

Full Speed Ahead

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

Annual Report 2019

Full Speed Ahead

From port to starboard, a seaworthy vessel is more than just its exterior but a work of precision, effort and continuing improvement. This year, we too increased our shipshape status as we input several upgrades that would help us serve our diverse clientele in a more effective and efficient way. From enhancing our digital footprint in creating convenience in our branches, to expanding and fortifying our products and services, our initiative developments put us on the fast track. In the year ahead, our journey is set to be even more fruitful as we further our mission to delivering value to all our stakeholders.

MBSL: We're gaining momentum and it's full speed ahead.

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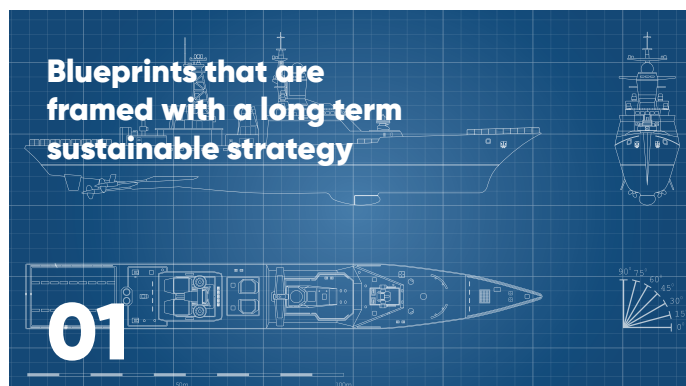
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Steered into calm waters through clear leadership

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Anchored in the ethics and values that empower us

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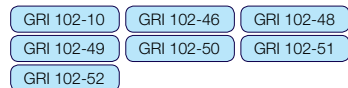
Report of the Auditor General



Please read this report online
www.mbsbank.com

About this Report

Scope and Boundary



This is the 6th annual integrated report published by MBSL. It covers the financial period from 01 January 2019 to 31 December 2019 and includes both financial and non-financial performance data for this period.

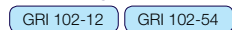
There has been no change in the scope and boundary of this report, relative to the previous report, nor have there been significant changes in the size or ownership during the current reporting period, other than through organic growth of operations. There has been no material restatement of information provided in earlier reports.

However, this report seeks to improve on the previous integrated report prepared for the year ending 31 December 2018, reflecting MBSL's commitment to improve the level of integration of its reporting over time. Accordingly the current report aims to provide stakeholders with a holistic overview of MBSL's strategy, performance and business activities, the material issues faced with regard to human resources, information technology, governance, sustainability and compliance as well as a measure of the Company's ability to ensure a sustainable business future.

Material Matters

Matters that substantially affect the Company's ability to create and sustain value over the short, medium and long-term are considered material and are included in this report. These Material Matters are identified and selected for inclusion through an ongoing Materiality Assessment to determine the economic, social and environmental matters that may affect our business or be of concern to stakeholders.

Reporting Principles and Comparability



'This report has been prepared in accordance with the GRI Standards : Core option' to capture the Company's progress in delivering stakeholder value, the report has been compiled in line with International Integrated Reporting Council's ("IIRC's") Integrated Reporting <IR> Framework, which considers the six capitals, namely financial, manufactured, intellectual, human, social and relationship and natural capital.

Where possible the report also makes reference to the Global Reporting Initiative (GRI) Standards to highlight key sustainability indicators. Sustainability report has been prepared in accordance with the GRI Standards: "Core" option. The Company shall meet all criteria for the "Core" option.

The Financial Statements have been prepared in accordance with Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing Standard Act No.15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued there to and the Listings Requirements of the CSE.

The Corporate Governance report is in accordance with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (ICASL).

Assurance

Assurance of this report is provided by a combination of internal and external sources.

The content included in this Integrated Report has been approved by the respective business heads and reviewed by the audit committee prior to submission to the board of directors for approval.

An independent review of the Company's Financial Statements has been carried out by the Auditor General of Sri Lanka. Refer page 130.

Forward Looking Statements

Certain statements in this integrated report may constitute "forward-looking statements". Actual results and performance of the Company may differ materially from those implied by such statements due to many factors. Readers are therefore cautioned not to place undue reliance on such statements. MBSL does not undertake any obligation to update any revisions to these statements publicly after the date of this report.

Board Responsibility

The MBSL Board assisted by its audit and risk and other committees, is ultimately responsible for overseeing the integrity of this Integrated Report. Accordingly, The Board confirms that it has collectively reviewed the output of the reporting process and the content of the Integrated Report, and therefore approves the report for release.

Feedback

In its endeavor to continuously improve its reporting processes, MBSL welcomes feedback on the effectiveness of this report.

Any feedback in this regard should be directed to:

Head of Finance

Merchant Bank of Sri Lanka & Finance PLC
BOC Merchant Tower
No.28, St. Michael's Road
Colombo-03
Tel: 0114711749
Email: purnak@mbslbank.com

About the Company

GRI 102-4 GRI 102-16

MBSL was incorporated in 1982 as Sri Lanka's first and only specialized merchant bank in the Country at the time. In 1991, the Company was listed on the Colombo Stock Exchange and in the year 2000 secured the license to operate as a Leasing Company. In 2014 the Company was renamed Merchant Bank of Sri Lanka & Finance PLC and in 2015 registered under the Finance Business Act as a licensed finance company authorized to carry out finance business activities. Today MBSL operates through a network of 49 branches across the island and company operates only within Sri Lanka.

Vision, Mission and Values

Our Vision

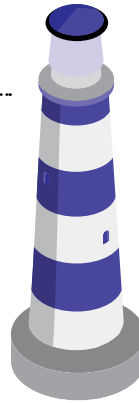
To be the most innovative business solution provider to the nation

Our Mission

- ▶ To enhance our clients' wealth through innovative and sustainable solutions whilst developing entrepreneurship
- ▶ To enhance shareholder value upholding highest standards of corporate governance
- ▶ To enhance knowledge and skills of employees while rewarding them for achieving service excellence
- ▶ To foster mutually beneficial relationships with our business partners
- ▶ To fulfill our responsibilities towards the society by serving the nation while maintaining principles of corporate social responsibility

Our Values

- ▶ Uphold the highest traditions of ethics, norms and best practices in all our endeavours
- ▶ Guide our principles with wisdom and prudence in search of excellence
- ▶ Foster entrepreneurship amongst our employees in creating an atmosphere of caring, sharing and integrity
- ▶ Ensure good governance and transparency
- ▶ Delight our clientele through service excellence, differentiation and innovation
- ▶ Unite and be courageous to face challenges



Key Strengths

Market Leadership

- ▶ Best Service Provider for SMEs at the Asia Leadership Awards 2019
- ▶ Recognized within the top-100 brands in Sri Lanka

Customer Reach

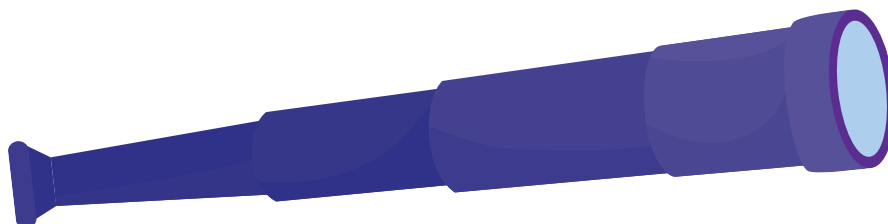
- ▶ Branch footprint in all 25 districts
- ▶ 190,212 customers island wide

Talent

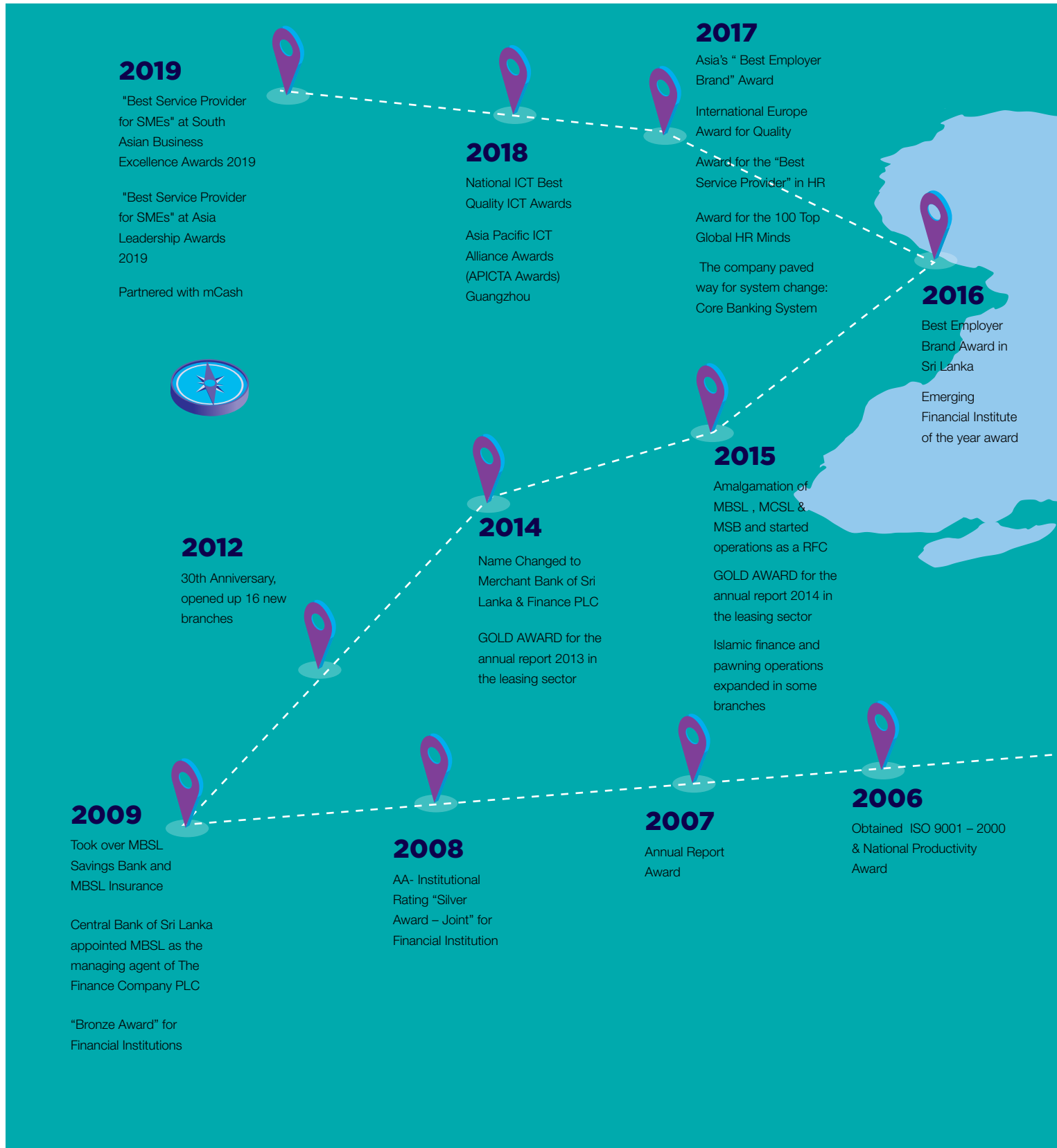
- ▶ 1000 employees
- ▶ 1.6 : 1 gender ratio

