing Network To challenge competition, companies pursue organic business expansion thus ending with high overhead cost structures that keeps growing annually.	● Departments review cost related MIS periodically to understand consumption cost levels, so that wasteful areas are identified early and eliminated. ● This period too, the Cost Control Committee was able to recommend cost effective approaches for reducing specific recurring costs.
Technology Advancements Tend to Obsolete Existing Practices Continuous technology advancement raises competitiveness within the industry that renders certain past practices obsolete and unproductive. Organisations lagging behind will end up on a losing streak over time.	● There was continuous investment in IT system development with the aim of enhancing related systems and IT solutions provided. ● The in-house team of IT experts made required modifications to enhance system features to support both front end and back-office operations after due feasibility and testing.

SWOT ANALYSIS

The strategic plan developed in 2012 maps out MI's internal strengths and weaknesses and external opportunities and threats for purpose of understanding MI's position against the environment. The technique assisted MI in devising overall strategy so as to capitalise on company's key strengths and opportunities while planning course of actions to counter weaknesses and imminent threats. Outlined below is MI's approach to aspects identified in SWOT after giving due consideration to related future predictions.

Strengths

Strength

- Being in business for close to five decades with impeccable reputation.
- Strong capital base.
- Skilled workforce majority of whom have been with the Company for over 5 years.
- Group diversification and synergy.
- Growing product range.
- Expanded branch network spread across the country.
- Adopting advanced IT technology to execute operations.

Approach

Maintaining clear policies and procedures and a sound system of internal controls.

Utilising advanced IT technology to support network.

Maintaining targeted overall margins by promoting an effective product range.

Generating healthy core business volumes from all operating locations.

Continuous focus on employee training and development programmes.

Strategic approach to doing business that harnesses strengths to support the annual capital accretion.

Outlook

- Greater decentralisation of operations and dependency on systems.
- Composition of new recruits to workforce will expand further.
- Growth in total assets will necessitate relative increase in prudential capital.
- Exposure to new forms of risks emerging from dealing with fresh market segments.

Weaknesses

Weaknesses

- Dependency on traditional financing product lines in spite of growing product range.
- Significant part of branch network established within the last 3 to 4 years.
- Predominantly significant percentage of the deposit base comprises of senior citizens.
- Rising cost structure mainly on account of network expansion.

Approach

Continued focus in boosting non-traditional lending such as pledge loans, personal loans, microfinance and property mortgage loans.

Strategy to improve branch lending volumes using strengthened workforce and attractive credit offerings.

Cost control initiatives covering branch activity.

Deposit strategy to target business from youth and middle aged savers.

Awareness programmes and promotion activity to lift business within local community.

Outlook

- Market interest rates that continue a downward trend would stimulate credit moving ahead.
- Demand for non-traditional financing is on the rise.
- Demand stemming from youth and middle age individual deposit segment would increase.
- On-going financial sector consolidation would add pressure on core product lines due to competition's synergy effect.

Opportunities

Opportunities

- The ongoing economic resurgence continues to afford the sector various avenues of growing business.
- MI's expanded presence has opened a pathway to explore fresh opportunities.
- Public seek stable returns and reputed institutions such as MI to invest unlike a decade ago.
- Easing of regulations to seek optimal funding solutions from overseas.
- Chance to capitalise on proposed financial sector consolidation programme to acquire/merge with strategic partner.

Approach

Emphasis on strengthening MI's operational processes, identifying ways of raising service standards.

Promoting business in outstations heavily and reaching out to even remote corners to build bondage.

On-going review to identify suitable 'B' grade finance company/leasing company to acquire/merge.

Strengthening corporate Governance and risk management practices to constantly secure public confidence.

Corporate actions aligned to sustainable expectations to cement eternal partnerships with people.

Outlook

- Possibility of gaining market presence and other strategic advantages by optimising on the financial sector consolidation programme.
- Pick-up in economic activity from all corners is bound to positively impact financial services sector with time.
- Aging population statistics indicate shift towards steady returns as oppose to riskier investments.
- Expectations of society on sustainability from the corporate world is on the increase.

Threats

Threats

- Competitive pricing among sector competitors has pressure on margins and market share.
- Increasing credit deterioration because of slowdown in business conditions could impact profitability due to provisioning.
- Availability of numerous investment options for people.
- Job opportunities for skilled workers in finance field.
- Vehicle market hit by high import duty and other levies.
- On-going financial services sector consolidation program would intensify competition.

Approach

Staying constantly receptive to customer preferences and devising suitable plans early.

Raising service standards by developing additional mechanisms to improve process efficiency.

Treasury and Cost management strategies to keep overall cost minimal to maintain margins.

Offering flexible/tailor-made solutions to fit rising expectations of customers.

Nurturing workforce to keep morale, motivation and productivity levels intact.

Outlook

- Vehicle sales market would remain subdued in the medium-term unless duty rates are lowered. However, demand for non-traditional lending's such as term-based credit will remain positive.
- Margins will continue to contract for the sector with price competition arising from imminent financial sector consolidation programme.
- Returns from real estate investments will continue to pick up.
- Rising costs will remain a concern for the sector hence most will strive for employee productivity in boosting income.

P E S
A N A L

Political

- Growing political stability.
- Negative sentiments internationally post war.
- Aggressive macro level policies to create stable political front creating conducive environment for business and economic prosperity.

Economic

- Globally, economic concerns deepen with European crises.
- Asian giants China and India play leading role in Global economic fortunes.
- Consistent GDP growth and increased per capita income in the Northern and the Eastern provinces.
- Downward trend in interest rates and greater availability of credit.
- High duty on vehicles and exchange rate movement affecting imports.
- Rising repayment difficulties of borrowers in general.

Social

- Growth in Per Capita Income and improving standard of living.
- Customer well informed of market variables through advancement in communication technology.
- Business community being concerned of varying societal needs, extending support beyond financial assistance.

TEL

YSIS

Technological

- High dependence on technology for meeting operations and growing internal MIS needs.
- Technology advancement has made customers more sophisticated and demanding.
- Information technology assistance necessary to adhere to widening regulations.

Legal

- Industries are faced with tightening rules and regulations and tighter legal restrictions, limiting flexibility in business.
- International laws and treaties have brought about changes in local laws and regulations. Eg. IFRS and FTRA.
- Prudent governance has become a mainstay if businesses are to prosper and remain competitive.

Environmental

- Wider global focus on creating a greener environment with depleting resources.
- Increasing interest of corporates to lend support to the safeguarding of environment and its habitats.
- Businesses tend to provide more financial and non-financial disclosures on their approach to environment and related impacts lately.

PESTEL ANALYSIS

Political

LFC Sector

- Political stability and initiatives taken to boost the economy has transformed the nation to a new era of growth and prosperity by which most industries including LFCs have gained. The infrastructural development taking place including highway construction has enabled the LFC sector to reach customers far better without having to incur additional cost.

- Negative sentiments brought about from international pressures exerted on the country dampened FDI and foreign investor confidence. However, the sector enjoys indirect benefits derived from boost in tourism and other industries linked to international markets and also easing of regulations on transacting with overseas partners than before.

MI's Approach

- Strong emphasis was placed on extending business operations beyond the Western Province, considering the peaceful environment and economic prospects emerging from a stable political setting. MI was able to establish three more operational locations this period.

- MI was mindful of areas that are becoming lucrative due to economic pick-up, identifying potential from booming industries and new projects commenced.

- Certain branches have been set-up in the vicinity of emerging highways and other areas where it is becoming conducive to business due to improving infrastructural development.

Economic

LFC Sector

- Despite global drawbacks, locally enormous opportunities have emerged since post-war that continue to drive the LFC sector like other sectors, to maintain growth in core business lines.

- Continued decline in market interest rates aided the lending volumes of the sector. However, certain borrowers faced repayment difficulty for past credit obtained mainly due to economic drawbacks faced by them in recent times. This affected NPL levels negatively for the sector.

- LFC sector was been saddled with a depleted vehicle sales market on account of high import duty and depreciation in Rupee. There was clear improvisation by companies to boost lending's focusing on other lines of business where demand was prevalent.

MI's Approach

- The lowering of market rates propelled lending growth. Further, continued demand for term-based lending enabled Company to maintain overall yields at satisfactory levels.

- Prompt recovery action was initiated for arrears contracts by having a close monitoring system. Eg. Swift repossession process, Initiating *Riya Pola* events to dispose seized assets and pursuing legal means for problematic long overdue accounts kept NPL levels curtailed.

- We capitalised on emerging opportunities and pursued growth supported by our increased presence across the country. We concentrated on non-traditional lines of business to boost overall sales.

Social

LFC Sector

- Rejuvenation of the economy has paved the way for better social conditions and quality of life for society. The sector has gained from these positive societal changes. There was adequate demand to own registered semi luxury and lower end vehicles as opposed to owning luxury and brand new vehicles that showed a relative slowdown.

- Needs of society have become sophisticated with customers seeking wider spectrum of needs especially with the emergence of technology advancements such as social media. This brings with it wider prospects for industries including LFC sector and also a fair share of challenges.

MI's Approach

- MI's success revolved around our unique customer friendly style of business that evolved overtime, fulfilling financial wants of society, being receptive to societal needs always.

- We were able to meet varying financial needs of society. The aging population was afforded customised packages that added extra value while low-income segments of society were offered tailor-made solutions to suffice immediate needs.

- We extended our impact to society by carrying-out community service and adopting sustainable practices that addressed needs of local community, beyond financial assistance.

Technological

LFC Sector

- The sector remains highly dependent on technology with ICT advancements supporting operations in providing timely accurate information that is vital for staying competitive ahead of others.
- Information Technology facilitated effective planning, strategising and improved operational efficiency tremendously for the sector.
- Dependency on IT increases exponentially with the expanding regulations imposed on the sector that require a stream of information to be generated. Eg. IFRS requirements, web-based reporting to CBSL and other information supply to regulators.

MI's Approach

- MI's core information system has the necessary features to efficiently perform given task and has undergone numerous upgradings and modifications to keep up with changing industry demands.
- The IT system was fine-tuned to embrace additional requirements arising from growing financial reporting requirements including IFRS, changes to CBSL reporting regulations and other internal and external information requirements.
- Through in-house development, a number of new reports are generated off the system on a daily/weekly basis for management decision-making. Eg. Product-wise/branch-wise NPL position, borrowing cost status reports, departmental cost breakdowns etc.

Legal

LFC Sector

- LFC sector remains closely regulated with supervision by the Central Bank and other bodies such as the Colombo Stock Exchange with the recent requirement for Finance Companies to pursue consolidation within the sector and with banking and leasing company sector.
- The introduction of the Finance Business Act and requirements of the Companies Act, Financial Transaction Reporting Act and other key regulations issued lately have been imposed to strengthen the sector in the backdrop of a few corporate failures experienced in recent years. Moreover, the need to adopt a sound corporate governance framework has been emphasised strongly for prudent running of businesses to safeguard interest of all stakeholders.
- In terms of reporting and transparency, the introduction of IFRS-based accounting being a recent addition, necessitated the sector to fall in line with international disclosure requirements to enhance corporate reporting.

MI's Approach

- A well-established process is adopted to deal with new regulations/changes in regulations as and when they are imposed. Through Manager - Risk and Compliance, key regulations are reviewed for gap identification and implementation in co-ordination with the relevant division responsible for its implementation.
- Close communication is maintained with the regulator and other statutory bodies. MI was able to seek clarification and advice from regulator on an ongoing basis on new requirements including the analysis and short-listing of 'B' grade LFC's/Leasing Companies for possible acquisition/merger.
- Legal Division kept close co-ordination with Recoveries Division especially to support in expediting recovery action. The division continues to closely work with all other divisions as well affording legal advice and guidance when requested. Eg. Clause changes to transaction documents etc.

Environmental

LFC Sector

- Despite the sector's insignificant direct impact to the environment unlike the manufacturing industry, there is however, growing importance to adopt environment safe green practices.
- Most players in the sector, as part of their CSR communiqués continue to lay emphasis on their commitment to safeguarding the environment, highlighting green practices they adopt annually.
- From a commercial perspective, green requirements have been extended by certain corporates to their business transactions as well. Eg. Environmental compliance for industrial borrowers when lending.

MI's Approach

- Despite MI's direct environmental impact being minimal, we understand the importance of securing a sustainable environment for the betterment of society. Hence, we continued to adopt our own unique green initiatives that we have recognised as environmentally friendly.
- We continued to extend our support for the protection of both fauna and flora comprising the environment through planned annual CSR campaigns. These initiatives are discussed under the 'environment review' in the Sustainability Section of the Annual Report.

MI'S STRATEGIC GOALS SHORT, MEDIUM AND LONG TERM

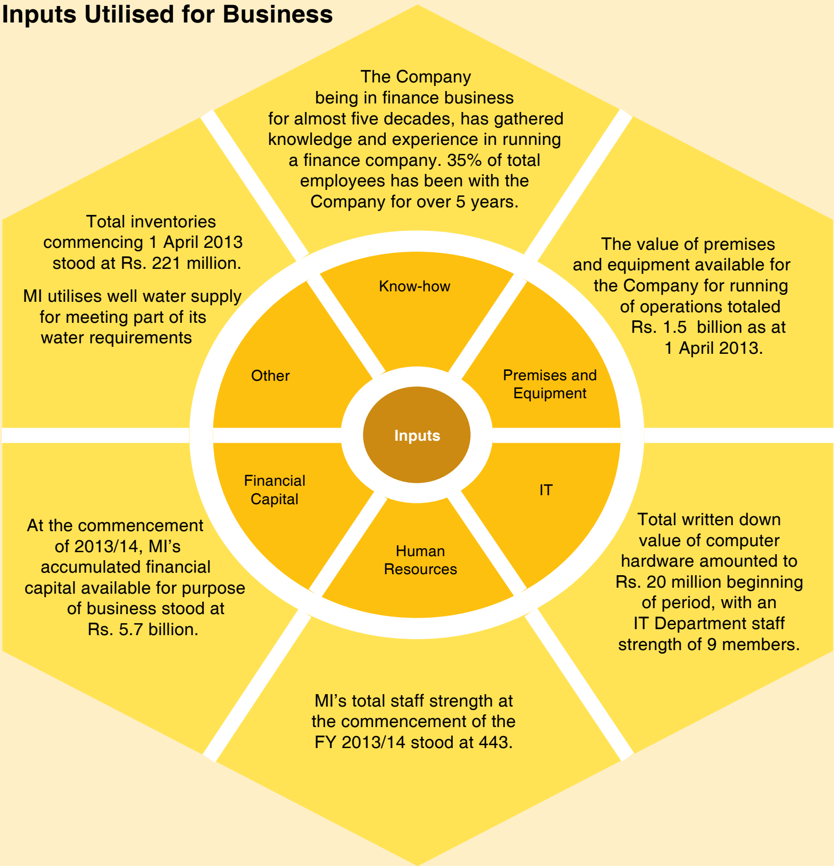
After due deliberation, the corporate management identified MI's strategic objectives in both the short and longer time horizon when developing the strategic plan of the Company in 2012. These goals were based on the Company's overall vision, mission and value system. Necessary consideration was given to the external business environment and resources available with the Company to meet expectations of key stakeholders especially our investors. Based on the strategic plan and 2013/14 budget of the Company, following key goals were identified for the short, medium and long-term time horizon.

Short-Term Targets (1 Year Targets)	Medium-Term Goals (Goals set for next 1-3 Years)	Long-Term Goals (Goals Beyond 5 Years)
Maintain net profit after tax growth over **20%**	Enhancing wealth of capital providers, targeting profitability growth and robust return on equity	MI to be within the top three profitable enterprises in the LFC sector
Net interest income growth to be over **20%**	To maintain a sound cost to income position that reflects a **ratio below 55%**	Increase market share over **5%** in terms of turnover
Maintain deposit growth over **30%**	To sustain a high quality lending portfolio that reflects NPL ratio below **3.5%**	Have a much dominant presence across the country through expansion of branch network
Maintain lending growth above **15%**	Enhance governance framework and establish a strong risk management process	Make a significant difference in terms of sustainable practices and CSR
Non-performing lending ratio to be below **3.5%**	Building a robust workforce to meet future challenges	

Financial and Non-Financial Capital Inputs Applied

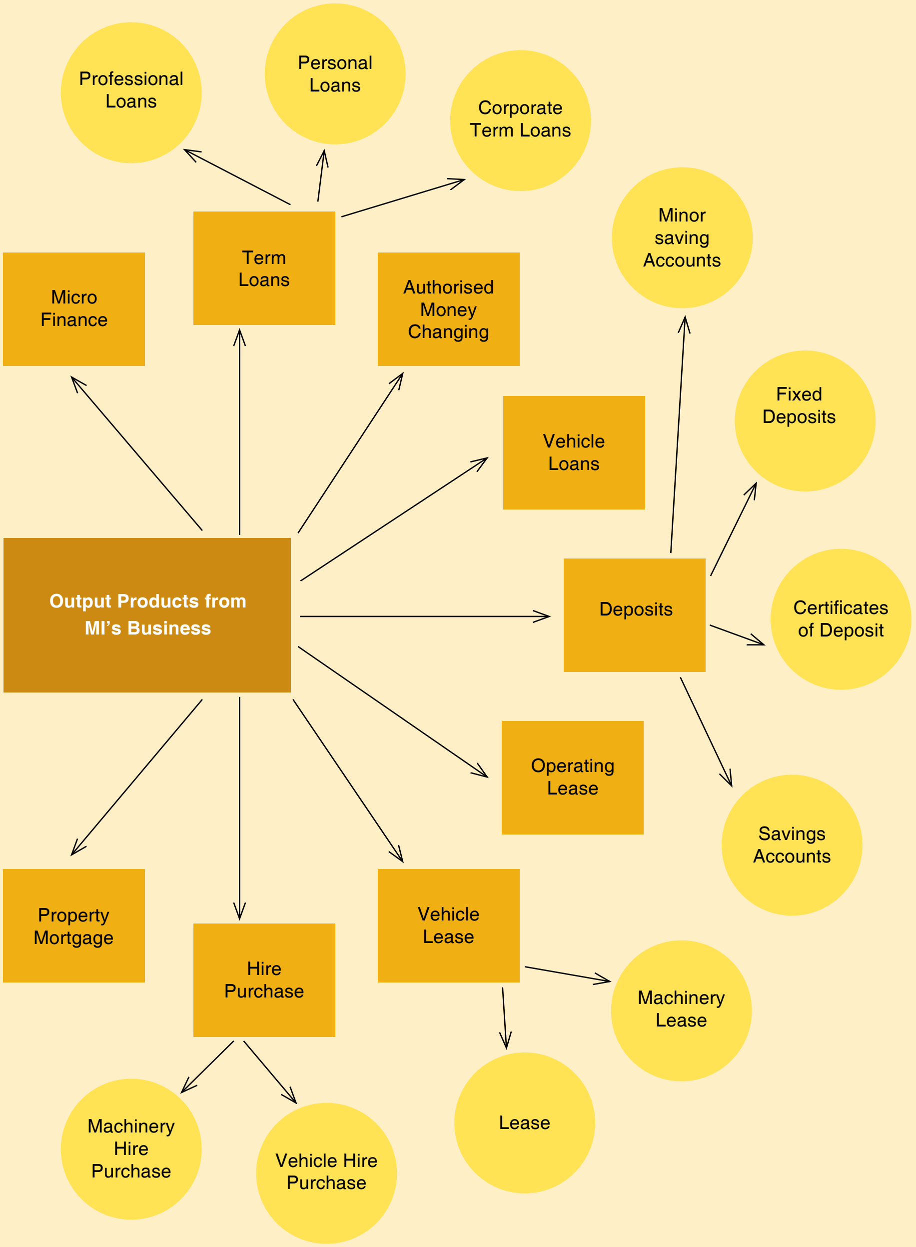
The main inputs towards our business being the various capitals utilised that comprise both financial capital as well as non-financial capital is shown below. Being in successful business, closing in on 50 years in June 2014, MI has managed to enhance its financial capital value, maintaining annual growth in shareholders' funds while accumulating tangible and intangible value of its other inputs that comprise human capital, know-how, IT systems, premises and other equipment value etc.

Inputs Utilised for Business

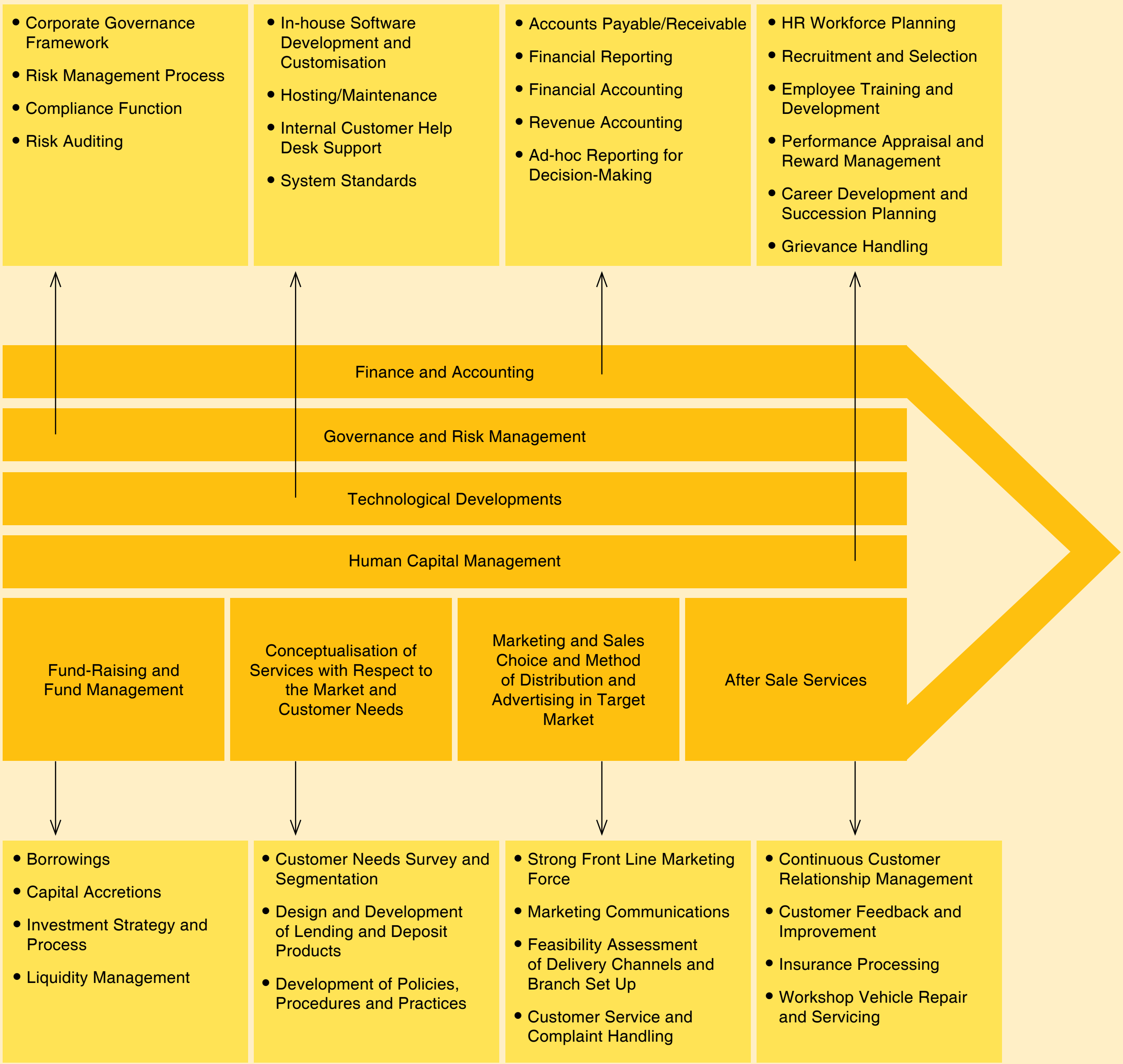


Outputs of MI's Business

Through the broad-based financial product range we now offer to the market, MI is in a position to address customer needs from a wider segment of society. In keeping with our motto, we strive to create customer value by fulfilling varying financial needs going beyond their expectations. As the output from our value creating business model, following products remained the key lines of income for the Company.



Business Value Chain of MI



- Corporate Governance Framework
- Risk Management Process
- Compliance Function
- Risk Auditing

- In-house Software Development and Customisation
- Hosting/Maintenance
- Internal Customer Help Desk Support
- System Standards

- Accounts Payable/Receivable
- Financial Reporting
- Financial Accounting
- Revenue Accounting
- Ad-hoc Reporting for Decision-Making

- HR Workforce Planning
- Recruitment and Selection
- Employee Training and Development
- Performance Appraisal and Reward Management
- Career Development and Succession Planning
- Grievance Handling

Finance and Accounting

Governance and Risk Management

Technological Developments

Human Capital Management

Fund-Raising and Fund Management

Conceptualisation of Services with Respect to the Market and Customer Needs

Marketing and Sales Choice and Method of Distribution and Advertising in Target Market

After Sale Services

- Borrowings
- Capital Accretions
- Investment Strategy and Process
- Liquidity Management

- Customer Needs Survey and Segmentation
- Design and Development of Lending and Deposit Products
- Development of Policies, Procedures and Practices

- Strong Front Line Marketing Force
- Marketing Communications
- Feasibility Assessment of Delivery Channels and Branch Set Up
- Customer Service and Complaint Handling

- Continuous Customer Relationship Management
- Customer Feedback and Improvement
- Insurance Processing
- Workshop Vehicle Repair and Servicing

MI'S OPERATIONAL PERFORMANCE IN 2013/14

The concluded financial year 2013/14 can be termed a satisfactory period in terms of operational performance where Company strived to consolidate on all key facets of MI business operation. Operationally, the remarkable progress made thus far aided managements aspirations on growing the core business portfolios, mainly capitalising on the broadened business presence. In the backdrop of deteriorating creditworthiness of borrowers observed by the sector, as the year unfolded, strong emphasis was placed in sustaining overall asset quality. Concurrently, in strengthening operational processes and striving for higher productivity, we continued to identify potential individuals to fit into demanding roles. Material operational highlights in 2013/14 are as follows:

Operational Highlights

Branch Network Growth
16%

Net Lending Growth
17%

New Customer Partnerships
Lending **8,805**
Deposits **1,390**

Deposits Growth
36%

Non-Performing Lending Ratio
3.69%

Additional Governance Practices introduced
8

Work Force Growth
15%

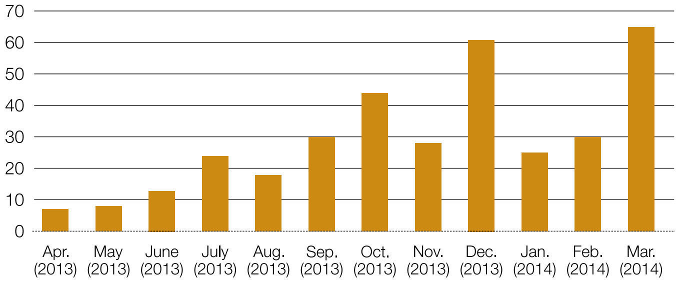
Additional Measures Implemented on Risk Management
7

CSR Projects Initiated
10

Operational Performance Against Key Goals/Targets

Key Business Goals	Operational Targets	Level of Achievement in FY 2013/14
Enhancing Investor Wealth	• Maintaining targeted margins from main business lines. • Identifying low cost funding sources. • Deriving best rates from broad-based product range to improve average yields. • Keeping core business portfolio growths at healthy levels.	• Sustained healthy volume growth from core business lines, whilst keeping net interest margins (NIM) at satisfactory levels as explained in the financial review section of the MD&A. • Managed to secure funding at optimal pricing securing borrowing facilities from local banking partners and other sources, in addition to deposit mobilisation. • Capitalised on prevailing demand for non-traditional credit such as term lending, pledge and microfinancing which boosted overall lending yields.
Growing Market Share	• Targeting expansion of branch network outside the Western Province. • Striving for volume growth from the existing strengthened network and setting forth tough sales targets for each location. • Promoting non-traditional financing products and recently introduced lines of business extensively.	• Commenced Branches/Service Centres operations in Polonnaruwa, Nittambuwa and Corporate Premier in Borella. • Initiated a number of street promotions across the Branch network to create awareness. • In disposing motor vehicles repossessed, a number of sales events (*Riya Pola's*) was held, especially in the second half of the period. • MI's lending and deposits growth was satisfactorily maintained at 17% and 36% respectively, keeping close tab of periodic volume targets given to individual officers and business units. Sound growth levels maintained in non-traditional lending in this situation assisted notably in achieving set lending targets.

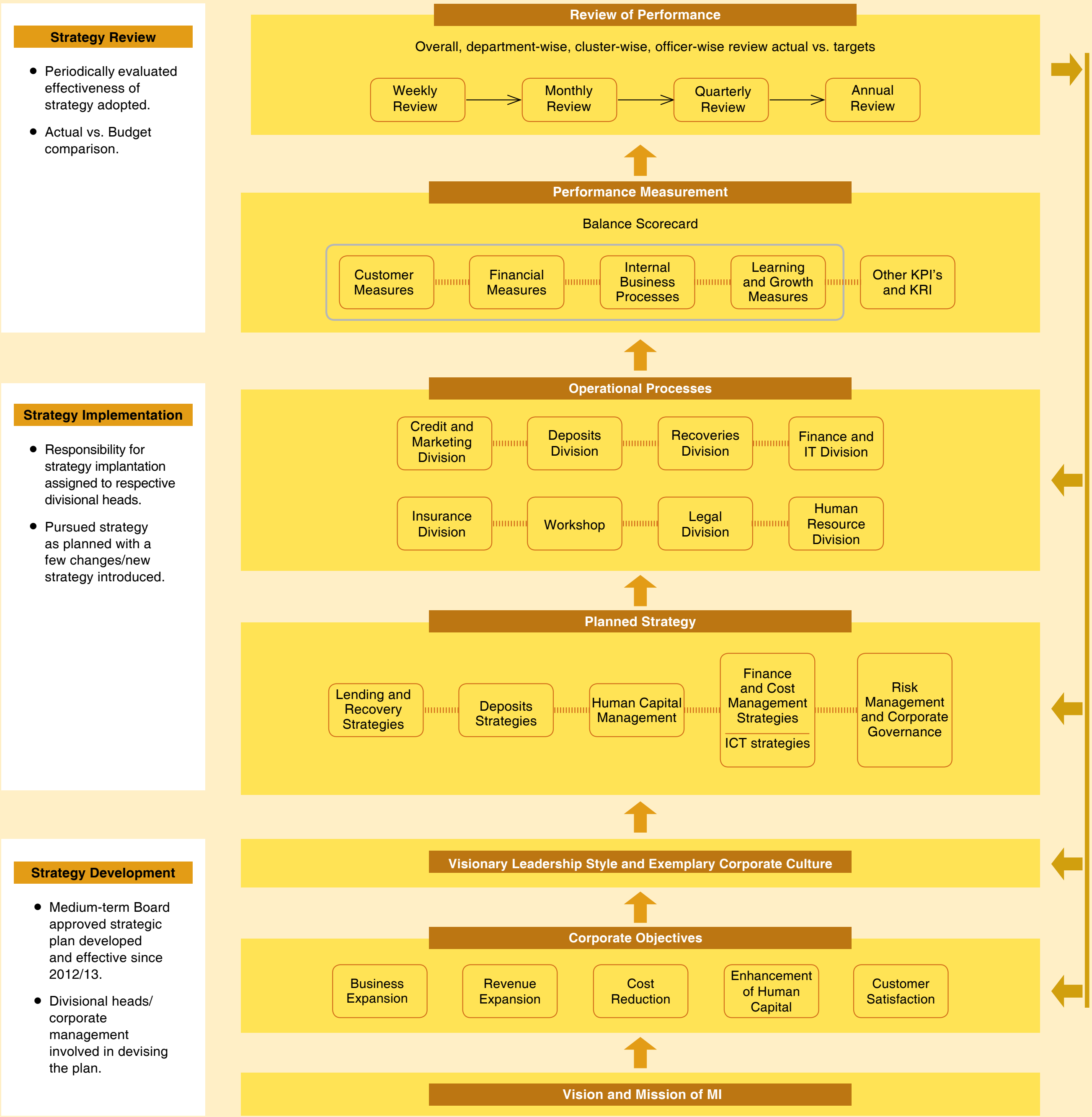
Operational Performance Against Key Goals/Targets (Continued)

Key Business Goals	Operational Targets	Level of Achievement in FY 2013/14
Maintaining Asset Quality	• Targeted to maintain non-performing lending (NPL) ratio below 4% in the short-term amidst difficult credit repayment conditions experienced within the sector. • The eventual expectation is to aim for a NPL position that is below 3.5% within the next 6-12 months in keeping with the Strategic Plan.	• Adopted stringent credit practices and a streamlined recovery process to manage credit risk. Management closely monitored repayments related to arrears contracts, initiating timely recovery action at the early default stages. The overall NPL's were at 3.69%, much lower than the sector NPL average. • Revised the credit operational manual effective from 2014. The manual was updated to incorporate enhanced credit disbursement procedures and other requirements to strengthen credit processes. • Held a stream of *Riya Pola* sales events to dispose repossessed vehicles and recover dues to bring down NPL's during this period. **SALE OF SEIZED VEHICLES (2013/14 FINANCIAL YEAR)** (Nos.) 
Targeted increasing talent and capability of human resources to derive anticipated productivity levels	• Seeking skilled resource and best possible talent from the market to meet internal work demand especially due to ongoing expansion of operations. • To bring about a learning culture, where individuals stay devoted to broad-basing their knowledge to face complex business demands and future challenges.	• 156 individuals were recruited to MI's growing workforce in 2013/14 who were subject to a thorough recruitment selection process prior to appointment. • 301 employees took part in training programmes this period either attending in-house training sessions or taking part in external seminars and workshops on relevant topics.
Costs Management	• Maintaining cost to income ratio below 55% through close management of overhead costs. • Being conservative in terms of costs when pursuing expansion strategy.	• The Cost Control Committee reviewed status of implementation of over 20 cost reduction initiatives effected previous year. • The overall cost to income status was monitored monthly, which stood at 53% by the end of the financial year. This was achieved through a concise effort of divisional heads who were required to keep costs rises controlled and to identify and eliminate wastage. Monthly detailed cost information was supplied by Finance Division to departmental heads for this purpose.
Strengthening Area of Governance and Risk Management	• Maintaining high governance standards, in keeping to regulations and proposed best practices. • Addressing fresh requirements arising from revised Corporate Governance code and amendment to CBSL Direction. • Concentrating more on Risk Management practices to safeguard business operations from potential risks.	• Adopted additional governance requirements stemming from the revised Corporate Governance Code of Best Practice issued in 2013. • Adopted requirements arising from the Corporate Governance Direction No. 06 of 2013 issued this period. • Manager Risk and Compliance, conducted risks analysis and his observations reported to the Integrated Risk Management Committee through quarterly reports. The Committee in turn kept the Board appraised of risk status.
Meeting Sustainability Expectations	• To have sustainability focus when doing business and to be an exemplary socially responsible enterprise in accordance with MI Vision.	• The CSR committee was able to initiate 10 CSR programmes, targeting lesser-privileged sections of society, helping them in meeting their needs. • MI was able to contribute to all facets of sustainability, contributing to the economic, social and environmental up-liftment as disclosed in the section on sustainability.

Strategic Approach Undertaken

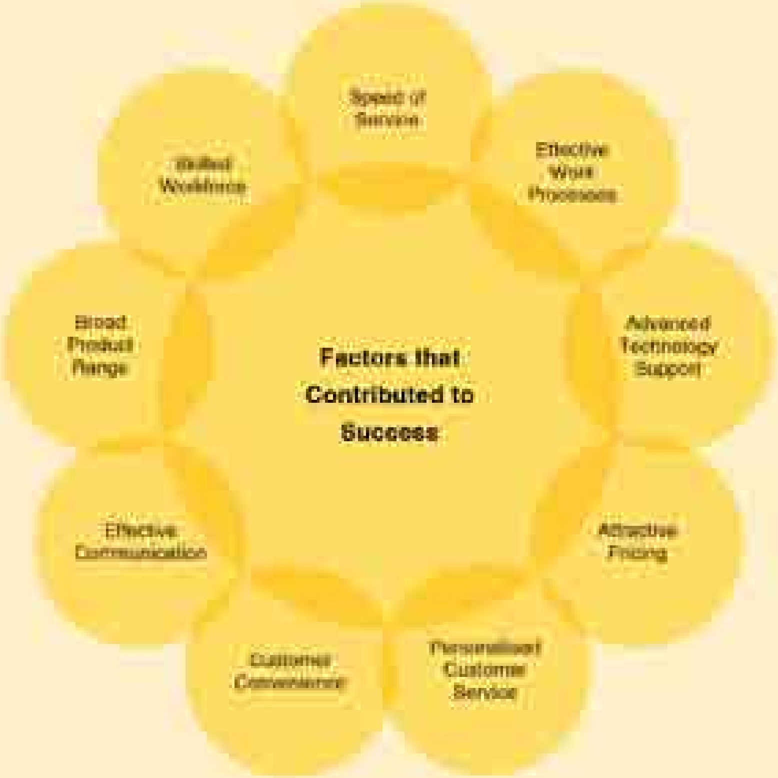
In achieving corporate goals, through a structured process as depicted in diagram, all key areas of our business were evaluated and strategically developed. The strategic planning process was first initiated in 2012 when the Company prepared its medium term Strategic Plan, for three years commencing 2012/13, that stands applicable till 31 March 2015. After identifying the corporate objectives/goals, with the inputs of each key division suitable strategy was devised under the 'Strategy development' phase. Based on strategy development, department targets were established specifying financial and non-financial Key performance indicators (KPI's) and Key Risk Indicators (KRI's), adopting the balanced scorecard approach. Comparing these targets with actuals, management was able to review overall and divisional performance for 2013/14 and identify deviations for corrective action. The performance review phase involved updating Corporate Management on a weekly, monthly, quarterly and annual basis so that respective managers are appraised early of their divisional performance.

MI's Strategy Development, Execution and Review Process



DECISIVE FACTORS THAT CONTRIBUTED TO BUSINESS PROGRESS

In propelling MI's business forward, we placed enormous effort in improving activities revolving around what we do best, the factors that have continued to contribute to our 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 implementing suitable improvements, keeping overall value creation in mind. Most of the KPI's and KRI's adopted in appraising performance under the Company's balanced scorecard system, revolved around key activities that are associated with our critical success factors.



Managing Human Capital

We consider management of human capital as an integral exercise necessary for pursuing continued organisational success. Being a service oriented institution we rely on employee efforts in fulfilling corporate aspirations and expectations of stakeholders. We have been a caring employer and a motivator for all our employees, displaying employee-centric values right through our business journey. We continue to nurture them in knowledge, skills and other attributes throughout their work lives, whilst in parallel inculcating a sound corporate value system that advocates integrity, team play and sense of belonging.

A detailed coverage of MI's labour strategy/ management approach, human resource policy and other HR aspects such as employee engagement methods, staff selection and recruitment process, training and development, work environment, health and safety, performance appraisal, corporate values and employee benefits is given under the 'labour review' in the sustainability section.

MI's HR Value Matrix

In creating human resource value, MI's HR Division centrally located at MI's head office stands committed to establishing and monitoring resource policies and practices that reflects Company's core values, mission and vision. MI's HR Value Matrix shown below illustrates the interaction of the key HR elements integral to the final value creation process. This encompasses workforce planning, talent acquisition and training, operating an effective HR information system, performance appraisal and reward mechanisms and managing HR requirements through career development and succession planning. The metric portrays a transparent declaration of our people strategy, which is aligned to the overall MI business strategy. This is the blueprint for the generation of MI's HR Policies and procedures which support the navigation of HR activities throughout the employee life cycle.

By operating an effective manpower planning and recruitment process, MI is able to attract best talent within the financial services sector, with this period being no exception. To strengthen the growing network, the Company proceeded to recruit a number of officers to handle core operations at branch level. All members of the MI team are encouraged to remain passionate about their work and are expected to display commitment, contributing to the overall value creation process. Towards this endeavour, the Company sets aside resources to fulfil training needs, to boost workforce knowledge and skills development. We provide positive reinforcement, mentoring, coaching and even moral support in parallel when it is needed.

As means of uplifting the present employee appraising and reward system, management was able to upgrade the Human Resource Information System (HRIS) to provide management with individual balanced scorecard performance statistics, for appraising front line staff this period. From a long-term perspective, career development and succession planning aspects of the workforce is reviewed frequently to identify suitable individuals for future posts. The Company continued to afford ‘job enhancement’ or ‘job enrichment’ prospects to high performers within the organisation as a means of recognising employee efforts. Instilling such a comprehensive HR approach, the Company was able to identify and groom high calibre workforce that can face complex demands of the industry whilst safeguarding employee morale and motivation.

Key Human Resource Initiatives

Aspect	Description	Key Initiatives Undertaken in FY 2013/14
Strengthened Human Resource policies/practices issuing additional HR procedures to staff	In addition to the HR handbook requirements that were issued previous year, HR Division reviewed existing practices and issued additional procedures/practices to staff to strengthen HR aspects.	● Key policies established in 2013/14 include; a. Streamlined the motor vehicle loan procedure. b. Procedures on issue and use of official mobiles. c. Sinhala translation of HR handbook. d. Strengthened security and staff disciplinary procedures. ● Enhanced features in the employee attendance system to provide detailed MIS to management to enable heads of division’s to better manage staff. It also provides accurate information for overtime computation.
Increased workforce to support broad-based operation	Having over twenty operational locations within a short span of time, necessitated increased staffing with right calibre of staff to maintain high service standards across the country.	● New recruits who joined in 2013/14 were assigned to following branches/key divisions; Location/Division — Number of New Recruits Assigned Branches/Service Centres — 66 Departments — 90
Upgraded Human Resource Information System (HRIS) to maintain an on-line employee information database.	Having over 500 employees, increases the need for timely information on staff for appropriate decision-making and managing HR activity.	● Following enhancements were made to HRIS; - Employee work history - Inbuilt master data that includes employee work history and life cycle information - Fresh HR MIS such as geographic and demographic employee statistics and mandatory Labour Department information.
Intensified training and development activity for individuals attached to all facets of business	The need to broad-base employee knowledge horizon remains critical especially considering the prevailing competitiveness and changes happening in the business arena and regulations.	● Established a training centre equipped to house over 70 staff at the newly established corporate premier centre. ● Geared to providing a broader spectrum of training events for staff either arranged in-house or external. ● Induction programme for new recruits.
Obtained accreditation from ‘Great Place To Work™’ by upholding high HR standards	We obtained services of ‘Great Place To Work™’ Institute to conduct a survey based on their ‘Trust Index™’ and ‘Culture Audit™’	● Based on survey results, MI was identified as one of the top 15 great places to work in Sri Lanka for 2014.
Arranged and took part in social events	To create harmony and team spirit management took extra effort to have additional social events.	● For the first time, Christmas carols and a Nativity play of Jesus Christ Birth was held with the participation of employees. ● Separate departmental get-togethers were arranged to solicit team spirit.
Enhanced Employee welfare benefits	Management continued to provide ancillary benefits to employees from various fronts.	● Enhanced insurance medical cover of staff of various grades, which also covers their families. ● Enrolled senior employees for external gym facilities.

Future Outlook on HR Activity

Moving ahead, sustaining employee productivity will once more remain high priority for MI. Especially maintaining employee motivation that is often battered by stringent market demands and rising expectations imposed on staff considering the growing market competitiveness and ever widening ambit of organisational aspirations.

In sustaining a performance driven culture, plans are underway to extend the newly introduced individual balanced scorecard appraisal system across the company for all divisions. Training and development will continue to be an imperative tool in grooming individuals to face business complexities of the future. We hope to support each staff member in providing them with not only the required technical skills, but also the behavioural competencies, so that their performance can be ultimately benchmarked according to industry expectations. We would go ahead with an increased staff training and development budget with the hope of raising front end service standards and at the same time focusing on improving service levels of support divisions. The existing training and development methodology is to be enhanced to cater to a more demanding business environment and to afford wider knowledge for employees to enable them to be multi skilled. We plan to obtain assistance of external specialised trainers to appraise staff on technical aspects for purpose of gearing them to face future challenges.

Moreover, we are already engaged with an external consultant firm to understand existing HR drawbacks and employee perceptions through an organisation-wide review that include a thorough employee survey. We hope to put forward suitable measures to bringout a more meaningful positive change in practices that require necessary revision.

Treasury Management

In the current competitive environment, where there is pressure to maintain anticipated margins coupled with challenges posed on managing acceptable liquidity levels amidst market volatility in credit availability at certain junctures, MI understands the importance of the treasury management function. With 2013/14 being no exception, MI's Treasury Division was required to pursue optimal funding sources to keep cost of funding at optimal levels and also to manage liquidity despite enjoying healthy growth levels from deposits being the main source of funding.

While bank borrowings continued to be the main alternate source of funding, MI was able to garner funding from other sources such as Commercial Paper to bridge temporary funding requirements as well as longer term funding to manage maturity mismatches in the Statement of Financial Position. Details of such fresh sources of funding pursued in 2013/14, by the Treasury Division are shown below:

Source of Funding	Total facility value/ issue value Rs. million	Number of new borrowing lines/Issues	Rates range
Bank Borrowings:			
Long-Term Loans	500	1	10.87% - 15.00%
Short-Term Loans	2,100	13	9.25% - 15.75%
Commercial Papers:			
Commercial Papers	1,678	25	10.60% - 17.75%
Others:			
Long Term Loans - Securitisations	1,692	3	10.87% - 15.00%

Future Outlook on Treasury Management

Considering the prevailing positive economic sentiments and the planned strategic progress taking place around, with forecasted GDP growth over 7%, the demand for finance company lending products should persist at healthy levels. In this instance, MI would need to plan ahead for the anticipated growth in lending book, especially in meeting additional funding requirements whilst recognising the tough competitive environment expected for mobilisation of deposits. We would pursue international funding as an alternative to some of the local sources especially to meet long-term funding needs and to bring down cost of funding. In parallel, we will maintain close relationship with our long standing banking partners to secure fresh facilities as and when needed.

Cost Management

Cost management remained a key area of focus again with management striving to maintain the cost to income ratio below specified threshold, in keeping to the Strategic Plan. 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.

Strategies on Cost Control 2013/14

- The Cost Control Committee (CCC) closely reviewed status of cost reduction proposals initiated by the committee in the previous year and followed up on matters pending finalisation.
- Finance Department continued to provide department-wise cost information on a monthly basis to heads of divisions for purpose of review of key cost items. Respective divisions are expected to analyze their incurred costs and then devise ways to minimise such costs and eliminate wastage.
- Following costs reduction initiatives were proposed by either the CCC or corporate management during FY 2013/14.

Area of Focus	Key Cost Reduction Initiatives 2013/14
Printer Cartridge Usage	● Moved from ink cartridge printers to laser printers, increasing the ability to generate higher number of copies thus reducing per copy cost notably.
Stationary Usage	● Establishing a complete stationary/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.
Motor Vehicle Fleet	● Sold a number of fleet vehicles in keeping with the Cost Control Committee recommendations to cut maintenance cost.
Telephone Usage	● Signed a fresh two year agreement with mobile service provider securing optimal rates and free between group calls. ● Obtaining free of charge handsets for most of the staff members who are given group mobile lines.
Electricity Usage	● Setting up LED lights at most MI locations as opposed to fluorescent lights to cut down on costs.
Water Usage	● Use of well water to operate vehicle cleaning and other non-consumption related activities cutting down on main water usage.

Future Outlook on Cost Management

Increasing overheads due to branch network expansion will continue to pose a challenge especially in order for the Company to sustain growth in profitability, beyond 2014. The gradual pickup in inflation would add additional pressure to already thinning margins due to competitive pricing strategies adopted by certain players in the sector. MI therefore, will remain conservative in incurring cost despite plans on further organisational growth. We hope to pursue MI's policy of setting up branches with minimal start-up costs as opposed to heavy initial capital investment to reach early break-even income levels.

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, management will work towards maintaining a healthy cost to income position overall by managing cost to income positions at branch level. As the next phase, the Cost Control Committee will review cost elements arising from operational activities, apart from standard cost items to recommend means of curtailing related costs.

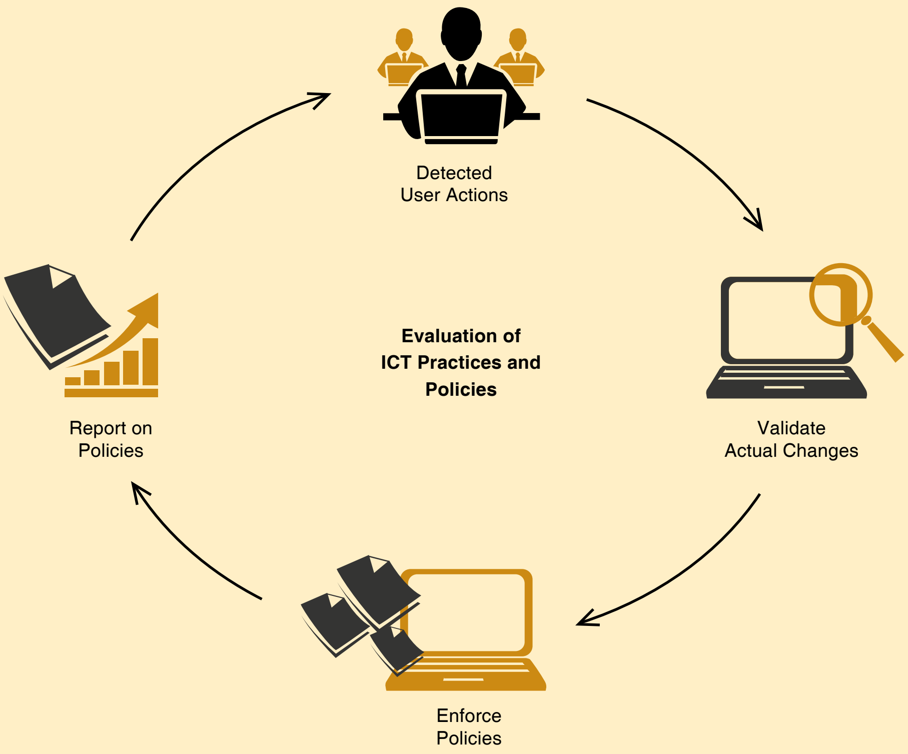
Managing Information and Communication Technology (ICT)

Being a technology savvy institution, we understand the strategic importance of ICT management in bringing-forth differentiating advantage in terms of business intelligence and reaching excellence in service standards. 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

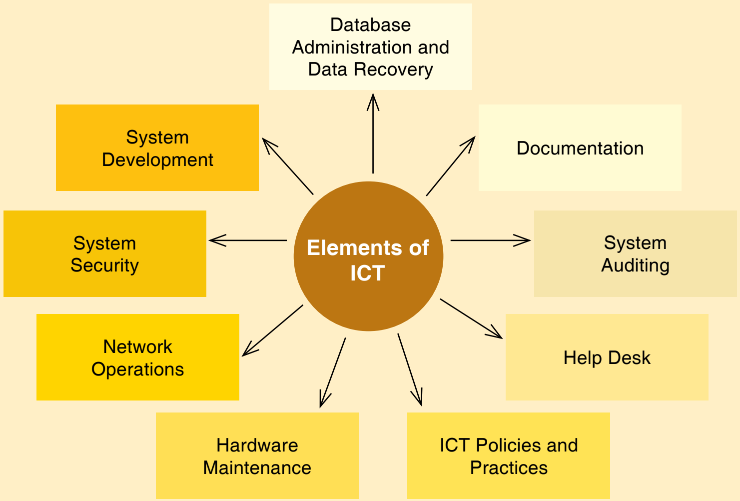
In maintaining high ICT standards across the organisation, ICT-related activities are governed by industry-accepted standards that are laid down by Management. These ICT standards presented in the form of policies and practices have been specified in the ICT Procedure Manual (IPM), Information System 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 play an integral role in setting forth a professional approach to the provision of information for decision-making. These manuals specify a stream of rules and norms for the IT department as well as the users attached to business units and other support functions, to sustain a credible and effective ICT environment.

Developed ICT policies and practices have evolved over time through a formal process as depicted below. Firstly, the process 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 Elements Associated with ICT

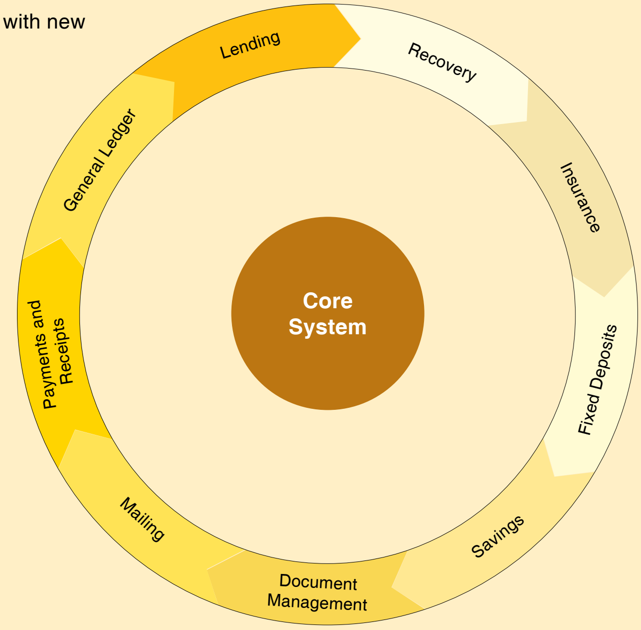
By having established an effective ICT environment, respective divisions are able to obtain timely information to execute various business functions. ICT supports all levels of the hierarchy, so that effective decision-making could take place on a daily basis. To make this happen, MI ICT framework comprises of nine core elements that are interlinked and administered centrally by the ICT division. The key elements of ICT for the Company are shown in diagram below. As part of the ICT Department's responsibilities, highly conversant ICT staff handle system development, network operations, system security and database administration totally since the core system has been built in-house. Using IP-VPN technology through a renowned ISP provider in Sri Lanka, head office main-servers have been interconnected with the branch network system for online processing.



ICT's Interconnection to Business Operations

The information system of the Company that started from a simple PC-based network system, evolved gradually 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 2008/12, while both the mail server and proxy server 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 finance business, MI's core system comprises a number of submodules that cater to information needs of front office and back officer 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 have been enhanced over the last few years significantly so that MI's ICT framework remains ahead in terms of capability and user-friendliness. This period too was no exception with significant improvements made to core system and its submodules, especially in terms of enhancing their reliability, efficiency and effectiveness. We pursued these modifications to cater to growing business demands and sophistication.



Salient ICT Achievements in 2013/14

- **Following up on an effective implementation process for the comprehensive adoption of ICT Standards established.**
- **Revamping of parts of core system to cater to enhanced front-end operational features including additional MIS reports.**
- **Conducting a thorough ICT audit through an independent professional firm and following on recommendations and taking steps to resolve concerns.**
- **Enhancing Document Management System (DMS) to incorporate vital credit documentation**
  This enabled online viewing of credit file information at branch level and accordingly eliminated the need to maintain additional hard copies of important documents.
- **Enhancing stationary purchasing and Monitoring System**
  This system which maintains supplier details, stock handling, and department-wise costing and re-order levels was enhanced to obtain department costs and quantity information on a periodic basis.
- **MI Network expansions**
  IP-VPN network was expanded to link MI's 22 geographically different branch/service centre locations scattered across the island. Also, VLAN infrastructures have been implemented to maintain an efficient and secured network for MI's core application systems.

SUPPORTIVE FEATURES OF MI VEHICLE VALUATION SYSTEM INTRODUCED IN 2013/14

- Online system to support recovery staff to evaluate vehicle/machinery values in-house.
- Houses stream of information vehicle-wise.
- Store images and historic information.
- User-friendly drag and drop features.
- Officer level authorisation levels in built throughout valuation process.

System Security and Contingency Planning

The drive towards electronic governance inevitably has increased our reliance on ICT. This brings with it varying degrees of associated risk that need to be managed by the Company. It is therefore pivotal that we review our ICT policies and practices regularly that address risks and continue to assess the adequacy of the contingency plans that we have put in place to counter broader contingency events.

The Business Continuity Plan (BCP) of the Company lays down plan of action assigning due management responsibility in such an event to a specified high level team to deal with major catastrophies. 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.

Following tasks were carried out by the recovery team to counter potential risk to the ICT environment:

- Central file servers, data base servers and automated data replication servers were in place to replicate data to the special disaster recovery sites (DR) of MI to minimise data losses. Furthermore, these systems are backed up by UPS systems and by auto starting power generators.
- The Company network is fully secured from the external and internal threats by implementing firewalls, cloud security services, Active Directory (AD) security policies, virus walls and VLAN infrastructures.

Broadening Management Information Horizon

MI's 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 2013/14 which are taken either daily, weekly, monthly or as and when required, as given below:

Division	Description of New Report Developed in 2013/14	Frequency
Credit	• Cluster-wise daily volume report	Daily
	• Target achievement reports	By-annual
Finance	• Additional MIS for CBSL reporting	Monthly
	• Stationary inventory system	On-line
	• Electronic pay slip transferring system	Monthly
Recoveries	• NPL Branch-wise and product-wise daily report	Daily
	• Vehicle Valuation system	On-line
Deposits	• Generation of IFRS-based MIS reports	Monthly
	• Customer file allocation deposit officer-wise	Monthly
	• Marketing officer-wise inflow outflow reports	Daily
Insurance	• Accrued Commission report	Monthly

Training Employees on ICT

ICT department was able to conduct on-site training to users attached to various branch locations especially targeting newly setup locations. Training covered demonstrations on the use of computer peripherals including how to log in to their PC, how to use their storage path, how to use email and log in mechanism to their respective system modules. Users were appraised of possible troubleshooting aspects related to PCs, printers and Local Area Networks. With the introduction of the ICT standards last year, as the next phase in training, ICT department plans to hold a number of company-wide training sessions on the application of IT security policies and other related standards that are currently practiced.

Future Outlook of ICT

ICT's role will remain integral to the sector even in this decade considering the dependence business operations have on IT systems in providing a superlative service. We will continue to seek new and innovative technology advancements in the ICT arena which will be essential as we are yet in the expanding phase and plan to decentralise operations to a greater extent moving forward. In upgrading core system capability, plans are underway to introduce the new Oracle 11g database system. We envisage this enhancement would prove beneficial considering the planned growth in the branch network, particularly because it provides features that would improve the efficiency of the system such as Database Vaults, Self Managing, Automatic Memory Management, invisible indexes and Flashback data. To boost MI core system capabilities further and to compliment the proposed Oracle 11g database system, we hope to adopt the latest .NET and web technology.

In ensuring smooth running of the ICT environment, especially with the introduction of ICT standards and the evolving continuous changes happening to core system features, we plan to fall back on extensive user training and online user support. The IT division would be strengthened further to provide ICT support and enrich branch users by pursuing system developments, help desk support etc., to carry out their tasks more effectively. The division will remain focused in securing system data and maintaining confidentiality of information contained and will continue to establish ICT controls as and when necessary.

REVIEW OF BUSINESS LINES

Lending Business Strategy

The lending business being the main Income-generating business area for the Company was concentrated upon heavily in terms of assessing avenues for boosting sales volumes and sustaining asset quality in the midst of deteriorating creditworthiness of borrowers. In growing lending volumes, Management went ahead with its devised strategy laid down in the strategic plan, especially concentrating on broad basing MI's lending activities across the country. Simultaneously, key facets of the lending business were analysed upon for improvement including credit operational processes, sales and marketing activity, and more importantly the lending strategy itself considering the market volatility that prevailed in terms of pricing, credit demand and credit risk profile of specific products .

Product Market Lending Strategy

	Existing Products	**New Products**
Existing Market	Corporate term Loans Personal Loans Vehicle Loans	Property Mortgage Pledge loans
New Market	Lease Hire Purchases	Micro Finance Professional Loans

In promoting MI's traditional lending product lines of lease and hire purchase financing, we continued to place emphasis on building business beyond the Western Province in contrast to the focus we had in Colombo and close proximity in earlier times. We pursued market development as a strategy continuing from last year and concentrated on strengthening our presence in developing areas outside the Western Province particularly in regions that have potential for our type of business. The opening of the Polonnaruwa Branch in 2013/14 period was initiated in keeping to these expectations.

Polonnaruwa Branch Opening

In maintaining overall average-lending yields to expectation, we stayed committed in promoting our term based personal and corporate lending products lines to the existing market segments which improved volumes greatly despite observing a slowdown in growth of traditional financing product lines. Since launching the micro financing and professional loan last year, management concentrated on promoting these business lines in selected regions as a diversification strategy. Whilst there being constant demand for credit-related business, our operating leases business on the other hand remained constricted due to fall in demand and hence, was not promoted noticeably again this period. In terms of product development, our property mortgage loans and pledge facilities remained lucrative lines and were promoted equally to boost overall credit volumes.

In managing relatively risky higher yielding lending products, we emphasised on strengthening existing credit documentation and processes in consultation with our legal division. In terms of raising service standards in lending, a considerable level of resources including staffing, IT infrastructure with on line network capabilities and other operational support was established across the network.

Lending Market Segmentation

In deciding target markets and devising lending strategy, Management analysed potential market segments available for MI and then identified 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 our 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 to diversify business risk, improve volumes and maintain anticipated yields amidst rising competition.

Optimising Lending Product Mix

Product	Actual Volume 2013/14 %	Budgeted Volume 2013/14 %
Hire Purchase	38.13	28.00
Lease Financing	17.52	33.00
Vehicle Loans	20.40	10.00
Term Loans	10.61	10.00
Property Mortgage	7.21	10.00
Pledge Loans	5.86	0.00
Micro Finance Loans	0.19	5.00
Gold Loans	0.00	2.00
Operating Leases	0.08	2.00
Total	100.00	100.00

Marketing Communication Strategy

There was aggressive marketing communication activity initiated by the credit and marketing division to build the MI Brand especially to create awareness of our plethora of services in newly-established regions. Management resorted to both above the line and below the line activities to promote business across the country. These programmes involved ad hoc spot commercials on TV/radio channels, web advertising, hoardings and SMS promotions in addition to newspaper advertising to convey MI's capabilities and offerings. As a means of direct marketing, we also resorted to street storming promotions handing out leaflets on our services especially in the vicinity of recently established locations. Apart from these communication methods, MI's corporate web site facilitated in-housing key information about the Company and product offerings as a means of promoting business online.

Marketing Communication Costs

	2013/14 Rs.	2012/13 Rs.
Above the Line		
Targeted Mass Advertising - Radio/TV	**1,705,509**	1,055,220
Press Advertising	**860,499**	730,997
Below the Line		
Hoardings at Target Town Locations	**120,000**	1,557,071
Promotions across Branch Network	**3,260,866**	1,861,849
Leaflet Printing	**357,130**	1,016,900
Total Cost	**6,304,004**	6,222,037

Recovery Strategy

Recovery Strategy

- Special Recovery Force (SRF)
- Policy of 1st Six Month Recovery
- Aiming for Zero Arrears and Court Cases
- Own Internal Valuation Process
- Vehicle Disposal Unit

The Recovery division worked in close co-ordination with the Credit division, following up on lending accounts that moved into one month in arrears and more very closely. The division strategised to maintain NPL's below budgeted 3.5% for this financial year, despite experiencing deterioration in borrower repayments as experienced in general by the financial services sector. The division tightened its recovery process and initiated its specialised team called the Special Recoveries Force set up last year, to provide a 24hrsx7 days a week recovery effort to achieve stiff recovery targets. The Recoveries Division adopted a policy of zero arrears and established a goal of attaining zero court cases by 2015 and complimented these expectations with a policy of no arrears within first six months by identifying bad cases at the initial stages.

The recovery process involved mechanisms to monitor instalment payments and a team to follow up on dues promptly by informing borrowers through formal means. In expediting recovery for accounts that have been in arrears beyond tolerance levels, management resorted significantly to repossession of assets this period. To strengthen the valuation and vehicle disposal process, on 23 January 2014 a separate 'Internal Valuation and Vehicle Disposal Unit' was set up in Maharagama yard as another key initiative. A number of '*Riya Pola*' vehicle sale events were held to dispose of repossessed motor vehicles and in parallel swift action was resorted to for highly problematic cases through the legal division.

Riya Pola events organised in 2013/14

Internal Valuation and Vehicle Disposal Unit Opening

Lending Business Performance Against Set KPI's

To bring forth a total strategic perspective to our Lending operation, related activities were revisited upon to ensure they are well integrated to have the necessary focus in attaining corporate aspirations, right from employee level to department level to overall Company perspective. Apart from introducing the revised credit operational manual this period, this was achieved through concise allocation of operational targets to credit and marketing officers which in-turn ensured achievement of cluster/departmental expectations and eventually overall operational lending aspirations.

Overall operational targets were established using lending specific KPI under the Balance Score Card (BSC) methodology, with subtargets given to respective officers. Periodically these targets were reviewed against actual officer performance. The employee rewarding system was interlinked to recognise such performance. Lending business overall operational achievement against the set KPI's determined at the strategic planning stage remained satisfactory in 2013/14 as shown below:

	Balanced Score Card - Lending Business	**Measures**	
Perspectives	**(KPI)**	**Actual 2013/14**	**Budgeted 2013/14**
Financial Performance	Assets acquisition - Amount Financed	Rs. 11.3 billion	>Rs. 11 billion
	Net Interest Margin	7%	>8%
	Interest Income Growth	25%	>25%
	Recovery Ratio	96%	>75%
	1st 6 Months Ratio	83.45%	90%
	NPL Ratio	3.69%	<3.5%
	Market Share Retention	2.97%	>5%
Customer Value Proposition	MI Branding Campaigns	62	>50
	Branch Expansion	1	3
	Speed and Reliability	80%	80%
Internal Business Process	Marketing Target Achievements	88%	100%
	Cross Selling (Deposits/Internal - Inventory)	119	- Not estimated -
	Inventory Management and Maximisation	Rs. 505 million	Inventory Rs. 100 million
	Number of Promotional Campaigns	47	40
	New Product Introduction	–	2
	Process Improvement	4	4
Learning and Growth	New Customer Introductions	33%	50%
	Credit Knowledge Improvement	11 training programmes	Number of training programmes planned 10
	Product Knowledge and Utilisation	Knowledge sharing and brainstorming sessions are done monthly.	Initiated knowledge sharing sessions monthly.

LENDING BUSINESS PRODUCT-WISE REVIEW

	New Facilities Secured in 2013/14 (Rs. million)	New Facilities Secured in 2012/13 (Rs. million)	Growth/ (Decline) %
Hire Purchase Business	**4,431**	3,805	16
Lease Financing Business	**2,031**	1,912	6
Vehicle Loans	**2,365**	1,450	63
Term Loans**	**1,229**	1,486	(17)
Property Mortgage	**836**	1,068	(22)
Pledge Loans	**680**	409	66
Others*	**23**	21	10
Total	**11,595**	10,151	14

**This includes micro finance, professional loans and other term based loans.*

*** Excludes staff loans and loans against deposits.*

Commentary

Despite rising competitiveness for financing related lending within the sector and also from Banking sector, new lending facilities secured for the financial year 2013/14 showed a healthy rise surpassing Rs. 11 billion target in total, up by 14% remaining at similar growth levels as last year. MI's expanded branch network helped sustain targeted volumes in traditional financing product lines of hire purchase and lease financing while in parallel striving to up the non-traditional term based lending to sustain anticipated average yields. The Company freshly disbursed Rs. 4,431 million in hire purchase facilities, reflective of a 16% growth YOY while new facilities disbursed on lease financing showed a rise of 6% compared to 36% drop recorded last year. Moreover, vehicle loans and pledge lending showed aggressive growth over 60% YOY while in contrast term loans and property mortgage business declined 17% and 22% respectively compared to noteworthy growth levels recorded in previous financial year.

Finance Leases Performance

Finance Leases Growth

Tough conditions continued to prevail in growing finance lease business since last year with high cost of vehicle importation being the main drawback affecting vehicle sales market. Prevailing high import duty structure coupled with last year's steep depreciation in rupee caused brand new vehicle sales to slow down significantly thus pulling back the once strong leasing market. Accordingly, MI's finance lease receivables showed a marginal decline of 2% for the period in concern falling from Rs. 4,073 million to Rs. 3,998 million while lease interest income reflected a subdued 4% growth reaching Rs. 891 million.

Ongoing national development taking place from all parts of the nation accelerated commercial activity including the construction industry continued to fuel demand for leases related to vehicles and machinery. Reasonable demand prevailed for leases associated with lower and mid-price ranged vehicle sales despite the observed overall contraction in the brand new vehicle sales market as seen for the last few years.

Indicator	**2013/14 Rs. million**	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13	**Budgeted % Growth 2013/14**	Projected % Growth 2014/15
Lease Outstanding	**3,998**	4,073	**(2)%**	5%	**38%**	20%
Interest Income on Leases	**891**	859	**4%**	59%	**41%**	35%

Number of Lease Customers 2013/14	Number of Lease Customers 2012/13	**Change % 2013/14**	Change % 2012/13
7,085	5,356	**33%**	21%

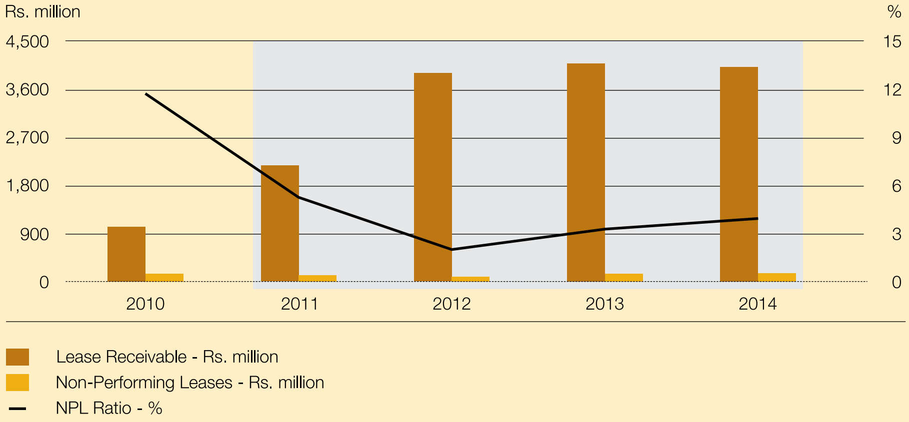
Finance Leases Portfolio Quality

The financial services sector continued to witness a noticeable decline in the general quality of lending caused by the deterioration in creditworthiness of some of the borrowers on account of negative impacts to their livelihoods and businesses thus affecting repayment ability. In this backdrop, MI's lease NPL levels moderately deteriorated rising from 3.24% to 3.89% during the twelve month period under review.

Finance Lease NPL %* 2013/14	Finance Lease NPL %* 2012/13	**Budgeted Lease NPL %* 2013/14**	Projected NPL %* 2014/15
3.89%	3.24%	**3.5%**	3.5%

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

ANALYSIS OF LEASE PORTFOLIO WITH ITS NON-PERFORMING STATUS



** Lease receivables - 4 years SLFRS/LKAS based and 2010 SLAS based*
NPL statistics - Based on time based provisioning adopted for regulatory reporting

Future Outlook of Finance Leases

The low lease interest rate position that is expected to remain same in the short term coupled with the accelerating economic activity taking place should continue to fuel demand particularly for mid-priced ranged brand new vehicle lease financing. On the other hand, the imminent mergers that are bound to take place within the LFC's during the course of the next financial period would heighten competition further especially in terms of pricing. We could expect participation of Banks in the leasing market to remain strong considering the product's business potential and also it being another diversification strategy for the sector. In driving business forward, MI will need to be efficient in operations and afford competitive pricing being receptive to market changes. In boosting lease market share, we will need to identify changes in customer preferences and would need to strategise and introduce innovative leasing solutions whilst maintaining required service standards. MI's strengthened branch network will be decisive in this context to garner fresh businesses. We hope to place more emphasis on inventory sales that involves housing brand new vehicles such as three wheelers, lorries and small cars to meet urgent customer request island-wide, coupling with our attractive leasing options.

Hire Purchase Financing Performance

Hire Purchase Financing Growth

Being the key contributor to MI's lending portfolio, hire purchase business growth as anticipated was satisfactory, up by 20% to Rs. 6,874 million as at 31 March 2014 compared to a 32% growth recorded last year. By maintaining these strong levels of growth, hire purchase business continued to contribute strongly towards MI's interest income, growing by 12% year-on-year compared to an exceptional 65% growth registered last year. As experienced in the last few years, there was a noticeable shift in customer preference from high cost brand new vehicle purchase to affordable over 12 month old second hand registered vehicles. Hence we concentrated strongly on boosting this line of business and pursued aggressively hire purchasing (HP) and related variations such as structured HP's, maintaining healthy volumes through our well-knit branch network. As hire purchase financing business continued to operate without Value Added Tax unlike the leasing business, there was enough flexibility to afford better pricing options to customers.

Indicator	**2013/14 Rs. million**	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13	**Budgeted % Growth 2013/14**	Projected % Growth 2014/15
Hire Purchase Outstanding	**6,874**	5,754	**20%**	32%	**40%**	22%
Interest Income from Hire Purchases	**1,636**	1,462	**12%**	65%	**55%**	31%

Number of Hire Purchase Customers 2013/14	Number of Hire Purchase Customers 2012/13	**Change % 2013/14**	Change % 2012/13
8,575	7,385	**16%**	14%

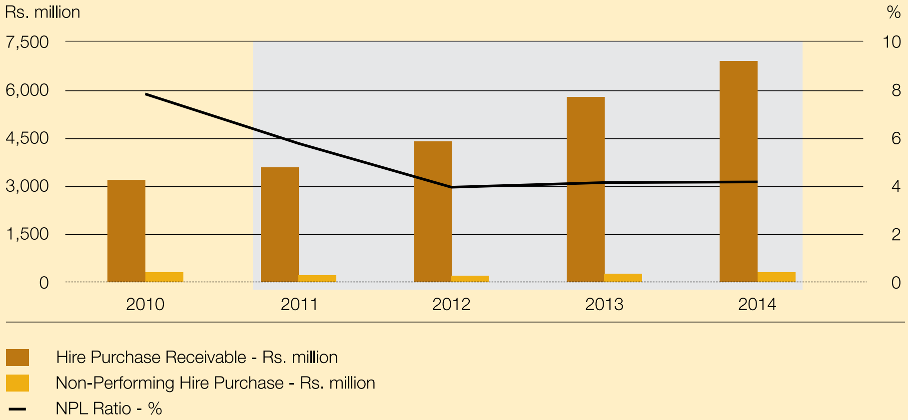
Hire Purchase Portfolio Quality

The explained deterioration in credit quality, across the sector which unfolded early 2013, did not have any notable effect on MI's hire purchase NPL's which stood at 4.14% almost at last year levels. Management nevertheless took a cautious approach when initiating this form of credit particularly scaling credit to specific industry sectors and specific market segments thus curtailing any resultant impacts to NPL. The Company took effective recovery measures for problematic accounts mainly resorting to repossession of assets and moved ahead on their disposals while pursuing legal measures for long outstanding debts.

Hire Purchase NPL %* 2013/14	Hire Purchase NPL %* 2012/13	**Budgeted Hire Purchase NPL %* 2013/14**	Projected NPL %* 2014/15
4.14%	4.13%	**3.5%**	3.5%

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

ANALYSIS OF HIRE PURCHASE PORTFOLIO WITH ITS NON-PERFORMING STATUS



** Hire purchase receivables - 4 years SLFRS/LKAS based and 2010 SLAS based*
NPL statistics - Based on time based provisioning adopted for regulatory reporting

Future Outlook of Hire Purchasing

We could expect hire purchase business to be the driving product for the sector once again, taking account of the product's attractive features, propelled additionally by the ongoing positive impacts stemming from the economic progress taking place. Demand should accrue from the registered motor vehicles sales market coupled with the growing need for machinery and construction related vehicles as the country heads for significant infrastructural development activity in the medium term.

Anticipating greater economic activity to take place outside Western Province in the future, MI can hope to capitalise on its strengthened branch network, to grow its hire purchase market share. Our goal is to maintain hire purchase portfolio growth at a minimum of 20% per annum as achieved in the past. The proposed financial sector consolidation process would afford us the opportunity to broad-base related business by seeking the right strategic partner going forward.

Term-Based Lending Performance

Term-Based Lending Growth

Similar to last year, term based lending business showed potential for development, reaching Rs. 3,924 million reflecting a strong growth of 37% during this one year period. MI's strategy of diversifying outside traditional financing business lines, increasing focus on term-based lending assisted the Company to expand its revenue options and to sustain average yields. Related growth was mainly driven by vehicle loans while corporate lending, personal lending and pledge facilities being the other sub product lines showed satisfactory contributions to term volumes. This allowed MI to up term loan interest income by 89% to record a Rs. 785 million for the year.

Indicator	**2013/14 Rs. million**	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13	**Budgeted % Growth 2013/14**	Projected % Growth 2014/15
Term Loans Outstanding*	**3,924**	2,868	**37%**	78%	**51%**	40%
Interest Income on Term Loans	**785**	415	**89%**	147%	**61%**	51%

** Term-based lending products include vehicle loans, corporate loans, personal loans, professional loans and pledge loans and excludes staff loans and loans against deposits. (Microfinance and Property Mortgage Loans have been excluded as well and is reported separately).*

Number of Term Loan Customers 2013/14	Number of Term Loan Customers 2012/13	**Change % 2013/14**	Change % 2012/13	**New Term Loan Facilities 2013/14 Rs. million**	New Term Loan Facilities 2012/13 Rs. million	**Change % in 2013/14**	Change % in 2012/13
2,320	1,526	**52%**	112%	**4,275**	3,391	**26%**	98%

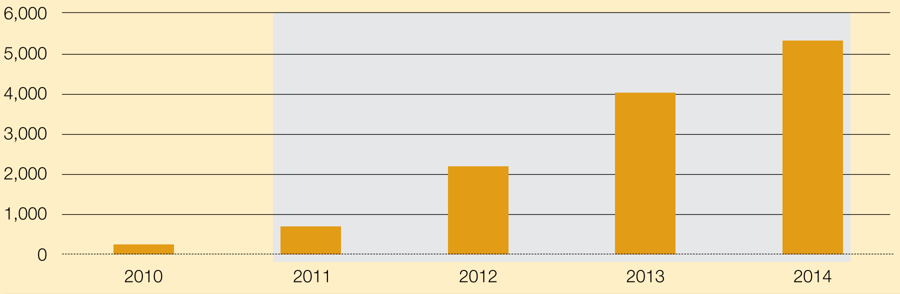
Term-Based Lending Portfolio Quality

As a positive outcome of adopting effective credit control practices and recovery measures instilled on relatively high risk credit such as term-based lending, we managed to control related Non- Performing level rise to a satisfactory level. It was commendable for MI to control term lending NPL at 2.55% despite the witnessed general credit quality deterioration.

Term Loans NPL %* 2013/14	Term Loans NPL %* 2012/13	**Budgeted Term Loans NPL %* 2013/14**	Projected Term Loans NPL %* 2014/15
2.55%	1.69%	**2.71%**	2.71%

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

LOANS AND RECEIVABLES (Rs. million)



** Shaded 4 years SLFRS/LKAS based and 2010 SLAS based*

Future Outlook of Term-Based Lending

Considering the speed and flexibility afforded by the LFC sector, we can expect demand for term-based lending to seemingly prevail even in the future. Term lending will play an integral part again for MI in generating higher levels of revenue and also to ensure healthy spreads are enjoyed in the future. MI has the knowhow and has instilled right credit and recovery procedures to manage the increased risk for this type of lending. Moving to the future, we are in a better position to exploit related business opportunities that are continuing to emerge since post war, through our strong network of branches. We have the capability and manpower to tap into such local communities that are in need of financial assistance for their personal and entrepreneurial needs. In delivering a superlative service, we hope to keep refining our internal processes for purpose of reducing the time taken to process this form of credit.

Property Mortgage Loan Performance

Property Mortgage Loan Growth

MI's property mortgage lending business progress contracted to an extent due to management taking a conservative approach considering the high risk nature of this business. Total outstanding hence contracted to Rs. 1,135 million down by 5% from a year before. Nonetheless, interest income generated showed a growth of 59% demonstrating the sound yields from this line of business. Management pursued property backed lending on a case-by-case basis adopting a tougher credit review and recovery process, in the backdrop of declining credit quality within the sector, staying cautious on taking property backed security as opposed to less risky vehicle related financing.

Indicator	**2013/14 Rs. million**	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13	**Budgeted % Growth 2013/14**	Projected % Growth 2014/15
Property Mortgage Outstanding	**1,135**	1,193	**(5)%**	93%	**60%**	50%
Interest Income from Property Mortgages	**384**	241	**59%**	1,322%	**71%**	62%

Number of Property Mortgage Customers 2013/14	Number of Property Mortgage Customers 2012/13	**Change % 2013/14**	Change % 2012/13	**New Property Mortgage Facilities 2013/14 Rs. million**	New Property Mortgage Facilities 2012/13 Rs. million	**Change % in 2013/14**	Change % in 2012/13
240	200	**20%**	292%	**836**	1,068	**(22%)**	66%

Property Mortgage Portfolio Quality

We resorted to strict credit quality checks, carrying out concise valuation practices to determine accurate security values of properties in concern. As part of the initial credit evaluation process, site visits and financial evaluation of borrower's repayment ability was thoroughly reviewed. Despite these controls, deterioration in credit repayment of specific borrowers impacted related NPL's which rose notably to 4.90%, but not causing significant impact to overall NPL's due to a relatively small NPL's portfolio.

Property Mortgage NPL %* 2013/14	Property Mortgage NPL %* 2012/13	**Budgeted Property Mortgage NPL %* 2013/14**	Projected Property Mortgage NPL %* 2014/15
4.90%	0.94%	**0.79%**	0.79%

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

Future Outlook of Property Mortgage Business

In spite of the inherent risk in property mortgage lending for the LFC sector, we can expect healthy demand levels to prevail even in the future, considering the sector's ability to meet customer needs including its ability to process credit faster. To boost related business, MI will strive to cut down lead times in processing related credit and will do best to keep related credit operational procedures efficient. Our newly set-up Internal Valuation Unit will pave the way for management to speed up the valuation process and to generate valuations that are accurate and realistic. We may opt for greater degree of decentralisation in handling property mortgage credit, targeting higher number of smaller customer ticket sizes so that branches could gradually build their own customer bases. Moving ahead, we feel property mortgage business will remain a key cog in our lending product mix, especially to maintain overall average yields and as a diversification strategy to spread risk levels.

Micro Finance Lending Performance

Micro Finance Growth

Micro finance lending which was introduced to MI's lending mix last year, remained at the early stages in progress, its outstanding rising by Rs. 10 million reaching Rs. 20 million as at the Reporting Date, however indicating strong growth from a year before. Related business volumes were derived from key earmarked locations particularly in the North and the East where reasonable demand persisted on account of agriculture based industries. Management continued to focus initially on these regions observing carefully the slow pick up of related industries despite the ongoing economic progress, taking a conservative approach in promoting business across other MI locations.

Indicator	**2013/14 Rs. million**	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13	**Budgeted % Growth 2013/14**	Projected % Growth 2014/15
Micro Financing Outstanding	**20**	10	**100%**	–	**65%**	60%
Interest Income on Micro Financing	**6**	1	**500%**	–	**75%**	71%

Number of Micro Financing Customers 2013/14	Number of Micro Financing Customers 2012/13	**Change % 2013/14**	Change % 2012/13	**New Micro Financing Facilities 2013/14 Rs. million**	New Micro Financing Facilities 2012/13 Rs. million	**Change % in 2013/14**	Change % in 2012/13
642	236	**172%**	–	**22**	12	**83%**	–

Micro Financing Portfolio Quality

Credit quality of MI's micro financing portfolio remained exceptional yet again for the second year running with a zero NPL ratio as at 31 March 2014. This was achieved in spite of witnessing various related industry drawbacks, especially to agriculture sector from adverse weather changes affecting crops during the financial year.

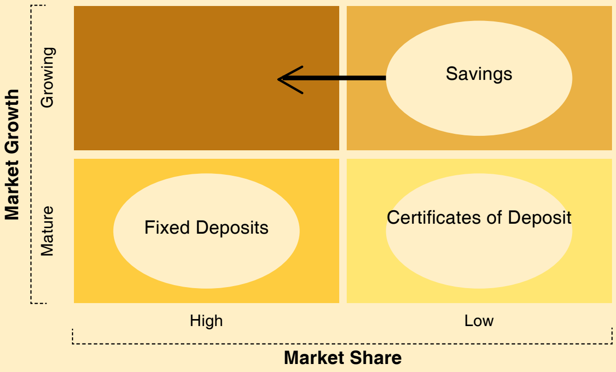
Micro Financing NPL %* 2013/14	Micro Financing NPL %* 2012/13	**Budgeted Micro Financing NPL %* 2013/14**	Projected Micro Financing NPL %* 2014/15
Nil	Nil	**Nil**	Nil

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

Future Outlook of Micro Financing Business

In the wake of the pending mergers among finance companies, proposed policy indicates that micro financing business will be operated by only a few nominated large players in the sector, in the future. Hence, strategy of LFC's towards micro finance business going forward would be largely dependent on their final choices on the consolidation process. In any event, it is quite evident that there is enough potential for cultivating this form of business. Much remains to be exploited in relation to micro financing owing to the increasing focus yet again on agriculture and farm based commerce since post war, especially in locations previously hampered due to the conflict. If the conditions are appropriate, MI can pursue building the micro financing base from its current state to help boost overall lending volumes and grow Net Interest Income (NII). However, we hope to align related strategy depending on imminent market changes expected to take place in the foreseeable future.

DEPOSIT BUSINESS STRATEGY



Organisation's deposit business strategy primarily targeted boosting the fixed deposit base which continued to account for over 99% of total business. Fixed deposits being the primary source of funding for the Company, it remained high priority with a growth expectation forecasted over 30%, similar to last few years. In maintaining these expectation levels, in the backdrop of a highly competitive market, it was therefore necessary that MI's branch network played an important role in consolidating our position in deposit mobilisation especially in the developing regions. We continued to offer our customers profound services that we are capable of, whilst reminding them of MI's reputation as a financially strong enterprise.

With the intention of broad-basing the deposit product range to garner more deposit business, management in parallel promoted MI's savings deposits considering the potential that exist to tap on a growing savings market with the economic resurgence taking place. Taking into account the projected per capita growth in the medium term and growing savings habit among individuals, the Company went ahead heavily promoting MI's savings brands-MI Kids and MI Max through the newly set up deposit marketing arm.

On the other hand, we paid lesser attention 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. CD's 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 CD base dipped by over 40% compared to last year.

Deposit Business Highlights 2013/14

- Offered a broad ranging interest rate structure that blended with MI's need for low cost funding whilst affording with special rates for depositors upon fulfilling of specific requirements.
- Strengthened the marketing arm of the deposits division and carried out various promotional campaigns e.g. Town storming, e- media, promotions to specific identified market segments such as doctors, lawyers etc.
- Intensified promoting campaigns related to MI kids savings account.
- Special customer promotions and schemes including special raters for senior citizens.
- Radical changes to operational procedures at both head office and branches to improve speed, convenience and compliance.
- Branch deposit mobilisation drives.

