

FINANCIAL STATEMENTS FOR THE PERIOD ENDED 31ST MARCH 2016

INCOME STATEMENT	Rs. '000	
	01/04/2015 To 31/03/2016 (12 months)	01/01/2015 To 31/03/2015 (03 months)
Interest and similar income	4,156,449	976,481
Interest and similar expenses	(2,191,225)	(527,578)
Net interest income	1,965,224	448,903
Fee and commission income	39,522	11,975
Fee and commission expenses	-	-
Net fee and commission income	39,522	11,975
Net gain/(loss) from trading	42,397	6,030
Net gain / (loss) on financial assets and liabilities designated at fair value through profit & loss	(80,890)	(63,664)
Other operating income (net)	131,898	14,989
Total operating income	2,098,151	418,233
Impairment for loans and other losses		
Individual impairment	(194,060)	(173,025)
Collective impairment	(37,640)	(71,795)
Others	(205,899)	-
Net operating income	1,660,552	173,413
Personnel expenses	(693,136)	(158,520)
Depreciation and amortization	(72,461)	(15,927)
Other expenses	(690,441)	(132,692)
Operating profit / (loss) before Value Added Tax (VAT)	204,514	(133,726)
VAT on financial services	(74,738)	(2,261)
Operating profit / (loss) after VAT	129,776	(135,987)
Share of profits of associates and joint ventures	-	-
Profit / (loss) before tax	129,776	(135,987)
Tax expenses	(70,259)	-
Profit / (loss) for the Period	59,517	(135,987)
Earnings per share:		
Basic/diluted earnings per share (Rs.)	0.36	(0.82)

STATEMENT OF COMPREHENSIVE INCOME	Rs. '000	
	01/04/2015 To 31/03/2016 (12 months)	01/01/2015 To 31/03/2015 (03 months)
Profit / (loss) for the period	59,517	(135,987)
Other comprehensive income, net of tax		
Actuarial gains and losses on defined benefit plans	32,603	-
Gains and losses on re-measuring available-for-sale financial assets	(67,451)	(22,044)
Less: Tax expense / (income) relating to components of other comprehensive income	(9,129)	-
Other comprehensive income for the period, net of taxes	(43,977)	(22,044)
Total comprehensive income for the period	15,540	(158,030)



**MERCHANT BANK OF SRI LANKA & FINANCE PLC
INDEPENDENT AUDITOR'S REPORT TO
THE BOARD OF DIRECTORS OF MERCHANT BANK OF SRI LANKA & FINANCE PLC**

Report on the special purpose financial statements
We have audited the accompanying special purpose financial statements of Merchant Bank of Sri Lanka & Finance PLC which comprise the statement of financial position as at 31 March 2016, and the statements of income and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information ("the special purpose financial statements"). The special purpose financial statements have been prepared by the Directors of Merchant Bank of Sri Lanka & Finance PLC based on the financial reporting provisions described in note 2.1.1 to these special purpose financial statements.

Board's responsibility for the special purpose financial statements

The Board of Director ("Board") is responsible for the preparation and fair presentation of these special purpose financial statements in accordance with the basis stated in note 2.1.1 in these special purpose financial statements, and for such internal control as the Directors determine are necessary to enable the preparation of the financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

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

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

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

Opinion

In our opinion, the special purpose financial statements give a true and fair view of the financial position of the company as at 31 March 2016 and of its financial performance and cash flows for the year then ended in accordance with the basis of preparation as stated in note 2.1.1 to the special purpose financial statements.

Emphasis of matter regarding basis of preparation

Without modifying our opinion, we draw attention to note 2.1.1 to these special purpose financial statements, which describes the basis of preparation.

Restriction on distribution

The special purpose financial statements are prepared to assist in the review of the company's financial performance for the year ended 31 March 2016 as required by Central Bank of Sri Lanka. As a result, the financial statements may not be appropriate for any other purpose.

Our report is intended solely for Merchant Bank of Sri Lanka & Finance PLC and Central Bank of Sri Lanka and should not be distributed to parties other than Merchant Bank of Sri Lanka & Finance PLC and Central Bank of Sri Lanka.

Other matter

Merchant Bank of Sri Lanka & Finance PLC has prepared a separate set of financial statements for the year ended 31 December 2015 in accordance with Sri Lanka Accounting Standards on which we issued a separate auditor's report to the Shareholders of Merchant Bank of Sri Lanka & Finance PLC dated 18 May 2016.