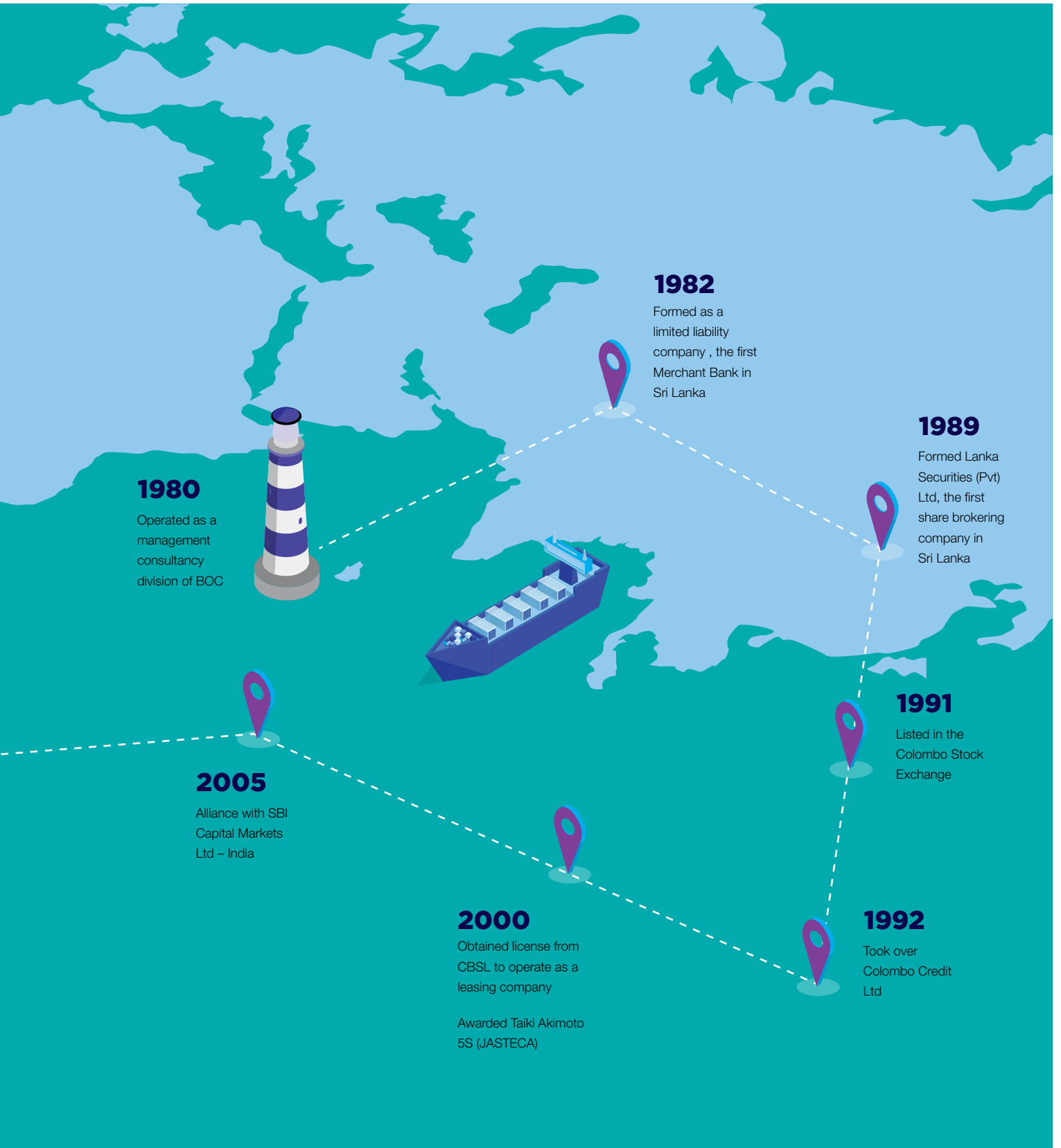
Financial Strength

- ▶ Deposit funding - 69%
- ▶ Asset base - Rs. 36,975 Mn



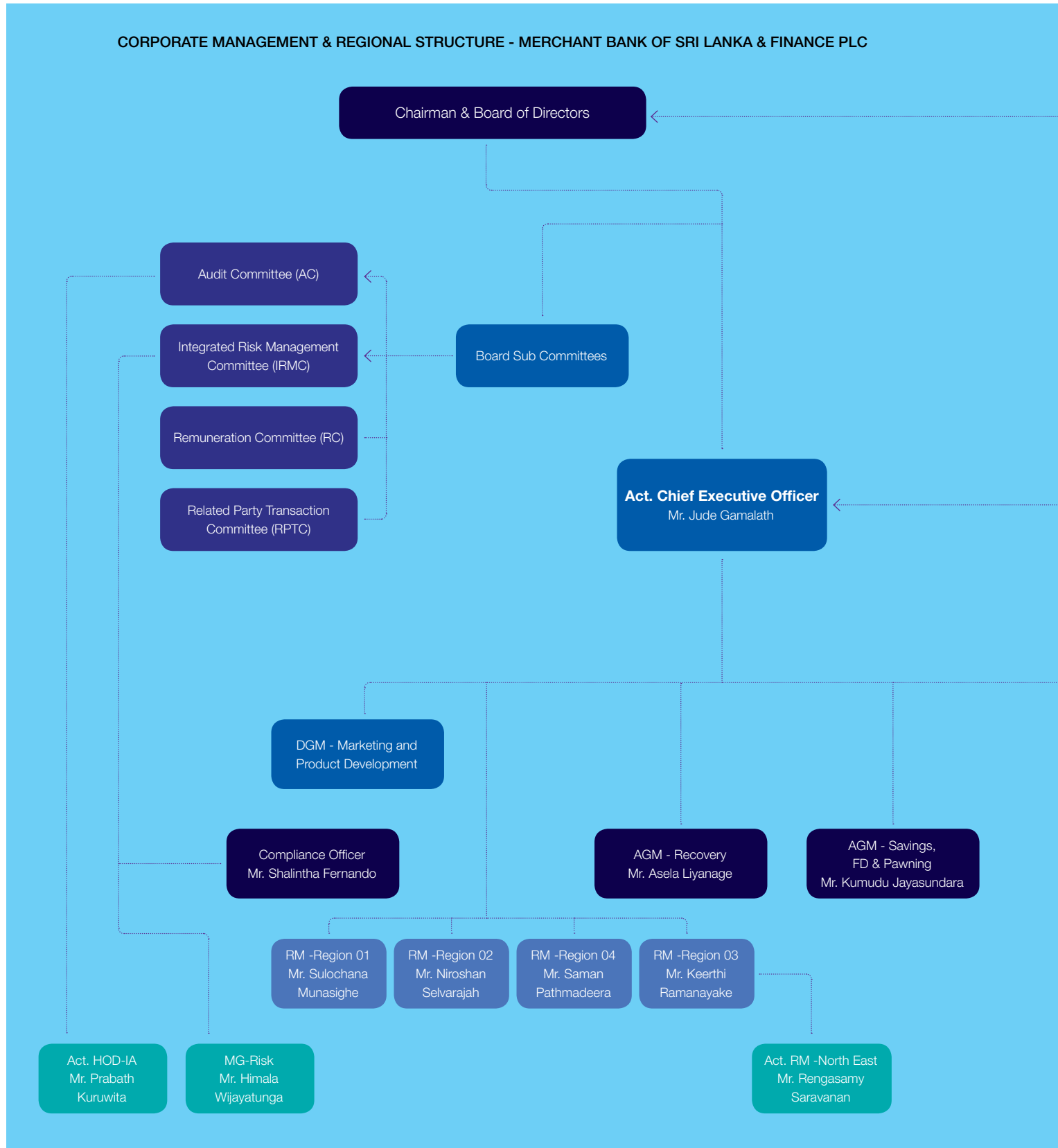
Our Journey

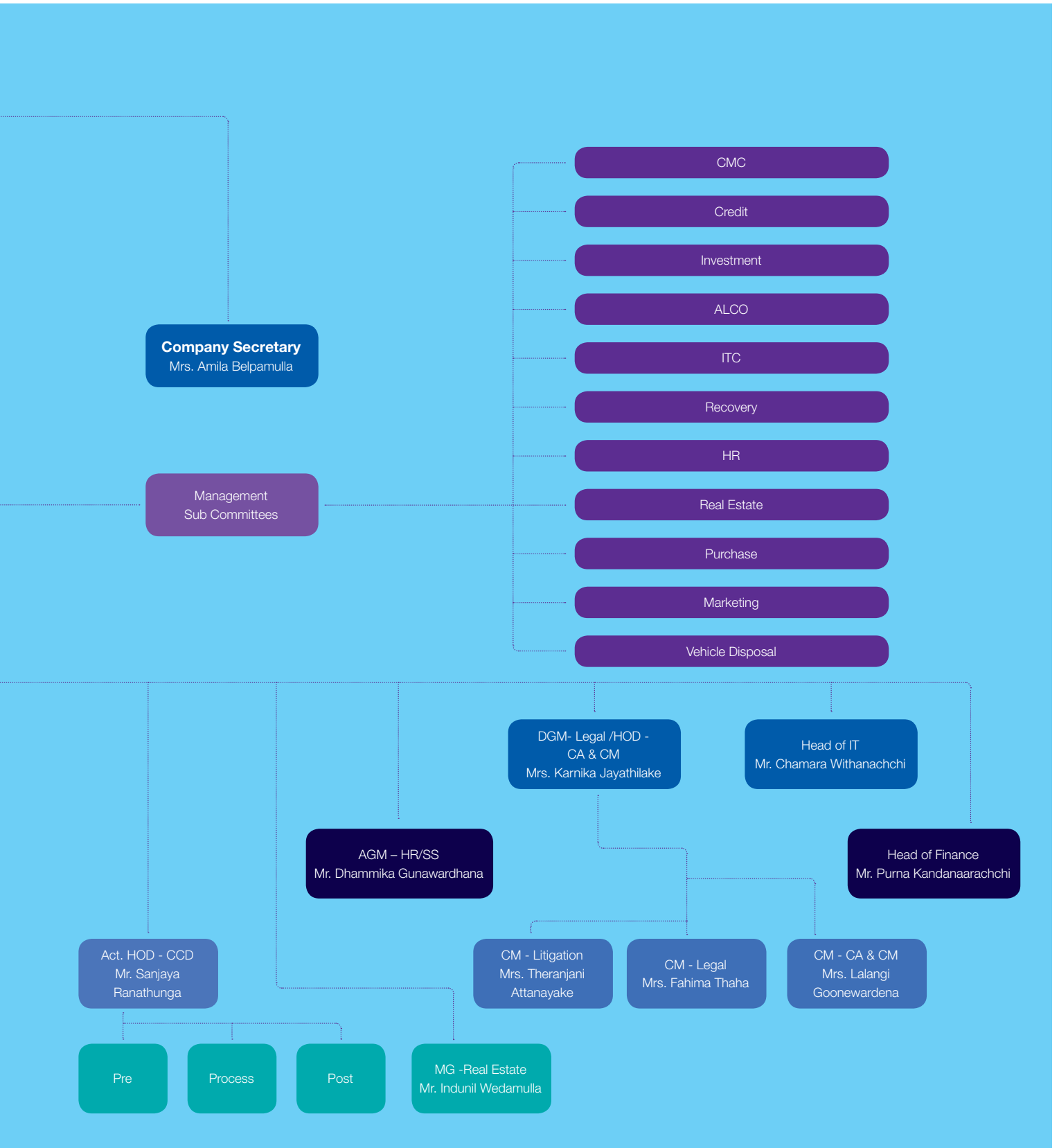




Organization Structure

GRI 102-18 GRI 102-22





Product Portfolio and Features

GRI 102-2

LEASING

Lease facilities are offered to a wide range of vehicles/equipment including private and commercial vehicles, machinery, three wheelers and motor bikes, trailers, trucks and agricultural equipment on both new and used vehicle/equipment.

MBSL leasing provide a tailor-made flexible finance plan to the customer to suit his/her income and lifestyle with hassle free leasing arrangement in minimum time period. During the year 2019, Company introduced two new leasing products namely, “Wheel Cash” and “Wheel Deal”.



LOANS



Personal Loans

This scheme is mainly aimed to fulfil urgent personal financial requirements, which add value to employed citizens. Exclusively offered for the individuals who are employed in reputed companies under the permanent carder. Therefore the total process is designed with minimum documentation to facilitate quick delivery.



Pravardhana Loans

A special credit facility designed to support the growth and development of business ventures. Company is ready to lend businessmen to lift their business to the next level with an advisory service to support the business growth. Further the loan is structured to suit customers' cash flows and business operations.



Car Loan

Auto loans are granted to individuals who are interested in purchasing reputed brands of vehicles for their personal usage.

LOANS



Speed Draft

MBSL Speed draft mainly focused at providing speedy financial solutions to the Sri Lankan business community and professionals. The main feature of Speed draft facility is that it fulfils the short-term financing requirements of customers by providing them with the required amount as and when they need it.



Siyath Saviya - Micro Finance

MBSL's Siyath Saviya micro finance programme is a professional and specialised financial support system for small and medium scale enterprises.

Through Siyath Saviya, MBSL distributes small ticket, collateral free financing to rural entrepreneurs operating in multiple cottage industries. The programme is designed to give the best possible financial assistance to the low income earning and small scale entrepreneurs.

Key features

- ▶ Financial support ranging from Rs. 10,000 to Rs. 200,000 per person
- ▶ Repayment period of 06 - 48 months. Grace period for the repayment of loan
- ▶ Facilities according to the nature of project/business, at the discretion of the bank.

Industries that have benefited from Siyath Saviya financial support:

- ▶ Vegetable cultivation
- ▶ Tea, coconut cultivation
- ▶ Fruit cultivation
- ▶ Horticulture
- ▶ Fisheries
- ▶ Pottery industry
- ▶ Retail businesses

PAWNING / GOLD LOAN



Ran Saviya

MBSL offers "Ran Saviya" to obtain quick advance against personal gold items who need cash for any emergency or any cash requirement for self-employment.

Key features

- ▶ Highest advance amount in the market
- ▶ Lowest interest rate
- ▶ No service charge
- ▶ Flexible repayment terms upto 12 months
- ▶ Highest customer confidentiality and protection of the jewellery
- ▶ Repayment facility as partially or monthly interest through island wide branch network

Product Portfolio and Features Contd.

REAL ESTATE PRODUCTS



MBSL Lands

- ▶ Total solution including sourcing, land developments, finance and legal services under one roof
- ▶ Easy Payment plan with minimum hassle – attractive interest rates and extended tenure.

MBSL Real Estate Easy Payment Plan

- ▶ A revolutionary loan scheme that is designed to customers on remarkably easy terms
- ▶ No more paying rent, constant relocation, dealing with landlords, title searching
- ▶ Enter into an agreement with an option to purchase
- ▶ Payment in monthly instalments

CORPORATE ADVISORY & CAPITAL MARKET PRODUCTS



Corporate advisory & Capital market Products

- ▶ Preparation of corporate and business plans
- ▶ Consultancy services and Feasibility studies
- ▶ Corporate restructuring
- ▶ Mergers and acquisitions
- ▶ Management and leverage buyouts

Capital Markets

- ▶ Structuring & managing initial public offers, offer for sales & listing through Introductions for equity and debt
- ▶ Private placement of equity and debt
- ▶ Mandatory offers
- ▶ Underwriting
- ▶ Listing of debentures/ bonds
- ▶ Asset securitization

Investments/Fund Management

