



# Merchant Bank of Sri Lanka & Finance PLC

## FINANCIAL STATEMENTS

### FOR THE YEAR ENDED 31ST DECEMBER 2017

ICRA " [SL] A "

Rs. '000

#### STATEMENT OF PROFIT OR LOSS

	01/01/2017 To 31/12/2017	01/01/2016 To 31/12/2016
Interest and similar income	6,157,286	4,737,774
Interest and similar expenses	(3,708,808)	(2,709,604)
<b>Net interest income</b>	<b>2,448,478</b>	<b>2,028,170</b>
Fee and commission income	179,687	131,483
Fee and commission expenses	(59,964)	(37,813)
<b>Net fee and commission income</b>	<b>119,723</b>	<b>93,670</b>
Net trading income	(16,018)	10,072
Net gain / (loss) on financial assets and liabilities designated at fair value through profit or loss	5,624	(61,096)
Net gain / (loss) from financial investments	-	-
Other operating income	76,246	69,922
<b>Total operating income</b>	<b>2,634,053</b>	<b>2,140,738</b>
Impairment for loans and other losses		
Individual impairment	(44,829)	(82,387)
Collective impairment	(199,402)	58,148
Others	(56,189)	(232,891)
<b>Net operating income</b>	<b>2,333,633</b>	<b>1,883,608</b>
Personnel expenses	(1,027,092)	(781,530)
Retirement benefit expenses	(46,434)	(40,464)
Depreciation of property, equipment & investment properties	(82,144)	(64,408)
Amortisation of intangible assets	(26,881)	(10,639)
Other operating expenses	(743,029)	(641,940)
<b>Operating profit/(loss) before Value Added Tax (VAT)</b>	<b>408,053</b>	<b>344,627</b>
VAT on financial services	(179,403)	(111,730)
<b>Profit before tax</b>	<b>228,650</b>	<b>232,897</b>
Tax expenses	(127,799)	(154,247)
<b>Profit for the year</b>	<b>100,851</b>	<b>78,650</b>
<b>Earnings per share:</b>		
Basic/diluted earnings per share (Rs.)	0.61	0.47

Rs. '000

#### STATEMENT OF COMPREHENSIVE INCOME

	01/01/2017 To 31/12/2017	01/01/2016 To 31/12/2016
<b>Profit for the year</b>	<b>100,851</b>	<b>78,650</b>
<b>Other comprehensive income, net of tax</b>		
Actuarial gain/(loss) on defined benefit plans	(17,867)	39,068
Gain/(loss) on re-measuring available-for-sale financial assets	28,379	(17,452)
Less: Tax expense/(income) relating to components of other comprehensive income	15,942	(1,810)
<b>Other comprehensive income for the year, net of taxes</b>	<b>26,454</b>	<b>19,806</b>
<b>Total comprehensive income for the year</b>	<b>127,305</b>	<b>98,456</b>



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AUDITOR GENERAL'S DEPARTMENT

To the Shareholders of the Merchant Bank of Sri Lanka & Finance PLC

Report of the Auditor General on the Financial Statements of the Merchant Bank of Sri Lanka & Finance PLC and the Consolidated Financial Statements of the Company and its Subsidiary for the year ended 31 December 2017

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

**Auditor's Responsibility**  
My responsibility is to express an opinion on these financial statements based on my audit. I conducted my audit in accordance with Sri Lanka Auditing Standards. Those Standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, 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 Company's preparation and fair presentation of the 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 Company's internal controls. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by Board, as well as evaluating the overall presentation of the financial statements.

**Opinion**  
In my opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**Emphasis of Matter**  
Without qualifying my opinion, I draw your attention to Note 44 to the financial statements which described the going concern assumption in the preparation of the financial statements of the Subsidiary, MBSL Insurance Company Limited.

**Report on Other Legal and Regulatory Requirements**  
As required by Section 163(2) of the Companies Act No. 07 of 2007, I state the following:

- The basis of opinion and scope and limitations of the audit are as stated above.
- In my opinion:
  - I have obtained all the information and explanations that were required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company.
  - The financial statements of the Company give a true and fair view of its financial position as at 31 December 2017, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.
  - The financial statements of the Company and the Group comply with the requirements of the Sections 151 and 153 of the Companies Act No. 07 of 2007.

However, it should be noted that, the net assets of the Subsidiary are less than half of the stated capital and face a serious loss of capital situation in terms of Section 220 of the Companies Act No. 07 of 2007 as discussed in Note 44 to the financial statements.