[Signature]
SJMS ASSOCIATES
Chartered Accountants
Colombo

23 June 2016

STATEMENT OF FINANCIAL POSITION	Rs. '000	
	As at 31/03/2016	As at 31/03/2015
Assets		
Cash and cash equivalents	388,947	507,835
Placements with banks & financial institutions	445,694	737,510
Financial assets designated at fair value through profit or loss	450,180	500,311
Loans and receivables - Leases	12,796,510	8,531,801
Loans and receivables - Hire purchase	1,780,343	3,877,701
Loans and receivables - Others	9,435,238	8,285,087
Financial investments - Available-for-sale	2,563,757	2,389,661
Financial investments - Held-to-maturity	58,082	28,926
Investments in subsidiaries	310,197	516,096
Investments in associates and joint ventures	81,084	81,084
Property, plant and equipment	216,805	205,860
Investment properties	145,081	148,673
Investments in real estates	40,788	108,658
Goodwill and intangible assets	36,174	32,181
Other assets	222,927	78,538
Total assets	28,971,807	26,029,922
Liabilities		
Due to banks	132,888	301,602
Due to customers	18,014,561	11,671,116
Other borrowings	401,064	435,682
Debt securities issued	6,543,439	9,664,258
Current tax liabilities	164,068	186,452
Deferred tax liabilities	113,669	91,403
Other liabilities	631,940	686,018
Total liabilities	26,001,629	23,036,531
Equity		
Stated capital	2,124,457	2,124,457
Statutory reserve fund	140,544	140,544
Retained earnings	751,187	706,949
Other reserves	(46,010)	21,441
Total equity	2,970,178	2,993,391
Total equity and liabilities	28,971,807	26,029,922
Contingent liabilities and commitments	123,536	158,118

SELECTED PERFORMANCE INDICATORS	As at 31/03/2016	As at 31/03/2015
Regulatory Capital Adequacy		
Core capital (Tier 1 Capital), Rs. '000	2,989,899	3,147,328
Total Capital Base, Rs. '000	2,960,243	3,295,828
Core Capital Adequacy Ratio, as % of Risk		
Weighted Assets (Minimum requirement, 5%)	11.75%	13.85%
Total Capital Adequacy Ratio, as % of Risk		
Weighted Assets (Minimum requirement, 10%)	11.63%	14.50%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	17.25%	28.13%
Assets Quality (Quality of Loan Portfolio)	As at 31/03/2016 (Unaudited)	As at 31/03/2015 (Unaudited)
Gross Non-Performing Accommodations, Rs. '000	3,970,754	4,134,828
Gross Non-Performing Accommodations Ratio, %	14.99%	17.91%
Net Non Performing Accommodations Ratio, %	7.57%	10.54%
Profitability (%)		
Interest Margin	7.27%	1.88%
Return on Assets (before tax)	0.45%	-0.52%
Return on Equity (after tax)	2.00%	-4.52%
Regulatory Liquidity (Rs. '000)		
Required minimum amount of Liquid Assets	2,491,569	2,142,857
Available amount of Liquid Assets	2,804,192	2,212,679
Required minimum amount of Government Securities	1,656,069	1,623,593
Available amount of Government Securities	2,125,134	1,719,681
Memorandum information		
Number of employees	862	735
Number of branches	48	50

Comparative information is presented only for three months, since Merchant Bank of Sri Lanka & Finance PLC (MBSL) merged on 1st January 2015 with MBSL Financial Services Limited (MBSL) and MBSL Savings Bank Limited (MSB). Prior to amalgamation MBSL operated as a specialised leasing company, MBSL operated as a license finance company and MSB operated as a license specialised bank.

Certification;

We, the undersigned, being the Chief Executive Officer and the Deputy General Manager- Finance & Strategic Planning of Merchant Bank of Sri Lanka & Finance PLC certify jointly that:

- the above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka;
- the information contained in these statements has been extracted from the special purpose interim financial statements of the Licensed Finance Company audited by M/S SJMS Associates unless indicated as unaudited.

(Sgd.) T. Mutugala
Chief Executive Officer
23/06/2016

(Sgd) H.M.P.B Herath
Deputy General Manager
Finance & Strategic Planning
23/06/2016