- ▶ Portfolio management
- ▶ Business valuations
- ▶ Investment plans for corporates and individuals

SAVINGS PRODUCTS

Normal Savings

“MBSL Normal Savings” is the general savings account which offers customers with a good interest rate.



Bonus Savings

- ▶ “Bonus Savings Account” is a special savings account which gives a customer higher interest rate than the normal savings product.
- ▶ Account holder will be eligible to receive the 25% Bonus Interest rate when there are no withdrawals within each calendar month and option to receive 12 bonuses on the interest per year



Higher Saver

A rewarding way to customer to get into the habit of saving and be rewarded with multiple interest rates



Achara Senior Citizen's Savings

Achara Senior Citizen's savings accounts cater to Senior Citizens who are in 60 years and above with a relatively high yield and privileged services and other benefits

Minor Savings

A savings account which offer children an attractive rate of interest and amazing array of gift schemes through different level of account balances.



Punchi Star Minor Savings

A unique savings account that enables parents to save for their children and entitled for a free medical insurance.

FIXED DEPOSITS



Non Senior Citizen Fixed Deposits

Is the general fixed deposits focus on customers who are in age 18 years and above with a higher comparative interest

Senior Citizen Fixed Deposits

Specialized deposit scheme which focus on senior citizens who are in age 60 years and above with higher interest rate

Key features

- ▶ Tenure ranges between one month to sixty months
- ▶ Guaranteed Returns
- ▶ Interest income monthly or maturity
- ▶ Best fixed deposit rates in Sri Lanka and higher rates for Senior Citizen
- ▶ Partial or full premature withdrawal facility is available with penalty interest rate
- ▶ Quick loans against deposit
- ▶ Offering Embassy letters / Guarantee letters
- ▶ Superior customer service

Awards and Accolades

MBSL wins multiple prestigious awards for its immense contribution to the SME sector.



1. South Asian Business Excellence Awards 2019

MBSL was crowned the “Best Service Provider for SMEs” at South Asian Partnership Summit and Business Excellence Awards 2019 held on 14th November at Hilton Colombo.



2. Asia Leadership Awards 2019

MBSL recognized as “Best Service Provider for SMEs” at the Asia Leadership Awards 2019 presented by the Leadership Federation held on 27th November 2019 at Mumbai.



3. National Best Quality Software Award 2019



National Best Quality Software Award (NBQSA) 2019 - Merit award for In-House Software Development category for the Bank Reconciliation module of Velocity Platform.

Board of Directors

GRI 102-22



Mr. A. M. A. Perera

Pro-tem Chairman

Non-Executive/Independent Director

Mr. A. M. A. Perera, graduated from University of Kelaniya with a Bachelor of Commerce (Hons). He holds Post Graduate certificates in Human Resources Management and Business Administration from Post Graduate Institute of Management (PIM) of Sri Lanka and University of Leicester, UK respectively. He is a fellow member of the Institute of Chartered Accountants of Sri Lanka and a member of the Chartered Institute of Management Accountants (UK). He served as Finance Director of Chevron Lubricants Lanka PLC, a subsidiary of Chevron Corporation, USA from 2002 to 2019. He joined Chevron in 1996 as Manager Finance and Administration (designate) and rose to the position of Finance Director. He was admitted to the Chevron Board in 2002 and continued in this position until June 2019. He was also a Director of Chevron Ceylon Ltd during the same period and functioned as the Company Secretary of both Companies. He counts over 27 years of Senior Managerial experience in Accounting and Finance.



Mr. W. P. R. P. H. Fonseka

Non-Executive Non-Independent Director

Mr. W. P. R. P. H. Fonseka, currently the Senior Deputy General Manager (Sales & Channel Management) of Bank of Ceylon (BoC) was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) on 26th July 2016.

Mr. Fonseka is a professional banker with over 30 years of extensive experience in both local and international commercial banking operations, specializing in financial management, strategic planning, corporate planning and budgetary control systems of BoC. He has been holding key corporate management positions in the areas of finance & planning, Corporate & Offshore Banking, retail banking, international, treasury and investments of BoC since 2012. He served as the Chief Financial Officer of Bank of Ceylon for 5 years.