DEPOSIT BUSINESS PRODUCT-WISE PERFORMANCE

Movement of Deposits - Canvassed and Deposit Refunds

	New Deposits Secured in 2013/14 Rs. million	New Deposits Secured in 2012/13 Rs. million	Growth in New Deposits %	**Deposit Refunds in 2013/14 Rs. million**	Deposit Refunds in 2012/13 Rs. million	Change % on Deposit Refunds %
Fixed Deposits	**5,458**	4,959	10%	**2,955**	3,272	(10%)
Savings Deposits	**106**	76	39%	**92**	81	14%
Certificates of Deposit	**11.4**	11	4%	**67**	21	218%
Total	**5,575**	5,046	11%	**3,114**	3,374	(7 %)

In the midst of a highly competitive market in deposit mobilisation, we extended a quality service coupled with differentiating pricing strategies and other value added features to secure Rs. 5,575 million in new deposits, which showed a commendable growth of 11% YOY. Fixed deposits mobilisation grew at 10% compared to a higher 66% growth recorded last year. New business secured on savings business too showed potential growing by 39% while in contrast CD growth subdued at 4%. Stiff competition amongst the sector coupled with emerging other investment avenues continued to impact retention levels somewhat, with total deposit refunds totaling Rs. 3,114 million, lower than Rs. 3,374 million recorded in FY 2012/13.

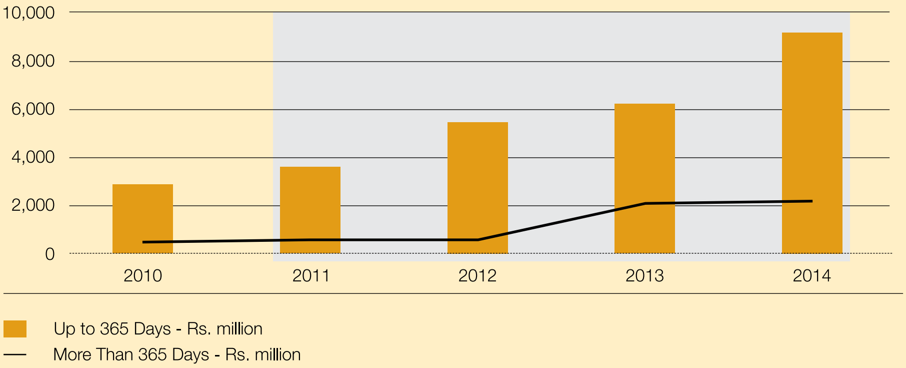
Fixed Deposit Business Performance

Fixed Deposits Growth (FD's)

Staying committed towards growing traditional FD business, we were able to surpass Rs. 11 billion in FD's outstanding during this period, which reflected a 37% rise reaching to Rs. 11,326 million, as at the Reporting Date. Adopting a two-pronged strategy to mobilise FD's, we targeted fresh business beyond the Western Province with our widened network while continuing to cement loyalty in relation to our existing customers. While affording attractive returns, we concentrated on improving our overall standard of service, paying attention to finer aspects, specifically the speed of delivery while striving to provide convenient ways of doing business. We ensured basic amenities such as parking, comfort and profound service are maintained from all service points. Through a focused recruitment and training drive, we strengthened the Deposit Division's marketing arm and pushed for higher net deposit growth targets, as the year unfolded.

	2013/14 Rs. million	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13
Fixed Deposits Outstanding	**11,326**	8,294	**37%**	38%
Number of Fixed Depositors (In Number)	**4,160**	3,781	**10%**	19%

FIXED DEPOSITS MATURITY (Rs. million)



** Shaded 4 years SLFRS/LKAS based and 2010 SLAS based*

Attractive FD Pricing

In the milieu of persistent fall in market interest rates, declining almost by 3% just in one year, the Company reviewed its pricing structure at numerous intervals, to stay competitive in deposit rates. In garnering anticipated growth levels in FD's, we continued to offer special rates for customers on a selective basis whilst providing our senior citizen depositors 1% over the standard rate. As the banking sector rates remained relatively lower, MI was able to attract customers from the sector, stressing upon MI's stability, unblemished trust and profound corporate image.

Future Outlook of Fixed Deposit Business

The predicted GDP growth over 7% for next few years, coupled with growing per capita income should provide the needed impetus to drive savings of individuals forward, in the foreseeable future. Therefore, we can expect the term based deposit business to remain on the rise, with sufficient opportunity for growth despite the competitiveness associated with the product. Sustaining a well-balanced FD base will be of strategic importance for MI to keep core business spreads intact for the next few years. There is similar probability that market interest rates would reverse its trends and start to pick up again in future. Anticipating this, MI would pursue its policy of mobilising deposits that are more of a longer term, capitalising on the broad-based network of branches to aggressively bring in higher levels of new FD's in the next few years. As we celebrate 50 successful years in operation this June 2014, we hope to draw attention on MI's financial stability and unblemished reputation. We hope to attract new FD business and retain existing depositors, through our unique personalised service.

Savings Deposits Performance

Savings Deposit Growth

Despite being a small base, savings deposits showed potential for growth since initial introduction. It grew by 93% during the year to Rs. 29 million as against a decline of 17% recorded last year. This pick up was mainly attributable to the aggressive savings campaigns carried out across the branch network to promote MI's savings brands MI Max and MI Kids. Savings deposits being a cost effective funding source was seen by management as a business needing radical change to raise related business to new levels. Branches in coordination with the deposit division's marketing arm henceforth continued to uplift service standards. In giving customers higher levels of convenience, transaction processing lead-times were reviewed and due operational changes were introduced to deliver a speedier service at branch level.

	2013/14 Rs. million	2012/13 Rs. million	**% Growth 2013/14**	% Growth 2012/13
Savings Deposits Outstanding	**29**	15	**93%**	(17%)
Number of Savings Depositors (In Number)	**440**	303	**45%**	(4%)

Future Outlook of Savings Deposits Business

The proposed financial services sector consolidation process should bring strategic advantage to institutions concerned and boost coverage levels of most 'A' grades. This should propel savings related business more within the LFC sector, rather than the banking sector enjoying majority of related market share, unlike in the past. We also remain optimistic of expanding this line of business fuelled by the optimism indicated in the projected national statistics, targeting per capita income growth.

Using the expanded reach that we now have, we plan to continue our efforts of boosting savings deposits and hope to couple additional features to our existing savings brands. We plan to tie up with a service provider, hoping to afford ATM services and plan to couple our savings brand with financing related lending products of ours, as a cross selling initiative.

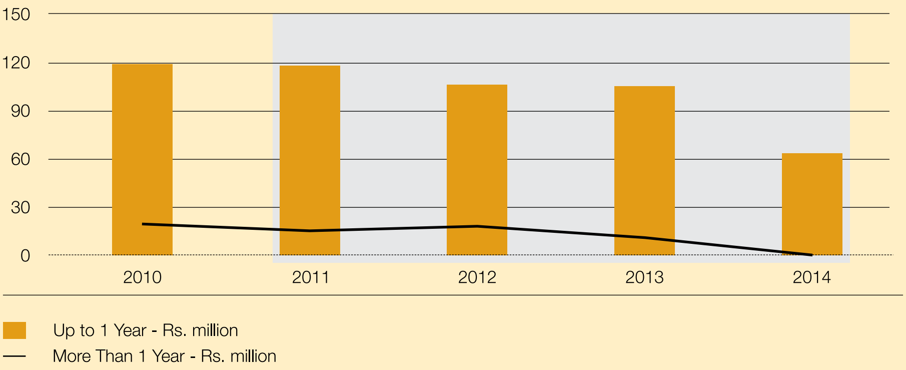
Certificates of Deposit Performance (CD)

CD Business Growth

CD's portfolio continued to contract declining significantly by 46% compared to a decline of 6% observed in the previous year. Because of the falling demand for CD's, accordingly the total outstanding as at the Reporting Date remained low at Rs. 63 million. As a common feature across the sector, the prevailing stringent laws on anti-money laundering which include review system on customer identification continued to negatively impact demand. Management therefore did not pursue building business around this product and took a much subdued approach like last year.

	2013/14 Rs. million	2012/13 Rs. million	**% Growth 2013/14**
Certificates of Deposit Outstanding	**63**	116	**(46%)**
Number of CD Depositors (In Number)	**8**	12	**(33%)**

CERTIFICATE OF DEPOSITS MATURITY (Rs. million)



** Shaded 4 years SLFRS/LKAS based and 2010 SLAS based*

Future Outlook of Certificates of Deposit

With the prevailing regulations on KYC, demand for CD's would remain subdued even in the future. Going forward, CD's would not be a product of strategic importance for MI. Moreover, our intention is to sustain moderate business levels promoting the non-transferrable CD's more as an ancillary product to our main fixed deposit business. Based on the prevailing trend, CD bases of the sector should continue its descend, with regulations being strictly imposed.

Ancillary Services Performance

Customer Insurance Services Performance

As an ancillary service, insurance needs of our traditional financing related borrowers are fulfilled via our Insurance department. Affording this convenient service to customers, the division processed gross written premiums totaling to Rs. 436 million (Rs. 424 million in 2012/13) indicating a rise of 3% compared to a growth of 17% recorded last year. Total commission income generated from the operation amounted to Rs. 44 million (Rs. 46 million in 2012/13) decreasing marginally by 4% against a 44% rise achieved in the previous period. The department was able to maintain a noteworthy track record in terms of its recovering of claims which totalled Rs. 78 million (Rs. 52 million for 2012/13) for the financial year under review.

Workshop Services Performance

MI’s fully-fledged workshop division located in Kohuwela which undertakes vehicle servicing and repair jobs of customers successfully upped its annual revenue from Rs. 75 million to Rs. 84 million for the period in concern. The division is operated by management strategically as an additional income generating source and also to support MI’s internal vehicle fleet management. In striving towards unit profitability, the division stepped up promoting its specialised vehicle services. During this period special discount offers were made available to both MI’s finance customers and general public that helped increase capacity utilisation levels considerably.

MI’s Workshop Operation

Geographical Performance

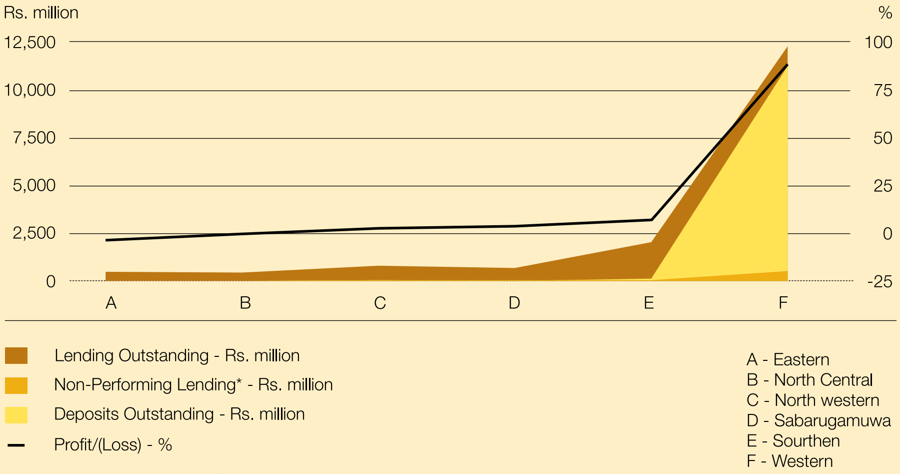
In keeping to our strategy of expanding reach beyond the Western Province, it was pleasing to witness 26% of total lending business being derived from branches outside the Western Province. (2012/13 in comparison was 18%). However, in terms of deposit mobilisation, out of the total deposit base only 2% was attributable to branches outside Western Province. Nonetheless branch/service centre contribution towards overall profitability remained satisfactory, with management intensifying awareness campaigns across the country to boost business, with increased focus on newly set-up regions.

Geographical Performance Table

Province	Lending Outstanding Rs. '000	Non-Performing Lending* Rs. '000	Deposits Outstanding Rs. '000	Profit/(Loss) Rs. '000	Profit/(Loss) %
Eastern	478,626	6,427	4,839	(5,703)	(1%)
North Central	421,282	3,171	11,122	(2,729)	0%
North western	777,312	23,988	29,783	16,271	2%
Sabarugamuwa	671,174	24,534	13,751	23,906	4%
Sourthen	2,033,383	44,758	117,231	46,984	7%
Western	12,263,359	510,563	11,241,015	596,633	88%

** NPL is time based adopted for regulatory reporting.*

GEOGRAPHICAL PERFORMANCE



** NPL is time based adopted for regulatory reporting*

Strategic Business Unit-Wise (SBU) Performance

Tough volume targets were handed down to all SBU’s and closely monitored throughout the year by the AGMs responsible for assigned branch clusters. Depending on demand level, we stepped up the recruitment process, and increased staffing at specific points to serve customers better. Except for newly established locations and three other branches, all other SBU’s contributed satisfactorily to overall profitability of the Company as shown below:

Performance of Branch and Service Centres

Branch	Lending Outstanding	Non-Performing Lending*	Deposit Outstanding	Cadre (In Number)	Overheads	Cost Efficiency (Overheads/ Cadre)	Profit/(Loss)
	Rs. ’000	Rs. ’000	Rs. ’000		Rs. ’000	Rs. ’000	Rs. ’000
Ampara	208,574	322	3,582	6	10,692	1,782	(2,061)
Anuradhapura	262,231	3,171	8,277	7	11,539	1,648	3,883
Balangoda	463,105	21,520	13,075	6	20,075	3,346	19,917
Bentota	659,230	11,681	50,098	7	17,557	2,508	34,942
Chilaw	298,753	3,766	14,460	6	11,483	1,914	8,402
Embilipitiya	208,069	3,014	676	6	10,239	1,707	3,989
Galle	474,490	8,957	35,574	8	19,190	2,399	11,941
Gampaha	248,180	–	61,333	6	6,847	1,141	7,804
Horana	291,092	2,415	20,528	5	10,570	2,114	9,846
Kadawatha	1,231,905	27,147	72,402	12	38,393	3,199	29,512
Kohuwala	1,512,196	28,850	262,702	13	38,158	2,935	62,180
Kurunegala	478,559	20,222	15,323	5	22,364	4,473	7,869
Maharagama	592,212	–	80,801	8	8,840	1,105	16,797
Matara	726,126	15,498	27,329	10	28,495	2,850	8,069
Negombo	997,601	39,815	304,275	10	40,072	4,007	18,018
Polonnaruwa	159,051	–	2,845	7	10,222	1,460	(6,612)
Tissamaharama	173,537	8,622	4,230	5	14,941	2,988	(7,968)
Trincomalee	270,052	6,105	1,257	7	20,380	2,911	(3,642)

Service Centre	Lending Outstanding	Non-Performing Lending*	Deposit Outstanding	Cadre (In Number)	Overheads	Cost Efficiency (Overheads/ Cadre)	Profit/(Loss)
	Rs. ’000	Rs. ’000	Rs. ’000		Rs. ’000	Rs. ’000	Rs. ’000
Borella - Corporate Premier	431,084	–	N/A	10	8,195	820	(6,006)
Kottawa	302,408	–	N/A	7	12,434	1,776	5,872
Minuwangoda	533,398	19,454	N/A	6	17,042	2,840	13,419
Nittambuwa	28,439	–	N/A	5	2,379	476	(2,454)

** NPL is time based adopted for regulatory reporting.*

Overall Financial Performance

MI's financial performance from an overall perspective was very satisfactory when reviewed against established Key Performance Indicators (KPI's) for financial year 2013/14. In demonstrating MI's extent of progress this period from various financial facets of overall performance, a financial KPI review with related commentary including comparative information is given hereon. 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 the Annual Report. Unless otherwise stated, the financial Information given in commentary including supporting tables and graphs for FY 2013/14 and comparative information are SLFRS/LKAS based. Graphs that contain five year disclosures have been appropriately shaded to demarcate information relating to previous SLAS based accounting.

Key Performance Measurements of MI

Measurement	Review		Budgeted	Targeted
	2012/13	**2013/14**	2013/14	2014/15
Financial Perspective				
Revenue Growth				
● Interest Income Growth (%)	88	**25**	41	>38
● Fee and Other Income Growth (%)	(62)	**(17)**	17	>(5)
● Total Revenue Growth (%)	41	**22**	39	>20
Operating Cost to Income Ratio (%)	53	**53**	50	<55
Operating Income (Rs. million)	1,438	**1,720**	1,911	>2,000
Return on Average Asset Ratio (%)	3.25	**3.02**	2.5	>1
Profit After Taxes (Rs. million)	631	**675**	760	>960
Value Added (Rs. million)	930	**1,155**	1,000	1,000
Customer Perspective				
Number of Branches	17	**18**	19	>20
Number of New Customers % of Total Customers				
● Deposits %	20	**30**	20	>20
● Lending %	61	**33**	20	>20
Number of Loyal Customers % Total Customers				
● Deposits %	80	**70**	20	>25
● Lending %	39	**67**	20	>25
On time Delivery of Service Ratio on Lending (%)	80	**80**	80	95
Provincial Customer Reach (No. of Provinces)	6	**6**	7	8
Number of Promotional Campaigns	38	**47**	>30	>40
Number of Cooperative Efforts	3	**3**	5	8
Internal Business Perspective				
Employees				
Number of Employees				
● Executive and Above	213	**221**	220	>240
● Clerical Staff	230	**287**	250	>300
Number of Promotions				
● Executive and Above	27	**14**	– Not Estimated –	
● Clerical Staff	33	**2**	– Not Estimated –	
Welfare and Training Cost per Employee (Rs.)	16,124	**22,350**	18,000	>25,000
Number of Events Organised for Staff	8	**11**	–	–
Employees Below 40 Years (%)	78	**79**	75-80	75-80
Workforce Gender Diversity Male : Female	5:1	**6:1**	5:2	5:2
Suppliers				
Number of Dealers for Lending Business	585	**625**	–	–
Registered Agents for Deposit Development (Nos.)	1	**3**	–	–
Learning and Growth Perspective				
Number of New Branches Opened	3	**1**	>2	>3
Number of New Products Launched	3	**–**	>2	>2
Total Asset Base of the Company (Rs. billion)	21.2	**23.5**	25.4	32
Portfolio Values (Rs. billion)				
● Lending	13.8	**16.2**	18	24
● Deposits	8.4	**11.4**	11.4	15.2
Number of Depositors	4,096	**4,608**	5,000	>6,000
Number of Lending Customers	14,703	**18,862**	18,500	>20,000
Employees Training Hours (hrs.)	2,897	**3,853**	2,500	>3,000
New Process Improvement Projects	5	**11**	8	>8
New IT Systems Implemented	7	**–**	–	2

FINANCIAL KPI REVIEW

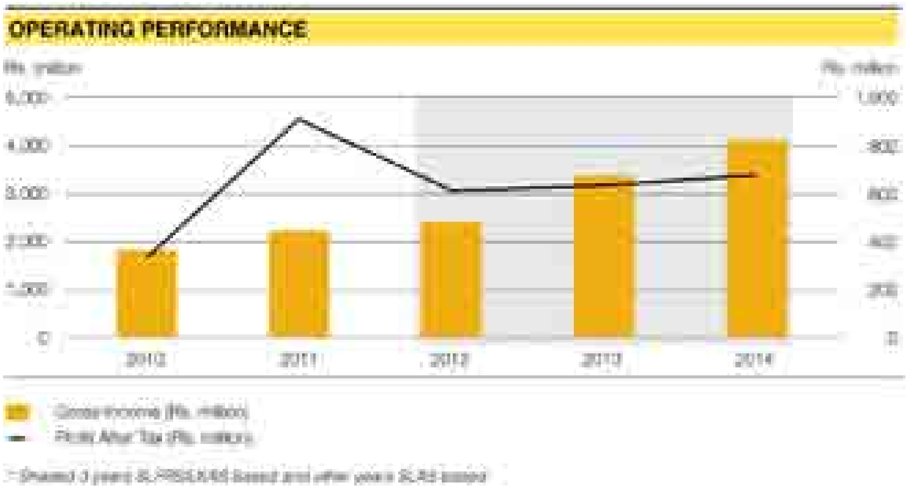
KPI: Earnings Growth

Rupee earnings growth (profit after tax growth) to be over 20% per annum based on medium term strategic plan forecast and corporate budget 2013/14.

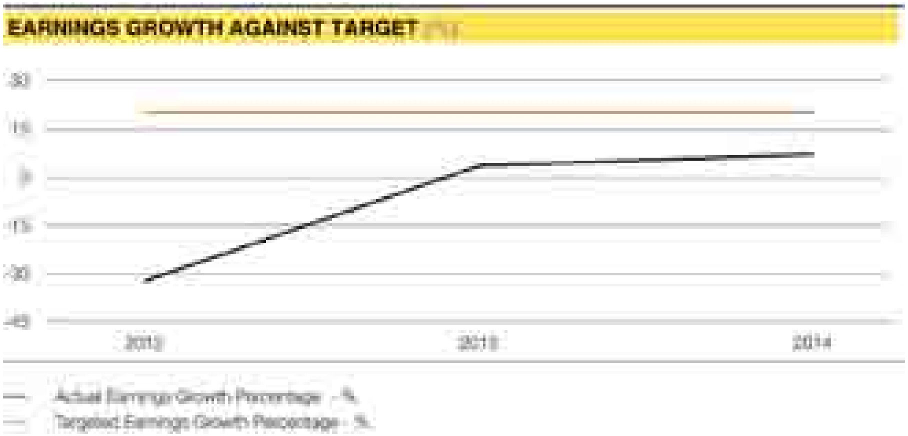
Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
>20%	**7%**	3%	(33%)

Performance Against the KPI

The Company recorded a noteworthy Net Profit Before Tax of Rs. 824 million for the FY 2013/14 compared to Rs. 732 million recorded in previous financial year, thus reflecting an earnings growth of 13%. At the same time, MI concluded the FY 2013/14 by recording a satisfactorily Net profit after tax of Rs. 675 million compared to Rs. 631 million recorded in FY 2012/13, thus indicative of a 7% earnings growth, behind however in terms of expected optimistic growth targets.



Achieving set growth targets remained a challenge in spite of the optimism in economic progress as actual positive business conditions that prevailed were yet behind the levels anticipated. Despite the slow-paced economic progress and somewhat tough business conditions, we will continue to strive towards these optimistic target growth levels in earnings in the coming years.



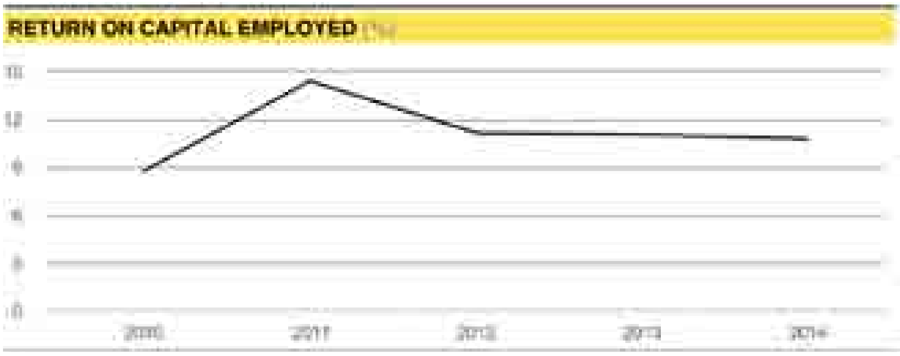
KPI: Return on Capital Employed

We expect to maintain the ROCE over 10% annually in the medium term, to afford competitive returns to investors.

Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
>10%	**10.77%**	11.06%	11.14%

Performance Against the KPI

The ROCE was maintained above 10% this year as well, indicating satisfactory investor returns when compared to market yield rates on securities which kept falling as the year drew to a close. In yielding sound returns, management was brisk to execute strategy, effectively monitoring overall earnings and sub-operational financial targets closely. To boost overall returns, management had to restrategise certain aspects of business to keep to the volatility in market changes. The Company expects to strive for even higher returns against the invested capital in the years to come, staying optimistic on the transcending business opportunities and positive business sentiments that are devolving on the sector.



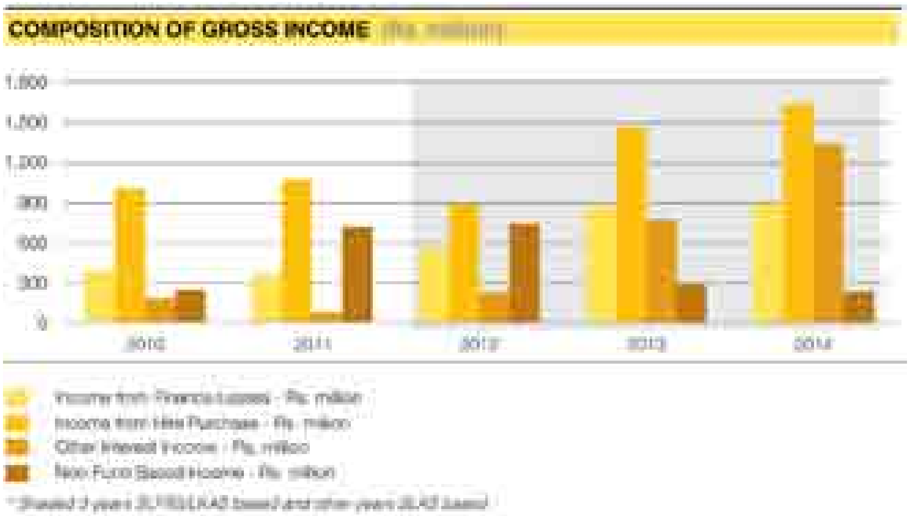
KPI: Total Revenue Growth

Having laid out a concise path towards strategic expansion in the medium term, we expect to grow total revenue over 20% annually to widen market share in the sector.

Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
>20%	**22%**	41%	8%

Performance Against the KPI

As a result of maintaining core business volumes growth, gross income grew satisfactorily by 22% and stood at Rs. 4,096 million for the 2013/14 period. Despite the sector witnessing a general slowdown in demand for traditional financing, we managed to maintain momentum in credit growth which helped sustain total revenue over targeted levels. The fund based business in total contributed 94% to the gross income, recording an increase of 25% year-on-year. Balance revenue was derived from Non-fund based income (NFBI), which reflected a decrease in contribution of 17% from a year before. In keeping to corporate strategy, management is hopeful of raising core business revenue levels to new heights in the next few years while planning to widen the ambit of other revenue generating options.



KPI: Net Interest Margin (NIM) Increase

NIM to be increased above 8% in the medium-term, focusing on boosting core business volumes whilst maintaining satisfactory spreads.

Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
>8%	**7%**	6%	4%

Performance Against the KPI

Management's continuous efforts in driving core business forward reflected positively on the NIM which showed gradual growth, during the last three years. Despite rise in total average assets, we managed to better NIM enjoyed each year, striving towards the targeted net interest margin. As we churned higher levels of interest income from our lending business adopting penetrative marketing strategy, we simultaneously pursued optimal funding sources to keep interest costs low as possible. This approach helped us to maintain net interest income (NII) growth at commendable levels for the past two years.

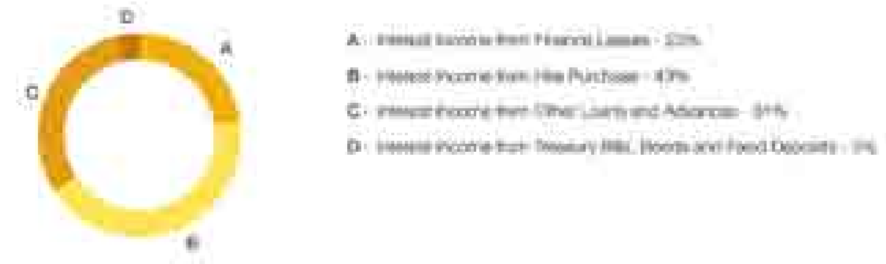
	2013/14	2012/13	2011/12
Net Interest Income Growth	**35%**	88%	(21%)

In boosting NII and NIM, management refrained from doing business below break-even levels to maintain margins at acceptable levels. We remained wary of persisting pressure on margins due to heightening price competition. As a counter strategy, we kept our focus on maintaining volume growth without compromising on spreads to reach anticipated profitability levels. As the year unfolded, interest rates on deposits and borrowings continued to decline which brought down MI's Weighted Average Cost of Funding considerably. This improved our NIM since a substantial portion of the deposit base was of a shorter term nature and hence was repriced at lower rates while pricing on lending remained fixed at relatively higher rates for longer periods.

Interest Income Analysis

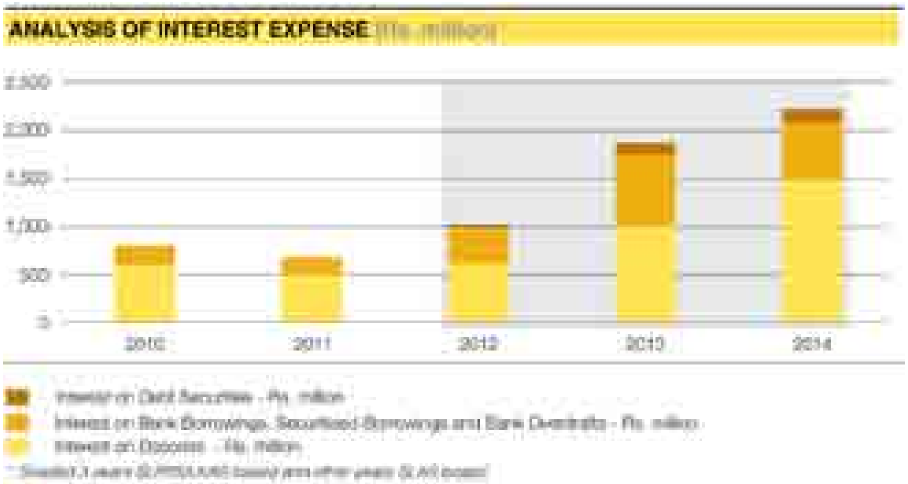
Interest income rose from Rs. 3,088 million to Rs. 3,862 million, reflecting a rise of Rs. 774 million or 25% from previous year propelled by growth in loan book despite having to lower lending rates to offer competitive pricing levels throughout the year. Hire purchase financing was again the main contributor towards MI's interest income, contributing 42% while lease financing income contribution dipped to 23% from 28% recorded last year. The slowdown witnessed within the brand new vehicle sales market resulting from prevailing high import duties and depreciation in rupee continued to be a visible drawback, in boosting lease financing revenues. In contrast, term-based lending business showed potential recording a prolific growth of 78% YOY, contributing 31% to total interest income. This non-traditional form of lending will play an integral part in broad-basing MI's revenue base going to the future, particularly since related yield rates remained relatively higher than traditional financing product lines.

COMPONENTS OF INTEREST INCOME - 2014



Interest Expense Analysis

In supporting the lending book growth, we maintained continuous flow of funding which increased Interest expense from Rs. 1,868 million to Rs. 2,215 million, reflecting an absolute increase of Rs. 347 million or 19% rise from last financial year. Gradual fall in interest rates on Government Securities and the lowered policy rate corridor brought down overall market rates offered on deposits notably. In this backdrop, depositors continued to invest short term, thus bringing down MI's weighted average cost on deposits notably as at the Reporting Date. Despite this, overall interest cost rose mainly on account of growth in deposit base which was necessary to support planned credit expansion.



Interest expenses on deposits amounted to Rs. 1,477 million and made up 67% of the total interest cost, remaining the largest funding costs, as deposits continued to remain MI's primary source of funding. Interest expenses on borrowings mainly comprised bank borrowings, overdraft expense and debt security cost totaling Rs. 738 million. Treasury division was able to secure optimal funding lines from our long-standing banking partners during this period to bridge funding requirements. Interest cost from issue of commercial paper remained at similar levels like last year and amounted to Rs. 130 million up marginally by 4%. Search for low cost funding will continue to be an important area of focus for management as sector spreads will continue to thin with the rise in competitiveness.

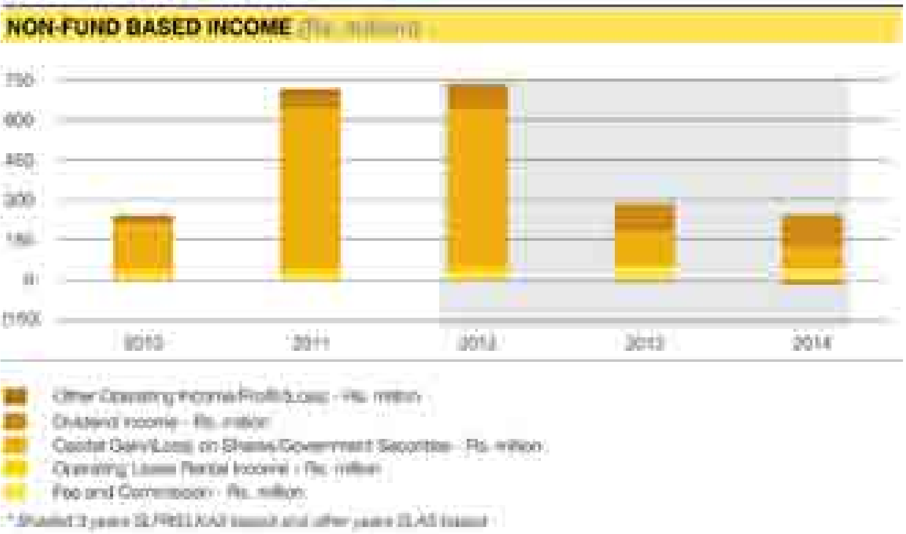
KPI: Non-Fund Based Income (NFBI) Growth

Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
5%>	**(17%)**	(62%)	3%

Performance Against the KPI

NFBI declined to Rs. 234 million by end March 2014, down 17% staying subdued on account of the 35% drop in capital gains realised on share trading. Dividend income was the largest NFBI amounting to Rs. 123 million up 19% while fee and commission income derived from insurance commission income too contributed satisfactorily to NFBI and amounted to Rs. 44 million, marginally down 4% YOY.

The continued lack luster performance of the stock market impacted capital gains derived from share investment portfolio to Rs. 81 million from Rs. 123 million realised last year, thus keeping NFBI contribution subdued, in contrast to the tremendous growth witnessed few years before. Considering MI's significant equity portfolio holding, boosting related returns and eventually NBFI would assist management in growing overall revenue in the foreseeable future.



KPI: Cost to Income Percentage Reduction

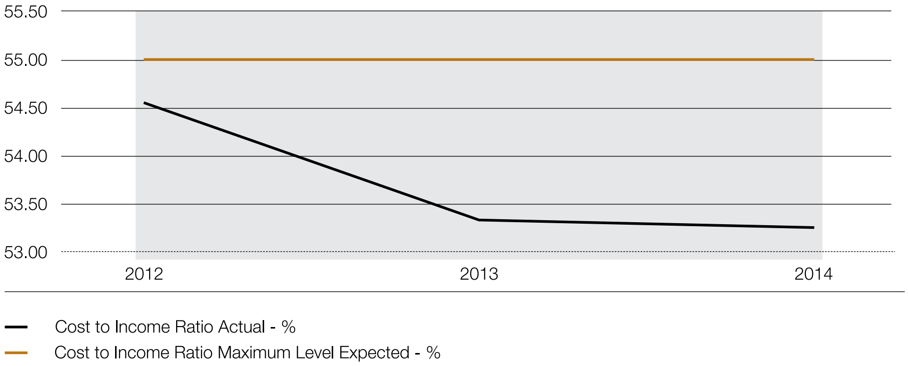
Operating expenses including VAT on financial services as a percentage of total operating income to be maintained below 55% consistently over the medium-term.

	Actual 2013/14	Actual 2012/13	Actual 2011/12
Target <55%	**53%**	53%	55%

Performance Against the KPI

As we pursued for total operating income growth, there was simultaneous focus on bringing down operating expenses which helped management to achieve an acceptable cost to income ratio position for the year. Management exerted control over overhead cost escalation especially monitoring recurring cost and high value cost items. A conservative approach was adopted when deciding on capital investments especially when setting up operations in new locations.

COST TO INCOME RATIO (%)

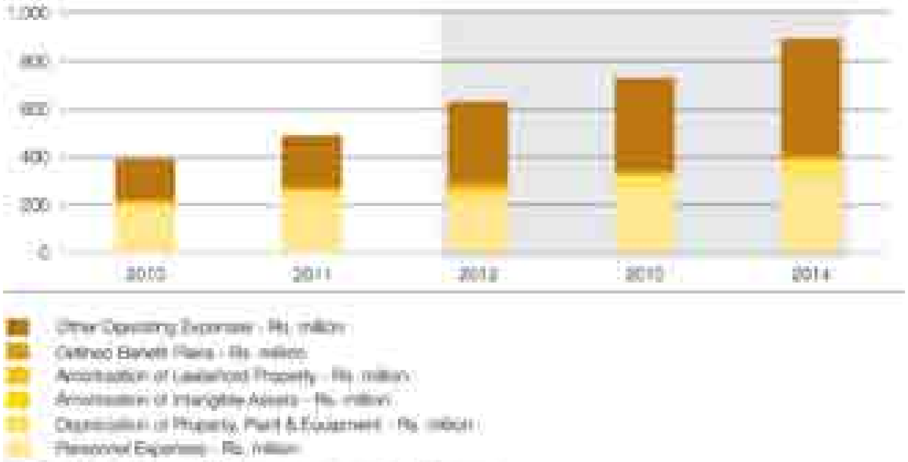


* Shaded 3 years SLFRS/LKAS based

Operating Expense Analysis

Operating expenses escalated by 23% to Rs. 891 million from Rs. 727 million reported last year. Out of this, personnel costs remained the largest cost item, up by 15% due to higher number of recruitments made in the wake of MI's branch expansion and impact of salary revisions carried out early 2013 having full effect this period. Other operating expenses which comprise of all other overhead costs escalated at a relatively higher pace by 27% owing to greater resource requirements and increased usage levels arising on account of widened branch operational activity coupled with general inflationary effects.

COMPOSITION OF OPERATING EXPENSES (Rs. million)



* Shaded 3 years SLFRS/LKAS based and other years SLAS based

KPI: Total Assets Growth

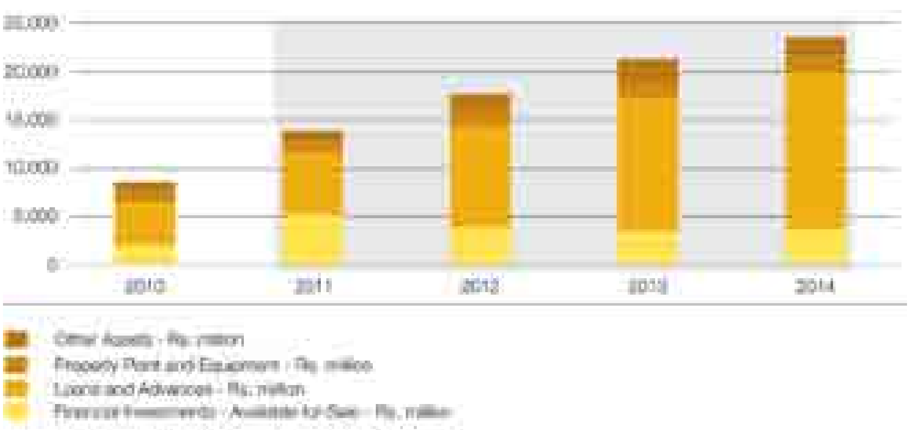
Total assets growth to be sustained over 20% annually, in keeping to strategy set-forth in the medium term corporate plan.

Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
>20%	11%	21%	28%

Performance Against the KPI

Total assets reached Rs. 23,499 million rising by 11%, driven upward by the sound core business momentum sustained right-throughout the year. However, the growth achieved was yet behind anticipated levels mainly due to relative slowdown in credit growth compared to previous periods. Growth witnessed in loans and advances continued to propel asset growth, which accounted for 69% of the total assets. Financial investments - available-for-sale being the second largest asset item accounted for 16% of total assets while Property, Plant & Equipment value rose moderately during this period and accounted for 7% of total assets.

TOTAL ASSETS COMPOSITION (Rs. million)



* Shaded 4 years SLFRS/LKAS based and 2010 SLAS based

KPI: Total Loans and Advance Growth

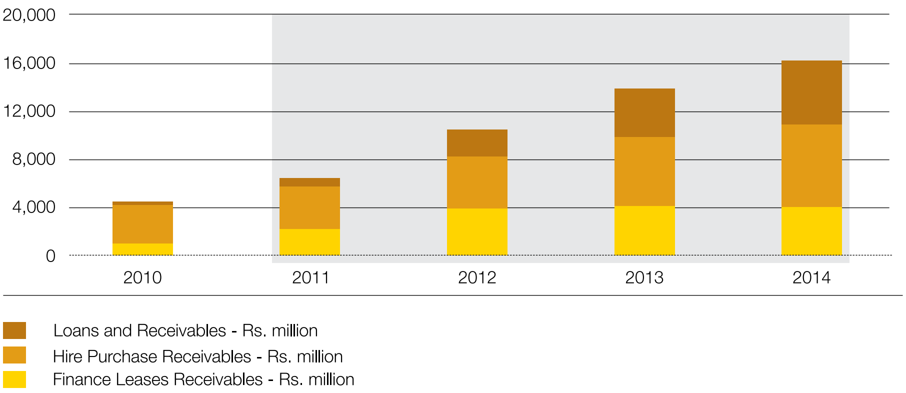
To meet anticipated revenue levels, targeted annual lending growth to be maintained above 15% per annum in the medium-term.

Target	Actual 2013/14	Actual 2012/13	Actual 2011/12
>15%	17%	33%	63%

Performance Against the KPI

Total net loans and advances growth was maintained at 17%, with total lending outstanding advancing from Rs. 13,844 million to Rs. 16,187 million as at the Reporting Date. In the midst of a reviving economy, the depleted vehicle sales market continued to be a notable drawback in aggressively growing our traditional finance related business lines. Nonetheless, we succeeded in maintaining the required growth momentum not only from the Western province but also going beyond to other regions, taking advantage of MI's widened business presence. Persistent demand continued to prevail for financing related credit, especially to finance purchase of second hand vehicles and for acquiring machinery and construction related vehicles. Simultaneously, we optimised our lending product mix, promoting our term based lending product offerings as discussed in our product wise commentary. As we pursue developing our traditional financing product lines, we expect non-traditional lending to play a pivotal role in boosting overall yields and hope to broad base further existing lending mix introducing potential new products, in the years to come.

COMPOSITION OF TOTAL LENDING (Rs. million)



Shaded 4 years SLFRS/LKAS based and 2010 SLAS based

KPI: Non-Performing Lending (NPL) Reduction

Effective management of NPL's to maintain gross NPL ratio below 3.5% (NPL before interest in suspense) keeping to three year forecast, forming part of the strategic plan.

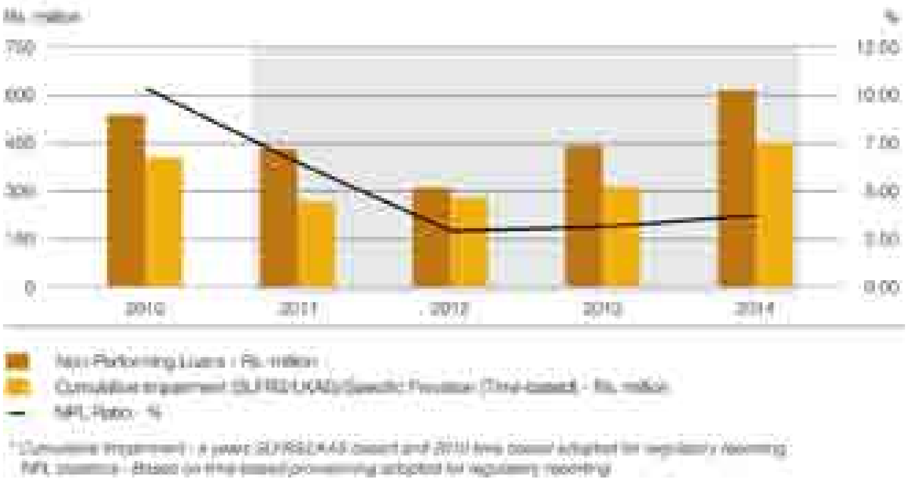
Target	**Actual 2013/14**	Actual 2012/13	Actual 2011/12
3.5%	**3.69%**	3.10%	2.87%

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

Performance Against the KPI

In the backdrop of notable volatility in macro-economic business conditions and continued deterioration in credit worthiness of borrowers, Recovery division maintained satisfactory average collection levels, which helped minimise rise in NPL levels. By adopting a stringent recovery process that included a thorough monitoring system for all accounts moving into arrears, the division maintained healthy average collection levels throughout the year. A target driven platform was adopted for all recovery officers, linking their performance to a biannual rewarding system. The division initiated various recovery actions ranging from prompt arrears reminders to swift repossession of assets depending on circumstances. At the same time, legal division's assistance was obtained to initiate swift action against long overdue problematic accounts to recover dues. In going forward, management will continue to emphasis on the importance of asset quality, upholding strict credit review procedures prior to disbursement and an effective recovery process that will ensure NPL levels do not exceed concerning levels.

TOTAL NON-PERFORMING LOAN STATUS AND IMPAIRMENT



Impairment Charge on Loans and Receivables

In computing the impairment charge/(Reversal) on lending book, both individual and collective impairment charge/(Reversal) to Income Statement was separately worked out in accordance with SLFRS/LKAS requirements, the breakdown of which is given below:

	FY 2013/14 Rs. '000	FY 2012/13 Rs. '000	Growth Rs. '000	Basis of Computation
Individual Impairment	**258,271**	7,047	251,224	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 management.
Collective Impairment	**(122,020)**	25,230	(147,250)	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 asset kept as security and then further evaluated on their associated risk variables. In arriving at the collective impairment provision, we reverted to historical loss experience of these buckets expressed in terms of Loss Given Default (LGD) and Probability of Default (PD).
Write-off	**24,194**	32,041	(7,847)	
Total Impairment Charge	**160,445**	64,318	96,127	

Total impairment charge showed a notable increase of 149% YOY, owing to higher number of individual accounts being subject to impairment and due to the overall credit repayment deterioration impacting the individual basis impairment values.

ANALYSIS OF IMPAIRMENT CHARGE/(REVERSAL) TO INCOME STATEMENT (Rs. million)

* Shaded 2 years SLFRS/LKAS impairment based and other years on SLAS time based specific provisioning

The profitability impact of moving to an impairment based provisioning method as per SLFRS/LKAS methodology, as opposed to time based provisioning policy adopted for regulatory reporting reflected a net Rs. 40 million increase in provisioning requirement for the year under review as indicated below:

	FY 2013/14 Rs. '000	FY 2012/13 Rs. '000	Impact Growth/ (Decline) Rs. '000
Total Impairment charge/(reversal) as per SLFRS/LKAS	**160,445**	64,318	96,127
Total loan loss provision as per SLAS time based approach - Charge/(reversal)	**120,560**	(25,584)	146,144
Impact to current year profitability resulting from shift in policy - [Negative impact/ (positive impact)]	**39,885**	89,902	(50,017)

Impairment Provision Cover

	2013/14 Rs. million	2012/13 Rs. million	2011/12 Rs. million
Total cumulative impairment	**448**	312	279
Non-performing loans and advances (Net of Interest in suspense before B&D) as per SLAS	**613**	440	308
Cumulative Impairment Provision as a % of Non-performing lending	**73%**	71%	91%

In keeping to IFRS impairment requirements, all necessitated provisions were made on account of identified 'bad credit accounts' and a satisfactory provisioning cover of 73% (2012/13 - 71%) maintained as at the Reporting Date.

KPI: Optimal Management of Financial Investments - Available-For-Sale Portfolio

Managing effectively Financial Investments - Available-for-Sale to derive higher levels of capital gains while in tandem maintaining portfolios within regulatory levels:

a. Trading optimally to derive maximum capital gains

Realised Capital Gains from Equity Portfolio

	Actual 2013/14	Actual 2012/13	Actual 2011/12
Target > Rs. 150 million	**Rs. 81 million**	Rs. 123 million	Rs. 591 million

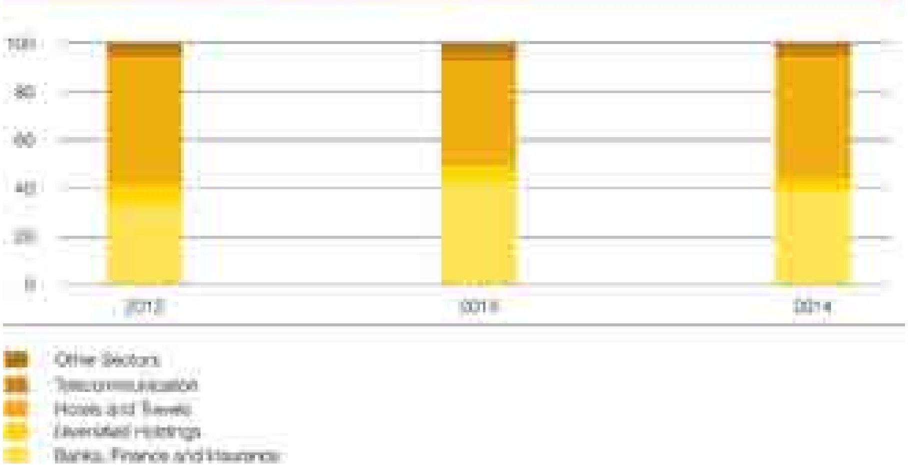
b. Managing the share portfolio at regulatory maximum levels, disposing excess investments when share prices reach expected prices.

Performance Against the KPI

From the Financial Investments - Available-for-Sale portfolio, equity based Investments being the largest component amounted to Rs. 2,892 million as at 31 March 2014, moving marginally down 3% mainly on account of share price movements. In contrast, debt securities which comprise mainly government debt securities totalled Rs. 820 million up notably by 68% from last Reporting Date.

Rise in share prices continued to be slow-paced, not reaching expected levels for management to realise anticipated capital gains and also to pursue disposing excess part of the portfolio. Hence, the sector wise composition of MI's share portfolio did not indicate any major shifts between sectors within this one year with major percentage of shares held coming under the hotels, banking and finance and insurance sectors.

SECTORWISE EQUITY BASED INVESTMENT PORTFOLIO MIX (LAST 3 YEARS BASED ON MARKET VALUE) (%)



KPI: Growth in Deposits

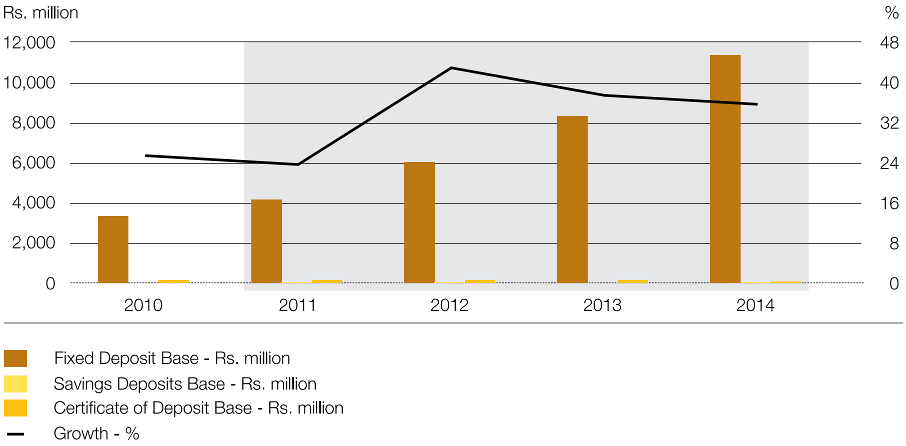
Targeted total deposit base growth to be maintained above 30% based on a three year moving average.

	Actual 2013/14	Actual 2012/13	Actual 2011/12
Target >30%	**36%**	37%	43%

Performance Against the KPI

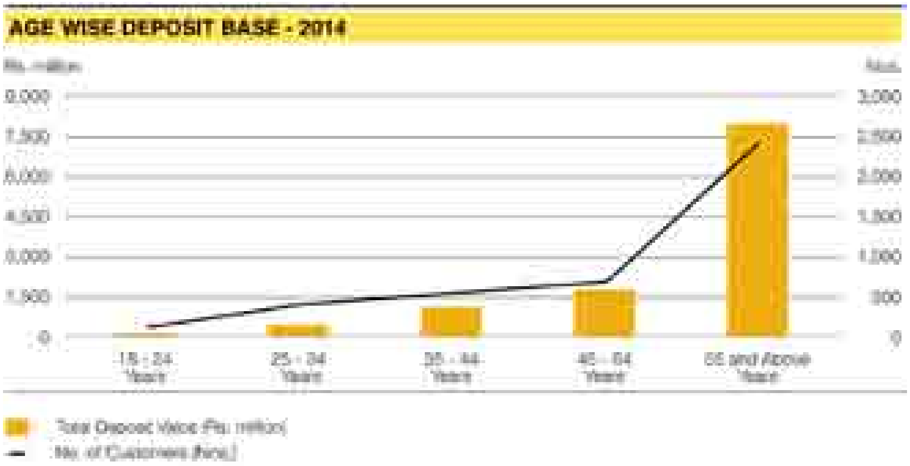
Through the efforts of the Deposit division and support expended by the branches, deposit growth was satisfactorily maintained at 36% despite having to compete in a highly competitive sector. MI's total deposits outstanding as a result grew to Rs. 11,418 million from Rs. 8,425 million, up by Rs. 2,993 million as at 31 March 2014. As explained in our product wise commentary, fixed deposits remained the key product in MI's deposit mix, while savings deposits and CD's contribution to total deposit base remained marginal.

DEPOSIT MIX



** Shaded 4 years SLFRS/LKAS based and 2010 SLAS based*

In broad-basing the deposit base, we continued to build business around MI's sound reputation and financial strength. We promoted business across our branch network to forge ahead and attract new customers and penetrate into other segments of society. As a fresh initiative this period, we targeted promoting to the professional segment that included doctors, lawyers etc. while building overall deposit business around both corporate segment and individuals of all ages, with emphasis on the youth.



To bring down liquidity risk, in keeping to Integrated Risk Management Committee recommendations, we pursued on garnering longer term deposits as opposed to higher short-term deposits obtained in the past. However, as at the Reporting Date significant component of the deposit base yet comprised of less than 1 year deposit placing. Going into the future, once the interest rates start rising again, management would be able to secure higher levels of long-term deposits much effectively.

KPI: Maintaining Equilibrium between Borrowings and Equity

Maintaining an acceptable balance between Borrowings and Equity, without being overly dependent towards any one form of funding.

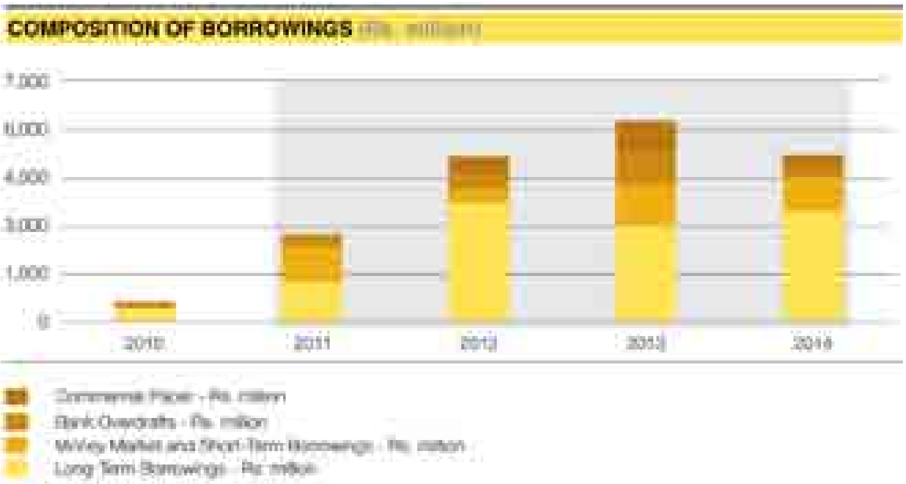
Target	**Actual 2013/14**	Actual 2012/13	Actual 2011/12
<100%	**83%**	109%	94%

Performance Against the KPI

Borrowings to equity ratio stood at 83% within specified target percentage, declining from 109% reported last period. Treasury division was able to secure attractive funding lines from MI's long-standing banking partners to meet both temporary bridging finance and also to manage long-term liquidity requirements. In terms of equity growth, annual profits generated remained the key source of capital increase this period, with no fresh capital inflow.

Analysis of Borrowings

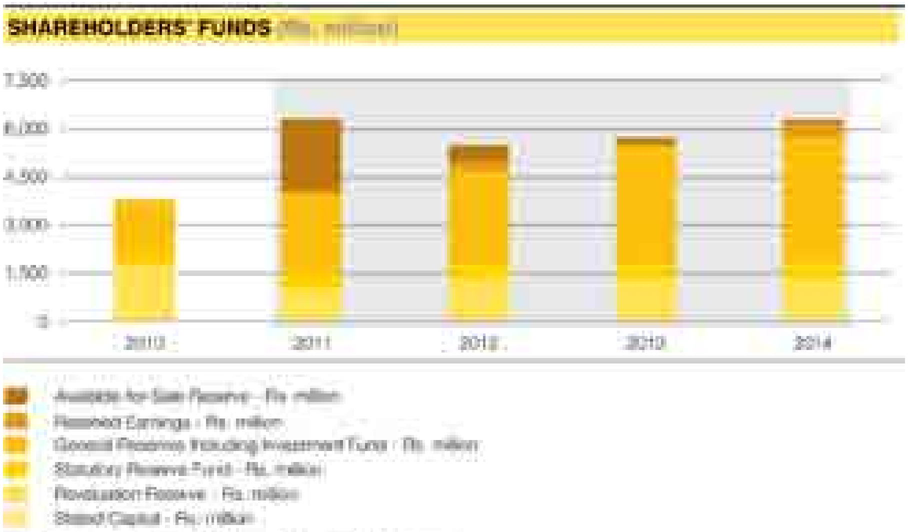
Total borrowings as at the Reporting Date stood at Rs. 5,196 million declining by 17% compared to a 21% increase recorded last year. Longer-term borrowings were the key source of borrowing amounting to Rs. 3,446 million up 15% while in contrast Money Market and other short term borrowings, overdrafts and Commercial Paper in total decreased by 46% to Rs. 1,750 million, bringing down total borrowings considerably.



* Shaded 4 years SLFRS/LKAS based and 2010 SLAS based

Equity Position

Total equity (shareholders' funds) rose from Rs. 5,706 million to Rs. 6,266 million by end March 2014 reflecting a YOY growth of 10%. MI's stalwart entrepreneurial skills continued to contribute invaluably to MI's profound earnings capacity, which has been an instrumental factor in MI possessing this superior capital structure. Significant component of internally generated profits was retained again within the Company which contributed to the equity growth. From a futuristic perspective, having this strong capital base enables management to pursue planned growth related strategies with adequate flexibility.



* Shaded 4 years SLFRS/LKAS based and 2010 SLAS based

Dividend Distribution

Keeping to MI's policy of retaining significant component of internally generated profits for future, the dividends paid totalled Rs. 30 million for FY 2013/14 compared to Rs. 83 million paid last period indicating a 64 % decrease year-on-year. The Board maintained a balanced dividend payout recognising the need to retain profits for future development plans of the Company whilst affording a sound cash dividend to investors.

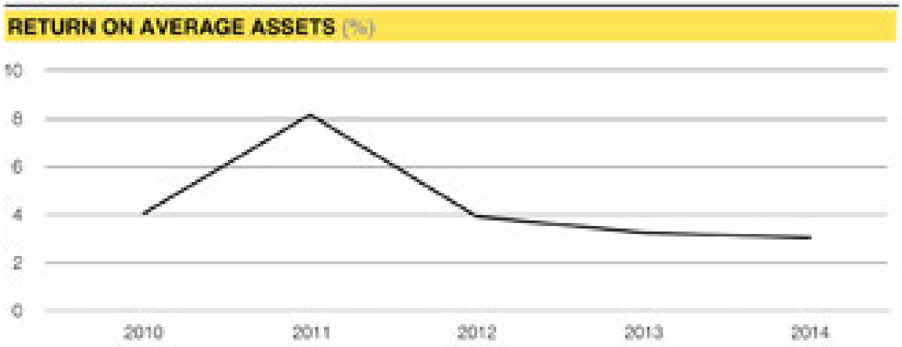
OTHER KEY KPI'S

KPI: Return on Average Assets (ROA)

Target	**Actual 2013/14**	Actual 2012/13	Actual 2011/12
>1% minimum industry norm	**3.02%**	3.25%	3.89%

Performance Against the KPI

ROA of the Company stood at 3.02%, above the minimum 1% standard norm, however marginally down from 3.25% recorded last year. Management's constant emphasis in boosting core business profitability from MI's broadened branch network has given the needed impetus for ROA to be sustained at these levels despite witnessing over 10% average asset growth for past three years.



KPI: Earnings Per Share (EPS)

Target	**Actual 2013/14**	Actual 2012/13	Actual 2011/12
>Rs. 250.00 per share	**Rs. 224.67 per share**	Rs. 209.84 per share	Rs. 202.96 per share

Performance Against the KPI

Basic EPS rose as a result of increased earnings, up by 7% compared to a 3% increase reported last year. Management is hopeful of meeting optimistic aspirations on a much higher EPS based on planned strategy and projected forecast in future.

KPI: Improving Workforce Productivity

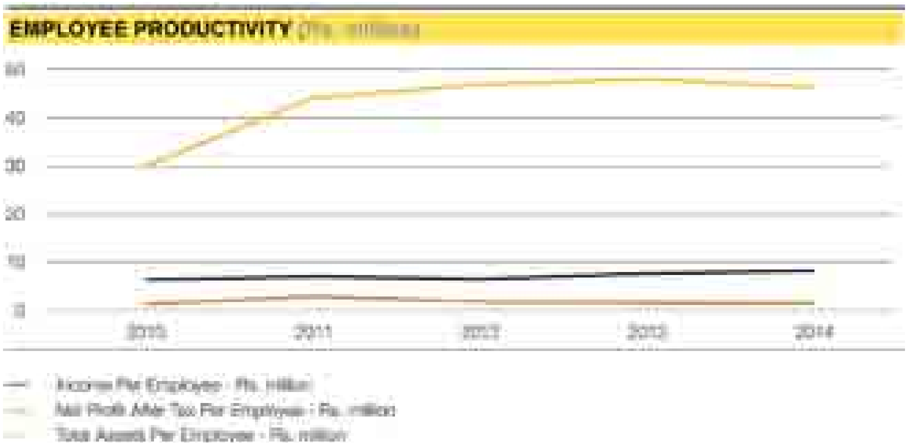
Employee Productivity

	2010 Rs. million	2011 Rs. million	2012 Rs. million	2013 Rs. million	**2014** **Rs. million**
Income per Employee	6.3	7.1	6.4	7.6	**8.1**
Net Profit After Tax per Employee	1.2	2.9	1.6	1.4	**1.3**
Total Assets per Employee	30	44	47	48	**46**
No. of Employees	286	313	377	443	**508**

Performance Against the KPI

(a) Workforce Productivity

To keep abreast of growing sector competitiveness, we placed high importance in enhancing workforce productivity levels. We concentrated on developing skills of individuals, for them to handle tasks diligently and to efficiently accomplish their targets set. As a positive outcome from these efforts, income per employee rose positively from 7.6 million per employee to Rs. 8.1 million per employee by March 2014. However, relatively subdued earnings growth recorded this period as against the rise in staff cadre brought the after tax per employee down to Rs. 1.3 million from Rs. 1.4 million recorded at the last Reporting Date.

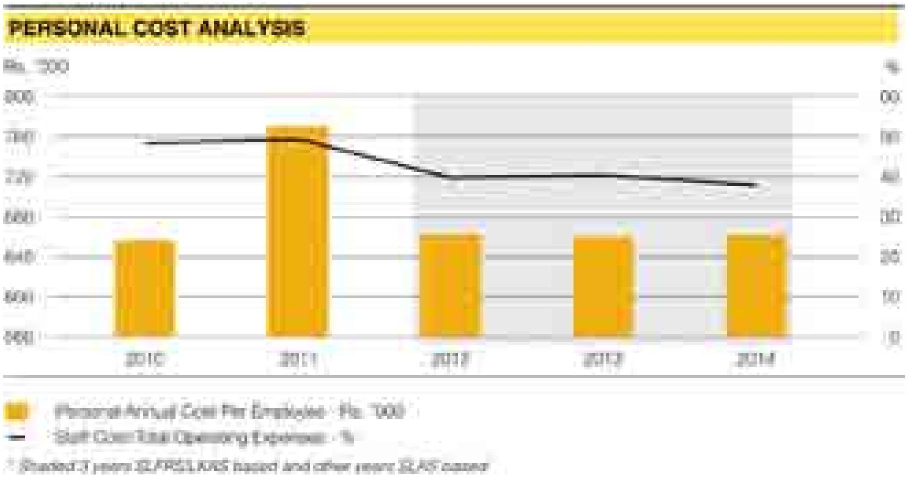


(b) Workforce Strength

The total cadre rose from 443 to 508 in this period, indicating an increase of 15 % mainly effected to assist the expanded branch network particularly to boost core business divisions' marketing and back-end operations and to manage the increasing work levels on account of the rise in business volumes.

(c) Cost of Operating the Workforce

Total personnel cost in absolute value, increased to Rs. 315 million from Rs. 273 million recorded in 2012/13 mainly due to growing staffing levels and the full effect of the annual increments carried out last year coming into effect this period. There was no noticeable deviation in the personnel annual cost per employee which stood at Rs. 0.661 million in 2013/14 compared to Rs. 0.659 million recorded during the previous period.



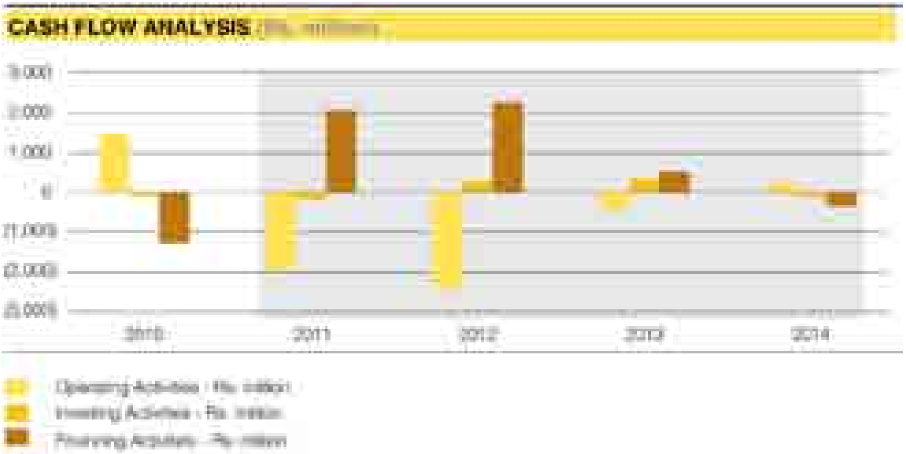
Analysis of Cash Flow Position

Cash Flow from Operating Activities

Net movement of MI's operating cash flows showed variance from a negative of Rs. 437 million in 2013 to a positive of Rs. 251 million in 2014. Inflow of cash from operating activities arose mainly from net increase in funds received on deposits and other receivables. Operating cash outflows on the other hand mainly resulted from funds advanced to customers, interest payments, personnel costs and other overheads.

Cash Flow from Investing Activities

MI's cash flow from investing activities reflected an outflow this period amounting to Rs. 116 million compared to an inflow of Rs. 328 million recorded in 2013. Dividends received, proceeds from sale of non-dealing securities and proceeds from sale of property, plant & equipment were the main inflows while purchase of property, plant & equipment together with purchase of non-dealing securities resulted in the net outflow.



* Shaded 4 years SLFRS/LKAS based and 2010 SLAS based

Cash Flow from Financing Activities

Cash flow from financing activities showed a net cash outflow totalling to Rs. 345 million as at 31 March 2014 compared to a net positive of Rs. 511 million recorded in 2013. The gradual repayment of borrowings was relatively higher than funds obtained on borrowings for the period, which caused this net cash outflow.

KPI: Enhancing Market Presence and Economic Impact

Market share in terms of total turnover to exceed 5% within the medium-term.

Target	**Actual December 2013**	Actual December 2012	Actual December 2011
>5%	**2.97%**	3.20%	2.80%

** Based on CBSL Annual Report statistics*

Performance Against the KPI

(a) Market Share Growth

MI's market share in terms of total turnover in the LFC and SLC sector stood at 2.97% by December 2013 however behind expectations of over 5%. In terms of total assets as the sector grew by 20% from Rs. 596.6 billion to Rs. 717.6 billion in 2013, MI too recorded steady business growth thus maintaining over 3% market share in terms of total assets of the sector.

(b) Analysis of Value Addition to Economy

MI's contribution in terms of value addition to the economy totalled to Rs. 1,155 million from Rs. 930 million up by 24% from previous year. In fulfilling future growth expectations, 46% of this year's total value addition was retained within the Company and remainder was distributed. A distribution of 29% was made as salaries to employees and 22% by way of taxes to the Government. Value addition for last five years is given in the Value Added Statement appearing on page 331.

(c) Impact in terms of Economic Value Addition (EVA)

MI's EVA stood positive at Rs. 81 million from a negative of Rs. 235 million recorded last year on account of relatively better earnings compared to average market Treasury Bill rate returns. (Page 330 provides three year information on MI's EVA). This position is bound to improve with expected growth in business that should have a positive effect on turnover, asset values and capital size. MI remains an institution of systematic importance with a total asset base of over Rs. 20 billion, to the sector and the overall economy.

KPI: Compliance to Statutory Ratios

Maintaining the Statutory liquidity ratio and Capital Adequacy Ratios well above the minimum levels stipulated by the Regulator.

Performance Against the KPI

(a) Liquidity Ratio

Finance department monitored daily the liquidity position of the Company including maintaining compliance to minimum statutory liquidity position. The statutory liquid assets ratio and minimum approved securities requirement were accordingly carried well above the minimum requirements specified by the Regulator for the financial year ended 2013/14 as shown below:

	CBSL Minimum Requirement as at 31 March 2014	**Actual 31 March 2014**	CBSL Minimum Requirement as at 31 March 2013	Actual 31 March 2013
Total Liquid Assets (Rs. '000)	**1,164,286**	**1,455,405**	812,234	1,389,107
Statutory Liquid Assets Ratio (%)	**10%**	**12.78%**	10%	17.11%
Minimum Approved Securities (Rs. '000)	**572,903**	**628,203**	383,638	404,918

The total unutilised credit lines available stood at Rs. 672 million as at 31 March 2014 and was higher than what was available on 31 March 2013 of Rs. 422 million. Treasury division was able to secure additional funding lines and pursue fresh sources of borrowing that included securitisation to meet liquidity requirements during this period. Periodic statutory liquid assets position reports were submitted to the Regulator on due dates.

(b) Capital Adequacy Ratios

MI's capital adequacy position remained exceptionally well above minimum limits right throughout the year and as at the Reporting Date. The continued growth in accumulated retained earnings due to consistent profitability levels being posted annually has enabled MI to possess a strong capital position. As at the Reporting Date, MI's statutory Capital Adequacy Ratios stood two-folds over the required level as shown below:

	CBSL Minimum Requirement as at 31 March 2014*	**Actual 31 March 2014***	CBSL Minimum Requirement as at 31 March 2013**	Actual 31 March 2013**
Total Tier I Capital (Rs. '000)	**1,083,988**	**4,573,915**	985,273	4,104,006
Total Capital Base (Rs. '000)	**2,167,975**	**4,883,729**	1,970,547	4,413,820
Core Capital Ratio (%)	**5**	**21.10**	5	20.83
Total Risk Weighted Capital Ratio (%)	**10**	**22.53**	10	22.40

** Based on statutory basis reporting*

*** Based on SLFRS/LKAS basis balances*

Detailed computation of the Capital Adequacy Ratios (CAR) is disclosed on Pages 327 to 329 in the Notes to the Financial Statements. Possession of total shareholder's funds in excess of Rs. 6 billion affords MI enough flexibility to pursue planned expansion drive and to target high growth targets in the loan book without having to look for additional inflow of capital. Having a sound capital position signifies MI's financial strength and stability and would continue to propel business, especially to attract depositors in the current competitive environment.

FUTURE OUTLOOK

Future Outlook of the Sri Lankan Economy

We can expect the Sri Lankan economy to remain buoyant, considering steady economic development taking place in all sectors. Medium term GDP growth projected to hover around 7% should remain achievable assuming no significant events alter current progress. However, managing key economic variables such as inflation, exchange rates and interest rates will continue to play a pivotal role in maintaining these growth levels. The ongoing development activity at national level, planned business ventures and reviving tourism industry should continue to fuel the economic progress, in the foreseeable future.

Despite the unfolding positives, striving towards broader economic goals and uplifting quality of living of society will remain a challenge with the prevailing poverty gap. Nonetheless, capitalising on unfolding opportunities post war, we could expect the business community and the public sector together to make a significant difference to the economy. In this backdrop, keeping strong ties with dominant economies in the Asian Region and other international partners should set the tone for local businesses growth and better influx of FDI's to sustain anticipated economic progress.

Business community will need to look beyond throes of traditional business lines and should capitalise on post war development, going beyond their comfort zones. Having set the right macro-economic environment including low interest rate regime we can expect the economy to progress in a more accelerated fashion, in the years to come. Tourism sector should witness profound growth once global economies see full recovery. This is bound to ignite other industries including the financial services sector. Moreover, country's gradual shift in focus from agriculture based export earnings to more industry based exports too should provide the right platform for a speedier achievement of broader national goals including USD 100 billion economy and USD 4,000 per capita income target.

Future Outlook of the LFC Sector

We can expect favourable business conditions to continue over the foreseeable future creating a broad spectrum of opportunities for the financial services sector. Nevertheless, to remain competitive, finance companies will need to look beyond traditional product range and will have to be innovative if they are to maintain over 20% growth on average, in their spheres of business. In the short term, the proposed financial sector consolidation process should make the sector more resilient to local and global shocks. We could expect remaining LFC's financial size and strength to expand after post-consolidation which should boost public sentiments of Finance Companies further. Post synergy effects including strengthened capital positions and pooling of human resources should facilitate post-merged institutions to seek new opportunities.

We could expect demand for traditional finance based lending to remain steady with most sectors beating past achievements. With corporate sector including the construction industry getting into top gear, we can expect demand levels for financing vehicle purchase and machinery requirements to rise rapidly than before. Moreover, we can expect non-traditional term based lending also prospering to new heights and remain integral to the product mix of LFC's. Going forward, personal lending, property mortgage lending and micro-finance also will remain lucrative business avenues for the sector.

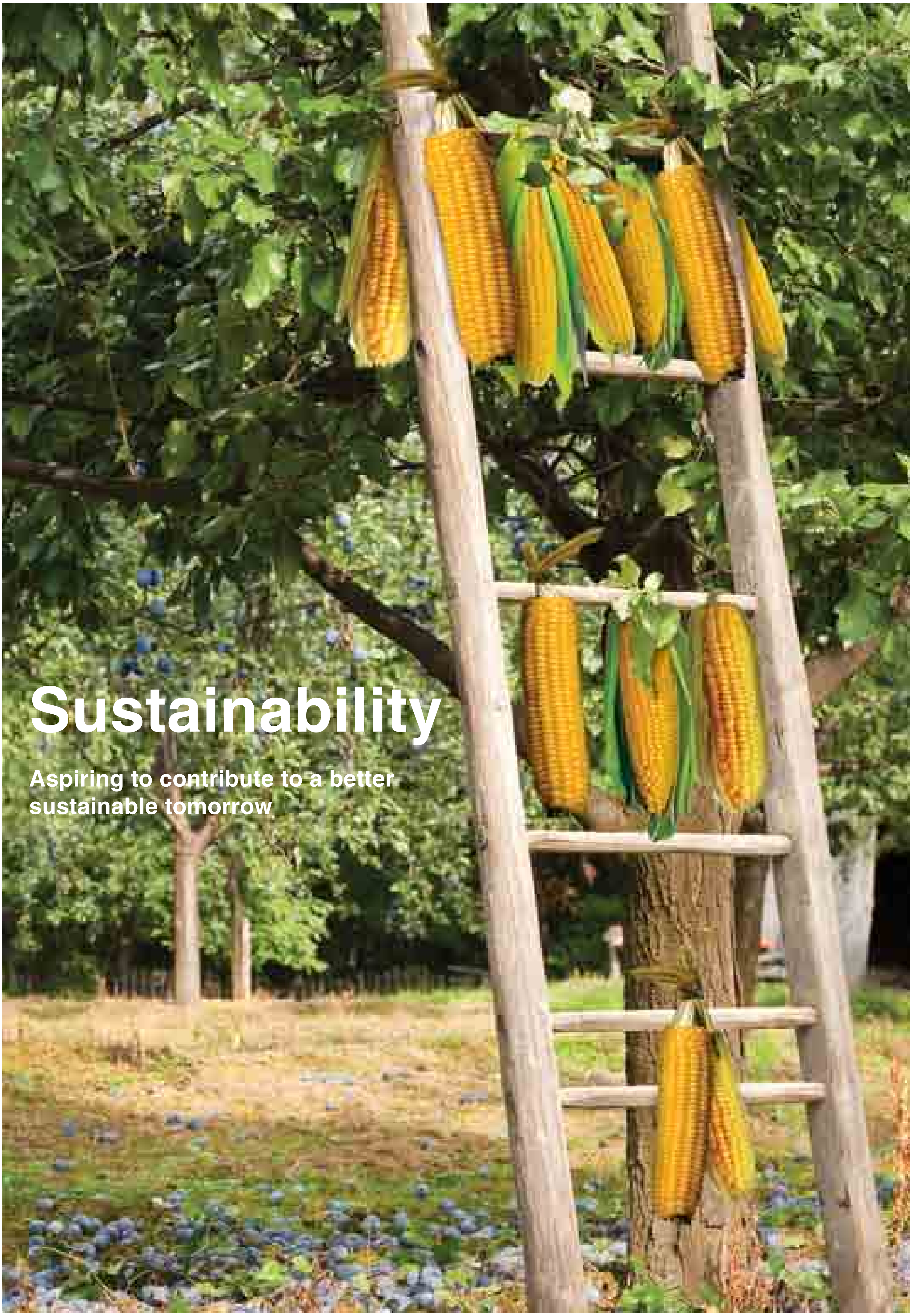
With the imminent consolidation of the financial sector, we could expect LFC's to operate with lowered core business spreads. Hence deposit mobilisation will be a tough prospect for most if competitiveness in pricing is not maintained. However, term based deposits should remain the attractive choice for investors in the foreseeable future considering the subdued nature of the property sector and highly volatile share market. To sustain healthy margins in the future, we can witness LFC's intensifying their pursuit of low cost funding options especially optimising through both domestic and foreign funding lines as institutions grow in size and competitiveness.

Our Strategy Going into the Future

From a long-term perspective, MI stands well geared to optimise on emerging opportunities and hopes to devise the next three years new corporate plan to be effective from 1 April 2015. Banking on the successful business model that we uphold, we hope to keep abreast of our plans and move briskly towards meeting organisational aspirations stated in our vision, mission, value system and measurable objectives. We expect to sustain the current healthy performance driven culture moving to the future, hoping to immediately strive to accomplish most of the targets set for the financial year 2014/15. We hope to closely monitor departmental level and individual officer level performance/sub targets for the attainment of overall goals. While acknowledging optimism on future for the economy and the Company, we plan to set-forth a tough forecast for the next three years, hoping to improve on the revenue and profit targets achieved thus far.

In the medium term, we would strive to accomplish most of the key goals set-forth whilst capitalising on the tremendous progress made thus far in focused areas of business. MI's future strategy would revolve around following key facets, in keeping to what was mentioned by MD in his review.

Key Business Area	Goals in the Medium-Term	Quantifiable Targets Arising from Goals/Sub-Targets	Future Strategy
Lending Business	● Lending volume growth ● Sustaining credit quality ● Raising customer base by enhancing satisfaction levels ● Broad-basing product mix	● Maintaining lending growth above 15% per annum ● Keeping Non-performing lending ratio below 3.5% annually	**Strengthening Presence Beyond the Western Province** We expect our branch network to bring over 60% share of new lending business. We hope to establish more branches beyond the Western Province in the next few years while building awareness in newly set up locations. **Adding New Products and Services to Existing Lending Mix** We hope to improve our offerings and will strive to innovate and bring new ideas to existing product range. We expect to at least add two new business lines to the current product mix, within next two years. **Maintaining Strong Credit Quality Review and Recovery Practices** We plan to utilise the services of MI's Internal Valuation Unit to full effect in the future. To improve credit review process, we hope to implement an internal rating module within the next financial year.
Deposit Business	● Broad basing depositor base ● Intensifying deposit mobilisation at branch level	● Maintaining Deposit growth above 30% per annum ● Striving for above 25% of new deposits to come from branches	**Decentralised Deposit Operation** We target to ease lead times when processing deposits at branches, hoping to further decentralise and afford greater autonomy. **Enhancing Service Quality** Adding-on new value added features to existing services, hoping to uplift service quality. Provision of future ATM facilities, broad-basing deposit mix and enhancing customer convenience right across the network looking into basic needs such as parking, access, extended service hours etc.
Human Resource Management	● Grooming employees to handle future complexities and work levels	● Maintain motivation levels and keep annual staff ● Turnover below 10%	**Managing Employees Effectively to Boost Productivity Levels** We hope to decelerate the recruitment process in the next few years and hope to set aside higher amount of resources for nurturing staff capabilities, targeting a continuous knowledge accretion culture.
Treasury Management	● Pursue low cost funding options	● Strive to keep NIM above 8%	**Broadening Funding Horizons** To strike deals locally as well as internationally to secure optimal funding lines that are cost effective and long-term in nature.
Cost Management	● Eliminate wastage and duplication of work processes	● Keeping a hold on overhead cost escalation within forecast levels.	**Promoting a Cost conscious culture** Initiating measures to keep hold on rising overhead costs; ● Performance of cost centers to be evaluated based on pre-defined recurring cost elements. ● Pursuing cost effective methods of doing business. Eg; Use of solar power in the future. ● Having tight control over capital expenditure monitoring CAPEX budget closely.
Information Communication Technology	● Making best use of advancement in technology to manage operations and improve service standards	● Enhanced MIS for decision-making. MIS to improve credit reviews, Risk assessments and financial reporting.	**Continuous application of advancement in ICT** In house ICT experts will be expected to keep abreast of ICT advancement and continue to supply timely management information to make quality decisions. Towards this endeavour, we expect to migrate to latest software versions and state-of-the-art technology as and when they are released to the market.



Sustainability

Aspiring to contribute to a better sustainable tomorrow

SUSTAINABILITY SECTION

MANAGING DIRECTOR'S MESSAGE

"The financial services sector should maintain a smooth pathway for financial assistance to pass down to even low income earners and small scale entrepreneurs, particularly those living in underdeveloped areas so that development could accrue to all corners of the nation."

DEVELOPING A SUSTAINABLE NATION

With the advent of peace and the ongoing revival of economic activity, our nation has progressed steadily in economic development, reaching new heights not thought-of probably a decade ago. During this post-war time period, Government as well as the business community has embarked on numerous programmes to lift the overall economy, thus uplifting living standards of people to a certain degree. Policy changes and a thought out development strategy have given the needed impetus to revive economic activity again to desired levels. In tandem nation has made progress in meeting some of the equally important societal requisites such as education, health, poverty alleviation and sanitation. Capitalising on the better economic footing that prevailed thus far, the business community has made a difference making bold business development plans and striving to capitalise on emerging opportunities. I believe efforts of both the Government and the business community taken together is bound to enrich society with time, thus clawing slowly but steadily towards building a more sustainable nation in the longer time horizon.

BUSINESS COMMUNITY'S CONTRIBUTION TOWARDS SUSTAINABILITY

Role played by the business community has widened especially in the recent decade with greater interest shown to strive towards developing a sustainable nation rather than merely concentrating on the commercial element. The time is ripe as responsible corporates to display renewed commitment towards the environment we live in and towards betterment of society while we pursue business excellence. Using the expanded reach that most corporates now have, we must stay committed in fulfilling various needs of society, offering various business solutions to local community that were probably not afforded to them earlier or accessible a few years ago.

The financial services sector should maintain a smooth pathway for financial assistance to pass down to even low income earners and small scale entrepreneurs, particularly those living in underdeveloped areas so that development could accrue to all corners of the nation. The sector should also identify needs beyond provision of financial services and assist more in affording healthcare, education, shelter, sanitation etc. for the poor and less privileged. Despite the business community stepping forward to initiate socially viable propositions, more needs to be done, especially to safeguard the environment, to secure natural resources and adopt practices to protect the atmosphere.

MI'S ROLE IN CREATING TRIPLE BOTTOM LINE VALUE

At Mercantile Investments, we adopt an effective business model that strives for required triple bottom line value. The resultant sustainable contributions effected by the Company for 2013/14 have been disclosed in this sustainability report prepared based on the Global Reporting Initiative (GRI G3.1) reporting framework. MI's sustainability value creation process strives to create economic, social and environmental value to our key stakeholders and is a component of our overall business model. This involves identification of sustainability objectives in keeping to our vision and then strategising to meet these expectations. Towards this endeavour, we remain committed in our quest in affording a range of financial services to a wide spectrum of customers from all segments of society. The positive economic environment that now prevails provides us with an excellent opportunity to expand our operations to new frontiers. We hope to extend our business presence in the medium term going beyond the 22 locations we are present now.

I can proudly announce that while we continued to display dominance in our field of finance business, we contributed satisfactorily towards social value, initiating CSR campaigns targeting the poor and underprivileged segments of society.
Our commitment to the environment too remained strong as we continued to embrace environmental friendly practices especially to cut down on use of resources such as energy and water.

PURSUING SUSTAINABILITY MEDIUM-TERM AND BEYOND

MI has always been receptive to the needs of the market and has devised strategy based on predictions for the future. We identify prevailing trends in the market and changes in societal habits and wants so that we could be better equipped to face the future. As the nation moves on to a higher per capita income bracket and a middle income status, MI would do its share in contributing to the economic development through concise planning and strategy. We plan on broad-basing the existing network to afford greater accessibility for people who are mostly in need of our financial solutions, those staying even in remote parts of the nation. In keeping to the industry dynamics, we hope to review our product range and afford as innovative solutions as possible to bring forth wider choice of financial solutions to people in the next few years.

The Company will continue to embrace its integrated business model to enhance triple bottom line value, keeping constant tabs on company-wide policies and practices that uphold sustainable values. In conclusion, I wish to stress the importance of the human element, the MI team, who will remain invaluable in meeting growing stakeholder expectations for a sustainable tomorrow.

Gerard G. Ondaatjie
Managing Director

23 May 2014

SUSTAINABILITY REPORTING

This is the fourth consecutive year that the Global Reporting Initiative (GRI) framework has been followed, to better enunciate MI's contribution and performance in terms of sustainability. The report prepared in accordance with sustainability reporting guidelines version G3.1 issued by GRI provides a year on year review of the Company's contribution towards creating economic, social and environmental value. We have collated information from various sources, financial and non-financial, for the presentation of this section. Wherever applicable, financial information has been extracted from the Company's Audited Financial Statements and Notes thereto. Other financial information has been compiled by obtaining information from source documents available within related departments of the Company. For reporting purposes, training hours have been compiled by the Human Resource Division while data relating to energy and water usage has been provided by the Engineering Division.

REPORT PARAMETERS

In preparing our report, we followed the GRI framework's reporting principles and guidance, and related technical protocols that involve dimensions of report content, report quality and boundary setting. In presenting the sustainability section, we kept to the frameworks fundamental structure of providing standard disclosure making due reference to applicable indicator protocols. We therefore have elaborated on areas of strategy and profile, governance and management approach and gone on to provide performance indicators as necessary to illustrate MI's economic, social and environmental performance during this financial period.