As discussed in Note 44 to the financial statements, the Subsidiary has not segregated the long term insurance business and the general insurance business being carried on by it into two separate companies in accordance with Section 53 of Regulation of Insurance Industry (Amendment) Act No. 03 of 2011.

The non-life business of the Subsidiary does not fulfill the minimum required thresholds set for the capital adequacy ratio and total available capital by the regulation of Insurance Industry Act, No. 43 of 2000 and "the Solvency Margin (Risk based Capital) Rules 2015, while the life business does not fulfill the minimum required threshold set for total available capital.

**Report to Parliament**  
My report to Parliament in pursuance of provisions in Article 154(6) of the Constitution will be tabled in due course.

H.M. Gamini Wijesinghe  
Auditor General

Rs. '000

#### STATEMENT OF FINANCIAL POSITION

	As at 31/12/2017	As at 31/12/2016
<b>Assets</b>		
Cash and cash equivalents	418,885	401,301
Placements with banks & financial institutions	1,509,597	118,933
Securities purchased under resale agreements	1,302,748	265,687
Financial investments - held-for-trading	231,264	323,655
Bills receivable	494,096	739,403
Loans & advances to customers	12,598,133	11,320,845
Lease and hire purchase receivable	15,661,432	14,991,751
Financial investments - available-for-sale	1,815,181	2,735,645
Financial investments - held-to-maturity	479,362	57,766
Real estate stock	42,603	24,144
Investment in associate company	81,084	81,084
Investment in subsidiary	21,117	77,306
Investment properties	123,773	127,670
Property and equipment	321,660	316,511
Intangible assets	226,293	26,557
Other assets	317,979	318,496
<b>Total assets</b>	<b>35,645,207</b>	<b>31,926,754</b>
<b>Liabilities</b>		
Due to banks	123,849	201,635
Securities sold under repurchase agreements	437,672	401,820
Due to customers	21,918,869	18,518,419
Debt issued and borrowed funds	8,818,862	8,722,787
Current tax liabilities	7,473	151,128
Deferred tax liabilities	373,711	206,888
Other liabilities	467,965	404,174
Retirement benefits obligations	262,986	213,388
<b>Total liabilities</b>	<b>32,411,387</b>	<b>28,820,239</b>
<b>Equity</b>		
Stated capital	2,124,457	2,124,457
Statutory reserves	177,839	157,669
Retained earnings	924,947	846,191
Available-for-sale reserve	6,577	(21,802)
<b>Total equity</b>	<b>3,233,820</b>	<b>3,106,515</b>
<b>Total liabilities and equity</b>	<b>35,645,207</b>	<b>31,926,754</b>
<b>Contingent liabilities and commitments</b>	<b>167,712</b>	<b>132,265</b>

#### SELECTED PERFORMANCE INDICATORS

(As per regulatory reporting)	As at 31/12/2017	As at 31/12/2016
<b>Regulatory Capital Adequacy</b>		
Core capital (Tier 1 Capital), Rs. '000	3,181,487	2,994,386
Total Capital Base, Rs. '000	4,757,631	3,002,386
Core Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 5%)	10.21%	10.66%
Total Capital Adequacy Ratio, as % of Risk Weighted Assets (Minimum requirement, 10%)	15.27%	10.69%
Capital Funds to Deposit Liabilities Ratio (Minimum requirement, 10%)	15.39%	17.49%
<b>Assets Quality (Quality of Loan Portfolio)</b>		
Gross Non-Performing Accommodations, Rs. '000	3,910,586	3,335,033
Gross Non-Performing Accommodations Ratio, %	12.60%	11.48%
Net Non Performing Accommodations Ratio, %	5.87%	5.76%
<b>Profitability (%)</b>		
Interest Margin	7.90%	6.18%
Return on Assets (before tax)	0.64%	0.73%
Return on Equity (after tax)	3.12%	2.53%
<b>Regulatory Liquidity (Rs. '000)</b>		
Required minimum amount of Liquid Assets	2,930,127	2,761,431
Available amount of Liquid Assets	3,316,778	2,930,598
Required minimum amount of Government Securities	1,900,049	1,656,069
Available amount of Government Securities	1,918,169	2,542,289
<b>Memorandum information</b>		
Number of employees	968	917
Number of branches	40	40
Number of service centers	-	-
Number of pawing centers	-	-
Number of other centers	9	9

#### Certification;

We, the undersigned, being the Head of Finance and the Acting Chief Executive Officer 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 have been extracted from audited financial statements of the Licensed Finance Company unless indicated as "Unaudited".

(Sgd.)

P I Kandanaarachchi

Head of Finance

19 / 06 / 2018

(Sgd.)

J Gamalath

Acting Chief Executive Officer

19 / 06 / 2018