He serves as a Director on the Boards of Property Development PLC, Transnational Lanka Records Solutions (Private) Limited and Lanka Clear (Private) Limited. Mr. Fonseka acts as the Chairman to the Audit Committees of Property Development PLC and Lanka Clear (Private) Limited as well. He is a member of the Audit Committee of MBSL and has served as Chairman of Audit Committee from 10th August 2016 until 16th July 2020.

Mr. Fonseka holds a Special Degree in Business Administration from the University of Sri Jayawardenepura, Sri Lanka, a Postgraduate Diploma in Management from the Postgraduate Institute of Management (PIM), University of Sri Jayawardenepura, Sri Lanka and a Master Degree in Business Administration from the University of Southern Queensland, Australia. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, a Senior Fellow Member of the Institute of Bankers of Sri Lanka and a Member of the Alumni of the Harvard Business School of USA as well.

Board of Directors Contd.



Mr. D. N. L. Fernando

Non-Executive / Non Independent Director

Mr. D N L Fernando joined the Bank of Ceylon in 1986 after graduating from the University of Colombo in Mathematics. His 33 year banking career covers most of the key areas in the bank with three overseas stints, viz., BOC London from 1994 to 1995, BOC Karachi- Pakistan from 2001 to 2004 and again as the Chief Executive Officer of the Bank of Ceylon (UK) Ltd. for three years from 2012 to 2015. His experience spans almost all the spheres in Banking. In his early career, he was involved in branch banking in remote areas of Badulla, Kandy and Nuwara Eliya. Later on he switched over to policy level at the Head Office, especially in Product and Development Banking as well as Recovery. Before he was promoted and entrusted the responsibilities of Chief Risk Officer in 2015, on his return from the Bank of Ceylon (UK) Ltd. as Chief Executive Officer, he was In-Charge of the Western Province South, the largest zone of the bank's branch network. Mr. Fernando has been a member of the Executive Management for seven years. He is also an associate of Institute of Bankers of Sri Lanka and a member of Professional Bankers Association. He has been holding the responsibilities of the Chief Risk Officer at the Bank of Ceylon since 2016.



Mr. W. N. P. Surawimala

Non-Executive/Non Independent Director

Mr. Surawimala, currently the Deputy General Manager (Corporate & Offshore Banking) of the Bank of Ceylon with an illustrious career spanning over 29 years in Bank of Ceylon has gained extensive experience in both local and international banking arenas, entailing all facets of commercial banking operations in diversified banking landscapes with a unique ability to deal with intricate banking challenges. Aligning with Bank of Ceylon's endeavoring aspiration of maintaining a healthy Balance Sheet, as the Deputy General Manager (Corporate & Offshore Banking), has taken measures in providing effective decision making and strategic leadership to the highest contributor segment of the bank assuring strong relationship with high net worth clientele and creating customer centric service culture at the bank. And also taken pioneering initiatives for managing of Non - Performing Loan portfolio of the Bank of Ceylon and is striving for future achievements as well with the sustained focus on Bank's interests.

Mr. Surawimala has performed duties as the Country Manager, Chennai - India during the period 2014 – 2017 spearheading the Offshore Banking activities of the Bank of Ceylon as an Assistant General Manager.

He has commenced career with the Bank of Ceylon in 1991 as a Management Trainee and has worked in various operational segments of the Bank, including Retail Banking, Recovery and Corporate & Offshore Banking. He holds Directorships in Group of Companies namely, Transnational Lanka Records Solutions (Pvt.) Ltd and Transnational (Pvt.) Ltd

Mr. Surawimala holds a Bachelor's (Special) Degree in Public Administration and Master of Science (M.Sc.) in Management specializing in Banking and Finance, both from the University of Sri Jayawardenapura, Sri Lanka. He is an Associate Member of the Institute of Bankers of Sri Lanka and has also successfully completed the Management Development Programme for Key Management Personnel conducted by the Post Graduate Institute of Management (PIM), University of Sri Jayawardenapura, Sri Lanka.



Dr. N. S. Punchihewa

Non-Executive/Independent Director

Dr. N S Punchihewa is currently the Director of the University Business Linkage (UBL) Cell, University of Colombo and a Senior Lecturer in Law at the Faculty of Law. He is also an Attorney-at-Law of the Supreme Court of Sri Lanka. Dr. Punchihewa is a former Member of the Intellectual Property Advisory Commission of Sri Lanka and the Coordinator MPhil/ PhD Programme of the Faculty of Law, University of Colombo. He served as a Consultant to the World Intellectual Property Organization on the project “Intellectual Property Rights in Tourism and Culture”. He teaches both graduate and undergraduate courses including Intellectual Property (IP) Law at the Faculty of Law. He is also a visiting lecturer in several postgraduate and undergraduate programs in leading academic institutions in Sri Lanka. His research interests cover IP law with particular reference to patent and utility models, copyright, competition/antitrust law, human rights, and information technology law. He has authored the books titled “Promoting a Second-Tier Protection Regime for Innovation of Small and Medium Enterprises in South Asia: The Case of Sri Lanka” published by NOMOS, Baden-Baden, Germany and “Intellectual Property in Tourism and Culture in Sri Lanka” published by the WIPO and the SLTDA. Dr. Punchihewa has presented papers at conferences (both local and international) and published articles on intellectual property issues. Dr. Punchihewa was the Managing Editor of the Colombo Law Review and is a member of the Editorial Board of the Sri Lanka Journal of International Law.

Dr. Punchihewa holds an LLB (Hons.) degree from the University of Colombo, an LLM in Intellectual Property and Competition Law from the University of Augsburg/Munich Intellectual Property Law Center (MIPLC) and a doctoral degree in Law with honours magna cum Laude from the Ludwig Maximilians University of Munich.

Mr. C. Amarasinghe

Non-Independent/ Non-Executive Director

Mr. C. Amarasinghe has been appointed as the Deputy General Manager (Sales & Channel Management) of the Bank of Ceylon since 12th March 2018. Prior to the present position, he served as the Deputy General Manager (Retail Banking – Range II), Assistant General Manager (Off-shore Banking) and Assistant General Manager (Corporate Relation).

Mr. Amarasinghe joined the Bank of Ceylon in 1990 as an Officer Trainee and has gained a wide experience in Retail, Corporate and Off-shore Banking. He served as President of the Association of the Professional Bankers of Sri Lanka. He is also an Alternate Director of the BOC Travels (Pvt.) Ltd, PDML and CRIB.

Graduated from the University of Sri Jayawardennepura, Sri Lanka, with a Bachelor of Science Special Degree in Public Administration, he also holds a Degree of Master of Science (Management). He is an Associate Member of the Institute of Bankers of Sri Lanka.

After an illustrious career at the Bank of Ceylon Mr. C Amarasinghe retired as the Deputy General Manager (Sales & Channel Management) with effect from 11th August 2020, consequent to which he tendered his resignation from MBSL.

Corporate Management



Mr. J. Gamalath

Chief Executive Officer (Act.)

Mr. Gamalath has closer to 20 years of experience and served as Head of Several Divisions of the company such as Marketing & Product Development, In-Charge of Region 2, Real Estate, Fixed Deposits & Savings.

A skilled marketing professional, with experience in multiple roles in sales and distribution, channel management, product development, brand management and marketing communication. Mr. Gamalath holds a Master of Business Studies from the University of Colombo and a Professional Postgraduate Diploma in Marketing from the Chartered Institute of Marketing UK.

He is also a non executive Director of MBSL Insurance Company (Pvt) Ltd and Lanka Securities (Pvt) Ltd.



Mrs. K. Jayatilake

Deputy General Manager - Legal / Company Secretary*

Mrs. Jayatilake is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public counting over 30 years' experience at the Bar. She holds a Masters' Degree in Law (Commercial Law) from the University of Southampton (United Kingdom), a Bachelors' Degree in Arts with Second Class Honours (upper division pass) from the University of Colombo, in English, Economics and Political Science. Mrs. Jayatilake has worked in both the public and private sector as an in-house legal advisor at Senior Management level in addition to functioning as a Company Secretary. She has also worked as a Short Term Consultant with the World Bank.

* Relinquished office from post of company secretary with effect from 01 December 2019



Mr. C. Withanachchi

Deputy General Manager – Information Technology

Mr. Withanachchi counts over 20 years of diverse experience in Information Technology, including Software Developments, Design, System Administration and Delivery Management and exposure to Banking & Finance, ATM Implementations, Telecommunication and Manufacturing.

He holds a BSc Degree in Information Technology and MSc in Information Security. He is certified from IBM Corporation as an iSeries Expert for IBM ILE RPG Programmer, From Indian Institute of Management, Bangalore for Innovation and IT Management and Certified ITIL v3 (Information Technology Infrastructure Library) from AXELOS.



Mr. K. Jayasundara

Assistant General Manager – Fixed Deposit, Savings & Pawning

Mr. Jayasundara has multi-faceted exposure in diverse areas in financial services who counts over 20 years of experience and has previously held senior management positions in operations and credit and recoveries. He holds an MBA in Banking & Finance offered from the Post Graduate Institute of Management (PIM) and a BSc (Hons) degree with a specialization in Agricultural Economics from University of Peradeniya. He also holds a Diploma in Credit Management from the Institute of Credit Management of Sri Lanka and is an Associate of the same Institute.

Currently he is heading the liability function of the company (Fixed Deposits and Savings) and also overlooks the company Gold Loan Operation.



Mr. S. Fernando

Assistant General Manager – Compliance and Risk

Mr. Fernando is a member of the Institute of Internal Auditors (U.S.A) and is a Certified Internal Auditor (U.S.A). He counts over 20 years of experience in the field of Internal Auditing in local conglomerates, as well as multinational companies.



Mr. D. Gunawardhana

Assistant General Manager - Human Resources / Support Services

Mr. D. Gunawardhana Assistant General Manager - Human Resources a Human Resources Management professional, Mr. Dhammika Gunawardhana has extensive experience in HR Management in a variety of industry sectors.

He is a fellow member of the Institute of Chartered Business Administrators, Professional member of Association of HR Professionals and a member of Chartered Institute of Personnel Management (CIPM) and Institute of Management of Sri Lanka. He is also an Associate member of Institute of Certified Professional Managers, Sri Lanka Institute of Training & Development and National Institute of Professional Counselors.