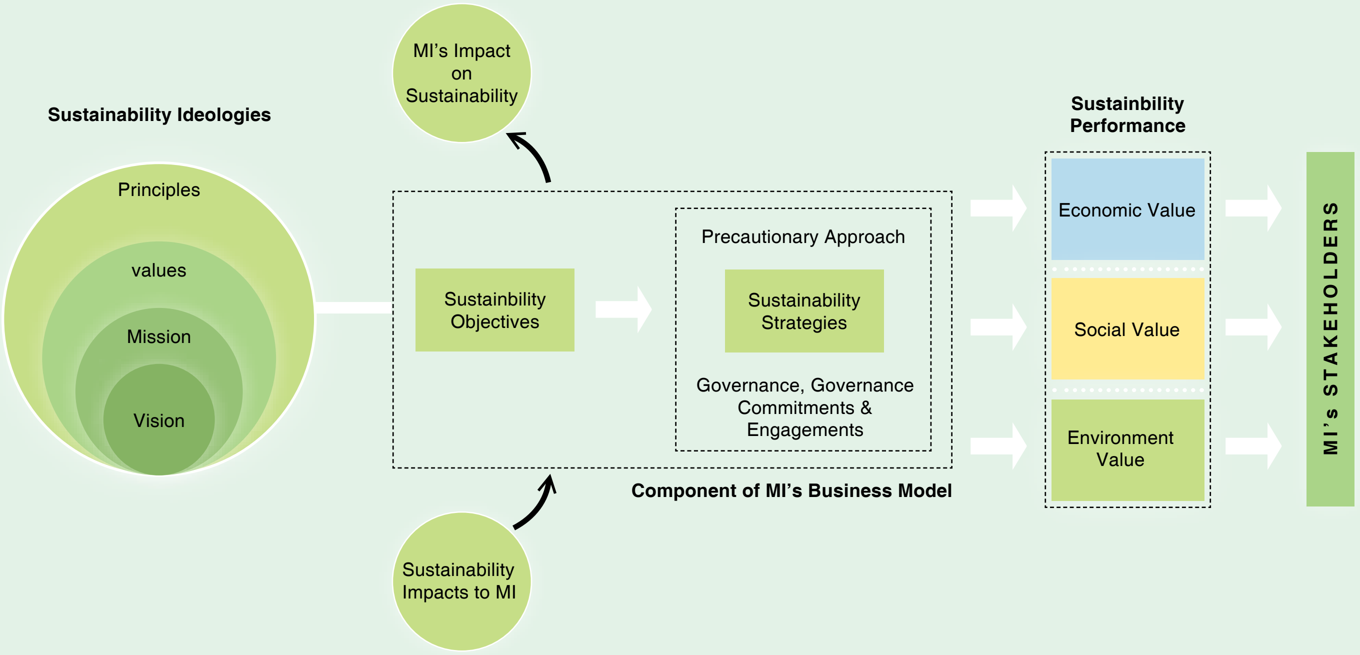
Assurance Report on Sustainability Supplement

An Independent Assurance Report was obtained for the sustainability report 2013/14 from our External Auditors, Messrs BDO Partners, Chartered Accountants. Assurance Report has been disclosed at the end of this supplement.

MI's GRI Application Level - 'B+'

In accordance with GRI's application level parameters, considering the extent of disclosure and the External Auditor's assurance report, a 'B+' has been self-declared for the sustainability section.

MI'S SUSTAINABILITY VALUE CREATION PROCESS



A THOUGHT PROCESS THAT ACKNOWLEDGES SUSTAINABILITY

Having a vision that acknowledges sustainability, highlighting the need for MI to be a socially responsible corporate, and then establishing organisational policies and practices, to uphold these aspirations has enabled MI to contribute effectively towards this endeavour. This sets forth a system that strives to deliver value going beyond traditional investor wealth creation keeping other stakeholder expectations in mind. Moreover, clear values and principles have been setforth which recognise the importance of upholding sustainable practices, highlighting the need to build valued lasting relationships with our customers, whilst being fair competitors in the sector. It highlights the significance of our employees and the contributions they have made thus far and the need to foster team spirit. To secure a sustainable culture, we adhere to a sound governance environment with effective corporate policies and procedures and expect employees to work within the given framework and display ethical standards.

Sustainability is engraved in MI's business model's value adding process, thus we take a strategic approach in fulfilling our sustainability objectives. The ultimate aim of our sustainability focus is to create broader economic, social and environmental value rather than limiting our scope to merely profit making. The total process involved at MI together with creation and flow of value to stakeholders is depicted in the diagram on sustainability value creation process.

SUSTAINABILITY OBJECTIVES

By understanding stakeholder expectations we have identified sustainability objectives associated with them so that we can strive to accomplish such objectives through MI's business model annually. The interlink between the three key sustainability dimensions being impacted by our sustainability objectives together with associated key stakeholders can be outlined as follows:

Sustainability Dimension	Key Stakeholders Targeted	Sustainable Business Objectives
Economic	Investors	● Maximising shareholder wealth by declaring sound returns annually.
	Customers	● Satisfying customer needs by offering an absolute product range ● Prudent management of business in a way that safeguards customer interests especially those of depositors.
	Suppliers	● Meeting procurement requirements efficiently whilst maintaining sound relationships with suppliers.
	Regulatory Bodies	● Instilling a sound compliance and control environment to ensure adherence to prevailing regulations.
Societal	Employees	● Nurturing the workforce in a way that will yield a win-win position for both the organisation and the employee. ● Motivating staff and creating a work environment that fosters healthy communication and team building.
	Local Community	● Initiating community targeted programmes to address needs of society in healthcare, education and poverty alleviation. ● Affording financial solutions that add value to society. ● Conducting business operations without hindrance to society.
Environmental	Environment/Social Groups/Habitats	● Doing our part to protect the environment by embracing sound green practices to safeguard *fauna and flora*. ● Conducting business without harming the environment.

MI'S IMPACTS ON SUSTAINABILITY

We give below key impacts arising from MI's business operation on sustainability and its effects on stakeholders, highlighting the challenges and opportunities arising because of such impacts and how they were addressed and progress made in 2013/14:

MI's Impacts on Sustainability	Key Stakeholder Impacted	Challenges and Opportunities from Impacts	How MI addressed Impacts	Progress in 2013/14
Economic - MI's contribution to investors, dealings with customers, sector and economy has intensified with notable core business growth in recent decade.	Investors/ Customers/ Regulator	• Need to conduct business in a prudent manner with adequate control environment to safeguard interest of investors and depositors in all instances. • Opportunity to capitalise on MI's solid financial performance to gain market share.	• Being strategically focused, planning well ahead to counter challenges and identifying immerging opportunities early. • Continuing to uphold sound governance practices. In the process, implementing effective risk management practices to counter key risk associated with business. • Strengthening the internal controls, compliance and audit. Having closer review of decentralised operations.	• Restrategising and making changes to operational activity after reviewing the Strategic Plan and arriving at a budget for 2013/14. • Continuous audit of operation via an approved audit programme • Carrying out of a comprehensive System Audit through Ernst & Young. • Upholding a performance based culture linking remuneration to employee wise balance score cards.
Greater business presence with growing branch network scattered across the country	Customer/ Suppliers	• MI has the capability to exploit immerging opportunities and to meet varying needs of people. • Expansion has led to notable decentralisation of operations which requires countering broadened risk levels and need for harmonising business operation to optimise output.	• Targeting business beyond Western Province, promoted through widened network. • Modifying existing processes and practices to suit a more diversified business operation.	• More effective and broad-based advertising program to promote MI services. • Made changes to branch procedures to improve lead times. E.g. Document image retrieval as opposed to passing hard copies. • Seeking external services to distribute consumable supplies across the branch network.
Social - MI's increased presence has led to greater interaction with society, at local community level.	Local Community	• Growing need to build relationship with local community if MI is to harness business from all locations. • Need to go beyond finding financial solutions and to identify and assist in meeting other needs of society.	• Initiating number of CSR programmes to meet social needs such as poverty alleviation, education and health. • Need to strengthen relationships with local community in areas MI has created presence in recent years.	• The CSR Committee completed ten CSR projects this period. • At branch level, books and school bags were given to children and in Gampaha we financially assisted fifteen individuals to better their eyesight.
MI possess an expanded workforce to manage widened operation.	Employees	• Managing over 500 staff members is challenging especially in a competitive environment that presents vast array of job opportunities. • Grooming employees to rise up to challenges in a dynamic environment is challenging.	• Human resource policies and practices have been strengthened to sustain productivity, controls and employee motivation. • Emphasis has been placed in the area of recruitment and selection to employ suitable individuals having necessary requisites to fit into challenging roles.	• Issue of a Board approved HR Policy document. • In total 3,854 training hours were afforded to staff this period. • Stream of recruitments were effected to strengthen operations. 96 staff members have been locally hired to date.
Environment - MI utilises energy and other resources to support operations and also comes into contact with the environment moderately.	Fauna and flora forming the environment/ Environmental Groups	• Consumption of energy and other resources such as consumables becomes higher when operating a larger network. • Despite having a larger presence MI operational interaction with environment remains limited being a service provider.	• Embracing practices that cuts down use of natural resources. • Adopted specific green practices and carried out environmental CSR programmes directed at environmental protection to safeguard fauna and flora.	• Use of energy saving LED lights at premises to minimise energy usage. • Close monitoring of consumables by departmental heads to control usage. • Environment related CSR initiatives have been mentioned under section on 'Environmental Review'.

SUSTAINABILITY TRENDS IMPACTING MI

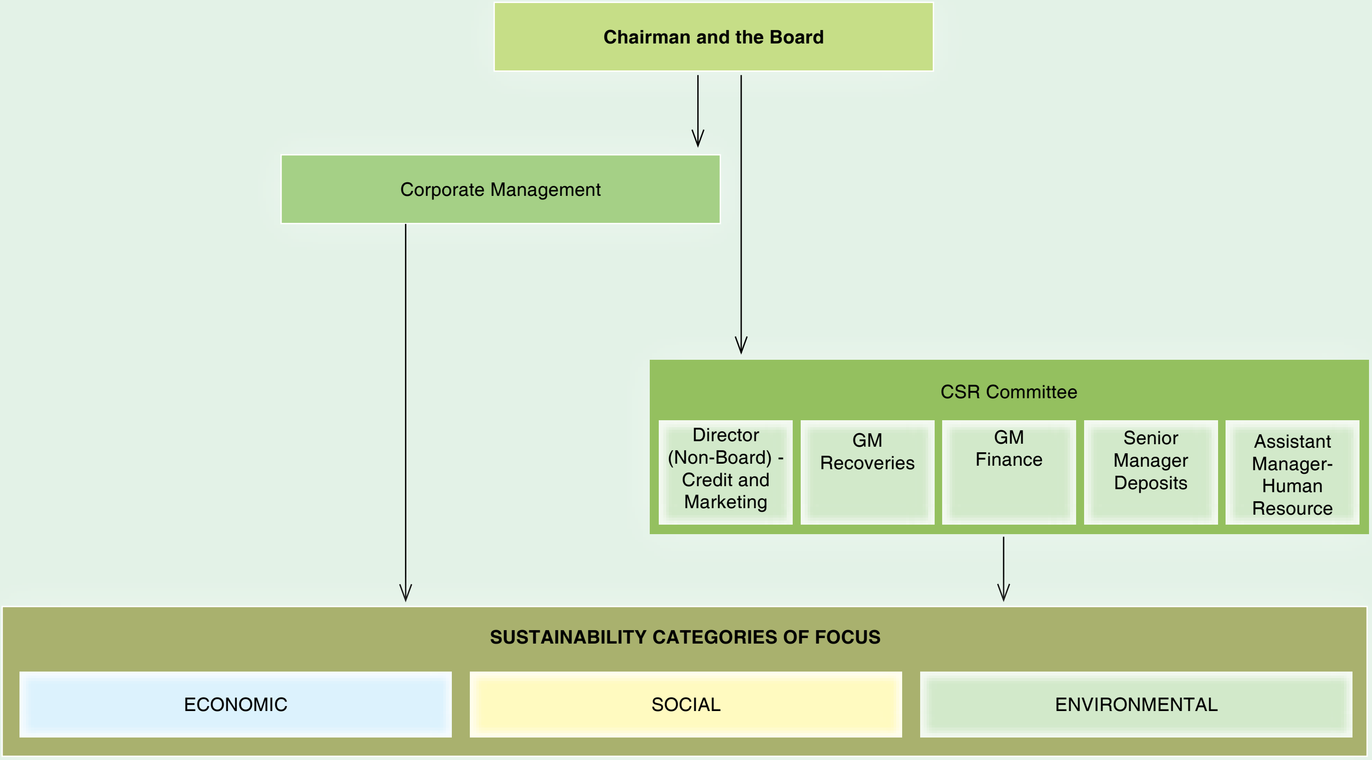
Given below are key impacts to MI anticipated resulting from sustainability trends and its effects (risk and opportunities) on long-term prospects and financial performance and the approach taken by the Company in dealing with such impacts:

Sustainability Trends	Opportunities from Sustainability Trends	Risk from Sustainability Trends	How MI addressed impacts in 2013/14 from Sustainability Trends
Economic -			
• Ongoing economic revival and with it immerging opportunities for the business community. • Increased economic activity in areas outside Western Province that remained passive in the past. • Change in customer thinking, behavioural patterns due to advancement in technology including social media. • Greater accumulation of wealth and rising purchasing power of consumers with growing GDP and per capita income.	• Pick-up witnessed in most sectors due to growing economic activity is having a positive ripple effect on the financial services sector. • Emerging business opportunities and broad-based customer semantics for the sector. • Opportunity to pursue businesses beyond traditional areas. • Chance to penetrate into other financial needs of people beyond traditional financing. • Opportunity to raise business volumes with constant demand for credit and investment products.	• Business environments dynamism and sophistication require MI to be receptive to market changes if not our products can become uncompetitive. • Heightened competition in developing economically rejuvenated locations. • Customers have become well converse with market information and are ever-more demanding. Use of right technology has become a decisive factor. • Maintaining customer loyalty amidst wide array of other product options poses a challenge.	• Operational practice and IT was refined to adopt to changes happening in the business environment. • We pursued growth strategies to penetrate into markets outside Western Province and was able to establish three new locations this period. • We have managed to Broad-base our product offerings. E.g. Tailored traditional products to suit varying customer needs. • Focused on employee productivity, creativity and innovation. Sent employees on more training and development activity to raise their skill and knowledge levels.
Social -			
• Part of society is yet below poverty line. The gap between poor and the rich remains. The rich continue to accumulate more wealth. • Employers expectations of workforce has widened with growing business demands • Rise in education and literacy levels. • Social media and similar technological advances have impacted thinking of society. • Women's role in business has increased tremendously than before.	• Change in social preferences has given rise to fresh needs and expectations. By tapping into these wants will afford competitive advantage to us. • Wider choice in seeking suitable candidates when filling vacancies. • Society's assessment of a company's success is not limited to profit, but how much value it could generate to society.	• MI's wider presence calls us to be more socially aware, to seek diverse needs and expectations of society. If not pursued correctly can be counter-productive. • Already few players in the sector have made headway in area of CSR and have gained loyalty amongst their customers. • Employees If not adequately rewarded for their efforts, could seek other job opportunities. • Increasing workload for staff could lead to work fatigue and stress. This could hinder performance of staff.	• By initiating various promotion activity across our branch network we maintained close relationship among local community. • We were able to initiate various CSR projects directed at the needy and less privileged of society this period. • When recruiting staff, we ensured adequate representation of both genders with diverse background, broadbased thinking and right capability to fit into demanding roles. • Male/female recruitments; Gender — 2013/14 Male — 141 Female — 15 • HR Division was able to strengthen and implement appropriate HR policies to drive the workforce to improve productive levels. E.g. Training and development to cope with business demands. • Initiated a performance based rewarding system especially for frontline staff while upholding strict compliance to internal policies and procedures.
Environment -			
• Industrialisation, population growth and aspects such as deforestation increases global warming resulting in eco system changes which can have long-term consequences to living things. • Overuse of natural resources has impacted its supply. There needs to be closer monitoring of use of resources that are scarce. • Rising expectation of society for corporates to be environmentally friendly when running businesses.	• Institutions that embrace environmental friendly practices are considered socially responsible firms by society. • There can be direct saving of cost to a company when adopting certain green practices.	• Green initiatives, more often than not raises short term cost with no immediate benefit to the organisation monetarily. • Scarcity of natural resources especially energy, water and other materials has led to decline in supply and rise in related cost of usage	• MI continues to adopt practices that minimises use of natural resources and adopt practices that safeguard environment as disclosed in the 'Environment Review' section. • The Cost Control Committee recommended practices to minimise use of paper and other resource and initiated an environmental friendly project. • Consumables and other frequently used items are reviewed monthly by departments that are expected to cut down on usage and eliminate wastage.

SUSTAINABILITY STEWARDSHIP AT MI

In order to fulfil visionary aspirations on sustainability, MI's corporate hierarchy is well geared and focused, right from the Board level to corporate management level, under the leadership of the Managing Director. An overview of the sustainability stewardship at MI is shown in diagram. The Board in achieving its sustainability aspirations has established a two prone approach that consist of focus from both members of the Corporate Management and the CSR Committee. The Corporate Management is mainly responsible for adding economic value associated with sustainability while the CSR Committee initiates activity targeting social and environmental aspects not covered by the corporate management.

While Corporate Management pursues its efforts in meeting its goals on boosting economic value addition, starting from investor wealth creation, the CSR Committee is given the mandate to initiate various socially responsible programmes that benefit the society and the overall sustainable development process. The Committee works within a fixed annual CSR budget conducting CSR activity across the year based on pre-agreed areas of focus, set at the commencement of a year. The Committee comprises of Director (Non-Board) - Credit and Marketing, GM Recoveries, GM Finance, Senior Manager Deposits and Assistant Manager - Human Resources.



For the FY 2013/14 period, the Committee was able to carry out a number of CSR activities targeting well-being of society especially those of the lesser privileged. These initiatives covered broadly following societal and environmental aspects:

- Educational assistance for children in need.
- Assisting individuals in need of health care.
- Coming to the aid of the poor and under-privileged by providing financial assistance and other support.
- Community service programs for the benefit of society.
- A programme aimed at safeguarding the environment covering nation's indigenous flora and fauna.

GOVERNANCE, COMMITMENTS AND ENGAGEMENTS

Leadership is displayed from the top of the corporate hierarchy to plan and devise suitable strategy that contribute to sustainability and to implement related operational activity to desired perfection through a well-defined process. MI's governance structure embraces the organisation's yearn to contribute to the broader elements of economic, social and environmental aspirations. In this endeavour, to prudently guide the Company in reaching sustainability expectations, we resort to a sound corporate governance framework that secures interests of all key stakeholders. These practices ensure that our attempts in meeting economic, social and environmental expectations are secured through a concise governance framework. Our commitment to sound governance has cemented confidence among our stakeholders and has enriched the sector and economy as a whole.

In prudently guiding our business forward, a strategic plan was developed for the medium term in 2012 incorporating the organisation's vision, mission, values, objectives and strategies. Annually, actual performance of core divisional staff is appraised against respective targets that are set in line with the overall corporate objectives. The Board takes initiative to provide necessary resources and guidance to the corporate management and also the CSR Committee to pursue sustainability associated strategy and action plans.

The Board has set up several subcommittees with Director participation, to closely monitor progress of key areas of operations and also to assess how well management is handling risks. In management of risks, the Board has set forth effective controls to safeguard the interest of our key stakeholders. In reviewing MI Board's performance for the concluded financial period 2013/14, each Director completed a standard evaluation checklist.

THE BOARD AND ITS SUB-COMMITTEES

MI's Board has been structured in keeping with prudential requirements with an appropriate blend of Executive and Non-Executive Directors. For the Board to discharge its duties, active participation is sought from all Directors who possess gamut of knowledge in their fields so that they can impart invaluable advice to guide the Company prudently safeguarding interest of all stakeholders.

MI Board and Other Key Committee Gender Break Down - 31 March 2014

The Board/Committee	Male	Female	Female % from total	Age 30-40	Age 40-50	Age 50-60
The Board of Directors	8	2	20	1	7	2
Audit Committee	3	–	–	1	1	1
Integrated Risk Management Committee	4	–	–	–	3	1
Remuneration Committee	2	1	33.3	–	2	1
Credit Committee	4	–	–	1	2	1
Nominations Committee	4	–	–	1	2	1
Assets and Liability Committee	3	–	–	–	2	1

Other Information pertaining to the composition of the Board and its Subcommittees are detailed out in our Corporate Governance Report while a profile of each Director has been disclosed under the 'Board of Directors' brief given on pages 146 to 149.

BOARD'S INTERACTION WITH SHAREHOLDERS

The Annual General Meeting of the Company provides opportunity for shareholders to communicate their views to the Board, raise concerns and to clarify doubts. As other means of interaction, shareholder could also access the Board and the Company Secretary via correspondence or by meeting through appointment. Further, the Annual Report contains an affixed stakeholder feedback form which can be used by shareholders to convey any matters of importance.

BOARD'S INTERACTION WITH EMPLOYEES

As a practice, MI Board maintains effective dialog with employees and sees this as a productive practice, a unique feature in our business. Executive Directors who head key divisions interact regularly with the corporate management. Maintaining frequent dialog with key officers of divisions enable them to grasp underlying concerns and facilitates easy dissemination of instructions and key decisions to flow down the hierarchy to the necessary employees. Weekly meetings were held with Corporate Management in the presence of key Executive Directors chaired by the Managing Director providing an excellent platform for frontline officers to raise any concerns, views and suggestions. The 'open door' culture facilitates employees easy access to the top management including the Managing Director to freely communicate concerns and any grievances experienced.

LINKING BOARD AND SENIOR MANAGEMENT PERFORMANCE TO COMPENSATION

The task of assessing performance of Executive Board members for purpose of establishing remuneration levels is entrusted to the Remuneration Committee. A disclosure about the Remuneration Committee's composition and its delegated tasks is made on page 213. Rewarding corporate management is purely performance based, evaluating employees through a formal appraisal method to ascertain efforts against targets given.

NOMINATIONS COMMITTEE

The Nominations Committee set up last year was entrusted with the key task of assessing requirements of new members to the Board and recommending future appointments. (Information pertaining to the Nominations Committee is given on page 215)

Disclosure pertaining to MI's corporate governance framework and governance practices adopted is given on pages 156 to 219 in the 'Corporate Governance Report'.

Memberships in Associations

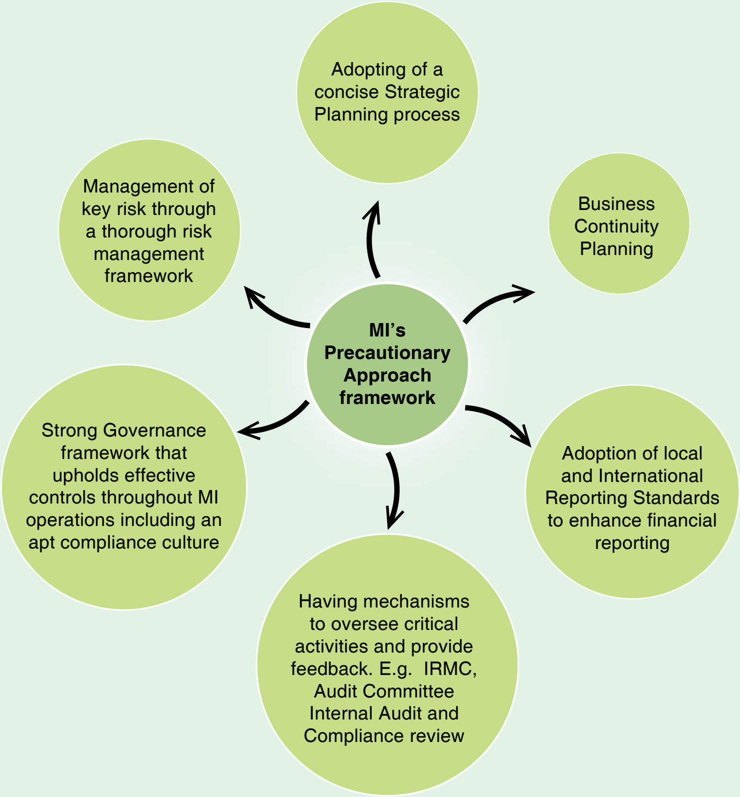
- Member of the Finance Houses Association of Sri Lanka
- Member of the Leasing Association of Sri Lanka
- Member of Ceylon Chamber of Commerce

PRECAUTIONARY APPROACH

We take managing of risks associated with our business as one of paramount importance especially being in a dynamic and complex business environment. Risks are managed through a structured process, with the aim of bringing appropriate trade-off between risk and returns, to enhance shareholder wealth. The risk management process involves managing of key risk such as credit risk, liquidity risk and market risk related to finance business. By adopting a precautionary approach, the Company is able to grasp impending risks early so that adequate counter measures can be instilled to safeguard interest of our investors, customers, suppliers, and indirectly our employees and the larger community.

Our risk management process commences with a comprehensive assessment of prevalent risks and its potential impacts to the organisation. Various risk mitigation strategies are adopted at different levels of the organisation through a comprehensive set of policies and procedures employees are expected to follow. This year too we reviewed existing procedures that encompasses the internal control environment of the Company thoroughly. This is done to ensure such controls are adhered to and also to fine-tune them to cope with sophistication and changes in business dynamics.

To strengthen supervision over risk management, MI Board has entrusted the Integrated Risk Management Committee to oversee related practices and recommend suitable measures to improve overall risk review and counter mechanisms when necessary. In addition, the Audit Committee is required to review and report on the appropriateness of the financial reporting system and application of internal controls. The Internal Auditors carry out necessary field reviews to establish status of compliance to organisational procedures and to identify shortcomings which they report periodically to the Audit Committee.



MI's 'Risk Management Report' given on pages 223 to 253 details out key risks and how risks are managed to safeguard the Company from such risk, highlighting resultant negative financial and non-financial impacts.

STAKEHOLDER ENGAGEMENT

MI engages with its key stakeholders through various channels of interaction and communication methods within a given year. By having close dialogue, we are able to obtain their invaluable feedback on suggestions, recommendations, grievances and advice which are taken as positive feedback by the Company. Moreover, stakeholder engagement facilitates information flow from MI to respective stakeholders so that either party could better relate to a topic of discussion.

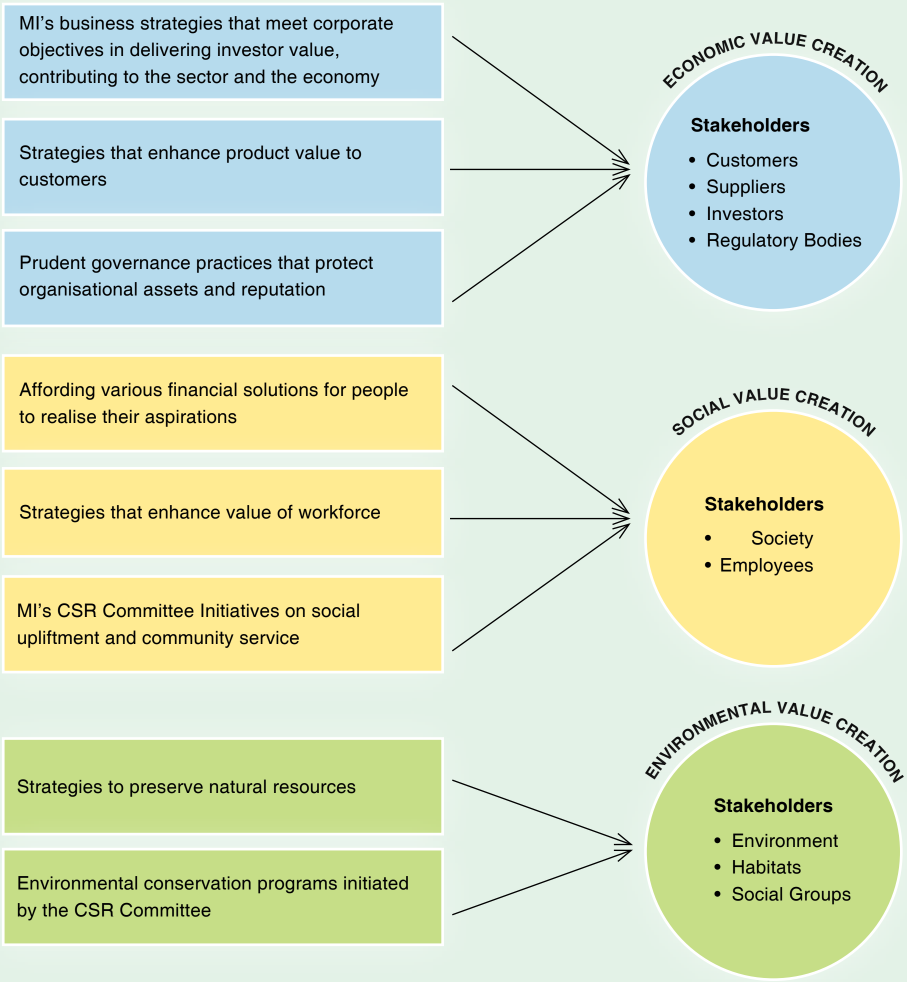
The key stakeholders applicable to the Company are our customers, shareholders, suppliers, employees, regulatory bodies, local community and social groups. The stakeholder identification process at MI including methods adopted by the Company to engage with our stakeholders together with identification of material topics associated with the stakeholder and their expectations is given on pages 15 to 16.

SUSTAINABILITY STRATEGY, MANAGEMENT APPROACH AND PERFORMANCE

The need to have sustainability focus in most of our endeavours has been a focal point in our business practices especially in the recent decade. The growing importance of sustainability within the corporate sector has sharpened our focus even more. MI's corporate objectives, goals and business strategies have been designed in keeping to MI's vision and has been appropriately aligned so that sustainable development strategy adopted contributes to the overall value creation process. Diagram given depicts how sustainability strategy from a broader view interrelates to MI's unique value creation process in areas of economic, social and environment thus fulfilling varying expectations of our key stakeholders.

In meeting sustainability objectives, the Company has in place a combination of strategies that have evolved over time.

Sustainability Strategy in Value Creation Process



MI's business strategies that meet corporate objectives in delivering investor value, contributing to the sector and the economy

Strategies that enhance product value to customers

Prudent governance practices that protect organisational assets and reputation

ECONOMIC VALUE CREATION

Stakeholders
- Customers
- Suppliers
- Investors
- Regulatory Bodies

Affording various financial solutions for people to realise their aspirations

Strategies that enhance value of workforce

MI's CSR Committee Initiatives on social upliftment and community service

SOCIAL VALUE CREATION

Stakeholders
- Society
- Employees

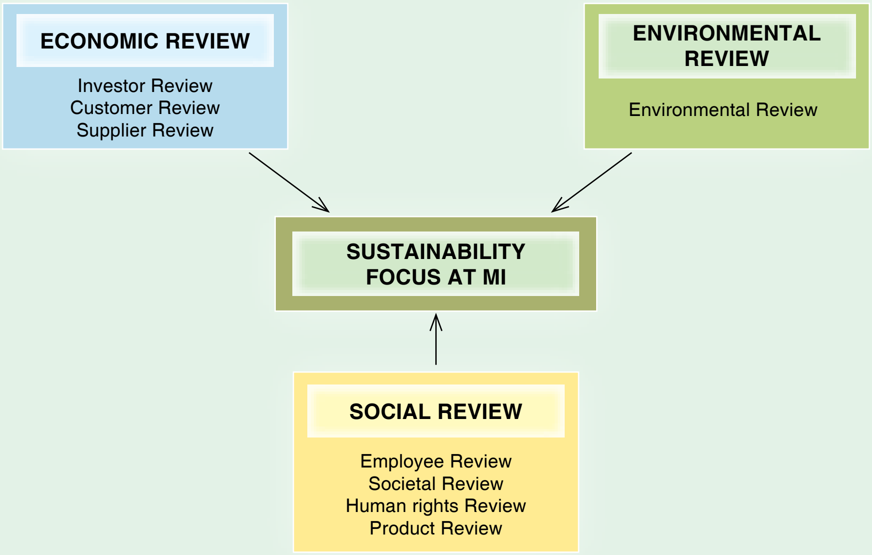
Strategies to preserve natural resources

Environmental conservation programs initiated by the CSR Committee

ENVIRONMENTAL VALUE CREATION

Stakeholders
- Environment
- Habitats
- Social Groups

In explaining MI's performance in terms of each sustainability facet of economic, social and environment, we provide hereon a sustainability review covering key stakeholders, related material topics, giving the sustainability strategy adopted, management approach taken and applicable performance indicators.



ECONOMIC REVIEW
Investor Review
Customer Review
Supplier Review

ENVIRONMENTAL REVIEW
Environmental Review

SUSTAINABILITY FOCUS AT MI

SOCIAL REVIEW
Employee Review
Societal Review
Human rights Review
Product Review

ECONOMIC REVIEW

Stratergy/Management Approach to Economic Value Creation

Being a leading establishment in the corporate world, our organisation strives for business excellence in all our endeavours. We strive in creating economic value that will not only enhance investor wealth but will also go on to contribute to the sector output and to overall economy. At a juncture when the nation is at a transformational stage, moving towards economic prosperity, we have come to understand our role in enriching the nation, as part of the business community.

In the backdrop of a positive business environment, we possess a plethora of products and services together with the required capability to fulfil a broad spectrum of needs of both individuals and corporates alike. Our business impact has widened especially with the expansion of our network to various parts of the nation in recent years. Being receptive to the needs of our customers, affording greater choice and accessibility to finance, we are able to fulfil customer requirements that are vast and ever changing. MI being a premier finance company renowned for its financial strength and customer friendly service has met its primary objective of maintaining a sound stream of returns to its investors over the years.

MI has been a committed player in seeking business growth and has stamped a mark in the minds of our customers, affording them a broad-based product range to choose from, being innovative and customer conscious at all times. In doing business, we have improved our relations with suppliers especially the vehicle sales vendors who form an integral connection to our main business of financing. Meanwhile, we have built close ties with our workforce ‘the MI team’, most of whom have devoted an extensive service towards the Company already. As a caring employer, we pass down part of the economic value created to employees as monetary and non-monetary rewards, thus maintaining a motivated workforce.

In gaining strategic advantage, this year too we improved our internal processes, risk management practices and governance practices, in keeping with our organisational plans and fundamentals. These measures enriched our overall operation, thus further cementing public confidence and customer loyalty within the local community that we have established presence. From a broader economic perspective, our business growth has led to greater economic value addition enriching the LFC sector and overall economy.

Organisation-Wide Goals

The Board approved strategic plan mainly addresses our primary objective of enhancing investor returns. The Company has set growth targets in terms of business volumes and hopes to grow at a decent pace over the medium term. The corporate management periodically monitors actual organisational performance against targets that have been set, to ensure overall objective accomplishment is kept well within sight. Triple bottom line highlights given on page 4 provide a summary of MI’s financial performances for financial year 2013/14 against these set key budgeted targets and also against previous year.

Policies Practised

In creating economic value especially in enhancing investor wealth, MI upholds a number of policies that are either functional specific as well as those that are general. Management, for the efficient and prudent conduct of business of core business operations of lending and deposit taking has embraced best industry accepted policies and practices. At the same time, human resource policies and other general administrative policies established are implemented in combination with other non-human resource policies, to support the economic value creation process.

Economic Performance, Market Presence and Indirect Economic Impacts

From a macro level, the paragraphs below reviews MI’s contribution to the national economy and separately from a micro perspective reviews the Company’s economic value creation towards its stakeholders - investors, customers, suppliers and employees. Information about MI’s level of market presence and also indirect economic impacts has been elaborated upon wherever necessary to better describe Company’s extent of economic performance this period.

MI’s Contribution to National Economy

MI’s contribution towards national economy has widened in the recent decade, considering the profound growth recorded in terms of business volume and value addition that we have experienced. Our indirect economic impact is far reaching now since we service most segments of society. In keeping to our aspirations, we expanded our operations going beyond the Western Province extensively within a short span of time to reach out to communities even in the remotest areas of the country.

In highlighting MI’s national economic contribution, last three years performance is depicted in terms of financial and economic contributions as follows:

Measures to demonstrate economic impact	Page reference
Economic Value Addition (EVA)	330
Value Added Statement	331
Source and Utilisation of funds	332

As shown in the Value Added Statement for 2013/14, We have increased our value addition year on year, thus accumulating shareholder wealth and affording attractive remuneration payments to our employees and making due payments to Government agencies via taxes in the process. MI’s financial performance in terms of profitability and other standard financial indicators for the past decade has been commendable as summarised in our ‘Decade at a Glance’ on page 337. However, MI’s level of contribution to the national economy in terms of EVA has been moderate though registering a positive of Rs. 81 million for this period compared to a negative Rs. 235 million EVA reported for last period.

There has not been any direct impact to the organisation including financial implications due to climate change. However, indirect consequences of climate change if any to our borrowers, affecting their repayment ability has not been quantified. We confirm that there has not been any financial assistance received during 2013/14, from the Government.

Investor Review Under Economy

Investor Base at MI

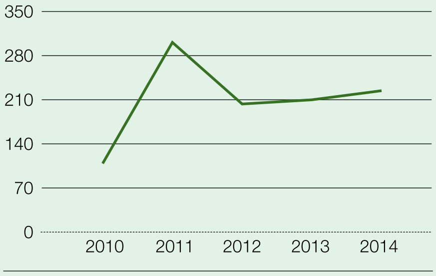
The investor base of Mercantile Investments and Finance PLC is small comprising of a few large investors. MI has the flexibility at any time to seek fresh capital if necessary as it obtained listing from June 2012 in the *DiriSavi* Board of the Colombo Stock Exchange.

Investor Wealth Creation

In delivering above average returns to our investors which remain our primary corporate objective, our unique business model provides the path and process to strategically pursue market share growth and keep to healthy profitability levels. For MI, financial year 2013/14 was quite a satisfactory one considering most of the broad financial goals laid forth were achieved as disclosed in the financial highlights page. During the last decade our investors have enjoyed sound returns in terms of dividends and have seen their investments grow through a constant accumulation of shareholder funds that now stand in excess of Rs. 6 billion. The graph below depicts the satisfactory upward trend in dividends paid to investors in absolute terms for the last five years.

	2010	2011	2012	2013	**2014**
Earnings per Share (Rs.)	109.31	301.36	202.96	209.84	**224.67**
Dividend Yield (%)	N/A	N/A	1.00	1.25	**0.45**
Asset growth YOY (%)	8	61	28	21	**11**
Return on capital employed (%)	9	5	11	11	**11**
Share price - Ordinary voting (Rs.)	N/A	N/A	2,200.00	2,200.00	**2,200.00**
Price Earnings ratio (times)	N/A	N/A	10.84	10.48	**9.79**
Dividends paid (Rs. ’000)	13,800	30,000	66,132	82,665	**30,060**

EARNINGS PER SHARE (Rs.)



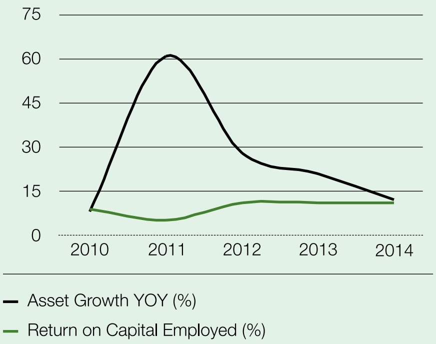
PRICE EARNINGS RATIO AND DIVIDEND YIELD

Note: For disclosure of above information/ratios/graphs

(a) Years 2012, 2013 and 2014 income statement information is SLFRS/LKAS based. Other years as per SLAS.

(b) Years 2011, 2012, 2013 and 2014 statement of financial position is SLFRS/LKAS based, other years as per SLAS.

ASSETS GROWTH AND ROCE (%)



From investors point of view they have the option of disposing their shares for a sound price considering the strong net asset position of the Company. Mercantile Investment shares have fetched an astounding market price of Rs. 2,200/- per ordinary share upon listing, indicative of the Company’s potential earnings capacity and capital strength.

Customer Review Under Economy

MI stands committed in its yearn to uplift customer satisfaction levels wherever possible, staying true to our motto '**Service that extends beyond**'. We deliver a total solution to the market, bringing greater value to customers who come in search of credit or investment avenues mostly our attractively priced deposit products. We continue to strive in customer service excellence, and have geared processes to meet customer demands in minimal time, affording maximum customer convenience. To achieve this, we have a team of individuals completely devoted to their given tasks, professionals in every sense, who have the right aptitude to serve customers from every strata of society. The relentless commitment shown by the Company towards its customers since inception has cemented lasting relationships with them. Having meaningful closer ties with customers has enabled us to secure repeat business even amidst stiff competition for business.

Enhancing Output Value

MI remains receptive to changes in customer preferences and emerging financial needs of individuals so that appropriate solutions can be introduced when it is most needed. In understanding customer preferences, concerns and ideas, we engage with them constantly through effective interactive modes as indicated on page 15. During 2013/14, we concentrated on boosting non-traditional financing term based lending and last year introduced microfinancing and professional loan business which has broadened the range of offerings that we afford now. In addition, we have made several product extensions and variations in the last few years to afford customers wider options. This includes structured and step-up financing options coupled with main product lines. We also continued to join hands with selected vendors of renowned brands to provide financial assistance to customers so that they can own their dream vehicle. Going to the future too, we will remain constantly vigilant of changes in customer preferences and continue to be innovative in our sphere of business to afford wider choice to our customers.

Street Promotion by MI Sales Staff

Striving for Business Excellence

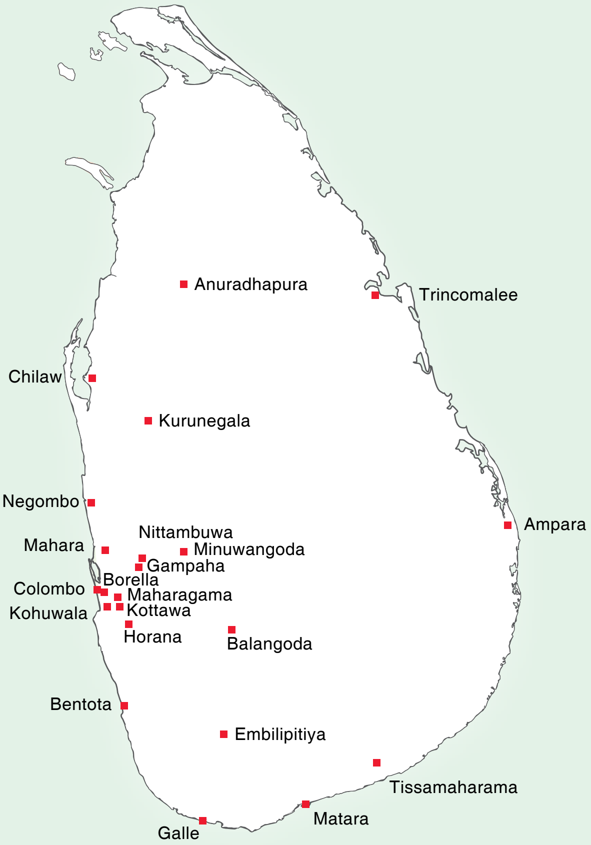
We understand the challenge the financial services sector faces nowadays in fulfilling tough demands of customers considering the complexities involved and more so the resource constraints it brings. Being receptive to market changes and having enough flexibility in terms of capital and other resources, we have nonetheless been fortunate in meeting an array of financial needs of our customer's to date. In developing appropriate strategy for our core business lines, we have carried out due study of customer segments to identifying customer features and wants precisely. This year, we revisited out credit and deposit businesses operational procedures and made improvements to procedures especially in the documentation gathering process with the intent of delivering an efficient improved service. Simultaneously, our systems were enhanced with due modifications to boost front-end and back office operations. This facilitated a more user-friendly system which assisted credit and marketing teams to provide a better customer service with improved delivery times.

We take pride in our exemplary speed of service when executing transactions, from initial inquiry to the final execution stage, with minimal inconvenience to customers. Our operational processes have been fine-tuned over time so that we stay competitive. We have gone to great lengths to provide a unique personalised service which has enabled us to sustain loyalty with our depositors and maintain annual average deposit base growth commendably over 20% for the last five years.

Increasing Market Presence

In fulfilling our aspirations to bring our services to all corners of the nation closer to where our customers and potential customers might be, we were successful in setting-up branches in key strategic locations of the country, more than doubling the network within just a three-year time period. MI's branch network comprises 18 fully-fledged branches and 4 service centres strategically located to serve varied strata of society. Having gradually established our presence outside the Western Province, we have been able to fulfil our promises of meeting financial needs of wide array of individuals, thus being able to serve a larger component of society. The Branch network map given next page illustrates MI's growing presence including the diverseness of our operations:

Branch Network Country Map with Location Information



Registered Office
No. 236, Galle Road, Colombo 3.

Head Office
No. 236, Galle Road, Colombo 3.
Telephone: 0112343720-7
Fax: 0112434524
Email: mercantile@mi.com.lk
Website: http://www.mi.com.lk

Branches

Negombo Branch
No. 28, Super Keells Building,
Colombo Road, Negombo.
Telephone: 031-2221160-1
Email: minegombo@mi.com.lk

Kohuwala Branch
No. 28, Sunethradevi Road, Kohuwala.
Telephone: 011-2814181-2
Email: mikohuwala@mi.com.lk

Mahara Branch
No. 381/C, Kandy Road, Mahara, Kadawatha.
Telephone: 011-2921205-7
Email: mikadawatha@mi.com.lk

Balangoda Branch
No. 143/A-B, Barnes Rathwatha Mawatha,
Balangoda.
Telephone: 045-2287605-6
Email: mibalangoda@mi.com.lk

Bentota Branch
No. 149 1/2 Colombo Road, Bentota.
Telephone: 034-2275402-3
Email: mi.bentota@mi.com.lk

Trincomalee Branch
No. 256, Anuradhapura Junction, Trincomalee.
Telephone: 026-2226456-7
Email: mitrinco@mi.com.lk

Kurunegala Branch
No. 233 A, Negombo Road, Kurunegala.
Telephone: 037-2222027-1
Email: mikurunegala@mi.com.lk

Matara Branch
No. 531, Pamburana, Matara.
Telephone: 041-2235377-8
Email: mimatara@mi.com.lk

Galle Branch
No. 12, Park Road, Kaluwella, Galle.
Telephone: 091-2246387-8
Email: migalle@mi.com.lk

Anuradhapura Branch
No. 3122, Dahaiyagama Junction, New Town,
Anuradhapura.
Telephone: 025-2224886
Email: mianuradhapura@mi.com.lk

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

Chilaw Branch
No. 86, Puttalam Road, Chilaw.
Telephone: 032-2224244-5
Email: michilaw@mi.com.lk

Embilipitiya Branch
No. 127C, New Town, Embilipitiya.
Telephone: 047-2261351-2
Email: miembilipitiya@mi.com.lk

Horana Branch
No. 439A, Panadura Road,
Galledandugoda, Horana.
Telephone: 034-2265411-2
Email: mihorana@mi.com.lk

Tissamaharama Branch
No 19/6, Sagara Building,
Palliyawatte, Tissamaharama.
Telephone: 047-2239341-2
Email: mitissa@mi.com.lk

Gampaha Branch
No. 152/1, Miriswatte, Mudungoda, Gampaha.
Telephone: 033-2234453-63
Email: migampaha@mi.com.lk

Ampara Branch
No. 774, Browns Junction,
D.S. Senanayake Street, Ampara.
Telephone: 063-2224282-55
Email: miampara@mi.com.lk

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

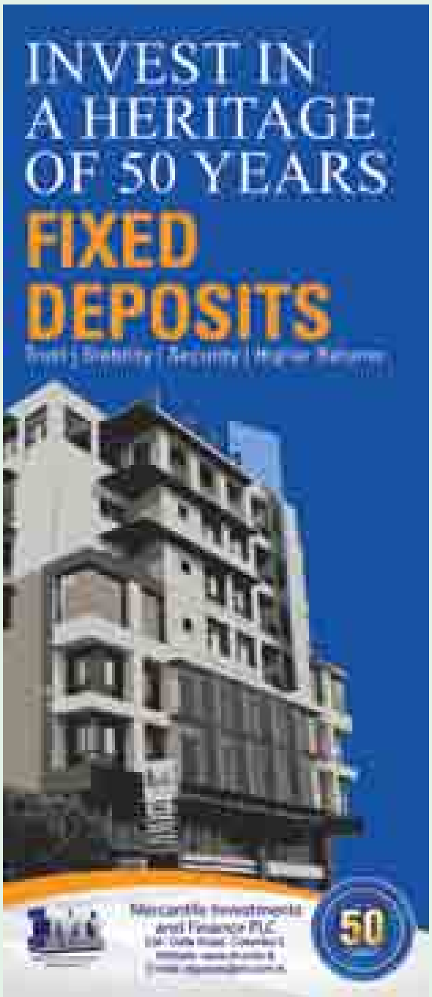
Minuwangoda Service Center
No. 52E, Negombo Road, Minuwangoda.
Telephone: 011-2294008-9
Email: miminuwangoda@mi.com.lk

Corporate Premier - Borella Service Center
No. 219, Dr. N.M. Perera Mawatha,
Colomco 08.
Telephone: 011-2683445-6/2683478
Email: mipremier@mi.com.lk

Nittambuwa Service Center
No. 550/1/12, Colombo Road, Nittambuwa.
Telephone: 033-2298788-9
Email: minittambuwa@mi.com.lk

Cementing Customers Trust and Confidence

The corporate value system that we practice requires every individual serving the Company to uphold highest level of integrity and ethical standards in their daily work lives. MI has always been a highly respected institution within the corporate community, reputed for its conservative responsible business approach. We profess an unblemished corporate image which we are proud of enjoying gradually business success year on year. Our loyal depositors continue to remain with us, some of whom have been with MI for decades despite widening other investment opportunities in the market. We have instilled industry-accepted operational procedures, processes and controls across the Company to secure best results. Our employees are expected to strictly abide to these best corporate practices to yield optimum financial results and also to safeguard assets of the Company. When hiring individuals to key positions we resort to necessary background verifications of potential recruits to establish their integrity and standing in the corporate world. MI has continued to stay a responsible corporate in our practices with an enviable track record which spans close upon five decades in reputed entrepreneurship of being a trusted player among the business community and the general public.



MI a trusted business partner for close to half a century

Opening of Corporate Premier Branch

Key Customer Initiatives Carried Out During 2013/14

Area of Focus	Background	Key Initiatives Undertaken
Enhancing customers convenience	Improving customer convenience has been a central area of focus for us to gain competitive advantage to attract and retain customers across the wider network of branches.	● When deciding on setting-up new branches, preference was given to prime locations that have the right facilities such as easy-assess routes and parking, to house fully-fledged lending and deposit units. ● Improved service levels in relation to our ancillary services to support vehicle financing, E.g. insurance services under one roof, workshop repair and servicing.
New product launches/ product extensions	Constantly, identifying changing customer needs to strive to find new ways of meeting customer expectations has led to innovative product developments at MI in the recent past.	● Intensified promoting microfinancing business that was launched last year, mainly targeting farming community. ● Promoting tailor-made structured facility credit options coupling specific customer needs with standard features of both our traditional financing business as well as term loan based services. ● Actively promoting professional loans and taking steps to initiate business from our Authorised Money Changing business.
Adding extra value to main products	Always finding ways to add value to existing products so that customers receive greater benefit.	● Afforded attractive rates to investors depending on the size and period of deposit and special rates for senior citizens.
Improving lead times in processing	As a critical success factor, we continued to concentrate on improving speed of delivery, to minimise the time taken to complete a core business transaction.	● We increased our frontline credit and deposit front end workforce to boost operations. ● Core system upgrades/modifications were carried out to enhance systems speed to assist officers in expediting their functions more effectively.
Providing solutions to borrowers facing repayment difficulties	In a period that saw gradual deterioration in customer credit worthiness, experienced across the finance sector, we provided possible solutions to borrowers so that they can better adjust to default situations.	● We rescheduled loans and advances totalling to Rs. 221 million this period.
Intensified customer awareness levels	Considering that some of our branches were established within the last 3-4 years, there was an immediate need to heighten the awareness levels of our offerings to those communities through various promotional activities.	● We increased advertising and promotional campaigns than last year incurring higher expense, initiating number of marketing campaigns outside Western Province to create awareness and to attract new business.
Attending to customer concerns promptly	Suggestion boxes are placed in both the Credit and Recoveries Divisions so that customers can freely drop off their concerns. Head of Legal has been entrusted to deal with matters raised by customers and outside parties through the Financial Ombudsman.	● No complaints/suggestions were received to the suggestion boxes during the period. ● There were no pending claims or petitions against the Company before the Financial Ombudsman as of 31 March 2014.
Improving operational processes to enhance output value	For purpose of safeguarding customer information, broadening customer MIS and other requisites, management reviewed existing operational processes again this year and made improvements.	● Made changes to credit operational manual and issued revised version in 2014. This was supported by due training, supervision and monitoring. ● Reviewed effectiveness of IT systems including safety of customer information by carrying out a comprehensive IT audit. ● Established an Internal Valuation Unit to support credit evaluation process.

Supplier Review Under Economy

The Company does not consume material supplies as direct input but rather transact with suppliers on consumable items such as stationery and other general consumables for routine operations. We deal with an elected set of suppliers in keeping with our policies on purchasing and supplier selection. The Purchasing Department is responsible for handling the purchasing process of fixed assets while purchasing of stationery and other consumables come under stores division, under the supervision of the Finance Division. As part of the financing business, a separate motor vehicle inventory stock is maintained to cater to immediate customer demands for selected brands. For this purpose, MI maintains relationship with related suppliers to ensure steady stream of inventory is supplied to us on time without shortages. We have built strong bonds with all these suppliers, cementing relationships that last. This has brought about win-win position for both parties in terms of suppliers receiving firm bulk orders and MI in-turn benefiting from the price advantage.

Policies, Practices and Proportion of Spending on Locally-Based Suppliers

MI's purchasing function is centralised with stationery and other consumables ordered with the approval of the Finance division's Senior Manager Payments. The supplies are directly sent to the Head Office and then distributed later to respective departments and branches. We adopt a streamlined supplier selection process that involve identifying ideal suppliers weighing cost and quality considerations including past supplier performance before marking them for long-term partnership. Our suppliers afford us optimal pricing while supplying required items based on our specifications. As per Company policy, suppliers who do not meet MI standards do not qualify for being in the registered supplier list that is reviewed periodically.

Setting-up an Inventory System for Consumables

A fully-fledged inventory management information system for consumables was developed in this financial period. Stores division is now able to obtain immediate MIS on stationary and other consumable inventory to track quantity outstanding, cost and reorder levels. While MIS-generated department-wise is passed down to management for managing cost, it also assists to better manage suppliers in terms of reordering and price negotiation.

Employee Review Under Economy

As MI business grows from strength to strength achieving sound profitability levels, our workforce too stands to gain in terms of rewards and career development opportunities that arise, keeping them constantly motivated. Moreover, while we provide our staff job security, they are nurtured to become specialists in their fields. We afford training and other career development activities to boost their knowledge and capability. MI team like other years was able to reciprocate the benefit back to the Company with improved productivity.

Wage Scales

The salary scales of employees fall within a remuneration value range for a given grade and would vary among employees mainly based on their experience and performance. There is no gender biasness when deciding on employee remuneration and other benefits.

Wages Range

Grade	Ranks	Male and Female Market Wage Average	Male and Female MI's Wage Range
Manager	Assistant Manager Deputy Manager Manager Regional Manager Senior Manager Group Manager Assistant General Manager Deputy General Manager General Manager	Rs. 65,000/- and above	Rs. 70,000/- and above
Executive	Junior Executive Executive Senior Executive Management Trainees	Rs. 22,000/- - Rs. 55,000/-	Rs. 25,000/- and above
Non-Executive	Labourers, Janitors Technicians, etc. Drivers, Peons/Office Assistants Clerks, Secretaries Operations Assistants Marketing/Other Assistants	Rs. 8,500/- - Rs. 25,000/-	Rs. 14,000/- and above

Defined Benefit and Contribution Plans

Defined Benefit Plans

Our employees are entitled to retirement gratuity upon completion of five years of continued service in accordance with the Payment of Gratuity Act No. 12 of 1983. An actuarial valuation is carried out every three years to ensure adequacy of the gratuity provision available to settle gratuity liability. Additional information in this regard is disclosed under accounting policies on page 285 in the Financial Statements.

Defined Contribution Plans

Based on respective statutes and regulations, MI employees are eligible for Employees' Provident Fund contributions (EPF) and Employees' Trust Fund contributions (ETF). The Company contributes 12% and 3% of gross emoluments for our employees to EPF and ETF respectively.

Local Hiring

Management gives preference to select candidates from within the vicinity of the respective branch especially when hiring senior officers including branch managers. We believe there is benefit for the organisation from hiring officers who are familiar with the local community and business surroundings. Reciprocally, local hiring benefits the employee as well as it eases travelling time and lodging cost for them.

Branch	Total Staffing	Locally Hired	Not Locally Hired
Anuradhapura	7	3	4
Balangoda	6	5	1
Bentota	7	3	4
Chilaw	6	3	3
Embilipitiya	6	6	0
Galle	8	7	1
Gampaha	5	4	1
Kottawa	7	0	7
Kurunegala	7	4	3
Maharagama	8	3	5
Matara	11	10	1
Trincomalee	6	5	1
Tissamaharama	6	5	1
Minuwangoda	6	2	4
Ampara	5	5	0
Kadawatha	12	12	0
Negombo	11	6	5
Kohuwala	12	1	11
Horana	4	1	3
Polonnaruwa	6	6	0
Premier	10	0	10
Nittambuwa	5	0	5
Total	**161**	**91**	**70**

ENVIRONMENTAL REVIEW

Strategy/Management Approach to Environmental Value Creation

As a socially responsible corporate, we understand our role in protecting the environment, particularly the surroundings around which we do business and the need to safeguard plants and the atmosphere, the need to conserve energy resources while playing our part to secure the well-being of living things including the animal population. Towards making these green aspirations reality, the Company policies and procedures have evolved over time in pursuit of better energy saving practices and environmental protection options.

Industrialisation and population growth has led to the degradation of the environment, especially the ozone layer and declining of natural resources such as trees and natural habitats. As a member of the business community, we understand our role in protecting the environment at least by implementing measures within the organisation to minimise negative impacts from our operational processes. In spite of us being a service organisation with minimal direct impact to the environment, we understand that indirectly we too consume resources, interact with the environment more than in the past especially now that we have greater presence around the country. Thus, we remained focused on curtailing the use of natural resources and dealing with possible direct environmental hazards related to our business activities despite our environmental impact being minimal.

Environmental Policy

We have aligned our commercial business activity with environmental considerations and taken broad decisions such as selecting new locations for business, effecting structural changes to premises or initiating significant operational changes after making due feasibility assessments that take into account environmental precepts. Our policy on environment is to operate in a way that our business does no harm to the environment, while limiting the use of natural resources much as possible. The green practices that we have come to embrace have contributed moderately to these aspirations and we are hopeful of furthering them in the next few years. As our next major stride in the medium term, we plan to add policies and internal review mechanisms to capture our industrial borrowers level of compliance to our environmental standards prior to granting related credit.

Carbon Neutral Annual Report

PARTNER
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Carbonfund.org

Towards promoting a greener environment, the Company was able to once again publish a carbon neutral Annual Report for this financial year. The greenhouse gas emissions resulting from the design, photography, production, project management, usage of paper and printing were offset using verified carbon offsets.

Environmental Performance Indicators

52,829 kWh	**Electricity consumption**
908 units	**Water usage**
4,542 reams	**Photocopy paper usage**

Consumption of Stationery and Consumable Items

The Company has strongly inculcated in all the importance of sparing use of stationery and consumable items without wastage. As a company-wide practice recycled stationery is put to best use especially for preparing draft documents and for internal information dissemination that are considered non-important. With the introduction of the inventory monitoring system this financial year, all departments are expected to tightly monitor use of stationery and consumable items to cut down waste.

As another step forward in waste management, we recycled used printer cartridges, through a refilling process. As shown from the table below, the percentage of consumables materials used that are recycled input materials remained a significant percentage from total usage.

Recycled Items as a Percentage of Total Consumables is as follows:

Recycled item	No. of items consumed in 2013/14	No. of items consumed in 2012/13	Items recycled in 2013/14	Items recycled in 2012/13	**% of items recycled against total consumption 2013/14**
Box files	301	400	230	200	**76%**
Ink cartridge/fax/printer	256	387	20	17	**8%**
Photo copy toner, fax toner and laser jet printer toners	897	625	781	538	**87%**

Stationery and Consumable Items Usage Trend:

Type of item	2010/11	2011/12	2012/13	**2013/14**
Photo copy paper: (reams)				
- A4	1,638	2,382	2,900	**3,968**
- Legal	156	178	151	**200**
- A4R	279	293	335	**374**
Total	2,073	2,853	3,386	**4,542**
Ink cartridges/fax/printers (No. of cartridges)	153	389	387	**256**
Photo copy toner, fax toner & laser jet printer toners (No. of units)	271	420	625	**897**
Box files (No. of box files)	178	436	400	**301**

Moving to Establish a Paperless Office

As a bold operational measure we undertook a pilot project during this financial year to avoid use of duplicate credit files that utilise considerable amount of paper and to shift to the 'Document Management System' which provides a soft version of the required documents on an online basis. We hope to go live across the branch network with this practice as another step forward in establishing a paperless office. These measures nicely compliment the systemising of the loan document approval process which we implemented a few years before that has helped cut down use of paper and office space.

Our Approach to Environmental Protection

In being eco-friendly, as a primary measure, we ensure that MI premises and surrounding areas are well maintained and clean at all times. We emphasise the importance of having a clean business environment to all employees. Waste items and garbage are collected daily by our own janitorial staff and disposed of without harming the surroundings. Notices have been displayed in washrooms clearly indicating the need to conserve water and the requirement to maintain hygiene within respective departments. All employees are expected to maintain tidy work stations and contribute to a greener environment.

We understand the negative effects of use of fuel and other related substances that release carbon dioxide and other greenhouse emissions to the environment triggering climate change and other environmental hazards. In a bid to minimising resulting harmful effects to the environment, we continued to obtain fuel emission certificates annually for our fleet of motor vehicles through the transport division, in line with prevailing road regulations.

Conserving Energy Resources

Increasing use of natural energy resources resulting from industrialisation and population expansion requires its sparing use for the benefit of society and future generations. As measures are being taken at a macro level to broad base electricity supply, the business community from another perspective has shown keenness to conservatively use electricity and even has gone on to pursue renewable energy options such as solar power and windmill options.

MI's Engineering Division was instrumental in initiating various measures in the past couple of years to cut down on electricity usage. Use of LED, CFL and fluorescent tube lights at various work locations has been made a compulsory requirement for lighting MI premises across the network. As another step, a capacitor bank is used to manage reactive power draw from the mains, as a means of saving electricity. In order to reduce electricity consumption, windows at MI Head Office building are treated with UV repelling film thus helping to control internal temperature and reduce air conditioning loads considerably. Further, it has been a standard practice to shut down the central air conditioning at the Head Office after 5.00 p.m. and only extend its operation under exceptional circumstances. We are currently reviewing the possibility of introducing Solar Power Technology at head office premises in combination with electricity from the national grid.

Average Monthly Electricity Utilisation (MI Head Office):

	2010/11	2011/12	2012/13	**2013/14**
Head Office electricity - kWh	49,105	50,725	49,962	**52,829**

Electricity energy consumption is measured in kilowatt hours (kWh).

Water Conservation Initiatives

We take top priority in conserving water being a valuable scarce resource and as such MI's engineering division has introduced a few measures at Head Office premises to cut down its consumption levels. As the washrooms consume water considerably more than any other area of the Company, the Company operates a unique water-flow system to help manage water usage sparingly. As a parallel option a tube well system is in place to manage other secondary water requirements of the Company, thus cut down reliance to an extent on the national water supply.

Average Monthly Water Utilisation (MI Head Office):

	2010/11	2011/12	2012/13	**2013/14**
Head Office water utilisation - (In Units)	634	723	733	**908**

Controlling Fuel Consumption

Having to manage a large vehicle fleet, and controlling the resultant use of fuel and cutting down emissions is considered priority for the Transport Division. The division works together with MI's workshop vehicle repair and Servicing Division to maintain vehicles fuel economy. In parallel, monthly vehicle-wise fuel cost statements are disseminated by Finance Division to all departmental heads for them to oversee their staff's fuel usage.

Fuel Consumption Statistics:

	2010/11	2011/12	2012/13	**2013/14**
Fuel				
Petrol (litres)	86,578	121,626	213,902	**263,022**
Diesel (litres)	18,101	20,167	18,938	**18,636**

Transport Division was able to obtain fuel emission certificates for the fleet of vehicles it manages:

Vehicle category	Requirement for emission certificate in FY 2013/14 (No.)	Emission certificates obtained in FY 2013/14 (No.)
Cars	55	55
Vans	4	4
Lorries	2	2
Bikes	70	70

Biodiversity

In spite of MI's growing business presence across regions, we have made sure that our operation does not hinder designated protected areas or areas of high significance in terms of biodiversity. As a service organisation, the direct impact arising from our operation to the environment including effects to surrounding habitat is negligible.

CSR Activity Towards Environment and Animal Habitats

The Company every year devotes itself in environmental protection activity especially seeking the well-being of habitats and addressing concerns related to the shrinking animal population. During 2013/14, the CSR Committee carried out following programme towards these endeavour:

- Cleaning of water holes in the Yala National Park in 2013 to provide cleaner drinking water to animals inside the sanctuary.

Cleaning of water holes in the Yala National Park

Environment-Related Fines and Sanctions

There were no reported violations of any environmental standards. MI was not called upon to settle any environmental-related fines in this period. In addition, 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 260 in the Statement on Annual Report of the Board of Directors.

SOCIAL REVIEW

Strategy/Management Approach to Social Value Creation

It is understandable that creating social value may not accrue commercial benefits to us immediately but rather resultant benefits both tangible and otherwise would accrue to us from a longer term perspective. Moreover, activities directed towards society would improve quality of life of society which in turn would benefit MI reciprocally in so many ways. We strive to widen our ambit related to social aspects to create social value which we could pass on to our workforce, society and finally the nation as a whole. When it comes to social stakeholders, as we strive to fulfil customer's needs, we also look at meeting needs of our employees, needs of local community and needs of society looking beyond commercial aspirations.

Within the Company, our workforce remain an integral cog in our success. We maintain a steady and harmonious relationship with employees, nurturing their skills and developing them to move ahead in careers through the years. The humane approach that we take in managing people has brought immense mutual benefit to the Company and employees likewise. We adopt a unique management style that promotes creativity and innovation providing equal opportunity for committed individuals to excel in their fields and advance ahead in their careers.

In meeting societal needs of people, going beyond commercial services that we offer, the CSR Committee since its set-up in 2011 was able to initiate value adding programmes targeting local community, particularly the lesser privileged segments of society. The Committee extended its helping hand towards health care, education support and initiatives to alleviate poverty and other community service programmes including environment protection activity. In elaborating MI's social performance, we dissected our social value creation process into four separate distinct parts as follows. i.e. labour review, societal review, human rights review and product review.

LABOUR REVIEW

Strategy/Management Approach to Labour

For the Company, our workforce has been the key factor in our journey to success. They have displayed immense commitment to the organisation and have been instrumental in achieving this level of growth. The Company considers employees as our most valuable asset; the institution's brain and brawn, people who provide life to the vision of the Company, who have taken the initiative all this while to fulfil aspirations of the enterprise. MI team comprises individuals most of whom are experienced and skilled, whom we have groomed and nurtured to become financial specialists and experts in their fields over the years.

Human capital management plays an integral role in raising productivity levels and this is done by managing employee morale and motivation by being a caring employer. We groom and nurture them to bring out their capabilities and hidden talents. The employee-centric approach that we adopt has enabled the Company to create a team that is passionate about what they do; who are positive thinkers by nature, and who have been adequately empowered to create value in what they do, to the expectations of the organisation.

Human Resource Policy

The HR policy of the Company is to nurture our workforce in a way that it enhances value of human capital in a mutually beneficial way for both the Company and the employee. Our policies on HR recognise the need to nurture and build skills and competencies of employees at all levels of the hierarchy. The HR policy is aligned with overall corporate objectives on value creation. MI labour policies are focused on grooming an effective individual who is capable of dealing with the sophistication in the financial services sector to meet evolving challenges. Further, the HR policies of the organisation revolve around the need to create a culture that upholds sound governance and accountability, to display honesty, integrity and ethical behaviour in all instances. Related policies driven by the HR division further uphold the Company's commitment towards non-discriminatory practices and equality in the workplace.

Value of Being an MI Employee

Key Human Resource Initiatives undertaken in FY 2013/14 are disclosed on page 53.

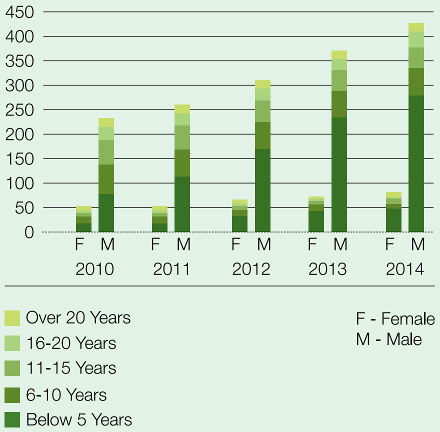
KEY PERFORMANCE INDICATORS RELATED TO LABOUR

STAFF STRENGTH (Nos.)

Staff Strength

	2014		2013		2012		2011		2010	
	Male	**Female**	Male	Female	Male	Female	Male	Female	Male	Female
Directors	**4**	**1**	4	1	5	2	5	2	6	2
Managers	**56**	**9**	53	7	52	6	38	6	32	4
Executives	**117**	**34**	112	36	74	28	60	24	51	24
Clerical and Allied	**143**	**37**	116	28	81	30	82	21	73	23
Office Assistants and Others	**107**	**0**	86		99		75		71	
	427	**81**	371	72	311	66	260	53	233	53

SERVICE ANALYSIS OF EMPLOYEES (Nos.)



Service Analysis

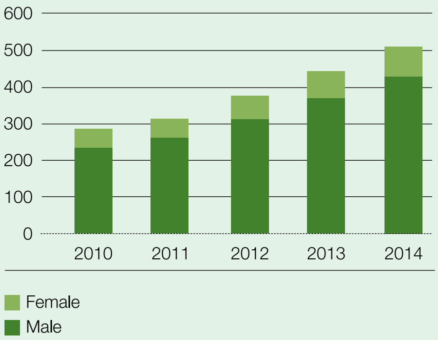
	2014		2013		2012		2011		2010	
	Male	**Female**	Male	Female	Male	Female	Male	Female	Male	Female
Below 5 years	**279**	**48**	234	43	170	33	114	17	77	17
6-10 Years	**56**	**9**	54	13	54	12	55	14	61	14
11-15 Years	**42**	**11**	43	7	45	8	48	8	50	8
16-20 Years	**32**	**2**	23	4	25	5	25	5	26	5
Over 20 Years	**18**	**11**	17	5	17	8	18	9	19	9
	427	**81**	371	72	311	66	260	53	233	53

AGE ANALYSIS OF EMPLOYEES (Nos.)

Age Analysis

	2014		2013		2012		2011		2010	
	Male	**Female**	Male	Female	Male	Female	Male	Female	Male	Female
21-30 Years	**207**	**43**	187	41	139	35	101	20	77	19
31-40 Years	**128**	**21**	104	15	94	14	78	16	74	16
41-50 Years	**59**	**10**	51	13	49	14	51	14	50	15
51-60 Years	**20**	**6**	18	2	18	2	19	2	20	2
Above 60 Years	**13**	**1**	11	1	11	1	11	1	12	1
	427	**81**	371	72	311	66	260	53	233	53

GENDER DISTRIBUTION OF EMPLOYEES (Nos.)



Gender Distribution

	2014	2013	2012	2011	2010
Male	**427**	371	311	260	233
Female	**81**	72	66	53	53
	508	443	377	313	286

STAFF RECRUITMENTS (Nos.)

Staff Recruitment

	2014		2013		2012		2011		2010	
	Male	**Female**	Male	Female	Male	Female	Male	Female	Male	Female
Directors	**1**	**0**								
Managers	**3**	**0**	2	1	3		1	1	1	1
Executives	**35**	**1**	24		23	1	18	1	2	3
Clerical and Allied	**54**	**14**	69	3	51	17	18	6	15	2
Office Assistants and Others	**48**	**0**	10		9		4		9	

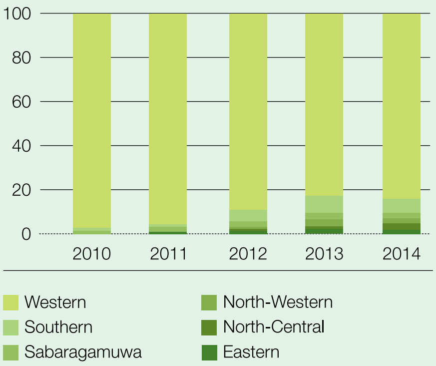
Staff Religion/Ethnicity Gender-Wise

Gender	Religion	Ethnic Group				
		Burgher	Muslim	Sinhala	Tamil	Grand Total
Female	Anglican			1		1
	Buddhist			60		60
	Catholic	2		15		17
	Hindu				1	1
	Islam		2			2
Female Total		2	2	76	1	81
Male	Anglican			1		1
	Buddhist			351		351
	Catholic	7		35	6	48
	Christian			8	2	10
	Hindu				9	9
	Islam		7			7
	Methodist			1		1
Male Total		7	7	396	17	427
Grand Total		9	9	472	18	508

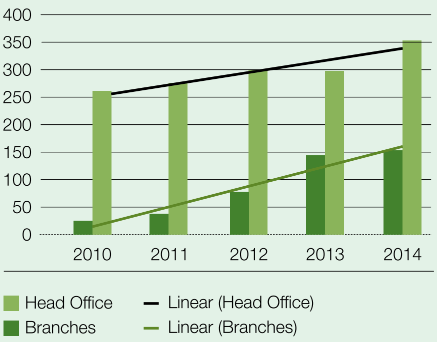
Provincial and Branch-Wise Breakdown of Human Capital as at 31 March 2014

		2014		2013		2012		2011		2010	
		Male	**Female**	Male	Female	Male	Female	Male	Female	Male	Female
Trincomalee	Eastern	**6**	**0**	6		5		3			
Ampara	Eastern	**4**	**1**	4	1						
Total		**10**	**1**	10	1	5	0	3	0	0	0
Anuradhapura	North-Central	**6**	**1**	4	1	4					
Polonnaruwa	North-Central	**5**	**1**								
Total		**11**	**2**	4	1	4	0	0	0	0	0
Kurunegala	North-Western	**6**	**1**	7		3					
Chillaw	North-Western	**5**	**1**	5	1						
Total		**11**	**2**	12	1	3	0	0	0	0	0
Balangoda	Sabaragamuwa	**5**	**1**	7	1	6		7		4	
Embilipitiya	Sabaragamuwa	**6**		5	1	3					
Total		**11**	**1**	12	2	9	0	7	0	4	0
Bentota	Southern	**6**	**1**	8		6		4		4	
Tissa	Southern	**5**	**1**	5	1						
Galle	Southern	**7**	**1**	7	3	5					
Matara	Southern	**8**	**3**	8	2	7	2				
Total		**26**	**6**	28	6	18	2	4	0	4	0
Head Office	Western	**286**	**61**	241	57	238	61	225	51	208	52
Negombo	Western	**10**	**1**	11	1	9	1	7	1	7	
Kohuwala	Western	**12**		10	2	11	1	8	1	5	1
Kadawatha	Western	**12**		14		9		6		4	
Maharagama	Western	**7**	**1**	7		5	1			1	
Horana	Western	**4**		7	1						
Gampaha	Western	**5**		3							
Minuwangoda	Western	**6**		6							
Kottawa	Western	**5**	**2**	6							
Nittambuwa	Western	**4**	**1**								
Corporate Premier	Western	**7**	**3**								
Total		**358**	**69**	305	61	272	64	246	53	225	53
Grand TOTAL		**427**	**81**	371	72	311	66	260	53	233	53

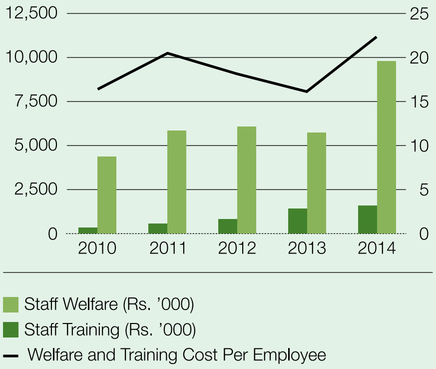
PROVINCIAL-WISE BREAKDOWN OF HUMAN CAPITAL (%)



HEAD OFFICE VS BRANCHES HUMAN CAPITAL (Nos.)



STAFF COST ON WELFARE AND TRAINING (Rs. '000)



Employee Recruitment and Selection Process

To compete in a tough competitive environment, we felt it necessary to maintain an effective recruitment system to track individuals with suitable background, those who possess the required experience and qualifications to fit into our dynamic environment, when vacancies arise. Mercantile Investments continues to be a preferred employer for committed individuals who come in seek of job opportunity and career advancement. Being a premier player in the sector, MI is able to successfully attract a wide and deep pool of skills and talent to meet its human resource demands.

We adopt a systematic approach when carrying out all our recruitments and adopt a thorough screening process which ensures that the most suited individuals are handpicked. The Human Resource Division is entrusted with the task of initiating the recruitment process, acting as the mediator between the division needing staffing and the applicants.

A thorough assessment is made of a candidate to determine their basic skills, knowledge, experience and qualifications, to ensure they can be effective contributors to the current workforce. As an additional measure, background verification is performed with referees to ascertain candidates past work performance and level of integrity.

In calling for applications, vacancy notices are published in newspapers and as an alternative we resort to seeking applications from web-based job related databases. In parallel, departmental heads are given the opportunity to nominate any suitable employee from within the department for the position. All potential candidates are finally subject to a thorough interview process with top positions requiring the Managing Director's Review.

Training and Development of Employees

We take enhancing of human capital value as one of prime importance, because of the growing competitiveness of the sector which calls for continuous grooming of the workforce to face future challenges. In this context, training and development plays an integral role in nurturing our employees to face business complexities and to meet anticipated productivity levels. MI's learning culture provides equal opportunity for all individuals. The Company anticipates that by being fully committed to training and development activity resultant benefits will not only pass on to the organisation, but will also support employees to advance in their careers.

During FY 2013/14, the HR Division arranged a number of in-house training programmes for the benefit of employees covering a range of topics beneficial to execute daily functions. New recruits were subjected to a thorough induction programme that covered HR polices of the Company as well as specific technical topics deemed essential. At the same time, external training was afforded to officers across divisions to enhance their knowledge especially on very current topics of importance. For purpose of attaining global skills, some of our corporate management key personnel were sent on overseas training in last few years. All in all, the training and development system adopted by management at MI is aimed at broad-basing skills of our workforce on an ongoing basis.

The Company encourages job rotation wherever possible so that staff can gradually become multi skilled overtime. By adopting this strategy, departments have been able to cope better to work demands especially to handle workloads during peak moments. We uphold a learning culture that fosters creativity and recognises individuals with innovative thinking. Fostering this unique open knowledge environment has set a platform in recent decades for the development of potential leaders within the workforce. Some of our employees through their dedication and perseverance have gone on to take up demanding roles within the organisation, even taking up positions on the Board.

Induction Training

Induction Programme Coverage - FY 2013/14

- Company History
- MI Core Business Areas
- Customer Care Etiquettes
- Group Activity
- Finance Session and Compliance with Financial Regulations
- Recoveries Procedures
- HR Practices, Career Progression and Discipline

Training Conducted in-house on Anti-Money Laundering (Two-Hour Programme)

No. of staff

Grade	2009/10	2010/11	2011/12	2012/13	**2013/14**
Managers and above	8	4	5	14	**11**
Executives/Assistants	17	21	21	52	**61**
Total	25	25	26	66	**72**

Training by Gender and Hours of Training - FY 2013/14

Field of Training	Gender		Total Participants	Hrs. of Training	Total Hours
	Male	Female			
1 Anti-Money Laundering and Regulatory Compliance	49	23	72	8	576
2 Induction	54	6	60	8	480
3 Balanced Scorecard	1	0	1	8	8
4 MS Powerpoint - Advanced	1	0	1	8	8
5 MS Excel/Word	6	6	12	6	72
6 Workshop for Corporate Managers	17	3	20	4	80
7 Foundation Certificate in Marketing (FCM)	18	0	18	36	648
8 Foundation Certificate in Marketing (FCM)	18	1	19	36	684
9 Training on Operations and Legal Procedures in Leasing	13	6	19	4.5	85.5
10 Micro Credit Management Programme	3	0	3	96	288
11 The Changing Face of Human Resources Management	0	1	1	8	8
12 Labour Law for Career Development - IPM	1	1	2	8	16
13 Workshop on Strategy	1	0	1	4	4
14 Seminar on Tax Implications on IFRS	1	0	1	4	4
15 Programme on Consolidation of the Financial Services Sector	2	0	2	4	8
16 Corporate Strategy for Finance Companies and their Contribution to the National Economy	1	0	1	2	2
17 Public Programme on ‘Lead to Serve’	7	8	15	8	120
18 Vehicle Valuation Forum/Knowledge Sharing Session	2	0	2	3.5	7
19 Training on Operations and Legal Procedures in Leasing	18	4	22	4.5	99
20 Foundation Certificate in Marketing (FCM)	19	8	27	24	648
21 Seminar on Restructuring Business Models of Companies to Face the Challenges in an Emerging Economy	1	1	2	4	8
Total	**233**	**68**	**301**		**3,853.50**

Training Participants by Grade and Gender

Grade	Gender		Total
	Male	Female	
Managers and above	48	7	55
Executive/Assistants	185	61	246
Total	233	68	301

A SOUND WORK ENVIRONMENT

MI fosters a working environment which encourages autonomy and inculcates out-of-the-box thinking, stimulating individuals' hidden talents. Necessary backbone infrastructure has been given for them to perform their routine functions without any obstacles. In the midst of a growing cadre, MI's organisational structure has been kept simple which enables easy communication flow and decision making among divisions. We uphold a people-centric culture which facilitates smooth dialogue among superiors and subordinates which assists management to tackle employee grievances effectively.

This year, floor designs including work station settings of the Deposits Division was completely reorganised to improve work environment setting for employees and to present customers a unique business atmosphere. As a result of these changes, the flow of information, within departments and interaction between divisions has improved leading to a more effective work environment. The Company premises at Head Office as well as other MI locations are equipped with enough work space and technology support for staff to carry out duties.

In terms of physical safety of employees, Management continues to review existing safety measures on an ongoing basis against accepted corporate standards. The recommendations made by the Colombo Fire Brigade on fire safety measures are being followed up. Plans are also under way to provide training to staff at our Head Office, on evacuation procedures to be followed in the event of fire. The Company provides employees an in-patient medical insurance which covers medical costs of even their spouses and children.

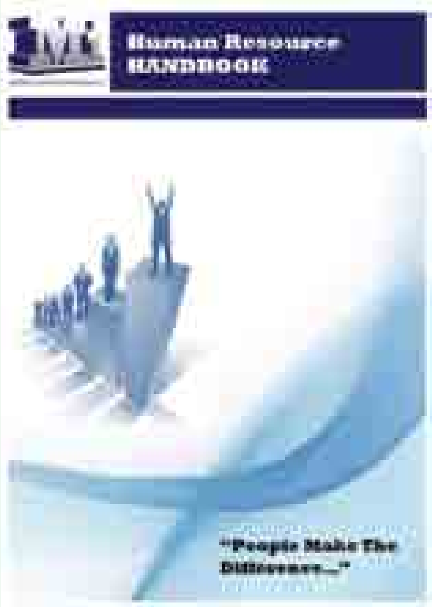
Injuries or Fatalities/Lost Days/Absenteeism

No. of Head Office Staff	Fatalities (In No.)	Injuries (In No.)	Lost days (Based on average number of days per employee) during 2013/14	Absenteeism (in days) During 2013/14
276	–	–	–	72

Note: Report excludes Senior Managers and above and branch staff.

Nurturing Values of Workforce

The culture within MI presents a profound experience to each staff member. As part of the MI team, individuals are able to freely interact with other financial professionals, most of whom have been with the Company for over five years, some reaching more than a decade in service. Based on MI's unique corporate culture, employees are expected to display core values in their daily work life which include integrity considered integral to all members joining the team. All employees adhere to the requirements of the 'Human Resource handbook' released in 2013 that exemplifies the need for proper employee conduct. In upholding these core HR values, management adopts a strict compliance policy. Any material deviations to said code would result in disciplinary action against respective employee and any repeated violations could result in termination of employment. All employees are expected to carry out their duties diligently, adhering to highest ethical standards. As such gross violations of professional and personal ethics are viewed seriously and are dealt with strongly by management.



HR Handbook

Appraising Employee Performance

In FY 2013/14, formal employee performance appraisal system was enhanced further by introducing 'individual balance score cards' specifying targets for employees attached to strategic business units. Department specific financial and non-financial targets were handed down to employees at the commencement and then reviewed by-annually by their superiors. For the evaluation process to be successful, MI IT division was able to generate MIS, actual against targets in respect of key score card criteria.

The rewarding system for employees of SBU's was directly linked to this appraising methodology with Cost Center staff performance evaluated based on department specific score cards. The adopted appraisal system whilst being beneficial in deciding staff bonuses and annual increments, provided insight to Management on training needs of employees and served as a basis for identifying future promotional prospects. The percentage of staff formally appraised from total workforce was 68% out of which 24% comprised evaluation of female employee performance.

Performance Appraisal Coverage in FY 2013/14

Division	No. of staff evaluated Male	No. of staff evaluated Female	No. of staff not evaluated	% appraised
Credit and Marketing	153	37	28	87%
Deposits	8	7	4	79%
Recoveries	69	18	15	85%
Finance	11	6	8	68%
Legal	6	6	2	86%
HR	1	2	1	75%
Workshop	0	0	22	0%
Insurance	8	4	4	75%
IT	6	2	1	89%
Other	0	0	79	0%
Total	262	82	164	68%

Other achievements associated with work includes recognition for best attendance, long standing services of employees and worthy contributions made by staff for the betterment of the Company.

In parallel, from a non-monetary angle, social events such as MI sports day, annual get-together, day outs and religious events are arranged to foster close harmony and team building among employees. Separately, gym facilities are afforded to all senior officers for them to maintain right physical health and to relax and unwind from daily work stresses. While being able to enjoy these vast benefits, our employees have the opportunity to be part of a financially sound institution that provides them job security as they continue to aspire in reaching the pinnacle in their careers, growing together with the Company. Our employees are fortunate to be part of MI's unique friendly culture which has brought about a sense of togetherness among members, which has made the team stronger to resist any challenge or adversity.

Employee Rewarding System

Employee reward system at MI has been designed to capture employee efforts for the period, how well they met organisational expectations so that they can be remunerated in a suitable manner. Salary scales are reviewed on a continuous basis to maintain competitive remuneration levels in line with market standards. Each calendar year, management carries out a formal performance appraisal process and then decides on annual increments as a means of rewarding and recognising employees efforts and to keep them motivated. To sustain motivation, MI employees receive annual bonuses, and depending on their grades are entitled to health insurance and vehicle loans as additional perks. Exceptional performers are recognised by management by way of special awards handed down at annual events.

MI's Well-knit culture

Staff Retention

Having a motivated workforce, more than 35% of staff have served Mercantile Investments for over five years and 22% of employees' service goes beyond a decade as per this year's statistics. Staff turnover levels however showed a rise of 18% (8% in FY 2012/13) in the midst of a competitive environment affording numerous job prospects and greater job expectations placed on employees working in the financial industry. The Company's profound management style and attempts over the years in maintaining apt motivational policies have proved successful in maintaining these relatively lower turnover rates over the years.