Mr. Gunawardhana holds an MBA in Business Administration from the University of Sri Jayewardenepura and a BSc Degree in Business Administration from the same University, BMS. Sp. Degree (Second Class Upper Honors) (Specialized in Human Resource Management) from the Open University of Sri Lanka. He holds a Diploma in Management from the Open University of Sri Lanka, Diplomas in Psychological counseling from the Institute of Psychological Studies & Department of Psychiatry, Faculty of Medical Sciences, University of Sri Jayewardenepura and Diploma in Computer Science.

Under the Leadership of Mr. Gunawardhana, MBSL won both National and Asian Brand Awards on Best Service Provider in the year 2016 & 2017 respectively whilst winning the Global HR Excellence Award under the same category conferred by the World HRD Congress in 2018.

Moreover he has been recognized awarding the HR Excellence Award on “100 Top Global HR Minds” conferred by the same professional body (World HRD Congress) in the year 2018.

He is also a Non Executive Director of MBSL Insurance Company (Pvt) Ltd.



Mr. P. Kandanaarachchi

Head of Finance

Mr. Kandanaarachchi serves as the Head of Finance. He counts over 20 years' of experience in the fields of finance, auditing and accounting. He is an Associate member of The Institute of the Chartered Accountants of Sri Lanka. Mr. Kandanaarachchi also serves as a Non –Executive Director on the Boards of MBSL Insurance Company Limited, subsidiary of the Company and Mega Containers Limited, where the company holds an equity stake.

Corporate Management Contd.



Mr. A. Liyanage

Assistant General Manager – Recoveries

Counts over 18 years of experience in the Finance industry, particularly in Recovery Operations. Holds a Banking Diploma from the Institute of Bankers of Sri Lanka.

At present he is the Assistant General Manager overseeing the entire recovery operations ensuring effective recovery processes.



Mr. R. M. S. P. K. Ranatunga

Head of Central Credit – Acting

Mr. Ranatunga currently holds the position of Head of Credit (Acting) in the Company and counts 24 years in MBSL. He started his career as an Executive in the Finance Planning Division and served in key positions in several vital departments such as Finance and Planning, Trade Finance and in branch operations as the Manager - Head Office Branch. In 2015, he was promoted as Regional Manager taking regional responsibilities in Region 01.

He holds B Com. (Special) Degree from University of Sri Jayewardenepura and also a member of Sri Lanka Association of Accounting Technicians (AAT).

He counts over 28 years of experience in the fields of finance, auditing, accounting and branch operations.

Regional Managers



Mr. S. Munasinghe
Region 01



Mr. N. Selvarajah
Region 02



Mr. K. Ramanayake
Region 03



Mr. S. Pathmadeera
Region 04

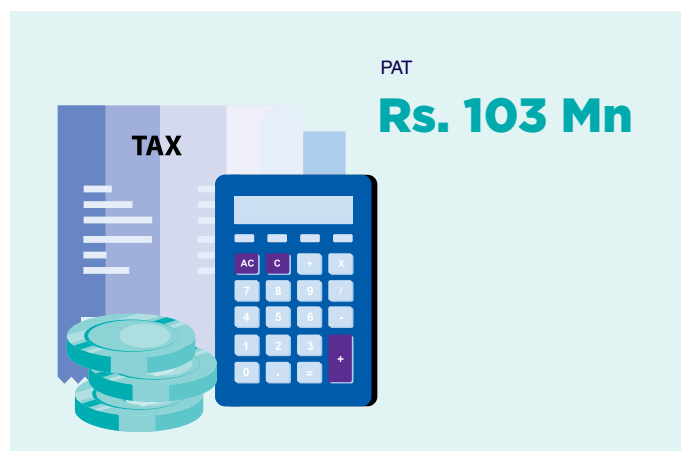


Mr. R. Saravanan
North East Region (Act.)

Key Figures

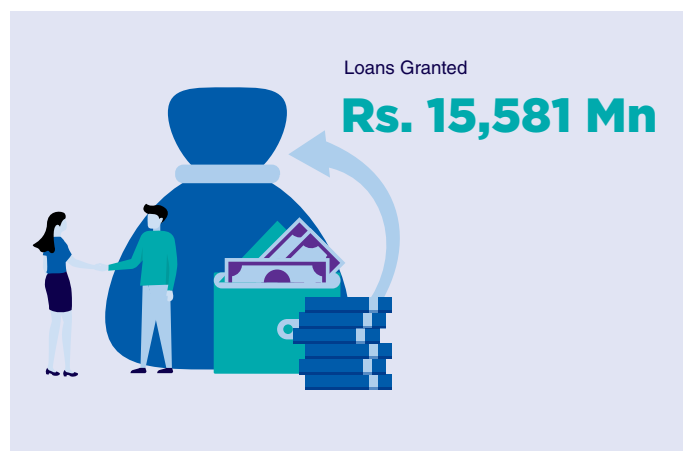
GRI 102-7

	2019	2018
Operating Performance (Rs. Mn)		
Net interest income	2,201	2,442
Gross income	6,839	6,550
Operating profit before tax	80	655
Profit before tax	57	447
Taxation	(45)	265
Profit after tax	103	181
Retained profit	253	193
Financial Position (Rs. Mn)		
Total assets	36,975	35,660
Gross loans and advances	32,084	33,296
Total deposits	22,756	20,831
Shareholders' funds	2,608	2,524
Operating Ratios (%)		
Return on average assets	0.28	0.51
Return on equity	4.00	6.30
Cost to income ratio	85.51	71.75
Net Non-performing loans ratio	7.93	6.51
Provision coverage	39.84	38.07
Loans to deposit ratio	140.99	159.84
Core capital ratio	5.60	5.42
Overall capital ratio	8.78	9.88
Shareholder Indicators		
Earnings per share (Rs.)	0.62	1.09
Net asset value per share (Rs.)	15.72	15.22
Price earnings ratio (Times)	15.52	8.78
Market price per share (%)	9.60	9.60



Non-Financial Highlights

	2019	2018
Social and Relationship Capital		
No. of lending facilities	78,721	78,897
No. of deposits	183,190	175,264
Interest paid to customers (Rs. Mn)	2,884	2,584
Loans granted (Rs. Mn)	15,581	18,627
No. of Customers	188,320	178,570
Customer touch points	49	49
New products launched	2	1
Investment in CSR (Rs. Mn)	5	2
Volunteer hours	366	90
Human Capital		
No. of employees	1,000	1,023
Payments to employees (Rs. Mn)	1,144	1,096
Investment in training (Rs. Mn)	7	11
Total training hours	24,356	22,661
Revenue per employee (Rs. Mn)	7	6
Retention rate (%)	94	80
National Development		
Contribution to the government (Rs. Mn)	456	255
Loans outside the Western province (Rs. Mn)	18,175	19,335
Micro finance disbursements (Rs. Mn)	52	395
Natural Capital		
Energy consumption (Units)	1,131,375	1,198,500
Energy consumption per employee	1,131	1,172
Water consumption (Units)	19,562	13,130
Paper usage (Kg)	22,693	29,990
Paper recycled (Kg)	1,850	6,286
Carbon footprint (Kg)	141,797	111,268



Chairman's Statement

GRI 102-14



We directed our attention mainly to cloud based solutions that will increase the operational excellence while reducing costs.

2019 was indeed a challenging one with the Country's economic progress severely impacted by the calamitous events of April 21st 2019. Economic activity and business confidence were further affected due to political uncertainty in the lead up to the presidential election in November 2019. As a result Sri Lanka managed to record GDP growth of just 2.3%, one of the lowest rates over the last decade.

The economic disruption stemming from the Easter Sunday incidents saw the financial services industry being challenged on several fronts. Weak credit demand meant lending opportunities were few and far between, while deposit mobilization activities came under pressure due to widespread rate uncertainty. Amidst this backdrop, NIM fell sharply in 2019. To add to this, the NPL portfolio also increased substantially compared to the previous year. These factors directly impacted the Company's earnings.

Prioritizing its efforts MBSL continued to focus on simplifying its operations while strengthening governance and accountability across the organization, an approach we felt would enable the Company to not only to deliver improved customer outcomes but also build on its organizational foundations, ultimately elevating its brand reputation.

Another key focus area during the year was our investment in IT infrastructure. We directed our attention mainly to cloud based solutions that will increase the operational excellence while reducing costs. In 2019 MBSL signed up with Microsoft to implement a cloud based solution that allows teams to use their mobile devices to share documents and work together in real time. This has helped to improve productivity and increase efficiency resulting in lower operational costs. The Company also invested in Hyper converged infrastructure to support efforts to digitize all the elements of the conventional hardware defined systems. Through this project we have been able to optimize our data storage capacity and benefit from faster and more reliable storage performance than ever before.

Other notable IT developments included the automation of the entire work-flow of the margin trading unit and the automation of the Company's end-of-day process. By automating the Day-end process we have succeeded in reducing the lead time of the month end closing process while improving the accuracy of the data and lowering operating costs.

MBSL Insurance Company Limited (MBSLI) recommenced operations in April 2019, following the restoration of the Company's License. After the resumption of operations, MBSLI focused mainly on the General Insurance while providing services to the existing Life Insurance policyholders. The Company also started rebuilding its business relationships with insurance intermediaries and other business partners and has commenced generating new business by offering new innovative customer experiences. MBSLI marked an important milestone in this regard, with the commencement of bancassurance services, made possible by an agreement with Bank of Ceylon.

Meanwhile plans were also drawn up to develop and expand MBSLI's branch network and to improve the brand visibility.

The Road Ahead

Given the unprecedented turmoil and disruptions experienced by every industry emanating from the COVID-19 pandemic at the time of writing this note, it is quite likely that 2020 will be even more challenging than 2019. However now that political stability has dawned and a clear vision has been articulated for economic revival by developing local industries, agriculture and exports, both merchandise as well as services, new lending opportunities are certain to emerge in the SME segment. This would enable MBSL to build its loan book in this space. At the same time, we will remain mindful to shift our strategic focus in order to regain our fair share of core investment and merchant banking activities so as to achieve a healthy mix of lending based incomes and fee based incomes.

Another clear focus area in our journey forward would be our digital banking strategy. Digital technologies are expected to deliver several benefits for the Company. It will help MBSL reach a wider audience. It will also improve due diligence procedures to enable faster loan disbursements at reduced costs. In this regard, we have already laid the foundation for digital banking by implementing required security layers to support the launch of our Mobile App, which will provide a world class customer experience.

Appreciations

To conclude, I would like to express my appreciation to the officials of the Department of Supervision of Non-bank Financial Institutions, for their support at all times. I take this opportunity also to thank former Chairman, the Board of Directors for their stewardship . I also wish to express my appreciation to the acting CEO, the Management and Employees at all levels for the dedication and commitment shown towards the Company. Finally, I thank MBSL's shareholders and all other stakeholders for their continued confidence and trust.



A. M. A. Perera
Pro-tem Chairman

Chief Executive Officer's Report



While pursuing these opportunities, we will remain firmly committed to comply with all regulatory frameworks applicable to our businesses we seek to create a firm foundation to spearhead the Company's growth long term growth objectives.

With the Country's three main sectors - agriculture, industry and services, all seemingly performing well in the first quarter of 2019, it was hoped the year would bring a long awaited economic rebound that would pave the way for the Sri Lanka to keep up with other Asian counterparts. Progress was however short lived as the tides turned from the second quarter onwards when Sri Lanka was left to grapple with the aftershocks of the Easter Sunday bombings in April 2019. On the back of muted economic activity in the months that followed, a sharp decline in the credit appetite was seen for the remainder of the year. Moreover with many businesses, especially those across the tourism value chain struggling to survive, the non-bank financial services sector found itself facing the prospect of severe asset quality deterioration as NPA's shot up to 10.6% by end-December 2019, from 7.7% reported as of 2018. Increased pressure due to limited lending opportunities and higher impairment provisions meant the sector was forced to accept lower margins in 2019.

Financial Results

Much like the NBFI sector, MBSL's results too were affected in 2019.

MBSL's post tax profits declined to LKR 102.6 Mn. in 2019 from LKR 181.3 Mn. registered in the previous year. Lower profits were attributed primarily to the higher impairment charges triggered by the economic downturn that affected many of our customers for a good part of the year.

Meanwhile, the Company's lending portfolio dropped by 3.6% year on year despite the robust growth in both Pawning/Gold Loans and Margin Trading portfolios which recorded year on year growth of 116% and 48% respectively. Notwithstanding the decline in the lending portfolio however, MBSL's total assets and equity grew by 3.6% and 3.2% respectively, against the previous year.

The Company's deposit book increased by 8.5% to LKR 22.75bn as at 31st December 2019, which I believe is a testament to the public trust in the MBSL brand.

Performance of Key Business Lines

MBSL's business segments reported a mixed performance in 2019.

External factors beyond our control had a bearing on our core leasing business in 2019. We found ourselves facing a shrinking market with very few credible lending opportunities amidst the economic fallout from the Easter Sunday attacks. The situation was further exacerbated by the debt moratorium granted by the government to bring relief to affected businesses. Needless to say, the loan to value ratio remains a niggling issue that has had a sizable impact on our business over these past few years, and this year was no exception. Despite these obstacles however, MBSL's leasing volumes for 2019 remained on par with the previous year, which I credit to our broad based lending approach targeting a wider cross section of the leasing market.

Our Corporate and retail lending business performed reasonably well in the year under review as our selective lending strategy and the focus mainly on the manufacturing and trading industries yielded good results. Eager to build on these efforts, we proceeded to further expand our bandwidth in this space and carved out a dedicated Corporate Credit Department (CCD) to focus exclusively on corporate lending activities.

It was a very successful year for our Pawning / Gold Loan operation, marked by healthy volume growth and a notable improvement in the overall portfolio size. I attribute this success to the focused strategies to strengthen MBSL's overall Gold Loan proposition, specifically by ensuring the availability of pawning facilities at all 49 of the Company's branches and diversifying the product range through the introduction of 1, 3 and 6 month pawning solutions.

Our Deposit mobilization activities also gathered momentum in 2019 as we redirected our focus to seek out low cost funding options. We took some definite action to rationalize our deposit portfolio by moving away from large high cost term deposits in favour of small-ticket retail deposits

Other Key Priorities

With our core lending business under pressure owing to macroeconomic challenges, credit quality management became a top priority. Taking a holistic approach we revisited our all key components of our credit risk management framework and took some definite action to strengthen credit evaluation and approval protocols, improve post credit monitoring and reporting systems and streamline the recovery mechanism. Special emphasis was also placed on stringent follow up of dues from individually significant customers.

Liquidity management was the other key priority for 2019. In this regard, we sought to diversify MBSL's funding base through a larger number of retail deposits that would allow the Company to minimize the asset liability mismatch while benefiting from significant cost advantages over time.

Infrastructure Development

Despite the operational challenges, we remained on course with our IT development program. We invested approximately Rs. 60 million to commission a new Hyper Converged infrastructure (HCI) to improve efficiency of our back-end system architecture. The main aim to create a comprehensive ecosystem that would create a solid platform to support MBSL's scalability goals over the long term.

In yet another important development, we began the process of benchmarking MBSL's IT systems in line with ISO 27001. Having made good headway in 2019 itself, we are targeting certification by end 2020.

The Way Forward

As the Country strives to clarify its position as a middle income economy in the years ahead, I predict the export sector will likely play an increasingly important role in this journey. This scenario presents some very potent opportunities for MBSL to leverage on its expertise and reaffirm its leadership in the merchant banking space.


While pursuing these opportunities, we will remain firmly committed to comply with all regulatory frameworks applicable to our businesses we seek to create a firm foundation to spearhead the Company's growth long term growth objectives.

Appreciations

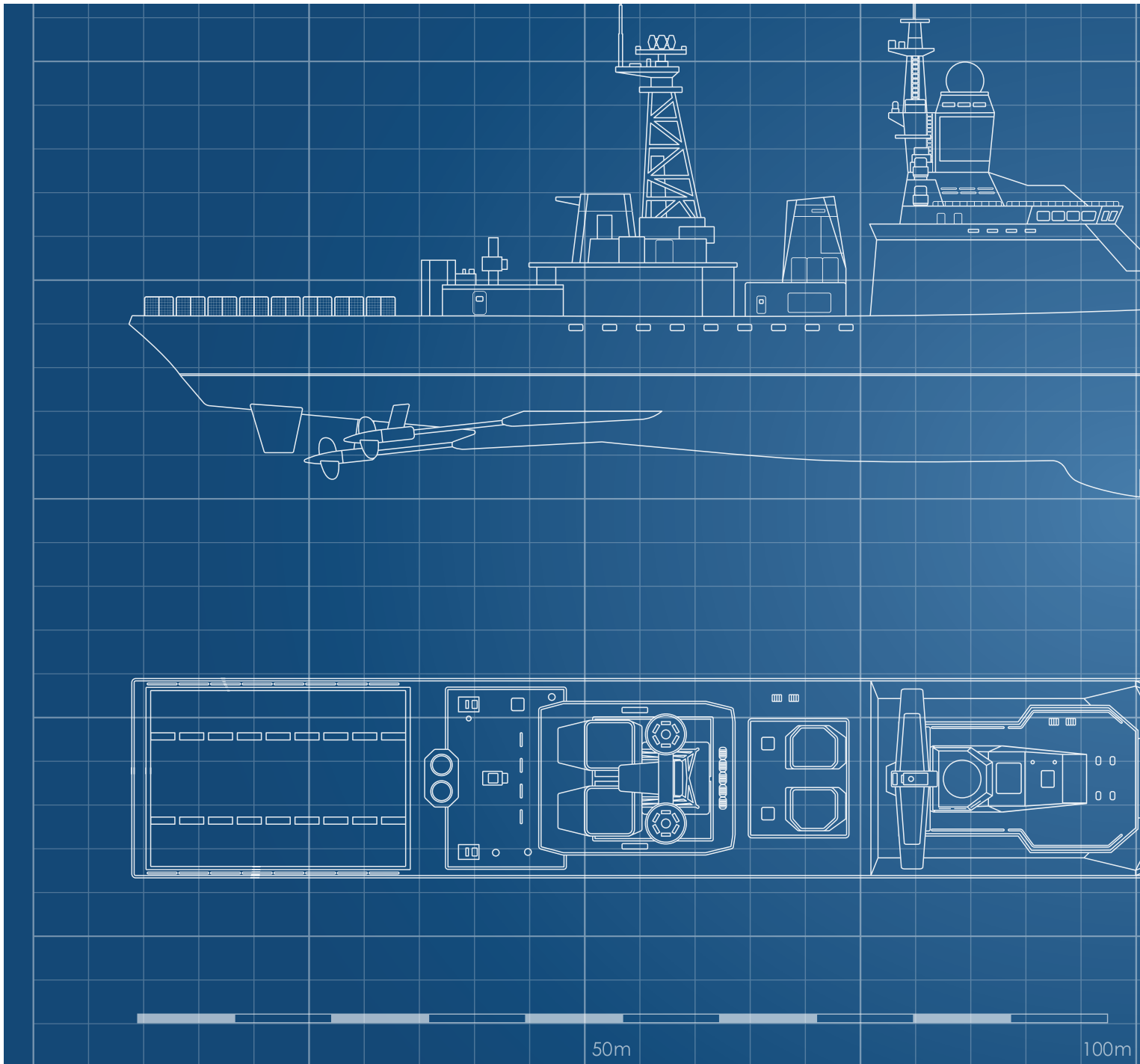
I take this opportunity to thank the Chairman and the Board of Directors for the unstinted support extended to me at all times. To each and every one of our management team and Staff, I thank you for your commitment and loyalty towards the Company.

My thanks are due also to the officials of the Central Bank of Sri Lanka for their guidance and support.