Total Staff Turnover

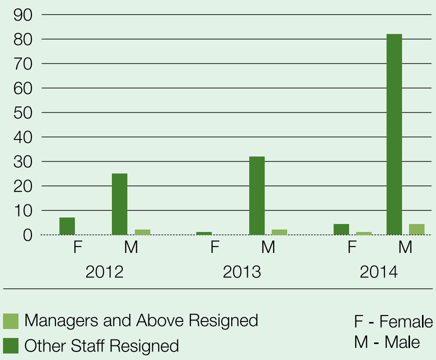
	2014 %	2013 %	2012 %
Staff Turnover as a % of Total Staff	**18**	8	9

	2014		2013		2012	
	Male	**Female**	Male	Female	Male	Female
Managers and above Resigned	**4**	**1**	2	–	2	–
Other Staff Resigned	**82**	**4**	32	1	25	7
Total	**86**	**5**	34	1	27	7

TOTAL STAFF TURNOVER (%)

Staff turnover as a % of total staff

STAFF TURNOVER GENDER-WISE (Nos.)



Equality in Job Opportunity and Remuneration

Equal opportunity prevails for both males and females who join and become part of the organisation to progress in careers without obstacles of biasness and unfairness. Our remuneration policy towards workforce clearly signifies no biasness towards any gender, with remuneration related decisions being taken purely on formal assessment criteria.

Labour/Management Relations

No Trade Union exists within the Company while MI does not have collective bargaining agreements with its employees. Changes to salary scales of employees are carried out at the discretion of the management. Material operational changes to staff's job functions are rare and if it were to happen, they are usually discussed with the relevant member. No minimum notice period is specified if any such changes are effected and is at the discretion of the management.

Key Events Held in FY 2013/14

• MI Annual Get-Together Held at Waters Edge

The annual staff get-together was held on 14 December 2013 at Waters Edge with the participation of the Directors and all staff attached to MI head office and branch network. The event displayed the fellowship everyone shares at MI as a close-knit team, despite being attached to various departments and being in diverse locations.

Annual get-together

• MI Christmas Carols

For the first time in MI's history, under the patronage of the Managing Director, Gerard Ondaatjie, Christmas Carols was held at MI premises on 20 December 2013, with the participation of MI employees. At the same event, children of some of the staff took part in a drama to relive the Nativity of Jesus Christ, to kindle the Christmas feeling.

Christmas Carols Team

Community Approach

Increased business presence has widened company's interaction level with local communities. This requires MI to have a greater sense of receptiveness towards community needs. In keeping with MI's CSR ideologies, MI strives to cater to needs of local communities by initiating a broad spectrum of social programmes outside MI's commercial sphere of activity. The CSR Committee has taken the lead to address some of the burning issues of society, upon its setting up. The Committee was successful in extending its support to society by initiating healthcare, educational, sanitation and other poverty alleviation programs and various community projects.

From a corporate angle, MI's commercial operations are handled in a safe and sound manner for the benefit of its stakeholders and society, adhering to sound governance practices, keeping to industry accepted norms and regulations. Importantly, the business ethics that MI abide by require MI to be fair competitors in the sector, ensuring that MI do not denigrate other firms when doing business. MI take a leading role in the sector, actively participating in associations that have been formed for the common interest of all member firms. MI have active membership in The Finance Houses Association of Sri Lanka (FHA) as well as The Leasing Association of Sri Lanka that strives to improve standards of the leasing and finance company sector in the country.

Societal Goals

The CSR Committee works within an allocated CSR budget, laying down plans at the commencement of the year on social programmes that need to be focused on during the period. CSR plans usually target the society as a whole and in specific instances target the local community within the vicinity of a given branch. The planned CSR programmes for the current financial year against what was actually initiated showed a 91% successful completion rate. (10 projects completed out of 11 planned.)

Policy Adopted Towards Society

MI's social policy requires the organisation to take broader view on meeting societal needs and to gear corporate activity to be of greater value to society beyond the provision of financial services. The Company hopes to go that extra mile to serve lesser privileged segments of society to improve their well-being, in MI's own ways possible. By aspiring to fulfill a broader spectrum of needs of society, MI hope to strategise itself as a socially responsible institution, valued by society for more ways than one.

Responsibility for Creating Social Value

While the overall responsibility for social dimension lies with MI's Board, both Corporate Management and CSR Committees have been equally entrusted with the task of driving the organisation's social aspirations forward. The CSR Committee is given the mandate to identify and address needs of society outside the sphere of MI's core business of financing. The Corporate Management task in this regard is to identify financial needs of society, and to support them in providing financial solutions to uplift their livelihoods, meeting both entrepreneurial and personal needs in the process.

Creating Awareness on Aspects of Society

No specific training is afforded to employees on society aspects currently other than training conducted on Anti-Money Laundering procedures that assist in curbing illegal practices carried out through financial transactions detrimental to society. Comprehensive in house training on this subject was organised for officers handling financial transactions at both Head Office and branch level, during this period.

The CSR Committee in the last two years has been able to create awareness on the need for CSR within the workforce, getting them involved in some of the programmes initiated. For this financial year, the Committee was able to successfully conduct a blood donation campaign with the support of departmental staff.

Monitoring and Follow Up

In assessing financing needs of societies, we remain receptive to changes in customer thinking and also on other wants of societies, change in social behavior, consumption patterns and other social trends. Required cost benefit studies are carried out prior to deciding to enter into new localities to offer MI services. We gauge demand levels at potential locations for MI's types of offerings to ensure MI serves a broader spectrum of societies. Through MI's increased presence now, it is able to reach a much wider segment of society than before and obtain feedback of their needs more effectively so that MI could gear ourselves to be of greater assistance.

Key Social Performance Indicators

Extending Financial Services Beyond the Western Province

MI have been successful in expanding its presence across the country and striving to offer its services to a larger segment of society going outside the Western Province to even most remote parts of the country. To support the expanding operations of the company, considerable amount of resources have been allocated particularly, manpower in areas that MI operate strongly.

Staying alert to financial needs of people, MI has been able to afford right solutions to those in need, cement lasting bonds with local communities in those localities. The growth trend in MI's lending, deposit mobilisation and profits is a testimony to MI commitment to reaching people beyond the Western Province.

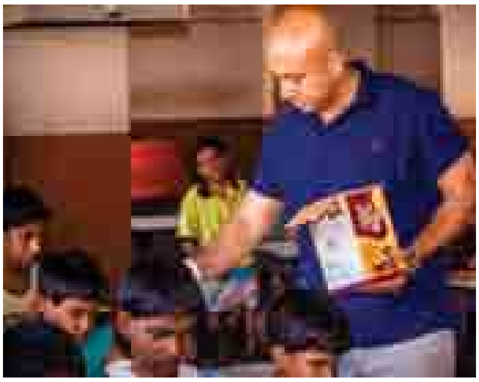
Outside Western Province	2009/10 Rs. million	2010/11 Rs. million	2011/12 Rs. million	2012/13 Rs. million	**2013/14 Rs. million**
Lending Business	360	650	1,812	2,601	**4,382**
Deposit mobilisation	5	7	39	115	**177**
Branches/Service Centres	2	3	9	11	**12**

Social Responsibility Initiatives - FY 2013/14

Through the initiation of the CSR Committee and the Corporate Management in tandem, following CSR programs were carried out by the Company in FY 2013/14.

By Whom	Date	Description of Project	Description of CSR activities	Budgeted Cost Rs.	Actual Cost Rs.
Initiated by CSR Committee:	September 2013	Wildlife sanctuary waterhole cleaning project in Yala	Cleaning of Waterholes used by animals to provide cleaner drinking water 	–	20,000
	November 2013	Supporting cancer patients	Assisted Cancer Hospital - Maharagama by supplying Medicines urgently required for patients 	–	68,898
	November 2013	Improving sight of visually impaired individuals	Supplied Intraocular Lenses for 15 patients to improve their vision in the vicinity of Gampaha. 	–	150,000

By Whom	Date	Description of Project	Description of CSR activities	Budgeted Cost Rs.	Actual Cost Rs.
	November 2013	Supported a District Hospital launch a mobile clinic	Supplied furniture for the newly established mobile clinic at District Hospital, Minuwangoda. 	–	18,500
	December 2013	Assisting school going children affected by wild elephant attacks in remote areas	Supplied school bags to children in Tissamaharama and Ampara, those affected by wild elephants through the Elephant & Biodiversity Foundation. 	–	28,500
	December 2013	Assisted in uplifting education among under privileged children	Assisted the Dehiwala and Ratmalana Development Foundation financially for the supply of Books to school going, underprivileged children. 	–	31,500
	December 2013	Supported underprivileged children who lacked school gear	Supplied Shoes, School Bags, and Uniforms for children attached to Children's Home in Anuradhapura.	–	53,611
	December 2013	Sponsored HIV/AIDS awareness programme	Sponsored an HIV/AIDS awareness programme organised by the Steve Waugh Foundation (i.e. Stage Drama)	–	5,000

By Whom	Date	Description of Project	Description of CSR activities	Budgeted Cost Rs.	Actual Cost Rs.
	March 2014	Sanitation support for church	Assisted financially Our Lady of Lourdes Church in Dampe for the building of a toilet 	–	70,000
	March 2014	Blood donation campaign to support ICU of Maharagama Cancer Hospital	88 MI staff members supported by donating blood. 	–	17,805
	March 2014	The Ceylon School for the Deaf and Blind, Ratmalana	Food, clothing, toys and other items were donated to the school 	–	31,171
Total				500,000	494,985

By Whom	Date	Description of Project	Description of CSR activities	Actual Cost Rs.
Corporate Management Initiated CSR Activity:	April 2013	Financial Assistance to non-profit organisations	Arangala United Business Community	10,000
	May 2013		Kollupitiya Ekamutu Tharuna Samithiya	48,000
			Inland Revenue Assessors Union	100,000
			Kandawela Sanwardena Padanama	10,000
			Sri Lanka Schools Karate-Do Association	2,500
			University of Colombo Amalgamated Club	10,500
	July 2013		Rotary Club of Battaramula	10,000
			Make me Smile Foundation	12,000
	August 2013		University of Colombo Amalgamated Club	10,000
	September 2013		Samata Sarana	20,000
	October 2013		Retired Senior Police Officers Association	5,000
	December 2013		Council for Business with Briton	3,000
			Union Bank Sports Club	10,000
	January 2014		Hello House Events	125,000
	February 2014		Friends of Wilpattu	50,000
			Department of Languages and Cultural Staff	25,000
	From April 2013 to March 2014	Financial Assistance to Religious Institutions		150,000
	From April 2013 to March 2014	Financial Assistance to Schools		83,000
Total				684,000

For the FY 2013/14, the Company's total expenditure on community projects as a percentage of profit before tax stood at 0.14%.

Curbing Money Laundering

To strengthen the compliance function including close review on anti-money laundering requirements, MI have in place a dedicated fulltime, Manager Compliance. MI have established required policies and practices in keeping with Financial Transaction Reporting Act (FTRA) regulations, to counter risk of Money laundering (AML), a detrimental concern within society. The AML policy document of the company sets forth procedures for customer identification, reporting, record keeping and other important aspects as per regulations.

Incidents of Corruption

During the year 2013/14 there were no reported incidents of Money laundering or any other corruption.

Public Policy Positions and Participation

No official of the Company holds public positions or participates in the development of public policy.

Contributions to Politicians and Political Parties

During this period, the Company has not made any form of contribution to politicians and political parties.

Fair Competitors in the Industry

While MI's business practices have been aligned to follow accepted industry norms and ethics, MI refrains from engaging in activities that are detrimental to fair play in business. MI's active participation in sector specific Associations established for mutual benefit of all members affords MI the opportunity to interact with other Finance Companies freely.

Significant Fines and Sanctions

There were no significant fines or any sanctions imposed for breach of laws and regulations.

HUMAN RIGHTS

Management Approach

MI recognise the importance of human rights values when operating its business functions particularly, key principles associated with human resource management. MI's business policies, practices and processes have been designed and established taking cognisance of key human rights precepts. The need to respect basic human values is carved in MI's corporate value system. It is a standard practice for the Company to make due reference to human rights values followed whenever the strategy and related operational process impact the human element of the enterprise.

Policy on Human Rights

As a main human rights policy MI afford equal opportunities for all working within to develop in their careers. MI have created a culture that holds no boundaries when it comes to career progression, where employees of either gender is given equal opportunity to display skills and to excel in their fields. When establishing organisational policies and making broad business decisions, MI ensures necessary human rights aspects are considered. For instances MI's recruitment policy ensures MI do not obtain services of individuals below the specified legal age for employment. MI provide acceptable working conditions to all employees by keeping to accepted health and safety standards. MI have set standard rules on employee code of conduct specified in the MI HR handbook, laying down guidelines on employee conduct for the benefit of the organisation and its fellow workers.

Handling Employee Grievances

Employee grievances that arise during the course of duties and those beyond office work life are handled carefully by management with the Human Resource Division leading from the front. We have set in place right calibre personnel to deal in matters of this nature so that they can offer necessary counselling and advice to staff in need. Our unique 'open door culture' facilitates dialogue between employees and management without inhibitions, so that staff can obtain advice and seek relief for their grievances without delay.

Human Rights Related to Procurement

Since our dealings with suppliers are limited, the Company does not subject suppliers to screening on aspects related to human rights currently and do not specify our expectations on human rights in any contracts with them. The Company does not discriminate any individual based on their gender, religion or race for any reason and expect parties that transact with us also to uphold similar values.

Non-Discrimination at Workplace

There were no incidents of discrimination formally reported within the Company from any MI employee during this period.

Prohibition of Child Labour and Forced and Compulsory Labour

Our recruitment process is strictly conducted based on prevailing labour laws that require strict compliance to the minimum age limit for employment. No individual is subject to forced labour or have been engaged against his/her free will.

Human Rights Awareness of Security Personnel

The security function of the Company has been outsourced to a separate security firm. The security company continues to assign trained officers to deal with all aspects of security. Nonetheless, such personnel have not been given specific training on human rights at the moment.

Protecting Rights of Indigenous People

The Company's operation has no direct impact on indigenous people despite MI's wider branch coverage and presence in remote areas. There were no incidents of violations by the Company involving rights of indigenous people during this reporting period.

Assessment on Human Rights

No part of MI's operation was subject to human rights reviews, impact studies or assessments, during this period.

Remediation

There were no material human rights grievances reported for resolution to the Human Resources Department through formal grievance reporting channels, during this period.

Product Strategy/ Management Approach

Nature of business and the services that MI offer does not pose any direct health and safety concerns to customers. However in terms of product delivery and as a company that strives for excellence, MI expect employees to adhere to established organisational operational standards to ensure MI's services meet required standards. Product policies, processes and procedures have been established, keeping to industry practices. Based on the product policies and standards that MI uphold it ensures that MI's offerings marketed are fair in competition and have been developed with due care. MI carries-out its marketing communication activities maintaining the highest levels of integrity and honesty, not to mislead public, in a socially acceptable manner. MI uphold customer confidentiality for all its transactions and have allocated considerable resources to safeguard customer information, utilising advanced information technology support.

Product Responsibility Policy

Due care is taken to ensure that MI's products and services are of a highest standard and stay competitive in keeping with MI's corporate values, to add greater value to all its customers. MI expect its employees to abide to laid down standards specified in MI's operational manuals. MI as a company remain a fair player in the sector, competing with other similar institutions on common grounds.

Organisational Responsibility for Product Range

Organisational product responsibility lies with the respective Heads of Divisions for lending and deposits under overall guidance of the Managing Director and the Board. Respective divisional employees are required to maintain the highest level of standards in executing product related requirements. This calls for strict compliance to operational instructions specified in operational manuals on core business lines, in areas of product development, product delivery, marketing and communication, record keeping and monitoring.

Process of Engagement with Regulatory Bodies

Finance Companies as guardians of public funds, remain a highly regulated sector with a stream of regulations being imposed to safeguard stakeholder interest. This necessitates closer engagement with various regulatory bodies to ensure smooth implementation of regulations once new regulations/changes to regulations take place. Page 16 describes MI's engagement methods with regulatory bodies.

Goals and Performance

To be competitive and to gain market share, MI continued to focus on broad-basing its product range, in keeping to market preferences and by being innovative as possible. MI pursed its plans on expansion, and then setting tough goals on churning higher volumes from the broad-based range of offerings. Lending products leases, hire purchase financing, term facilities and pledge facilities were yet again the key contributors towards overall volumes. In striving to growths above 20% core divisions of lending and deposits pursued ways of widening the services MI offer. MI evaluated new product options to stay competitive, and made due enhancements and extension of services to existing product lines.

Ethical Marketing Communication

When promoting MI's products range across the country, MI ensured that all its advertisements and promotional campaigns are done with outmost responsibility in an ethical manner. Based on regulations, MI refer required advertising communiqués on deposits for the concurrence of the Central Bank of Sri Lanka, prior to release.

Key marketing communication methods adopted by the Company to promote business is given on page 61 in the Management Discussion and Analysis.

Training and Awareness on Product Handling

Employees are trained on various technical aspects related to MI's products and service deliverables which encompass both desk learning as well as on-the-job training. Employees attached to key business lines are appraised of standard procedures and processes that need to be followed to maintain product responsibility as part of their routine training. Constant emphasis on training has made employees thorough on their know-how on MI's product features and operational procedures, thus assisting them to complete tasks more effectively.

Monitoring and Follow Up

Management monitors success levels of MI's product portfolio closely on a weekly basis, comparing actual product performance against the past performance and anticipated targets. Corporate Management, in the presence of the Managing Director, is able to discuss product related matters during such meetings and to iron-out any related drawbacks then and there. Steps are taken to implement proposed strategy in the area of product development, in keeping to the strategic plan. Any deviations in implementation or changes in market conditions is taken up through this monitoring process and strategy reviewed to evaluate its effectiveness and to decide on changes necessary.

Product Responsibility Performance Indicators

Customer Health and Safety

MI's finance business operation as a whole does not bring any direct health and safety concerns to customers. The key area of focus however is the physical safety of everyone who comes in contact with the Company, within MI premises across our branch network. MI have established necessary safety procedures to secure health and safety of all its customers. MI Head Office, located in the heart of Colombo in Kollupitiya, has been set up with required safety features to safeguard anyone entering premises from potential health and safety concerns. The Security Coordinating Officer is responsible to supervise the effectiveness of security procedures that are in place while monitoring whether individuals who enter premises conform to company security regulations.

Product and Service Labeling

We adopt a common logo to market and brand majority of our lending and deposit products except for a few products that are promoted on product specific logos. In executing either a lending transaction or a deposit transaction, we resort to industry compliant documentation tailor-made for our types of offerings. These documents include lending agreements and deposit certificates that specify clear terms and conditions related to the given transaction.

Maintaining Customer Privacy

As an institution that holds large amounts of customer information, MI place utmost importance in maintaining customer privacy at all times. MI's information security policies highlight the need to keep customer information confidential without divulgence, away from intruders by establishing the right information security control environment. Whenever MI acquires new information technology solutions or make changes to existing platforms, MI ensure that necessary controls are in place to safeguard vast collection of data. Inbuilt system security features embedded in MI's core information system include passwords to limit access, automatic backing up of data, virus protection and firewalls. There have not been any reported breaches of customer privacy, during this period.

Compliance to Product Specifications/Requirements

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 labeling during this period. Further, there have not been any incidents of non-compliance with regulations concerning health and safety impacts of MI's products and services. At the same time, there are no reported incidents of non-compliance with regulations concerning marketing communications.

Observance to Global Compact Considerations

MI remain committed in striving to embrace international norms on sustainability to improve on MI's organisational practices as another step towards securing the well-being of people in society and the environment. The Company's observance level to the Global Compact Considerations upheld by the United Nations Global Compact (UNGC), namely the 10 universally accepted principles in the area of human rights, labour, environment and anti-corruption is set-forth in the table below:

Global Compact Considerations 10 Principles			MI's Extent of Adherence
Human Rights	1.	Businesses should support and respect the protection of internationally proclaimed human rights.	The HR policies and practices adopted by the Company are in line with industry accepted policies and practices. These have been devised after giving due consideration to key human rights precepts. As a standard HR policy, MI ensure that its business operation takes note of key human rights requirements when business decisions are made.
	2.	Make sure that they are not complicit in human rights abuses.	MI strive to accommodate needs including human rights of parties MI deals with, and adopt a considerate approach especially in the management of MI's workforce and dealings with MI's customers. MI have not encountered any incidents of human rights abuses or violations during the period under review.
Labour	3.	Businesses should uphold the freedom of association and the effective recognition of the right to collective bargaining.	Any employee can freely express their views and concerns to the Board or management of the Company. MI consider all feedback coming from employees as invaluable and constructive. MI nevertheless do not practice collective bargaining with MI's workforce. The management and workforce sustain a harmonious relationship at all times.
	4.	The elimination of all forms of forced and compulsory labour.	As a strict policy MI do not employ child labour or forced labour under any circumstances.
	5.	The effective abolition of child labour	MI recognise and abide by the fact that children should not be employed in any capacity whatsoever.
	6.	The elimination of discrimination in respect of employment and occupation.	The Company does not practice discrimination in any form whether by age, sex, ethnicity or religion. The employee appraising system adopted is purely performance based and calls for people with knowledge and experience.
Environment	7.	Businesses should support a precautionary approach to environmental challenges.	To meet growing environmental challenges, the company adopts a straightforward approach in dealing with resource waste and air pollution, despite MI's business impact being minimal. MI continue to monitor its operations on an on-going basis and when necessary, implement suitable environmental protection practices.
	8.	Undertake initiatives to promote greater environmental responsibility.	MI have displayed its part to environmental responsibility through various initiatives as disclosed under the 'Environmental Review' section.
	9.	Encourage the development and diffusion of environmentally friendly technologies.	A number of initiatives have been adopted that are environmentally friendly methods/ technology to counter waste and air pollution.
Anti-Corruption	10.	Businesses should work against corruption in all its forms, including extortion and bribery.	We have established a strong governance culture that uphold best corporate practices with strict punishment and disciplinary action for individuals who do not comply. MI has in place a 'Whistle blowing and Fraud policy' to identify and report on wrongdoers and has set-forth a process that should be taken to investigate and act against such individuals.

Our Future Sustainability Aspirations

Broad-Basing Economic Impact in the Medium-Term

- In keeping to the strategic plan, MI would strive to further strengthen the branch network and to extend its reach towards other non-tapped parts of the nation.
- The on-going plans on a possible merger or acquisition and its possible outcome would eventually expand MI's sphere of business into new segments and even fresh business lines.
- For the medium-term after 2014/15, preparation of a fresh Corporate Plan that will specify tougher goals and targets to reach greater strides in profitability and economic impact.

Enhancing Societal Impact

- With the approval of a higher annual CSR budget for future years, the CSR Committee hopes to expand its programmes on social welfare going to new boundaries to support lesser privileged segments of society.
- It is planned to groom the workforce not only on gaining technical knowhow but also in improving soft skills such as communication skills, personality building, customer handling, social interactions and character building through targeted external training for the workforce.

Plans on a Greener Environment

- Plans are underway to adopt solar power energy at Head Office premises in parallel with direct energy consumption from the national grid.
- Central air conditioning system is to be replaced with a more economical and eco-friendly system in the future so that electricity consumption could be reduced significantly.
- As a future initiative, MI hope to revise its credit evaluation process so that a thorough review would be carried out on industrial borrowers to ascertain their level of environmental compliance, whether they are in line with MI's environmental expectations.

Key Sustainability Performance Indicators

Section	Key Sustainability Performance Indicators	Page Numbers in Annual Report
Economic Dimension	Economic Value Added	330
	Value Added Statement	331
	Sources and Utilisation of Income	332
	Wage Rates	113
	Local Hiring	114
	Number of Branches Opened - 01	
	Number of Service Centres Opened - 02	
	New Products Launched/Product Extensions - Nil	
	Number of Direct Written Customer Complaints - Nil	
	Investor Performance Indicators	108
Environmental Dimension	Recycling of Consumables	116
	Stationery and Consumable Costs Trend	116
	Electricity Consumption	117
	Fuel Consumption	118
	Water Consumption	117
	Fuel Emission Certificates	118
Societal Dimension	Total Staff by Grade, Gender, Service and Age	120 to 121
	Staff Distribution by Province Gender-Wise	122
	Staff Ethnicity Gender-wise	121
	Staff Religions Gender-wise	121
	Training Hours/Training Costs and Welfare Costs	124
	Staff Turnover/New Recruitments	127 / 121
	Staff Injuries or Fatalities/Lost Days/Absenteeism	125
	Human Rights Violations - None	
	Business Volume Outside Western Province	129
	Community Projects Initiated	130 to 133
	Training Hours on Anti-Money Laundering	124
	Donations to Schools, Religious Institutions and Other	133
	Product Responsibility Violations Significant Fines - None	

THE GLOBAL REPORTING INITIATIVE COMPLIANCE INDEX

No.	Description	Disclosure	Page No./s
PROFILE			
1. Strategy and Analysis			
1.1	Statement from the Managing Director	● Sustainability Section	96 to 97
1.2	Description of key impacts, risks and opportunities	● Sustainability Section	101 and 102
2. Organisational Profile			
2.1	Name of Reporting Organisation	Mercantile Investments and Finance PLC	
2.2	Primary brands, products and services	● Brief about MI - Primary Brands, Products and Services	12
2.3	Operational structure of the organisation	● MI's Organisation structure MI has no subsidiary companies coming under its control for purpose of reporting.	11
2.4	Location of organisations headquarters	236, Galle Road, Colombo 3, Sri Lanka	
2.5	Number and names of countries with operations	Operations carried out entirely in Sri Lanka	
2.6	Nature of ownership and legal form	● Brief about MI - Background ● Corporate Information Page	10 Inner back cover
2.7	Markets served	● Brief about MI - Markets served ● Management discussion and analysis ● Segmental analysis	12 61 and 70 314
2.8	Scale of the reporting organisation	● Brief about MI - Scale of operations ● Triple Bottom Line Highlights ● Decade at a glance	12 4 337
2.9	Significant changes during the reporting period	No significant changes to size, structure or ownership from last year	
2.10	Awards received	● Brief about MI's Annual Report - MI remains supreme in financial reporting	8
3. Report Parameters			
Report Profile			
3.1	Reporting period	1 April 2013 to 31 March 2014	
3.2	Date of most recent previous report	31 March 2013	
3.3	Reporting cycle	Annual	
3.4	Contact point	Finance Department, Mercantile Investments and Finance PLC 236, Galle Road, Colombo 03.	
Report Scope and Boundary			
3.5	Defining report content	Brief about MI - Report Content	17
3.6	Boundary of report	Brief about MI - Scope and boundary of reporting	9
3.7	Limitations to scope	No material limitations observed	
3.8	Basis for reporting subsidiaries, joint ventures etc.	Not applicable	
3.9	Data measurement techniques	GRI and Company specific performance indicators have been adopted using data available	
3.10	Restatements	None material to report.	
3.11	Significant changes	None material to report.	
3.12	GRI content index	GRI Index	139 to 144
3.13	External assurance	External assurance from Messrs BDO Partners, Chartered Accountants obtained for the Sustainability Section disclosure.	145

No.	Description	Disclosure	Page No./s
4. Governance, Commitments and Engagement			
4.1	Governance structure	● Corporate Governance Report ● Sustainability Section	157 104
4.2	Chair of the highest governance body	● Corporate governance report ● Sustainability Section	160 104
4.3	Highest governance body	● Corporate Governance Report	156 to 157
4.4	Mechanism for employees/shareholders to provide recommendations/direction to the Board	● Sustainability Section	104
4.5	Compensation and performance	● Sustainability Section	105
4.6	Process for avoiding conflict of interest	● Corporate Governance Report	198 and 199
4.7	Expertise of governance body	● Board Composition	146 to 149
4.8	Mission and value statements	● Vision, Mission and Values	Inner Front Cover
4.9	Procedures of the highest governance body for overseeing sustainability	● Sustainability Section	103 and 104
4.10	Process of evaluating the highest governance body's own performance	● An evaluation was carried out on Boards own performance by each Director during this period	104
4.11	Precautionary approach	● Sustainability Section	105
4.12	Externally developed initiatives	None	
4.13	Membership in associations	● Sustainability Section	105
4.14	List of stakeholder groups	● Brief about MI - Stakeholder Identification	15 and 16
4.15	Identification and selection of stakeholders	● Brief about MI - Stakeholder Identification	14
4.16	Approaches to stakeholder engagement	● Brief about MI - Stakeholder Identification ● Sustainability Section	15 and 16 107 to 134
4.17	Key issues and concerns of stakeholders	● Brief about MI - Stakeholder Identification ● Sustainability Section	15 and 16 107 to 134
ECONOMIC			
5. Economic Dimension			
	Management approach	● Sustainability Section	107
5.1 Economic Performance			
EC1	Economic value generated and distributed	● Sustainability Section	107
EC2	Financial implications of climate change	● Sustainability Section	107
EC3	Organisation's defined benefit pension plan	● Sustainability Section	114
EC4	Financial assistance from Government	None for this period	107
5.2 Market Presence			
EC5	Entry-level wage - local minimum wage by gender	● Sustainability Section	113
EC6	Policy, practices and proportion of spending on locally based suppliers	● Sustainability Section	113
EC7	Hiring of employees	● Sustainability Section	114
EC8	Development and impact of infrastructure investments	Not reported	
EC9	Indirect economic impacts	● Sustainability Section	107

No.	Description	Disclosure	Page No./s
ENVIRONMENTAL			
6. Environmental Dimension			
	Management approach	● Sustainability Section	115
6.1 a Materials			
EN1	Materials used by weight or volume	● Sustainability Section	116
EN2	Percentage of materials used that are recycled input materials	● Sustainability Section	116
6.1. b Energy			
EN3	Direct energy consumption by primary energy source	● MI does not use energy as direct input for it's operations being a service oriented organisation. MI uses energy for day-to-day running of the Company.	
EN4	Indirect energy consumption by primary source	● Sustainability Section	117
EN5	Energy saved due to conservation and efficiency improvements	● Sustainability Section	117 and 118
EN6	Initiatives to provide energy-efficiency improvements	● Sustainability Section	117 and 118
EN7	Initiatives to reduce indirect energy consumption and reductions achieved	● Sustainability Section	117 and 118
6.2 Water			
EN8	Total water withdrawal by source	● Sustainability Section	117
6.3 Biodiversity			
EN13	Habitats protected	● Sustainability Section	118
	Sections EN 9-EN 12, EN 14-EN 15 & EN16-EN17, EN19-EN25, EN27	Not relevant for 'B' level reporting	
6.4 Emissions, Effluents and Waste			
EN18	Initiatives to reduce emissions and reductions achieved	● Sustainability Section	118
6.5 Products and Services			
EN26	Initiatives to mitigate environmental impacts of products and services, and extent of impact mitigation	● Sustainability Section	116 to 118
6.6 Compliance			
EN28	Monetary value of significant fines and total number of non-monetary sanctions for non-compliance with environmental laws and regulations	● Sustainability Section	118
6.7 Transport			
EN29	Significant environmental impacts of transporting products and other goods and materials used for the organisation's operations, and transporting members of the workforce	● Sustainability Section	118
6.8	**Overall**		
EN30	Total environmental protection expenditures and investments by type	● Sustainability Section	118 and 130

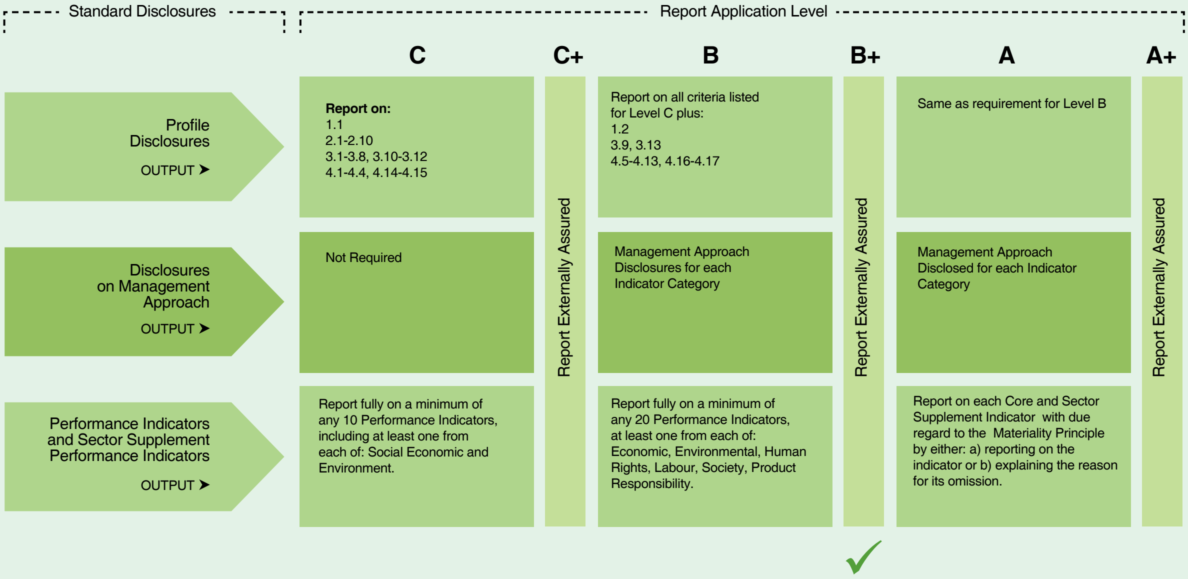
No.	Description	Disclosure	Page No./s
SOCIAL - LABOUR			
7. Labour Practices and Decent Work			
	Management approach	● Sustainability Section	119
7.1 Employment			
LA1	Breakdown of total workforce	● Sustainability Section	120
LA2	Total number of new employees and employee turnover	● Sustainability Section	121 / 127
LA3	Benefits provided to full-time employees	● Sustainability Section	126
7.2 Labour/Management Relations			
LA4	Collective bargaining agreements	● Sustainability Section	127
LA5	Notice period regarding operational changes	● Sustainability Section	127
7.3 Occupational Health and Safety			
LA6	Management-worker health and safety committees	● Sustainability Section	125
LA7	Rates of injury, lost days, absenteeism and fatalities	● Sustainability Section	125
LA8	Educating staff on serious communicable diseases	Not Covered this Period	
LA9	Health and safety in union agreements	Not applicable	
7.4 Training and Education			
LA10	Hours of training	● Sustainability Section	124
LA11	Programmes for skills management and life-long learning	● Sustainability Section	123 and 124
LA12	Regular performance reviews by gender	● Sustainability Section	126
7.5 Diversity and Equal Opportunity			
LA13	Employees according to diversity	● Sustainability Section	120 and 121
LA14	Basic salary of men and women	● Sustainability Section	113
	Aspect: Employment		
LA15	Return to work and retention rates after parental leave, by gender	Not covered during this period	
8. Human Rights Dimension			
	Management approach	● Sustainability Section	134
8.1 Investment and Procurement Practices			
HR1	Investments with HR clauses and HR screening	● Sustainability Section	134
HR2	Suppliers that underwent HR screening	● Sustainability Section	134
HR3	Employees training on human rights	No specific training undertaken on human rights this period	
8.2 Non-Discrimination			
HR4	Incidents of discrimination	● Sustainability Section	134
8.3 Freedom of Association (FOA) and Collective Bargaining			
HR5	Operations and significant suppliers identified in which FOA and collective bargaining may be violated	Not applicable	

No.	Description	Disclosure	Page No./s
8.4 Child Labour			
HR6	Child labour	● Sustainability Section	134
8.5 Forced and Compulsory Labour			
HR7	Forced or compulsory labour	● Sustainability Section	134
8.6 Security Practices			
HR8	Security personnel trained in human rights	● Sustainability Section	134
8.7 Indigenous Rights			
HR9	Rights of indigenous people	● Sustainability Section	134
8.8 Assessment			
HR10	Percentage and total number of operations that have been subject to human rights reviews	● Sustainability Section	134
8.9 Remediation			
HR11	Number of grievances related to human rights filed, addressed and resolved	● Sustainability Section	134
9. Society Dimension			
	Management approach	● Sustainability Section	129
9.1 Local Communities			
SO1	Percentage of operations with implemented local community engagement, impact assessments and development programmes	● Sustainability Section	129 to 133
9.2 Corruption			
SO2	Analysis of risk related to corruption	● Sustainability Section	133
SO3	Training in anti-corruption	● Sustainability Section	133
SO4	Instances of corruption	● Sustainability Section	133
9.3 Public Policy			
SO5	Public policy development and lobbying	● Sustainability Section	133
SO6	Contributions to political parties or related institutions	● Sustainability Section	133
9.4 Anti-Competitive Behaviour			
SO7	Legal actions for anti-competitive, anti-trust and monopoly practices	● Sustainability Section	133
9.5 Compliance			
SO8	Monetary value of significant fines	● Sustainability Section	133
	Aspect Local Communities		
SO9	Operations with negative impacts on local communities	No direct material operational impacts to report	
SO10	Preventive measures implemented in operations with negative impacts on local communities	Not applicable as no direct material operational impacts	

No.	Description	Disclosure	Page No./s
PRODUCT RESPONSIBILITY			
10.	**Product Responsibility Dimension**		
	Management approach	● Sustainability Section	134 to 135
10.1	**Customer Health and Safety**		
PR1	Life cycle stages in which health and safety impacts are assessed	● Sustainability Section	135
PR2	Non-compliance with regulations/codes	● Sustainability Section	135
10.2	**Product and Service Labelling**		
PR3	Information required by procedures	● Sustainability Section	135
PR4	Non-compliance concerning labelling	● Sustainability Section	135
PR5	Customer satisfaction	● Sustainability Section	134 and 135
10.3	**Marketing Communications**		
PR6	Adherence to laws, standards and codes	● Sustainability Section	134 and 135
PR7	Non-compliance concerning marketing	● Sustainability Section	135
10.4	**Customer Privacy**		
PR8	Complaints on breach of customer privacy	● Sustainability Section	135
10.5	**Compliance**		
PR9	Non-compliance with laws/regulations	● Sustainability Section	135

Declared Sustainability Report Grading

In keeping with the GRI framework's G3.1 application level criteria, MI assessed disclosure extent of its Sustainability Report 2013/14 and obtained an independent assurance report for the report from BDO Partners, Chartered Accountants, and accordingly self-declared a 'B+' application level grading.



Standard Disclosures	Report Application Level					
	C	C+	B	B+	A	A+
Profile Disclosures OUTPUT ➤	**Report on:** 1.1 2.1-2.10 3.1-3.8, 3.10-3.12 4.1-4.4, 4.14-4.15	Report Externally Assured	Report on all criteria listed for Level C plus: 1.2 3.9, 3.13 4.5-4.13, 4.16-4.17	Report Externally Assured	Same as requirement for Level B	Report Externally Assured
Disclosures on Management Approach OUTPUT ➤	Not Required		Management Approach Disclosures for each Indicator Category		Management Approach Disclosed for each Indicator Category	
Performance Indicators and Sector Supplement Performance Indicators OUTPUT ➤	Report fully on a minimum of any 10 Performance Indicators, including at least one from each of: Social Economic and Environment.		Report fully on a minimum of any 20 Performance Indicators, at least one from each of: Economic, Environmental, Human Rights, Labour, Society, Product Responsibility.		Report on each Core and Sector Supplement Indicator with due regard to the Materiality Principle by either: a) reporting on the indicator or b) explaining the reason for its omission.	
				✓		

INDEPENDENT ASSURANCE REPORT

BDO

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"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

INDEPENDENT ASSURANCE REPORT TO THE STAKEHOLDERS OF MERCANTILE INVESTMENTS AND FINANCE PLC ON THE SUSTAINABILITY REPORT - 2014

Introduction and Scope of the Engagement

The management of Mercantile Investments and Finance PLC ('MI') engaged us to provide an independent assurance on the following elements of the Sustainability Report for the year ended 31st March 2014 ('the Report').

- Reasonable assurance on the information on financial performance as specified on page 330 to 332 of the Report.
- Limited assurance on key performance indicators and other information presented in the Report.

Responsibility of the Management on the Report

The Management of the MI is responsible for the preparation and presentation of the Report in accordance with the MI's sustainability practices and policies which are derived from Global Reporting Initiatives (GRI-G3.1) 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 ('ICASL').

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 MI in accordance with our engagement letter dated 24th April, 2014. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the MI 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 ICASL.

Assurance Procedures Carried Out

Financial Information

We reconciled the information on financial performance as reported on page 330 to 332 of the Report with the audited financial statements of the MI for the year ended 31st March, 2013 and 2014.

Key Performance Indicators

We reviewed the reliability of the data/ information on Key Performance Indicators for the year ended 31st March, 2014 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 MI on a sample basis through recalculation.

Other Information

We planned and performed following assurance procedures on other information presented in the Report:

- Inquiring relevant MI'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 MI.
- 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 MI.

Conclusion

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

- The information on financial performance as specified on page 330 to 332 of the Report is properly derived from the audited financial statements of the MI for the years ended 31st March, 2013 and 2014.
- 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 MI's sustainability practices and policies which are derived from GRI (G3.1) Sustainability Reporting Guidelines.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo
23rd May, 2014
TS/fm

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 ACA, ACMA.
Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H.M. Saman Siri Lal FCA, ACMA, MBA.

BOARD OF DIRECTORS

Saroja Hemakumar Jayawickrema Weerasuriya

Chairman (Independent Non-Executive)

First appointed to the Board on
26 January 2011.

BSc (Lond.), MICE. FIE (SL), FSSE (SL), C.Eng.

Director of International Civil Engineering Consultants (Pvt) Limited and Kognoscenti (Pvt) Limited.

Proprietor of Saro Weerasuriya Associates.

Counts over 35 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

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 Hotel (Pvt) Limited.

Executive Deputy Chairman of Nilaveli Beach Hotels (Pvt) Limited.

Managing Director of Mercantile Fortunes (Pvt) Limited, Grand Hotel (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, Mercantile Orient (Pvt) Limited.

Possesses almost 22 years experience in the Financial Services, Tourism and Trading sectors.

No. of shares held: 477,213 (Voting)

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.

Possesses almost 29 years experience in the Financial Service sector.

No. of shares held: Nil

Shermal Hemaka Jayasuriya

Finance Director (Executive)

First appointed to the Board on 5 January 2001.

Associate 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 23 years experience in the Financial Services, Insurance, Manufacturing and Trading sectors.

No. of shares held: Nil

Travice John Ondaatjie

Director (Executive)

First appointed to the Board on 13 July 1995.

Holder of BSc Degree.

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,Grand Hotel (Pvt) Limited, Mercantile Fortunes (Pvt) Limited, Security Ceylon (Pvt) Limited, Fairview Hotel (Pvt) Limited, Tangerine Tours (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited , Mercantile Orient (Pvt) Limited.

Counts over 22 years experience in the Financial Services and Tourism sectors.

No. of shares held: 477,213 (Voting)

Angeline Myrese Ondaatjie

Director (Executive)

First appointed to the Board on 20 January 1992.

Holder of Master's Degree.

Holder of BSc Degree.

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, Grand Hotel (Pvt) Limited, Security Ceylon (Pvt) Limited, Nilaveli Beach Hotels (Pvt) Limited, Global Films Limited, International Fortunes (Pvt) Limited, Mercantile Orient (Pvt) Limited, Fairview Hotel (Pvt) Limited, Nilaveli Hotels (Pvt) Limited.

Counts over 22 years experience in the financial services, Tourism and Manufacturing sectors.

No. of shares held: 477,213 (Voting)

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 (Pvt) Limited in April 2009 and currently, Vice President - Legal Affairs.

No. of shares held: Nil

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 (Pvt) Limited and Ceylon Electro Mechanical Services (Pvt) Limited. He also holds Diplomas in Business Management, Organisational Behavior and HR Management.

No. of shares held: 10,020

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 Jayawardenapura, Sri Lanka.

He has been a Partner of B.R. De Silva & Co., Chartered Accountants since 2004.

No. of shares held: Nil

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 21 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.

No. of shares held: Nil

CORPORATE MANAGEMENT TEAM

Dhanushka Fonseka

Director (Non-Board) - Credit and Marketing

Mr. Fonseka currently serves as the Director (Non-Board) - Credit and Marketing. He has over 16 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.

Buddhika Kasthuriratne

General Manager - Recoveries

Mr. Kasthuriratne currently serves as the General Manager - Recoveries and has over 20 years experience in the financial services sector.

Deva Anthony

General Manager - Finance

Mr. Anthony currently serves as General Manager - Finance. He is an Associate Member of The Institute of The Chartered Accountants of Sri Lanka and also he is 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 11 years experience in financial service sector and 5 years experience in audit and accounting.

Darshana Senerath

Assistant General Manager - Leasing

Mr. Senerath currently serves as Assistant General Manager - Leasing. He has over 16 years experience in the financial services sector.

Ravi Ekanayake

General Manager - Workshop

Mr. Ekanayake currently functions as the General Manager - Workshop. Mr. Ekanayake has over 30 years experience in the same field and holds a Diploma in Engineering from City & Guilds (UK).

Hirantha Pandithasekara

Assistant General Manager - Corporate Leasing

Mr. Pandithasekara currently functions as the Assistant General Manager - Corporate Leasing with over 12 years experience in the financial services sector and 2 years experience in the insurance field.

Lahiru Dayananda

Assistant General Manager - Credit and Marketing

Mr. Dayananda currently serves as Assistant General Manager - Credit and Marketing. He has over 14 years experience in the financial services sector.

Ravi De Mel

Assistant General Manager - Credit Administration

Mr. De Mel currently serves as the Assistant General Manager - Credit Administration and holds a Master's Degree in Business Administration (MBA) from the University of Wales and has over 13 years experience in the financial services sector.

Jayanka Kahawevithana

Senior Manager - Legal

Mrs. Kahawevithana currently serves as the Senior Manager - Legal. She has over 3 years experience in the financial service sector and is an Attorney-at-Law, Notary Public, Commissioner for Oaths and also holds a LLB (Hons.).

Shehan Cooray

Senior Manager - Recoveries

Mr. Cooray currently serves as the Senior Manager - Recoveries, and has over 14 years experience in the financial services sector.

Prasad Wickramasinghe

Senior Manager - Payments

Mr. Wickramasinghe serves as the Senior Manager - Payments with over 26 years experience in the financial services sector. He holds a Diploma in Taxation from The Chartered Institute of Accountants of Sri Lanka.

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 and also a Fellow Member of Associate Certified Management Accountants of Sri Lanka. Mr. Nanayakkara has over 9 years experience in the financial services sector and 6 years experience in audit and assurance fields.

Prasad Indika

Senior Manager - Software Development

Mr. Prasad currently serves as Senior Manager - Software Development. He holds a Diploma in NIBM and is a Fellow Member of British Computer Society and has over 11 years experience in the financial services sector.

Roshini Induruwage

Senior Manager - Deposit and Marketing

Mrs. Induruwage currently serves as the Senior Manager - Deposit and Marketing and holds a Master's Degree in Business Administration (MBA) from the university of ECU Australia. She has over 12 years experience in the banking and financial service sector.

Corporate Governance

Upholding Good governance practices to maneuver the enterprise towards the right successful path

CORPORATE GOVERNANCE REPORT

CHAIRMAN'S STATEMENT ON GOVERNANCE

VALUE OF GOOD CORPORATE GOVERNANCE

The importance of advocating good governance within the corporate world - more so in the financial services sector - is perceived pivotal for a resilient financial system and for pursuance of economic progress. Having to deal with a variety of stakeholders, finance companies are hence duty bound at all times to safeguard corporate assets and secure interests of all its key stakeholders. In this context, adopting appropriate corporate governance practices right-throughout the business journey is essential in prudently managing affairs of a related enterprise, particularly considering the sophistication and complexity involving finance business.

Tightening of regulations within the LFC sector by the Central Bank of Sri Lanka and stressing the importance of adhering to sound governance practices have transformed the sector tremendously, negating some of the concerns observed in the recent past. As custodians of public money, I believe all associated with the sector needs to play an integral part in setting the appropriate pathway for better governance of their institutions. All officers performing duties attached to various levels of the corporate hierarchy should take due care and execute functions diligently to safeguard interest of the organisation and its stakeholders.

HIGH GOVERNANCE STANDARDS MAINTAINED AT MI

Since taking up the role as Chairman, with the re-structuring of the Board in 2012, we have come a long way in strengthening our governance framework. Mercantile Investment Board is well balanced in terms of having equal representation of both Executive and Non-Executive Directors. We are fortunate to have with us on board high caliber individuals possessing vast experience in their fields to impart invaluable knowledge to the Board, for effectively discharging duties towards the Company. As expected, they actively took part at Board and other Sub-committee meetings and continued to contribute towards the betterment of the Company.

The Board adheres to regulatory governance requirements as well as strives to adopt best corporate governance practices for the prudent conduct of business. We sustain an aura of absolute professionalism in whatever we do and expect all levels of the hierarchy to maintain high standards and strictly adhere to laid down procedures, when carrying out duties. In raising governance standards, the Board stood committed in continuously reviewing the framework and related practices to implement best practices set for the industry.

STRENGTHENED GOVERNANCE MEASURES THIS PERIOD

I am pleased to make note that during financial year 2013/14, we were able to adopt additional practices to strengthen the Company's current solid governance framework. The revised code on best practice on corporate governance issued in 2013 and amendments made to CBSL corporate governance Direction of 2008 were taken up positively and necessary changes implemented, affirming our commitment to good governance yet again. Our report henceforth transparently captures MI's level of compliance against these requirements including revisions made to-date together with compliance to CSE Governance Requirements and MI's Performance Governance Status as fresh disclosure initiatives.

Indeed, having set the right platform for prudent governance of all operations of the Company, I can clearly say, we benefited tremendously as an enterprise abiding to these good governance practices considering the dynamism and competitiveness of the prevailing business environment, countering challenges to perfection for the benefit of all our stakeholders.

GOVERNANCE GOING INTO THE FUTURE

The latest introduction of the financial sector consolidation programme is bound to work favourably from a long-term perspective. As part of its perceived benefits, we could expect proposed mergers/acquisitions to add value from a governance angle as well. The convergence of high calibre individuals to one pool of resources will propel post consolidation entities to operate and be governed in a more effective manner. In the midst of these turn of events, the Board of MI would stay committed to the cause of upholding good governance and will ensure that we maintain our profound corporate culture post implementation as well. Going forward, MI will continue to strive in embracing best industry work practices and ethics, to consistently advocate the quality of governance we have displayed thus far.

Saro Weerasuriya
Chairman

23 May 2014

MI'S CORPORATE GOVERNANCE

Corporate governance at MI is a well-established framework that sets out the roles, responsibilities and rights of each individual from the Board level cascading down to all other levels of the corporate structure. Corporate governance framework of MI revolves around formal governance structure together with a process that is built on a set system of internal controls and procedures to govern operations of the Company. MI's Board of Directors takes overall responsibility for management and oversight of affairs of the Company ensuring business is conducted in a sound and prudent manner. The primary objective of the Board of Directors of MI is optimisation of shareholders' wealth through efficient management of business operations. The Board is also accountable to safeguard interests of other key stakeholders namely, individual MI's customers, lenders, suppliers, employees and other parties directly interacting with the Company.

The visionary leadership style of the Board, contributes to the effective governance of business operations, setting further objectives, devising strategy and maintaining a monitoring system. A key feature of MI's operation is that our goals go beyond just profit orientation and we remain committed towards the subject of sustainability and triple bottom line value creation.

As the leader, MI Board sets the Company's strategic aims, establishing appropriate policies and procedures while allocating financial, human and other resources necessary for achievement of corporate objectives. An effective system of internal controls is instilled to provide assurance on proper conduct of business operations to expectations, which conforms also to prevailing laws and regulations of the country.

MI conducts its business according to clearly defined core values and best practices of governance which extend beyond the regulatory requirements of the industry, to ensure high standards on corporate governance are maintained. A well-structured risk management system has been established to handle key risks associated with our business with a view to eliminate risk or at least minimise risk and associated weaknesses.

The Company is renowned for its excellence in financial reporting for decades, portraying its commitment to transparency, an essential attribute to good corporate governance. Most of all, we have displayed accountability for our corporate actions right throughout our business journey. These values have built lasting trust and bondage between MI and our stakeholders over the years, a hallmark in our road to success.

MI'S CORPORATE GOVERNANCE FRAMEWORK

Corporate governance is a fundamental part of our business practices and is embedded in the enterprise' culture. In practice, we adopt a sound framework that facilitates the adoption of recommended best practices and industry specific requirements related to corporate governance.

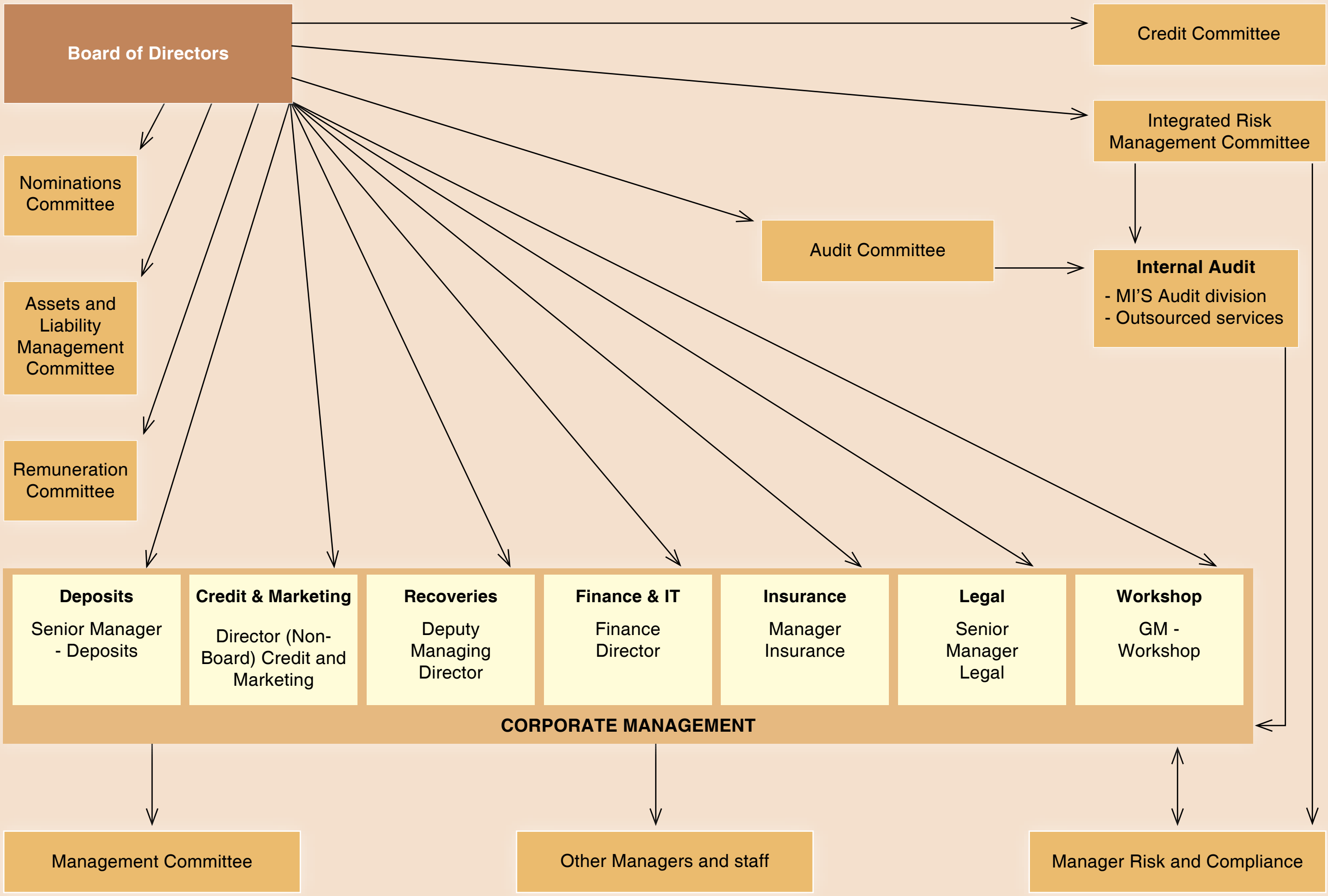
THE BOARDS ROLE IN GOVERNANCE

MI's governance structure depicted below indicates a top down vertical governance approach from the Board of Directors being the upper most level of the governance structure to the lowest level of the hierarchy. The Board in parallel has formed several subcommittees to monitor and provide feedback on key areas of business on an ongoing basis, with ALCO and Credit Committee being the new additions this period. The powers of the Board are delegated to MI's Corporate Management to ensure routine business operations function in an appropriate manner.

CORPORATE MANAGEMENT'S ROLE IN GOVERNANCE

In conducting daily business functions the Corporate Management oversees functions of their divisional staff. Their duties are carefully monitored to ensure employees abide by established corporate policies and procedures at all times. For reviewing performance related to core business areas, Corporate Management met on a regular basis. Monthly meetings are held by credit and marketing, recoveries and deposits to review performance and iron out concerns. At the same time, the whole of Corporate Management met weekly, under the Chairmanship of Managing Director to review progress from various business angles. E.g., Core business performance, pricing, NPL management, cost management etc.

MI'S GOVERNANCE FRAMEWORK



Summary of Key Corporate Governance Initiatives in 2013/14

Initiative
● Pursuing the overall objectives and targets specified in the three-year Strategic Plan of the Company. Adopting a strategic management approach to plan and govern activities of the enterprise.
● Setting up of a Board approved Credit Committee and Assets and Liabilities Management Committee.
● Approving a comprehensive annual audit plan covering whole branch network for MI's own Internal Audit Division. Separately approving an annual audit plan of Ernst & Young Advisory Services to handle head office audits.
● Approval of terms of reference of Remuneration Committee.
● Requesting Ernst & Young to carry out a special assignment on adequacy of Information Security within the Company and following up on concerns raised for resolution.
● Approval of a procedure for handling on Non-Audit Services by External Auditor of the Company.
● In keeping to CBSL regulations, handing over the external audit to a regulator approved firm of Chartered Accountants, from 2013/14 Audit.
● Implementation of a 'Risk Register' at Finance Division to record key risk associated with finance operation with applied counter measures, and allocating responsibility to officers as means of accountability.
● Increased the total number of Audit Committee meetings from last year 4 to 6 to ensure effectiveness of the Committee.
● Tabling of a quarterly risk report to the Integrated Risk Management Committee by the Manager - Risk and Compliance.
● Submission of an 'Activity Report' to the Board by the Integrated Risk Management Committee, highlighting their key observations and recommendations.
● Monthly submission of a Compliance Report by Manager Risk and Compliance to the Board.
● Improving further the risk management practices of the Company. Please refer pages 222 to 253 of the Risk Report in this regard.

TAKING A FORMAL STRATEGIC APPROACH TO MANAGING BUSINESS

The governance process is supported by a formal strategic planning process that involves the development and implementation of a three-year strategic plan approved by the Board. The plan was devised with the inputs of heads of all functional areas and reviewed by an independent consultant to ensure effective and innovative ideas are inbuilt to the strategies proposed. The plan sets forth a clear path for all employees to follow, establishing medium term corporate objectives and proposing strategies for key business functions so that all within the organisation could work towards the corporate mission and one vision. The strategic plan is annually reviewed against actual performance to understand the progress level. The actual strategy adopted in certain instances varied in line with the latest market developments and trends. Separately, an annual budget is also prepared within set parameters of the strategic plan of MI and existing business environment.

Please refer pages 30 to 31 in the MDA which provides disclosure on MI's integrated business model and the strategic process undertaken.

HAVING A STRONG OVERSIGHT FUNCTION

Strengthening the Internal Audit Function

In strengthening the oversight function, a separate Internal Audit Division was established last period to assist Ernst & Young who have been MI's Internal Auditors for a long time. The division's main focus is to review the compliance status of the expanding MI branch network in relation to laid down procedures and prevailing regulations. The Audit Committee in turn, kept close supervision over financial reporting and compliance through the findings of both these sets of Internal Auditors and by having direct review of activities of departments.

STRENGTHENING THE COMPLIANCE FUNCTION

MI entrusted Manager - Risk and Compliance to oversee growing regulatory demands expected from various regulatory bodies and enactments. It was necessary that there is a proper mechanism for the Board as well as the management to obtain feedback on Company's level of compliance to such regulations. Manager - Risk and Compliance periodically submits a report of compliance status of MI to CBSL regulations and guidelines, that allows the Board of Directors to act upon on instances of non-compliances on time. Additionally, MI was able to successfully implement the 'Branch Compliance Checklist', which improved the level of compliance at branch level significantly. Through the Compliance Officer, MI hopes to review MI's compliance to all key regulations periodically. A detailed compliance checklist is being developed incorporating key requirements of the CBSL guidelines, Finance Business Act, CSE rules, and SEC rules to be implemented next period.

STRENGTHENING THE RISK MANAGEMENT PROCESS

MI took a number of measures to boost the risk management process of the Company in this financial year. We adopted following initiatives to handle growing complexities in finance business and to mitigate corresponding risks:

- Implementation of requirements pertaining to the 'Risk Policy' set forth last year.
- Kick started Assets and Liabilities Management Committee, that will oversee controls pertaining to liquidity risks and interest rate risks.
- Improved the quality of information provided to IRMC by submitting a quarterly comprehensive risk report.
- Ongoing preparation of a formal risk management procedure document to be finalised before end 2014.

Please refer pages 226 to 229 of the Risk Management Report for comprehensive disclosure on risk management initiatives carried out this period.

MI'S EXTENT OF 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 (SEC) and The Institute of Chartered Accountants of Sri Lanka (ICASL) 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 to the Colombo Stock Exchange (CSE) Section 7.10 on Corporate Governance.

Part Four: A summary outlining the governance platform set in place to handle key business functions towards performance excellence.

STATEMENT - 01

MI's Compliance to the Code of Best Practice on Corporate Governance 2013

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
SECTION 1: THE COMPANY			
A. Directors			
A.1 The Board	Principle - A.1	Adopted	MI has a unitary Board. The authority of each Director is exercised at Board meetings where the Board acts collectively. MI is governed by an effective Board of Directors who involves themselves in directing, leading and controlling operations of the Company in a prudent manner. The Board of Directors provides the necessary leadership in moving towards its visionary thinking, setting the strategic direction for the Company, upholding a successful framework that couples effective strategic management with good governance and sound controls. Non-Executive Chairman heads MI Board with the support of the Managing Director, Executive Directors and Non-Executive Directors. MI Board members are well qualified and have the necessary experience to discharge their duties competently. They bring a wide range of businesses, financial, legal, engineering entrepreneurial knowledge, skills and experience.
1. Board meetings	Code - A.1.1	Adopted	Twelve Board meetings were held during the financial year 2013/14. The usual practice is to hold regular Board meetings at monthly intervals. These meetings ensured that speedy actions were taken to support the business process, to achieve stated corporate objectives to meet expectations of MI's stakeholders. Company Secretary duly informed all the Directors to attend meetings through a formal notice of meeting with the agenda, which is sent out well in advance providing adequate time for analysis, evaluation and preparation. Details of Board meetings with information on attendance are given on page 209 of this Annual Report. There were no special Board meetings held during the financial period 2013/14.
2. Responsibilities of the Board	Code - A.1.2	Adopted	The Board is responsible for setting the strategy and risk appetite in governing MI and approves capital and operating plans presented by management for the achievement of the strategic objectives it has set. This ensures the efficient application of our resources for the achievement of these objectives. The Board discharges these responsibilities through continuous meetings that cover regular reviews of financial performance, non-financial performance, critical business issues, and the annual strategy review process. The Board also recognises its responsibility towards other key stakeholders including its depositors when directing the affairs of the Company. In effectively discharging its obligations for prudent running of business, MI Board takes responsibility for matters that are of strategic nature, and key financial and non-financial decisions: **Strategic Matters;** ● The Board approved medium term '**Strategic Plan**' developed in 2012 covering financial periods 2012/13 to 2014/15 was the guiding instrument in governing business activity this period as well. By devising the strategic plan, the Board intends to put into perspective MI's corporate vision and mission, setting forth overall business objectives, business strategies, policies and processes for divisions and employees to adhere and concentrate moving forward in the medium term. The Board hopes to review and prepare a fresh medium term strategic plan for the next three years going up to financial year 2017/18 to be completed in financial year 2014/15.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
			• In keeping to the top-down hierarchical approach of MI, the Board ensured that the corporate objectives and goals, corporate values and strategies have been communicated to the corporate management and all key officers for implementation of planned strategies. The Board reviews the progress of the business strategy implementation and the compliance status to annual targets at regular intervals. Summary of MI is an actual financial performance against annual set targets for financial year 2013/14 has been provided on page 76 in the Management Discussion and Analysis. • Implementation of the strategy set by the Board is delegated to the Managing Director and Corporate Management Team who have the necessary skills, experience and knowledge to execute the strategic plan devised. The names and brief biographical particulars of MI's Corporate Management Team is provided on pages 150 to 153. • Key responsibilities of the Board have been defined and circulated to all Board members. Executive Board members are heads of key functional areas of business including Credit, Recoveries and Finance to ensure adequate supervision and monitoring of those vital operations. Corporate management's role, responsibilities, authority and accountability within the organisation hierarchy are defined in their job descriptions. • Managing of risks related to MI is a prime responsibility of the Board. For this purpose, an Integrated Risk Management Committee and an Audit Committee have been established to have close oversight and to obtain feedback on the effectiveness of risk management practices and internal control mechanisms in place. • The Board takes necessary steps to ensure accuracy and completeness of financial and non-financial information generated by the Company, maintaining an effective accounting and information system. They continuously monitor related processes, controls and procedures to ensure that the appropriate application of accounting policies, financial regulations and standards on financial reporting is maintained. • Apart from the Audit Report set out on page 269, a separate Assurance Report was obtained from External Auditors on the adequacy of controls in place for ensuring the reliability of financial reporting which is disclosed on page 221. • Executive Directors had regular meetings with the Corporate Management Team and other key officers to monitor progress for the attainment of corporate objectives. As a routine practice they instructed and guided corporate management to identify gaps and specified means of bridging them. Towards this endeavour, Executive Directors reviewed and updated existing policies and procedures, ensuring that those are up-to-date while establishing clear lines of communication among employees. • The Board as a practice reviewed current trends in finance business and recognised sustainable business development projects such as new products and services and markets to serve as a corporate strategy within its defined business and financial boundaries. • In maintaining soundness of governance, the Board took a number of new initiatives in financial year 2013/14 to improve the overall governance framework and practices. Details of new practices initiated to improve the corporate governance practices are provided on Page 158. • The Board takes responsibility for the communication methodology adopted, having a clear approved 'Communication Policy' which specifies communication methods and channels that would be adopted when interacting with various MI stakeholders.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
			Other Matters Financial and Non-Financial; ● Key strategic financial decisions in relation to funding, pricing, liquidity and decisions on capital expenditure and reviewing annual budgets are handled by the Board. During this period, a thorough review of performance was carried out by the Board prior to deciding on dividends. ● The Board has established Information Communication Technology (ICT) Standards approving an ICT policy document and an Information System Security Document, keeping to International Standard to maintain the integrity of the Management Information System. External ICT Auditors Ernst & Young Advisory (Pvt) Limited conducted an information security audit to ensure information contained in such systems is safeguarded appropriately while upholding system's reliability, integrity and data security by prescribing possible suggestions on improvements during financial year 2013/14. ● To monitor MI's compliance to laws and regulations, the Board has established a sound compliance system through a dedicated compliance manager. At the same time, the Board has hand-picked knowledgeable officers to head core divisions, individuals who are conversant with applicable regulations. ● Through Board Subcommittees, feedback is additionally given to the Board on MI's compliance status to regulations. The Board ensures the application of policies, procedures and controls by employees through these subcommittees as means of instilling a healthy compliance culture at MI.
3. Compliance with laws and access to independent professional advice	Code - A.1.3	Adopted	The Board affirms collectively and also the Directors individually their duty to abide by the laws of this land for the running of the Company. An affirmation on compliance to applicable laws and regulations is given on page 261 by the Directors. The Board from last year has implemented a Board approved policy for Directors to obtain independent professional advice. They have full access to all relevant information and can take independent professional advice, if necessary, at Company's expense. This procedure enhances the level of independence of the decisions made by Directors and improves the quality of decisions as it seeks expert external advice.
4. Company Secretary	Code - A.1.4	Adopted	Mrs. Sonali Pethiyagoda has been appointed by the Board as the Company Secretary since 1999. She is a qualified Chartered Secretary with over 20 years' experience in the related field. All Board members have full access to the Company Secretary to ensure proper Board procedures are followed and all applicable rules and regulations are complied with. Company Secretary is mainly responsible to advise the Board on corporate governance issues, Board procedures, compliance with applicable laws and regulations. She also co-ordinates scheduling of Board meetings and other subcommittee meetings, keeping 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.
5. Independent judgment	Code - A.1.5	Adopted	All Directors are provided an equal opportunity to express their views independently, and they bring forward their independent judgment to bear at Board proceedings. The Directors have ample time to review Board papers and other circulated information prior to a meeting. Majority of Executive and Non-Executive Directors hold memberships in Board Subcommittees hence assist in strategy formulation, financial compliance and governance matters on a periodic basis.

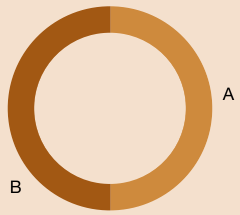
Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
6. Dedicating time and effort	Code - A.1.6	Adopted	All Executive Directors as well as majority of the Non-Executive Directors some of whom hold membership in Board subcommittees are able to involve themselves in strategic, financial, compliance and governance matters more closely. They pass down their knowledge independently and provide considerable degree of technical advice based on experience they have gained in their respective fields. The Chairman and the Managing Director act impartially to proposals of all Directors, encouraging them to profess their own views on matters brought up at the meetings. All Non-Executive Directors have attended most of the meetings and have devoted their time adequately despite their undertakings in other institutions. Directors of MI have dedicated adequate time for Board and Board subcommittee meetings, to fulfil their duties and obligations owed to the Company, during this financial period. Details on Board subcommittees and Director participation levels at such meetings are given on pages 212 to 216 of this Annual Report.
7. Training needs of Directors	Code - A.1.7	Adopted	Thorough assessment is done before recruiting new Board members hence all Board members have adequate experience, knowledge, skills and dynamism to deal with matters of the Board. The Directors have sufficient exposure, expertise in their relevant areas to fulfil their duties and responsibilities owing to the Board. Company Secretary informed the Board about CBSL rules and regulations issued in the financial year 2013/14, by circulating such requirements promptly. Nevertheless, considering evolving complexities in finance business, knowledge and skills levels of Directors are continuously assessed to identify training needs. Directors are given opportunities to update and develop their skills and knowledge, by nominating them for externally run seminars, workshops and training programmes throughout their directorship and while serving on Committees. In addition, Executive Directors constantly deal with corporate management and keep abreast of latest developments. Finance Director attended training on the International Financial Reporting Standards and attended a seminar on Budget highlights arranged by Ernst & Young. The Managing Director together with the Finance Director attends CEO and CFO seminars respectively and other meetings conducted by the Central Bank and the Finance Houses Association of Sri Lanka. Throughout this period, all Directors regularly updated themselves on evolving Non-Banking Finance Sector operations and regulatory aspects. Non-Executive Directors serving on key committees were updated continuously on matters particular related to the Committee. A personalised approach to training and development of Directors was applied throughout this period.
A.2 Chairman and Chief Executive Officer	Principle - A.2	Adopted	The position and role of the Chairman and Managing Director have been kept separated in line with Corporate Governance Best Practices since 2012. There is a clear division of responsibilities at the helm of the hierarchy, between running of the Board and executive responsibility for running of MI's business. The key responsibility of the Chairman is providing leadership for governing Board activity and discharging Board functions. The Managing Director has the executive responsibility for the overall management of the Company. (No separate Chief Executive Officer)

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
8. Keeping separate the role of Chairperson and Chief Executive	Code - A.2.1	Adopted	The Managing Director (MD) is in charge of the Company's chief executive role, managing day-to-day running of the Company. Based on the delegated authority given to him by the Board, MD gives leadership to the corporate management in handling routine affairs of the Company. As part of his role, MD updates the Board on status of company performance, proposes strategies and advises Board on operational aspects on an ongoing basis, communicating with other Directors at meeting and by circulating information documents.
A.3 Chairman's Role	Principle - A.3	Adopted	The Chairman of the Board Mr. Saro Weerasuriya is a Non-Executive Director who demonstrates leadership to the Board by discharging Board functions effectively, in a methodical manner. Chairman's role is well supported by a balanced Board, which has equal number of Executive and Non-Executive Directors.
9. Chairperson's role in conducting Board proceedings	Code - A.3.1	Adopted	Having a wealth of experience behind him, the Chairman is able to properly maintain high level of independence and impartiality in Board matters. He can obtain advice from across the Board considering the well-blended knowledge and experience of MI Directors. A formal agenda for the Board prepared and circulated under his supervision ensures important issues are taken up at Board meetings. Mr. S.H.J. Weerasuriya as the Chairman expedites the following key responsibilities: ● Leading the Board and ensuring related functions are effectively discharged by taking up matters raised by Directors, and corporate management while ensuring the clarity and rational of decision making at Board level. ● Ensuring active participation by both Executive and Non-Executive Directors at Board meetings in the decision-making process. ● Ensuring there is balance of power between Executive Directors and Non-Executive Directors, encouraging all Directors to contribute effectively, to express their views equally for effective decision-making. ● Ensuring that the Board is sufficiently appraised with current and reliable information, financial and non-financial for Directors to assess MI's performance on a continuous basis and also for purpose of taking up matters put forward to the Board. ● Arranging special meetings whenever needed and maintaining Board order during such meetings. ● Approving the agenda and minutes of the Board prepared by the Company Secretary. ● Maintaining active communication with shareholders and public, by holding the Annual General Meeting within the specified regulatory time frame and keeping a dialog to convey plans and to obtain constant feedback. ● Right from top of hierarchy down to establishing a sound corporate governance framework in coordination with Managing Director and members of the Corporate Management.

<table>
<tr><th>Corporate Governance Principles</th><th>Reference to SEC and ICASL Codes</th><th>Adoption Status</th><th>MI's Extent of Adoption (2013/14 Update)</th></tr>
<tr><td>A.4 Financial Acumen
10. Availability of sufficient financial wisdom and knowledge within the Board</td><td>Principle - A.4</td><td>Adopted</td><td>MI Board is equipped with qualified Directors in the field of Finance and accountancy and possesses the necessary financial wisdom. MI is fortunate to have a highly qualified Finance Director to advise the Board on financial matters.

Being an Associate Member of The Institute of Chartered Accountants of Sri Lanka, a Fellow Member of the Chartered Institute of Management Accountants (UK), and a Fellow Member of the Certified Management Accountants of Sri Lanka and holding an MBA from the University of Sri Jayewardenepura of Sri Lanka, the Finance Director possesses vast experience in financial management together with necessary qualifications in finance.

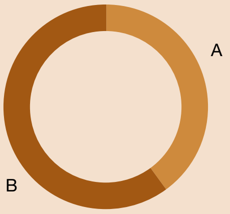
Board has the luxury of having two other Directors who possess qualifications in the field of finance and accountancy to obtain advice and guidance. They are;
<table>
<tr><th>Name of Director</th><th>Director Category</th><th>Accounting and Financial Qualifications</th></tr>
<tr><td>Mr. Gerard G. Ondaatjie</td><td>Managing Director</td><td>BSc Degree in Accountancy from Arizona State University, United States.</td></tr>
<tr><td>Mr. S.M.S.S. Bandara</td><td>Independent Non-Executive Director</td><td>Fellow Member of The Institute of Chartered Accountants of Sri Lanka.
Fellow Member of the Association of Accounting Technicians of Sri Lanka.
Bachelor's Degree in Accountancy from the University of Sri Jayewardenepura.</td></tr>
</table></td></tr>
<tr><td>A.5 Board Balance</td><td>Principle - A.5</td><td>Adopted</td><td>As per Finance Companies Corporate Governance Direction No. 03 of 2008 issued by CBSL, MI Board maintains the requirement, keeping proper checks and balance between Executive and Non-Executive Directors.</td></tr>
<tr><td>11. Presence of Non-Executive Directors</td><td>Code - A.5.1</td><td>Adopted</td><td>Five out of ten Directors on MI Board are Non-Executive Directors including the Board Chairman. The ratio of 50% maintained throughout the period, is well above minimum requirement prescribed by the code which is two Non-Executive Directors or Non-Executive Directors equivalent to one third of total number of Directors, whichever is higher. This ensures the importance and materiality of the Non-Executive Directors' opinion in the decision-making process of the Board.

EXECUTIVE VS. NON-EXECUTIVE DIRECTORS


A - Executive Directors - 50%
B - Non-Executive Directors - 50%</td></tr>
</table>

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
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 Listing Rule 7.10.4 on corporate governance. The ratio of 40%, Independent Non-Executive Directors to total Directors maintained throughout the year is well above the minimum guidelines prescribed by the code, which requires 1/3rd of the Non-Executive Directors to be independent.

INDEPENDENT VS. NON-INDEPENDENT DIRECTORS



A - Independent Directors - 40%

B - Non-Independent Directors - 60%

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
13. Criteria for evaluating 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 that could impair independence in decision-making. The Independent Non- Executive Directors complied with independence criteria stipulated by the CBSL, SEC and ICASL guidelines during financial year 2013/14.
14. Signed independence declaration by the Non-Executive Directors	Code - A.5.4	Adopted	Every Non-Executive Director of the Company has made written submission as to their independence as per 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 them 'Independent'. 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 2013/14.
17. Senior Independent Director (SID)	Code - A.5.7	N/A	No requirement to appoint Senior Independent Director since Chairman's and Managing Director's roles have been separated from January 2012.
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 held a meeting with Non-Executive Directors without the presence of the Executive Directors once during 2013/14.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
20. Recording of concerns in Board minutes	Code - A.5.10	N/A	Any concerns raised by the Directors during the year, are recorded in minutes of Board meetings with necessary details by the Company Secretary. However, there were no concerns raised that could not be unanimously resolved requiring same to be minuted.
A.6 Supply of Information	Principle - A.6	Adopted	As a practice, agenda together with high quality information is circulated seven days prior to the Board meeting to discharge the Board obligations effectively.
21. Information to the Board by Management	Code - A.6.1	Adopted	The Board receives regular reports and presentations on strategies and developments in relation to its business lines and geographical areas and overall plans and performance. Regular reports also provide the Board and Board subcommittees information on risk appetite profile, emerging risks, risk management aspects, credit exposures, asset and liability management including liquidity, compliance and other vital matters. The agenda and supporting papers are distributed in advance to the Board and Subcommittee meetings to allow the members time to appropriately review and to facilitate full discussion at the meetings. All Directors have full and timely access to all relevant information. Executive Directors brief the Board on the functional areas of Credit, Finance and Recoveries that they oversee. The Board on other functional matters deals with the Managing Director or the heads of those respective departments when necessary. The Directors have free and open contact with management of all levels.
22. Adequate time for effective meetings	Code - A.6.2	Adopted	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 have adequate time to study and analyse the related papers and prepare thoroughly for Board meetings.
A.7 Appointments to the Board	Principle - A.7	Adopted	MI established a Nomination Committee in 2013 to streamline new Director appointments and re-election process of Directors. The Chairman of the Committee is Mr. Saro Weerasuriya who is also the Non-Executive Chairman of the Company.
23. Nominations Committee	Code - A.7.1	Adopted	The Nomination Committee under its terms of reference handles all new appointments to the Board in an effective manner. This financial year, one new appointment was made to the Board, under the recommendation of the Committee. Due evaluation was made by the Committee prior to recommendation. Page 215 provides information of the Committee composition and other related details. The Nominations Committee report for the financial period 2013/14 is given on page 267.
24. Board assessment by the Nominations Committee	Code - A.7.2	Adopted	In keeping with the terms of reference, the Nominations Committee carried out an annual assessment of MI Board's composition to ascertain the level of experience, skills, knowledge and qualifications the members possess to deal with growing strategic needs of the Company. The Committee took into account complexities associated with the industry in terms of structural changes, competition and regulatory changes. The Committee concluded that the current Board possesses individuals with required capabilities to meet demands of the enterprise. There was no immediate requirement for new appointments. As there was one resignation during financial year 2013/14 the Committee filled the vacancy by appointing Mr. P.C. Guhashanka, who has a wealth of experience behind him, representing other Boards.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
25. Disclosure of appointments to shareholders	Code - A.7.3	Adopted	The Director appointment carried out during 2013/14 was conveyed to shareholders, through the Colombo Stock Exchange (CSE). Company communicated to CSE and CBSL a brief summary of the new Director appointed, including his experience, names of the companies in which the Director holds directorships, memberships in Board Subcommittees in addition to disclosing a brief profile in the Annual Report. Newly appointed Director information is disseminated to shareholders of the Company without any delay.
A.8 Re-election	Principle - A.8	Adopted See Extent	The Nomination Committee provides recommendation 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 themselves for re-election by the shareholders at every Annual General Meeting. The Managing Director shall not while holding that office be subject to retirement by rotation.
26. Appointment of Non-Executive Directors	Code - A.8.1	Adopted	In terms of the three year requirement, no Non-Executive Director retires by rotation in 2013/14 all five Non-Executive Directors are yet to complete three years of serving the Board in their current category.
27. Election of Directors by Shareholders	Code - A.8.2	Adopted See Extent	As explained in Principle A.8 above.
A.9 Appraisal of Board Performance	Principle - A.9	Adopted	An annual appraisal by each Director on the Board performance was carried out for 2013/14. 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 See Extent	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 the assessments made was tabled at the Board meeting, which highlighted areas requiring improvement to ensure the efficiency and effectiveness of the Board.
29. Annual self-assessment of the Board and its committees	Code - A.9.2	Adopted See Extent	Please see Code A.9.1 above.
30. Disclosure of method of appraisal	Code - A.9.3	Adopted	Please see Code 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	Brief profile of each Director is provided on pages 146 to 149 under the Section on 'Board of Directors'. Details of Director participation status at Board meetings and at subcommittee meetings with information on such committees are given later in this report. Pages 210 to 211 provide a detailed Director-wise breakdown of each member's Directorship in other companies, indicating their Director capacity in those entities.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
A.11 Appraisal of the Chief Executive Officer	Principle - A.11	Adopted	The performance of the Managing Director (No separate Chief Executive Officer) is reviewed on a continuous basis by the Chairman and other Board members.
32. Targets for Managing Director	Code - A.11.1	Adopted	The Managing Director being the apex chief executive of the Company is entrusted by the Board to conduct day-to-day operations effectively to attain broad strategic targets/goals after giving necessary consideration to market reality and changes in relevant variables. The Board upon approving the Strategic Plan of the Company in 2012 specified its corporate objectives and annual forecasted targets and expects to attain these aspirations through the Managing Director and Corporate Management Team. Performance of the Managing Director is reviewed on an ongoing basis by the Board, evaluating the extent to which organisational objectives have been achieved from an overall perspective.
33. Evaluation of Managing Director's performance	Code - A.11.2	Not Complied	The requirement to have formal annual appraisal with specific financial and non-financial targets for Managing Director will be looked into.
B. Directors Remuneration			
B.1 Remuneration Procedure	Principle - B.1	Adopted	The Board ensured that a well-established, formal, rational and transparent procedure is in place to decide on remuneration of Executive Directors where no Directors is involved in deciding his or her own remuneration package to avoid any potential conflict of interest.
34. Remuneration Committee	Code - B.1.1	Adopted	In keeping to specific terms of reference, the Board has established a Remuneration Committee authorised to evaluate, assess, decide and recommend, to the Board, Executive Directors' remuneration.
35. Remuneration Committee composition	Code - B.1.2	Adopted	Remuneration Committee comprises of three Non-Executives Directors while the Chairman of the Company Mr. S.H.J. Weerasuriya also acts as the Chairman of the Committee.
	Code - B.1.3	Adopted	The Remuneration Committee composition and details of meetings held and participation status is given on page 213. The Report of the Remuneration Committee is given on page 266 of this Annual Report.
36. Remuneration of Non-Executive Directors	Code - B.1.4	Adopted	The Board has authority for deciding of Non-Executive Directors' remuneration packages which is made as a collective decision. The Non-Executive Directors are paid a fee for attending Board or other Committee meetings or carrying out other non-executive duties based on their responsibilities assigned. The Non-Executive Directors do not perform any of the executive functions, hence is 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 remuneration of other Executive Directors, the Committee also obtains advice from the Managing Director as necessary.
B.2 The level and make-up of remuneration structure	Principle - B.2	Adopted See Extent	The Board together with the Remuneration Committee aims to attract retain and motivate high caliber individuals for top executive positions. As trust and relationships are vital in our business our broad policy is to identify those who are committed in either devoting their time towards the Board or making a lifelong career with the organisation. The remuneration policy of the Company has been devised therefore in a way that it considers retention requirements. In deciding Executive Director remuneration, the evaluation takes into account the individuals performance level for a given year based on overall goals achieved by the organisation that relates to him or her.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
38. Managing Director's Remuneration	Code - B.2.1	Adopted	The Remuneration Committee ensures alignment between Executive Director remuneration and MI's business strategy. An individual's remuneration is determined through an assessment of performance made against both annual and long-term objectives. They evaluate prevailing market remuneration levels and makes policy amendments on remuneration when deemed necessary. To ensure fair policy on remuneration, all Executive Directors including Managing Director are afforded with suitable and competitive remuneration packages.
39. Comparison of remuneration with other institutions	Code - B.2.2	Adopted	The Remuneration Committee regularly reviews the information related to Executive Directors' pay, to ensure remuneration packages of the Directors are on par with the industry/market while being aligned with strategic and medium term objectives of the Company.
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 remuneration.
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 options scheme offered to any Director during 2013/14 period.
43. Deciding Executive Director - Remuneration	Code - B.2.6	Adopted See Extent	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 contracts of Directors	Code - B.2.7	Not Complied	Need to incorporate early termination compensation commitment clauses in service contracts will be looked into in the next financial year.
45. Early terminations of Directors	Code - B.2.8	N/A	No terminations were effected during this 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 2013/14.
B.3 Disclosure of Remuneration	Principle - B.3	Adopted	A statement on MI's Remuneration Policy is provided on page 266 and the details related to the basis on which Executive and Non-Executive Directors remuneration is decided have been given in the same statement. 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	Page 213 provides composition details of the Remuneration Committee with meetings held and participation status of members. The remuneration paid to Executive and Non-Executive Directors in aggregate is disclosed in the Notes to the Financial Statements on page 311 under 'Related Party Disclosure note'.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
C Relations with Shareholders			
C.1 Constructive use of Annual General Meeting (AGM)	Principle - C.1	Adopted	By holding of the Annual General Meeting, MI Board is able to facilitate effective communication with shareholders. Directors are expected to take a positive approach to views of all shareholders. The Board always encourages all shareholders to participate at the AGM and convey their views and make suggestions.
48. Level of proxies at AGMs	Code - C.1.1	Adopted	Proxy forms are made available in the Annual Report that is released with adequate prior notice to all shareholders in accordance with Companies Act. Company has in place an effective mechanism through the Company Secretarial Division to record all proxy votes logged on each resolution and number of votes for and against each resolution.
49. Propose separate resolutions for each separate issue	Code - C.1.2	Adopted	Company proposes a separate resolution for all substantially separate matters to provide shareholders an opportunity to deal with each material issue separately. A separate resolution is passed for the adoption of the 'Report of the Directors' and 'Statement of Accounts and the Report of the Auditors' contained in the Annual Report.
50. Availability of Chairmen of all Board subcommittees at AGMs	Code - C.1.3	Adopted	Chairman of the Board ensures that Chairmen of all Board Subcommittees namely, Audit Committee, Integrated Risk Management Committee, Nomination Committee, Remuneration Committee, Assets and Liabilities Management Committee and Credit Committee are present at the AGM to answer any questions coming under their purview.
51. Adequate notice of the AGM	Code - C.1.4	Adopted	Complying with the Companies Act, Annual Report including Financial Statements and the Notice of Meeting are sent to shareholders at least 15 working days prior to the date of the AGM by Company Secretaries division. This mechanism improves stewardship and transparency of MI's activities and provides opportunity for shareholders to review progress early and seek clarifications at AGMs.
52. Voting procedures at General Meetings	Code - C.1.5	Adopted	Except for the AGM, there were no other general meetings held during the 2013/14 financial period. All notices circulated to shareholders of general meetings carry a summary of the procedures governing voting at such meetings.
C.2 Communication with Shareholders	Principle C.2	Adopted	The Board has given high priority to the aspect of communication with shareholders. Extensive information about our activities is provided to shareholders through the Annual Report and Accounts and the Interim Reports. Page 104 elaborates on communication with shareholders.
53. Channel to reach all shareholders of the Company	Code - C.2.1	Adopted	There is concise dialogue with shareholders on matters relating to their shareholdings and on business matters, which are dealt with promptly. As per the communication policy of the Company financial information such as Annual Reports and Interim Reports are made available to shareholders via CSE website or mail. All shareholders are encouraged to attend the Annual General Meeting and extra ordinary meetings of shareholders.
54. Disclosure of the shareholder Communication Policy, Methodology and Implementation	Code- C.2.2 & C.2.3	Adopted	A Board approved 'Communication Policy' which specifies communication methods and channels has been adopted which specifies an interactive method with MI shareholders. The Communication Policy document was made available with divisional heads, who in turn adopt policies through their subordinates.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
55. Disclosure of contact person for shareholders	Code - C.2.4	Adopted	As per the general practice of the Company, main point of contact for the shareholders for their concerns and clarification is the Company's 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	Major issues and concerns impacting shareholders are communicated via meetings with shareholders in accordance with the communication policy document. All shareholders are encouraged to attend the Annual General Meeting and other meetings of shareholders to discuss MI's progress and concerns. Shareholders may send enquiries to the Board in writing or by completing attached shareholder feedback form given at the end of the Annual Report and sending it to the given contact point.
57. Person to contact in relation to shareholders matters	Code - C.2.6	Adopted	Company Secretary is the main point of contact for shareholders' to raise matters. According to the open door policy of the Company, shareholders are at the same time welcome to contact any Executive Director or members of the corporate management to obtain clarifications for their concerns.
58. Responding process of shareholder matters	Code - C.2.7	Adopted	As per MI's 'Communication Policy', all shareholders related matters are handled promptly and attentively by the Board upon being informed. Company Secretary is responsible to convey shareholder enquiries to Board and revert back to shareholders. The Board has full access to all relevant information and may take independent professional advice if necessary at Company's expense for this purpose. Company Secretary when reverting to shareholders can decide the channel of communication based on the materiality of the matter at hand.
C.3 Major Transactions	Principle - C.3	Adopted	The Code requires the Directors to disclose any material transactions proposed that would alter or vary the net asset position of the Company either through its Audited Financial Statements or in interim publication or by making an announcements to the Colombo Stock Exchange.
59. Disclose material facts of major transactions	Code - C.3.1	Adopted	There were no material proposed related party transactions or corporate transactions involving acquisitions, mergers or disposal of greater than one-third of the value of the Company assets. Any such significant transaction that would materially affect MI's net assets will be disclosed in Company's interim and annual reports, if it were to occur.
D. Accountability and Audit			
D.1 Financial Reporting	Principle - D.1	Adopted	To present a balanced and understandable assessment of MI's financial position, performance and prospects that prevail, MI has published a comprehensive Annual Report which incorporates the Audited Financial Statements together with comprehensive management commentary on the performance and outlook.
60. Balanced and understandable assessment of the Company	Code - D.1.1	Adopted	In presenting a true and fair set of Financial Statements that provide a sound overview of MI's financial performance and position for the financial year ended 31 March 2014, the Company complied with applicable Sri Lanka Accounting Standards (LKAS) and other regulations specified in the Finance Business Act No. 42 of 2011, Companies Act No. 07 of 2007 and Colombo Stock Exchange Listing Rules. MI's interim accounts have been published in a timely manner in three languages and conform to State Language Policy and the regulatory interim publication format and the applicable accounting standards and requirements specified in all other regulations mentioned in the previous paragraph. All other publications and reports released by the Company, either as press releases or through the Colombo Stock Exchange website, reports to regulators and other information made available in MI's website too are presented in a true and fair manner.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
61. Directors' Report	Code - D.1.2	Adopted	The Annual Report of the Board of Directors (Directors' Report) provided on pages 257 to 261 indicates Company's compliance to laws and regulations, confirms the going concern assumption and the effectiveness of Internal Control System that is in place. Transactions related to Directors/Key Management Personnel have been disclosed under the Directors' Interest in Contracts on pages 262 to 263 and in the Notes to the Financial Statements on page 311.
62. Directors' and Auditors' responsibility statements	Code - D.1.3	Adopted	The Directors' Responsibility for Financial Reporting given on page 264 provides a statement setting out the responsibilities of the Board for the preparation and presentation of the Financial Statements. The Auditors' Report provided on page 269 specifies reporting responsibilities of both the Management and the Auditors. Statement on Internal Controls issued by the Board provided on page 220 complies with content of Annexure K of the code.
63. Management Discussion and Analysis	Code - D.1.4	Adopted	A comprehensive management commentary covering all requirements referred to in Code - D.1.4 is given on pages 28 to 93 in the 'Management Discussion and Analysis', which includes the sustainability section. Based on MI's integrated approach the Management Discussion and Analysis should be read in conjunction with Risk and Corporate Governance Reports which specifies aspects on Internal Controls. (Apart from referring to the Financial Statements)
64. Directors' affirmation of going concern	Code - D.1.5	Adopted	Page 260 in the Annual Report of the Board of Directors (Directors' Report) provides disclosure confirming the going concern of the Company, which has been concluded upon after referring to schedule G of the Code.
65. Calling of an EGM when net assets fall below 50% of shareholders' funds	Code - D.1.6	Adopted	With net assets exceeding Rs. 6.3 billion as at 31 March 2014, the chance that it would drop below 50% of the value of shareholders' funds, is very remote. If such a situation were to arise an EGM will be called for and shareholders will be notified.
66. Adequacy and accuracy of related third party transaction disclosures	Code - D.1.7	Adopted	MI maintains the records of related party transactions. All Directors submit signed and dated declarations to Company Secretary on an annual basis. The Company plans to implement procedures such as obtaining related party declarations on a quarterly basis from next financial period. The Audit Committee with effect from 2014/15 financial period will commence presenting a quarterly statement indicating related parties and related party transactions to the Board in the event related party transactions occur during the period.
D.2 Internal Controls - Maintaining a sound system of internal controls	Principle - D.2	Adopted	The Board has established an effective system of internal controls to safeguard the assets of the Company. The system of internal controls in place has been designed to counter various risks that could either arise from dealing in financial transactions or from other events and changes in environment and business conditions. MI understands the importance of internal controls in managing risks and has established an ongoing process for identifying, evaluating and managing significant risks faced by MI. This process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. These controls have been embedded as part of MI's compliance culture. Employees, irrespective of the hierarchy are required to ensure strict compliance to set procedures of internal controls. The Board has implemented separately a process of risk management to identify, evaluate and assess risk and implement counter risk mechanisms whilst monitoring risk against its predetermined risk appetite levels.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
67. Reviewing effectiveness of Internal Control System	Code - D.2.1	Adopted	Periodic review of adequacy and effectiveness of internal controls of the Company are carried out by Internal Auditors reviewed and followed up by the higher level Audit Committee. The Audit Committee comprises Non-Executive Directors who make an independent assessment on adequacy and application of internal controls and provides feedback to the Board on matters they deem are material. Statement on Internal Controls provided on page 220 complies with content of Annexure K of the Code. MI Board was able to make due assessment of the adequacy and effectiveness of the Company's internal control mechanism and obtain clarification of any significant matters from External Auditors as well. The IRMC in parallel, in keeping to its scope continued to oversee MI's risk management process and MI's level of preparedness against potential risk, to mitigate possible losses.
68. Internal Audit Function	Code - D.2.2	Adopted	MI Internal Audit Division, comprises well qualified and experienced officers' to conduct independent audits, in areas involving high risk especially at branch level in keeping to the annual audit plan. They work in parallel with Ernst & Young Advisory (Pvt) Limited who have been handling the internal audit function of the Company in the past. Monthly/quarterly full audit/spot audits are conducted by both sets of Internal Auditors based on approved annual audit programmes.
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	MI has continued to enhance its risk management framework including use of the risk and controls assessment process that provides business areas and functions with a forward looking view of key risks and an assessment of the effectiveness of controls, and a tracking mechanism for action plans so that they can proactively manage risks within acceptable levels. Audit Committee regularly reviews the effectiveness of risk management process and internal controls and report any deficiencies and matters to the Board.
70. Statement of Internal Control	Code - D.2.4	Adopted	The statement by the Board provided on page 220 on internal controls complies with contents referred to in Annexure K of the Code. Some of the salient aspects highlighted therein are; ● Mechanism to identify, evaluate, and manage risk. ● Internal control linkage to financial reporting. ● Audit Committee's role in reviewing internal controls. ● External Auditors review of content of Board's internal control statements and affirmation that the process in place actually is in line with the statement.
D.3 Audit Committee - A committee to review financial reporting aspects, internal controls and maintain relationship with company Auditors	Principle - D.3	Adopted	The Board of MI has established an Audit Committee that operates independently under specified terms of reference covering review of financial reporting aspects, internal controls and maintaining relationship with company Auditors internal and external in accordance with the provisions of this Code.
71. Audit Committee composition	Code - D.3.1	Adopted	The Chairman of the Audit Committee is Mr. S.M.S.S. Bandara, an independent Non-Executive Director who is also a Chartered Accountant, with years of experience behind him in Financial and Auditing fields and is a partner of B.R. De Silva and Company, Chartered Accountants. He is supported by two other Directors who are also Independent Non-Executive Directors. The Committee met 6 times during the year. The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 212.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
72. Reviewing objectivity, effectiveness and independence of External Auditors	Code - D.3.2	Adopted	The Audit Committee in keeping to its terms of reference monitors the objectivity, effectiveness and independence of the External Auditor of the Company. Audit Committee appointed Messrs BDO Partners as the External Auditor of the Company in 2013, in accordance with CBSL Regulations on selecting regulator 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 its Board of Directors.
73. Terms of Reference of the Audit Committee	Code - D.3.3	Adopted	Messrs BDO Partners does not handle substantial volumes of non-audit services of the Company in keeping to terms of reference of engagement of an external audit partner to provide non-audit services. As a practice MI has been referring most non-audit services to Messrs Ernst & Young, Chartered Accountants including the special audit work undertaken on Information System Security during this financial year. All activities of the Audit Committee are governed by Board approved written terms of reference that are drawn based on the 'Code of Best Practices on Audit Committee' issued by The Institute of Chartered Accountants of Sri Lanka. In accordance with these terms, the Committee objectives are to; ● Setting up a process that provides continuous feedback of the internal control systems including its adequacy and situations where there is non-compliance. ● Overseeing the quality of financial reporting including accounting policies adopted, compliance to disclosure requirements arising from accounting standards and regulations specified by regulatory bodies including CBSL. ● Keeping the Board apprised of any significant matters that come to their attention. ● Dealing in matters related to the Company's External Auditors and their nominations annually. ● Dealing with the Internal Auditors to review their scope of work and follow-up on their observations and recommendations. ● Making continuous assessment of MI's going concern by correlating information presented to the Committee. ● Meet Management and External and Internal Auditors separately and periodically. ● Being a central point of obtaining employee feedback of concerns and carrying out independent reviews as deemed necessary. During 2013/14 period, in accordance with these objectives, the Audit Committee performed following tasks; ● Reviewing the scope, functions and resources of internal audit function and the adequacy of audit programmes. The Committee approved audit programmes tabled by both MI's own Internal Audit Division and Ernst and Young Advisory Services. ● Appointed BDO Partners after making thorough evaluation of their capability and partner standings within the audit fraternity. ● 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 management.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
			• Reviewing integrity of the financial information generated by the Finance Department in consultation with CFO. The Committee closely reviewed information disclosed in Annual Reports including financials, interim accounts and other periodic reports. They evaluated the accounting policies, accounting standards including IFRS requirements adopted and other reporting requirements stemming from mainly the Companies Act, Finance Business Act and Colombo Stock Exchange Listing Rules. • Evaluated external audit scope of work and its cost effectiveness with final results. Mostly ensured that the required level of independence and objectivity was maintained when giving their audit opinion. • Requested an independent report on adequacy of information security system of the Company from Ernst & Young Advisory Services. Identified gaps were accordingly followed up by Committee through the corporate management. • Followed-up on material observations highlighted in the management letters by External Auditors during their statutory audit of previous period. The Committee invited the External Auditors once this period to meet and discuss key matters. • Reviewed the process of risk management including risk assessments exercised by management to ensure the Company meets required risk management standards to mitigate risk.
74. Disclosures of the Audit Committee	Code - D.3.4	Adopted	Please refer Section 8.2 (a) to 8.2 (q) in part 2 of this supplement on pages 192 to 196 to obtain further information regarding the composition, objectives and duties of the Audit Committee. The names of Directors forming the Audit Committee and their participation level at meetings are disclosed on page 212. Report of the Audit Committee is given on page 268. The report clearly specifies the determination made by the Committee in relation to External Auditors' independence.
D.4 Code of Business Conduct and Ethics	Principle - D.4	Adopted	The Company believes in maintaining high standards in business conduct and ethics for all its employees. An organisation-wide human resource policy document is in place which defines required employee conduct including expected corporate value system.
75. Compliance to requirements on business conduct and ethics	Code - D.4.1	Adopted	During last year a formal document that incorporates aspects on employee conduct was issued to all employees through the HR Division. The 'Human Resource Handbook' specified organisation's expectation from all employees in terms of abiding by set HR policies including laid down rules on business conduct and values that need to be displayed. The handbook is applicable for all levels of the hierarchy. 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 which is in keeping to Schedule I of the Code. A separate declaration from each employee in this regard would be taken from next period.
76. Affirmation by Chairman that no individual has violated business conduct and ethical requirements of the Company	Code - D.4.2	Adopted	The Chairman's affirmation that he is not aware of any violations to requirements of the Company on specified business conduct and ethics is given in the 'Chairman's Review' on page 20.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
D.5 Corporate Governance Disclosures	Principle - D.5	Adopted	The Board of Directors upholds adopting sound Corporate Governance Practices at all times.
77. Disclosure on Corporate Governance	Code - D.5.1	Adopted	MI's Corporate Governance Report for 2013/14 provides a comprehensive disclosure on Company's Corporate Governance Practices against recommended best practices and prevailing regulations.
SECTION 2: SHAREHOLDERS **E. Institutional Investors**			
E.1 Shareholder voting - Institutional shareholders	Principle - E.1	Adopted	Shareholder base of MI comprises a small number of investors with considerable institutional shareholding. The Company obtained listing status three years ago in Colombo Stock Exchange *Diri Savi* Board.
78. Constructive dialog between shareholders and Company	Code - E.1.1	Adopted	MI has a history of active involvement of shareholders at general meetings. Shareholders have the liberty to express their views at AGMs, and to convey any matters even outside such meetings. Under the supervision of the Chairman, Company Secretary's division minutes discussions and views of all that is present at AGMs. Shareholders views and other matters are taken up at Board and Subcommittee depending on materiality and urgency of matter at hand.
E.2 Evaluation of Governance Disclosures	Principle - E.2	Adopted	As mentioned in Code E.1.1. above, views and other material matters of shareholders are subsequently taken up at Board meetings as necessary. Based on such deliberations, due weightage would be given to matters raised on governance structures including Board composition raised by any shareholder at an AGM.
F. Other Investors			
F.1 Individual Shareholders	Principle - F.1	Adopted	Individual shareholders are encouraged to carry out their own analysis or seek independent advice on investing or divesting decisions. MI's Annual Report contains sufficient information for prospective investors to carry out extensive analysis. Further, MI publishes interim accounts in the CSE website on a quarterly basis so that retail investors could make judgment of the performance of the Company on an ongoing basis.
F.2 Shareholder Voting	Principle - F.2	Adopted	MI's shareholder base comprises a small base of investors comprising very few individual investors. All investors are encouraged to participate in general meetings of the Company.
G. Sustainability Reporting	Principle - G.1	Adopted	MI as a responsible corporate, believe in ensuring that our responsibilities towards all our stakeholders namely; shareholders, customers, employees, suppliers and the community are met through our business activities, not only in the short-term but also in the long term. Hence, we strive to create a sustainable society and environment, not only with regards to the financial performance of the Company, but also in the areas of environmental conservation and social development. MI's business model is designed to deliver sustainable value in terms of economic, social and environmental facets.
79. Economic Sustainability	G.1.1	Adopted	A comprehensive disclosure on economic sustainability covering all requirements referred to in Code G.1.1 is provided on pages 107 to 114 under 'Economic Review' in the Sustainability Section.

Corporate Governance Principles	Reference to SEC and ICASL Codes	Adoption Status	MI's Extent of Adoption (2013/14 Update)
80. Environmental Sustainability	G.1.2	Adopted	A comprehensive disclosure on environmental practices covering all requirements referred to in Code G.1.2 is provided on pages 115 to 118 under 'Environmental Review' in the Sustainability Section.
81. Labour Practices	G.1.3	Adopted	A comprehensive disclosure on labour practices covering all requirements referred to in Code G.1.3 is provided on pages 119 to 128 under 'Labour Review' in the Sustainability Section.
82. Society Governance Disclosures	G.1.4	Adopted	A comprehensive disclosure of society governance covering all requirements referred to in Code G.1.4 is provided on pages 119 to 136 under 'Social Review' in the Sustainability Section.
83. Product Responsibility Disclosures	G.1.5	Adopted	A comprehensive disclosure of product responsibility practices covering all requirements referred to in Code G.1.5 is provided on pages 134 to 135 under 'Product Strategy /Management Approach' in the Sustainability Section.
84. Stakeholder Identification, Engagement, and Effective Communication	G.1.6	Adopted	MI has identified its key stakeholder groups as given on pages 15 to 16. The disclosure identification 'Material Topics' applicable to the relevant stakeholder specifying the materiality level is given on page 14 (Materiality Gauge Matrix). Applicable material topics are thoroughly explained in the Integrated Report as cross referred. MI hence transparently reports on economic, social and environmental aspects relevant to our stakeholders on an ongoing basis. The triple bottom line value creation this period Vs. past performance is disclosed in the 'Sustainability Section'.
85. Formalised Sustainability Reporting Process	G.1.7	Adopted	In keeping to MI's integrated approach, Company has established a mechanism to capture and report information relevant to report triple bottom line value creation each year. The Finance Division is responsible to capture value creation activities executed from various facets of MI business, social and environmental activity and then compile an overall review report annually. Initiatives of corporate management, CSR Committee, HR Division and all other supporting functions including Engineering Division were taking into account when drafting the report. The Sustainability Report was structured based on Global Reporting Initiative Guidelines, which include company compliance status to 'Global Compact Consideration' principles.

STATEMENT - 02

MI's Compliance Status to Finance Companies (Corporate Governance) Direction No. 03 of 2008 and its Related Amendments

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
2.1 The Responsibilities of the Board of Directors				
a. Approving and overseeing the finance company's strategic objectives and corporate values. Communicating strategic objectives and corporate values throughout the Company.	✓			**Strategic Objectives and Corporate Values** In April 2012, MI approved a three-year strategic plan which specified strategic objectives and corporate values that were derived from MI's Vision and Mission statements. In keeping to the plan, MI's key corporate objectives revolved around gaining higher market share in terms of core business and profit maximisation for our capital providers targeting above average market returns on capital investment. In working towards this primary objective, the Board laid a sound platform by having a risk management framework and internal control mechanism in place. The plan highlighted MI's aspirations on enhancing corporate social activity to compliment the commercial objectives. **Communication** The Board communicated elements of the strategic plan to the corporate management who represent all key divisions through a presentation. The strategic plan document has been made available in all divisions for Heads/ Managers to pass down organisational expectations to their subordinates. Key goals of the strategic plan are reminded and reinforced to key officers through regular briefing sessions of the Corporate Management Team.
b. Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three years;	✓			**Business Strategy** MI's overall business strategies were approved by the Board with measurable goals for next three years incorporated in Company's medium term strategic plan. Formulating separate strategies for core business divisions which include Credit, Recoveries, Deposits and Finance was the main focus of strategic development process to achieve overall objectives of MI. Since implementing the corporate plan, for the third year running, management strived to pursue goals set by implementing most of the strategy set forth. However, depending on changes happening in the market, to factors such as interest rates, demand etc., management had to make necessary adaptations to parts of strategy, in certain points in time. **Implementing the Approved Risk Policy** Our strong risk governance reflects the importance placed by the Board on shaping MI's risk strategy, to effectively manage risks. The Risk policy adopted last year identified key risks associated with MI's business operation, laying down a formal structure to manage risks. The risk policy was developed within MI's successful strategic framework keeping intact ultimate corporate objectives within sight.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
				Salient features of the policy document include- • Separation of the duties in relation to risk management for various levels of the hierarchy. • Aligning corporate plan strategic business objectives with risks objectives. • Accountability of staff for the identification, assessing and managing of risk within their scope of assigned responsibilities/Job functions. • The Board's role in the management of risks and corporate management duties towards risk management. **Overall Risk Management** Approving overall risk policy and review of risk management procedures are handled by the IRMC, a subcommittee of the Board. Information submitted by Manager - Risk and Compliance including quarterly risk reports are evaluated by the IRMC, that calls for additional information from various divisions as deemed necessary. There is an ongoing development of a formal risk management procedural document covering all risks associated with business, laying for the procedures cum evaluations to be followed by divisions for effective management of risks. The document is to be finalised next financial period.
c. Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	✓			**Risk Management** In keeping with the approved risk policy, each division is entrusted with assessing risk related to their work functions and to apply systems and controls to manage risks. (MI's risk management process is outlined on pages 222 to 253 in the Annual Report) Already a formal risk management document is being developed which would demarcate as to who would handle what in terms of managing risk to counter key risk. In better managing risks, management has set forth following mechanisms: • Higher level supervisory Committees i.e. IRMC, ALCO, Credit Committee etc. • Specified risk appetite limits for key risks, specifying maximum tolerance limits. • Approving operational procedures/procedure manuals for each business function. • Implementing a 'Risk Register' at various departments starting from Finance Division. Management hopes to extend this process to other divisions by end of 2014. The register specifies key risks to divisions and action/ process to counter risks and who is responsible to handle processes/actions. **Risk Assessment/Risk Review Reports** Following reports are generated for management of risks; • Manager Risk and Compliance submits quarterly risk reports to IRMC. • IRMC prepares a 'Risk Activity Report' that is submitted to the Board quarterly. • Other committees such as ALCO, Credit Committee review/make recommendations to tackle risks coming under their purview. • Internal audit submits periodic reports on non-compliance to procedures, breakdown in internal controls and potential risks facing business, to Audit Committee. • Audit Committee reviews and recommend counter actions to mitigate shortcomings/drawbacks in turn to the Board.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
d. Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	✓			**Communication Policy Document** A Board approved communication policy is in place which specifies MI's policy of communication with key stakeholders of the Company. The policy specifies the communication approach and methods of communication to be adopted when dealing with MI's stakeholders. The AGM is used as the main communication method to interact with MI shareholders, to obtain their views and pass down important aspects related to the Company. Other communication methods are specified to deal with MI's broad-based stakeholder list that includes its customers, suppliers, borrowers, and society.
e. Reviewing the adequacy and the integrity of the finance company's Internal Control Systems and management information systems;	✓			**Internal Control System** MI Board has established a system of internal controls to manage risks associated with finance business and to monitor its effectiveness on a continuous basis. There is a clear demarcation of duties and functions across the organisation based on a formal organisational structure which is supported by allocation of responsibility to Managers and their subordinates in handling routine operations with clear communication of envisaged internal controls that should be followed at all times. A comprehensive 'Procedure Manual' that is revolving is in place for all key business functions of the Company. **Review of Internal Control** Monthly and quarterly internal audit review reports are provided to the Audit Committee specifying the matters related to internal controls based on an approved annual internal audit programme. The Audit Committee updates the Board on material concerns and lapses in internal controls and recommends solutions on an ongoing basis. **Management information Systems (MIS) Review** To safeguard, the accuracy, reliability, and confidentiality of management information stored and generated by the IT system, MI since last year adopts a Board-approved Information Security Policy document. Internal Audit is entrusted to review and report lapses pertaining to IT operations including effectiveness of MIS generation process. In keeping to CBSL requirements, a thorough independent System Audit was carried out through Ernst and Young Advisory Services (Pvt) Limited which covered an assessment on the integrity of the MIS. The final report is pending submission by Ernst and Young. Highlighted concerns are being followed up for resolution.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
f. Identifying and designating Key Management Personnel, who are in a position to: i. significantly influence policy; ii. direct activities; and iii. exercise control over business activities, operations and risk management:	✓			**High Profile Board** The Board of MI comprises of highly qualified individuals who possess vast experience, qualifications and knowledge to direct effectively Company's affairs in a prudent manner. **Nominations Committee** The Board established a separate Nomination Committee in 2013 entrusting the Committee with the tasks of selecting future Director appointments through a formal and transparent process while absorbing the best talent to the Board. For effective governance of the Committee, the Board approved formal Terms of Reference for the Committee during this financial year. **Identification, Recruitment, and Retention of Officers in Key Positions** Recruitments or promotions to next grade, for top corporate positions are decided after careful scrutiny of individuals' capabilities against the job role at hand. Only high calibre individuals are selected for these key roles with experience in the relevant field considered a vital requirement for top positions. MI's organisational chart clearly specifies the top positions and reporting structure and gives an indication of career path and future succession planned for top officers' grades. There are clear job roles and tasks specified for all top positions.
g. Defining the areas of authority and key responsibilities for the Board and for the Key Management Personnel;	✓			**Board's Responsibility Document** The Board's responsibilities have been defined through a formal 'Board's responsibility' document that is prepared which specifies job responsibilities of the Chairman, the Managing Director, Executive Directors as well as the role of Non-Executive Directors. **Role of Key Management** All officers of the corporate management understand their job scope, authority and responsibilities based on the positions they hold. Key responsibilities of each member of the Corporate Management are prescribed in their job descriptions.
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;	✓			**The top Down Oversight Process** Affairs of MI are closely reviewed by the Directors through Board meetings held at monthly intervals which enable them to review the Company's progress and monitor vital elements of business. Based on the task delegated, Board subcommittees closely oversee specific aspects of Finance business operation and provide feedback to the Board on any concerns. They make due representations to the Board tabling Board papers and meeting the Board in person. Key business functions including Credit, Recoveries, Deposits, finance, and Legal are headed by either Executive Director or very senior officer of the Company who interacted with the Managing Director, other members of the corporate management and their subordinates on an ongoing basis. **Laying down Clear 'Procedures and Processes'** A comprehensive 'Procedure Manual' has been made available to all departments so that a consistent and professional approach can be sustained when carrying out daily operational activities. By having set clear operational instructions and setting forth procedures and practices in handling routine operations, sets the tone for all to follow, and is in indication of sound governance, right from the top.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
				Managing Employees MI's 'Employee Handbook' specifies clear HR policies and organisation values that all employees need to follow. These policies set the right platform and culture for implementing the operational framework.
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.	✓			MI has put in place a strong corporate governance framework as explained in this supplement. MI's Board carries out an independent review of the effectiveness of the governance framework periodically. Periodically, through Manager Risk and Compliance and Company Secretary, an assessment is carried out as per CBSL format on corporate governance requirements, and final submission is through the Managing Director. Manager - Risk and Compliance submits a report of MI's compliance status at each Board meeting, assessing MI's compliance status to CBSL rules and guidelines. The Board has taken numerous measures over the period, establishing best practices to improve the existing framework as necessary to bridge compliance gaps identified. Various governance initiatives were affected in 2013/14 as mentioned on page 158 in this supplement, to boost overall governance framework. The Company since 2012 has restructured the Board itself and its subcommittees to set best governance standards to comply with prevailing regulations. Some of the notable changes were; Appointment of a Non-Executive Chairman, Appointment of an Independent Non-Executive Director, who is a qualified accountant to head the Audit Committee and maintaining 50% composition of Non-Executive Directors to maintain Board balance throughout this period.
j. Ensuring that the finance company has an appropriate succession plan for Key Management Personnel;	✓			There is adequate succession planning for identified Key Management Personnel with a clear career path within departments. Human Resource Division is in the process of revamping the grading and career path structure of the organisation which would further assist in streamlining succession planning across departments and grades.
k. Meeting regularly with the Key Management Personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	✓			MI holds Board Meetings at least once a month hence Directors meet with fellow Directors regularly. Directors communicate with other line management frequently on routine matters and operational issues. Corporate management together with the Executive Directors meet on a weekly basis to assess divisional and overall progress of the Company, in terms of goals set and broad corporate objectives. Variety of information is presented at the meeting to evaluate performance and distinguish gaps, to decide on suitable course of action. Separately, marketing meetings are held by Director Credit and Marketing (Non-Board) with all 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 Deputy Managing Director and all recoveries staff to discuss recovery progress covering recovery targets, formulating strategies to maintain lower NPL levels and taking decisions on recovery related processors.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
l. Understanding the regulatory environment;	✓			Boards of Directors are briefed on a continuous basis about latest developments in the regulatory environment at Board meetings by fellow Directors and members of the corporate management via circulars and presentations. Directors, corporate management and other key officers are sent on training on a continuous basis so that they are kept abreast of regulatory requirements pertaining to their functions. Manager Risk and Compliance being the compliance officer follows up on adherence to regulations related to money laundering and updates the Board of Directors monthly through the CFO on compliance status of MI to CBSL directions, rules and other requirements, that specify MI's compliance status to such regulations. Legal division's advice is sought by other divisions when new regulations are imposed or when changes to regulations occur.
m. Exercising due diligence in the hiring and oversight of External Auditors;	✓			The Board has delegated this responsibility to the Audit Committee to handle the hiring and oversight of External Auditors. Audit Committee appointed Messrs BDO Partners as the External Auditor of the Company commencing 2013/14, 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 audited accounts, management letter and other submitted documents.
2.2 The Board shall appoint the Chairman and the Chief Executive Officer and define and approve the functions and responsibilities of the Chairman and the Chief Executive Officer in line with paragraph 7 of this Direction.	✓			The Non-Executive Chairman's and the Managing Directors functions and responsibilities have been separately defined and approved by the Board. (No separate Chief Executive Officer). As Chairman he is required to provide leadership to the Board to ensure that the Board effectively discharges its responsibilities. The Managing Director on the other hand being an Executive Director is responsible for effective running of day-to-day operations of the Company.
2.3 There shall be a procedure determined by the Board to enable Directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to Directors to assist the relevant Director(s) to discharge the duties to the finance company.	✓			A formal procedure on seeking independent professional advice was approved by the Board and was in effect from 2013. Directors have the liberty to seek independent professional advice at the expense of the Company whenever needed. All Directors have been informed of this procedure which specifies the instances upon which Directors can seek independent professional advice and is no limited by the instances given in the document. Approval limits on related fee payments have been specified in procedures so that Directors could seek advice without delay.
2.4 A Director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern in which he has substantial interest, is interested, and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	✓			The Board is aware of its responsibilities to ensure that Directors avoid conflict of interest between their obligations to MI and their interests. Hence Board has taken steps to ensure that when similar situations are prevalent, Directors are advised to disclose such instances to the Board, so that relevant Director can refrain from participating in discussions or voting on that specific matter. In keeping to best practices on identification of related party transactions, MI hopes to implement additional measures next period. Audit Committee is required to submit a Related Party Transaction report periodically to the Board. There is a proper identification and capturing process to record and disclose Directors Interest in Contracts and Related Party Transactions. Annual declarations are made by Directors and also the Company Secretary maintains an interest register for this purpose.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
2.5 The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	✓			The Board approved a formal schedule of matters specifically reserved for the Board in March 2013 and is in effect from financial year 2013/14. In effectively discharging Board duties, the Board has clearly recognised key matters that need to be taken up at Board level. The agenda and documents circulated prior to meetings correspond to these expectations.
2.6 The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	✓			Not required as Company fulfilled its obligations to its depositors and creditors. MI made payment of interest and capital on due maturity dates to its depositors and also to its borrowers as required. A solvency test was carried out for the concluded financial year and report obtained from BDO partners on 25 March 2014. The Company is solvent and is a going concern as declared in the 'Annual Report of the Board of Directors' in page 260.
2.7 The Board shall include in the finance company's Annual Report, an annual Corporate Governance Report setting out the compliance with this Direction.	✓			A comprehensive checklist of disclosures given in the corporate governance report provides MI's compliance status to the corporate governance Direction.
2.8 The Board shall adopt a scheme of self-assessment to be undertaken by each Director annually, and maintain records of such assessments.	✓			MI Board adopted a mechanism of self-assessment, which was undertaken by each Director and was carried out for the financial period 2013/14. The summery of findings together with areas for future improvements was tabled for the deliberation of the Board.
3. Meetings of the Board				
3.1 The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	✓			Twelve Board meetings were held for the financial period 2013/14. Please refer Section A.1.1 of the SEC and ICASL Code given on page 160 for full disclosure in this regard. As a general rule, Board papers and other matters needing Board consent is taken up directly at Board meetings, only very urgent matters are sent on circulation for Boards approval.
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.	✓			The Company Secretary prepares the agenda under the guidance of the Chairman which include proposals submitted by Directors on the management of risk and promotion of business and other areas operational including submission of periodic information on MI's progress from various business activities/functions. As a standard practice, following information is included as minimum information: ● Monthly management accounts ● Monthly financial ratios/statutory and otherwise ● Non-performing loan status ● Quarterly integrated risk assessment reports ● Matters to be taken up

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
3.3 A notice of at least 7 days shall be given of a regular Board meeting to provide all Directors an opportunity to attend. For all other Board meetings, a reasonable notice shall be given.	✓			For regular Board meetings, at least 7 days of notice is given to all Directors providing them with adequate time to review circulated Board papers and to take up concerns and raise other matters of importance. Reasonable notice is given through the Company Secretary for any other meetings held by the Board other than regular Board meetings.
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.	✓			All Directors have participated over the minimum participation requirement of at least attending two-thirds of the meetings held in financial year 2013/14. Attendance of Directors at Board meetings is given on page 209. No Directors have been absent from three consecutive Board meetings during 2013/14 financial period. There were no instances where an Alternate Director was required to be nominated during this financial year.
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.	✓			Please refer page 162 Section A.1.4 of the SEC and ICASL Code for related information pertaining to MI's compliance status to this section of the Direction.
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.	✓			The Company Secretary has been delegated with the responsibility of preparing the agenda for the Board meeting under the supervision of the Chairman.
3.7 All Directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	✓			All Board members have full access to the Company Secretary to ensure proper Board procedures are followed and all applicable rules and regulations are complied with. Mrs. S. Pethiyagoda has over 20 years of experience in company secretarial position and keeps herself updated on all current regulations applicable on Board procedures, corporate governance requirements and other requirements related to company secretarial responsibilities.
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.	✓			Detailed minutes of all Board meetings are kept by the Company Secretary, which is maintained in safe custody, at the Company Secretary Division. Board of Directors can inspect Board minutes at any point in time upon request. Chairman reviews and approves all minutes prior to circulation to all Directors by the Company Secretary.
3.9 Minutes of Board meetings shall be recorded in sufficient detail.	✓			All Board meeting minutes are duly recorded in sufficient detail and retained by the Company Secretary under the supervision of the Chairman.

<table>
<tr><th>Direction Requirement
(With Section Number of the Direction)</th><th>Complied</th><th>Not Complied</th><th>N/A</th><th>Extent of Adoption
(2014 Update)</th></tr>
<tr><td colspan="5">4. Composition of the Board</td></tr>
<tr><td>4.1 Subject to the transitional provisions contained herein, the number of Directors on the Board shall not be less than 5 and not more than 13.</td><td>✓</td><td></td><td></td><td>MI Board comprised of ten Directors in keeping to the provisions of this section, and did not fall below 5 or go over 10 Directors due to Directors' resignation or appointment during the year.</td></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>In keeping with section, no Non-Executive Director holds his/her position exceeding nine years as given below:
<table>
<tr><th>Name of Director</th><th>Directorship Status</th><th>Number of Years in Position as at 31 March 2014</th></tr>
<tr><td>S.H.J. Weerasuriya</td><td>Chairman
(Independent Non-Executive Director)</td><td>Completed 3 Years</td></tr>
<tr><td>P.T.K. Navaratne</td><td>Independent Non-Executive Director</td><td>Completed 2 Years</td></tr>
<tr><td>N.H.V. Perera</td><td>Non-Executive Director</td><td>Completed 2 Years</td></tr>
<tr><td>S.M.S.S. Bandara</td><td>Independent Non-Executive Director</td><td>Completed 2 Years</td></tr>
<tr><td>P.C. Guhashanka</td><td>Independent Non-Executive Director</td><td>Completed 9 Months</td></tr>
</table></td></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>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.</td></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>The Board consists of four Independent Non- Executive Directors as against total of ten Directors (40%) and hence complies to this Direction, of requiring more than one-fourth of the Board to consist of Independent Non-Executive Directors. The requirement as per this Direction has been complied with throughout 2013/14 financial year.

Please refer page 166 Section A.5.5 of the SEC and ICASL Code for information pertaining to Independent Non-Executive Directors.</td></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>Not applicable since there were no alternate Director appointments necessitated during this period.</td></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>Non-Executive Directors of MI Board possess adequate skills and experience to contribute to the Board to effectively discharge their duties.

Pages 146 to 149 provides a brief on the experience and qualification level of each Non-Executive Director.</td></tr>
</table>

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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 meeting is present, unless at least one half of the number of Directors that constitute the quorum at such meeting are Non-Executive Directors.	✓			In keeping to this Section, in all Board meetings convened in 2013/14 financial period, number of Non-Executive Directors present were more than one-half of the number that constitute the quorum. Number of Board meeting held and attendance details are given on page 209.
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.	✓			The Annual report released expressly identifies Independent Non-Executive Directors in the Corporate Governance Report page 166 and the Directors brief given on pages 146 to 149. Following disclosures cover requirements of this section: ● Composition of Board ● Category of Directors ● Names of the four Independent Non-Executive Directors are mentioned in page 166 of corporate governance section.
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.	✓ See extent			New appointments and re-elections of Directors to the Board are based on the recommendation of the Nomination Committee. Please refer page 167 Section A.7 of the SEC and ICASL Code for details on the Nomination Committee composition, duties, related matters of the Committee and appointments to the Board. The Board Nomination Committee Report is given on page 267.
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.			✓	No Directors were appointed to fill casual vacancies during the 2013/14 financial period.
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.	✓			All Director resignations are informed to the Department of Supervision of Non-Bank Financial Institutions and also to the Colombo Stock Exchange by the Company Secretary to comply with this Section and related provisions as per Colombo Stock Exchange Rules. Mr. H.A.S.T. Senanayke, former Chairman of the Audit Committee of MI resigned from the Board on 24 June 2013. Department of Supervision of Non-Bank Financial Institutions and also to the Colombo Stock Exchange was informed by Company Secretary of this resignation.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
5. Criteria to Assess the Fitness and Propriety of Directors				
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.	✓			No Director of the MI Board is over the age of 70 years as at 31 March 2014. Sustainability Section page 104 provides age ranges of Board of Directors.
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/bodies corporate, including associate companies and subsidiaries of the finance company.	✓			No Director of MI Board holds office in over 20 companies contravening the provisions of this section. Page 209 provides a schedule detailing directorships held by each MI Director in other companies as at 31 March 2014.
6. Delegation of Functions				
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.	✓			No material changes were affected to the delegation process in financial year 2013/14. The delegated authority given to Executive Directors, Corporate Management or other key officers did not vary from previous period. The Board makes necessary assessment of delegated authority especially assessing capabilities of various Board subcommittee limits given on credit disbursements, payment authorisations, authorisation on rebates and approving authority for various corporate documents including issue of deposit certificates.
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.	✓			Please refer comments given on 6.1 above. The delegated powers vested with Directors, corporate management and other employees are reviewed periodically to ensure that they remain relevant to the needs of MI.
7. The Chairman and the Chief Executive Officer				
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.	✓			The Board appointed a Non-Executive Chairman and a separate Managing Director in January 2012 keeping the roles separate. (No separate Chief Executive Officer.) Please refer pages 163 to 164 Sections A.2 and A.3 of the SEC and ICASL Code for further details.
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.	✓			The Chairman of MI Board is Mr. Saro Weerasuriya, is an Independent Non-Executive Director, appointed to the Board in January 2011.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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.	✓			The Chairman of MI Board is Mr. Saro Weerasuriya while Mr. Gerard G. Ondaatjie is the Managing Director. No material relationship including financial, business or family exists between the Chairman and the Managing Director. 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; and c. ensure that all key issues are discussed by the Board in a timely manner.	✓			The Chairman of the Company has led from the front, dealing closely with other Directors in all key matters for Board to effectively discharge its responsibilities. The Chairman in conducting affairs of the Board obtained fullest corporation of other fellow Directors. At the same time he sought advice of Company Secretary on Board procedures when necessary. Please refer page 164 Sections A.2 and A.3 of the SEC and ICASL Code for further details.
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.	✓			Company Secretary prepares a formal agenda under the supervision of the Chairman. The agenda covers key matters to be taken up supported by information necessary for Directors to obtain initial information on Company performance and matters to be taken up. The Chairman ensures, that all Directors are properly informed on matters arising 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.	✓			The agenda with Notice of Meeting is duly circulated to the Directors at least seven days prior to 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.	✓			Active participation of both Executive and Non-Executive Directors are encouraged for effectively governing affairs of the Board, for the prudent running 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	✓			The Non-Executive Directors including Chairman himself effectively contributes to the Board, through their immense experience and wide knowledge base that they possess within the finance industry as well as experience gained from their professional fields. There is constructive relationships among all categories of Directors. Apart from Board meetings, Directors meet at other Company events that enable them to keep close rapport amongst each other. All Directors of MI attended majority of Board meetings providing them due opportunity to raise their concerns and contribute to matters brought up at meetings.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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.	✓			The Chairman being an Independent Non-Executive does not involve himself with direct supervision of 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.	✓			At Annual General Meetings, shareholders are given the opportunity to express views, so that they can take up their concerns and make recommendations. All matters deemed material raised at the AGM are taken up subsequently and followed up by the Board.
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.	✓			Managing Director, Mr. Gerard G. Ondaatjie functions as the apex executive in charge of managing routine operations of the Company. (In place of a Chief Executive Officer.) He works closely with the Corporate Management Team to ensure smooth running of day-to-day operations. His role and responsibilities as the Managing Director has 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.	✓			There are six Board-appointed subcommittees which include the Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Nomination Committee operating based on specific terms of reference, directly reporting to the Board. The other two committees being the Assets and Liabilities Management Committee and the Credit Committee too report to the Board. Minutes are kept for each of the above committees under the supervision of the Chairman of each committee. A report on the scope, duties and progress made by of each Committee has been made available in the Annual Report as follows:

Committee	Reference Page
Audit Committee	268
Integrated Risk Management Committee	265
Remuneration Committee	266
Nominations Committee	267
Assets and Liability Management Committee	216
Credit Committee	215

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
8.2 Audit Committee The following shall apply in relation to the Audit Committee:				
8.2.a The Chairman of the Committee shall be a Non-Executive Director who possesses qualifications and experience in accountancy and/or audit.	✓			Mr. S.M.S.S. Bandara, the Chairman of the Audit Committee, is a qualified Chartered Accountant and an Independent Non-Executive Director of the Company. While possessing two accounting qualifications, he has wealth of experience in the field of Audit, and financial reporting as partner of B. R. De Silva Chartered Accountants so that he could oversee the Committee's functions effectively.
8.2.b The Board members appointed to the Committee shall be Non-Executive Directors.	✓			All three Directors appointed to the Audit Committee are Non-Executive Directors. There were two changes in membership to the Committee as follows; Mr. S.M.S.S. Bandara who was a member of Audit Committee took over chairmanship from Mr. H.A.S.T. Senanayake after his resignation in June 2013. Further the Committee appointed Mr. N.H.V. Perera as a new member. Despite changes to membership, the Committee composition remained unchanged throughout the period. Please refer page 174 Section D.3 of the SEC and ICASL Code for details.
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.	✓			Please refer pages 174 to 176 Sections D.3 to D.3.4 of the SEC and ICASL Code for details related to provisions of this Section. Information on appointment of External Auditors is given on page 184 in Section 2.1 (m) of this part of the Report.
8.2.d The Committee shall review and monitor the External Auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	✓			The Audit Committee while meeting newly appointed External Auditors this financial period on outstanding matters from prior year statutory audit discussed and reviewed the effectiveness of the auditing process to be adopted, based on auditing standard and industry best practices. Prior to appointment Committee reviewed the independence of Messrs BDO Partners as External Auditor of MI and approved there appointment commencing financial year 2013/14 audit.
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.	✓ See extent			Messrs BDO Partners currently does not handle any non-audit services of the Company. As a practice most of MI's non-audit requirements are routed to Ernst and Young, in keeping to terms of reference of engagement of an external audit partner to provide non-audit services. Please refer pages 175 to 176 Section D.3.3 of the SEC and ICASL Code for further details.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
8.2.f The Committee shall, before the audit commences, discuss and finalise with the External Auditors the nature and scope of the audit.	✓			The Audit Committee during their meeting with the External Auditors discussed the nature and scope of the ensuing audit to be commenced by them for the financial year end 2013/14. As this being the External Auditors, first year of Audit, an in-depth independent review was conducted by them commencing the statutory audit early, prior to year end, in co-ordination with the Audit Committee.
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.	✓			The Committee reviewed the Financial Statements and the Annual Report to ascertain the quality and integrity of the information contained therein. Based on the review of the Committee, necessary changes were made by the Finance Department to the Financial Statements and other information contained in the Annual Report.
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.	✓			The Committee met the External Auditors once this financial period without the presence of the corporate management to discuss matters arising from the management letter issued for the past audit period and to discuss other concerns.
8.2.i The Committee shall review the External Auditor's management letter and the management's response thereto.	✓			The Committee reviewed the 2013/14 management letter issued by the External Auditors together with management responses to ascertain material concerns that exist that require their immediate attention for resolution in the presence of the Finance Director.
8.2.j The Committee shall take the following steps on internal audit:				
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;	✓			Internal Audit scope, functions and resources of the department was ascertained for both MI's own Internal Audit Division as well Ernst and Young Advisory Services (Pvt) Limited. It was concluded that, MI's own Internal Audit would be strengthened in the next few year to handle growing branch operation review.
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;	✓			The Audit Committee was submitted with separate Audit Programs by Ernst & Young and the Internal Audit division of the Company for the financial year 2013/14 which were affirmed by the Committee. The Committee met 6 times and reviewed full Audit/spot review reports in the presence of both audit teams. Necessary follow up action was taken with respective corporate management heads.
iii. Review any appraisal or assessment of the performance of the head and senior staff members of the Internal Audit Department;	✓			Performance of Ernst & Young as Auditors was reviewed this period by the Committee. Concluded that all required audit deadlines were met and quality of reports were satisfactory. There were no changes to partner in charge during this period. Next year Committee plans to review performance of the officers of newly established Audit Division.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
iv. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;	✓			There were no recruitments made by MI's own internal audit division under the review of the Audit Committee members. Concluded that new recruitments will be looked at next period. The Audit Committee continued to obtain services of Ernst & Young Advisory Service (Pvt) Limited in parallel with own Audit team since they felt it is necessary to cover total branch network review at least one round annually.
v. Ensure that The Committee is apprised of resignations of senior staff members of the Internal Audit Department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning;			✓	There were no changes/resignations of senior officers handling MI's internal audit function from MI's own the Internal Audit Division. However, there was one change in a senior officer handling MI's Internal Audit function with new officer taking over pertaining to Ernst & Young Advisory (Pvt) Limited Internal Audit service towards MI.
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;	✓			The Internal Audit Division functions independently from other divisions and reports directly to the Audit Committee. The Audit Division comprises of officers who are either part or fully qualified Chartered Accountants. In parallel, Messrs Ernst & Young Advisory Services (Pvt) Limited is an independent institution from MI who have the expertise to handle internal audit services impartially with professionalism.
8.2.k The Committee shall consider the major findings of internal investigations and management's responses thereto;	✓			There were no special investigations carried out by internal audit or any other party in 2013/14 period. Based on periodic internal audit reports, the Audit Committee took steps to avoid repeating of specific shortcomings at branch level. As per the recommendations of the Committee in 2013, the branches submit a periodic confirmation to the Compliance Officer of the Company, confirming their compliance based on checklist format.
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.	✓ See extent			The Finance Director being the 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. At the same time the External Auditors were invited once to meet the Committee and discuss matters arising from their statutory audit. The frequency of meeting the External Auditors would be increased in the next period.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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.	✓			**Audit Committee Terms** The Board approved term of reference of the Audit Committee, allows the Committee to investigate into any matter that it deems necessary within its wide powers. The Committee operates under following terms: ● The Committee's right to obtain full access to information from management. ● Authority to seek external professional advice if needed. ● Invite any party internal or outside with experience to enlighten the Committee on the concerns at hand. ● Decide on resource requirements to carry out special assignments and investigations if deemed necessary by them.
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.	✓			The Committee met 6 times during the 2013/14 financial year. The Secretary to the Audit Committee kept duly perfected minutes in a manner that captures the essence of the meeting discussions and conclusions. Section on 'Audit Committee' given in this supplement on page 212 provides specific details on meetings held, matters discussed and how the Committee records its decisions.
8.2.o The Board shall, in the Annual Report, disclose in an informative way: i. details of the activities of the Audit Committee; ii. the number of Audit Committee meetings held in the year; and iii. details of attendance of each individual member at such meetings.	✓			Details of activities carried out by the Audit Committee and Meetings held this period with participation status have been disclosed in page 212. The Committees scope of activities is disclosed in page 175 Section D.3 of the SEC and ICASL Code. The Audit Committee Report for financial year 2013/14 is given on page 268.
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.	✓			The Company Secretary, Mrs. S. Pethiyagoda acts as the secretary to the Audit Committee keeping record of meeting proceedings. Please refer 8.2.n above for further information on keeping minutes.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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.	✓ See extent			**Open Door Policy** The Open door policy of the Company allows employees to approach any member of the corporate management, human resource department or failing which to meet the Managing Director and express their views and concerns at any given moment. Based on formal staff communicates to Human Resource Division informal information gathered, management would decide and initiate investigation. The investigation process is laid down in 'Fraud Policy' document issued in 2013. No material matters were reported to the Human Resource Division necessitating investigation this period. **Whistle-Blowing Mechanism** The Audit Committee approved the 'Fraud Policy' developed by the Internal Auditors that formalises 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. **Relationship with External Auditors** The External Auditors have direct access to the Audit Committee to raise any concerns so that any such matter could be followed upon independently without hindrance or distortion. The Committee keeps rapport with the External Auditors annually meeting them at least once to discuss matters.
8.3 Integrated Risk Management Committee (IRMC) The following shall apply in relation to the Integrated Risk Management Committee:	✓			
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.				**Integrated Risk Management Committee (IRMC)** In keeping to the requirements of this section IRMC was established in 2012 under clear term 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. The Committee met 4 times during the 2013/14 financial year to expedite its obligations based on the scope specified: ● Credit risk - Reviewing mechanisms in place to identify and manage credit risk. Recommending effective credit risk mitigation measures including monitoring risks exceeding risk appetite limits. ● Interest rate risk - Studying rate structures and carrying out sensitivity analysis to understand impacts to profitability and to propose counter measures. ● 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. ● Studying the quarterly 'Risk Report' prepared by Manager Risk and Compliance tabled by the Finance Director to assess initial risk aspects.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
				● 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. ● Keeping Board appraised of concerns and recommendations of each key risk element through a quarterly 'Activity Report' to the Board. ● Reviewing periodically the Business Continuity Plan of the Company and obtaining a status report from each responsible department through the Manager Risk and Compliance. ● Review of the effectiveness of the Management Committee. Page 214 in the Corporate Governance Report provide additional information pertaining to the IRMC.
8.3.b The Committee shall assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the finance company on a monthly basis through appropriate risk indicators and management information.	✓ See extent			In accordance with the terms and reference, the IRMC Committee meets on a quarterly basis and monitors key risks covering credit risk, interest rate risk, and market risk, operational and other risk deemed necessary. Please refer Section *8.3.a* above on tasks handled by the Committee.
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.	✓ See extent			The Committee reviewed the effectiveness of the Management Committee, studying management information presented at weekly forums. Next period, the Committee plans to review the effectiveness of the Assets and Liabilities Management Committee and the Credit Committee.
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 the prudent levels decided by the Committee on the basis of the finance company's policies and regulatory and supervisory requirements.	✓			The Committee has specified risk appetite limits for credit and liquidity risk. Actual risk levels were compared against these limits. The Committee did not come across risks that went beyond the prudent levels of risks. However, immediate action was specified whenever risk material in nature were brought to committees' attention.
8.3.e The Committee shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	✓			The Committee met on a quarterly basis during this financial year. Page 214 provides information on meetings held and level of participation by Directors. Section *8.3.a* provides key risk management aspects 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.	✓			During the 2013/14 financial year, the Committee did not come across any such material violations by staff in relation to internal controls, risk management procedures and not taking appropriate measures to avoid material risks. Any Non-Compliances to regulations would be followed up by the Committee with the Board for its resolution as and when detected.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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.	✓			In keeping to the 'Risk Policy' of the Company an 'activity report' is submitted by the IRMC to the Board, detailing a summary of key risks identified for period, specifying risk mitigating actions proposed by the Committee. Four activity reports have been submitted to the Board for the 2013/14 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.	✓			A dedicated compliance officer at senior level oversees compliance function of the Company. He provides feedback to the IRMC and the Board of status on MI's adherence to key regulation specifying CBSL and FIU and FTRA requirements. Accordingly, a compliance checklist was prepared and tabled through Finance Director for the information and necessary attention of the Committee.
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.	✓			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 336. No lending's have been made to Directors of the Company as per above Direction.
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 who shall be considered as 'related parties' for the purposes of this Direction.	✓			Transactions with related parties are done only after necessary due diligence. Any transactions entered into by the Company with any such related party has been carried out on an arms-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. No favourable treatment has been given to related parties for transactions effected by the Company directly with such parties. Related party transaction information is captured and are reported in accordance with the provisions of this section and Sri Lanka Accounting Standards (LKAS - 24) on 'Related Party Disclosures'.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
9.3 The transactions with a related party that are covered in this Direction shall be the following: a. Granting accommodation, b. Creating liabilities to the finance company in the form of deposits, borrowings and investments, c. providing financial or non-financial services to the finance company or obtaining those services from the finance company, d. creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.	✓			Necessary disclosures in relation to all related party transactions entered into by MI have been disclosed in page 311 to page 312 in the Notes to the Financial Statements. Discloses pertaining to Directors interest in contracts is given from pages 262 to 263. All related party transactions mentioned therein have been carried out on an arms-length basis as per provisions of this section.
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.	✓			The Company has not entered into any transaction in a manner that would grant the related party 'more favourable treatment' than if dealt with an unrelated customer. Please see Section 9(3) above which specifies the 'related party transactions' and 'Directors interests in contracts' and related disclosures and MI's policy in this regard.
10. Disclosures				
10.1 The Board shall ensure that: a. annual audited Financial Statements and periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that, b. such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	✓			The Company complied with applicable accounting standards including the IFRS requirements introduced since last financial year by CA Sri Lanka. The Financial Statements also conform to other regulatory requirements including the Finance Business Act, the Companies Act and rules specified by Colombo Stock Exchange. Quarterly publications of interim results were published in all three languages and conform to the regulatory interim publication format and the applicable accounting standards.
10.2 The Board shall ensure that at least the following disclosures are made in the Annual Report; *10.2.a* A statement to the effect that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	✓			The Directors Responsibility Statement given on page 264 provides an affirmation that the annual Audited Financial Statements have been prepared in line with applicable accounting standards and applicable regulatory requirements.

<table>
<tr><th>Direction Requirement
(With Section Number of the Direction)</th><th>Complied</th><th>Not Complied</th><th>N/A</th><th>Extent of Adoption
(2014 Update)</th></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>The Board's Report on the effectiveness of the Company's internal control mechanism over financial reporting given under the 'Report by the Board on Internal Control' given on page 220 in the Annual Report, provides required disclosure to comply to this section.</td></tr>
<tr><td>10.2.c The External Auditor's certification on the effectiveness of the Internal Control mechanism referred 2.b to in subparagraph above, in respect of any statements prepared or published from the date of this Direction.</td><td>✓</td><td></td><td></td><td>The External Auditor's certification on the effectiveness of the internal control mechanism over financial reporting was obtained for the financial period 2013/14. No significant matters needing attention was highlighted by BDO Partners, Chartered Accountants.

The External Auditors Assurance Report on the effectiveness of the internal controls over financial reporting has been disclosed on page 221 in the Annual Report.</td></tr>
<tr><td>10.2.d Details of Directors, including names and transactions with the finance company.</td><td>✓</td><td></td><td></td><td>Director information including their names and other details are provided in pages 146 to 149 while their transaction details are disclosed under the 'Directors Interest in Contracts' on pages 262 to 263 and in the 'Related Party Disclosure' Note in the Financial Statements on pages 311 to 312.</td></tr>
<tr><td>10.2.e Fees/remuneration paid by the finance company to the Directors in aggregate, in the Annual Reports published after 1 January 2010.</td><td>✓</td><td></td><td></td><td>Details of Directors' remuneration in aggregate are disclosed in page 311 in Notes to the Financial Statements.</td></tr>
<tr><td>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.</td><td>✓</td><td></td><td></td><td>Total accommodation to related parties of MI has been disclosed on page 311 in the Notes to the Financial Statements.

In keeping to this Section, the net accommodation granted to each category of related party is given below as a percentage of the Company's capital funds:
<table>
<tr><th>Category of Related Party</th><th>Amount
Rs.</th><th>% Against Company's capital funds</th></tr>
<tr><td>Key Management Personnel</td><td>9,896,817</td><td>0.2%</td></tr>
<tr><td>Associate Companies</td><td></td><td></td></tr>
<tr><td>Other</td><td>41,470,907</td><td>0.8%</td></tr>
</table>
As disclosed on page 336 there have not been related party transactions exceeding 10% of the equity during the 2013/14 financial year.</td></tr>
</table>

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
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.	✓			Aggregate values of remuneration paid and transaction carried out by Key Management Personnel is disclosed under 'Directors interest in contracts' on page 262 to 263 and in the 'related party disclosure' in the notes to the financial statements on page 311 to 312. As per the Company's classification, Directors solely come under the definition of Key Management Personal 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-Compliances.	✓			'The Annual Report of the Board of Directors' signed by the Directors given on pages 257 to 261 gives a 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 264 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, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public with the measures.	✓			None so requested to be disclosed.
10.2.j The External Auditor's certification of the compliance with the Corporate Governance Directions in the annual corporate governance reports published from the date of this Direction.	✓			External Auditors BDO Partners reviewed MI's compliance status to the CBSL corporate governance Direction. According, they issued a certification in this regard for financial year 2013/14. Matters of non-compliance will be dealt with in next financial period.

STATEMENT - 03

MI's Compliance Status to Listing Rule Section 7.10 (Corporate Governance) of the Colombo Stock Exchange

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
7.10 Compliance	✓			a. MI is in compliance with Corporate Governance rules specified by CSE for all listed companies. b. Complied with Section 7.10 requirements to adhere to this requirement. c. As a listed finance company, MI has duly adhered to CBSL issued Corporate Governance Direction. Compliance status is given on pages 179 to 201.
7.10.1 Non-Executive Directors of a Listed Company	✓			5 out of 10 Directors of MI function as Non-Executive Directors. MI maintained 50% composition of Non-Executive Directors in the Board, throughout this period, complying with this requirement.
7.10.2 Independent Directors				
7.10.2.a Two or one-third of the Non-Executive Directors of the Board whichever is higher should be independent.	✓			Four out of five Non-Executive Directors of MI are Independent hence complies with requirements of this section.
7.10.2.b Submission of a declaration of independence by Independent Non-Executive Directors as per prescribed format.	✓			All four Independent Non-Executive Directors of MI have submitted a declaration as per the format given in the CSE Code on Corporate Governance for financial year 2013/14.
7.10.3 Disclosures Related to Directors	✓			
7.10.3.a Disclosure of the names of Independent Non-Executive Directors				Based on specified criteria, for deciding Independence of a Director as per 7.10.4, names of the four Independent Non-Executive Directors are mentioned on page 166 of the Corporate Governance Section A5.3 of the SEC and CBSL Code.
7.10.3.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 of 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.	✓			No such a circumstance has occurred during financial year 2013/14.
7.10.3.c Disclosure of brief resume of the Directors in Annual Report	✓			Brief résumé of each Director of MI is provided on pages 146 to 149 covering requirements of this section.
7.10.3.d Upon appointment of a new Director to its Board, the Entity shall forthwith provide to the Exchange a brief resume of such Director for dissemination to the public. Such resume shall include information on the matters itemised in paragraphs (a), (b) and (c) above.	✓			An Announcement to the Exchange was made on 1 July 2013 of Mr. P.C. Guhashanka who was appointed to the Board as an Independent Non-Executive Director, being the only appointment in 2013/14 financial year.

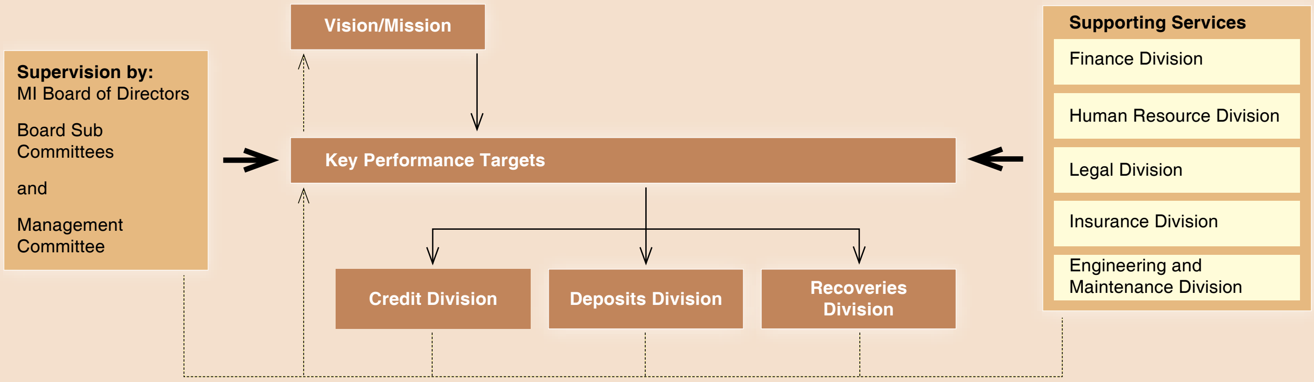
Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
7.10.4 Criteria for Defining 'Independence'	✓			All the Independent Non-Executive Directors of MI have fulfilled eight criteria of independence stipulated in this section.
7.10.5 Remuneration Committee A listed entity should have a Remuneration Committee	✓			Information pertaining to MI's Remuneration Committee is provided on page 213.
7.10.5.a Composition of the Remuneration Committee.	✓			Two out of three members in Remuneration Committee are Independent Non-Executive Directors. Board Chairman who is Independent Non-Executive Director holds the Chairmanship of Remuneration Committee.
7.10.5.b The Remuneration Committee shall recommend the remuneration of the Managing Director of the Company.	✓			Page 170 Section B.2.1 of the SEC and ICASL code provides necessary information.
7.10.5.c Disclosure of the Remuneration Committee in the Annual Report				
• Name of the Directors serving in the Committee	✓			Names of the Directors of Remuneration Committee provided on page 213.
• Statement of Remuneration Policy	✓			Please refer page 266 for the Remuneration Committee Report.
• Aggregate Remuneration paid to Executive Directors and Non-Executive Directors	✓			Aggregate remuneration paid to Executive and Non-Executive Directors is provided on page 311.
7.10.6 Audit Committee *A Listed Entity Should have an Audit Committee*	✓			Particulars relating to MI's Audit Committee is provided on page 212.
7.10.6.a Composition of the Audit Committee				
• Audit Committee shall comprise of Non-Executive Directors, a majority of whom shall be independent	✓			All three members of the Audit Committee are Non-Executive Directors, two of whom are independent.
• One Non-Executive Director shall be appointed as Chairman of the Committee	✓			The newly appointed Chairman of the Audit Committee commencing financial year 2013/14 is Mr. S.M.S.S. Bandara, who is an Independent Non-Executive Director.
• The Chief Executive Officer and the Chief Financial Officer of the listed company shall attend Audit Committee meetings.	✓			During financial year 2013/14, Finance Director (CFO) attended meetings by invitation. Calling for Managing Director was not necessitated during this period.
• The Chairman or one member of the Committee should be a Member of a recognised professional accounting body.	✓			The Chairman of the Audit Committee is a Chartered Accountant, with years of experience behind him in Financial and Auditing field, a partner of B.R. De Silva, Chartered Accountants.
7.10.6.b Functions of the Audit Committee	✓			Functions of the Audit Committee are disclosed on pages 175 to 176 in Section D.3.3 of the SEC and ICASL Code details.

Direction Requirement (With Section Number of the Direction)	Complied	Not Complied	N/A	Extent of Adoption (2014 Update)
7.10.6.c Disclosures in Annual Report				
● The Name of the Directors comprising the Audit Committee.	✓			Composition of the Audit Committee is provided on page 212.
● The Committee shall make a determination of the independence of the Auditors and disclose the basis for such determination.	✓			Please refer page 175 Section D.3.2 of the SEC and ICASL Code for disclosure in this regard.
● 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.	✓			The Audit Committee report is given on page 268 in the Annual Report.

MI'S PERFORMANCE GOVERNANCE

Performance governance at MI is about building a structure to whom responsibilities are allocated whilst working independently under stringent control of the Board.

MI's performance governance approach involves drilling down of the strategic vision and mission to identifiable corporate goals and objectives, methodically and efficiently and cultivating the performance governance values MI upholds. Company is in the process of developing a corporate culture which orients individuals to pursue breakthrough corporate gains, maximising the value creation of all stakeholders of the Company. The Board of Directors and corporate management together review the strategic plan and corporate budget against the actual performance on an ongoing basis. MI has preset key performance targets for all key divisions of the Company in a streamlined manner as depicted below:



The Table below Highlights MI's Performance Governance Mechanisms in Place.

Main Function	Policies and Procedures of Governance	Structure of Governance	Performance Governance Mechanisms
Corporate Planning and Strategy Development	Vision, Mission and Objective Setting Strategic Plan of MI for 3 Years Annual Budget 2013/14	Corporate Strategic Planning process, under the leadership of Managing Director is handled by the Finance Director (CFO) and his finance team. There is input from corporate management for its development.	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 overall results against the budget is done at least annually.
Credit Operations	Credit Policy Credit Risk Appetite Limits Comprehensive Credit Procedure Manual Anti-Money Laundering Policy Monthly Targets	Credit Committee Integrated Risk Management Committee Corporate Management Operation Managers Cluster Heads/Branch Managers/Officers	Updating of procedure manuals and guidelines on a 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.
Recovery Management	Recoveries Procedure Manual Credit Policy	The Board Recoveries Committee Credit Committee Operation Managers	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.
Marketing Product	Budget on Marketing Monthly Targets Anti-Money Laundering Policy	Credit Committee Director (Non-Board) - Credit and Marketing Corporate Management/ Cluster Assistant General Managers Branch Managers	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.
Deposit Mobilisation	Deposit Procedure Manual Periodic Deposits Targets	Integrated Risk Management Committee Assets and Liability Management Committee Management Committee Corporate Management	Updating of deposit procedure manuals and guidelines on a regular basis to align with current changes in business environment. Comprehensive KYC covering all the 'Financial Transaction Reporting Act' and Anti-Money Laundering Guidelines. Review of Risk Appetite limits related to deposit business. Review of daily/weekly/monthly new business reports.

Main Function	Policies and Procedures of Governance	Structure of Governance	Performance Governance Mechanisms
Finance	General Ledger/ Accounting System Finance Procedure Manual Statutory Accounts/Interim Results Payment Process	Finance Director Audit Committee Corporate Management	Weekly review of financial performance with corporate management team. Budget Review meetings and variance analysis of budgeted vs. actuals, annually. Adherence to IFRS/LKAS and other requirements related to financial reporting by Audit Committee/External Auditors.
Treasury Management	Investment Policy Liquidity Policy Pricing System Fund Management	Finance Director Assets and Liabilities Management Committee Management Committee Integrated Risk Management Committee	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 External and Internal Auditors.
IT Governance	IT procedure Manual Information Security Policy Disaster Recovery Plan IT Contingency Plan	IT Division Software Development Division Corporate Management Business Contingency Planning Committee	IT help desk. Professionally qualified and experienced IT professionals. Customised financial software. High information security. Periodic systems audits and feedback from divisions on requirements/concerns. Review of IT BCP status by manager risk and compliance.
Risk Management	Integrated Risk Management Committee Policies Business Continuity Plan Assets and Liabilities Management Committee Policies	Integrated Risk Management Committee Assets and Liabilities Management Committee Contingency Management Team Manger Risk and Compliance Internal Auditors	Quarterly integrated risk management review of reports assessing key risks of MI. Implementation of risk management initiatives in the form of controls and mitigation actions. Establishing risk appetite limits and keeping close review of actual status. Annual review and updating of Business Continuity Plan. A detailed review of the Company's Risk Management framework, policies and procedures is given on pages 222 to 253.

Main Function	Policies and Procedures of Governance	Structure of Governance	Performance Governance Mechanisms
Human Resource Management	Terms of Reference of Remuneration Committee Human Resource Management Policy. Employees Hand Book Performance Appraisal Process Whistle-blowing Policy	Remuneration Committee Corporate Management Internal Audit	Biannual performance appraisals of employees. Constant review and updation of human resource policies and practices to strengthen 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.
Legal and Compliance	Document Retention Policy CBSL Compliance Checklist Anti-Money Laundering Policy Branch Compliance Checklist	Audit Committee Legal Division Corporate Management Internal Auditors External Audit	Monthly compliance status reports on prevailing CBSL rules and guidelines submitted through Manager Risk and Compliance to the Board. Review of all outstanding litigation issues and recovery issues by Legal Division. Review of branch network compliance level through monthly branch compliance checklist. Provide training on compliance requirements in house and external as well. Internal Auditors assessment of compliance to set procedures/policies and reporting to Audit Committee. Follow up and resolution of issues raised by parties through Financial Ombudsman by Legal Division.
Sustainability/Corporate Social Responsibility (CSR)	Corporate Strategic Plan Review of Sustainability performance Annual CSR Budget	CSR Committee	CSR Committee Review meetings and CSR activity/projects towards social/environmental well-being. Disclosure of MI's activities towards sustainability/corporate social responsibility is given annually. Refer pages 94 to 144 in this regard.

BOARD MEETINGS

Board meetings of the Company are held in monthly intervals to ensure there is close supervision and direction of affairs of the Company with a view to meet expectations of MI stakeholders. The Company Secretary circulates the Notice of Meeting with the agenda supported by related circulars/ information packs seven days prior to the date of meeting. The information circulated includes the monthly management accounts with key statistics together with information pertaining to other matters that are planned to be taken up for the meeting. Directors are given full authority to incorporate significant matters, proposals and statistics in the agenda to be taken up during meetings.

To discharge its obligations, the Board oversees and directs the Company in both the short term and the longer term. This involves goal setting, strategy development, policy making and taking Board decisions and issuing them to the corporate management for their implementation and closely monitoring progress. During meetings, Board papers tabled by heads of divisions are taken up for discussion and approved. The Board also authorises circulars and deliberates on significant matters that require their attention and expertise. MI Board has the right blend of both Executive and Non-Executive Directors in equal proportion, who possess necessary experience and qualifications to enrich the overall decision-making process of the Board.

As significant changes/actions, the Board considered and/or resolved the following extra matters during the 2013/14 financial year:

Extra Matters

- Resignation of Non-Executive Director, Mr. H.A.S.T. Senanayake from the Board.
- Appointment of Mr. P.C. Guhashanka as a Non-Executive Director to the Board.
- Adopting the procedure for handling on Non-Audit Services by External Auditor of the Company.
- Approving the terms of reference of Remuneration Committee.
- Establishment of a Credit Committee to oversee the credit activities of MI.
- Establishment of Assets and Liabilities Management Committee to oversee the liquidity management of MI.
- Reviewing and affirming the quarterly Activity Report tabled by IRMC.

Attendance of Directors at Board meetings for the financial year 2013/14 is as follows:

Name of the Director	Type of Directorship			Attendance at Board Meetings in 2013/14											
	Executive	Non-Executive	Independent Non-Executive	24 April 2013	21 May 2013	28 June 2013	26 July 2013	30 August 2013	25 September 2013	23 October 2013	29 November 2013	30 December 2013	29 January 2014	26 February 2014	26 March 2014
01. Mr. S.H.J. Weerasuriya *(Chairman)*			✓	✓	✓	✓	✓	✓	✓	✓	✓	✘	✓	✘	✓
02. Mr. Gerard G. Ondaatjie *(Managing Director)*	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
03. Mr. P.M. Amarasekara	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
04. Mr. S.H. Jayasuriya	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
05. Ms. Angeline M. Ondaatjie	✓			✓	✓	✓	✓	✓	✓	✘	✓	✓	✓	✓	✓
06. Mr. Travice J. Ondaatjie	✓			✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
07. Ms. P.T.K. Navaratne			✓	✓	✓	✓	✘	✓	✓	✓	✓	✘	✓	✓	✓
08. Mr. N.H.V. Perera		✓		✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓	✓
09. Mr. S.M.S.S. Bandara			✓	✓	✘	✓	✘	✓	✓	✓	✓	✓	✓	✓	✓
10. Mr. P.C. Guhashanka *			✓				✓	✓	✓	✓	✘	✓	✓	✓	✓
11. Mr. H.A.S.T. Senanayake **			✓	✘	✘	✘									

** Mr. P.C. Guhashanka joined on 28 June 2013*

*** Mr. H.A.S.T. Senanayake resigned on 24 June 2013*

Total Number of Papers Approved by the Board in 2013/14

Status	Main Board	Integrated Risk Management Committee	Audit Committee	Remuneration Committee	Nomination Committee	Assets and Liability Management Committee
Submitted	52	09	10	02	01	01
Approved	52	09	6 approved 4 reviewed	02	01	01

Directorates/Equivalent Positions Held in Other Institutions by Directors - Summary

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	Nil
02. Mr. Gerard G. Ondaatjie	13	03
03. Mr. S.H. Jayasuriya	02	Nil
04. Mr. P.M. Amarasekara	01	Nil
05. Ms. Angeline M. Ondaatjie	16	04
06. Mr. Travice J. Ondaatjie	13	03
07. Ms. P.T.K. Navaratne	01	Nil
08. Mr. N.H.V. Perera	07	02
09. Mr. S.M.S.S. Bandara	01	Nil
10. Mr. P.C. Guhashanka	06	Nil

Other Directorates/Equivalent Positions Held by Directors as at 31 March 2014 - Detailed Disclosure

Company/Society/Body Corporate Including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
1. Mr. S.H.J. Weerasuriya			
International Civil Engineering Consultants (Pvt) Limited	Director	No	Less than 1% (1 share)
Saro Weerasuriya Associates	Proprietor	No	Nil
Kognoscenti (Pvt) LTD	Director	No	Nil
2. Mr. Gerard G. Ondaatjie			
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
Security Ceylon (Pvt) Limited	Director	No	5
Global Films Limited	Director	No	0.04
Grand Hotel (Pvt) Limited	Managing Director	No	Nil
International Fortunes (Pvt) Limited	Director	No	1.33
Mercantile Orient (Pvt) Limited	Director	No	Less than 1% (1 share)
Fair View Hotel (Pvt) Limited	Managing Director	No	Less than 1% (100 shares)
Nilaveli Hotels (Pvt) Limited	Chairman	No	10
3. Mr. P.M. Amarasekara			
Security Ceylon (Pvt) Limited	Director	No	Nil
4. Mr. S.H. Jayasuriya			
Mercantile Fortunes (Pvt) Limited	Director	No	Nil
Security Ceylon (Pvt) Limited	Director	No	Nil
5. Ms. Angeline M. Ondaatjie			
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
Global Films Limited	Director	No	0.04
Grand Hotel (Pvt) Limited	Director	No	Nil
International Fortunes (Pvt) Limited	Director	No	1.33
Mercantile Orient (Pvt) Limited	Director	No	Nil
Fair View Hotel (Pvt) Limited	Director	No	Less than 1% (100 shares)
Nilaveli Hotels (Pvt) Limited	Director	No	10
The Light House Hotel PLC	Director	Yes	Nil
Phoenix Industries Limited	Director	No	Nil
Brushco (Pvt) Limited	Director	No	Nil

Company/Society/Body Corporate Including Associate Companies and Subsidiaries of the Finance Company	Designation	*Whether the Entity is a Specified Business Entity	No. of Shares %
6. Mr. Travice J. Ondaatjie			
Mercantile Fortunes (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
The Nuwara Eliya Hotels Company PLC	Director	Yes	0.57
Tangerine Tours (Pvt) Limited	Director	No	14
Security Ceylon (Pvt) Limited	Director	No	5
Global Films Limited	Director	No	0.04
Grand Hotel (Pvt) Limited	Director	No	Nil
International Fortunes (Pvt) Limited	Director	No	1.33
Mercantile Orient (Pvt) Limited	Director	No	Nil
Fair View Hotel (Pvt) Limited	Director	No	Less than 1% (100 shares)
Nilaveli Hotels (Pvt) Limited	Managing Director	No	10
7. Mr. N.H.V. Perera			
Royal Palms Beach Hotels PLC	Director	Yes	0.54
Tangerine Beach Hotels PLC	Director	Yes	0.45
Blue Oceanic Beach Hotel Limited	Director	No	Less than 10
Yala Safari Beach Hotel Limited	Director	No	Nil
South Asia Economic and Trade Corporation (Pvt) Limited	Director	No	Less than 10
Ceylon Electro Mechanical Services (Pvt) Limited	Director	No	Less than 10
Yala Properties (Pvt) Limited	Director	No	Less than 10
8. Ms. P.T.K. Navaratne			
WSO2 Lanka (Pvt) Limited	Director - Legal	No	Nil
9. Mr. S.M.S.S. Bandara			
B.R. De Silva & Co.	Partner	No	Nil
10. Mr. P.C. Guhashanka			
Micro Holdings (Pvt) Limited	Director	No	7
Micro Cars Limited	Director	No	Nil
Micro Constructions (Pte) Limited	Director	No	25
Transmec International (Pte) Limited	Director	No	25
Transmec Engineering (Pte) Limited	Director	No	Nil
Euro Sports Auto Lanka (Pte) Limited	Director	No	25

BOARD SUB-COMMITTEES

To effectively discharge Board's duties several sub-committees have been set up with Director participation. Members have been selected based on their level of experience and expertise in relation to respective committees to ensure each committee performs its specific role more effectively. The subcommittees 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 Board understands the importance of monitoring key business areas more closely especially credit, liquidity, interest rates and operations. The subcommittees see that the management exercises its authority within the framework stipulated by the Board. The review and oversight process enables the Board to obtain vital feedback from subcommittees on the status of implementation with regard to strategies and policies set forth by them. The Board is then able to identify potential risks early and is able to take counter measures.

Information pertaining to each Board Subcommittee, namely the Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Nominations Committee and from this period onwards the Assets and Liabilities Management Committee and Credit Committee is disclosed below:

The Audit Committee

Composition/Type of Directorship	Other Committee information	
Mr. S.M.S.S. Bandara (Independent Non-Executive Director) Mr. H.A.S.T. Senanayake (Independent Non-Executive Director)	Chairman (Independent Non-Executive Director)	Mr. S.M.S.S. Bandara (Appointed 28 June 2013) Mr. H.A.S.T. Senanayake (Vacated office 24 June 2013)
	Terms of Reference	Available
	Minimum Meeting Frequency	Quarterly (6 times during the year)
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director) Mr. N.H.V. Perera (Non-Executive Director)	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
	Objectives and Duties of the Committee	Given on pages 175 to 176 under Code D.3.3 of the Code on Corporate Governance in Part 1 of this Supplement

Attendance at Audit Committee Meetings

Name of the Director	Attendance at Meetings in 2013/14					
	21 May 2013	25 July 2013	9 September 2013	14 October 2013	27 January 2014	21 March 2014
01. Mr. S.M.S.S. Bandara *(Chairman of the Committee)*	✓	✓	✓	✓	✓	✓
02. Mr. S.H.J. Weerasuriya	✓	✓	✓	✓	✓	✓
03. Mr. N.H.V. Perera	✓	✓	✓	✓	✗	✓
04. Mr. H.A.S.T. Senanayake	✗*					

** Mr. H.A.S.T. Senanayake resigned on 24 June 2013.*

Board Paper Submission Status of the Audit Committee

Number of papers submitted	Number of papers approved
10	6 approved 4 reviewed

The Remuneration Committee

Composition/Type of Directorship	Other Committee information	
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director) Mr. N.H.V. Perera (Non- Executive Director) Ms. P.T.K. Navaratne (Independent Non-Executive Director) (Appointed 23 October 2013) Mr. H.A.S.T. Senanayake (Independent Non-Executive Director) (Vacated office 24 June 2013)	Chairman (Independent Non-Executive Director)	Mr. S.H.J. Weerasuriya (Appointed 24 February 2012)
	Terms of Reference	Available
	Minimum Meeting Frequency	At least once in a year (1 meetings held in this financial year)
	Circulation of the Agenda and Papers	7 days prior to the meeting
	Invitees	Managing Director
	Professional Advice	Can sought advice whenever necessary
	Secretary	Mrs. Sonali Pethiyagoda
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives and Duties of the Committee	Given on page 266 of Remuneration Committee Report.

Attendance at Remuneration Committee Meetings

	Name of the Director	Attendance at Meetings during 2013/14
		26 March 2014
01.	Mr. S.H.J. Weerasuriya *(Chairman of the Committee)*	✓
02.	Mr. N.H.V. Perera	✓
03.	Ms. P.T.K. Navaratne	✓

The Integrated Risk Management Committee

Composition/Type of Directorship	Other Committee information	
Mr. N.H.V. Perera (Non-Executive Director) Mr. Gerard G. Ondaatjie (Managing Director) Mr. P.M. Amarasekara (Deputy Managing Director) Mr. S.H. Jayasuriya (Finance Director)	Chairman (Non-Executive Director)	Mr. N.H.V. Perera (Appointed 24 February 2012)
	Terms of Reference	Available
	Minimum Meeting Frequency	Quarterly intervals (4 meetings held in this financial year)
	Circulation of the Agenda and Papers	7 days prior to the meeting
	Invitees	Divisional Heads whenever necessary
	Professional Advice	Obtain advice whenever necessary
	Secretary	Manager - Risk and Compliance (Mr. Ramidu Costa)
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives and Duties of the Committee	**Objective** Identifying and assessing and prioritisation of risks followed by co-ordinated and economical application of resources to minimise, monitor and control the probability and/or impact of unfortunate events or to maximise the realisation of opportunities. **Duties** • Establish a method of overseeing the overall risk management procedures of the Company. • Determine the appropriate risk appetite or level of exposure for MI. • Approve major decisions affecting MI's risk profile or exposure. • Identify risks and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises. • Periodically review MI's approach to risk management and approve changes or improvements to key elements of its processes and procedures. Refer Integrated Risk Management Committee Report on page 265 for further details on Committee.

Attendance at Integrated Risk Management Committee Meetings

Name of the Director	Attendance at Meetings in 2013/14			
	29 June 2013	20 September 2013	24 December 2013	18 March 2014
01. Mr. N.H.V. Perera *(Chairman of the Committee)*	✓	✓	✓	✓
02. Mr. Gerard G. Ondaatjie	✓	✓	✓	✓
03. Mr. P.M. Amarasekara	✓	✓	✓	✓
04. Mr. S.H. Jayasuriya	✓	✓	✓	✓

Board Paper Submission Status of the Integrated Risk Management Committee

Number of Papers Submitted to IRMC	Number of Papers Approved to IRMC
09	09

The Nominations Committee

Composition/Type of Directorship	Other Committee information	
Mr. S.H.J. Weerasuriya (Independent Non-Executive Director) Mr. N.H.V. Perera (Non-Executive Director) Mr. S.M.S.S. Bandara (Independent Non-Executive Director) Mr. Gerard G. Ondaatjie (Managing Director)	Chairman (Independent Non-Executive Director)	Mr. S.H.J. Weerasuriya (Appointed 14 February 2013)
	Terms of Reference	Available
	Minimum Meeting Frequency	At least once in a year (1 meeting held in this financial year, all four Directors attended)
	Circulation of the Agenda and Papers	7 days prior to the meeting
	Invitees	None
	Professional Advice	Can sought advice whenever necessary
	Secretary	Mrs. Sonali Pethiyagoda
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives and Duties of the Committee	Given on page 267 of Nomination Committee Report.

The Credit Committee

Composition/Type of Directorship	Other Committee information	
Mr. Gerard G. Ondaatjie (Managing Director) Mr. P.M. Amarasekara (Deputy Managing Director) Mr. S.H. Jayasuriya (Finance Director) Mr. Dhanushka Fonseka (Director - Non-Board - Credit and Marketing)	Chairman	Mr. Gerard G. Ondaatjie (Appointed 20 March 2013)
	Terms of Reference	To be available next period
	Minimum Meeting Frequency	Whenever necessary
	Circulation of the Agenda and Papers	7 days prior to the meeting
	Invitees	Assistant General Managers of Credit and Branch Mangers
	Professional Advice	Advice process will be mentioned in 'Terms of Reference' being prepared.
	Secretary	To be nominated
	Meeting Minutes Availability	To be made available in the custody of Company Secretary.
	Objectives and Duties of the Committee	**Objective** Maintaining a sound credit review and disbursement and recovery process while approving credit as per entrusted authority. **Duties** a. Review of existing credit practices, monitoring large accounts in arrears and assessing lending trends to decide on best course of action to minimise credit-related risk. b. Appraising existing lending policies and assessing credit risk evaluations of large lendings and high risk accounts including guarantors. c. Reviewing 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. Approving credit over a specified Board approved limit. e. Recommending stringent action on problematic accounts in consultation with the legal division.

Assets and Liabilities Management Committee

Composition/Type of Directorship	Other Committee information	
Mr. Gerard G. Ondaatjie (Managing Director) Mr. P.M. Amarasekara (Deputy Managing Director) Mr. S.H. Jayasuriya (Finance Director)	Chairman	Mr. Gerard G. Ondaatjie (Appointed 21 May 2013)
	Terms of Reference	Will be furnished next period
	Minimum Meeting Frequency	Whenever necessary (1 meeting held in this financial year)
	Circulation of the Agenda and Papers	7 days prior to the meeting
	Invitees	Assistant General Managers of Credit and Branch Managers
	Professional Advice	Obtain advice whenever necessary
	Secretary	Manager - Risk and Compliance
	Meeting Minutes Availability	Available in the custody of Company Secretary
	Objectives and Duties of the Committee	**Objective** Overseeing and apprising the Board on Assets and Liabilities concerns specially focusing on liquidity and interest rate risk. **Duties** a. Reviewing liquidity risks both short and long term. b. Recommending solutions for maturity mismatch in assets and liabilities. c. Overseeing interest rate risks by monitoring related trends, impacts to net interest income, interest margin change etc. and establishing proper counter measures. d. Presenting to the Board concerns specifically related to liquidity and interest rate risks.