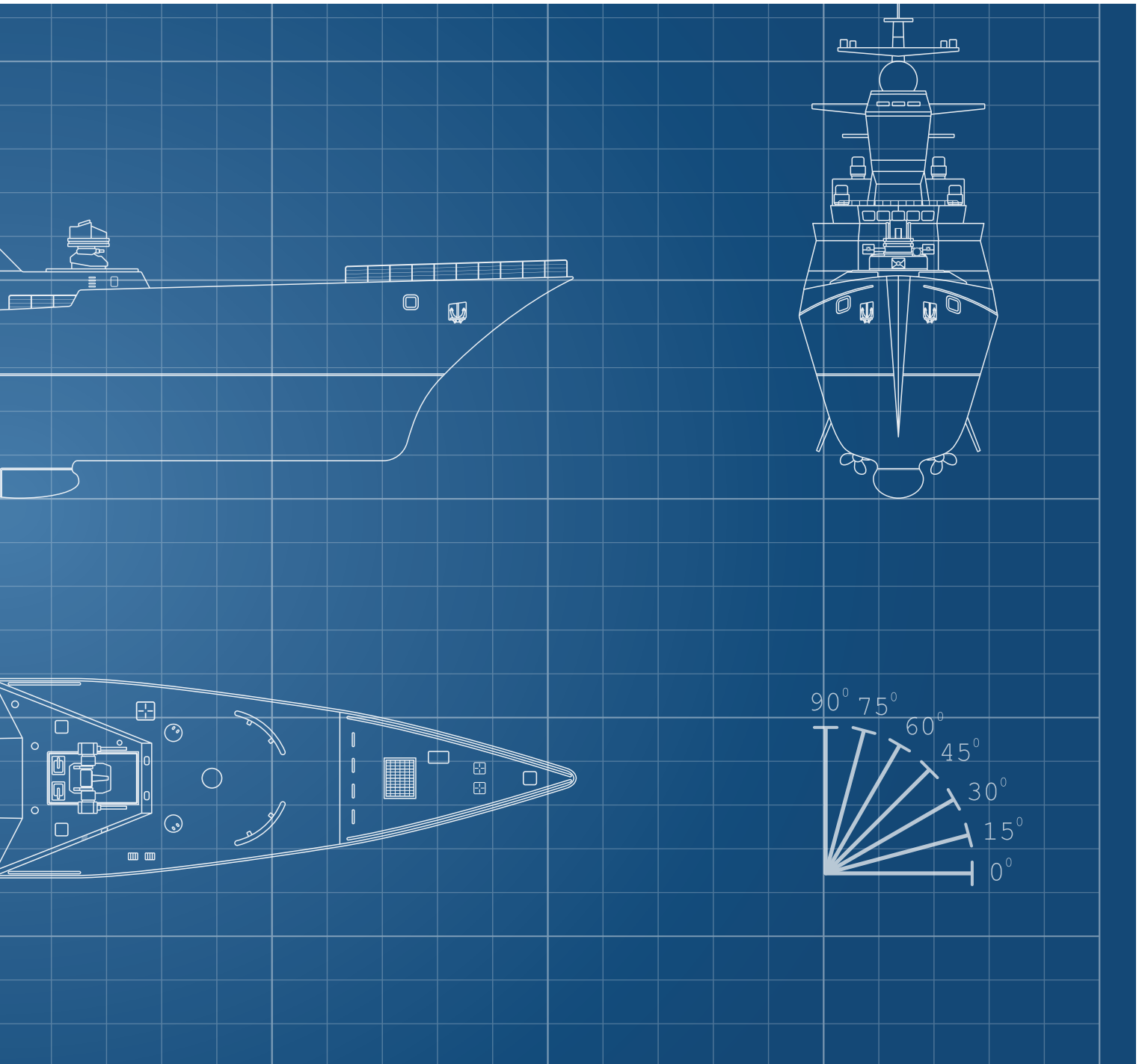
A special word of thanks to our shareholders, depositors, customers, bankers and other stakeholders for the trust and confidence placed in MBSL over the years. I seek your continued patronage as the Company embarks on a future of limitless possibilities.



J. Gamalath
Chief Executive Officer (Act.)



**Blueprints that are framed
with a long term sustainable
strategy**



VALUE CREATION BLUEPRINT

Business Model / 30

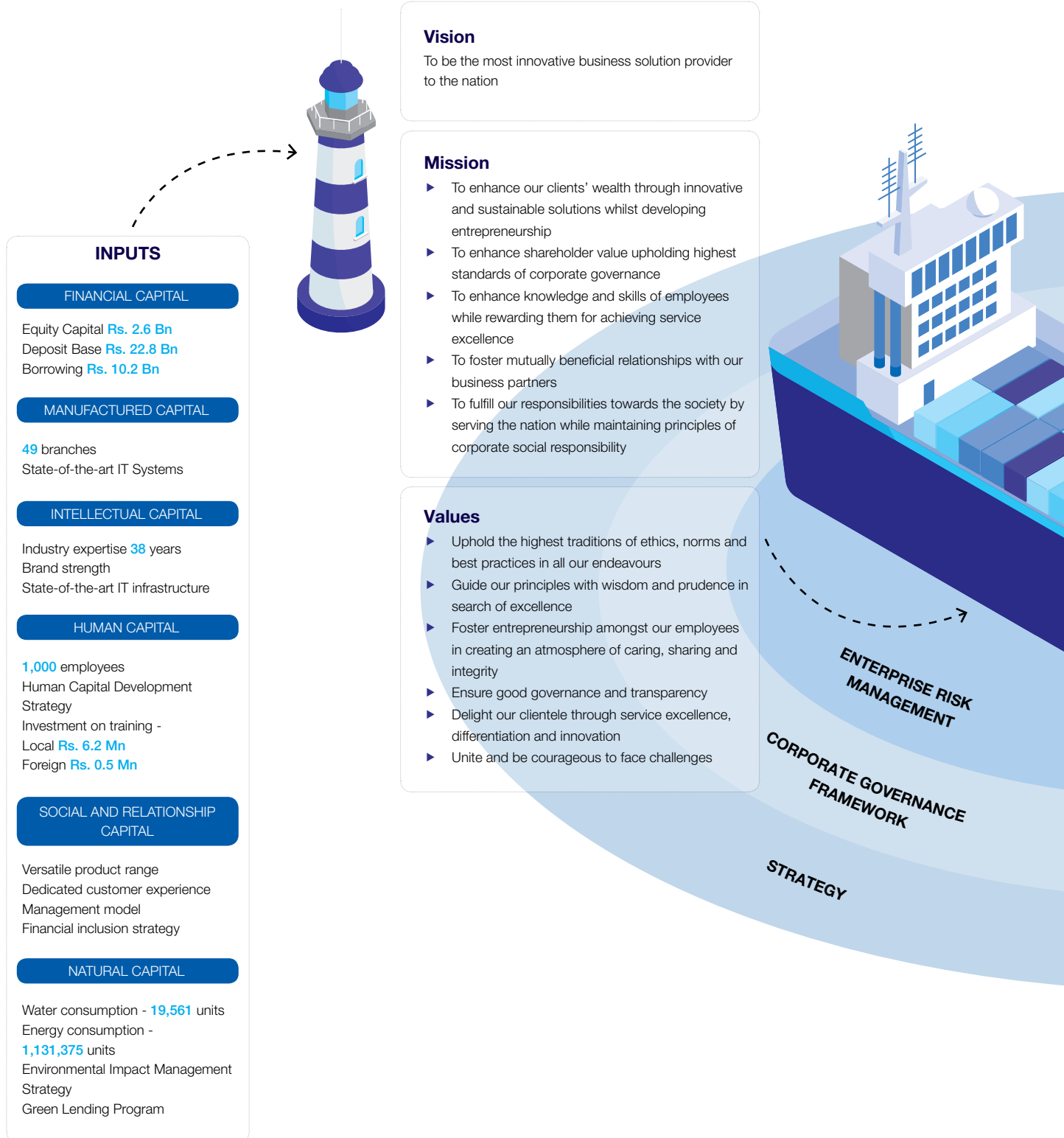
Stakeholder Engagement / 32

Risks and Opportunities / 34

Materiality Analysis / 35

Business Model

GRI 102-9



INPUTS

FINANCIAL CAPITAL

Equity Capital **Rs. 2.6 Bn**
Deposit Base **Rs. 22.8 Bn**
Borrowing **Rs. 10.2 Bn**

MANUFACTURED CAPITAL

49 branches
State-of-the-art IT Systems

INTELLECTUAL CAPITAL

Industry expertise **38** years
Brand strength
State-of-the-art IT infrastructure

HUMAN CAPITAL

1,000 employees
Human Capital Development Strategy
Investment on training -
Local **Rs. 6.2 Mn**
Foreign **Rs. 0.5 Mn**

SOCIAL AND RELATIONSHIP CAPITAL

Versatile product range
Dedicated customer experience
Management model
Financial inclusion strategy

NATURAL CAPITAL

Water consumption - **19,561** units
Energy consumption -
1,131,375 units
Environmental Impact Management Strategy
Green Lending Program

Vision

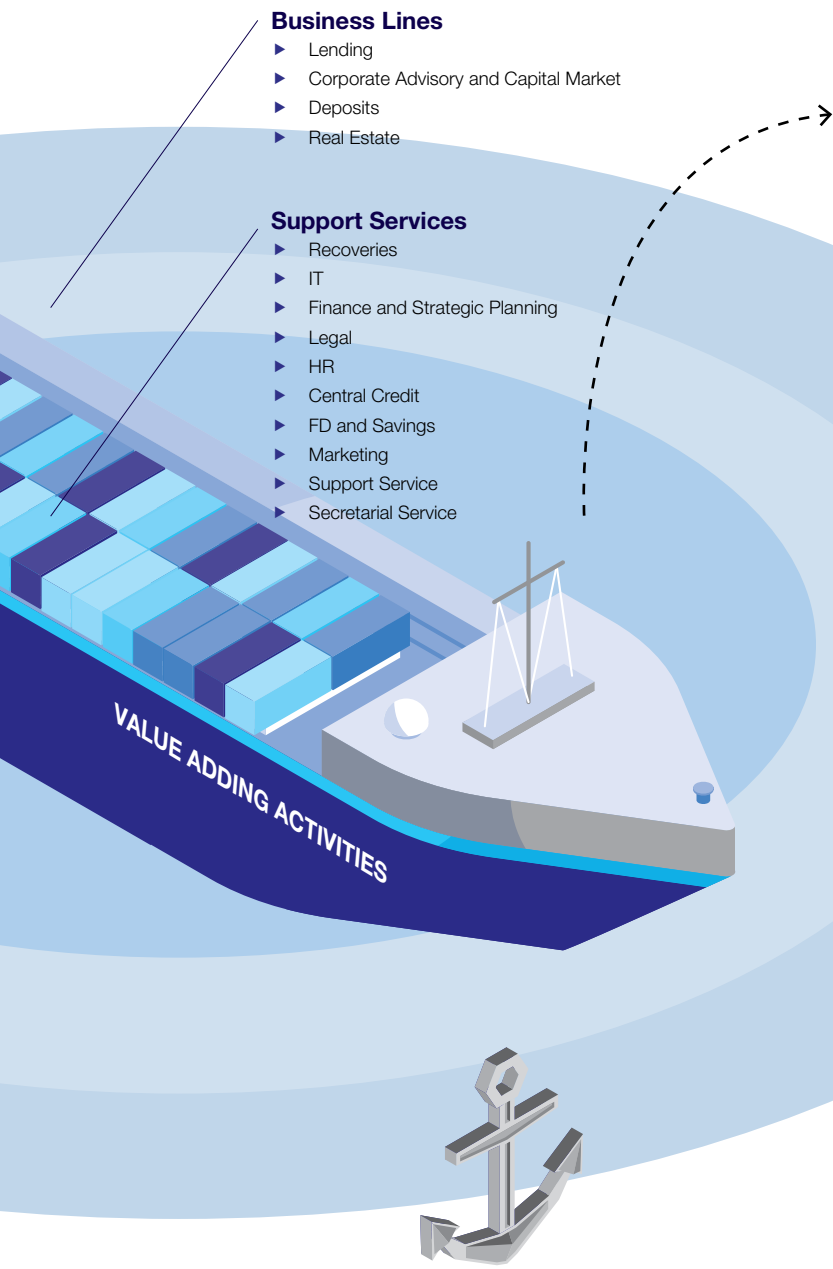
To be the most innovative business solution provider to the nation