Management Committee

Composition/Type of Directorship	Other Committee information	
Mr. Gerard G. Ondaatjie (Managing Director) Mr. P.M. Amarasekara (Deputy Managing Director) Corporate Management Mr. S.H. Jayasuriya (Finance Director)	Chairman	Mr. Gerard G. Ondaatjie
	Meeting Frequency	Weekly
	Circulation of Information	Daily to all members via e-mail
	Invitees	Officers under purview of corporate management as and when required.
	Meeting Information Availability	Presented information available with Finance Division.
	Objectives and Duties of the Committee	**Objective** Reviewing ongoing performance to provide early warning signs and a platform for decision-making to take proactive measures to meet expected performance standard and to develop strategies to tackle prevalent issues. **Duties** The Finance Division conducts the meeting and presents a stream of financial information in relation to lending, deposits, profitability, spread levels, market statistics and forecast. Financial and non-financial performance actual vs. past and against expected targets is monitored weekly.

LAWS AND REGULATIONS

Key Regulations Affecting the Governance of the MI

Internal	External
Articles of Association	Directions, rules, determinations, notices and guidance issued by the CBSL
Procedure Manual	Finance Business Act No. 42 of 2011
Terms of Reference for Committees Audit Committee, Integrated Risk Management Committee, Nomination Committee, Remuneration 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 2013
Investment Policy	Listing Rules of Colombo Stock Exchange
Liquidity Policy	Companies Act No. 07 of 2007
Branch Compliance Checklist	Sri Lanka Deposit Insurance Scheme Regulations and Circulars
Human Resource handbook	Financial Transactions Reporting Act No. 06 of 2006
Communication Policy	Know Your Customer (KYC) and Consumer Due Diligence (CDD) Rules
Anti-Money Laundering Policy & Combatting the Financing of the Terrorism Policy	Inland Revenue Act No. 10 of 2006

Compliance Status to CBSL Directions, Rules, Determinations, Notices and Guidance

The status of MI's compliance to laws and regulations with specific focus on CBSL Directions is reported by Risk Manager to the Board periodically.

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.

Submission of CBSL Web Returns

All required CBSL web returns were submitted by the Company on or before the due dates for submission. There were no late submission penalties imposed by CBSL for 2013/14 financial year.

Report	Periodicity	Number of Reports Submitted in 2013/14	Compliance Status
Liquid Assets	Weekly/Monthly	60	Complied
Deposit Liability	Weekly	48	Complied
Advances	Monthly	12	Complied
Rate of Interest	Monthly	12	Complied
Balance Sheet	Monthly	12	Complied
Profit and Loss	Monthly	12	Complied
Classification of Advances	Monthly	12	Complied
Secured Large Exposures	Monthly	12	Complied
Unsecured Large Exposures	Monthly	12	Complied
Advances to Related Parties	Monthly	12	Complied
Investments in Equity	Monthly	12	Complied
Maturity Gap Analysis	Monthly	12	Complied
Interest Rate Sensitivity	Monthly	12	Complied
Capital Adequacy Ratio	Monthly	12	Complied
Sector-wise Credit Exposure	Monthly	12	Complied
Interest Spread	Monthly	12	Complied
Balance Sheet - Audited	Annually	1	Complied
Profit & Loss Account - Audited	Annually	1	Complied
Capital Adequacy Ratio - Audited	Annually	1	Complied
Financial Intelligence Unit Report - More than 1 million Cash Transaction Report	Bimonthly	24	Complied
Total Reports Submitted		303	

Other Regulations

We abide by various other regulations which include Finance Business Act, Companies Act No. 07 of 2007, Financial Transaction Reporting Act, Financial Intelligence Regulations and Colombo Stock Exchange Listing Rules which are applicable being a finance company that is public listed.

Returns Submitted as per Prevailing Regulations

Requirement 2013/14	Compliance
CSE	4 (Pages 202 to 204 and 333 provide MI's compliance level to CSE Rules)
Inland Revenue	33
EPF and ETF	26
Gratuity	1
Registrar of Companies	1
Central Bank of Sri Lanka	322
Municipal Council	4
SLAAS Monitoring Board	1
Financial Intelligence Unit	24

Regulation Awareness of Employees

To ensure smooth implementation of regulations related to finance business and other laws, employees are afforded continuous training. In-house training sessions were held on regulations covering anti-money laundering and provisions related to the FTRA. Induction programme held focused on giving new comers a background of regulations applicable to MI. For credit and recovery team training was given on regulations related to lending business specially focusing on legal aspects covering documentation. Employees were also sent for training seminars and workshops conducted by the Centre for Banking studies of Central Bank and training afforded by The Institute of Chartered Accountants of Sri Lanka, the Finance Houses Association and other bodies that provide technical training.

Human Resource Management

Human resource management policies and practices of the Company including aspects on career development, staff evaluation process, working environment and staff benefits have been discussed in-depth under the section 'Human Rights Review' in our Sustainability section on page 134.

Corporate Social Responsibility

The Sustainability Report given on pages 94 to 144 provides a comprehensive account of our CSR initiatives taken this year covering MI's triple bottom line value creation process namely, focusing on economic, social and environmental aspects. We have understood the necessity to bring forth sustainable development practices for the benefit of society with the hope of fostering a sustainable nation, as we bear fruits from our own successful business journey.

External Auditors Certification

We obtained services of External Auditors to certify that the contents stated in the Corporate Governance Report in relation to the Finance Companies (Corporate Governance) Direction No. 03 of 2008 and related amendments, Best Practices issued by the Securities and Exchange Commission and the Institute of Chartered Accountants of Sri Lanka, and Disclosure pertaining to Corporate Governance practices interims of Listing rules issued by the Colombo Stock Exchange do not have any inconsistencies with the practices, processes and policies adopted by the Company. External Auditors confirmed that the disclosures given are in order as per their report of agreed upon procedures dated 21 May 2014.

SPethiyagoda.

Mrs. S. Pethiyagoda
Company Secretary

Costa

Mr. Ramidu Costa
Manager - Risk and Compliance

Mr. Saro Weerasuriya
Chairman

23 May 2014

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 departments 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.
- The key observations made by External Auditors applicable to internal controls during 2012/13 were attended and corrective controls implemented to rectify concerns.
- Manager-Risk and Compliance submitted compliance status reports covering all applicable CBSL rules and regulations 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 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 2014 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

Gerard G. Ondaatjie
Managing Director

23 May 2014

INDEPENDENT ASSURANCE REPORT

BDO

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Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
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 31st March 2014.

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. 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 Director's 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.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo 02.
23rd May, 2014
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 ACA, ACMA.
Ashane J.W. Jayasekara FCA, FCMA (UK), MBA. H.M. Saman Siri Lal FCA, ACMA, MBA.

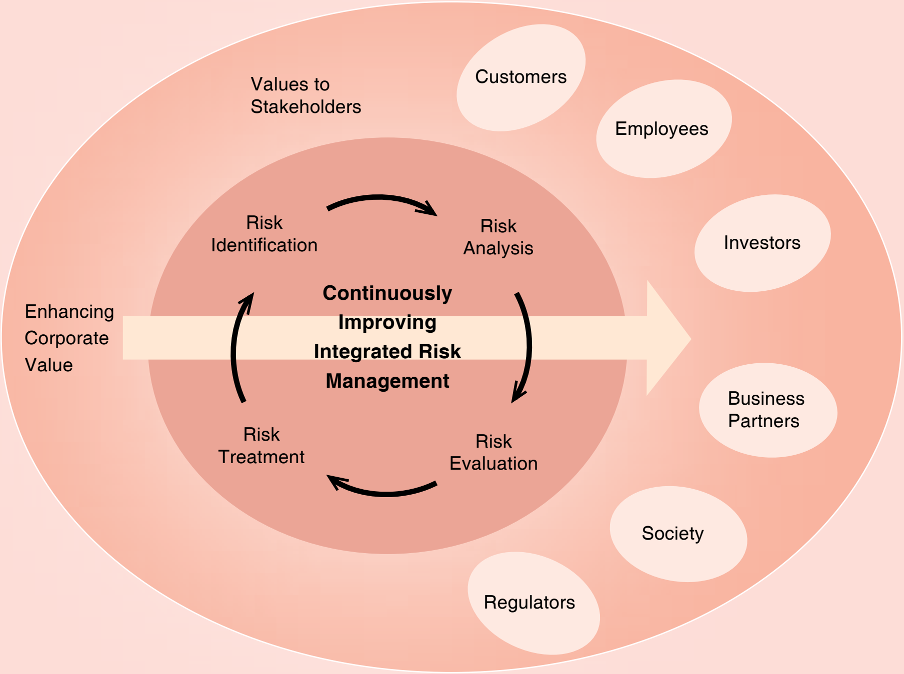
Risk Management

Adopting strong risk governance practices to withstand adverse impacts from potential risk and challenges

RISK MANAGEMENT REPORT

MANAGING RISK AT MERCANTILE INVESTMENTS AND FINANCE PLC

Risk Management is a key function of a finance company as finance business involves dealing with a gamut of risks that is potent and even lethal. Hence risk management has become an integral part of our business strategy each year. We understand 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 the stakeholder value as a core objective. Integrated risk management process of the Company benefits all stakeholders of the Company as depicted below:



As a finance company we face potential risks mainly from credit risk, liquidity risk, market risk and operational risk. We understand the importance of managing these core risks appropriately as otherwise it may result in financial losses and negative impact to MI's value creation process. Large corporate collapses witnessed both globally and locally in the past decade have clearly pointed out to poor risk management practices associated to their causes.

By establishing a sound risk management framework coupled with sound techniques in place, MI was able to counter potent risks inherent in our business and also to maintain a healthy profitability throughout the year. Further, the surge of regulations that have been imposed by the regulator in the past few years too have strengthened internal risk management practices to counter emerging market volatility within the LFC sector.

MI's decision to recruit a Risk Manager in the last financial year has already yielded immense benefits in developing a sound risk management system within especially to strengthen associated analysis techniques and reporting and formed 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.

RISK MANAGEMENT STRATEGY

Traditionally, risk management 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 the stakeholders' value through pre-emptive risk exposure management, identifying the best trade-off between risk and reward in all major business decisions as depicted above.

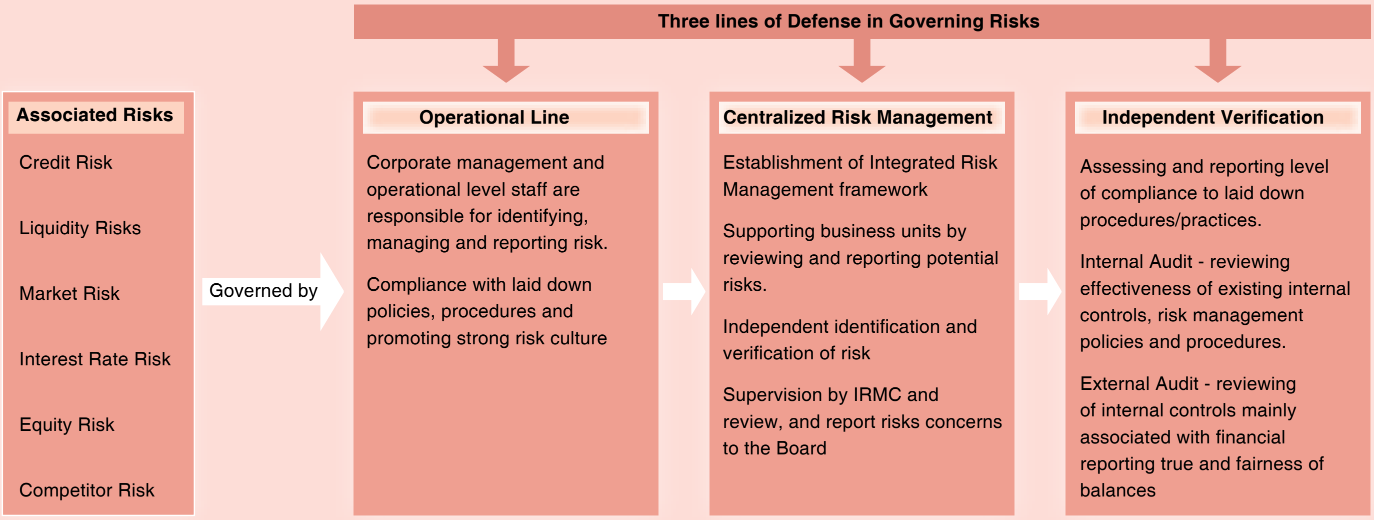
As part of our risk management strategy, we adopt an ongoing process of risk identification which encompasses the assessment and measuring of risk levels and includes on a case by case basis making improvements to existing risk mitigation practices. MI's risk management process encapsulates a stream of policies and procedures laid forth to counter risk at various levels. At the same time, we monitor risks on a continuous basis, in certain instances comparing actuals against prudent norm to identify material deviations. This provides us the opportunity to assess the level of risk exposure that we face and enables us to take timely counter measures. It also enables us to constantly keep appraised of the effectiveness of existing risk mitigation techniques.

MI possesses a strong risk governance structure as the core of its structured risk management framework. Company's risk governance is based on a three line defense mechanism that maintains required transparency, accountability, and independent reporting at expected standards.

THREE LINE DEFENSE OF RISK GOVERNANCE

Mercantile Investments continues to adopt its own policies and procedures, some of which are unique that have evolved over the years together with internationally recognised best risk management practices as a means of operating an effective risk management program throughout the year. Annually, we deploy a considerable level of resources to maintain this process in an effective manner to ensure that we maintain an appropriate trade-off between risk and rewards. Other than securing investor wealth, MI's risk management objectives are further aimed at safeguarding other key stakeholder expectations especially those of our customers while preserving the overall solvency of the enterprise according to originally laid down risk profile expectations.

MI's three line defense in governing risk depicted below has been an effective counter mechanism against potential risk associated with finance business;



Three lines of Defense in Governing Risks

Associated Risks

- Credit Risk
- Liquidity Risks
- Market Risk
- Interest Rate Risk
- Equity Risk
- Competitor Risk

Governed by

Operational Line

Corporate management and operational level staff are responsible for identifying, managing and reporting risk.

Compliance with laid down policies, procedures and promoting strong risk culture

Centralized Risk Management

Establishment of Integrated Risk Management framework

Supporting business units by reviewing and reporting potential risks.

Independent identification and verification of risk

Supervision by IRMC and review, and report risks concerns to the Board

Independent Verification

Assessing and reporting level of compliance to laid down procedures/practices.

Internal Audit - reviewing effectiveness of existing internal controls, risk management policies and procedures.

External Audit - reviewing of internal controls mainly associated with financial reporting true and fairness of balances

MI's Risk Management Structure

Risk management structure of the Company complements the three line of defense practiced and adopts a clear top down hierarchical approach for its effective governance. In our risk framework, corporate management is given autonomy to implement risk management practices within their line of operations as depicted in our top down hierarchy, in the diagram below. The Board of Directors delegates risk management function to corporate management and other core officers of MI. Divisional heads and senior management are liable to manage day-to-day risks within their scope. The structure maps out the importance of specific committees and the audit function apart from the role played by the Board and corporate management. Being a reporter and reviewer of the smooth functioning of the risk framework, which makes this process, a well-balanced and dynamic one, the Manager Risk and Compliance plays a key role in the risk management framework.

MI Board's Role in Governing an Effective Risk Management Framework

The Company'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 risks with the intention of discharging its obligations related to risk management i.e. the Audit Committee, the Integrated Risk Management Committee (IRMC) and Assets and Liabilities Management Committee (ALCO).

Directors' active participation in sub-committees' periodic meetings help discharge subcommittees' duties effectively. The members of sub-committees are experts in related subject matter, having hands-on experience, playing a vital part in overseeing various risks and establishing suitable counter mechanisms. Committee members review the appropriateness and adequacy of related internal controls adopted across key divisions. The sub committees continuously provide feedback with appropriate recommendations to counter potential risks. The Board is therefore able to obtain first-hand information on imminent risks and effectively implement counter actions promptly when necessary.

Role of Corporate Management in Risk Management

MI's Corporate Management comprising of senior managerial officers has 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 expectations of the Board. For the efficient operation of risk management policies, the company possesses highly competent, experienced and professional staff, who have the precise management orientation to perform functions effectively. Clear job descriptions have been specified for employees so that they are aware of the role expected and responsibilities.

Divisional heads have the 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 an on-going basis in the light of the changing environment so that appropriate updates and improvements could be made to existing procedures and controls. Necessary procedural updates were effected, during this financial year through addendums made to the Company's 'Procedure Manual' for purpose of strengthening specific operations. The Company has a well-documented procedure manual which minimises operational lapses and guides staff clearly on what needs to be done operationally. It supports managers as a training tool for training their respective departmental staff without ambiguity to uphold sound organisational practice.

Role of the Integrated Risk Management Committee (IRMC)

The Integrated Risk Management Committee established in 2009 comprising four members who operate under Board approved terms of reference, is empowered to review risk management policies and 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 risks or to improve risk management controls. For the Committee to make assessments, it reviews the Company's maturity profile of assets and liabilities periodically and proposes strategies to counter prevalent mismatches both in the short and the long-term. In terms of managing market risks, the Committee reviewed prevalent interest rate structure for both MI's lending and deposits business to ascertain the adequacy of spreads enjoyed from core business. During this period, for further analysing market risks, the Committee was able to study impacts to profitability based on anticipated interest rate changes, initiating sensitivity analysis under various possibilities.

In covering operational risks, the Committee reviewed departmental procedures through available manuals and review reports. These shed light on existing policies and procedures and obtained feedback on MI's level of compliance to such requirements. The Committee was able to suggest improvements to processes and internal controls, wherever it was lagging, as a means of strengthening internal practices to safeguard assets of the Company.

Risk Management Activities of IRMC 2013-14

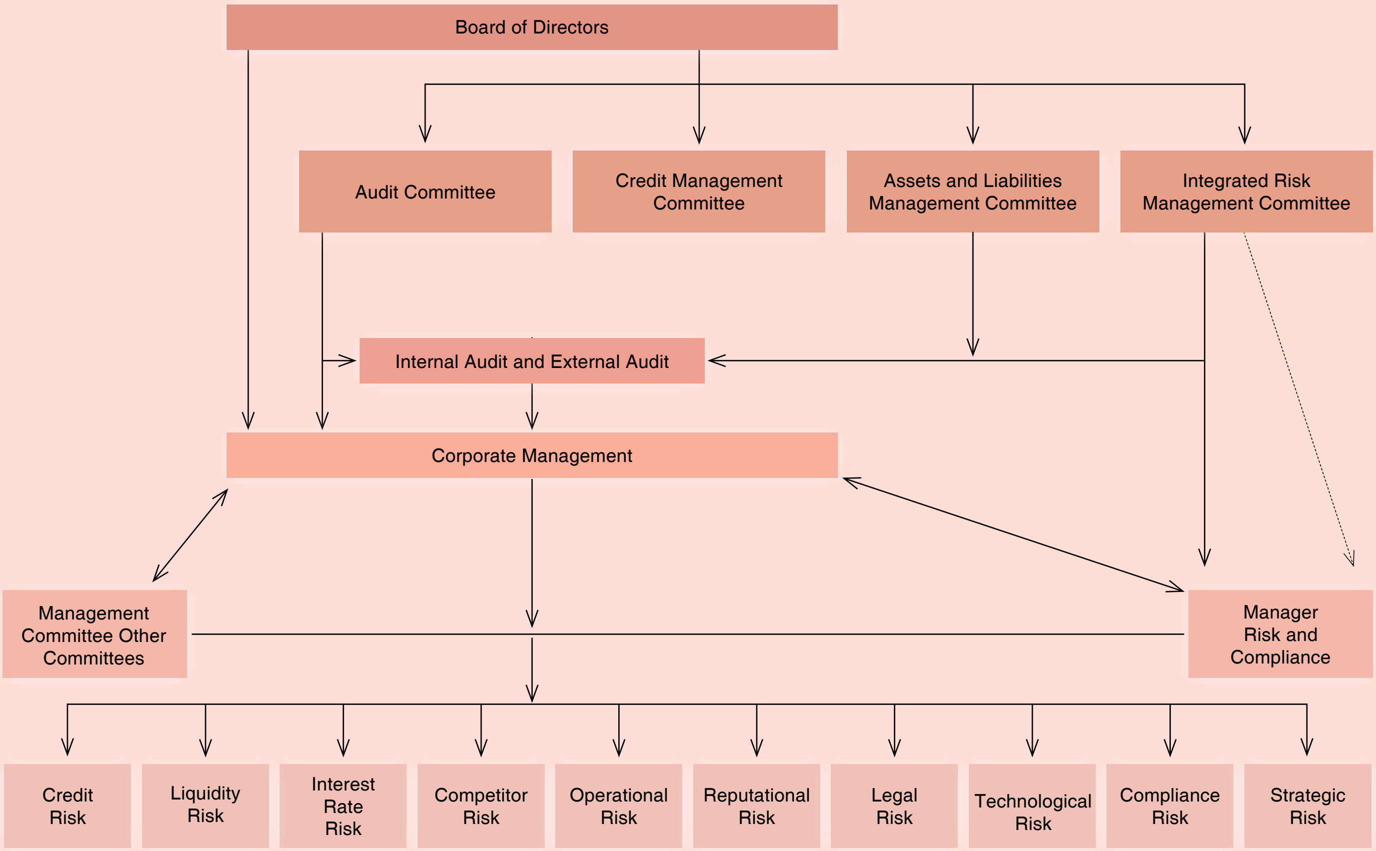
Risk Area	Analysed Data/Information	Proposed Action/Recommendations of IRMC	Extent of Progress in 2013/14
Liquidity Risk	● Maturity gap analysis of Assets and Liabilities ● Liquidity Risk Statement ● Loans to Deposits Ratio ● CBSL regulatory compliance status on liquidity ● Interest rate trend of the market	● Recommended Deposits Division to devise strategies to improve retention levels and at the same time promote branch businesses more extensively. ● Target low cost long-term borrowings in the market. ● To reduce the loan to deposit ratio below industry average by next quarter.	● Over one year deposit base improved by Rs. 84 million during the twelve month period. ● Negotiated and secured number of long-term funding lines from MI's main Banking Partners. ● Pursued other means of borrowing which include commercial papers and made plans to issue 4 year debentures in June 2014.
Credit Risk	Credit concentration analysis ● Industry wise ● Province wise ● Product wise concentration Single borrower limits group wise and individual NPL Ratio ● Branch wise ● Product wise ● Gross NPL ● Net NPL	● Recommended to revisit credit policies and strengthened weak areas. ● Recommended to remain well focused on keeping non-performing lending to manageable levels whilst instilling stringent recovery measures. ● Recommended close review of contracts in arrears at least weekly including repayment pattern and lending position. ● Recommended to develop a credit risk assessment model to assess risk. ● Proposed to develop a credit risk appetite limit alert system.	● Updated credit manual and issued latest release with effect from 2014. ● MI introduced comprehensive recovery mechanisms to curtail the NPL level of the Company. ■ Establishing internal valuation unit. ■ Swift repossession process. ■ Efficient vehicle disposal system. ● Developed MIS to obtain detailed information on contract in arrears to further analyse and manage slow-moving accounts prudently. ● MI plans to develop a company specific credit risk rating module in 2014/15 financial year. ● MI plans to develop a comprehensive credit risk appetite limit alert system in 2014/15 financial year.
Interest Rate Risk	● Interest rate trend of the market ● Review of policy rates/ government security rates ● Net interest margin ● Pricing and interest rate structure ● Loans to deposits ratio	● Proposed to improve the net interest margin by increasing MI's deposit base to support funding the lending businesses, reducing external high interest rate borrowings in parallel, to make every effort to find best sources of funds that match our assets in an optimal way to minimise interest rate risk. E.g. lower interest rate foreign borrowing, issue of lower priced borrowing instruments.	● Deposit base improved to Rs. 11.4 billion in 2013/14 financial year 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.
Operational Risk	● Policies ● Procedure Manuals ● Directives/Best industry practices ● Service Level Agreements ● Audit findings and recommendations	● 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 Recommended to all core divisions 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.	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. Implementation of a 'Risk Register' at Finance Division to record key risks and counter measures, and allocating responsibility to officers as a means of accountability. Business Continuity Plan was reviewed during this financial year and to be updated in financial year 2014/15.

Risk Area	Analysed Data/Information	Proposed Action/Recommendations of IRMC	Extent of Progress in 2013/14
Regulatory and Compliance Risk	Compliance review on; ● Finance Business Act ● All CBSL rules guidelines and circulars ● Review of prudential ratios ● 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 ● Capital adequacy and statutory ratio review.	● Proposed to submit a monthly compliance status on CBSL rules, procedures and guidelines to the Board. ● Proposed to submit bimonthly branch level compliance checklist by all branch managers. ● Proposed to develop comprehensive compliance checklist covering all key regulations applicable to the Company.	● Manager - Risk and Compliance submitted compliance status on CBSL rules, procedures and guidelines to the Board monthly. ● Branch Managers submitted branch compliance checklist bimonthly. ● Comprehensive compliance checklist is being prepared and will be effective from 2014/15 financial year.

Other Risk Related Committees Functioning at MI

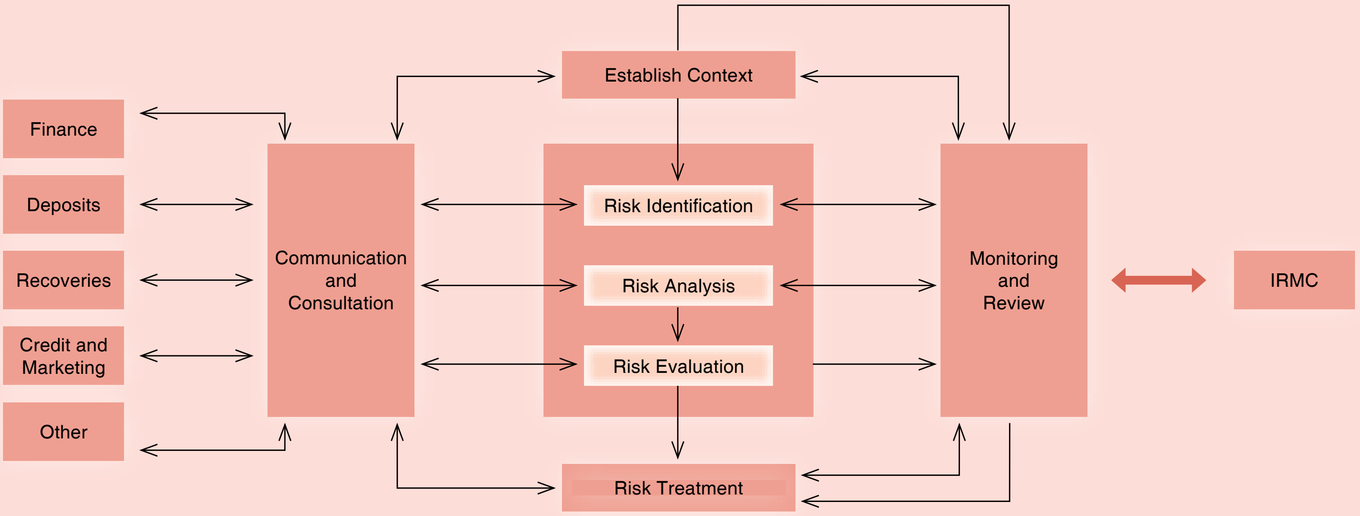
Committee	Main Objective	Represented by	Risk Aspects Reviewed in 2013/14
Audit Committee	● To review the adequacy of internal controls that has been instilled in MI's operations, processes and level of compliance to regulations. ● To ensure that MI's financial reporting process adheres to required regulations, accounting standards and reporting expectations.	Audit Committee members - on invitation the Finance Director, internal auditors and other heads of divisions when necessary.	The Board has entrusted the Audit Committee with the primary responsibility to review the adequacy of internal controls that have been implemented in MI's operations and processes. The Committee provides feedback and recommendations to them on any material concerns so that timely decisions could be taken to address such issues. The Committee meets on a periodic basis and reviews reports of Internal Auditors to ascertain management's compliance to laid-down procedures and controls including adherence to laws and regulations. During 2013/14 financial year, Committee reviewed: ● Operational risk aspects at head office and branch level. ● Recommended to develop a risk-based internal audit plan for 2014/15 onwards for internal auditors of the company. ● Financial reporting effectiveness against fresh regulations/ standards.
Credit Committee	To monitor the quality of credit granted and to manage risk inherent to lending the Committee meets on a regular basis so that timely action can be initiated for contracts moving into arrears.	Managing Director Credit Division Recoveries Division Finance Division	The Committee's tasks involved approving high value credit and monitoring high value overdue accounts and establishing strategies to improve quality of credit, reducing overdue levels and deciding on company's exposure to various sectors.
Asset and Liabilities Committee (ALCO)	ALCO was set up in this year to optimize MI's financial objectives by maintaining market and liquidity risks within MI's risk appetite limits.	Key heads of Divisions together with Managing Director	Committee agreed to oversee the following aspects of business at each ALCO meeting going forward. ● Liquidity and credit risk aspects related to the Statement of Financial Position ● Economic and Market Status and Outlook. ● Review pricing and margin. ● To conduct ongoing impact studies including interest rate shock analysis/stress testing and report concerns to the Board.
Management Committee	The Management Committee that was set up in July 2011 monitors operational performance which involves review of interest rate movements, trends in credit, and related risk on an on-going basis.	Managing Director Credit Division Marketing Division Finance Division Deposit Division Insurance Division Recoveries Division	The Committee closely reviewed profitability of core business operations, volumes achieved, spreads and a stream of other financial information to ascertain actual performance against expectations and to identify any imminent threats early.

Risk Management Structure



MI'S RISK MANAGEMENT PROCESS

MI adopts a structured risk management process that is aligned with recommended international standard of ISO 31000 on risk practices. The management process executed is meant to strengthen MI's chances of success, encouraged by proactive management, dealing effectively with opportunities and threats; improving governance, complying with regulatory requirements; encouraging stakeholder confidence and trust; enhancing strategic planning; minimising losses that are either financial, environmental or employee related; and improving organisational resilience and performance. To improve risk management overall, we enhanced following aspects of the process.



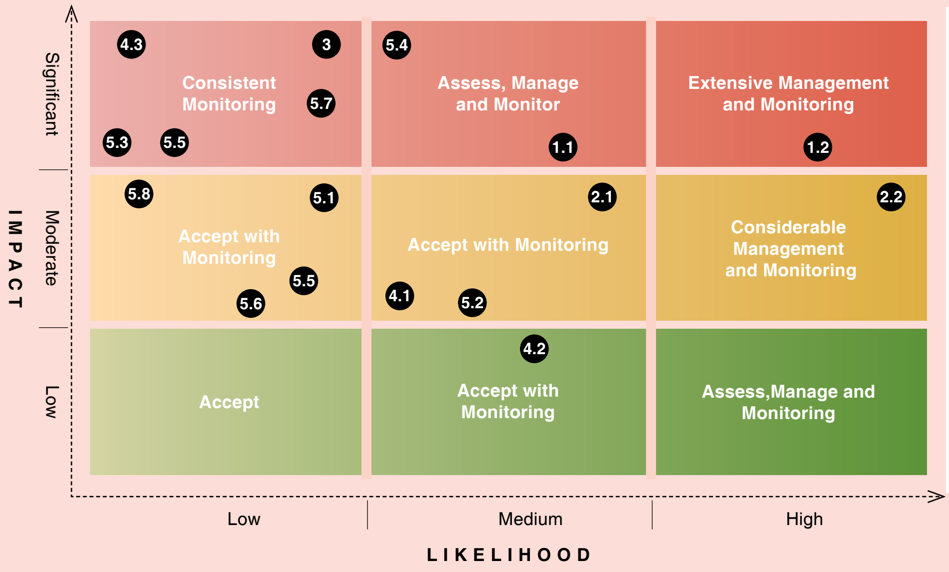
Risk Management Process Initiatives/Improvements 2013-14

Process Area	Improvements done in 2013/14
Risk Identification	● Initiated risk brainstorming sessions to identify key risks associated with each process. ● Developing a process map for all key processes of MI identifying risk aspects of those processes. ● Developing a checklist of possible risks and counter procedures and requested confirmations. ● Implementation of the risk register for the finance division which will be implemented across all divisions in 2014/15. ● Status review and updation of the Business Continuity Plan of MI.
Risk Analysis	● Developed a risk matrix for all core risks of the company considering the source of risk, impact and likelihood of risk. ● Developing a data mining IT module to analyse past data for decision making and market risk trend analysis. ● Equity risk of the company analysed using pricing movements of MI's investments in shares. ● Stress testing/sensitivity analysis for key risks of MI. ● Finance and non-financial variance analysis and root cause analysis for identified major variances during the financial period. ● As additional measures, plans are underway to develop company specific credit risk rating module to key products of the company.
Risk Evaluation	● Initiated risk based internal auditing starting from next financial year onwards. ● IRMC was able to evaluate risks through the quarterly risk reports provided by the Manager - Risk and Compliance.
Risk Treatment	● Please refer risk dashboards given after each risk at the latter part of report.

Assessment of Key Risks and Approach Taken in Managing Them

We carried out a thorough risk assessment of all our major operations covering a broad range of risks associated with finance company business. Based on likelihood of occurrence of identified risk and as a consequence, its potential impact to MI, we mapped out potential risk to prioritise our counter actions. For this assessment, we assigned high, medium or low probabilities against each risk type based on the likelihood of an event happening. Impact of each risk was assessed by determining the potential financial and non-financial loss expected from such an event. The impact of each risk was then classified as low, moderate and significant based on the seriousness of each risk related impact.

Accordingly the 'Risk Heat Map' given below depicts this assessment made.

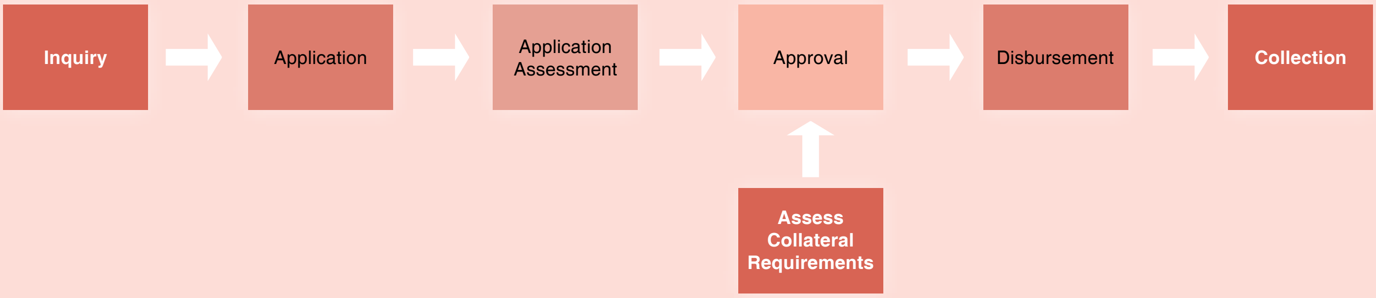


Associated Risks

1. Credit Risk
    - 1.1 Default Risk
    - 1.2 Credit Concentration Risk
2. Market Risk
    - 2.1 Interest rate Risk
    - 2.2 Equity Risk
3. Liquidity Risk
4. Operational Risk
    - 4.1 Internal Control Risk
    - 4.2 Operating Environment Risk
    - 4.3 Unforeseen Natural Disaster
5. Other Risk
    - 5.1 Legal Risk
    - 5.2 Technology Risk
    - 5.3 Reputational Risk
    - 5.4 Competitor Risk
    - 5.5 People Risk
    - 5.6 Strategic Risk
    - 5.7 Corporate Governance Risk
    - 5.8 Regulatory and Compliance Risk

01. Credit Risk

Credit Disbursement Process



Lending business being their core business operation, finance companies are inherently exposed to credit risk. Credit risk arises when borrowers fail to discharge their contractual obligations towards the lender and therefore is the most applicable risks for LFCs as they deal with large volumes of lending. Hence, we take managing of credit risk as an area of paramount importance. We recognise the need to handle credit risk carefully as otherwise it can lead to unnecessary losses in terms of bad debts.

As a means of countering credit risk, stringent policies and procedures have been laid down through the credit manual which was updated in this financial year to incorporate additional credit review practices. The operational manual specifies clear policies, processes and procedures to follow when disbursing credit and until full recovery of dues covering following stages of the credit cycle.

Credit Risk Management Process

Loan Origination and Risk Assessment	Prior to the disbursement of credit, as part of sustaining lending quality, the Credit Division carries out standard verifications in keeping with organization's credit policies based on a comprehensive review checklist. The credit review process involves assessment of the customer's credit worthiness, mainly analysing his repayment ability, past track record with reference to the Credit Information Bureau (CRIB) and carrying out site visits. At the preliminary stage, a formal 'credit appraisal' is completed for the borrower by gathering information about the borrower's financial position, assessing and concluding on his/her repayment ability in relation to the value in concern. Prior to disbursement, the credit approval process takes into account the type of credit arrangement, either for a given transaction or total exposure to the client. The credit exposure evaluation then extends to ascertain MI's overall exposure to a given industry or geographical exposure as a result of the proposed credit.
Loan Approval	MI has established clear guidelines for loan approval. As part of the credit control practices, lending facilities are subject to an independent review by the next level of authority with approval limits being specified based on officer's grade and authority. In addition, significant lending facilities that have experienced deterioration in repayment are regularly subject to credit examinations. Further exposure over specified values or high risk credit is referred to the Credit Committee.
Credit Measurement and Monitoring	To mitigate exposure to credit risk, MI obtains adequate collateral from the borrower as an additional safeguard to cover against lending exposure. As a practice, collateral is taken for most of our financing and term lending. To counter any risk of non-payment, as a sound credit practice, we ensure that lending is backed by realisable security in line with prevailing regulations on lending. At the same time, with the efforts of our Recoveries Division that works hand in hand with the Credit and Marketing divisions, we ensure smooth recovery of installments from borrowers. The Recoveries Division has put in place a tight monitoring system. Reminder letters are sent to borrowers when installments fall due for its timely collection and recovery action initiated for long overdue problematic accounts. As part of the recovery process, it is company's policy to dispose of repossessed vehicles in an orderly manner so that related proceeds will help to reduce the outstanding exposure.
Recoveries	Finance division presents weekly performance statistics to the Credit and Recovery teams at the management committee meetings. Additionally, it provides daily, weekly and monthly statistics and financial reports for them to initiate action and make timely decisions. Through this, recovery officers are able to assess their respective collection performance levels periodically so that they can plan future recovery targets. Training and development of officers attached to both Credit and Recoveries divisions is deemed top priority and therefore is initiated on an on-going basis. These knowledge accretion programs provided comprehensive know-how to both credit and recovery officers to handle routine functions efficiently.
Compliance and Audit	Internal Auditors as part of their annual audit program cover organisation's compliance to established credit policies and procedures on an on-going basis. Accordingly, their observations and suggestions on improving existing control systems and processes related to credit are informed to the Audit Committee. Material matters highlighted in audit reports are taken up by the Audit Committee with respective officers of senior management. The Committee in turn provides feedback to the Board on credit concerns together with due recommendations. Quality of credit at branch level is also covered under the audit review process.

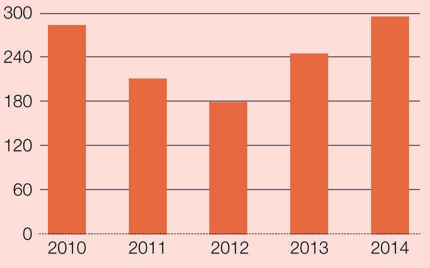
The Company has established well defined credit policies in keeping with best industry practices which encompass a system to closely monitor lending contracts which go into arrears. By having a well-integrated lending and collection process, we are fortunate to possess a quality lending portfolio as at the Report of Financial Position date with non-performing lending ratio that remained below 4% in financial year 2013/14.

Credit Risk Control Dashboard

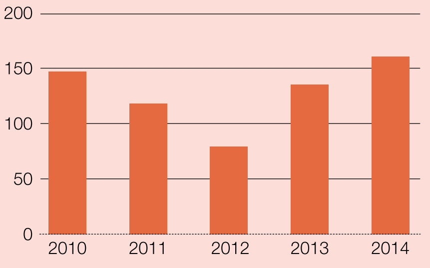
Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Credit Risk **Risk of failure to pay by borrower** - Credit disbursement process effectiveness	Medium	Significant	Continuous monitoring of existing credit policies and procedures including core information systems supporting credit processing system in order to enhance the credit disbursement process. Almost all types of lending, financing related and term based, encountered drawbacks in the backdrop of a deteriorating credit repayment fallback by borrowers across the industry this period. Maintaining NPL for each product below 4% was challenging and bringing down NPL below 3.5% as per the corporate plan was the ultimate expectation of the management.	We revised the credit manual including all the regulatory changes within the period, strengthening the risk assessment methodology and best credit operation practices and released the manual in 2014. Consequently, credit review and monitoring practices were made more stringent for risky transactions while improving the credit information system, incorporating the risk aspects of transactions into the system. MI made greater effort in enhancing customer relationships and satisfaction levels, by analysing customer payment patterns, we forecasted contracts which could be in arrears in future. We assessed individual circumstances and reasons for arrears beforehand, agreeing on pertinent solutions with customers. This procedure guaranteed that arrangements are affordable to them which eventually helped customers in repayment of arrears in a timely and sustainable manner. MI was able to maintain a lower level of NPL percentage compared to industry averages. Company strengthened staffing at Recoveries Division, and Credit and Marketing Division to support in driving an effective credit and recovery operation, embedding the risk assessment into the operation process. Credit and marketing division's disbursements approval limit were revised to meet rising demand on grade and capability of respective credit officers and also to improve the risk assessment of each contract appropriately.
- Effectiveness of Credit Policies	Low	Moderate	This risk arises when credit policy amendments do not update with the pace and changes happening in market and regulatory environments. Credit policies of the Company are regularly reviewed at least monthly at credit management meetings. Furthermore, this process is complemented by the Credit Committee which meets periodically to review and direct various aspects of the lending process in the company. Credit approval process was revisited and specific amendments were made to authorisation limits, during the year under review.	We have developed a comprehensive credit policy manual and lending guidelines to ensure consistent high standards of lending discipline throughout the credit division. Segregation of duties plays a vital role, by developing a well-defined delegated approval process based on hierarchy, supported by best internal control practices, high ethical standards, well proven policies and procedures to provide organisational and management of credit risk in a vigorous manner. Risk management policies on credit are being formally drafted and will be updated on a regular basis to keep up with the changes in local micro and macro financial environments. Integrated Risk Management Committee has established internal risk appetite limits for each critical risk of the Company. As per the communication policy of the Company, all policy changes are disseminated to related staff on an ongoing basis throughout the Company including head office, branches, and service centers.

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
- Availability, accuracy and completeness of credit information for decision making and borrower follow up	Low	Moderate	By conducting an information system audit during this period with the support of external information system auditors, we documented the information system processes which enhance the accuracy and completeness of the credit information reporting of the Company.	MI developed more than 10 new MIS reports during the financial year under review to support Credit, Recovery and Finance division, to facilitate credit assessments, recovery process information and IFRS reporting information on impairment of financial instruments.
- Credit Portfolio monitoring process effectiveness	Low	Moderate	MI has developed a robust monitoring process in place to review more than 15,000 lending customers to ensure highest level of portfolio quality. Corporate and operational level management reviews contracts repayment position and NPL position of each branch to ensure smooth recovery process based on recovery measures of the company. We obtain CRIB reports and carry out additional field reviews and cash flow forecasts of business loans depending on the risk levels of customers.	Both Credit and Recoveries Division meetings held monthly, extensively reviewed each stage of the credit disbursement process. Analysis on contracts in arrears, drilling down to branch level highlighting potential NPLs are made available for management on a weekly basis. Additionally, IT developed a report to drill down and obtain detailed information on NPL which can be generated for any given period or date. Credit functional managers can obtain other exception reports from the system in order to monitor the performance of the credit operations. Variance analysis of actual performance against targets are presented by regional managers/branch managers on a monthly basis. Monitoring NPL and maintaining recovery ratio above 90% was the need of the hour, hence the Recoveries division made thorough assessment of actual collections against respective officers' individual targets on a daily basis. Appropriate actions on long overdue contracts are taken by management at monthly Recoveries division meetings. Legal division initiated action against extreme cases promptly and assisted Recoveries Division on smoothly carrying out the repossession process. Furthermore, Recoveries division strengthened the recovery process, setting up its first 'Internal valuation and Vehicle disposal unit' at Maharagama in 2014. Periodic credit committee meeting emphasised on high value accounts and high risk accounts, and accounts under litigation, to speed up recovery. NPA and provision requirements were decided according to IFRS impairment requirements. Accordingly, we analysed the probability of default and loss given default based on past data, facilitated through our IT systems that support data mining. By remaining strong in recoveries, we controlled NPA despite general credit deterioration observed in the sector.

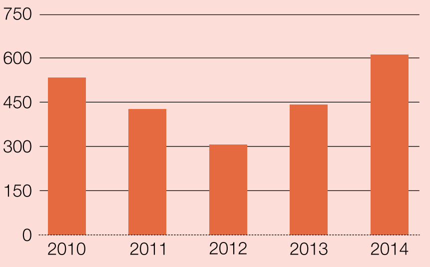
NON-PERFORMING - HP (Rs. milion)



NON-PERFORMING - LEASE (Rs. million)

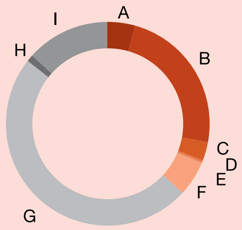


NON-PERFORMING LEVEL - OVERALL (Rs. million)



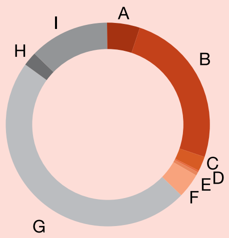
Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Credit Concentration Risk ● Credit portfolio Concentration Risk arises when there is uneven distribution of company loans to individual borrowers (Single name concentration), or in industry and services sectors and geographical regions (sectorial concentration)	High	Significant	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. We identified warning indicators, high risk level industries, particular locations such as provinces that have higher credit risk than others.	MI's Credit Committee reviewed risk exposure of company's credit portfolios on a regular basis to mitigate concentration risk arising from changes due to market conditions. Committee decided on industry, products and geographical limits based on market conditions and analytical reports. MI's branch network has been diversified satisfactorily beyond the Western province, with branches established in all parts in the last few years. We managed to open a Premier Service Centre this period to serve corporate clientele more, thus diversifying the customer portfolio further. Company developed a strategy to improve the penetration level of low-risk sectors and geographical areas in the market, thereby reducing the exposure to high-risk sectors, geographical areas and single group concentration. MI is not unnecessarily exposed to a few credit customers or group of companies, hence MI is well within the regulatory single borrower limit. The Credit Committee makes due assessment of single borrower limit requirements before finalising material lending transactions. We are fortunate to maintain a well-diversified portfolio of both corporate and individual with varying lending levels. Furthermore, MI is not exposed unnecessarily to land and other similar assets that could encounter economic bubbles thus leading to eventual impairment charges.

HIRE PURCHASE SECTOR-WISE CONCENTRATION



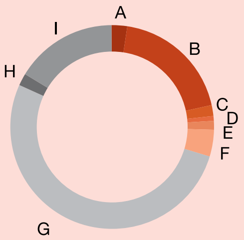
A - Agriculture - 4.4%
B - Commercial - 23.7%
C - Consumption - 2.7%
D - Finance - 0.4%
E - Housing and Property - 0.3%
F - Industrial - 5.5%
G - Services - 48.4%
H - Tourism - 1.3%
I - Others - 13.3%

LEASE SECTOR-WISE CONCENTRATION



A - Agriculture - 5.2%
B - Commercial - 25.2%
C - Consumption - 2.0%
D - Finance - 0.4%
E - Housing and Property - 0.6%
F - Industrial - 3.8%
G - Services - 47.7%
H - Tourism - 2.4%
I - Others - 12.7%

OTHER LOANS SECTOR-WISE CONCENTRATION

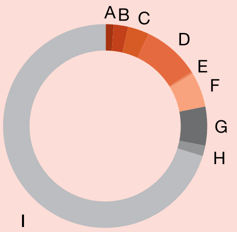


A - Agriculture - 2.5%
B - Commercial - 19.2%
C - Consumption - 1.5%
D - Finance - 0.8%
E - Housing and Property - 1.5%
F - Industrial - 4.1%
G - Services - 52.2%
H - Tourism - 1.9%
I - Others - 16.3%

Concentration of Credit Province-Wise in 2014

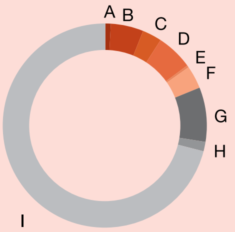
Province	Hire Purchase	Lease	Other Loans	Lending Outstanding
Central	96,836	36,842	34,518	168,196
Eastern	165,619	220,675	53,316	439,610
North-Central	226,661	120,541	67,682	414,884
North-Westeren	659,181	245,871	108,010	1,013,062
Northern	7,260	4,083	883	12,226
Sabaragamuwa	395,367	149,455	161,384	706,206
Southern	435,021	360,701	563,480	1,359,202
Uva	135,711	63,890	9,553	209,154
Western	4,985,564	2,935,124	4,401,908	12,322,596
Total	7,107,220	4,137,182	5,400,734	16,645,136

HIRE PURCHASE PROVINCE-WISE CONCENTRATION



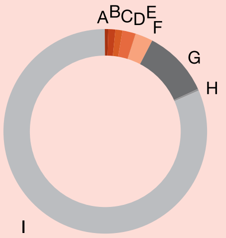
- A - Central - 1.4%
- B - Eastern - 2.3%
- C - North-Central - 3.2%
- D - North-Western - 9.3%
- E - Northern - 0.1%
- F - Sabaragamuwa - 5.6%
- G - Southern - 6.1%
- H - Uva - 1.9%
- I - Western - 70.1%

LEASE PROVINCE-WISE CONCENTRATION



- A - Central - 0.9%
- B - Eastern - 5.3%
- C - North-Central - 2.9%
- D - North-Western - 5.9%
- E - Northern - 0.1%
- F - Sabaragamuwa - 3.6%
- G - Southern - 8.7%
- H - Uva - 1.7%
- I - Western - 70.9%

OTHER LOANS PROVINCE-WISE CONCENTRATION



- A - Central - 0.6%
- B - Eastern - 1.0%
- C - North-Central - 1.3%
- D - North-Western - 2.0%
- E - Northern - 0.0%
- F - Sabaragamuwa - 3.0%
- G - Southern - 10.4%
- H - Uva - 0.2%
- I - Western - 81.5%

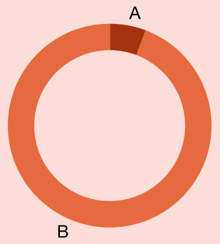
Ten Largest Credit as a % of Total Exposure

Province	2013/14	2012/13
Ten Largest Credit as a % of Exposure	**6.07**	5.77
Ten Largest Credit Rs.	**1,009,622**	817,604
Total Exposure	**16,645,136**	14,162,608

Exposure by Counter Party

Province	2013/14	2012/13
Corporate Over Rs. 10 million	**1,660,316**	1,288,598
Corporate below Rs. 10 million and above Rs. 5 million	**510,476**	415,861
Corporates below Rs. 5 million	**543,419**	1,156,810
Individuals Over Rs. 5 million	**2,966,640**	1,485,241
Individuals below Rs. 5 million	**10,964,285**	9,816,098
Total	**16,645,136**	14,162,608

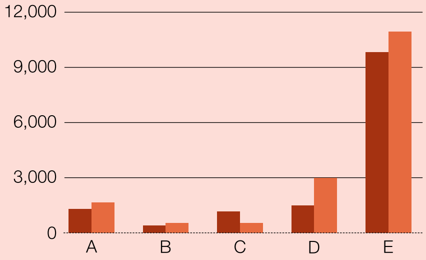
TEN LARGEST CREDIT EXPOSURE AGAINST TOTAL CREDIT EXPOSURE



A - Ten Largest Credit as a % of Exposure - 6%

B - Total Exposure - 94%

CREDIT EXPOSURE BY COUNTER PARTY (Rs. million)



🟥 2012/13
🟧 2013/14

A - Corporate > Rs. 10 million
B - Corporate < Rs. 10 million > Rs. 5 million
C - Corporate < Rs. 5 million
D - Individuals > Rs. 5 million
E - Individuals < Rs. 5 million

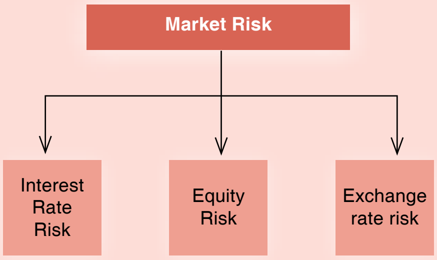
Credit Risk Appetite Criteria

Risk Appetite Criteria	Policy Range	Current Position as at 31 March 2014	Actions
Credit Quality			
Gross NPA (%)	Below 3.5%	3.69%	Weekly review on contract in areas report to monitor same especially repayment position of term loan facilities and branches with higher NPL ratios. Additionally MI has to analyse the product wise NPL position to identify risky areas.
Net NPA (%)	Below 3%	3.27%	
Provision Cover	Above 50%	73%	
Credit Concentration Risk - Sector-Wise			
Agriculture	Below 5%	4%	Credit concentration of service sector marginally below the policy range. Management would monitor risk levels attached to these sectors on an ongoing basis. Currently, these sectors do not pose any significant risk.
Consumption	Below 4%	2%	
Services	Below 50%	49%	
Single Borrower Limit (Individual)	As per Central Bank of Sri Lanka	2%	

02. Market Risk

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 rates and equity prices. Currently, exchange rate risk to MI however is negligible since the Company does not hold or transact materially in foreign exchange.

Interest rate risk is the most applicable market risk for MI. To ensure there is no erosion of spreads and hence minimal impact to overall profitability, we monitor interest rates and associated risk very closely. Similarly, equity price risk being the other main market risk relevant to the Company is managed at individual investment level as well as on a portfolio basis. These two main market risks are discussed separately below:

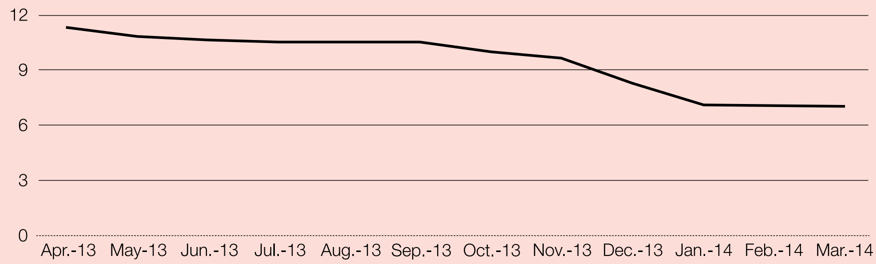


2.1 Interest Rate Risk

Interest rate risk arises when changes in interest rates have an impact to the future cash flows of a financial instrument's fair values. MI possesses interest earning financial assets such as loans and advances and held-for-trading financial assets. Hence, interest rate movements play a significant part in altering core business margins and ultimate profitability. It is therefore essential that interest rate risk is managed closely and prudently so that negative movements in interest rates are predicted early to devise suitable counter mechanisms.

From MI's perspective, interest rate fluctuations arising from macroeconomic policy changes on rates would impact company's cost of funding as well as yield earned on lending products thus effecting core business margins. It could deter (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 continuous fall in market interest rates on account of policy on bringing down credit costs, had a positive effect on the sector especially with cost of funding coming down and average spreads improving. However, attracting and retaining deposits in the midst of stiff price competition was very challenging.

FLUCTUATIONS OF ONE YEAR RATE OF TREASURY BILLS 2013/14 (%)



Fixed and Floating Interest Bearing Assets and Liabilities as at 31 March 2014

	Fixed Rate Rs. '000	Floating Rate Rs. '000	Total Rs. '000
Interest Bearing Assets			
Cash and Short-Term Fund	421,182	–	421,182
Placements with Bank	406,020	–	406,020
Financial Investments - Available-for-Sale	809,368	–	809,368
Loans and Advances	5,398,266	–	5,398,266
Finance Lease Rentals Receivable	4,132,268	–	4,132,268
Hire purchase Installments Receivable	7,104,659	–	7,104,659
Total Interest Bearing Assets	18,271,762	–	18,271,762
Interest Bearing Liabilities	–	–	–
Bank Overdraft	–	279,269	279,269
Bank Borrowings	460,132	4,456,997	4,917,129
Deposits due to customers	11,417,741	–	11,417,741
Total Interest Bearing Liabilities	11,877,873	4,736,266	16,614,139

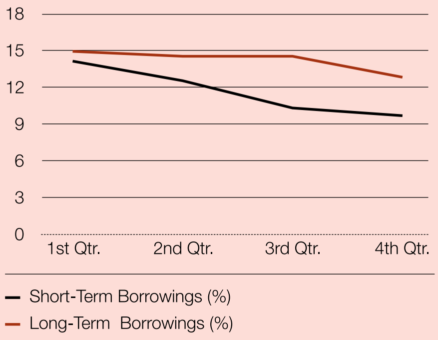
Treasury division is responsible to review the market rates on an on-going basis and manage the rate structure of all products of MI with due coordination with ALCO. The Chief Financial Officer reviews reports on MI's funding position, profitability levels, economic fundamentals, current trend and provides ad hoc reports to ALCO to decide on product pricing and to ascertain potential shocks to profitability.

In maintaining an optimal level of return for our core business, average yield levels and cost of funding are monitored on a weekly basis and presented at management meetings. Management evaluates any potential adverse effects that may arise from situations when the cost of funding rises at a relatively higher pace than the yield earned on lending and other investments. ALCO reviewed impact of interest rate changes on the bottom line by carrying out sensitivity analysis/rate shock analysis taking note of the continued decline in rates observed. By having a stringent monitoring system, we maintained interest rate risk at moderate levels despite volatility in rates in the market.

Interest Rate Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Interest Rate Risk This is the chance that an unexpected change in interest rates will negatively affect the value of an investment.	Medium	Moderate	Within this financial year alone interest rates drastically dropped across the financial sector. Interest rates on three to six month deposits fell to almost one digit across the sector in contrast to peak rates observed a few years ago.	We monitored the gap analysis on rate sensitive liabilities and rate sensitive assets regularly to identify right strategies to counter interest rate risk exposure for forecasted interest rates. ALCO represented by heads of key divisions meets quarterly and analyses interest rate movements and its impacts on MI's profitability, using various what if scenarios/sensitivity analysis. MI interest rate risk remained lower since we have only Rs. 4.7 billion liabilities at floating interest rates while we continued to manage fixed rate pricing very closely. Corporate Management kept close review on interest rates, to ensure expected margins are maintained from core business operation. As the interest rates continued its steep decline during the year under review, ALCO and IRMC reviewed other economic factors and trends in concurrence to arrive at conclusions to recommend a suitable strategy. Management adopted a very close check on market rate movements, daily, weekly and monthly to decide on pricing for main business lines. We ensured products pricing is aligned with the current trend of the market, to make them attractive to customers. MI introduced a few higher yield products to maintain average yields at anticipated levels. We increased volumes on personal loans and property mortgage lending in keeping to our strategy. The Treasury division was able to pursue cheaper sources of funding to bring down overall weighted average cost in the year under review. The division was able to seek optimal funding with the advice of ALCO, maintaining monthly overall weighted average cost of funds at low levels throughout as depicted below:

MI'S BORROWING INTEREST RATES OF FINANCIAL YEAR 2013/14 (%)



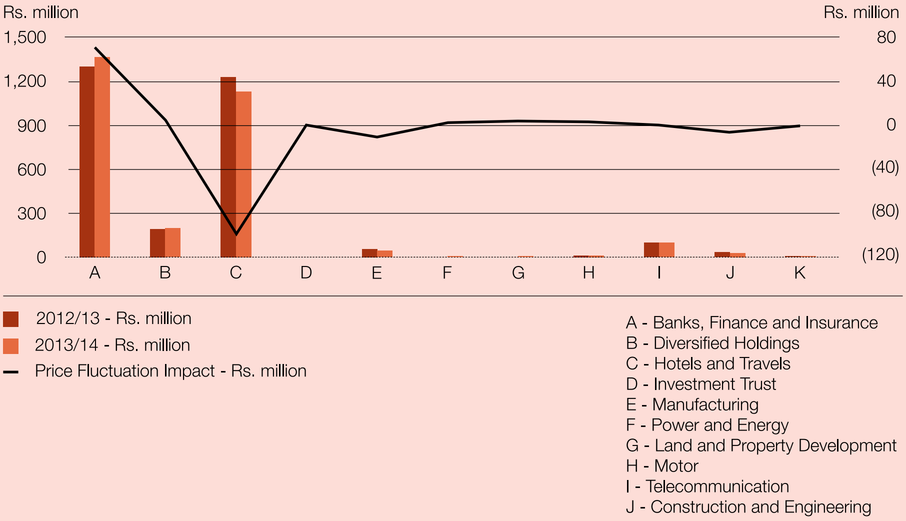
Interest Rate Risk Appetite Criteria

Risk Appetite Criteria	Policy Range	Current Position as at 31 March 2014	Actions
Interest rate 1% + (1%) Impact on Profitability	<50 million	16.6 million	
Net Interest Margin	8% - 10%	7%	● Improved Deposit base to Rs. 1.33 billion 2013/14 financial year 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 long-term and short- term

2.2 Equity Risk

Equity risk is risk arising from positions, either long or short-term, in equities or equity-based instruments, which create exposure due to fall in market prices of such equities or equity instruments. MI has a considerable level of exposure to equity risk as company's total equity share investment stood at Rs. 3.5 billion as at the Statement of Financial Position date. However, impact from fair value changes is recognised to Statement of Comprehensive Income on an ongoing basis while any realised gains/losses are accounted in the Income Statement. MI has analysed the potential impact of changes in share prices and its effect on profitability considering last three years share price fluctuation on MI's share portfolio.

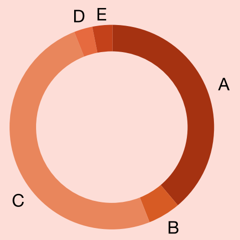
MI'S EQUITY INVESTMENTS MARKET PRICE FLUCTUATION 2012/13 VS 2013/14



Equity Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Equity Risk • Risk that company's investments value will depreciate because of stock market forces causing prices to drop.	High	Moderate	MI is vulnerable to considerable equity risk since company has a significant investment in capital market. Prevailing capital market condition remains volatile despite share prices marginally picking up during the financial year under review. We execute stress testing on our equity portfolio based on possible downward conditions.	MI has a well-diversified share investments portfolio, and has its investments in mostly Blue Chips. MI has invested a relatively higher percentage in hotel shares which would appreciate in future due to the boom in the tourism sector. We closely monitor the share market fluctuations and analyses effect of market fluctuations against the current shareholdings of MI. Capital Market Analysis team regularly evaluates investments portfolio performance and makes recommendation for divesting and holding decisions.

SECTORWISE EQUITY BASED INVESTMENT PORTFOLIO



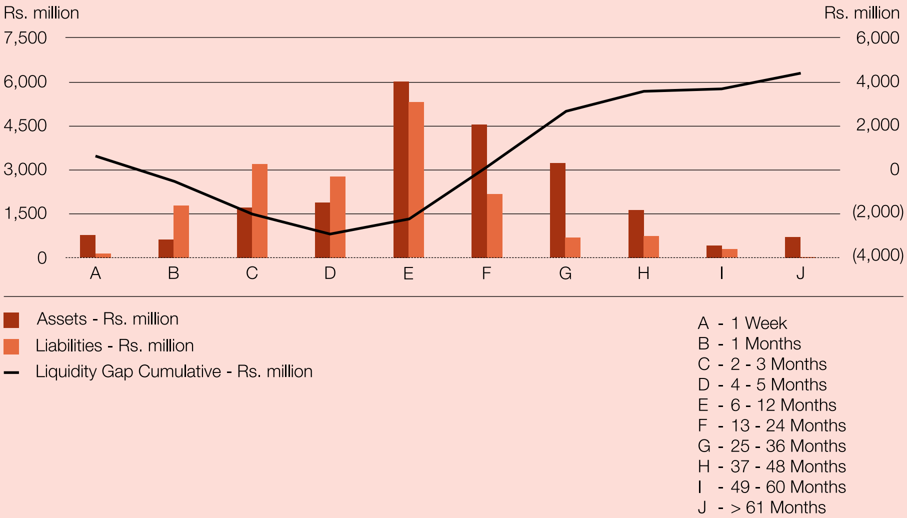
A - Banks, Finance and Insurance - 39%
B - Diversified Holdings - 5%
C - Hotels and Travels - 50%
D - Telecommunication - 3%
E - Other Sectors - 3%

03. Liquidity Risk

Liquidity risk arises when a company encounters difficulty in meeting its obligations associated with financial liabilities that require to be settled either through cash or any other financial asset. This risk could develop if liquidity management is not handled appropriately to ensure that the company meets its payment obligations when they fall due. MI has in place a comprehensive liquidity monitoring process that has been enhanced in the past few years by embracing stringent liquidity review and safeguard measures imposed by regulator on the sector.

The key focus of liquidity management for us is to maintain a constant stream of cash flow that is adequate and timely to fund operations and meet obligations and other commitments whilst being cost-effective. To strengthen liquidity management we have formed a Board approved Assets and Liability Management Committee (ALCO) to overlook the liquidity status of the company. ALCO meets quarterly to oversee adequacy of overall liquidity aspects from other obligations. 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 sound institution right-through, MI is strong in liquidity. In meeting liquidity requirements, the company resorts to an array of diversified funding sources in addition to its core deposit mobilization business. MI adopts a strict policy of managing its assets keeping liquidity as a vital focus and therefore monitors liquidity on a daily basis. MI continuously analyses and monitors liquidity risk and maintains access to diverse funding sources to meet liquidity requirements.

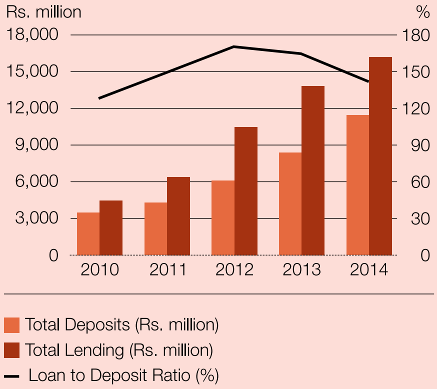
LIQUIDITY GAP ANALYSIS



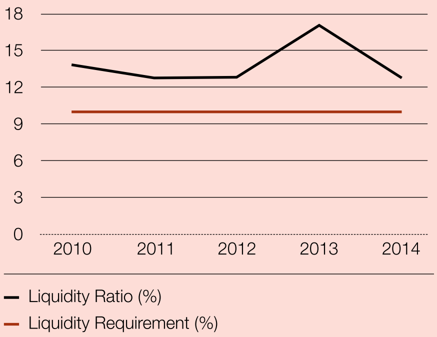
MI had enough flexibility in terms of funding during this period to pursue on our growth aspirations, to incur capital expenditure with adequate flexibility. Core of our asset base is constituted by loans and advances portfolios while the share investment portfolio accounted for 15% of MI's asset base. Our investments have been made primarily in blue chips which can be disposed at any time, when the required price is attained.

The Company has a Board approved liquidity management policy that entrusts daily management of liquidity to the Finance division headed by the Finance Director who oversees the treasury function of the company. To ensure, company complies with statutory requirements on liquidity, we monitor liquidity position on a daily basis and maintain statutory liquidity levels well above minimum thresholds.

ADVANCES TO DEPOSITS



STATUTORY LIQUID ASSETS RATIO FOR LAST 5 YEARS (%)

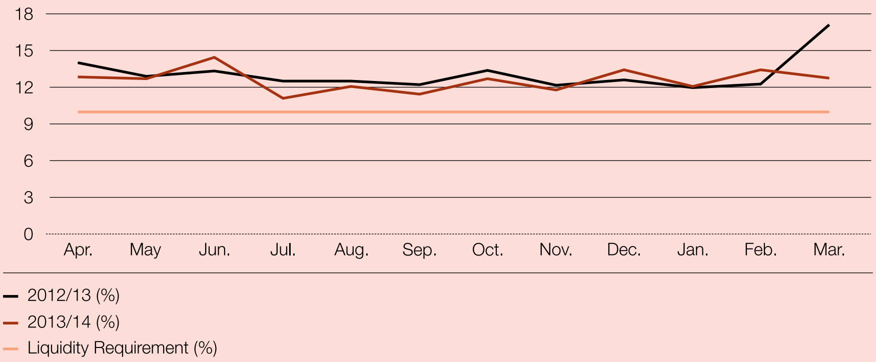


As recent initiatives, we kept additional liquidity for MI's commercial paper borrowing, being a fresh requirement by the regulator from 1 January 2014. We also contribute to the deposit insurance scheme established by regulator as an additional safeguard against liquidity risk. From a supervisory perspective, MI Board had strong review 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 - 2013/14 update
Liquidity Risk ● Risk arising from inability to meet company liabilities including depositor liabilities on their maturity	Low	Significant	The Company identifies following as key liquidity indicators; ● Net advances to total assets ratio ● Liquid Assets Ratio ● Liquid Assets to short-term liabilities ratio ● Net advances to deposit ratio These indicators are monitored periodically in order to sustain a strong liquidity position. Further, the review of assets and liability maturity gap for pre-defined maturity buckets on a regular basis assists in managing the short-term and long-term fund deficiencies and surpluses efficiently. The IRMC oversees Company's medium and long-term liquidity while ALCO as a part of its responsibilities oversees and recommends suitable counter measures to resolve liquidity concerns.	Deposits canvasing operations on a growth trajectory at branch level improved this year. We streamlined the deposit operation with the procedural changes to meet the depositor demand. To increase flow of long-term deposits we afforded alternative returns with deposits options to draw customers. Throughout the period, we complied with the statutory liquidity ratio requirements complying also to revised liquidity requirements for borrowing from 1 January 2014. By instilling strong recovery measures, collections on lending were kept at satisfactory levels. Recovery ratio was maintained at 96% in line with target. MI continues its policy of holding minimal exposure to land and property investments considered illiquid and held minimal property portfolio. We are in the process of proceeding on a debenture issue to bridge one year and over liquidity mismatches. Negotiations are also being carried out to secure overseas long-term funding at optimal cost. MI made premium payments totaling to Rs. 13 million to the CBSL managed Deposits Insurance Scheme, which will strengthen the safety of the deposit base against liquidity risk. Statutory liquidity ratio requirements which include revised additional liquidity for borrowing was maintained above predetermined requirements.

STATUTORY LIQUID ASSETS RATIO (%)



Liquidity Risk Appetite Criteria

Risk Appetite Criteria	Policy Range	Current Position as at 31 March 2014	Actions
■ Net Advances to Deposit	Below 90%	142%	Management plans to bring this ratio below 120% as per forecast within the next financial year with the planned growth in deposits
■ Liquidity Gap			Board of Directors and the Corporate Management is currently in the process of analysing the liquidity gap buckets, for implementing a policy range/limit for next financial year.
● 1-7 Days Bucket		Rs. 607 million	
● 1 Month Bucket		(Rs. 543 million)	
● 2-3 Month Bucket		(Rs. 2,035 million)	
● 4-5 Month Bucket		(Rs. 2,941 million)	
● 6-12 Month Bucket		(Rs. 2,309 million)	

04. Operational Risks

Failed or inadequate internal processes, people and systems or adverse external events could result in operational risk to a company that could lead to various consequences including losses. MI has implanted various internal controls to detect possible human errors, fraud, faulty internal processes and systems, non-adherence to procedures and non-compliance to regulation. In curbing operational risk, MI embraces a company-wide internal control system and adopts a well geared compliance culture where staff are attuned to adhering to all set policies and procedures that are clearly spelt out in Organisational Procedure Manual.

The Company adopts a stream of mechanisms for operational risk management which range from segregation of staff duties, rotation of jobs, backing up of core system, staff training, and employee operations to backing up and archiving of important documents. Responsibility for establishment of internal controls lays with heads of divisions for respective functional areas while overall leadership flows from the Board. Respective divisions are responsible to ensure effectiveness of established controls and are expected to monitor existing procedures and practices over time and make changes as and when needed. All core divisional heads are expected to discuss and obtain feedback on operational concerns from their staff in monthly divisional staff meetings in the process of assessing divisional performance. This process allows all divisions to identify measure and correct any operational weaknesses then and there and devise permanent counter mechanisms against potent operational risks. In parallel, the risk management division reviews operational procedures and policies related to risk management as a continuing activity in line with regulatory and compliance environment.

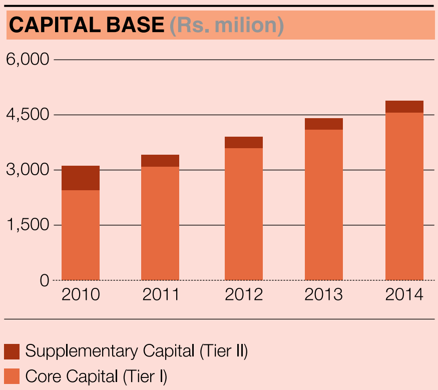
In managing operational risk, we place heavy reliance on information technology for our core systems. Numerous security controls have been in-built to core systems to eliminate possibility of unauthorised access, infiltration of data and system errors. Specific user limits have been established at various levels for authorisation of a transaction and a system of dual control has been installed in core systems for specific operational activities of importance. Core systems provide a stream of MIS including exception and ad hoc reports to management 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. Our company possesses conversant IT professionals with hands-on experience in their field to handle all aspects of IT including software development and network administration etc. IT division carries out system testing whenever new modules are introduced or any material changes are made to existing modules. As per our information system policy document, user acceptance for new module implementation and significant changes to existing modules is essential prior to moving ahead with live implementation.

MI audit division conducts audits regularly to ensure that employees stay compliant to set policies and procedures including internal controls and also as a means of identifying process weaknesses for immediate correction. During this process, auditors in certain instances suggest operational solutions when they are lacking and highlight operational weaknesses and recommends necessary changes with the intention of overcoming risks. MI audit function acts as an early warning mechanism for management, providing insight into any operational lapses that may prevail so that proactive measures can be taken early to avoid operational losses.

As a practice all New Product Development and introduction processes have to be routed through risk management, audit and compliance divisions. Appropriate sign off is obtained prior to implementing new or improved products. The Business Continuity Plan (BCP) developed a few years ago was updated again in financial year 2013/14 spelling out potential risk 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 etc. The BCP goes on to specify steps management should follow and strategies that need to be implemented to minimise potential impact from such disaster events. Timeline was drawn by departments for the implementation of proposed counter strategies to ensure minimal disruption to operations and to bring down any resultant impacts to the business as a consequence. Whilst being proactive to operational risk, we are fortunate to possess a strong capital base, which enable us to absorb potential losses in case such events were to materialise. MI's solid Capital Adequacy position, almost twice of the expected ratio as per regulated prudential requirements, gives the Company the needed cushion to absorb any potential unforeseen operational losses.

Operational Risk Control Dashboard

Risk Type	Risk Rating	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Operational Risk ● Risk arising due to organisation's internal activities that are detrimental which include faulty processes and control systems, acts of fraud and natural disasters.	Low	Moderate	We constantly reviewed existing procedures, policies and internal control mechanisms to assess the adequacy and appropriateness of those against recommended best practices to ensure minimal level of operational faults and risk impact at divisional level. We established comprehensive internal controls and procedures on par with international practices as safety devices to secure assets and also to remain competitive in the industry. We reviewed our capital position against the statutory ratios periodically.	Application of procedures and internal controls day-to-day operations of the Company's processes and having a periodic review mechanism ensured a high level compliance culture within the organisation. By adopting a process that reports deviations of controls and procedures enhances such procedures and controls, identifying early any foreseeable loopholes. Internal Audit division of the company periodically reviewed existing internal controls and in parallel Ernst & Young based on a predefined annual audit programme was entrusted to independently review MI operations and report. Internal audit division therefore reviewed and reported compliance lapses to the Audit Committee. The Audit Committee ensured smooth functioning of daily operations including the rectification of operational lapses by following up on recommended practices of internal auditors. Audit Committee stressed the importance of avoiding control lapses at branch level by organising regular meetings with branch managers. The Committee imposed deadlines to rectify shortcomings in order to enhance the compliance culture throughout the organisation. Manager Risk and Compliance introduced a branch compliance checklist to monitor branch level compliance to internal and external procedures and controls of the Company.



Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
● **Operating Environment Risk**	Medium	Low	MI's Insurance and Contingencies Management team continuously reviewed insurance covers against operating environment risks such as loss or damage to capabilities due to a problem or deficiencies with premises, facilities services, equipment or any other physical aspect in operating environment.	Contingency management team of MI that comprises key officers attached to various divisions ensured that 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.

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
• **Unforeseen Natural Disasters**	Low	Significant	MI's Contingencies Management Team closely monitored probability of losses caused by unusual climate conditions including fire, heat, flood, drought, cold, storms and tsunami etc. MI implemented new strategies in this period to overcome potential risk identified in the organisational wide Business Continuity Plan. The Business Continuity Plan was updated, after reviewing changes in business conditions and risk against actions already carried out.	Company understands the importance of proper disaster management to minimise vulnerability by being prepared. Therefore, we have mapped the possible hazard risks and vulnerabilities and analysed and assessed the level of risk involved and monitored them continuously. MI uses insurance as the fundamental risk mitigating strategy for unforeseen disasters. Insurance division has taken precautions to ensure adequacy and effectiveness of insurance coverage in key areas of natural disasters. MI updated the BCP of the Company in the year under review by giving higher priority for the areas of flood, and climate risks. MI stores and preserves important documents through its 'Document Management System' which involves a 'soft' archiving process. Additionally, MI use fire proof cabinets to safeguard important hard documents. MI's IT software division has developed a sophisticated document archiving software to safeguard important information of the Company's transactions which also facilitates business continuity in instances of natural disasters. Such information can be retrieved from the remote Disaster Recovery site at Borella. MI's internal auditors review this process periodically and report to the contingency management team. Further, the contingency management team of the Company reviewed existing fire precautionary measures related to MI building, machinery and followed up on outstandings.

Operational Risk Appetite Criteria

Risk Appetite Criteria	Policy Range	Current Position as at 31 March 2014	Actions
• Internal Frauds	Below 3 Incidents	Nil	Comprehensive system of internal controls is in place to mitigate potential operational risk.
• External Frauds	Below 2 Incidents	Nil	
• Physical Assets Damages	Below 2 Incidents	2	Comprehensive Business Continuity Plan is in place.
• Business disruptions due to System Failure	Below 2 Incidents	Nil	

05. Other Risk

5.1 Legal Risk

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 institution 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 institution; or (iv) change in law. MI needs to deal in financial transactions with higher scrutiny in a highly regulated finance industry.

Employees are required to be conversant with regulations related to their area of work and therefore are continuously afforded training so that they appraise themselves of changes in statutes, regulations including changes in interpretation or implementation of statutes, regulations and policies for its due compliance.

As a well-managed and reputed finance company, we understand that regulatory changes may result in additional cost of compliance, may limit the type of financial services offered in the market and also increase the chances of competitors capitalising on their own offerings in certain circumstances. Newly established audit division and recruitment of a separate manager for Compliance function, further strengthened compliance process of the company. Manager compliance is responsible for overseeing overall compliance to regulations including Financial Transactions Reporting Act on money laundering and also provides feedback to the Board of Directors and relevant heads of divisions periodically. MI's Legal division plays a vital role, in providing advice and assistance to all divisions on prevailing laws and regulations and conducts training and educates divisions whenever new laws are enacted. Their advice is sought by core divisions especially on 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 of MI separately monitors management's level of compliance to prevailing regulations through the Audit Committee. For this purpose, Internal Auditors provide periodic feedback to the Audit Committee on the status of company's compliance to prevailing regulations.

5.1.1 Risk Related to Indemnity Arrangements

As a risk minimising technique, indemnity arrangements are used in transactions for financial restoration of an aggrieved party to the level prior to accident, injury or illegal act. Indemnity arrangements allow businesses to seek protection over loss and damage claims filled by another party. On the basis that such arrangements only bring back the plaintiff to a state of wholeness, it allows a plaintiff to obtain compensation from the defendant for his or her wrong acts. The principle of indemnity acts as a yardstick for measuring the extent of damage for civil court actions and related laws. In this process, real losses suffered by a plaintiff are repaid in whatever way. Nonetheless, punitive damages are considered altogether as a separate matter.

As part of our credit process, in reducing credit and associated risk, we resort to obtaining of adequate asset cover to counter credit exposure prior to releasing funds for our lending business. In addition, our credit policies require that the absolute ownership of the asset is retained with us to compensate for any future losses or damages that may be caused by our borrower. For the purpose of establishing the lending value for a particular transaction, our credit policies specify that we consider a combination of variables including the value of security offered. As a standard credit control policy, lending to customers is limited to a percentage of the security offered. This minimises MI's total exposure and secures the company from unnecessary credit exposure that may arise if the borrower defaults or market values of the security decline. Further, our credit practices require that we make an assessment to ensure that the value of the asset offered is comparable with the value of other vehicles with similar conditions at any time in future.

Legal Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Legal risk				
Risk of faulty documentation that could lead to legal risk	Low	Moderate	MI's Legal Division consists of well-experienced legal professionals who advise and work closely with core business divisions to ensure company conforms to legal requirements.	MI's Legal division advised core divisions on documentation requirements for legal purpose. Legal documents/Service Level Agreements are studied by the legal division and specifically approved by Legal Head. Further Legal Division is responsible to execute necessary litigations against defaulters effectively through a planned litigation process.

5.2 Technology Risk

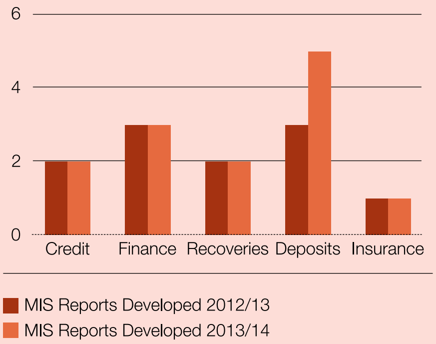
MI is highly reliant on its information technology (IT) infrastructure and information processing of the company, and also data mining, providing reports for the strategic management of the company. In providing a superlative service, we have always placed heavy reliance on technology as a means of gaining competitive advantage. Thus appropriate use of technology is vital for business success while as the flip side, its incorrect management or lack of understanding could lead to various negative consequences to an organisation. System failure over long periods would adversely affect the customer monitoring systems, general ledger, deposits, loans and other sub systems. At the same time, break in technology can extend to breaches in security and derailing of company's 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.

We continuously elevated technology as a core function in driving finance business forward which is considered essential to our core business operations. IT has been upgraded and integrated in most of our business activities in order to improve customer satisfaction, service standards and efficiency. We continue to invest in technology especially in terms of bringing in new modules, features to core systems and carrying out upgrades in line with expectations of users and industry changes. In supporting our expanding branch network, we have put in place a fully integrated network system that enables speedy on line processing of balances, features to process both lending and deposit transactions, other system support for execution of transactions through remote access and numerous other features that support users in completing tasks. During this period, additional changes were made to systems to improve IFRS based reporting and also to incorporate recommendations made during the information system audit carried out by Messrs Ernst & Young, Chartered Accountants.

We have established clear ICT policies and procedures that include the information system policies introduced in 2012 that require IT and other divisional staff to follow information technology standards set by the organisation. We seek the internal auditor's assistance to review and conclude on specific aspects of the systems and to report on any inherent risks in newly introduced systems to ensure their smooth running without drawbacks.

MI possesses a highly conversant, professionally qualified IT staff who have a good understanding of the systems operated within company and capability to grasp system issues early and have the experience to resolve them then and there. We have specialised officers for software development who have the necessary technical knowhow, who follow software development standards including adoption of user requirement documentation, system testing, implementation of standards, user acceptance testing procedures as part of MI's Information ICT Policy framework. Procurement of hardware for our core systems are done through renowned organisations and we sign up for higher service level agreements with them.

Technology Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Technology Risk ● Risk arising from core systems malfunction, errors in new module implementations and changes in environment affecting technology.	Medium	Moderate	IT division assessed effectiveness of core information system on an ongoing basis in coordination with user departments so that improvements could be made when needed, enhancing user department's acceptability of the IT system. Stringent testing procedures were adopted by the IT division prior to live implementation of proposed modules to avoid errors and shortcomings. Internal audit division carried out periodic reviews of the system functionalities and also evaluated the accuracy, reliability and completeness of the information provided by the system. **MANAGEMENT INFORMATION REPORT DEVELOPED 2013/14** (No. of New Reports) 	To comply with CBSL requirement on 'Information System Security Policy', a comprehensive independent audit on information system security, was done in the year under review. Considering the recommendations provided by the auditors, we enhanced information security aspects of the core system. IT division reviewed policies in relation to IT procurement and maintenance procedures, business contingency plan on IT, system licensing procedures etc., and updates were done in accordance with best practices in the industry. The Company continued its policy on having daily backing up of the database and off-site storage. IT division staff have been trained to handle system related issues with minimum inconvenience to operations. Newly developed document archiving system facilitated real time retrieving of prior years' information and data mining and data analysis. IT division worked with Human Resource Management division to develop a real time comprehensive human resource management system which facilitates online leave management of staff, appraise staff performance, and calculate effectiveness of human resources and other critical HR aspects. IT policies and procedures were reviewed to ensure that MI's IT system was on par with best industry standards. There was continuous monitoring of staff adherence to information security policies for purpose of ensuring confidentiality of information and to secure accuracy of information. Company's IT division plans to have a comprehensive staff training program on information system security awareness and to afford knowledge on core IT system for the next financial year. Contingency plans forming the IT BCP were updated for all IT dependent processes to ensure MI is properly geared to face any technological contingencies. A comprehensive risk review of the IT systems has been commenced starting from this financial year.

	Credit	Finance	Recoveries	Deposits	Insurance
MIS Reports Developed 2012/13	2	3	2	3	1
MIS Reports Developed 2013/14	2	3	2	5	1

5.3 Reputation Risk

Finance companies are subject to reputational risk as a direct or indirect consequence of previously explained key risks actually crystalising. Worst impact of reputational risk is deterioration of customer confidence which can directly affect business volumes and profitability in the longer horizon. Finance company sector which underwent pressures due to negative events in the past, and is in the process of regaining public confidence back, faced a few more set backs with a few more institutions going on red. Finance company sector has to bear increased regulation and tighten its governance and risk practices if it is to counter such negative impacts. Already as a result of stringent and prudent practices applied on the industry, there remains stability and improved public perception.

The Company continues to adopt sound measures as a means of safeguarding reputation which we have managed to successfully secure all these years. To manage reputational risk, considerable resources and effort are devoted for reviewing the business environment. Based on prevailing elements we have aligned our operations and practices especially front end processes to guide the organisation to perfection. We provide greater autonomy to our managers to reduce lead times in completing a transaction whilst placing a higher level of supervision and control over transactions that are material in nature.

MI possesses a highly conversant workforce and the ability to respond well to changes in markets and regulations governing the sector. The Company from inception has been focused on tackling pressing issues and has maintained a good track record in resolving any shortcomings that tend to arise whilst in the course of carrying out daily operations. Confidentiality is one of the core policies that we practice and careful use of customer information responsibly is another, thus retaining the trust and loyalty of our customers. In safeguarding our reputation over the years, we remained glued to our fundamentals that uphold sound values and high ethical standards that are displayed in our activities.

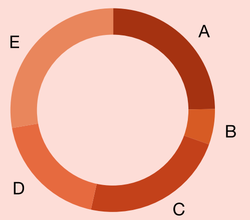
Need for anti-money laundering and combating terrorist financing in line with prevailing regulations is inculcated in all staff members through our compliance culture. All staff are expected to strictly adhere to set guidelines as a means of ensuring required corporate standards are maintained. Over the past few years, MI were committed to strengthening the human resources policies and therefore were able to issue a comprehensive HR handbook that comprises a comprehensive set of HR policies and procedures for employees to follow. MI continue to value its employees and nurture them to maintain expected standards, thus safeguarding MI's standing within the industry.

Reputational Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Reputational Risk - A threat or danger to the good name or standing of a business or entity. • Risks arising from poor operational practices that could lead to reputational risk	Low	Significant	Protecting an institution's brand name has become vital considering past adverse events that have resulted in lowered confidence in the finance industry.	As a leading company in the sector, MI has implemented required corporate governance practices, risk assessment measures, operational procedures and carries out due compliance checking throughout the organisation to ensure business is conducted in a highly professional, ethical and prudent manner. MI divisional heads have to review their own departmental procedures and update operational manuals annually and make amendments necessary. They also review the divisions, professional standard benchmarking against best practices of the market. MI's employees are expected to abide by core values of the Company, regardless of the corporate hierarchy. They have to strictly follow the policies, guidelines and rules, and any deviations to internal and external rules will result in strict disciplinary actions. MI annually conducts on-the-job and off site training for their operational staff on customer service and grievance handling. To strengthen operations, operational staff capacity was enhanced taking new recruitments in 2013/14.

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
● Lack of attention to corporate social responsibility	Low	Significant	Having operated for almost 50 years, MI has made a name as a well-renowned company and a trusted provider of affordable financial services. Sustaining company's values, MI also meets its CSR commitment towards other stakeholders in economic, social and environmental obligations.	Sustaining company's vision of providing a deep sense of social responsibility, company executed a number of CSR programs during the year. Please refer to our Sustainability Report forming part of the annual report which provides a detailed report on our sustainability performance.

MI'S FINANCIAL CONTRIBUTIONS FOR CSR PROJECTS

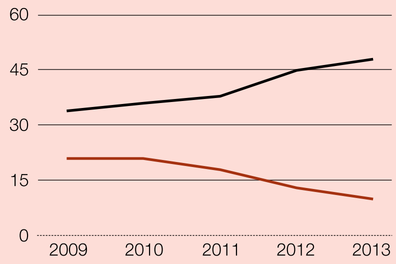


A - Community Contributions - Health - 25%
B - Environmental Contributions - 6%
C - Community Contributions - Religious - 23%
D - Community Contributions - Education - 19%
E - Community Contributions - Others - 27%

5.4 Competitor Risk

Financing is one of the most lucrative businesses in the country, hence related business has gained tremendous progress since the last decade. Accordingly, the sector witnessed a surge of new institutions joining the industry in the last decade. Finance industry caters to wide customer groups through broad product ranges, which has expanded from mere deposit taking and financing to customised product offerings that satisfy varying customer requirements. Being receptive to customer needs, satisfaction is critical in a highly competitive market like ours, if the company is to prosper. CBSL's plans on encouraging mergers/acquisitions within the financial service sector, would change complexion within the industry in the next few years.

EXPANSION OF THE LFC AND SLC SECTOR (No. of Companies)



— Registered Finance Companies
— Specialised Leasing Companies

As per Master Plan on Consolidation of Financial Sector in 2015 LFC sector will be limited to 20 companies

Market competition during 2013/14 remained high owning to the plethora of other investment and borrowing options available to customers. Financial institutions with high levels of capital and IT infrastructures such as banking institutions, increased their interest on financing products which intensified competition. The practice of investing substantial levels of resources in sustaining our core competencies and critical success factors over the years, supported us in maintaining a superlative service, with a higher level of customer satisfaction. Over the period, MI has been able to provide customised services broad basing our product range annually. Many modifications have been done to the operational practices in order to keep pace with market changes and satisfy the changing expectations of customers. Strategic market expansion of our business within the last few years allowed MI to expand its customer reach and enhance customer convenience.

MI actively participate in the sector and have been in the forefront of delivering customer-centric offerings that fit varying expectations of our customers by being innovative, customised service offering and persevering in our operations. To sustain competitive advantages, the Company strives to keep overall costs at optimal levels so that competitive rates could be offered for both our lending and deposit business. Price sensitivity of customers has increased drastically in recent times, and hence MI continued to build on its critical success factors to differentiate our offerings.

MI utilise state-of-the-art technology to execute core operations which has improved its service and delivery times tremendously. In parallel, the Company adopts a unique human resource management style that compliments work life balance for its staff. MI's style of management attempts to secure employee morale and motivation most of the time as a means of sustaining optimal productivity levels in all its operations. In meeting future challenges, MI are fortunate to possess a strong capital structure that gives MI the opportunity and the needed flexibility to make broad strategic decisions.

Service delivery time and customer satisfaction improved exceptionally due to use of state-of-the-art technology to execute core operations of MI. Unique human resource management style adopted by MI promotes work life balance work force. This unique management methodology enriches MI's employees' morale and motivation and most of the time enhances and sustains optimal level of productivity.

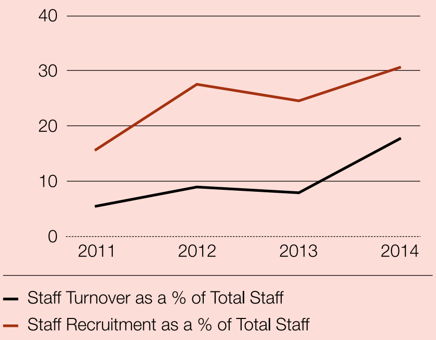
The on-going plans on financial services sector consolidation would change the profile of competition in the next few years. MI could expect Banking and LFC sector margins to narrow and exponentially market size to widen with enhanced public perception towards the sectors.

5.5 Human Resource Related Risk

Human resources remain the most vital factor for any company in the sector and therefore lot depends on the performance of MI's workforce in achievement of organisational objectives and other aspirations. Hence attracting and retaining high caliber staff, who possesses the necessary experience and skills to perform duties is integral if MI is to continue on its path to success. It is quite challenging especially with a job market with abundant job opportunities for qualified and experienced individuals locally as well as in foreign countries. This risk is relevant for MI since majority of its staff have been with MI for at least five years or more, who have gained enormous experience in their areas of purview. Therefore losing service of these experienced personnel will create a vacuum in achieving anticipated standard and may disrupt smooth running of operations for awhile. We are mindful of the fact that finding suitable replacements in the short-term would not be easy. Furthermore, related risk increases since MI does not practice employment agreement with executive and managerial level employees.

MI's human resource management practices revolve around maintaining staff morale and motivation to secure our workforce in the longer run. In motivating employees, MI recognise valuable input of its staff by showing appreciation by affording benefits including salary increments, handing out special recognition awards and letters of commendation. In improving staff morale, clear communication channels have been established between management and staff in promoting concise dialogue that has helped minimise misunderstandings. MI use training and development as a tool in increasing the intrinsic value of MI employees which has kept them motivated and in return, reciprocally benefited the Company. External and internal training and development programmes have also played a key role in grooming staff to face complex and dynamic business challenges. Financial stability and reputation of MI have been sources of strength for its employees in terms of job security and career advancement in this challenging sector.

Human Resource Related Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
People Risk ● Inability to attract and retain quality staff who are skilled and have the experience to handle significant job functions	Low	Significant	Attracting high calibre staff has been a critical area of focus since commencement of our expansion drive. People are key to any organisation, especially to a service organisation like a finance company. Retaining quality staff remained a challenge in the midst of growing competition and widening job opportunities within and outside the industry. MI was able to successfully manage this aspect through careful planning of manpower aligned with strategic plans of the Company. MI with its reputed brand name and close to five decades in business, with an excellent track record of upholding an employee friendly culture, has created a solid foundation to attract and retain good quality staff in the industry. **STAFF TURN OVER VS. STAFF RECRUITMENTS** (%) 	Performance based culture has created a productive workforce for MI. This approach identifies high performers through which MI envisage a win-win situation for either party in the longer term. This process enables MI to nurture the selected high-flyers to fit into more demanding roles as and when the need arises and also lays a solid platform for succession planning. Continued identification of the training and development need of the employees and providing suitable in-house and outside training remained central to knowledge enhancement of MI's workforce. Through this, MI have kept staff well updated with developments in the industry and have kept them motivated. MI adopt effective HR policies and procedures and comprehensive grievance handling mechanisms.

5.6 Strategic Risk

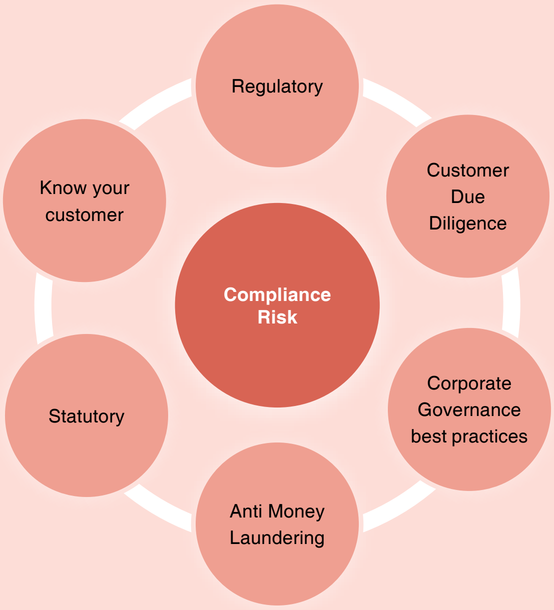
Strategic risk is defined as the risk associated with existing strategy, future business plans and strategies, including plans on entering new business lines, expanding existing services through organic business growth, mergers and acquisitions, or exposure loss resulting from a strategy that turns out to be defective or inappropriate.

Strategic Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Strategic Risk ● A possible source of loss that might arise from the pursuit of an unsuccessful business plan. For example, strategic risk might arise from making poor business decisions, from substandard execution of decisions, from inadequate resource allocation, or from a failure to respond well to changes in the business environment.	Low	Moderate	It is the responsibility of The Board of Directors to manage and control the operations of MI in a prudent manner in keeping to rules, guidance and procedures set by Finance Business Act, Central Bank Code of Governance, Securities and Exchange Commission, and Colombo Stock Exchange etc. Role of the Board of Directors in company-wide risk overseeing has become increasingly challenging. On the other hand-expectations for Board engagement are at an all-time high. Agreed annual performance targets with heads of divisions simplifies the process of initialisation of successful strategies, implementation of those strategies and measuring the progress of the Company in terms of making the right decisions at the correct time.	Actual performance monitoring against medium-term strategic plan targets. Restrategised whenever there were significant deviations from plans. External Auditors reviewed and certified MI's annual corporate governance report which provides assurance on compliance level of MI to corporate governance rules. Company Secretary provides guidance to the Board on corporate governance requirements and other secretarial responsibilities. MI provides opportunities to the Board of Directors for external training and awareness on corporate governance on a regular basis, specifically through programs organised by CBSL.

5.8 Compliance Risk

The compliance function of a finance company is accountable for independently ensuring that operating business divisions are complying with regulatory and internal controls. Hence, Compliance Officer has to play a critical role in ensuring implementation of compliance function in accordance with the directions, rules and guidelines issued by regulatory bodies such as CBSL, CSE etc. In instilling a compliance culture, MI adopts a suitable framework and takes a risk-based approach for compliance with the support of the Corporate Management of the company. All new directions and rules are communicated to the respective divisional heads then and there with subsequent review by either compliance officer or by Audit. Furthermore, Manager - Risk and Compliance provides training on key regulations such as Anti-Money Laundering functions and compliance procedures established to ensure effective compliance risk management in MI.



Compliance Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Regulatory and Compliance Risk	Low	Moderate	Company has set up a well-structured regulatory framework to execute this function, managed by Manager Risk and Compliance. MI's compliance framework consist adoption of AML policies to curb money laundering risk. Credit, deposit and recoveries divisions monitor customers using standard verification documents specified by management. The division's carry-out continuous due diligence until completion of the transaction and close of respective customer files as part of MI's continuous due diligence process related to customers. Manager Risk and Compliance also reviews MI's compliance status to other key regulations and reports to the Board on a periodic basis.	MI has a compliance culture and holds itself to high standards of integrity and behaviour which sustains trust while complying with regulation of the sector. The Company has put through a vigorous compliance framework to ensure all regulations are complied on a continuous basis. MI has put following risk mitigations mechanisms in place to sustain compliance standards. ● Anti-Money Laundering Policy ● Branch Compliance Checklist ● Monthly Compliance Status Report on CBSL Regulations to the Board ● Comprehensive KYC measures and customer due diligence reports ● Monitoring transactions and submission of reports to FIU ● Continuous training on Regulations. ● Dissemination of regulations, guidelines, directives through memorandums and discussion and brainstorming ● Regular internal audit on compliance to regulations pertaining to the Company

Corporate Governance Risk Control Dashboard

Risk Type	Likelihood	Impact Level to MI	Risk Assessment	Strategies on risk mitigation - 2013/14 update
Corporate Governance Risk Failure of Directors and officers performing executive function to fulfill their personal statutory obligations in managing and controlling the affairs of the Company according to sound corporate governance expectations.	Low	Significant	Board of Directors is responsible to manage and control the affairs of the company according to the rules, regulations and procedures specified mainly by the Finance Business Act, Central Bank, Colombo Stock Exchange, Companies Act, Securities and Exchange Commission.	MI has a well-established governance framework that is in accordance with best practices and regulations. Company took a number of initiatives during this financial year to improve Board governance aspects as explained in its 'Corporate Governance Report' provided on pages 154 to 219.

Regulatory and Compliance Risk Appetite Criteria

Risk Appetite Criteria	Policy Range	Current Position as at 31 March 2014
● Statutory Liquid Assets Ratio	Above 7.5%	12.8%
● Core Capital Ratio	Above 5%	21.1%
● Total Risk-Weighted Capital Ratio	Above 10%	22.53%
● Single Borrower Limit	Below 15%	2%
● Complaints Received and Penalties Paid	Nil	1
● Late Submission of Reports	Below 2	Nil

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 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 2014)

Capital adequacy ratio (CAR) (%)	22.53%
Capital base	4,883,729
Risk-weighted assets	21,679,756
Total gross NPA	613,441
Equity market value	3,546,105
Deposit liability	11,417,741
Liquid assets	1,455,405
Liquid assets ratio (%)	12.78%
Gross loans	16,645,136
NPL ratio (%)	3.69%

Stress Tests	Exposure Rs. '000	**Original Position 31 March 2014**	Magnitude of Shock		
			5%	10%	15%
		CAR %	Revised CAR%		
A. Credit Risk					
Negative shift in non-performing advances	613,441	**22.53%**	22.39%	22.26%	22.12%
B. Equity Price Risk					
Fall in stock market prices	3,546,105	**22.53%**	21.97%	21.40%	20.82%

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 2014**	Magnitude of Shock		
			5%	10%	15%
		Statutory Liquid Assets Ratio %	Revised Statutory Liquid Assets Ratio %		
Liquidity Risk					
A. Fall in statutory liquid assets	1,455,405	**12.78%**	12.11%	11.47%	10.83%

Conclusion: Even after worse case scenario the liquid asset ratio would remain above regulatory requirements.

Stress Tests	Exposure Rs. '000	**Original Position 31 March 2014**	Magnitude of Shock		
			5%	10%	15%
		NPL %	Revised NPL %		
A. Credit Risk					
Negative shift in Non-Performing Loans*	613,441	**3.69%**	3.87%	4.05%	4.24%

Conclusion: The rise in NPA on worst case scenario is marginally above 3.5% of the level forecasted in the medium term.

Financial Reports

Accumulating wealth to investors in keeping to aspirations

2013/14
Financial Calendar

1st Interim Dividend for 2013/14 paid on 30 September 2013
2nd Interim Dividend for 2013/14 paid on 26 May 2014
Annual Report and Accounts for 2013/14 signed on 23 May 2014
51st Annual General Meeting to be held on 30 June 2014

Proposed Financial Calendar - 2014/15
1st Interim Dividend for 2014/15 to be paid in September 2014
2nd Interim Dividend for 2014/15 to be paid in March 2015
Annual Report and Accounts for 2014/15 to be signed on 20 May 2016
52nd Annual General Meeting to be held on 27 June 2015

Financial Reports

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 2014 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 No. 42 of 2011.

The ordinary shares of the Company are quoted on the *Diri Savi* board of the Colombo Stock Exchange since June 2011. Ram Ratings Lanka Ltd has assigned BBB+ and P2 long-term and short-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 23 May 2014.

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report, prepared for the year under review (i.e., for the year ended 31 March 2014)

2. Review of Business

2.1 Vision, Mission and Corporate Conduct

The Company's Vision and Mission are given in inner front cover of this Report. The business activities of the Company are conducted maintaining the highest level of ethical standards in achieving its Vision and Mission

2.2 Review on Operations of the Company

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 18 to 27 and Management Discussion and Analysis on pages 28 to 145 of this Annual Report.

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, 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.

2.3 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 pages 270 of the 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 270 to 317 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 264 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 2014 and the Auditor's Report on the Financial Statements is given on page 269 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 their Financial Statements for all periods up to and including the year ended 31 March 2014, 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 276 to 287 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 Interest Register

The Interests Register is maintained by the Company, as per 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 Interest Register during the year under review. The share ownership of Directors is disclosed on page 259 of this Annual Report, Entries were made in the Interests Register on share transaction, Directors' Interest in Contracts, and remuneration paid to the Directors etc. The Interest Register is available for inspection 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 2014 is given in Note 46.3 to the Financial Statements on page

311 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. 1.890 million (2013 - Rs. 1.3 million). The donations made to the Government approved charities from the above amount is Rs. Nil (2013 - 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 developments activities of the Company is discussed under the Managing Director's report on page 22 to 27 of this Annual Report.

3. Gross Incomes

The income of the Company for the year ended 31 March 2014 was Rs. 4,095 million (year ended 31 March 2013 - Rs. 3,370 million). An analysis of income is given in Note 7 to the Financial Statements on page 288 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 2014 was Rs. 824 million (Rs. 732 million in 2013) and the profit after tax for the year ended 2014 was Rs. 675 million (Rs. 630 million in 2013).

4.2 Dividend on Ordinary Shares

The following interim dividends was declared and paid for the financial year ended 2014 (27.50 per share - 2013):

Dividend	Rate of Payment
1st Interim	Rs. 10.00 per share
2nd Interim (Proposed)	Rs. 10.00 per share

4.3 Provision for Taxation

Income tax for 2014 has been provided at 28% (28% - 2013) on the taxable income arising from the operations of the Company and has been disclosed in accordance with Sri Lanka Accounting Standards. Financial Service Profits of the Company are also liable for Value Added Tax on Financial Services (VAT on FS) and Nations Building Tax (NBT) (w.e.f. January 2014) on Financial Services at the rate of 12% & 3% respectively (VAT on FS, 12% - 2013).

The Company has also provided deferred tax on all known temporary differences under the liability method, as permitted by the Sri Lanka Accounting Standard - LKAS 12 on 'Income Taxes'.

Information on Income Tax Expenses and Deferred Taxes is given in Notes 14 and 34 to the Financial Statements on pages 289 and 307 respectively, of this Annual Report.

4.4 Reserves

The Company's total reserves as at 31 March 2014 amounted to Rs. 6,230 million (2013 - Rs. 5,670 million). The movement of the reserves are given on page 273 under Statement of Changes in Equity and Note 37 to 42 to the Financial Statements of this Annual Report.

The details of profit relating to the Company are tabled below:

As at March 31	2014	2013
Profit before Tax	824,331	732,069
Taxation	148,969	101,278
Profit after Tax	675,362	630,791
Other Comprehensive Income	19,695	–
Balance brought forward	10,176	292,243
Available for Appropriation	705,233	923,034
Transfer to Statutory Reserve	(50,000)	(50,000)
Transfer to General Reserve	(100,000)	(735,000)
Transfer to Investment Fund	(82,514)	(48,755)
Interim Dividend Paid	(30,060)	(82,655)
Balance Carried Forward	442,659	10,176

5. Property, Plant & Equipment and Leasehold Property & Intangible Assets

Capital expenditure incurred on property, plant & equipment is as follows:

Year	2014	2013
Property, Plant & Equipment	355 million	60 million
Leasehold Property	Nill	Nil
Intangible Assets	2.4 million	5.3 million

Details of which are given in Note 28 to 30 on pages 301 to 305 in the Financial Statement. Capital expenditure approved and contracted for is given in Note 43 to the Financial Statements on page 310 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 2012, 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 Notes 28.2 to the Financial Statements on pages 302 to 303.

7. Stated Capitals

The stated capital of the Company as at 31 March 2014 was Rs. 36 million comprising 3,006,000 ordinary shares. (2013 - Rs. 36 million). The details of the stated capital are given in Note 36 to the Financial Statements on page 308 of this Annual Report.

8. Share Information

Details of share related information are given on pages 333 to 336 of this Annual Report and information relating to earnings, dividends and net assets per share is given in the Triple Bottom Line Highlights on pages 4 to 5 of this Annual report.

8.1 Issue of Shares

The Company did not make any share issues during the year under review.

Class of Shares	Voting Ordinary shares	
	2014	2013
Number of share issued	Nil	Nil

9. Substantial Shareholdings

The list of 20 Largest Shareholders as at 31 March 2014 are as follows:

Nilaveli Beach Hotel (Pvt) Limited	626,240
Mr. G.G. Ondaatjie	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/ R.D. Madugalla	12,525
Mrs. P.R. Divitotawela/ 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 and J.S. Dominic	151
Mr. H.W.M. Woodward	10

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 2014 comprised of 10 Directors 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 146 to 149 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 2014, 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-Independency
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 resignation to and from the Board of Directors of the Company are given below:

New Appointments

Mr. P.C. Guhashanka (w.e.f. 28.06.2013)

Resignation/Cessations

Mr. H.A.S.T. Senanayake (w.e.f. 24.06.2013)

10.1.3 Recommendation for Re-election

In terms of Article 23 (7) of the articles of association, Ms. A.M. Ondaatjie, Mr. T.J. Ondaatjie and Mr. P.M. Amarasekara retire by rotation and being eligible offer themselves for re-election.

In terms of Article 23 (3) of the Articles of Association Mr. P.C. Guhashanka retires and being eligible offers himself for re-election.

10.1.4 Board Subcommittees

Information with regard to Board subcommittees is given under Corporate Governance on pages 154 to 219 of this Annual Report.

11. Disclosures of Directors Dealing in Shares

11.1 Directors' Interest in Ordinary Shares of the Company

Mr. G.G. Ondaatjie	477,213
Ms. A.M. Ondaatjie	477,213
Mr. T.J. Ondaatjie	477,213
Mr. S.H. Jayasuriya	Nil
Mr. P.M. Amarasekera	Nil
Mr. S.H.J. Weerasuriya	Nil
Mr. H.A.S.T. Senanayake	Nil
Ms. P.T.K. Navaratne	Nil
Mr. N.H.V. Perera	10,020
Mr. S.M.S.S. Bandara	Nil

11.1.1 There is no Chief Executive Officer in the Company. Mr. G.G. Ondaatjie serves as Managing Director.

11.1.2 The number of ordinary shares held by the public as at 31 March 2014 was 326,802 shares (2013 - 326,802) which amounted to 10.87% (2014 - 10.87%) of the stated capital of the Company.

12. Directors Interests in Contracts or Proposed Contracts

Directors have no direct or indirect interest in any contract or proposed contract with the Company for the year ended 31 March 2014. Further information is given on pages 262 to 263 of this Annual Report.

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. 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.

14. 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.

15. Events after the Balance Sheet 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 48 to the Financial Statements on page 313 of this Annual Report.

16. 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 is prepared based on the going concern concept.

17. 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, 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 and Messrs Cecil Arsecularatne & Company retired as Auditors of the Company.

Messrs BDO Partners offer themselves for reappointment. A resolution to appoint BDO Partners as Auditors and granting authority to the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

18. Auditors' Remuneration and Interest in Contracts with the Company

The Auditors, Messrs BDO Partners was paid Rs. 1.2 million (Rs .8 million in 2013 to Messrs Cecil Arsecularathne & Company) 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.

19. Risk Management and System of Internal Controls

19.1 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 222 to 253 of this Annual Report.

19.2 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 268 of this Annual Report.

19.3 Audit Committee

The composition of the Audit Committee and their Report is given on page 268 of this Annual report.

20. Corporate Governance

The Company is committed to high standards of Corporate Governance. The main Corporate Governance practices of the Company are set out on pages 154 to 219 of the Annual Report.

21. 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 119 to 128 of this Annual Report.

22. 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 whose effect should be disclosed. There have been no irregularities involving management or employees that could have material financial effect or otherwise.

23. 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.

24. Notice of Meeting

The details of the Annual General Meeting are given in the Notice of Meeting on page 340 of this Annual Report.

25. Acknowledgement of the Contents of the Report

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

G.G. Ondaatjie
Managing Director

Angelini Ondaatje

A.M. Ondaatjie
Director

S Pethiyagoda

Ms. Sonali Pethiyagoda
Company Secretary

Colombo
23 May 2014

DIRECTORS' INTERESTS IN CONTRACTS WITH THE COMPANY

Related Party Disclosures as required by the Sri Lanka Accounting Standards LKAS 24 - 'Related Party Disclosures' is detailed in the Note 46 to the Financial Statements on pages 311 to 312 of this Annual Report. In addition, the Company carries out transactions in the ordinary course of the business in an arm's length basis with entities where the Chairman or a Director of the Company is the Chairman or Director of such entities as detailed below:

	Company	Relationship	Accommodation Granted/Deposits or Services Rendered	Balance Outstanding as at 31.03.2014 Rs. '000	Balance Outstanding as at 31.03.2013 Rs. '000	Balance Outstanding as at 31.03.2012 Rs. '000
(a)	**Mr. G.G. Ondaatjie**					
	Mercantile Fortunes (Pvt) Limited	Managing Director	Motor vehicle hire, repairs & others	–	102	2,776
	Tangerine Beach Hotels PLC	Director	Deposits	107,674	55,933	52,539
			Loan	18,281	20,708	25,009
			Motor vehicle hire, repairs & others	138	–	2,814
	Royal Palms Beach Hotels PLC	Director	Deposits	113,744	70,097	98,652
			Loan	8,113	10,025	12,376
			Motor vehicle hire, repairs & others	491	–	649
	The Nuwara Eliya Hotels Company PLC	Managing Director	Deposits	356,033	66,326	–
			Motor vehicle hire, repairs & others	59	26	872
	Tangerine Tours (Pvt) Limited	Director	Deposits	48,647	20,000	54,060
			Motor vehicle hire, repairs & others	112	–	2,132
	Nilaweli Beach Hotels (Pvt) Limited	Ex. Deputy Chairman	Deposits	174,155	141,488	136,895
			Loan	15,076	22,615	30,969
			Motor vehicle hire, repairs & others	–	–	322
	Security Ceylon (Pvt) Limited	Director	Deposits	2,126	3,212	–
			Motor vehicle hire, repairs & others	12	–	111
	Mercantile Orient (Pvt) Limited	Director	Deposits	4,572	4,050	3,653
			Motor vehicle hire, repairs & others	–	–	250
	Global Films Limited	Director	Deposits	1,218	1,119	1,066
	Grand Hotel (Pvt) Limited	Managing Director	Deposits	–	12,432	102,315
			Motor vehicle hire, repairs & others	–	–	102
	Fair View Hotel (Pvt) Limited	Managing Director	Deposits	–	2,500	30,429
			Motor vehicle hire, repairs & others	–	–	17
(b)	**Ms. A.M. Ondaatjie**					
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs & others	–	102	2,776
	Tangerine Beach Hotels PLC	Jt. Managing Director	Deposits	107,674	55,933	52,539
			Loan	18,281	20,708	25,009
			Motor vehicle hire, repairs & others	138	–	2,814
	Royal Palms Beach Hotels PLC	Jt. Managing Director	Deposits	113,744	70,097	98,652
			Loan	8,113	10,025	12,376
			Motor vehicle hire, repairs & others	491	–	649
	The Nuwara Eliya Hotels Company PLC	Director	Deposits	356,033	66,326	–
			Motor vehicle hire, repairs & others	59	26	872
	Tangerine Tours (Pvt) Limited	Managing Director	Deposits	48,647	20,000	54,060
			Motor vehicle hire, repairs & others	112	–	2,132
	Nilaweli Beach Hotels (Pvt) Limited	Director	Deposits	174,155	141,488	136,895
			Loan	15,076	22,615	30,969
			Motor vehicle hire, repairs & others	–	–	322
	Security Ceylon (Pvt) Limited	Director	Deposits	2,126	3,212	–
			Motor vehicle hire, repairs & others	12	–	111
	Mercantile Orient (Pvt) Limited	Director	Deposits	4,572	4,050	3,653
			Motor vehicle hire, repairs & others	–	–	250
	Global Films Limited	Director	Deposits	1,218	1,119	1,066
	Grand Hotel (Pvt) Limited	Director	Deposits	–	12,432	102,315
			Motor vehicle hire, repairs & others	–	–	102
	Fair View Hotel (Pvt) Limited	Director	Deposits	–	2,500	30,429
			Motor vehicle hire, repairs & others	–	–	17

	Company	Relationship	Accommodation Granted/Deposits or Services Rendered	Balance Outstanding as at 31.03.2014 Rs. '000	Balance Outstanding as at 31.03.2013 Rs. '000	Balance Outstanding as at 31.03.2012 Rs. '000
(c)	**Mr. T.J. Ondaatjie**					
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs & others	–	102	2,776
	Tangerine Beach Hotels PLC	Director	Deposits	107,674	55,933	52,539
			Loan	18,281	20,078	25,009
			Motor vehicle hire, repairs & others	138	–	2,814
	Royal Palms Beach Hotels PLC	Director	Deposits	113,744	70,097	98,652
			Loan	8,113	10,025	12,376
			Motor vehicle hire, repairs & others	491	–	649
	The Nuwara Eliya Hotels Company PLC	Director	Deposits	356,033	66,326	–
			Motor vehicle hire, repairs & others	59	26	872
	Tangerine Tours (Pvt) Limited	Director	Deposits	48,647	20,000	54,060
			Motor vehicle hire, repairs & others	112	–	2,132
	Nilaweli Beach Hotels (Pvt) Limited	Managing Director	Deposits	174,155	141,488	136,895
			Loan	15,076	22,615	30,969
			Motor vehicle hire, repairs & others	–	–	322
	Security Ceylon (Pvt) Limited	Director	Deposits	2,126	3,212	–
			Motor vehicle hire, repairs & others	12	–	111
	Mercantile Orient (Pvt) Limited	Director	Deposits	4,572	4,050	3,653
			Motor vehicle hire, repairs & others	–	–	250
	Global Films Limited	Director	Deposits	1,218	1,119	1,066
	Grand Hotel (Pvt) Limited	Director	Deposits	–	12,932	102,315
			Motor vehicle hire, repairs & others	–	–	102
	Fair View Hotel (Pvt) Limited	Director	Deposits	–	2,500	30,429
			Motor vehicle hire, repairs & others	–	–	17
(d)	**Mr. S.H. Jayasuriya**					
	Mercantile Fortunes (Pvt) Limited	Director	Motor vehicle hire, repairs & others	–	102	2,776
	Security Ceylon (Pvt) Limited	Director	Deposits	2,126	3,212	–
			Motor vehicle hire, repairs & others	12	–	111
(e)	**Mr. P.M. Amarasekara**					
	Security Ceylon (Pvt) Limited	Director	Deposits	2,126	3,212	–
			Motor vehicle hire, repairs & others	12	–	111
(f)	**Mr. N.H.V. Perera**					
	Tangerine Beach Hotels PLC	Director	Deposits	107,674	55,933	52,539
			Loan	18,281	20,708	25,009
			Motor vehicle hire, repairs & others	138	–	2,814
	Royal Palms Beach Hotels PLC	Director	Deposits	113,744	70,097	98,652
			Loan	8,113	10,029	12,376
			Motor vehicle hire, repairs & others	491	–	649

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 Sections 148 (1) and 151 (1) of the Companies Act No. 07 of 2007, Directors of the Company have 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 268 of this Report. The Financial Statements for the financial year 2014 prepared and presented in this 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. The Directors consider that, in preparing the Financial Statements exhibited on pages 270 to 329 inclusive, they have adopted appropriate accounting policies on a consistent basis and supported by reasonable and prudent judgments and estimates.

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 Directors confirm that to the best of their knowledge all taxes, statutory dues and levies payable by the Company as at the Balance Sheet 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 the financial records, related data, and minutes of shareholders and Directors' meetings and express their opinion which appears as reported by them on page 269 of this Report.

By Order of the Board,

S Pethiyagoda

Mercantile Investments and Finance PLC
Sonali Pethiyagoda
Company Secretary

23 May 2014

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Composition of the Integrated Risk Management Committee

The Committee consists of the following members who are also Directors of the Board:

Name of Director	Directorship Status
Mr. N.H.V. Perera	*Non-Executive Director and Chairman of the Committee*
Mr. Gerard G. Ondaatjie	*Managing Director*
Mr. P.M. Amarasekara	*Deputy Managing Director*
Mr. S.H. Jayasuriya	*Finance Director*

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 4 meetings for the year under review. The attendance of each member at meetings is illustrated in the table given on page 214 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 MI.

   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 level of exposure for MI.

c. Approve major decisions affecting MI's risk profile or exposure.

d. Identify risks and monitor the management of fundamental risks to reduce the likelihood of unwelcome surprises.

e. Satisfy itself 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.
- Commenced introduction of a 'Risk Register' concept starting with finance division to gather potential risk of departmental level and to map out counter mechanisms in place to ascertain adequacy of controls and for future reference.
- 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 Report' to the Board to update Directors on key risk related matters and to convey recommendations made by the Committee.
- Ongoing follow up on implementation status of proposed strategies related to the Business Continuity Plan of the Company.
- 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

23 May 2014

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 of Director	Directorship Status
Mr. S.H.J. Weerasuriya (Chairman of the Committee)	Chairman (Independent Non-Executive Director)
Mr. N.H.V. Perera	Non-Executive Director
Ms. P.T.K. Navaratne	Non-Executive Director

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 the interests of the shareholders and the member 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 caliber personalities.
- Remuneration should be aligned in a way that it satisfies both shareholder and member's interest.
- 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 2013/14 with attendance status of members is given on page 213 in the Annual Report.

Saro Weerasuriya
Chairman
Remuneration Committee

23 May 2014

NOMINATION COMMITTEE REPORT

Composition of the Nomination Committee

The Nomination Committee comprises of the following Directors of MI:

Name of Director	Directorship Status
Mr. S.H.J Weerasuriya (Chairman of the Committee)	Chairman (Independent Non-Executive Director)
Mr. Gerard G. Ondaatjie	Managing Director
Mr. N.H.V. Perera	Non-Executive Director
Mr. S.M.S.S. Bandara	Independent Non-Executive Director

Objectives of the Committee

The Nomination Committee was established by the Mercantile Investments & 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 for Director 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. 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.

VII. Oversee the orientation and training of new Directors.

VIII. Recommend ways in which the Board could improve its performance.

Meeting Information

Number of Committee meetings held during financial year 2013/14 with attendance status of members is given on page 215 in the Annual Report.

Saro Weerasuriya
Chairman
Nomination Committee

23 May 2014

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.

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 all internal and external audit and inspection 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 Share owners.

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 processes that enable the proper identification and mitigation of risk is one of the key objectives of the Audit Committee.

The Committee held six meetings during the financial year 2013/14 and performed the undermentioned tasks:

1. Reviewed the Internal Audit Report on Branch activities and certain aspects of Head Office activities and discussed measures to be taken on deficiencies and shortcomings that have been pointed out through the Internal Audit Reports.
2. Met with the External Auditors at the conclusion of Annual Audit and reviewed the Auditors' Management Letter together with the management's response thereto.
3. Reviewed the Annual Report in order to ensure the reliability of the process, consistency of the accounting policies and methods and compliance with Sri Lanka Accounting Standards. The Annual Financial Statements were also reviewed with the External Auditors.
4. Regularly monitored the effectiveness of the internal controls and the procedures established by the management to safeguard the assets of the Company.
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.

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 an 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 safeguard 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 re-appointed as the External Auditor of the Company for the year ending 31 March 2015, 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 2013/14 financial year and approved by the Board.

S.M.S.S. Bandara
Chairman
Audit Committee

23 May 2014

INDEPENDENT AUDITOR'S REPORT

BDO

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E-mail : bdopartners@bdo.lk
Website : www.bdo.lk

Chartered Accountants
"Charter House"
65/2, Sir Chittampalam A Gardiner Mawatha
Colombo 02
Sri Lanka

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 31st March, 2014 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 notes as set out on pages 276 to 329. The financial statements of the company as of 31st March, 2013 were audited by another auditor whose report dated 21st May, 2013 expressed an unqualified opinion on these financial statements.

Management's Responsibility for the Financial Statements

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

Scope of Audit and Basis of Opinion

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

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

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

Opinion

In our opinion, so far as appears from our examination, the company maintained proper accounting records for the year ended 31st March, 2014 and the financial statements give a true and fair view of the financial position of the company as at 31st March, 2014 and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Report on Other Legal and Regulatory Requirements

1. These financial statements also comply with the requirements of Section 151(2) of the Companies Act No. 07 of 2007.
2. These financial statements present the information required by the Finance Business Act No. 42 of 2011.

BDO Partners

CHARTERED ACCOUNTANTS
Colombo
23rd May, 2014
TS/vl

INCOME STATEMENTS

For the year ended 31st March	Note	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Gross Income	7	4,095,811	3,370,086	2,394,235
Interest income	7.1	3,861,558	3,087,726	1,659,951
Interest expenses	8	(2,215,483)	(1,867,700)	(1,009,874)
Net Interest Income		1,646,075	1,220,026	650,077
Fee and commission income		44,402	45,937	31,968
Net Fee and Commission Income		44,402	45,937	31,968
Other Operating Income	9	189,850	236,424	702,316
Total Operating Income		1,880,327	1,502,387	1,384,361
Impairment gain/(Loss) for loans and receivables	10	(160,445)	(64,318)	(46,897)
Net Operating Income		1,719,882	1,438,067	1,337,464
Operating Expenses				
Personnel expenses	11	(314,516)	(273,413)	(219,810)
Depreciation of property and equipment		(67,325)	(46,858)	(41,223)
Amortisation of intangible assets		(3,381)	(3,550)	(3,919)
Amortisation of leasehold property		(468)	(468)	(468)
Defined benefit plans		(21,333)	(18,391)	(29,697)
Other operating expenses	12	(484,424)	(384,793)	(333,604)
Total Operating Expenses		(891,447)	(727,473)	(628,721)
Operating profit /(loss) before value added tax and NBT on financial services		828,435	710,596	708,743
Value added tax & NBT on financial services		(109,902)	(73,985)	(125,657)
Operating profit/(loss) after value added tax and NBT on financial services		718,533	636,611	583,086
Add: Share of associate company's profit	13	105,798	95,459	42,669
Profit before taxation from operations		824,331	732,070	625,755
Taxation	14	(148,969)	(101,278)	(15,667)
Profit for the year		675,362	630,791	610,088
Earnings per share				
Basic earnings per share (Rs.)	15	224.67	209.84	202.96
Diluted earnings per share (Rs.)	15	224.67	209.84	202.96
Dividend per share ordinary share (Rs.)	16	10.00	27.50	22.00

The significant accounting policies and the notes from pages 276 to 329 form an integral part of these Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31st March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Profit for the Year	675,362	630,791	610,088
Other Comprehensive Income			
Revaluation of land and buildings	–	–	312,789
Deferred tax effect on revaluations surplus on Land and Buildings	2,962	(14,875)	(11,057)
Changes in fair value of available-for-sale financial assets	(107,933)	(301,090)	(1,695,517)
Add/(less): Share of other comprehensive income of associates	–	(409)	31,358
Actuarial gain for the year	27,355	–	–
Deferred tax effect on actuarial gain	(7,659)	–	–
Other Comprehensive Income	(85,275)	(316,374)	(1,362,427)
Total Comprehensive Income for the Year	590,087	314,418	(752,339)

STATEMENT OF FINANCIAL POSITION

As at	Note	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Assets	17			
Cash and cash equivalents	18	421,182	632,238	229,822
Placements with bank	19	406,020	364,330	118,000
Financial investments - Available-for-sale	20	3,712,241	3,467,280	3,829,777
Loans and receivables	21	5,315,091	4,017,479	2,183,130
Finance leases receivables	22	3,998,067	4,072,783	3,888,783
Hire purchase receivables	23	6,874,241	5,754,385	4,374,601
Other financial assets	24	89,277	172,148	79,799
Inventories	25	71,805	221,220	340,244
Other assets	26	77,232	240,987	321,726
Investment in associates	27	777,127	695,670	628,397
Property, plant & equipment	28	1,709,676	1,535,732	1,565,620
Leasehold property	29	43,545	44,013	44,481
Intangible assets	30	3,714	4,681	2,855
Total assets		23,499,218	21,222,946	17,607,235
Liabilities	17			
Bank overdraft		279,269	999,036	505,815
Deposits due to customers	31	11,417,741	8,424,720	6,137,896
Debt instruments issued and other borrowings	32	4,917,129	5,232,331	4,638,644
Other financial liabilities	33	383,334	551,874	513,478
Current tax liabilities		39,184	81,322	34,931
Deferred tax liabilities	34	77,625	93,817	139,852
Other liabilities		9,874	17,098	60,828
Retirement benefit obligations	35	108,677	116,390	101,185
Total liabilities		17,232,833	15,516,588	12,132,629
Shareholders' Funds				
Stated capital	36	36,000	36,000	36,000
Revaluation reserve	37	1,294,920	1,291,958	1,310,804
Statutory reserve fund	38	521,400	471,400	421,400
General reserves	39	3,686,430	3,586,430	2,851,430
Investment fund reserve	40	173,220	90,706	41,951
Retained earnings	41	442,660	10,176	292,243
Available-for-sale reserve	42	111,755	219,688	520,778
Total shareholders' funds		6,266,385	5,706,358	5,474,606
Total liabilities and shareholders' funds		23,499,218	21,222,946	17,607,237
Net assets per share (Rs.)		2,084.63	1,898.32	1,821.23

Capital Commitments and Contingencies 43 & 44

The Significant Accounting Policies and the Notes from pages 276 to 329 form an integral part of these Financial Statements.

Certification

I certify that the above Financial Statements give a true and fair view of the state of affairs as at 31 March 2014 and its profit for the year ended 31 March 2014.

S.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,

Angeline Ondaatje

Gerard G. Ondaatje
Managing Director

Angeline M. Ondaatje
Director

Colombo
23 May 2014

STATEMENT OF CHANGES IN EQUITY

		Revaluation Reserves							
	Issued Capital	Land & 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 2012	36,000	921,360	389,444	421,400	2,851,430	41,951	520,778	292,243	5,474,606
Total comprehensive Income for the year									
Profit for the period								630,791	630,791
Other comprehensive income		(14,875)	(409)				(301,090)		(316,374)
Total comprehensive income	–	(14,875)	(409)	–	–	–	(301,090)	630,792	314,418
Dividend to equity owners								(82,665)	(82,665)
Transfer of realised gain on disposal of revalued building		(3,562)						3,562	–
Transfer				50,000	735,000	48,755		(833,755)	–
At 31 March 2013	**36,000**	**902,923**	**389,035**	**471,400**	**3,586,430**	**90,706**	**219,688**	**10,176**	**5,706,358**
Total comprehensive Income for the Year									
Profit for the period								675,362	675,362
Other comprehensive income		2,962					(107,933)	19,695	(85,275)
Total comprehensive income	–	2,962	–	–	–	–	(107,933)	695,058	590,087
Dividends to equity owners								(30,060)	(30,060)
Transfer				50,000	100,000	82,514		(232,514)	–
At 31 March 2014	**36,000**	**905,885**	**389,035**	**521,400**	**3,686,430**	**173,220**	**111,755**	**442,660**	**6,266,385**

The Significant Accounting Policies and the Notes from pages 276 to 329 form an integral part of these Financial Statements.

CASH FLOW STATEMENTS

For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Cash Flow from Operating Activities			
Interest and commission receipts	3,905,960	3,133,662	1,691,919
Interest payments	(2,215,483)	(1,867,700)	(1,009,874)
Cash receipts from customers	6,933	13,425	18,975
Cash payments to employees and suppliers	(910,686)	(732,352)	(658,921)
Operating profit before changes in operating assets and liabilities (Note A)	786,724	547,035	42,099
(Increase)/decrease in operating assets			
Deposits held for regulatory or monetary control purposes	(372,413)	(246,330)	(153,820)
Funds advanced to customers	(2,503,198)	(3,461,991)	(4,091,448)
Other short-term negotiable securities	(719,767)	493,221	108,569
Other receivables	249,995	(44,153)	(470,529)
Other payables	(5,209)	(5,108)	384,930
Increase/(Decrease) in operating liabilities			
Deposits from customers	2,993,021	2,286,824	1,840,096
	429,153	(430,502)	(2,340,103)
Income taxes paid	(178,545)	(6,186)	(84,879)
Net cash from operating activities	250,608	(436,688)	(2,424,982)
Cash Flows from Investing Activities			
Dividends received	122,820	102,895	71,610
Proceeds from sale of non-dealing securities	200,958	229,123	968,754
Purchase of non-dealing securities	(151,573)	–	(677,158)
Proceeds from sale of property, plant & equipment	69,563	61,845	20,835
Purchase of property, plant & equipment	(355,756)	(60,405)	(101,668)
Acquisition of intangible assets	(2,414)	(5,376)	(253)
Net cash from investing activities	(116,402)	328,082	282,120
Cash Flows from Financing Activities			
Net increase/(decrease) in borrowings	(315,202)	593,687	2,320,162
Dividends paid	(30,060)	(82,665)	(66,132)
Net cash from financing activities	(345,262)	511,022	2,254,030
Net increase in cash and cash equivalents	(211,056)	402,416	111,168
Cash and cash equivalents at beginning of period	632,238	229,822	118,654
Cash and cash equivalents at end of period (Note B)	421,182	632,238	229,822

For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Note A. Reconciliation of Profit before Tax with Cash Inflow from Operating Activities			
Profit before tax	824,331	732,069	625,755
Profit on sale of investments	(80,512)	(123,179)	(590,916)
Dividend from investing securities	(122,820)	(102,895)	(71,610)
Share of profit of associates	(105,798)	(95,459)	(42,669)
(Profit)/loss on sale of property, plant & equipment	20,263	6,100	1,529
Depreciation	67,325	46,858	41,223
Amortisation of leasehold property	468	468	468
Amortisation of intangible assets	3,381	3,550	3,919
Provision for bad and doubtful debts	160,445	64,318	46,897
Retirement benefit provision	21,333	18,391	29,697
Retirement benefit paid	(1,692)	(3,186)	(2,194)
	786,724	547,035	42,099

Note B. Cash and Cash Equivalents at the end of period			
Cash in hand	221,495	610,797	197,452
Balance with banks	199,687	21,441	32,370
	421,182	632,238	229,822

The Significant Accounting Policies and the Notes from pages 276 to 329 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 2014 was 508 (443 as at 31 March 2013)

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 activities of the Company's Associates, namely Nuwara Eliya Hotels Company PLC and Fair View Hotels (Pvt) Limited are engaged in the business of the hoteliering.

There were no significant changes in the nature of the principal activities of the Company and its associates 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.

2. Basis of Preparation

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 there to, provide appropriate disclosure 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 this responsibility in the Statement of Financial Position on page 272.

These Financial Statements includes the following component:

- Statement of Comprehensive Income providing the information on the financial performance of the Company for the year under review (refer page 270).
- Statement of Financial Position providing the information on the financial position of the Company as at year end (refer page 272).
- A Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review (refer page 273).
- Statement of Cash Flows 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 274).
- Notes to the Financial Statements comprising Accounting Policies used and other Notes (Refer pages 276 to 329).

2.3 Date of Authorisation for Issue

The Financial Statements of Mercantile Investments and Finance PLC for the year ended 31 March 2014 (including comparatives) were approved and authorised for issue by the Board of Directors on 23 May 2014.

2.4 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	Measurements Basis	Note No.
Available-for-Sale Financial Investments	Fair value	20
Land and Buildings	Stated at valuation	28
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.	35
Loans and Advances	At amortised cost.	21, 22, 23

2.5 Functional Currency and Presentation Currency

The Financial Statements are presented in Sri Lankan Rupees which is the Company's functional and presentation currency except when otherwise indicated.

2.6 Presentation of Financial Statements

The assets and liabilities of the Company presents 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. Maturity Analysis is presented in Note 50 to the Financial Statements.

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 liability simultaneously. Income and expenses are not offset in the Statement of Comprehensive Income unless required to permitted by an Accounting Standards or interpretation, and as specifically disclosed in the Accounting Policies of the Company.

2.7 Materiality and Aggregation

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

2.8 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'.

2.9 Offsetting

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

2.10 Significant Accounting Judgments, Estimates and Assumptions

The preparation of the Company's Financial Statements requires management to make judgments, estimates and assumptions that affect 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.

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:

2.10.1 Going Concern

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, 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.

2.10.2 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 feasible, 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 Note 51 to the Financial Statements.

2.10.3 Impairment Losses on Loans and Advances

The Company reviews its individually significant loans and advances at each Statement of Financial Position date to assess whether an impairment loss should be recorded in the Statement of Comprehensive Income. In particular, 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 actual results may differ, resulting in future changes to the allowance.

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 advances is disclosed in more detail in Notes 21, 22 and 23 to the Financial Statements.

2.10.4 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.

2.10.5 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 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.

2.10.6 Deferred Tax Assets

Deferred tax assets are recognised for unused tax losses to the extent that it is probable that 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.

2.10.7 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.

2.10.8 Useful Economic Lives of Property, Plant & Equipment

Useful economic lives of Property, Plant & Equipment are estimated as disclosed in Note 3.7.8 to the Financial Statements.

Significant Accounting Policies

Accounting policies set out below have been applied consistently to all periods presented in the Financial Statements of the Company unless otherwise indicated. Further, comparative year's information and phrases have been re-arranged, reclassified whenever necessary, to comply with the current year's presentation.

3. Significant Accounting Policies – Recognition of Assets and Liabilities

3.1 Investment in an Associate

Investments in Associates are 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 recognize 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 the 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 profit or loss.

3.2 Financial Instruments - Initial Recognition, Classification and Subsequent Measurement

3.2.1 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.

3.2.2 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.

3.2.3 '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.

3.2.4 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.

3.2.5 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:

The Company has not designated any financial assets upon initial recognition as at fair value through profit or loss.

3.2.5.1 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.

3.2.5.2 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.

3.2.6 Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such financial assets are subsequently measured at amortised cost using the Effective Interest Rate method (EIR), less allowance for impairment. 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 finance income in the Statement of Comprehensive Income. The losses arising from impairment are recognised in the Statement of Comprehensive Income in 'impairment changes for loans and receivables'.

'Loans and receivables includes, Loans and Advances, Finance Leases Receivable, Hire Purchase and Placements with the Bank'.

3.2.7 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 charges for loans and other losses'.

The Company has not designated any financial instrument as Held-to-Maturity financial investment

3.2.8 Available-for-Sale Financial Investments

Available-for-sale investments include equity and debt securities. Equity investments classified as available-for-sale are those which are neither classified as held-for-trading nor designated at fair value through profit or loss.

Debt securities in this category are 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'.

3.2.9 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand and highly liquid investment instruments with an original maturity of three months or less.

For the purpose of Cash Flow Statement, cash and cash equivalents consist of cash in hand and deposits in banks. Investments with short maturities as defined above are also treated as cash equivalents.

3.2.10 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.

3.2.11 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 Companies', '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 either to deliver cash or another financial asset to the holder, or to satisfy the obligation other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of own equity shares.

After initial recognition, 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 when the liabilities are derecognised as well as through the EIR amortisation process.

3.2.12 Reclassification of Financial Instruments

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.

3.2.13 Derecognition of Financial Assets and Financial Liabilities

(i) 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 the 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.

(ii) 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 profit or loss.

3.2.14 Determination of Fair Value

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

Fair Value Measurement Hierarchy

Level 1

The fair value for financial instruments traded in active markets at the reporting date is based on their quoted market price or dealer price quotations (bid price for long positions and ask price for short positions), without any deduction for transaction costs.

Level 2

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

Level 3

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using a valuation model that has been tested against prices or inputs to actual market transactions and using the best estimate of the most appropriate model assumptions. Models are adjusted to reflect the spread for bid and ask prices to reflect costs to close out positions, credit and debit valuation adjustments, liquidity spread and limitations in the models.

Also, profit or loss calculated when such financial instruments are first recorded ('Day 1' profit or loss) is deferred and recognised only when the inputs become observable or on derecognition of the instrument. An analysis of fair values of financial instruments and further details as to how they are measured are provided in Note 17 to the Financial Statements.

3.2.15 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.

(i) Financial Assets Carried at Amortised Cost

For financial assets carried at amortised cost (such as loans and advances to customers as well as held-to-maturity investments), 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. 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. 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 an allowance account and the amount of the loss is recognised in the Statement of Comprehensive Income. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

The interest income is recorded as part of 'Interest and Similar Income'. Loans together with the associated allowance 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 allowance account. If a future write-off is later recovered, the recovery is credited to the 'Other Operating Income'.

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 a 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.

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 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 group. 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 unemployment rates, property prices, commodity prices, payment status, or other factors that are indicative of incurred losses in the group and their magnitude). The methodology and assumptions used for estimating future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

See Notes 21, 22 and 23 for details of impairment losses on financial assets carried at amortised cost.

(ii) 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.

(iii) Renegotiated Loans

Where possible, the Company seeks to restructure loans rather than to take possession of collateral. This may involve extending the payment arrangements and the agreement of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. Management continually reviews renegotiated loans to ensure that all criteria are met and that future payments are likely to occur. The loans continue to be subject to an individual or collective impairment assessment, calculated using the loan's original EIR.

(iv) Collateral Valuation

The Company seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting agreements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Company's quarterly reporting schedule, however, some collateral, for example, cash or securities relating to margining requirements, is valued daily. 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 collateral, such as real estate, is valued based on data provided by third parties such as valuers, Audited Financial Statements, and other independent sources.

(v) Offsetting 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 asset and settle the liability 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.

3.3 Finance Leases

Assets leased to customers, which transfer substantially all the risk and rewards associated with the ownership other than legal title are classified as finance lease in accordance with the LKAS 17 on 'Leases'.

Amount receivable under finance leases net of unearned interest and provision for impairment is shown as finance lease receivables in the Statement of Financial Position.

3.4 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.

3.5 Hire Purchase Agreements

Advances granted under agreements 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 unearned interest and provision for impairment is shown as hire purchases receivable in the Statement of Financial Position.

3.6 Inventories

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.

3.7 Property, Plant & Equipment

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.

3.7.1 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.

3.7.2 Basis of Measurement

An item of Property, Plant and Equipment that qualifies for recognition as an asset is initially measured at its cost.

Cost includes expenditure that is directly attributable to the acquisition of the asset and subsequent costs (excluding the costs of day-to-day servicing) as explained in Note 3.7.5 below. 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 and equipment.

3.7.3 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.

3.7.4 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 last revalued all its freehold land and buildings as at 31 March 2012.

3.7.5 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 and equipment are recognised in profit or loss as incurred.

3.7.6 Restoration Cost

Expenditure incurred on replacement, repairs or maintenance of property, plant and 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.

3.7.7 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 profit or loss in the year the asset is derecognised.

When replacement costs are recognised in the carrying amount of an item of property, plant and equipment, the remaining carrying amount of the replaced part is derecognised as required by Sri Lanka Accounting Standard - LKAS 16 on 'Property, Plant & Equipment'.

3.7.8 Depreciation

Depreciation is recognised in profit or loss 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:

Buildings	40 to 75 years
Plant and Machinery	5 years
Computer Equipment	4 years
Office Equipment	10 years
Furniture and Fittings	10 years
Fixtures	10 years
Motor Vehicles	6 2/3 years
Office Bicycles	10 years
Tools	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.

3.7.9 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.

3.8 Intangible Assets

3.8.1 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 implement losses, if any.

3.8.2 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.

3.8.3 Useful Economic Lives, Amortisation and Impairment

The useful lives of intangible assets are assessed to be either finite or indefinite. The Company does not possess intangible assets with indefinite useful lives. Useful economic lives, amortisation and impairment of finite and indefinite intangible assets are described below:

3.8.4 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.

3.8.5 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.

3.8.6 Amortisation of Intangible Assets

Intangible assets are amortised using the straight line method to write down the cost over its estimated useful economic lives. Effective rates are as follows:

Class of Assets	% per Annum
Computer Software	50% (2 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.

3.8.7 Intangible Assets with Indefinite Useful Lives

Intangible assets with indefinite useful lives are not amortised but are tested for impairment annually either individually or at the cash-generating unit level as appropriate, when circumstances indicate that the carrying values is impaired. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is made on a prospective basis.

3.8.9 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.

3.9 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 profit or loss 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 excluding goodwill, 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 profit or loss.

3.10 Debt Issued and Other Borrowed Funds

Financial instruments issued by the Company that are not designated at fair value through profit or loss, are classified as liabilities under 'Debt Issued and Other Borrowed Funds', 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 own equity shares.

After initial measurement, debt issued and other borrowings are subsequently measured at amortised cost using the EIR. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR.

3.11 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 method. Interest paid/payable on these deposits is recognised in profit or loss.

3.12 Other Liabilities

Other liabilities include fees, expenses and amount payable to suppliers'. These liabilities are recorded at amounts expected to be payable at the reporting date.

3.13 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 on - 'Provisions, Contingent Liabilities and Contingent Asset'.

3.14 Employee Benefit

3.14.1 Defined Benefit Plan - Gratuity

A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The Company measure 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 once in every three years and the last valuation was done as of 31 March 2014.

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 services.

3.14.2 Defined Contribution Plans - Employees' Provident Fund and Employees' Trust Fund

Employees are eligible for Employees' Provident Fund Contributions and Employees' Trust Fund Contributions in line with the respective statutes and regulations. The Company contributes 12% and 3% of gross emoluments of employees to the Employees' Provident Fund and Employees' Trust Fund respectively.

3.15 Events After the Reporting Period

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 in Note 48 to the Financial Statements where necessary.

3.16 Commitments and Contingencies

All discernible risks are taken into account in determining the liabilities of the Company. 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.

All other capital commitments and contingencies, for which the Company is liable, are disclosed in Notes 43 and 44 to the Financial Statements.

3.17 Earnings Per Share

Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Company by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

Details of earnings per share are given in Note 15 to the Financial Statements.

3.18 Segment Reporting

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.

No revenue from transactions with a single external customer or counterparty amounted to 10% or more of the Company's total revenue in 2014 or 2013.

Detailed information on the results of each reportable segment as required by the Sri Lanka Accounting Standard - SLFRS 8 on 'Operating Segments' is provided in Note 49 to the Financial Statements.

3.19 Effect of Accounting Standards Issued but not Effective as at Reporting Date

There are a number of new Accounting Standards, 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. The Company will adopt the following new/ revised Accounting Standards which will be effective from 01 January 2014 and 2015. Accordingly, these Accounting Standards have not been applied in preparing these Financial Statements.

- SLFRS 9 - Financial Instruments
- SLFRS 10 - Consolidated Financial Statements
- SLFRS 11 - Joint Arrangements
- SLFRS 12 - Disclosure of Interest in Other Entities
- SLFRS 13 - Fair Value Measurement

SLFRS 9 - Financial Instruments

SLFRS 9 as issued reflects the first phase of the IASB's work on the replacement of LKAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in LKAS 39.

The standard is effective for accounting periods beginning on or after 01 January 2015. In subsequent phases, the IASB will address hedge accounting and impairment of financial assets. The adoption of the first phase of SLFRS 9 will have an effect on the classification and measurement of the Company's financial assets, but will potentially have no impact on classification and measurements of financial liabilities. The Company will quantify the effect in conjunction with the other phases, when issued, to present a comprehensive picture.

SLFRS 10 - Consolidated Financial Statements

The objective of this accounting standard is to establish principles for the presentation and preparation of Consolidated Financial Statements when an entity controls one or more other entities. SLFRS 10 is effective from 01 January 2014.

SLFRS 11 - Joint Arrangements

The objective of this accounting standard is to establish principles for financial reporting by entities that have an interest in arrangement that are controlled jointly (i.e. joint arrangements) SLFRS 11 is effective from 01 January 2014.

SLFRS 12 - Disclosure of Interest in Other Entities

SLFRS 12 includes all of the disclosures that were previously in LKAS 27 related to Consolidated Financial Statements, as well as all of the disclosures that were previously included in LKAS 31 and LKAS 28. These disclosures relate to an entity's interests in subsidiaries, joint arrangements, associates and structured entities. A number of new disclosures are also required. This standard becomes effective for accounting periods beginning on or after 01 January 2014.

SLFRS 13 - Fair Value Measurement

SLFRS 13 establishes a single source of guidance under SLFRS for all fair value measurements. SLFRS 13 does not change when an entity is required to use fair value, but rather provides guidance on how to measure fair value under SLFRS when fair value is required or permitted. The Company is currently assessing the impact that this standard will have on the financial position and performance. This standard becomes effective for accounting periods beginning on or after 01 January 2014.

4. Significant Accounting Policies - Recognition of Income and Expenses

Revenue Recognition

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 following specific recognition criteria must also be met before revenue is recognised:

4.1 Interest and Similar Income and Expense

For all financial instruments measured at amortised cost, interest bearing financial assets classified as available-for-sale and interest income or expense is recorded using the 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.

4.2 Fee and Commission Income

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:

4.2.1 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.

4.2.2 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.

4.3 Dividend Income

Dividend income is recognised when the Company's right to receive the payment is established.

4.4 Net Trading Income

Results arising from trading activities include interest income or expense and dividends for financial assets.

4.5 Income from Government Securities and Securities Purchased under Re-sale Agreements

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.

4.6 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.

4.7 Recovery of Bad and Doubtful Debts Written-Off

Recovery of amounts written-off as bad and doubtful debts is recognised on a cash basis.

4.8 Other Income

Other income is recognised on an accrual basis.

4.9 Borrowing Cost

Borrowing costs directly attributable to the acquisition, construction or production of an 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.

5. Significant Accounting Policies - Tax Expenses

5.1 Income Tax Expenses

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.

5.2 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 by 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.

5.3 Deferred Taxation

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, except 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 assets 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 income tax asset to be utilised.

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.

5.4 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 270.

5.5 Nation Building Tax on Finance 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 270.

5.6 Crop Insurance Levy (CIL)

As per provisions 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.

6. Statement of Cash Flow

The Cash Flow Statement 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.

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000

7. Gross Income

Interest income **(Refer Note 7.1)**	3,861,558	3,087,726	1,659,951
Fee and commission income	44,402	45,937	31,968
Other income **(Note 9)**	189,850	236,424	702,316
Total	4,095,811	3,370,086	2,394,235

7.1 Interest Income

Income from finance lease	891,394	858,611	546,851
Income from hire purchase	1,636,495	1,461,591	885,708
Income from other loans & advances	1,204,082	674,733	188,226
Income from treasury bills & bonds	81,946	59,584	28,262
Income from fixed deposits	47,641	33,207	10,904
Total	3,861,558	3,087,726	1,659,951

8. Interest Expense

Interest on fixed deposits	1,467,430	987,376	589,930
Interest on savings deposits	2,263	1,656	1,711
Interest on certificate of deposits	7,613	12,060	13,790
Interest on bank overdraft	31,372	79,945	36,406
Interest on debts securities	130,493	125,362	9,951
Interest on bank & securitised borrowings	576,312	661,301	358,086
Total	2,215,483	1,867,700	1,009,874

9. Other Operating Income

Capital gain from sale of quoted shares & treasury bonds	80,512	123,179	590,916
Dividend income	122,820	102,895	71,610
Rent income	11,784	6,660	6,495
Profit/(loss) from engineering workshop & service station	(6,948)	(10,738)	(6,765)
Profit/(loss) on sale of property, plant & equipment	(20,263)	(6,100)	(1,529)
Operating lease rental income	(2,738)	14,270	19,140
Other operating income	4,683	6,258	22,449
Total	189,850	236,424	702,316

10. Impairment (Gain)/Loss for Loans and Receivables

Charge/(gain) to the income statement on impairment - Loans & advances	33,477	7,646	(2,277)
Charge/(gain) to the income statement on impairment - Finance leases receivables	43,927	34,440	20,250
Charge/(gain) to the income statement on impairment - Hire purchase receivables	83,041	22,231	28,924
Total	160,445	64,318	46,897

11. Personnel Expenses

Salary and bonus	261,969	228,194	184,084
Employer's contribution to EPF	30,582	26,998	21,481
Employer's contribution to ETF	7,702	6,681	6,832
Other allowances & staff related expenses	14,263	11,540	7,413
Total	314,516	273,413	219,810

For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000

12. Other Operating Expenses

Director's emoluments	46,347	43,260	35,465
Auditors' Remuneration			
Audit fees & expenses	1,200	965	825
Non-audit fees & expenses	–	122	28
Professional & legal expenses	15,499	3,514	4,967
Advertising & business promotion expenses	44,111	27,472	20,651
Insurance premium	23,442	18,061	14,918
Donations	1,893	1,360	1,462
Office & building maintenance	19,304	22,791	53,589
Computer equipment maintenance	4,884	5,538	3,857
Others	327,744	261,710	197,842
Total	484,424	384,793	333,604

12.1 Directors' Emoluments

Directors' emoluments represents the fees and salaries paid to both Executive and Non-Executive Directors of the Company.

13. Share of Associates Company Profit Before Taxation

Nuwara Eliya Hotels Company PLC	107,233	94,481	42,457
Fair View Hotels (Pvt) Limited	(1,435)	978	212
Total	105,798	95,459	42,669

14. Income Tax Expenses

Income tax expenses on profits for the year	153,478	163,698	29,017
(Over)/under provision in respect of previous year	16,380	(1,510)	(2,450)
Deferred tax (reversal)/charged **(Refer Note 34)**	(20,889)	(60,910)	(10,900)
	148,969	101,278	15,667

14.1 Reconciliation of Accounting Profit to Income Tax Expense

Profit before tax	824,331	729,976	610,088
Add: Tax effect of non-deductible expenses	1,574,959	1,378,000	1,549,207
Less: Tax effect on SLFRS adjustment	–	–	(128,193)
Tax effect on deductible expenses	(1,586,888)	(1,387,603)	(1,239,042)
Tax effect on exempt income/profit	(309,130)	(198,354)	(702,938)
Assessable income	503,272	522,019	89,122
Taxable income	503,272	522,019	89,122
Income tax expense @ 28%	140,916	146,165	24,954
Share of income tax expense of associates **(Note 14.2)**	12,562	17,533	4,063
	153,478	163,698	29,017
Effective tax rate (excluding deferred tax)	18.62%	22.43%	4.76%

The Company is liable for income tax at 28% on the taxable income for the current year (2013 - 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 properties have been revalued in the financial year 2011/12 resulting in book values being written-up by Rs. 312,789,000/- of which Rs. 220,169,820/- is related to land and this surplus if realised would not be liable to income tax.

14.2 Break-up of the Associate Company Income Tax Expenses

	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Nuwara Eliya Hotels Company PLC	12,525	17,446	4,063
Fair View Hotels (Pvt) Ltd.	37	87	–
Total	12,562	17,533	4,063

14.3 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. 6,825,595/- (Rs. 5,383,099/- in 2013).

15. Basic/Diluted Earnings per Ordinary Share

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 'Earnings 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).

	2014	2013	2012
Amount Used as the Numerator			
Net profit attributable to equity holders of the Company (Rs. '000)	675,362	630,791	610,088
Net profit attributable to equity holders of the Company for basic and diluted earnings per share (Rs. '000)	675,362	630,791	610,088
Number of Ordinary Shares Used as the Denominator			
Weighted average number of ordinary shares	3,006	3,006	3,006
Weighted average number of ordinary shares used for basic and diluted earnings per share	3,006	3,006	3,006
Basic earnings per share (Rs.)	224.67	209.84	202.96
Diluted earnings per share (Rs.)	224.67	209.84	202.96

16. Dividends

	2014			2013			2012		
	Gross Dividend Rs. '000	Dividend Tax Rs. '000	Net Dividend Rs. '000	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 paid									
Out of dividend received - free of tax	30,060	–	30,060	40,581	–	40,581	30,060	–	30,060
Out of normal profits	–	–	–	–	–	–	–	–	
Cash dividend paid	30,060	–	30,060	40,581	–	40,581	30,060	–	30,060
2nd Interim dividend paid									
Out of dividend received - free of tax	–	–	–	42,084	–	42,084	14,310	–	14,310
Out of normal profits	–	–	–			–	21,762	2,176	19,585
Cash dividend paid	–	–	–	42,084	–	42,084	36,072	2,176	33,895
Total	30,060	–	30,060	82,665	–	82,665	66,132	2,176	63,955
Dividend per ordinary share (Rs.)	10.00			27.50			22.00		

17. Analysis of Financial Instrument by Measurement Basis

17.1 Analysis of Financial Instrument by Measurement Basis as at 31 March 2014

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant 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 and by headings of the Statement of Financial Position.

	Held-for-Trading (HFT) Rs. '000	Held-for-Maturity (HTM) Rs. '000	Loans and Receivables (L & R) Rs. '000	Available-for-Sale (AFS) Rs. '000	Others Rs. '000	Total Rs. '000
Assets						
Cash and cash equivalents	–	–	421,182	–	–	421,182
Placements with bank	–	–	406,020	–	–	406,020
Financial investments - Available-for-sale	–	–	–	3,712,241	–	3,712,241
Loans & receivables	–	–	5,315,091	–	–	5,315,091
Finance leases receivables	–	–	3,998,067	–	–	3,998,067
Hire purchase receivables	–	–	6,874,241	–	–	6,874,241
Other financial assets	–	–	89,277	–	–	89,277
Total financial assets	–	–	17,103,878	3,712,241	–	20,816,119
Inventories					71,805	71,805
Other assets	–	–	–	–	77,232	77,232
Investment in associates	–	–	–	–	777,127	777,127
Property, plant & equipment	–	–	–	–	1,709,676	1,709,676
Leasehold property	–	–	–	–	43,545	43,545
Intangible assets	–	–	–	–	3,714	3,714
Total non-financial assets	–	–	–	–	2,683,099	2,683,099

	Held-for-Trading (HFT) Rs. '000	Amortised Cost Rs. '000	Others Rs. '000	Total Rs. '000
Liabilities				
Bank overdraft	–	279,269	–	279,269
Deposits due to customers	–	11,417,741	–	11,417,741
Debt instruments issued and other borrowed funds	–	4,917,129	–	4,917,129
Other financial liabilities	–	383,334	–	383,334
Total financial liabilities	–	16,997,473	–	16,997,473
Current tax liabilities	–	–	39,184	39,184
Deferred taxation liability	–	–	77,625	77,625
Other liabilities	–	–	9,874	9,874
Retirement benefit obligations	–	–	108,677	108,677
Total non-financial liabilities	–	–	235,360	235,360

17.2 Analysis of Financial Instrument by Measurement Basis as at 31 March 2013

	Held-for-Trading (HFT) Rs. '000	Held-for-Maturity (HTM) Rs. '000	Loans and Receivables (L & R) Rs. '000	Available-for-Sale (AFS) Rs. '000	Others Rs. '000	Total Rs. '000
Assets						
Cash and cash equivalents	–	–	632,238	–	–	632,238
Placements with bank	–	–	364,330	–	–	364,330
Financial investments - Available-for-sale	–	–	–	3,467,280	–	3,467,280
Loans & receivables	–	–	4,017,479	–	–	4,017,479
Finance leases receivables	–	–	4,072,783	–	–	4,072,783
Hire purchase receivables	–	–	5,754,385	–	–	5,754,385
Other financial assets	–	–	172,148	–	–	172,148
Total financial assets	–	–	15,013,363	3,467,280	–	18,480,643
Inventories	–	–	–	–	221,220	221,220
Other assets	–	–	–	–	240,987	240,987
Investment in associates	–	–	–	–	695,670	695,670
Property, plant & equipment	–	–	–	–	1,535,732	1,535,732
Leasehold property	–	–	–	–	44,013	44,013
Intangible assets	–	–	–	–	4,681	4,681
Total non-financial assets	–	–	–	–	2,742,303	2,742,303

	Held-for-Trading (HFT) Rs. '000	Amortised Cost Rs. '000	Others Rs. '000	Total Rs. '000
Liabilities				
Bank overdraft	–	999,036	–	999,036
Deposits due to customers	–	8,424,720	–	8,424,720
Debt instruments issued and other borrowed funds	–	5,232,331	–	5,232,331
Other financial liabilities	–	551,874	–	551,874
Total financial liabilities	–	15,207,961	–	15,207,961
Current tax liabilities	–	–	81,322	81,322
Deferred taxation liability	–	–	93,817	93,817
Other liabilities	–	–	17,098	17,098
Retirement benefit obligations	–	–	116,390	116,390
Total non-financial liabilities	–	–	308,627	308,627

17.3 Analysis of Financial Instrument by Measurement Basis as at 31st March 2012

	Held-for-Trading (HFT) Rs. '000	Held-for-Maturity (HTM) Rs. '000	Loans and Receivables (L & R) Rs. '000	Available-for-Sale (AFS) Rs. '000	Others Rs. '000	Total Rs. '000
Assets						
Cash and cash equivalents	–	–	229,822	–	–	229,822
Placements with bank	–	–	118,000	–	–	118,000
Financial investments - Available-for-sale	–	–	–	3,829,777	–	3,829,777
Other loans & receivables	–	–	2,183,130	–	–	2,183,130
Finance leases receivables	–	–	3,888,783	–	–	3,888,783
Hire purchase receivables	–	–	4,374,601	–	–	4,374,601
Other financial assets	–	–	79,799	–	–	79,799
Total financial assets	–	–	10,874,135	3,829,777	–	14,703,912
Inventories	–	–	–	–	340,244	340,244
Other assets	–	–	–	–	321,726	321,726
Investment in associates	–	–	–	–	628,397	628,397
Property, plant & equipment	–	–	–	–	1,565,620	1,565,620
Leasehold property	–	–	–	–	44,481	44,481
Intangible assets	–	–	–	–	2,855	2,855
Total non-financial assets	–	–	–	–	2,903,323	2,903,323

	Held-for-Trading (HFT) Rs. '000	Amortised Cost Rs. '000	Others Rs. '000	Total Rs. '000
Liabilities				
Bank overdraft	–	505,815	–	505,815
Deposits due to customers	–	6,137,896	–	6,137,896
Debt instruments issued and other borrowed funds	–	4,638,644	–	4,638,644
Other financial liabilities	–	513,478	–	513,478
Total financial liabilities	–	11,795,833	–	11,795,833
Current tax liabilities	–	–	34,931	34,931
Deferred taxation liability	–	–	139,852	139,852
Other liabilities	–	–	60,828	60,828
Retirement benefit obligations	–	–	101,185	101,185
Total non-financial liabilities	–	–	336,795	336,795

18. Cash and Cash Equivalents

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Cash in hand	221,495	610,797	197,452
Balances with the bank	199,687	21,441	32,370
	421,182	632,238	229,822

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
19. Placement with the Bank			
Fixed deposits	406,020	364,330	118,000
	406,020	364,330	118,000
20. Financial Investments - Available-for-Sale			
Quoted Investments			
Government debt securities	809,368	476,488	439,446
Equities (Note 20.1)	2,891,746	2,979,592	3,389,904
Corporate debt securities (Note 20.2)	10,700	10,773	–
Unquoted Investments			
Equities (Note 20.3)	427	427	427
	3,712,241	3,467,280	3,829,777

As at 31 March	31.03.2014			31.03.2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
20.1 Equities (Quoted)						
Bank, Finance & Insurance						
Commercial Bank of Ceylon PLC	10,244,517	1,317,233	1,260,076	10,075,806	1,281,245	1,138,566
Lanka Orix Finance PLC	100,000	1,213	340	100,000	1,213	330
LB Finance PLC	953,600	176,735	95,455	953,600	176,735	126,543
Sampath Bank PLC	21,458	5,949	3,908	20,830	5,836	4,685
Singer Finance PLC	400,000	19,351	4,840	400,000	19,351	5,040
Vallibel Finance PLC	50,000	2,463	1,485	50,000	2,463	1,415
		1,522,944	1,366,104		1,486,843	1,276,579
Diversified Holdings						
Aitken Spence & Co. PLC	15,000	343	1,469	15,000	343	1,794
John Keells Holding PLC	6,267	1,338	1,423	6,266	1,338	1,548
Richard Pieris & Co. PLC	16,035,995	96,582	105,838	16,035,995	96,582	105,838
Vallibel One PLC	5,176,000	144,896	87,992	5,176,000	144,896	82,816
		243,159	196,722		243,159	191,996
Hotels & Travels						
Amaya Leisure PLC	860,000	56,488	62,178	860,000	56,488	65,790
Asian Hotels Properties PLC	–	–	–	1,099,500	22,026	76,965
Eden Hotels PLC	1,049,600	17,738	26,555	1,049,600	17,738	36,736
Fortress Resource PLC	100,000	2,844	1,330	100,000	2,844	1,500
Hotel Sigiriya PLC	38,900	1,620	3,034	38,900	1,620	3,073
John Keells Hotels PLC	13,000,000	209,107	162,500	13,000,000	209,107	171,600
Light House Hotels PLC	7,736,677	224,407	343,508	7,656,500	220,555	362,918
Marawila Hotel PLC	507,000	20,467	8,467	507,000	20,467	9,988
Plam Garden Hotel PLC	200,000	25,913	14,300	200,000	25,913	19,100
Royal Palms Beach Hotels PLC	8,576,700	124,582	257,301	8,576,700	124,582	300,184
Tangerine Beach Hotels PLC	3,899,644	26,343	251,527	3,909,644	26,343	255,036
		709,509	1,130,700		727,683	1,302,890

As at 31 March	31.03.2014			31.03.2013		
	No. of Shares	Cost Rs. '000	Market Value Rs. '000	No. of Shares	Cost Rs. '000	Market Value Rs. '000
Investment Trust						
Lanka Century Investments PLC	61,800	7,157	760	61,800	7,157	964
		7,157	760		7,157	964
Manufacturing						
Royal Ceramic PLC	550,000	89,930	43,615	550,000	89,930	54,725
		89,930	43,615		89,930	54,725
Power & Energy						
Lanka IOC PLC	118,500	5,308	4,561	118,500	5,308	2,418
		5,308	4,561		5,308	2,418
Land & Property Development						
East West Properties PLC	50,000	2,471	580	50,000	2,471	650
Seylan Development PLC	375,000	4,607	3,488	–	–	–
		7,078	4,068		2,471	650
Motor						
United Motors PLC	100,000	18,701	12,300	100,000	18,701	9,600
		18,701	12,300		18,701	9,600
Telecommunication						
Dialog Axiata PLC	11,000,000	118,130	99,000	11,000,000	118,130	99,000
		118,130	99,000		118,130	99,000
Construction & Engineering						
Colombo Dockyard PLC	161,000	44,966	28,127	161,000	44,966	34,470
		44,966	28,127		44,966	34,470
Trading						
Odel PLC	300,000	11,943	5,790	300,000	11,943	6,300
		11,943	5,790		11,943	6,300
Total		2,778,825	2,891,746		2,756,291	2,979,592

20.2 Corporate Debt Securities

Debentures		10,000	10,700		10,000	10,773
		10,000	10,700		10,000	10,773

20.3 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
		427	427		427	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.

21. Loans and Receivables

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Gross loans and receivables	7,205,697	5,761,987	3,066,600
Prepaid rentals	(2,467)	(418)	(397)
Unearned interest	(1,804,963)	(1,690,247)	(836,337)
Allowance for impairment (Note 21.4)	(83,176)	(53,843)	(46,736)
Net loans and advances	5,315,091	4,017,479	2,183,130

21.1 Loans and Advances Receivable within one Year

Gross loans and advances	3,368,483	2,438,286	1,270,490
Prepaid rentals	(428)	(418)	(264)
Unearned interest	(902,744)	(772,040)	(310,325)
Net loans and advances	2,465,311	1,665,828	959,901

21.2 Loans and Advances Receivable from one to five Years

Gross loans and advances	3,826,535	3,309,672	1,676,712
Prepaid rentals	(2,039)	–	(133)
Unearned interest	(901,334)	(916,867)	(512,444)
Net loans and advances	2,923,162	2,392,805	1,164,135

21.3 Loans and Advances Receivable after five Years

Gross loans and advances	10,679	14,029	119,398
Unearned interest	(885)	(1,340)	(13,568)
Net loans and advances	9,794	12,689	105,830

21.4 Movement in Allowance for Impairment

Balance at the beginning of the year	53,843	46,736	49,987
Bad debt written-off during the year	(4,144)	(539)	(974)
Charge/(write back) to the Statement of Comprehensive Income	33,477	7,646	(2,277)
Balance at the end of the year	83,176	53,843	46,736

21.5 Sector-wise Analysis of Loans and Advances

Agriculture	192,886	133,040	61,332
Industrial	299,388	276,028	153,330
Tourism	127,149	142,266	76,665
Trading	1,471,107	1,097,504	613,320
Construction	110,482	46,601	30,666
Services	3,952,590	3,186,253	1,686,630
Others	1,052,095	880,295	444,657
	7,205,697	5,761,987	3,066,600

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

22. Finance Leases Receivables

Gross finance leases receivables	5,568,026	5,731,410	5,420,595
Prepaid rentals	(4,927)	(4,913)	(5,104)
Unearned interest	(1,430,844)	(1,554,452)	(1,445,557)
Allowance for impairment (Note 22.4)	(134,188)	(99,262)	(81,151)
Net finance leases receivables	3,998,067	4,072,783	3,888,783

22.1 Finance Leases Receivable within one Year

Gross finance leases receivables	2,316,558	2,196,637	1,824,594
Prepaid rentals	(1,085)	(746)	(961)
Unearned interest	(737,192)	(820,473)	(660,858)
Net finance leases receivables	1,578,281	1,375,418	1,162,775

22.2 Finance Leases Receivable from one to five Years

Gross finance leases receivables	3,246,016	3,531,761	3,578,029
Prepaid rentals	(3,842)	(4,167)	(4,143)
Unearned interest	(693,128)	(733,737)	(783,457)
Net finance leases receivables	2,549,046	2,793,857	2,790,429

22.3 Finance Leases Receivable after five Years

Gross Finance Leases Receivables	5,452	3,012	17,972
Unearned interest	(524)	(242)	(1,242)
Net Finance Leases Receivables	4,928	2,770	16,730

22.4 Movement in Allowance for Impairment

Balance at the beginning of the year	99,262	81,151	77,238
Bad debt written-off during the year	(9,001)	(16,330)	(16,337)
Charge/(write back) to the Statement of Comprehensive Income	43,927	34,441	20,250
Balance at the end of the year	134,188	99,262	81,151

22.5 Sector-wise Analysis of Finance Leases Receivables

Agriculture	304,086	222,020	169,855
Industrial	198,725	290,177	293,753
Tourism	134,242	138,188	122,356
Trading	1,530,352	1,260,965	1,037,194
Construction	29,633	32,973	41,734
Services	2,678,197	2,956,626	2,934,487
Others	692,791	830,461	821,216
	5,568,026	5,731,410	5,420,595

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
23. Hire Purchases Receivables			
Gross hire purchases receivables	9,654,918	8,349,374	6,348,172
Prepaid rentals	(2,561)	(1,099)	(1,555)
Unearned interest	(2,547,698)	(2,435,465)	(1,820,652)
Allowance for impairment (Note 23.4)	(230,418)	(158,425)	(151,364)
Net hire purchases receivables	6,874,241	5,754,386	4,374,601
23.1 Hire Purchases Receivable within One Year			
Gross hire purchases receivables	4,192,124	3,540,898	2,536,939
Prepaid rentals	–	(189)	(203)
Unearned interest	(1,330,202)	(1,337,030)	(1,020,982)
Net hire purchases receivables	2,861,923	2,203,679	1,515,754
23.2 Hire Purchases Receivable from One to Five Years			
Gross hire purchases receivables	5,460,104	4,806,580	3,807,259
Prepaid rentals	(2,561)	(910)	(1,352)
Unearned interest	(1,217,433)	(1,098,292)	(799,551)
Net hire purchases receivables	4,240,110	3,707,378	3,006,356
23.3 Hire Purchases Receivable after Five Years			
Gross hire purchases receivables	2,689	1,896	3,973
Unearned interest	(63)	(143)	(119)
Net hire purchases receivables	2,626	1,753	3,854
23.4 Movement in Allowance for Impairment			
Balance at the beginning of the year	158,425	151,364	137,339
Bad debt written-off during the year	(11,048)	(15,170)	(14,899)
Charge/(write back) to the Statement of Comprehensive Income	83,041	22,231	28,924
Balance at the end of the year	230,418	158,425	151,364
23.5 Sector-wise Analysis of Hire Purchases Receivables			
Agriculture	438,786	345,877	214,021
Industrial	515,990	490,713	371,475
Tourism	127,153	120,736	125,416
Trading	2,546,215	2,033,427	1,460,600
Construction	28,703	27,007	38,033
Services	4,742,192	4,007,236	3,024,240
Others	1,255,879	1,324,378	1,114,388
	9,654,918	8,349,374	6,348,172
24. Other Financial Assets			
Insurance receivables	73,082	78,992	55,806
Operating leases receivables	(293)	8,948	7,965
Other receivables	16,488	84,208	16,028
	89,277	172,148	79,799

25. Inventory

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Spare parts	4,554	6,081	4,317
Lubricant and others	1,631	2,151	1,600
Vehicle stocks	65,620	212,988	334,327
	71,805	221,220	340,244

26. Other Assets

Other receivables	34,543	170,282	265,102
Deposit and prepayments	33,705	20,121	11,712
Unamortised staff cost	8,984	9,697	8,013
Sundry receivables	-	40,887	36,899
	77,232	240,987	321,726

27. Investment in Associates

Investment in associates - Quoted **(Note 27.1)**	707,496	624,567	558,185
Investment in associates - Unquoted **(Note 27.2)**	69,631	71,103	70,212
Total	777,127	695,670	628,397

27.1 Investment in Associates - Quoted

Nuwera Eliya Hotels Company PLC

Carrying value at the beginning of the year	624,567	558,185	535,815
Add: share of associates profit/(loss) before tax	107,233	94,481	42,457
Share of associates tax expenses	(12,525)	(17,446)	(4,063)
Less: dividend received from associates	(11,778)	(10,244)	(5,122)
Current year retained profit	82,929	66,792	33,272
Changes in equity not recognised in prior periods	–	(409)	(10,902)
Carrying value at the end of the year	707,496	624,567	558,185

Nuwera Eliya Hotels Company PLC

Company has a 26.12% (2013 - 26.12%) holding in Nuwera Eliya Hotel PLC which is a quoted public company and involved in the business of the hoteliering.

Summery of Associate's Statement of Financial Position

As at 31 March	As Per Audited Financial Statements 2014 Rs. '000	As Per Audited Financial Statements 2013 Rs. '000	As Per Audited Financial Statements 2012 Rs. '000
Current assets	635,664	605,871	370,447
Non-current assets	2,247,912	2,076,986	1,973,197
Current liabilities	(97,989)	(138,710)	(151,278)
Non-current liabilities	(76,951)	(75,133)	(66,957)
Net assets	2,708,636	2,469,014	2,125,409
Holding Percentage of the Company	26.12%	26.12%	26.12%
Share of Net Assets of the Company	707,496	644,906	555,157
Adjustments	–	(20,339)	3,028
	707,496	624,567	558,185
Total Market Value of the Investment	679,350	680,524	643,880

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 cost as per LKAS 27.

For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Summery of Associate's Revenue and Profit Before Tax			
Revenue	829,894	772,904	582,516
Profits before tax	346,542	332,321	149,028
Share of associate's profit/(Loss) before tax	90,517	86,802	38,926
Adjustments	16,716	6,679	3,531
	107,233	93,481	42,457

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
27.2 Unquoted			
Fair View Hotels (Private) Limited			
Carrying value at the beginning of the year	71,103	70,212	–
Increase/(decrease) in investment	–	–	70,000
Add: share of associates profit/(loss) before tax	(1,435)	978	212
Share of associates tax expenses	(37)	(87)	–
Less: dividend received from associates	–	–	–
Current year retained profit	(1,472)	891	212
Carrying value at the end of the year	69,631	71,103	70,212

Fair View Hotels (Private) Limited

Company has a 20.59% (2013 - 38.88%) holding in Fair View Hotel (Private) Limited of which operations have not been commenced yet and involved in the business of the hoteliering.

Summery of Associate's Statement of Financial Position

As at 31 March	As Per Audited Financial Statements 2014 Rs. '000	As Per Audited Financial Statements 2013 Rs. '000	As Per Audited Financial Statements 2012 Rs. '000
Current assets	59,348	2,505	123,477
Non-current assets	288,163	178,144	57,230
Current liabilities	(9,305)	(917)	(121)
Non-current liabilities	–	–	–
Net assets	338,206	179,732	180,586
Holding Percentage of the Company	20.58%	38.88%	38.88%
Share of Net Assets of the Company	69,631	69,880	70,212
Adjustments	–	1,223	–
	69,631	71,103	70,212

For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Summery of Associate's Revenue and Profit Before Tax			
Revenue	640	4,192	1,119
Profits before tax	(1,347)	2,561	545
Share of associate's profit/(Loss) before tax	(277)	996	212
Adjustments	(1,158)	(18)	
	(1,435)	978	212

28. Property, Plant & Equipment

	Balance as at 01.04.2013 Rs. '000	Additions/ Transfers Rs. '000	Disposals/ Transfers Rs. '000	Balance as at 31.03.2014 Rs. '000
Gross Carrying Amounts				
At Cost/Cost Incurred Since Last Revaluation				
Freehold land	–	82,227	–	82,227
Buildings	1,216	139,336	–	140,551
Plant and machinery	24,897	8,954	–	33,852
Computer hardware	63,431	10,964	–	74,396
Office equipment	43,505	7,764	131	51,138
Furniture and fittings	46,289	9,217	308	55,198
Fixtures	2,391	–	–	2,391
Motor vehicles	274,586	87,251	92,519	269,318
Office bicycles	11,132	542	1,357	10,318
Tools	309	–	–	309
	467,756	346,255	94,315	719,698
At Valuation				
Freehold land	714,700	–	–	714,700
Buildings	490,229	–	–	490,229
	1,204,929	–	–	1,204,929
Assets on Operating Leases				
Motor vehicles	30,577	9,500	30,577	9,500
	30,577	9,500	30,577	9,500
	1,703,262	355,755	124,892	1,934,127

	Balance as at 01.04.2013 Rs. '000	Charge for the Year Rs. '000	Disposals/ Transfers Rs. '000	Balance as at 31.03.2014 Rs. '000
Depreciation				
At Cost				
Buildings	24	1,959	–	1,983
Plant and machinery	21,787	1,301	–	23,088
Computer hardware	43,365	8,863	–	52,228
Office equipment	22,276	3,623	131	25,768
Furniture and fittings	18,813	4,213	308	22,718
Fixtures	1,906	151	–	2,057
Motor vehicles	58,950	33,847	19,020	73,778
Office bicycles	1,809	1,046	358	2,497
Tools	177	53	–	230
	169,107	55,056	19,817	204,347
At Valuation				
Buildings	9,805	9,823	–	19,628
	9,805	9,823	–	19,628
Assets on Operating Leases				
Motor vehicles	13,129	2,446	15,100	475
	13,129	2,446	15,100	475
	192,041	67,325	34,917	224,449
	1,511,222	–	–	1,709,676
Capital Work-in-Progress	24,511	30,474	54,985	–
	1,535,732	–	–	1,709,676

As at	2014 Rs. '000	2013 Rs. '000
Net Book Values		
At cost/cost incurred since last revaluation	515,350	298,649
Assets on operating leases	9,025	17,448
At valuation	1,185,301	1,195,124
Capital Work-in-Progress	–	24,511
Total carrying amount of property, plant & equipment	1,709,676	1,535,732
Reconciliation of Net Book Values		
Net book value at the beginning of the year	1,535,731	1,565,620
Cost of additions/transfers/acquisitions	386,229	84,915
Depreciation charge for the year	(67,325)	(46,859)
Cost of disposals/transfers	(179,877)	(95,099)
Accumulated depreciation on disposals/transfers	34,917	27,154
Net book value at the end of the year	1,709,676	1,535,731

28.1 Revaluation of Property, Plant & Equipment

The land and buildings were revalued during the financial year 2011/12 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 Lanaka) 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 31 March 2012. 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.

28.2 Information on the Freehold Land and Building 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 Buildings Rs. '000	Revalued Amount Land Rs. '000	Net Book Value as at 31.03.2014 Rs. '000	As a % of Total NBV as at 31.03.2014	Net Book Value as at 31.03.2013 Rs. '000	As a % of Total NBV as at 31.03.2013
Kollupitiya								
No. 236, Galle Road, Colombo 03	32.56	46,777	304,100	227,900	519,836	36.97	525,918	43.96
Maharagama								
No. 176, Lake Road, Maharagama.	168.74	22,912	18,998	135,000	154,410	10.98	154,658	12.92
Maharagama								
No. 16, Batadombagahawatte Lane, Godigamuwa, Maharagama.	104.00	9,355	8,500	52,000	60,160	4.28	60,330	5.04
Kohuwala								
No. 28, Sunethara Devi Road, Kohuwala	88.00	27,543	61,963	176,000	234,336	16.67	234,709	19.62
Kohuwala								
No. 30/8, Sunethara Devi Road, Kohuwala	17.80	1,700	4,200	17,800	21,832	1.55	21,916	1.83
Borella								
No. 219, Dr. N.M. Perera Mw., Colombo 08	9.46	–	54,985	30,000	83,885	5.97	30,000	2.51
Nilaweli								
Nilaweli Village, Pulmoddai Road, Trincomalee	438.00	–	–	59,000	59,000	4.20	59,000	4.93
Negombo								
No. 26A, Colombo Road, Negombo	13.87	–	–	17,000	17,000	1.21	17,000	1.42
Kollupitiya								
No. 75-17/4, Galle Road, Colombo 03.	–	1,210	23,800	–	22,848	1.62	23,324	1.95
Kollupitiya								
No. 89-28/4 & 89-28/5, Galle Road, Colombo 03	–	3,583	71,000	–	68,160	4.85	69,580	5.82
Kollupitiya								
No. 24 PH A, Crescat City, Colombo 03	–	245	83,234	–	82,402	5.86	–	–
Panchikawatta								
No. 469, Cyril C. Perera Mw, Colombo 14	23.92	–	–	20,000	20,000	1.42	–	–
Kurunegala								
Sapirimini Jeewa Pohora, Thaththiripitiya, Welipennegahamulla.	80.00	–	–	2,500	2,500	0.17	–	–

Location	Extent (Perches)	Buildings (Square Feet)	Revalued Amount Buildings Rs. '000	Revalued Amount Land Rs. '000	Net Book Value as at 31.03.2014 Rs. '000	As a % of Total NBV as at 31.03.2014	Net Book Value as at 31.03.2013 Rs. '000	As a % of Total NBV as at 31.03.2013
Nugegoda								
No. 28/2A, Jambugasmulla Road, Gangodawila, Nugegoda	7.50	–	–	7,000	7,000	0.50	–	–
Peliyagoda								
No. 151/3A, Negombo Road, Peliyagoda	5.00	–	–	5,000	5,000	0.36	–	–
Gampaha								
No. 21 B, Kirindiwita, Udugampala, Katugastara.	17.00	–	–	3,300	3,300	0.23	–	–
Nugegoda								
No. 61, Raththanapitiya Road, Gangodawila	10.15	–	–	12,000	12,000	0.85	–	–
Beruwala								
No. 158, Keranthidiya Road, Galathara, Beruwala.	31.00	–	–	4,600	4,600	0.33	–	–
Negombo								
No. 814/24, Colombo Road, Negombo.	17.20	–	–	10,027	10,027	0.71	–	–
Chilaw								
Ketakelagaha, Kurunduwatta, Henpita	60.00	–	–	2,400	2,400	0.17	–	–
Ganemulla								
Karukkuwa Group Galahitiyawa	300.00	–	–	1,400	1,400	0.10	–	–
Thalawatugoda								
Batadhombagahawatta, Thalawatugoda	23.00	–	–	14,000	14,000	1.00	–	–
Total	–	–	**630,780**	**796,927**	1,406,096	100.00	**1,196,435**	**100.00**

28.3 Revaluation

Freehold land and building of the Company were revalued by professionaly qualified independent value as at 31 March 2012.

Effective Date of Valuation as at 31 March 2012

				NBV before Revaluation as at 31 March 2012		Revalued Amount of		Revaluation Gain/ (Loss) Recognised on	
Location	Address	Name of the Valuer	Method of Valuation	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000	Buildings Rs. '000	Land Rs. '000
Kollupitiya	No. 236, Galle Road, Colombo 03	P.P.T. Mohideen	Investment Method	253,309	134,500	304,100	227,900	50,791	93,400
Maharagama	No. 176, Lake Road, Maharagama	P.P.T. Mohideen	Open Market Basis	13,275	84,362	18,800	135,000	5,525	50,638
Maharagama	No. 16, Batadombagahawatte Lane, Godigamuwa, Maharagama	P.P.T. Mohideen	Open Market Basis	4,375	29,925	8,500	52,000	4,125	22,075
Kohuwala	No. 28, Sunethra Devi Road, Kohuwala	P.P.T. Mohideen	Open Market Basis	46,084	124,650	59,829	176,000	13,745	51,350
Kohuwala	No. 30/8, Sunethra Devi Road, Kohuwala	P.P.T. Mohideen	Open Market Basis	265	16,872	4,200	17,800	3,935	928
Borella	No. 219, Dr. N.M. Perera Mw., Colombo 08	P.P.T. Mohideen	Open Market Basis	–	29,345	–	30,000	–	655
Nilaweli	Nilaweli Village, Pulmoddai Road, Trincomalee	P.P.T. Mohideen	Open Market Basis	–	58,480	–	59,000	–	520
Negombo	No. 26A, Colombo Road, Negombo	P.P.T. Mohideen	Open Market Basis	–	16,396	–	17,000	–	604
Kollupitiya	No. 75–17/4, Galle Road, Colombo 03	P.P.T. Mohideen	Open Market Basis	20,970	–	23,800	–	2,830	–
Kollupitiya	No. 89–28/4 & 89–28/5, Galle Road, Colombo 03	P.P.T. Mohideen	Open Market Basis	62,893	–	71,000	–	8,107	–
Total				401,171	494,530	490,229	714,700	89,058	220,170

28.4 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:

For the year ended 31 March	Cost Rs. '000	Cumulative Depreciation Rs. '000	Net Carrying Amount 2014 Rs. '000	Net Carrying Amount 2013 Rs. '000	Net Carrying Amount 2012 Rs. '000
Class of Asset					
Freehold land	160,521	–	160,521	160,521	160,521
Freehold buildings	230,953	49,683	181,270	183,986	188,607
	391,474	49,683	341,791	344,507	349,128

28.5 During the financial year, the Company acquired property, plant & equipment to the aggregate value of Rs. 355,755,620/- (2013 - Rs. 60,405,000/-). Cash payments amounting to Rs. 355,755,620/- (2013 - Rs. 60,405,000/-) were made during the year for purchase of property, plant & equipment.

28.6 Temporary 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.

28.7 Fully Depreciated Property, Plant & Equipment

The cost of property plant & equipment as at reporting date includes the fully depreciated assets amounting Rs. 86,131,906/- (2013 - Rs. 96,604,973/-).

28.8 Property, Plant & Equipment Pledged as Securities 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.

28.9 Title Restriction in Property Plant & Equipment

There were no restrictions that existed in the title of the property, plant and 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.

28.10 Compensation from third parties for items of Property, Plant & Equipment

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

28.11 Capitalisation of Borrowing Cost

There were no borrowing costs that have been capitalised into the capital work-in-progress.

28.12 There were no significant capital commitments which have been approved or contracted by the Company as at 31 March 2014.

29. Leasehold Property

	Balance as at 01.04.2013 Rs. '000	Additions/ Transfers Rs. '000	Disposals/ Transfers Rs. '000	Balance as at 31.03.2014 Rs. '000
At Cost/Valuation				
Land	46,354	–	–	46,354
	46,354	–	–	46,354
Accumulated Amortisation				
Land	2,341	468	–	2,809
	2,341	468	–	2,809
Net Book Value	44,013			43,545

30. Intangible Assets

	Balance as at 01.04.2013 Rs. '000	Additions/ Transfers Rs. '000	Disposals/ Transfers Rs. '000	Balance as at 31.03.2014 Rs. '000
At Cost/Valuation				
Computer software	13,360	2,414		15,774
	13,360	2,414	–	15,774
Accumulated Amortisation				
Computer software	8,679	3,381		12,060
	8,679	3,381	–	12,060
Net Book Value	4,681			3,714

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

31. Deposits due to Customers

Fixed deposits **(Note 31.1)**	11,325,640	8,293,764	5,995,527
Certificate of deposits **(Note 31.2)**	62,930	115,773	124,045
Savings deposits	29,171	15,182	18,325
	11,417,741	8,424,720	6,137,896

31.1 Analysis of Fixed Deposits by Maturity Date

1 to 90 days	2,962,206	2,512,875	2,332,779
91 to 365 days	6,188,856	3,690,360	3,104,687
More than 365 days	2,174,578	2,090,528	558,060
	11,325,640	8,293,764	5,995,526

31.2 Analysis of Certificate of Deposits by Maturity Date

1 to 90 days	16,123	45,933	88,660
91 to 365 days	46,807	58,580	17,296
More than 365 days	-	11,260	18,089
	62,930	115,773	124,045

32. Debts Instruments Issued and Other Borrowings

Money market borrowings	–	200,000	200,000
Short-term borrowings **(Note 32.1)**	1,050,000	1,100,000	200,000
Long-term borrowings **(Note 32.2)**	3,446,059	2,991,610	3,721,661
Commercial Papers	421,070	940,721	516,983
	4,917,129	5,232,331	4,638,644

As at	Terms of Repayment			31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
	Interest Rate	Period	Payment Terms			
32.1 Short-Term Borrowings						
National Development Bank PLC	9%	1 months	At Maturity	450,000	400,000	–
Seylan Bank PLC				–	–	200,000
Union Bank PLC	9.50%	1 months	At Maturity	100,000	200,000	–
Union Bank PLC	9.50%	1 months	At Maturity	100,000	–	–
Pan Asia Bank PLC	11.75%	6 months	At Maturity	100,000	100,000	–
Pan Asia Bank PLC	11%	6 months	At Maturity	200,000	400,000	–
Hongkong & Sanghai Bank Corporations Limited	10%	1 months	At Maturity	100,000	–	–
				1,050,000	1,100,000	200,000
32.2 Long-Term Borrowings						
Central Bank of Sri Lanka (Refinanced Borrowings)	6%	8 Years	Semi Annual Instalment	39,063	54,688	70,313
Securitised Borrowings	AWPLR + 3% to 3.5%	3-4 Years	Variable Monthly Instalment	2,192,449	1,099,264	1,443,944
Sampath Bank PLC	AWPLR + 1%	4 Years	Fixed Monthly Instalment	18,750	93,750	168,750
Sampath Bank PLC	AWPLR + 0.5%	4 Years	Fixed Monthly Instalment	43,750	118,750	193,750
Sampath Bank PLC	AWPLR + 0.5%	4 Years	Fixed Monthly Instalment	62,500	137,500	212,500
Sampath Bank PLC	AWPLR + 1%	4 Years	Fixed Monthly Instalment	143,000	269,000	489,500
Sampath Bank PLC				–	363,500	395,000
Commercial Bank of Ceylon PLC	AWPLR + 0.5%	4 Years	Fixed Monthly Instalment	106,250	181,250	256,250
Hatton National Bank PLC	AWPLR + 0.5%	4 Years	Fixed Monthly Instalment	49,988	99,992	72,908
Hatton National Bank PLC	AWPLR + 0.5%	4 Years	Fixed Monthly Instalment	22,892	47,900	149,996
Hatton National Bank PLC	AWPLR + 0.75%	4 Years	Fixed Monthly Instalment	118,750	193,750	268,750
Hongkong & Sanghai Banking Corporations Limited	SLIBOR + 4.5%	4 Years	Fixed Monthly Instalment	158,333	208,333	–
Hongkong & Sanghai Banking Corporations Limited	SLIBOR + 4.5%	4 Years	Fixed Monthly Instalment	95,333	123,933	–
Commercial Bank of Ceylon PLC	AWPLR + 1.5%	4 Years	Fixed Monthly Instalment	395,000	–	–
				3,446,059	2,991,610	3,721,661

Maturity analysis of borrowings and assets pledged details are given in Note 50 and 47 to the Financial Statements respectively.

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

33. Other Financial Liabilities

Vendor payable	282,294	469,698	464,477
Insurance payable	71,682	60,259	30,731
Other payable	29,358	21,917	18,270
	383,334	551,874	513,478

34. Deferred Tax Liabilities

Summary of Net Deferred Tax Liability

	31 March 2014		31 March 2013		31 March 2012	
	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000	Temporary Difference Rs. '000	Tax Effect Rs. '000
Balance as at the beginning of the year	335,063	93,817	499,471	139,852	399,128	139,695
Amount originating/(reversing) during the year	(74,603)	(20,889)	(217,534)	(60,910)	60,850	(10,900)
Deferred tax effect on revaluation surplus on PPE	(10,579)	(2,962)	53,126	14,875	39,493	11,057
Deffered tax effect on actuarial gain	27,355	7,659	–	–	–	–
Balance as at the end of the year	277,236	77,625	335,063	93,817	499,471	139,852

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

35. Retirement Benefit Obligations

35.1 Provision for Retirement Benefit Obligations

Balance at the beginning of the year	116,390	101,185	73,682
Expenses recognised during the year (refer Note 35.2)	(6,022)	18,391	29,512
Payments made during the year	(1,692)	(3,186)	(2,009)
Balance at the end of the year	108,677	116,390	101,185

35.2 Expenses Recognised in the Statement of Comprehensive Income

Interest cost - Statement of Comprehensive Income	12,803	11,130	8,104
Current service cost - Statement of Comprehensive Income	8,530	9,354	7,568
Acturial (gain)/loss - Other Comprehensive Income	(27,355)	(2,093)	14,025
	(6,022)	18,391	29,697

Actuarial valuation of the gratuity liability was carried out as at 31 March 2014 by Messrs Actuarial & Management Consultants (Pvt) Ltd., a firm of professional actuaries. The valuation method used by the actuaries to value the fund is the 'Projected Unit Credit Method' (PUC), the method recommended by the Sri Lanka Accounting Standard (LKAS 19) on 'Employee Benefits'.

35.3 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 (9%) 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)

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 11% has been used having given weightage to the anticipated long-term rate of inflation (Previous year 11%).

Salary Increases

A 10% p.a. salary increment rate has been used in respect of the active employees (Previous year 12%).

35.4 Sensitivity Analysis

In order to show the significance of the salary escalation rate and discount rate used in this actuarial valuation as at 31 March 2014, sensitivity analysis has been carried out as follows:

Discount Rate	Salary Escalation Rate	Present Value of Defined Benefit Obligation
1% Increase	As the rate above	Rs. 101,362,543
1% Decrease	As the rate above	Rs. 116,942,314
As the rate above	1% Increase	Rs. 115,950,556
As the rate above	1% Decrease	Rs. 102,094,432

36. Stated Capital

	31 March 2014	31 March 2013	31 March 2012
Value			
Ordinary Shares	36,000	36,000	36,000
	36,000	36,000	36,000
Number of Shares in Issue			
Ordinary Shares (Nos. '000)	3,006	3,006	3,006
	3,006	3,006	3,006

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

37. Capital Reserve - Revaluation Reserve

Balance at the beginning of the year	1,291,958	1,310,804	977,714
Increase during the year due to revaluation	–	–	333,090
Transfer out realised gain on disposed revalued building	–	(3,972)	–
Deferred tax effect	2,962	(14,874)	–
Balance at the end of the year	1,294,920	1,291,958	1,310,804

The revaluation reserve relates to revaluation of land & buildings of the Company and its associate company and represents the increase in the fair value of the land & buildings at the date of revaluation.

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

38. Statutory Reserve Fund

Balance at the beginning of the year	471,400	421,400	391,400
Transfers during the year	50,000	50,000	30,000
Balance at the end of the year	521,400	471,400	421,400

Note: 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.

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

39. General Reserve

Balance at the beginning of the year	3,586,430	2,851,430	2,531,430
Transfers during the year	100,000	735,000	320,000
Balance at the end of the year	3,686,430	3,586,430	2,851,430

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.

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000

40. Investment Fund Reserve

Balance at the beginning of the year	90,706	41,951	–
Transfers during the year	82,514	48,755	41,951
Balance at the end of the year	173,220	90,706	41,951

As per the Budget Proposal 2011, finance companies were required to establish and operate an Investment Fund Accounts (IFA) commencing from January 2011. According to the guidelines issued by the Central Bank of Sri Lanka, finance companies are required to transfer 8% of the profits calculate for the payment of Value Added Tax (VAT) on financial services and 5% of the profit before tax calculated for payment of income tax.

As at	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
40.1 Utilisation of Investment Fund Account (IFA)			
Balance available for utilisation	20,801	7,336	–
Total transfers to IFA	82,514	48,755	41,951
Total investments in Government Securities	103,055	35,290	34,615
Balance available for utilisation/excess as of 31 March	260	20,801	7,336
Cumulative utilisation of investment fund	172,960	69,905	34,615

40.2 Investments in Government Securities

	Face Value	Year of Maturity	Cost of Investment	Outstanding 31 March 2014
Treasury Bonds Over 7 Years				
Net Wealth Securities Limited	20,200	2020	17,070	16,678
Capital Alliance Limited	50,000	2023	42,566	42,098
Capital Alliance Limited	92,000	2020	78,034	77,461
Entrust Securities	40,000	2021	35,290	39,067
Total Investments in Government Securities	202,200		172,960	175,305

41. Retained Earnings

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Balance at the beginning of the year	10,176	292,243	140,239
Total Comprehensive Income			
Profit for the year	675,362	630,791	610,088
Other comprehensive income	19,696	–	–
Transfer to other reserves	(232,514)	(833,755)	(391,951)
Transfer from revaluation reserve	–	3,562	–
Dividends	(30,060)	(82,665)	(66,133)
Balance at the end of the year	442,660	10,176	292,243

42. Available-for-Sale Reserve

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Balance at the beginning of the year	219,688	520,778	2,216,295
Net gain and losses on remeasuring	(107,933)	(301,090)	(1,695,517)
Available-for-sale financial assets	–	–	–
Balance at the end of the year	111,755	219,688	520,778

43. Capital Commitments

There are no significant capital commitments which have been approved or contracted for by the Company as at 31 March 2014.

44. Contingencies

44.1 Contingent Liabilities

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:

a. The gratuity liability of the Company as at 31 March 2014 is based on the Actuarial Valuation carried out by Ms. Actuarial & Management Consultants (Pvt) Limited, a firm of professional acturies. As per the Actuarial Valuation, the provision in respect of gratuity liabilities of the existing employees of the Company as at 31 March 2014 is Rs. 108,676,835/-. If the Company had provided for gratuity on the basis of Gratuities Act No. 12 of 1983, the liability would have been Rs. 128,085,804/-. Hence, there is a contingent liability of Rs. 19,408,969/-, which would crystallise only if the Company ceases to be a going concern.

b. 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.

44.2 Contingent Assets

There are no contingent assets as at the date of Statement of Financial Position.

45. 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.

46. 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.

46.1 Parent and Ultimate Controlling Party

The Company does not have an identifiable parent of its own.

46.2 Transactions with the Key Management Personnel

Key Management Personnel (KMPs) include members of the Board of Directors of the Company and Key Employees of the Company who are having authority and responsibility for directing and planning the activities of the Company and its related entities.

Apartment No. 89 - 28/4 and 89 - 28/5, Galle Road, Colombo 03 is being currently used by one of the Key Management Personnel without any charges for residential purpose.

46.3 Remuneration of Board Members and the Key Managerial Personnel

The members of the Board received remuneration totalling Rs. 41,299,470/- (2013 - Rs. 43,259,515/-) during the financial year under consideration. Key Managerial Personnel received a salary and related expenses totalling Rs. 66,117,340/- (2013 - Rs. 59,796,497/-) in the same financial year.

A total of Rs. 8,200,054/- (2013 - Rs. 4,783,719/-) as defined contribution plan costs was contributed by Key Managerial Personnel during the financial year under consideration. The contribution in respect of same by the Company was Rs. 12,300,081/- (2013 - Rs. 8,969,473/-).

46.4. Transactions involving Key Management Personnel (KMPs) and their Close Family Members (CFMs)

Statement of Financial Position	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Loan & advances	9,897	5,601	5,706
Total	9,897	5,601	5,706
Deposits	237,578	161,349	71,905
Total	237,578	161,349	71,905

Income Statements (For the year ended 31 March)	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Interest income	1,348	1,776	617
Interest expenses	30,527	5,902	7,686

46.5 Transactions with the Entities which are controlled by Key Management Personnel (KMPs) and their Close Family Members (CFMs)

46.5.1 Summary of the Transactions

	31 March 2014 Rs. '000	31 March 2013 Rs. '000	31 March 2012 Rs. '000
Loan and advances	41,471	53,347	68,354
Other receivables	777	128	10,045
Total	42,248	53,475	78,399
Accommodation as a % of capital funds	0.85%	1.21%	3.2%
Deposits	808,169	377,159	479,611
	808,169	377,159	479,611

Statements of Comprehensive Income (For the year ended 31 March)	2014 Rs. '000	2013 Rs. '000	2012 Rs. '000
Interest income	2,894	5,260	7,650
Interest expenses	53,770	39,270	44,200
Other income	12,691	13,584	11,459

47. Assets Pledged

The following assets have been pledged as securities against the long-term and short-term borrowings that have been disclosed under the Note 32 to the Financial Statements:

Name of the Bank	Nature of the Facility	Facility Amount Rs. million	Outstanding as at 31.03.2014 Rs.	Securities/Mortgages
Commercial Bank of Ceylon PLC	Overdraft	125	92,849,735	Mortgaged over Investment in Shares of the Quoted Companies
	Term Loan	500	395,000,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 375 million
	Term Loan	300	106,250,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 750 million
Hatton National Bank PLC	Overdraft	400	279,267,780	Mortgaged over Investment in Shares of the Quoted Companies
				Mortgaged over Property at No. 28, Sunethradevi Road, Kohuwala for Rs. 100 million
	Term Loan	200	49,988,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 600 million
	Term Loan	100	22,892,000	
	Term Loan	300	118,750,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 600 million
Hongkong & Sanghai Banking Corporations Limited	Term Loan	250	158,333,333	Mortgaged over Investment in Shares of the Quoted Companies
	Term Loan	143	95,333,333	Mortgaged over Investment in Shares of the Quoted Companies
	Short-Term Loan	100	100,000,000	Mortgaged over Investment in Shares of the Quoted Companies
Sampath Bank PLC	Overdraft	100	–	Mortgaged over Property at Sri Vaijiragnana Mawatha, Maharagama for Rs. 100 million - Promissory Note for Rs. 100 million.
	Term Loan	300	18,750,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 375 million
	Term Loan	300	43,750,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 375 million
	Term Loan	300	62,500,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 375 million
	Term Loan	500	143,000,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 500 million
Securitised Borrowings	Term Loan (Trust 09)	600	281,502,695	Mortgaged over Hire Purchase & Leases Receivables for Rs. 600 million
	Term Loan (Trust 11)	500	329,597,726	Mortgaged over Hire Purchase & Leases Receivables for Rs. 500 million
	Term Loan (Trust 12)	300	204,860,628	Mortgaged over Hire Purchase & Leases Receivables for Rs. 300 million
	Term Loan (Trust 13)	824.6	808,159,548	Mortgaged over Hire Purchase & Leases Receivables for Rs. 824.6 million
	Term Loan (Trust 14)	567.061	557,598,574	Mortgaged over Hire Purchase & Leases Receivables for Rs. 567.06 million
Union Bank PLC	Short-Term Loan	100	100,000,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 200 million
		100	100,000,000	
National Development Bank PLC	Short-Term Loan	450	450,000,000	Mortgaged over Hire Purchase & Leases Receivables for Rs. 562 million
Pan Asia Bank PLC	Short-Term Loan	200	200,000,000	Mortgaged over Hire Purchase & Leases Receivables for Rs 250 million
	Short-Term Loan	100	100,000,000	Mortgaged over Hire Purchase & Leases Receivables for Rs 150 million

48. Events after the Reporting Date

Subsequent to the reporting date, no circumstances have arisen which would require adjustments to or disclosure in the Financial Statements except followings:

48.1 At the Board meeting held on 30 April 2014 it was resolved that the Company raises a sum of Rs. 500,000,000/- by the issue of unsecured, redeemable debentures to the public in the following manner with the consent received from Central Bank of Sri Lanka as per their letter dated on 09 May 2014.

(a) Number of debentures to be issued	-	5,000,000
(b) Face value of a debenture	-	Rs. 100/-
(c) Total value of debenture	-	Rs. 500,000,000/-
(d) Tenure of debentures	-	04 Years
(e) Interest	-	11% per annum

48.2 At the Board meeting held on 25 March 2014, 2nd interim dividend of Rs.10/- per share amounting to Rs. 30,060,000/- has been proposed by the Board of Directors and approved by the Securities and Exchange Commission on 2 May 2014. Distribution of dividend will be taken place on 26 May 2014.

49. Financial Reporting by Segments as per the provisions of Sri Lanka Financial Reporting Standard (SLFRS) 08

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 market.

The following table presents the income, profit and assets and liability information on the Company's business segment for the year ended 31 March 2014 and comparative figures for the year ended 31 March 2013:

49.1 Business Segments

	Finance Lease		Hire Purchase		Loans and Advances		Investments		Other		Total	
For the year ended 31 March	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000	2014 Rs. '000	2013 Rs. '000
Interest income	891,394	858,611	1,636,495	1,461,591	1,204,082	674,733	129,586	92,791	–	–	3,861,558	3,087,726
Interest expenses	470,027	462,735	862,914	787,701	634,905	363,637	231,332	223,293	16,305	30,334	2,215,483	1,867,700
Net interest income/ (expenses)	421,367	395,876	773,581	673,890	569,177	311,096	(101,746)	(130,502)	(16,305)	(30,334)	1,646,075	1,220,026
Fee and commission income	–	–	–	–	–	–	–	–	44,402	45,936	44,402	45,936
Capital gains	–	–	–	–	–	–	80,512	123,179	–	–	80,512	123,179
Dividends	–	–	–	–	–	–	122,820	102,895	–	–	122,820	102,895
Others	–	–	–	–	–	–	–	–	(13,481)	10,350	(13,481)	10,350
Total operating income	421,367	395,876	773,581	673,890	569,177	311,096	101,586	95,572	14,616	25,952	1,880,327	1,502,386
Impairment (gain)/loss for loans and receivables	43,927	34,441	83,041	22,231	33,477	7,646	–	–	–	–	160,445	64,318
Net operating income	377,441	361,435	690,541	651,659	535,700	303,450	101,586	95,572	14,616	25,952	1,719,882	1,438,068
Personnel expenses including Directors remuneration	81,085	82,749	148,863	140,862	109,529	65,028	39,907	39,931	2,813	9,268	382,197	337,838
Commission	10,400	9,651	41,478	41,976	11,243	6,468	–	–	–	–	63,122	58,095
Disallowed VAT on expenses	–	–	6,041	9,739	4,445	4,495	1,619	2,760	114	375	12,219	17,369
Other overhead	92,056	77,838	169,004	132,501	124,348	61,168	45,307	37,561	3,193	5,103	433,909	314,171
	183,542	170,238	365,387	325,078	249,565	137,159	86,833	80,252	6,120	14,746	891,447	727,473
Operating profit/(loss) before value added tax on financial services	193,898	191,197	325,154	326,581	286,135	166,291	14,753	15,320	8,496	11,206	828,436	710,595
Value added tax and NBT on financial services	–	–	54,333	41,480	39,977	19,149	14,565	11,759	1,027	1,597	109,902	73,985
Operating profit/(loss) after value added tax on financial services	193,898	191,197	270,821	285,101	246,158	147,142	188	3,561	9,609	7,516	718,533	636,610
Share of associate company's profit before taxation											105,798	95,459
Profit before taxation from operations											824,331	732,069
Income tax expenses											(148,969)	(101,278)
Profit for the year											675,362	630,791
Other information												
As at 31 March												
Segment assets	3,998,067	4,072,783	6,874,241	5,754,386	5,315,091	4,017,479	4,895,387	4,527,280	2,416,431	2,851,019	23,499,218	21,222,946
Segment liabilities	2,931,929	2,977,706	5,041,132	4,207,165	3,897,750	2,937,271	3,589,966	2,801,378	1,772,056	2,593,068	17,232,833	15,516,588
Net assets	1,066,138	1,095,077	1,833,109	1,547,221	1,417,341	1,080,208	1,305,421	1,725,902	644,375	257,951	6,266,385	5,706,358

50. 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	2014			2013		
	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	421,182	–	421,182	632,238	–	632,238
Placement with banks	406,020	–	406,020	364,330	–	364,330
Financial investments available-for-sale	3,011,121	701,120	3,712,241	2,841,261	626,019	3,467,280
Loans and receivables	2,465,738	2,849,353	5,315,091	1,680,412	2,337,066	4,017,478
Finance lease receivables	1,578,281	2,419,786	3,998,067	1,413,601	2,659,182	4,072,783
Hire purchase receivables	2,861,923	4,012,318	6,874,241	2,271,964	3,482,422	5,754,386
Other financial assets	89,277	–	89,277	172,148	–	172,148
Inventories	71,806	–	71,806	178,622	42,598	221,220
Investment in associates	–	777,126	777,126	–	695,670	695,670
Total financial assets	10,905,348	10,759,703	21,665,051	9,554,576	9,842,957	19,397,533
Non-Financial Assets						
Other assets	37,376	39,856	77,232	240,987	–	240,987
Property, plant & equipment	–	1,709,676	1,709,676	–	1,535,732	1,535,732
Leasehold property	–	43,545	43,545	–	44,013	44,013
Intangible assets	–	3,714	3,714	–	4,681	4,681
Total non-financial assets	37,376	1,796,791	1,834,167	240,987	1,584,425	1,825,412
Total assets	10,942,724	12,556,494	23,499,218	9,795,563	11,427,382	21,222,945
Liabilities						
Financial Liabilities						
Bank overdraft	279,269	–	279,269	999,036	–	999,036
Deposits due to customers	9,171,373	2,246,368	11,417,741	6,322,931	2,101,789	8,424,720
Debt instruments issued and other borrowings	3,297,803	1,619,326	4,917,129	3,653,289	1,579,042	5,232,331
Other financial liabilities	382,133	1,200	383,333	551,874	–	551,874
Current tax liabilities	39,184	–	39,184	81,322	–	81,322
Deferred tax liability	–	77,626	77,626	–	93,817	93,817
Total financial liabilities	13,169,762	3,944,520	17,114,282	11,608,452	3,774,648	15,383,100
Non-Financial Liabilities						
Other liabilities	9,875	–	9,875	17,098	–	17,098
Retirement benefit obligation	–	108,677	108,677	–	116,390	116,390
Total non-financial liabilities	9,875	108,677	118,552	17,098	116,390	133,488
Total liabilities	13,179,637	4,053,197	17,232,834	11,625,550	3,891,038	15,516,588
Net assets/liabilities	(2,236,913)	8,503,297	6,266,384	(1,829,987)	7,536,345	5,706,358

51. Fair Value of Financial Instruments

Financial Instruments Recorded at Fair Value

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

Financial Investments - Available-for-Sale

Available-for-sale financial investments, primarily consists of quoted equities and Government debt securities that are valued using valuation techniques or pricing models. These assets are valued using models that use observable data. Government debts securities are valued using yield curves published by the Central Bank of Sri Lanka and quoted equities are valued using quoted market prices in the active market as at the reporting date.

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.

Fair Values are Determined According to the following 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 technique with significant unobservable inputs: financial instruments are valued using valuation techniques where one or more significant inputs are unobservable.

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

As at 31 March 2014	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial investments Available-for-Sale				
Quoted investments	2,891,746	–	–	2,891,746
Government debt securities	809,368	–	–	809,368
Corporate debts securities	10,700	–	–	10,700
Total	3,711,814	–	–	3,711,814

As at 31 March 2013	Level 1 Rs. '000	Level 2 Rs. '000	Level 3 Rs. '000	Total Rs. '000
Financial investments Available-for-Sale				
Quoted investments	2,979,592	–	–	2,979,592
Government debt securities	476,488	–	–	476,488
Corporate debts securities	10,773			10,773
Total	3,466,853	–	–	3,466,853

There were no transfer between Level 1 and Level 2 during 2013 and 2014.

Set out below is a comparison of the carrying amounts and fair values of the Company's financial instruments by classes, that are not carried at fair value in the Financial Statements. This table doesn't include the fair values of non-financial assets and non-financial liabilities.

	31.03.2014 Carrying Amount Rs. '000	31.03.2014 Company Fair Value Rs. '000	31.03.2013 Carrying Amount Rs. '000	31.03.2013 Company Fair Value Rs. '000
Financial Assets				
Cash and cash equivalents	421,182	421,182	632,238	632,238
Placements with bank	406,020	406,020	364,330	364,330
Loans & receivables	5,315,091	5,315,091	4,017,479	4,017,479
Finance leases receivables	3,998,067	3,998,067	4,072,783	4,072,783
Hire purchase receivables	6,874,241	6,874,241	5,754,385	5,754,385
Other financial assets	89,277	89,277	172,148	172,148
Total	17,103,877	17,103,877	15,013,363	15,013,363
Financial Liabilities				
Bank overdraft	279,269	279,269	999,036	999,036
Deposits due to customers	11,417,741	11,417,741	8,424,720	8,424,720
Debt instruments issued and other borrowings	4,917,129	4,917,129	5,232,331	5,232,331
Other financial liabilities	383,334	383,334	551,874	551,874
Total	16,997,473	16,997,471	15,207,960	15,207,960

Fair Value of the Financial Assets and Liabilities Not Carried at Fair Value

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

Assets for which Fair Value Approximate 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.

Reclassification of the Financial Assets

There have been no reclassification during 2013 & 2014.

52. Financial Risk Management

Risk management and related reporting issues that are associated with financial institutions valuations of complex transactions, and their impact to capital requirements and profitability of financial institutions, has received unstinted attention in the recent decade.

Importance of robust risk management and control processors revolving around the measurement of fair value accounting of financial instruments reliably of a wide range is considered pivotal for the financial services sector for sound management of related assets and liabilities.

52.1 MI being a finance company is exposed to number of risks arising from dealing in financial transactions involving mainly financial assets and liabilities. Key risks associated with MI business revolve around;

- Credit risk
- Liquidity risk
- Market risk
- Operational risk

This note discloses information about MI's exposure to each of the above identified risks and management process for risk identification, risk measurement and monitoring of associated risk. 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, management continuously strives in mitigating risk or to avoid risks altogether and aims at maximising profitability in the process.

52.2 Risk Management Framework

52.2.1 Board Role in Risk Management

Overall responsibility for the establishment and oversight of MI's risk management framework lies with the Company's Board of Directors. The Board discharges its governance responsibility through served key Board Sub-committees. Namely; the Board Integrated Risk Management Committee (IRMC), Assets and Liabilities Management Committee (ALCO) and the Audit Committee. Other sub Board committees namely the Credit Committee, Remuneration Committee and Nomination Committee have been entrusted to oversee specified areas for better governance to either directly or indirectly assist IRMC in maintaining a sound risk governance function.

Based on IRMC's terms of reference, a formal risk management policy was established last period to identify and analyse key risks specific to MI business and set forth a mechanism to counter potential threats. The established risk management policy, controls and systems in place 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 type of risk involved and uses several measures to obtain correct measurement at any given time. Management resorts to sensitivity analysis and stress testing to ascertain impacts from risks based on possible and worst case scenarios and forecast scenarios based on specific assumptions, the results of which are reported to the Board through the IRMC.

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 level of MI, management has set forth predetermined specific risk limits approved by the IRMC. Any negative deviations and exceeding of limits are captured through a sound process of risk measurement and appropriately reported to IRMC for their guidance and instructions.

52.2.2 (a) Corporate Managements Role in Risk Management

Based on the approved 'Risk Policy', corporate management that represent all key functions of MI's business operation has been entrusted to instill required controls covering their scope of work to either avoid risk or mitigate risk as much as possible. 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

52.2.2 (b) Board Sub-Committees and their Functions in Supporting Risk Management in 2013/14 Financial Year

Committee	Risk Aspects Reviewed in 2013/14
Audit Committee	Please refer page 227 of the 'Risk Report' for full disclosure in this regard.
Credit Committee	
Assets and Liabilities Committee	
Management Committee	

52.3 Credit Risk

Credit risk is the risk of financial loss to the Company if a borrower or counterparty to a financial instrument fails to meet its specified contractual obligations. Related risk arises mainly from the Company's loans and advances portfolio and from other comparable financial instruments including investments in debt securities.

Management takes into account all elements of credit risk exposures both at micro and macro level. This includes analysing individual obligor default risk, industry specific risk and geographical risk as part of MI's comprehensive credit risk management process.

52.3.1 Credit Risk Management Process

The Credit and Marketing Division is responsible to strictly adhere to credit policies, procedures and practices, which is established on 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 by the Recoveries Division there is predetermined controls set to manage risk.

In mitigating credit risk, the Company resorts to obtaining collaterals which are valued by recognised external parties together with an internal valuation as suitable. In 2014, Management enhanced its collateral valuation process accuracy by establishing a separate 'Internal Valuation Unit' to support the credit disbursement process. The Credit Division is expected to take collateral against proposed 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 assessment related to credit risk and proposes suitable recommendations to counter any identified risk. Recently established Board’s Credit Committee is entrusted to review high value credit over a specified Board approved value.

Credit Operation Manual

MI’s credit operation manual revised with strengthened credit practices in 2014 plays an integral role in managing daily credit operations. The manual specifies 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 is reviewed periodically and necessary changes made after assessing changes in credit risk profile and business conditions. 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.

Credit Authorisation Structure

Credit authorisation limits have been specified for various levels of credit staff based on officer’s grade. Credit facilities to be extended exceeding these threshold values require approval from either the Head of Credit, Credit Committee or the Board of Directors depending on the value in concern.

Credit Appraisal Process

Reviewing and assessing credit risk is done by credit officers and then reviewed by relevant manager/senior manager/Director (Non-Board) - Credit and 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.

Credit Administration and Distribution

MI’s loan portfolio is 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 on the other hand is to bring in credit business and involve themselves in initial credit documentation collection and review, credit appraisal and recommending credit or approving them as appropriate and also assist in collection of instalments subsequent to disbursement.

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 identifying early warning signs. The committee also prepares a credit risk dashboard with the support of Manager - Risk and Compliance to review the credit portfolio in concern. The oversight of the credit risk function vest 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.

Periodic review of credit risk is carried out by the IRMC comparing actual credit exposures 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. 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.

Regular Audit of Divisions

From an oversight perspective, based on a predefined annual audit programmes that covers credit review requirements, continuous internal audits are carried out by MI's Internal Audit division jointly with Ernst and Young Advisory Services (Pvt) Limited.

Definitions Related to Credit

- *Impairment*

This occurs when recoverable amount of an asset is less than its carrying amount. Please refer Note 2.10.3 in the Financial Statements for details on impairment methodology adopted and related policies.

- *Past Due*

MI considers that any amount uncollected one day or more beyond their contractual due date are 'past due'.

52.3.2 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:

52.3.2.a Credit Quality by Class of Financial Assets

As at 31st March 2014

	Neither Past Due Nor Impaired			Past Due Not Impaired	Individually Impaired	Total
	High Grade Rs. '000	Standard Grade Rs. '000	Low Grade Rs. '000	Rs. '000	Rs. '000	Rs. '000
Financial Assets						
Cash and short-term fund	421,182	–	–	–	–	421,182
Placements with the banks	406,020	–	–	–	–	406,020
Financial investments - available-for-sale	3,712,241	–	–	–	–	3,712,241
Other financial assets	89,277	–	–	–	–	89,277
Hire purchase receivable	4,028,159	264,818	589,392	1,848,896	375,955	7,107,220
Finance lease receivables	1,708,056	271,756	828,053	1,139,370	189,947	4,137,182
Loans and advances	4,427,214	–	–	825,874	147,645	5,400,733
Total	**14,792,149**	**536,574**	**1,417,445**	**3,814,140**	**713,547**	**21,273,855**

Commentary

More than 69% of MI's financial assets are of 'high grade' which are neither past due nor impaired mainly comprising of the lending's 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.

52.3.2.b Age Analysis Past Due (facilities in arrears of 1 day and above) But not impaired by Class of Financial Assets:

	Past Due Not Impaired					Total
	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	Rs. '000
Hire purchase receivables	1,041,438	467,682	147,601	89,816	102,359	1,848,496
Finance leases receivables	613,788	296,895	121,458	59,504	47,725	1,139,370
Loans & receivables	429,285	144,376	73,984	23,308	154,921	825,874
Total	**2,084,511**	**908,953**	**343,043**	**172,628**	**305,005**	**3,814,140**

52.3.2.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

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.

52.3.3 Analysis of Risk Concentration

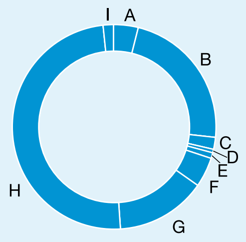
MI monitors credit concentration risk by referring to the degree of credit exposure by MI to various sectors and by geographic location.

52.3.3. 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 31.03.2014		As at 31.03.2013		As at 31.03.2012	
	Rs. '000	%	Rs. '000	%	Rs. '000	%
Agriculture	666,833	4	496,549	4	329,809	3
Commercial	3,765,360	23	3,189,934	22	2,370,206	21
Consumption	352,921	2	317,340	2	204,950	2
Finance	89,496	1	75,665	1	90,365	1
Housing and property	124,085	1	76,575	1	70,937	1
Industrial	771,197	4	755,880	5	593,999	6
Others	2,350,096	14	1,787,398	13	1,476,434	14
Services	8,233,102	49	7,150,707	50	5,390,278	50
Tourism	292,046	2	312,560	2	205,843	2
Total	16,645,136	100	14,162,608	100	10,732,821	100

SECTOR-WISE CREDIT CONCENTRATION 2013/14



A - Agriculture - 4%
B - Commercial - 23%
C - Consumption - 2%
D - Finance - 1%
E - Housing and Property - 1%
F - Industrial - 4%
G - Others - 14%
H - Services- 49%
I - Tourism- 2%

Commentary

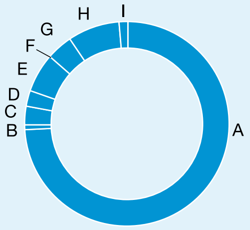
There is a high percentage lending to services sector reaching 50% of total lending mainly attributed to lending's carried out for transportation services. Management would monitor risk levels attached to these sectors on an ongoing basis. Currently, these sectors do not pose any significant risk.

52.3.3.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 province	As at 31.03.2014 Rs. '000	%	As at 31.03.2013 Rs. '000	%	As at 31.03.2012 Rs. '000	%
Western	12,322,596	74.03	10,762,012	76	8,737,225	81.41
Central	168,196	1.01	115,233	0.81	85,205	0.79
Eastern	439,610	2.64	277,907	1.96	194,109	1.81
North-Central	414,884	2.49	171,417	1.21	61,590	0.57
North-Western	1,013,062	6.09	869,707	6.14	570,743	5.32
Northern	12,226	0.07	8,823	0.06	3,450	0.03
Sabaragamuwa	706,206	4.24	578,892	4.09	467,539	4.36
Southern	1,359,202	8.17	1,191,459	8.41	505,662	4.71
Uva	209,154	1.26	187,158	1.32	107,298	1.00
Total	16,645,136	100.00	14,162,608	100.00	10,732,821	100.00

CREDIT CONCENTRATION PROVINCE-WISE 2013/14



A - Western - 74.03%
B - Central - 1.01%
C - Eastern - 2.64%
D - North-Central - 2.49%
E - North-Western - 6.09%
F - Northern - 0.07%
G - Sabaragamuwa - 4.24%
H - Southern - 8.17%
I - Uva - 1.26%

Commentary

MI lending mainly concentrated around Western Province with a 74% contribution towards total lending compared to last year's 76%. In keeping to MI's expansion strategy and volume growth expectation outside Western Province, there is already a clear indication of diversification to other regions, in particular to Southern and Sabaragamuwa Provinces.

52.4 Liquidity Risk

Liquidity Risk arises when the Company encounters difficulties in meeting its financial liabilities by settlements made either in cash or through another financial asset.

MI is a financially sound institution that has been strong in liquidity throughout its history. To strengthen liquidity management we have formed a Board approved Assets and Liability Management Committee (ALCO) to oversee liquidity risk aspects associated with MI businesses. IRMC as part of their risk management process reviews independently the effectiveness of the liquidity risk management process and recommend suitable actions when necessary. 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.

The Company has developed adequate control mechanisms to manage liquidity both in short and longer horizon by estimating future cash flows. In devising the three-year strategic plan, long-term cash flow position was projected 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 funding;

1. Utilising available borrowing lines from MI's traditional borrowing partners.
2. Seeking fresh funding lines from banks and other financial sources.
3. Pursuing the issue of debentures to be finalised in the next financial year.
4. Alternative borrowing such as commercial paper and short-term borrowing derived from individuals and corporate institutions.
5. Seeking negotiation to secure foreign funding lines that is ongoing.

52.4.1.a Exposure to Liquidity Risk

Ratio	2014	2013	2012
Net loans/customer deposits	142%	164%	170%
Net loans/total assets	70.8%	65.2%	68.88%
Statutory Liquid Asset Ratio (LAR):			
Average for the year	12.6%	13.1%	11.7%
Minimum for the year	11.1%	12%	10.3%
Maximum for the year	14.5%	17.1%	12.9%

Commentary

MI was able to maintain statutory liquidity ratio well above the minimum requirement as the balance sheet date. MI's net loans to deposits ratio is at 142% and Management plans to bring this ratio below 120% as per forecast within the next financial year with the planned growth in deposits.

52.4.2 Financial Assets and Financial 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 2014.

	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
Financial Assets							
Cash and cash equivalent	421,182	–	–	–	–	–	421,182
Placements with bank	–	–	406,020	–	–	–	406,020
Financial investments - Available-for-Sale	2,382,918	204,061	424,142	–	10,700	690,420	3,712,241
Loans and advances	–	647,968	1,734,594	2,177,213	745,522	9,794	5,315,091
Finance lease receivable	–	489,289	954,804	2,031,780	517,266	4,928	3,998,067
Hire purchase receivables	–	1,007,088	1,624,417	3,494,949	745,161	2,626	6,874,241
Other financial assets	–	89,277	–	–	–	–	89,277
Inventories	–	71,805	–	–	–	–	71,805
Investment in associates	–	–	–	–	–	777,127	777,127
Total Financial Assets	**2,804,100**	**2,509,488**	**5,143,977**	**7,703,942**	**2,018,649**	**1,484,895**	**21,665,051**
Financial Liabilities							
Bank overdraft	–	279,269	–	–		–	279,269
Deposits due to customers	–	3,007,500	6,235,663	1,296,934	877,644	–	11,417,741
Debt instruments issued and other borrowings	–	1,475,047	1,822,756	1,477,677	141,649	–	4,917,129
Other financial liabilities	–	311,560	70,574	–	–	1,200	383,334
Current tax liabilities	–	39,184	–	–	–	–	39,184
Deferred tax liability	–	–	–	–	–	77,625	77,625
Total Financial Liabilities	**–**	**5,112,560**	**8,128,993**	**2,774,611**	**1,019,293**	**78,825**	**17,114,282**
Net Financial Assets/Liabilities	**2,804,100**	**(2,603,072)**	**(2,985,016)**	**4,929,331**	**999,356**	**1,406,070**	**4,550,769**

Commentary

To bridge the less than one year maturity gap of Rs. 3 billion, MI continues to focus on obtaining deposits that of longer term and plans to seek borrowings that are either medium term or longer. It is a common factor that the LFC sector operates on a negative gap in the shorter run based on the nature of doing business.

52.5 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 primary revolves around interest rate risk and equity price risk. As the authorised money changing business commenced only recently and transaction values and exposure involved is negligible, MI is not exposed exchange rate risk materially at present.

52.5.1 Interest Rate Risk

Interest rate risk arises 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. In analysing impacts of interest rate movements on profitability, Management carried resorted to the techniques of sensitivity analysis carried out on MI's financial assets and liabilities taking into account various interest rate scenarios.

52.5.1.a Interest Rate Sensitivity Analysis

Given below is a sensitivity analysis carried out as at 31 March 2014 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 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	182,718	(182,718)
Effect on rate sensitive liabilities	(166,141)	166,141
Sensitivity/effect to Statement of Comprehensive Income	16,577	(16,577)

52.5.1.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 2014. The financial assets and financial liabilities so disclosed are at their carrying amounts and categorised by the earlier of contractual re-pricing or maturity dates.

	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	Non-Interest Bearing Rs. '000	Total as at 31.03.2014 Rs. '000
Financial Assets							
Cash and cash equivalents	–	–	–	–	–	421,182	421,182
Placement with banks	–	406,020	–	–	–	–	406,020
Financial investments - Available-for-sale	204,061	424,142	–	10,700	181,165	2,892,173	3,712,241
Loans and receivables	137,750	1,010,694	1,596,265	2,436,048	59,794	74,540	5,315,091
Finance lease receivables	(920)	186,359	1,944,454	1,801,956	38,990	27,229	3,998,067
Hire purchase receivables	(10,924)	358,256	3,439,368	3,015,701	7,948	63,891	6,874,241
Other financial assets	–	–	–	–	–	89,277	89,277
Inventories	–	–	–	–	–	71,805	71,805
Investment in associates	–	–	–	–	–	777,127	777,127
Total Financial Assets	**329,967**	**2,385,471**	**6,980,087**	**7,264,405**	**287,897**	**4,417,224**	21,665,051
Financial Liabilities							
Bank overdraft	279,269						279,269
Deposits due to customers	3,007,500	6,235,663	1,296,933	877,644	–	–	11,417,741
Debt instruments issued and other borrowings	1,243,651	1,611,694	1,347,170	714,614	–	–	4,917,129
Other financial liabilities	–	–	–	–	–	383,334	383,334
Current tax liabilities	–	–	–	–	–	39,184	39,184
Deferred tax liability	–	–	–	–	–	77,625	77,625
Total Financial Liabilities	4,530,420	7,847,357	2,644,103	1,592,258	–	500,143	17,114,282
Interest sensitivity gap	(4,200,452)	(5,461,885)	4,335,984	5,672,147	287,897	3,917,081	4,550,769

Commentary

MI possesses interest rate sensitive assets excluding non-performing financial assets of Rs. 17.2 billion and rate sensitive liabilities of Rs. 16.6 billion. Currently the impact from an interest rate fluctuation of 1%+ or (1%) is negligible.

52.5.2 Equity Risk

Equity risk is the risk of the Company's equity investments value declining because of share prices falling due to adverse events impacting the stock market. MI has a significant level of equity investments and thus 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 the hotel and banking sector.

MI monitors the share market movements against the prevailing shareholding of the Company and ascertains impacts to profitability at least monthly and submitted for higher management review. Management identifies existing conditions, predictions and identified trends to base their investments and disposal decisions on an ongoing basis.

The Company carried out a risk analysis on its share portfolio based on possible downward market changes, considering the last three 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 Statement of Other Comprehensive Income is Rs. 615 million as at the end of 31 March 2014.

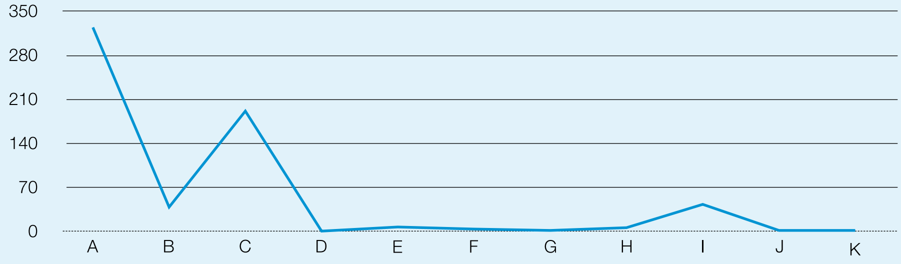
52.5.2.a Risk Analysis of Equity-based Investment Portfolio

The table below demonstrates the maximum equity risk exposure as at 31 March 2014 industry-wise for the equity investment holding of MI:

Industry	Market Value as at 31 March 2014 (Rs. '000)	Lowest Market Value for Last 4 Years (Rs. '000)	Effect to the Statement of Other Comprehensive Income if Market drop to the Recorded Lowest Market Price (Rs. '000)
Banks, Finance & Insurance	1,366,103	1,042,048	324,056
Diversified Holdings	196,721	158,563	38,159
Hotels & Travels	1,130,700	939,699	191,001
Investment Trust	760	612	148
Manufacturing	43,615	36,575	7,040
Power & Energy	4,562	1,778	2,785
Land & Property Development	4,068	2,763	1,305
Motor	12,300	6,400	5,900
Telecommunication	99,000	56,100	42,900
Construction & Engineering	28,127	27,370	757
Trading	5,790	4,800	990
Total	**2,891,746**	**2,276,708**	**615,041**

Equity Risk Exposure

EFFECT TO THE STATEMENT OF OTHER COMPREHENSIVE INCOME IF MARKET DROPS TO THE RECORDED LOWEST MARKET PRICE (Rs. million)



A - Banks, Finance and Insurance
B - Diversified Holdings
C - Hotels and Travels
D - Investment Trust
E - Manufacturing
F - Power and Energy
G - Land and Property Development
H - Motor
I - Telecomunication
J - Construction and Engineering
K - Trading

Commentary

MI has a significant equity risk impact from the share investments in banking, finance and insurance sector and hotel sector Rs. 324 million and Rs. 191 million respectively. MI has a maximum equity risk exposure of Rs. 615 million, in an event that all share prices of MI's equity portfolio reach lowest market price of last 4 years. This is a highly unusual occurrence and a remote factor and thus probability of total impact is negligible. MI's share portfolio is well diversified and its main investment banking and hotel sector are uncorrelated share investments that show potential for capital appreciation.

52.6 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.

MI's objective is to manage operational risk by maintaining an appropriate balance by the avoidance of financial losses and damage to MI's reputation whilst ensuring overall cost effectiveness of selecting right policies and procedures, avoiding control procedures which restrict initiative and creativity.

Corporate management is primary responsible for the development and implementation of controls to address operational risks. Board Sub-Committee including Audit Committee, IRMC, ALCO from a broader perspective provide advice, ascertaining risk levels and at the same time reviews all the control procedures introduced by divisional heads of the Company. The audit function is entrusted to review and report operational non-compliances 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.

52.7 Capital Management

Capital management is considered integral to MI operation in meeting any unforeseen risks. Hence, 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 upto 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. Thus regulatory capital requirements ensure 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 (CCR) and Total Risk Weighted Capital Ratio (TRWCR) were maintained well above the minimum regulatory requirements of 5% and 10% respectively throughout 2013/14 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.

52.7.1 Total Risk-Weighted Assets Computation

	Balance			Risk Weight	Risk Weighted Balance		
As at 31 March	2014* Rs. '000	2013** Rs. '000	2012 Rs. '000	Factor %	2014* Rs. '000	2013** Rs. '000	Balance 2012 Rs. '000
Assets							
Cash and cash equivalents	421,182	632,238	229,822	0	–	–	–
Government debt securities	809,368	476,488	439,446	0	–	–	–
Financial investments - available-for-sale	3,680,000	3,686,462	4,018,728	100	3,680,000	3,686,462	4,018,728
Placements with other bank	406,020	364,330	118,000	20	81,204	72,866	23,600
Loans against fixed deposits	151,521	117,284	57,157	0	–	–	–
Loans and receivables	15,923,304	13,727,363	10,389,357	100	15,923,304	13,727,363	10,389,357
Inventories	71,805	221,220	340,244	100	71,805	221,220	340,244
Other assets	166,509	437,645	401,527	100	166,509	437,645	401,527
Property, plant & equipment	1,756,935	1,559,913	1,612,956	100	1,756,935	1,559,913	1,612,956
Total Risk–Weighted Assets	23,386,644	21,222,943	17,607,237		21,679,757	19,705,469	16,786,412

Total Capital Base Computation

As at 31 March	2014* Rs. '000	2013** Rs. '000	2012 Rs. '000
Tier 1: Core Capital			
Stated capital	36,000	36,000	36,000
Statutory reserve fund	521,400	471,400	421,400
General reserve	3,609,917	3,586,430	2,851,430
Retained earnings	406,598	10,176	292,243
Total Tier 1 capital	4,573,915	4,104,006	3,601,073
Tier 2: Supplementary Capital			
Revaluation reserves (as approved by CBSL)	309,814	309,814	309,814
Total Tier 2 capital	309,814	309,814	309,814
Capital Base	4,883,729	4,413,820	3,910,887

Capital Adequacy Ratios

As at 31 March			2014* %	2013* %	2012 %
Core Capital Ratio	=	$\frac{\text{Tier 1 Capital}}{\text{Risk-Weighted Assets}}$	21.10	20.83	21.45
Total Risk-Weighted Capital Ratio	=	$\frac{\text{Capital Base}}{\text{Risk-Weighted Assets}}$	22.53	22.40	23.30

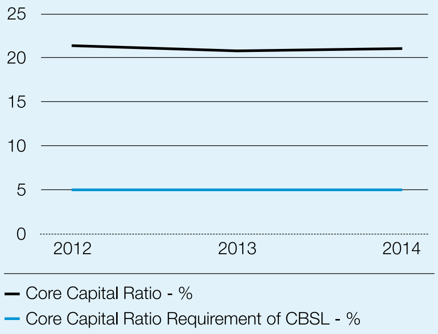
** Based on statutory basis reporting*

*** Based on IFRS/SLFRS*

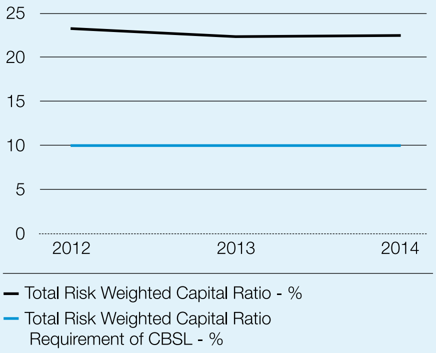
Commentary

MI's strength in capital has enabled the Company to possess statutory capital adequacy ratios well above statutory limits. The continuous rise in risk weighted assets due to growth in lending base is offset significantly from the consistent annual profits generated.

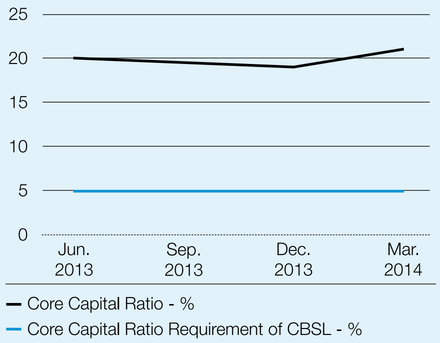
CORE CAPITAL RATIO - ANNUAL (%)



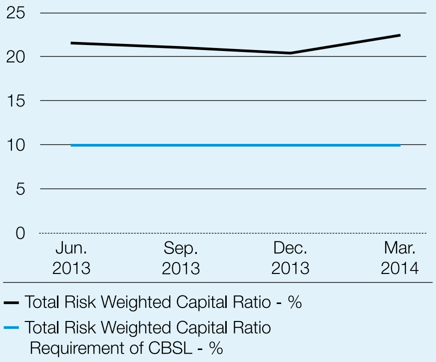
TOTAL RISK WEIGHTED CAPITAL RATIO - ANNUAL (%)



CORE CAPITAL RATIO - QUARTERLY (%)



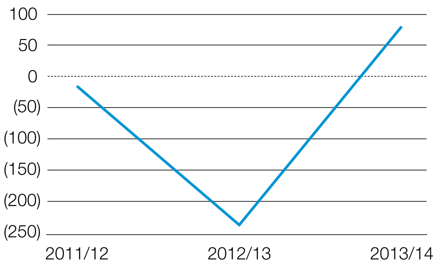
TOTAL RISK WEIGHTED CAPITAL RATIO - QUARTERLY (%)



ECONOMIC VALUE ADDED

As at 31 March	2013/14 Rs. '000	2012/13 Rs. '000	2011/12 Rs. '000
Invested Equity			
Shareholders' funds	6,266,385	5,706,358	5,474,606
Add: Cumulative loan loss provision/provision for impairment	447,782	311,530	279,251
Total	6,714,167	6,017,888	5,753,857
Earnings			
Net profit after tax	675,362	630,791	610,088
Add: Loan losses and provisions/impairment provision	136,252	32,279	14,687
Total	811,614	663,070	624,775
Cost of equity (based on 12 months weighted average treasury bill rate plus 2% for the risk premium)	11.48%	15.25%	10.38%
Cost of average equity	730,820	897,596	638,967
Economic value added	80,794	(234,526)	(14,192)

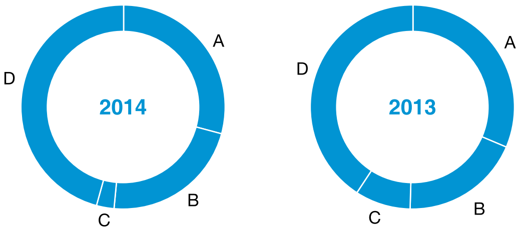
ECONOMIC VALUE ADDED (Rs. million)



VALUE ADDED STATEMENT

For the year ended 31 March	2014 Rs. '000	%	2013 Rs. '000	%	2012 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Value Added										
Income	4,095,811		3,370,086		2,394,235		2,214,120		1,806,966	
Capital gain from sale of quoted shares and T bonds	(80,512)		(123,179)		(590,916)		(597,563)		(168,279)	
Interest expenses	(2,215,483)		(1,867,700)		(1,009,874)		(679,728)		(791,308)	
Cost of external services	644,869		(449,111)		(380,501)		(122,059)		(216,128)	
	1,154,947		930,096		412,944		814,770		631,251	
Value Distribution										
To employees as remuneration	335,849	29	291,804	31	249,508	60	240,643	30	187,623	30
To Government as taxes	258,871	22	175,263	19	141,324	34	231,236	28	262,636	42
To shareholders as dividends	30,060	3	82,665	9	66,133	16	30,000	4	13,800	2
Retained within the business										
- as depreciation/amortisation	71,174	6	50,876	5	45,610	11	34,556	4	32,767	5
- as reserves	458,993	40	329,488	36	(89,631)	(22)	278,335	34	134,425	21
	1,154,947		930,096		412,944		814,770		631,251	

VALUE DISTRIBUTION

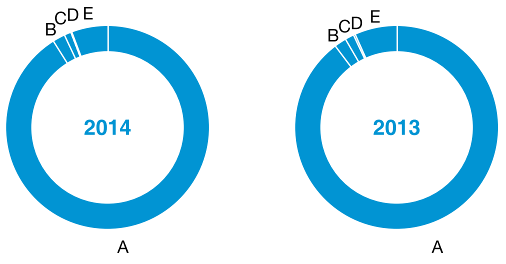


	2014	2013
A - To Employees	29%	31%
B - To Government	22%	19%
C - To Providers of Capital	3%	9%
D - To Expansion and Growth	46%	41%

SOURCES AND UTILISATION OF INCOME

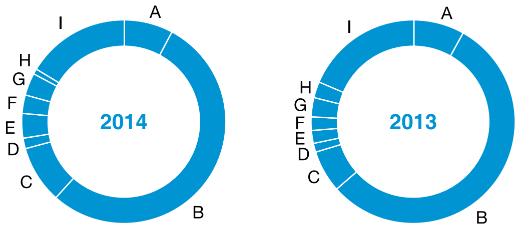
For the year ended 31 March	2014 Rs. '000	%	2013 Rs. '000	%	2012 Rs. '000	%	2011 Rs. '000	%	2010 Rs. '000	%
Sources of Income										
Loans and advances	3,731,971	91.12	2,994,935	88.87	1,620,785	67.70	1,460,552	65.97	1,473,138	81.53
Government Securities	81,946	2.00	59,584	1.77	28,262	1.18	34,182	1.54	74,173	4.10
Commission income	44,402	1.08	45,936	1.36	31,968	1.34	25,433	1.15	25,365	1.40
Operating lease income	(2,738)	-0.07	14,270	0.42	19,140	0.80	19,930	0.90	18,351	1.02
Other income	240,230	5.87	255,360	7.58	694,080	28.99	674,022	30.44	215,939	11.95
Total	4,095,811	100.00	3,370,085	100	2,394,235	100	2,214,120	100	1,806,966	100
Utilisation of Income										
To Employees										
Personnel expenses	335,849	8.20	291,804	8.66	249,507	10.42	240,643	10.87	187,623	10.38
To Suppliers										
Interest paid	2,215,483	54.09	1,867,700	55.42	1,009,874	42.18	679,728	30.70	791,308	43.76
Other expenses	348,566	8.51	206,668	6.13	224,803	9.39	135,611	6.12	132,629	8.19
As depreciation/amortisation	71,174	1.74	50,876	1.51	45,610	1.90	34,556	1.56	32,767	1.81
As provision for credit losses/impairment	160,445	3.92	64,318	1.91	46,897	1.96	(45,348)	-2.05	139,600	7.72
To Government										
Value added tax and other taxes	109,902	2.68	73,985	2.20	125,657	5.25	90,333	4.08	68,202	3.77
Income tax	148,969	3.64	101,278	3.01	15,667	0.65	142,699	6.44	112,436	6.11
To Shareholders										
Dividends	30,060	0.73	82,665	2.45	66,132	2.76	30,000	1.35	13,800	0.76
To Reserves										
Retained profit	675,363	16.49	630,791	18.72	610,088	25.48	905,898	40.91	328,600	17.50
Total	4,095,811	100.00	3,370,085	100	2,394,235	100	2,214,120	100	1,806,966	100

SOURCES OF INCOME



	2014	2013
A - Loans and Advances	91%	89%
B - Government Securities	2%	2%
C - Commission Income	1%	1%
D - Operating Lease Income	0%	0%
E - Other Income	6%	8%

UTILISATION OF INCOME



	2014	2013
A - Personal Expenses	8%	9%
B - Interest Paid	53%	55%
C - Other Expenses	9%	6%
D - As Depreciation/Amortisation	2%	2%
E - As Provision for Credit Losses/Impairment	4%	2%
F - Value Added Tax and Other Taxes	3%	2%
G - Income Tax	4%	3%
H - Dividends	1%	2%
I - Retained Profit	16%	19%

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	259
7.6 (ii)	Principal activities of the Entity during the year and any changes therein	Significant Accounting Policies	276
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 9)	336
7.6 (iv)	The public holding percentage	Investor Relations (Section 2)	334
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	259
7.6 (vi)	Information pertaining to material foreseeable risk factors of the Entity	Risk Management	222 to 253
7.6 (vii)	Details of material issues pertaining to employees and industrial relations of the Entity	Not Applicable	–
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 (Note 28.2)	302 to 303
7.6 (ix)	Number of shares representing the Entity's stated capital	Notes to the Financial Statements (Note 36) Investor Relations (Section 2)	334
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)	334
7.6 (xi)	Equity ratios Market value	Investor Relations (Sections 4 and 5) Investor Relations (Section 6)	335
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	301 to 304
7.6 (xiii)	Details of funds raised through public Issues, Rights Issues and Private Placements during the year	Investor Relations (Section 8)	336
7.6 (xiv)	Information in respect of Employee Share Option Plan and Employee Share Ownership Plan	Not Applicable	–
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	154 to 219
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)	336

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 2014 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 2014 (2013 - 3,006,000) distributed as follows:

Share Information - Voting

	Resident			Non-Resident			Total		
	No. of Share-holders	No. of Shares	%	No. of Share-holders	No. of Shares	%	No. of Share-holders	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	–	–	–	–	–	–	–	–	–

Analysis of Shareholders

Resident/Non-Resident

	31 March 2014			31 March 2013			31 March 2012		
	No. of Shareholders	No. of Shares	%	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	18	3,005,990	100.00
Non-Resident	1	10	0.00	1	10	0.00	1	10	0.00
Total	19	3,006,000	100.00	19	3,006,000	100.00	19	3,006,000	100.00

Individuals/Institutions

	31 March 2014			31 March 2013			31 March 2012		
	No. of Shareholders	No. of Shares	%	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	16	1,768,461	58.83
Institutions	3	1,237,539	41.17	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	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 2014 was 10.87% (2013 - 10.87%, 2012 - 10.87%).

Share Information - Non-Voting

There were no non-voting shares issued by the Company.

3. Share Trading

	2013/14	2012/13	2011/12
Voting			
Number of transactions	–	–	1
Number of shares traded	–	–	10
Rank (As per CSE)	–	–	–
Value of shares traded	–	–	22,000
Rank (As per CSE)	–	–	–

4. Dividends

	2013/14	2012/13	2011/12
Interim (Rs.)			
1st Interim	10.00	13.50	10.00
2nd Interim	–	14.00	12.00
Dividend per share (Rs.)	10.00	27.50	22.00
Dividend payout ratio (%)	4.45%	13.10%	10.83%

5. Earnings

	2013/14	2012/13	2011/12
Earnings per share (Rs.)	224.67	209.84	202.96
Price earnings ratio (Times)	9.79	10.48	10.83

6. Market Value

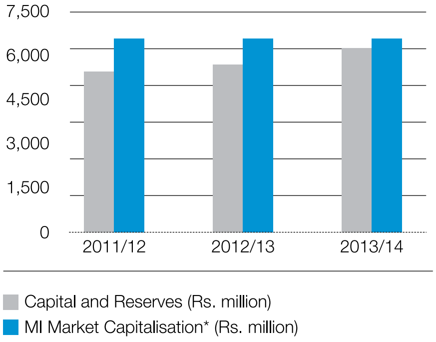
	Highest Rs.	Lowest Rs.	Year End Rs.
2011/12 - Voting	2,200	2,200	2,200
2013/14 - Voting	–	–	–
	2013/14	2012/13	2011/12
Net assets per share	2,084.63	1,897.81	1,821.22

7. Market Capitalisation (As at 31 March)

	Capital & Reserves Rs. '000	MI Market Capitalisation* Rs. '000	CSE Market Capitalisation Rs. '000	MI Market Capitalisation as a percentage CSE Market Capitalisation
2011/12	5,474,606	6,613,200	2,012,873,661	0.33
2012/13	5,706,358	6,613,200	2,199,960,000	0.30
2013/14	6,266,383	6,613,200	2,498,000,000	0.26

** Mercantile Investments and Finance PLC Capitalisation includes only voting shares.*

SHAREHOLDERS' FUNDS AND MARKET CAPITALISATION (Rs. million)



** Mercantile Investments and Finance PLC Capitalisation includes only Voting Shares*

8. Information on Movement in Share Capital

Year	Issue	No. of Shares
N/A	N/A	N/A

9. Twenty Major Shareholders (Voting) of the MI as at 31 March 2014

Name	% on Total Capital	No. of Shares 2014	% on Total Capital	No. of Shares 2013	% on Total Voting Capital	No. of Shares 2012
1. Nilaveli Beach Hotels (Pvt) Limited	20.83	626,240	20.83	626,240	20.83	626,240
2. A.M. Ondaatjie	15.88	477,213	15.88	477,213	15.88	477,213
3. G.G. Ondaatjie	15.88	477,213	15.88	477,213	15.88	477,213
4. T.J. Ondaatjie	15.88	477,213	15.88	477,213	15.88	477,213
5. Mercantile Fortunes (Pvt) Limited	13.67	410,820	13.67	410,820	13.67	410,820
6. G.L.A. Ondaatjie	8.93	268,535	8.93	268,535	8.93	268,535
7. Tangerine Tours (Pvt) Limited	6.67	200,469	6.67	200,469	6.67	200,469
8. P.R. Divitotawela	0.42	12,525	0.42	12,525	0.42	12,525
9. P.R. Divitotawela	0.42	12,525	0.42	12,525	0.42	12,525
10. N.H.V. Perera	0.33	10,020	0.33	10,020	0.33	10,020
11. J.A.S.S. Adhihetty	0.33	10,020	0.33	10,020	0.33	10,020
12. R.M.D. Abeygunawardena	0.33	10,020	0.33	10,020	0.33	10,020
13. S. Fernando	0.17	5,010	0.17	5,010	0.17	5,010
14. S. Senanayake	0.17	5,010	0.17	5,010	0.17	5,010
15. C.A. Ondaatjie	0.07	2,004	0.07	2,004	0.07	2,004
16. A.D. Rajapaksha	0.02	501	0.02	501	0.02	501
17. A.M. Rajapaksha	0.02	501	0.02	501	0.02	501
18. A.M. Dominic	0.01	151	0.01	151	0.01	151
19. H.W.M. Woodward	0.00	10	0.00	10	0.00	10
Total	100.00	3,006,000	100.00	3,006,000	100.00	3,006,000

10. Twenty Major Shareholders (Non-Voting) of the MI as at 31 March 2014

Name	% on Total Capital	% on Total Voting Capital	No. of Shares 2013	No. of Shares 2012
N/A	N/A	N/A	N/A	N/A

11. Related Party Transactions Exceeding 10% of the Equity or 5% of the Total Assets

No any Related party transactions during the year.

DECADE AT A GLANCE

	Based on SLFRS/LKAS				Based on SLAS					
For the year ended 31 March	2014	2013	2012	2011	2010	2009	2008	2007	2006	2005
	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
Operating Results										
Income	4,095,811	3,370,086	2,394,235	2,214,120	1,806,966	1,708,609	1,372,133	1,092,335	974,491	799,488
Interest expense	2,215,483	1,867,700	1,009,874	679,728	791,308	989,662	720,125	447,070	335,390	241,252
Non-interest expenses	1,055,997	770,316	726,397	485,795	574,623	464,225	420,723	307,953	278,318	246,254
Profit before tax	824,331	732,069	625,755	1,048,597	441,035	254,409	231,285	337,312	360,783	311,981
Provision for taxation	148,969	101,278	15,667	142,699	112,436	21,034	82,716	100,327	77,096	24,938
Net profit for the year	675,362	630,791	610,088	905,898	328,600	233,375	148,569	236,985	283,687	287,043
Dividends	30,060	82,665	66,132	30,000	13,800	9,750	14,049	60,080	29,321	42,189
As at 31 March										
Assets										
Liquid assets	1,455,405	1,389,107	787,268	522,280	483,483	462,636	416,332	261,874	304,074	289,111
Investments	2,892,173	2,980,019	3,390,331	4,779,213	1,761,332	930,836	1,196,974	1,189,991	1,028,824	891,671
Debentures	10,700	10,773	–	–	–	–	2,232	3,040	3,040	3,560
Advances	16,187,399	13,844,647	10,446,514	6,416,176	4,430,395	5,205,265	5,377,167	4,843,254	4,282,982	3,164,702
Other assets	419,479	718,304	741,769	271,242	309,509	217,281	268,717	350,865	213,665	116,826
Property, plant & equipment	1,709,676	1,535,732	1,565,620	1,214,750	1,037,007	1,015,271	888,378	859,202	367,231	376,762
Leasehold property	43,545	44,013	44,481	44,950	45,418	45,886	–	–	–	–
Intangible assets	3,714	4,681	2,855	6,521	–	–	–	–	–	–
Investment in associates	777,127	695,670	628,397	493,555	456,363	–	–	–	–	–
Total assets	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174	8,149,800	7,508,226	6,199,816	4,846,192
Liabilities										
Bank overdraft	279,269	999,036	505,815	397,246	213,395	625,709	765,175	461,328	22,774	138,663
Borrowings	4,917,129	5,232,331	4,638,644	2,318,481	403,599	1,236,670	1,679,362	1,804,044	1,991,577	1,037,946
Deposits from customers	11,417,741	8,424,720	6,137,896	4,297,801	3,479,291	2,774,974	2,409,257	2,065,644	1,811,049	1,618,996
Other liabilities	618,694	860,499	850,274	442,081	651,206	545,411	583,950	593,987	373,084	247,725
	17,232,834	15,516,588	12,132,629	7,455,609	4,747,491	5,182,764	5,437,744	4,925,003	4,198,484	3,043,330
Shareholders' Funds										
Share capital	36,000	36,000	36,000	36,000	30,000	30,000	30,000	30,000	30,000	30,000
Reserves	6,230,385	5,670,358	5,438,606	6,257,078	3,746,016	2,664,410	2,682,056	2,553,223	1,971,332	1,772,862
	6,266,385	5,706,359	5,474,606	6,293,078	3,776,016	2,694,410	2,712,056	2,583,223	2,001,332	1,802,862
Total shareholders' funds & total liabilities	23,499,218	21,222,946	17,607,235	13,748,687	8,523,507	7,877,174	8,149,800	7,508,226	6,199,816	4,846,192
Information on Ordinary Shares										
Earnings per share (Rs.)	224.67	209.84	202.96	301.36	109.53	77.79	49.52	79.00	94.56	95.68
Net assets per share (Rs.)	2,084.63	1,898.32	1,821.23	2,093.51	1,258.67	898.14	908.98	861.07	715.44	600.95
Interest cover (times)	1.37	1.39	1.62	2.54	1.56	1.26	2.29	2.29	2.65	2.29
Dividend cover (times)	22.47	7.63	9.23	30.20	23.81	23.94	3.94	3.94	9.68	6.80
Ratios (%)										
Return on shareholders' funds	11	11	11	14	9	9	5	9	14	17
Liquid assets as a % of deposits	13	17	13	12	14	17	17	13	17	18
Growth in income	22	41	7	23	6	25	26	12	22	25
Growth in interest expenses	19	85	50	(14)	(20)	37	61	33	39	40
Growth in other expenses	37	2	50	(15)	27	10	37	4	13	37
Growth in profit after tax	7	3	(33)	176	36	57	(37)	(17)	1	18
Growth in advances	17	33	63	45	(15)	(3)	11	11	35	49
Growth in deposits	36	37	43	24	25	15	17	12	12	14
Growth in shareholders' funds	10	4	(13)	67	31	1	5	23	15	39

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.

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 of one 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 before provision for bad and doubtful debts 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, and 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.

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.

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 the risks and rewards of ownership to the lessee.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in 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.

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 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 commercial paper.

Loans and Receivables

Conventional loan assets that are unquoted (originated).

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.

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.

NOTICE OF MEETING

NOTICE IS HEREBY given that the Fifty-First Annual General Meeting of MERCANTILE INVESTMENTS AND FINANCE PLC will be held at No. 236, Galle Road, Colombo 3, on 30 June 2014, 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 2014 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 re-elect Directors retiring in terms of Article 23 (3) of the Articles of Association.
- To ratify the 2nd Interim Dividend of Rs. 10/- per share declared on 30 April 2014 as the final dividend for the financial year ended 31 March 2014.
- To re-appoint 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,

S Pethiyagoda

Sonali Pethiyagoda
Company Secretary

Colombo
23 May 2014

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, hereby appoint:

.... of .... or failing him/her

Mr. Saroja Hemakumar Jayawickrema Weerasuriya	of Colombo (or failing him)
Mr. Gerard George Ondaatjie	of Colombo (or failing him)
Mr. Shermal Hemaka Jayasuriya	of Colombo (or failing him)
Mr. Pathiranage Mahes Amarasekara	of Colombo (or failing him)
Ms. Angeline Myrese Ondaatjie	of Colombo (or failing her)
Mr. Travice John Ondaatjie	of Colombo (or failing him)
Ms. Punyakanthi Tikiri Kumari Navaratne	of Colombo (or failing her)
Mr. Nawagamuwage Hasantha Viraj Perera	of Colombo (or failing him)
Mr. Singappuli Mudiyanselage Susantha Sanjaya Bandara	of Colombo (or failing him)
Mr. Pathmanathan Cumarasamy Guhashanka	of Colombo

as *my/our proxy to represent *me/us and vote for *me/us on *my/our behalf at the Fifty-First Annual General Meeting of the Company to be held at 11.00 a.m. on 30 June 2014, at No. 236, Galle Road, Colombo 3 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

As witness *my hand/our hands this .... day of .... two thousand and fourteen.

....
Signature

Instructions as to Completion

1. 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.
2. If the Proxy Form is signed by an Attorney, the relative Power of Attorney should also accompany the Proxy Form for registration, if such Power of Attorney has not already been registered with the Company.
3. 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.
4. 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 shareholder's 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 scrutiniser 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,
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 Mudiyanselage Susantha Sanjaya Bandara
Pathmanathan Cumarasamy Guhashanka

Company Secretary
Sonali Pethiyagoda

Audit Committee
Singappuli Mudiyanselage 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

Remuneration Committee
Saroja Hemakumar Jayawickrama Weerasuriya *(Chairman of the Committee)*
Nawagamuwage Hasantha Viraj Perera
Punyakanthi Tikiri Kumari Navaratne

Nominations Committee
Saroja Hemakumar Jayawickrama Weerasuriya *(Chairman of the Committee)*
Gerard George Ondaatjie
Singappuli Mudiyanselage Susantha Sanjaya Bandara
Nawagamuwage Hasantha Viraj Perera

Integrated Risk Management Committee
Nawagamuwage Hasantha Viraj Perera *(Chairman of the Committee)*
Gerard George Ondaatjie
Pathiranage Mahes Amarasekera
Shermal Hemaka Jayasuriya

Assets and Liability Committee
Gerard George Ondaatjie *(Chairman of the Committee)*
Pathiranage Mahes Amarasekera
Shermal Hemaka Jayasuriya

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 and short-term Financial Institution ratings at BBB+ (Stable outlook) and P2 respectively by Lanka Rating Agency (Pvt) Ltd.

Management Team
Dhanushka Fonseka - Director *(Non-Board) - Credit and Marketing*
Buddhika Kasturiratne *(GM - Recoveries)*
Deva Anthony *(GM - Finance)*
Ravi Ekanayake *(GM - Workshop)*
Hirantha Pandithasekera *(AGM - Corporate Leasing)*
Ravi de Mel *(AGM - Credit Administration)*
Dharshana Senarath *(AGM - Leasing)*
Lahiru Dayananda *(AGM - Credit and Marketing)*
Jayanka Kahawevithana *(Senior Manager - Legal)*
Shehan Cooray *(Senior Manager - Recoveries)*
Prasad Wickramasinghe *(Senior Manager - Payments)*
Chandana Nanayakkara *(Senior Manager- Finance)*
Prasad Indika *(Senior Manager - IT Software Development)*
M.D.R. Induruwage *(Senior Manager - Deposit and Marketing)*
Kumudini Jayasekara *(Manager - Insurance)*
Chaminda Paranayapa *(Manager - Insurance)*
Kingsly Lowe *(Manager- Negombo)*
Wiraj Arachchi *(Manager - IT)*
Dinesh Perera *(Manager - Leasing Negombo)*
Avindra Wijesundara *(Manager - Credit)*
U.M.M.K. Bandara *(Manager - Credit)*
Wasantha Sisira Kumara *(Manager - Kurunegala)*
Ramidu Costa *(Manager - Risk and Compliance)*
A.E. Ganegoda *(Manager - Recoveries)*
Rohitha Rupasinghe *(Manager - Recoveries Administration)*
Wasantha Petikiri *(Joint Manager - Legal)*
Fawziya Swangsa *(Chairman's Secretary)*

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