Mission

- ▶ To enhance our clients' wealth through innovative and sustainable solutions whilst developing entrepreneurship
- ▶ To enhance shareholder value upholding highest standards of corporate governance
- ▶ To enhance knowledge and skills of employees while rewarding them for achieving service excellence
- ▶ To foster mutually beneficial relationships with our business partners
- ▶ To fulfill our responsibilities towards the society by serving the nation while maintaining principles of corporate social responsibility

Values

- ▶ Uphold the highest traditions of ethics, norms and best practices in all our endeavours
- ▶ Guide our principles with wisdom and prudence in search of excellence
- ▶ Foster entrepreneurship amongst our employees in creating an atmosphere of caring, sharing and integrity
- ▶ Ensure good governance and transparency
- ▶ Delight our clientele through service excellence, differentiation and innovation
- ▶ Unite and be courageous to face challenges



OUTPUTS

Contributing towards strengthening Sri Lanka's financial service sector



Creating a new business paradigm that combines operational excellence and ethical business practices



Facilitating the financial needs of all Sri Lankans



Empowering the country's micro and SME sectors



Setting a new industry-benchmark as an employer of choice



Leadership in compliance



OUTCOMES

SHAREHOLDERS

Net Interest Income **Rs. 2.2 Bn**
PAT **Rs. 103 Mn**
EPS **Rs. 0.62**

CUSTOMERS

58,651 of new loans
Enhancement of overall customer experience due to automation
Improved credit evaluation procedures leading to a stronger credit culture

EMPLOYEES

Promotions - **29**
Gender Balance - Male - **62%**
Female - **38%**
Training Hours - **24,356**

REGULATORS

Taxes Paid - **Rs. 666 Mn**
Compliance with the Customer Protection Framework

Stakeholder Engagement

GRI 102-40 GRI 102-42 GRI 102-43 GRI 102-44

MBSL's key stakeholders are those who most materially impact our strategy or are directly impacted by it. They comprise of our shareholders, customers, employees, suppliers, regulators and the wider community.

As the highest governance body of the Company, the MBSL Board remains the ultimate authority responsible for developing mutually beneficial relationships with all stakeholders. Under the supervision and guidance provided by the Board, MBSL's business units and various departments are mandated to proactively engage with their respective stakeholders in a transparent manner while adhering to the highest standards of ethics and integrity. Through this process, we are looking to understand the expectations of our stakeholders and determine the matters they are most concerned with and then take appropriate action to revise our strategy to meet these expectations.

CUSTOMERS

↓

More than 62,000 individuals, micro enterprises, SMEs and corporates as well as 170,000 + depositors

Engagement Activity	Frequency
Directives and circulars at branches	regular
Social media	ongoing
Official meetings	as required

Matters of concern

- ▶ Contributions towards policy discussions and forums affecting the industry
- ▶ Responsible business practice
- ▶ Compliance to rules and regulations, Security of deposits

SHAREHOLDERS

↓

With a 74.49% stake, BOC is our largest shareholder while the remaining 25.51% is distributed among 11,222 institutions and individuals

Engagement Activity	Frequency
AGM and annual report	annual
Quarterly financials	quarterly
Media releases	continuous
Press conferences	continuous

Areas of concern

- ▶ Financial performance
- ▶ Sustainable growth
- ▶ Market share
- ▶ Risk and stewardship
- ▶ Growth plans
- ▶ Compliance

EMPLOYEES

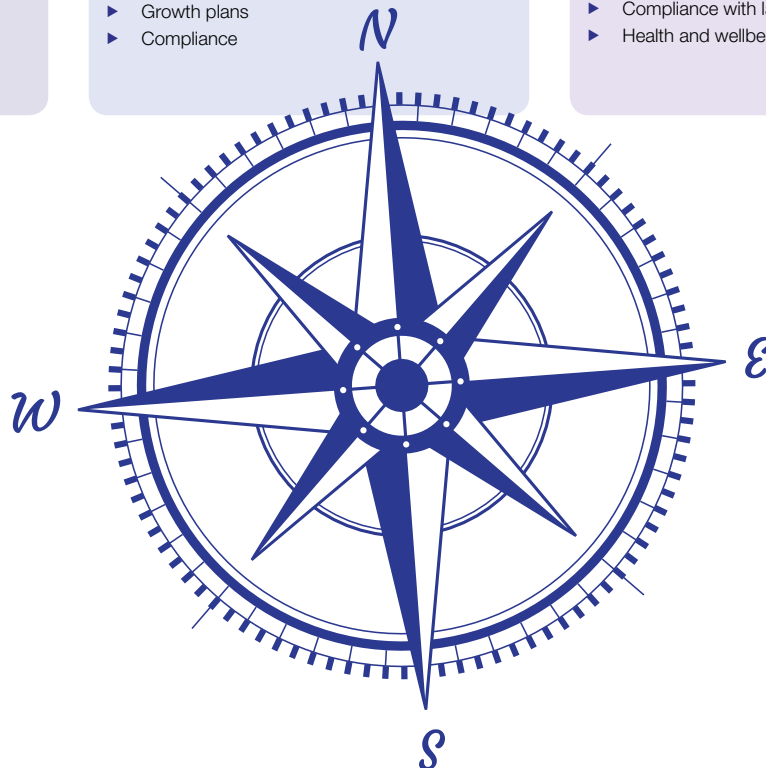
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A total of 1000 employees across MBSL's head office and islandwide branch network

Engagement Activity	Frequency
Performance Appraisal	Bi-annual
Staff meetings	weekly / monthly
Union meetings	continuous
Intranets	continuous

Areas of concern

- ▶ Remuneration and benefits
- ▶ Employment equity
- ▶ Training and development
- ▶ Career Progression
- ▶ Compliance with laws
- ▶ Health and wellbeing



REGULATORS



Central Bank of Sri Lanka, Securities and Exchange Commission, Department of Inland Revenue, Colombo Stock Exchange and Ministry of Public Enterprises Development

Engagement Activity	Frequency
Directives and circulars	regular
Media	ongoing
Official meetings	as required

Matters of concern

- ▶ Contributions towards policy discussions and forums affecting the industry
- ▶ Responsible business practice
- ▶ Compliance to rules and regulations, Security of deposits

SUPPLIERS



A total of 115 registered suppliers

Engagement Activity	Frequency
Supplier registration	annual
Special meetings	as required
Site visits	as required

Matters of concern

- ▶ Ease of transactions
- ▶ Value addition and supplier Development
- ▶ Long term partnership and quality of service

COMMUNITY



The wider community

Engagement Activity	Frequency
CSR efforts	ongoing
Press releases	continuous

Matters of concern

- ▶ Financial inclusion
- ▶ Community development



Risks and Opportunities

GRI 102-15

With our industry operating in an era of constant flux, as regulations, macroeconomic conditions, customer behavior and spending patterns continue to change at a rapid pace, it is vital that we remain vigilant to determine how these would impact our business. In this context, we conduct a PESTLE analysis to study the risks and opportunities applicable to MBSL due to various changes in our operating environment. Given below are a few of the main concerns encountered in 2019.

	Issue	Risks to MBSL	Opportunities for MBSL
POLITICAL	Frequent changes in the political climate causes policy inconsistency which negatively influences general market sentiments and weakens investor confidence	Reluctance to invest in new ventures / business expansion leading to lower credit appetite from the private sector	Diversify into alternative business verticals in order to spread the risk by reducing the dependence on a single business line
ECONOMIC	Economic instability resulting from unforeseen events (Erratic weather, Easter Sunday attacks etc.) diminish the prospects of certain sectors of the economy in turn leading to lower disposable incomes	Declining profits reduces the repayment capacity of corporates while lower disposable incomes reduced the ability of retail customers to service their debt obligations. In this scenario MBSL would face higher NPL's	Streamline the granting of new loans while strengthening recovery mechanisms and improving risk management protocols in order to minimize the quantum of bad loans
SOCIAL	Increased awareness regarding more dynamic and convenient financial solutions	Loss of market share to competitors who are known to be early adapters within this space	Invest in developing unique, groundbreaking financial solutions that would give MBSL first-mover advantage
TECHNOLOGICAL	Advanced technological infrastructure helps to streamline internal efficiencies and also paves the way for a host of front end customer servicing platforms to be introduced	High cost of investing in new technology infrastructure	Leverage on technology to support high growth areas of the business
LEGAL / REGULATORY	Frequent changes in policy interest rates. A high interest rate environment will negatively impact the demand for the Company's core lending products, while assist in deposit mobilization activities (and vice versa)	Inability to safeguard earnings consistency over time	Promote structured financial solutions that are less likely to be influenced by changes in policy interest rates
ENVIRONMENTAL	Growing concerns regarding the impact of climate change	Negative public perception could damage the Company's brand image	Lead by example to demonstrate MBSL's commitment to environmental stewardship

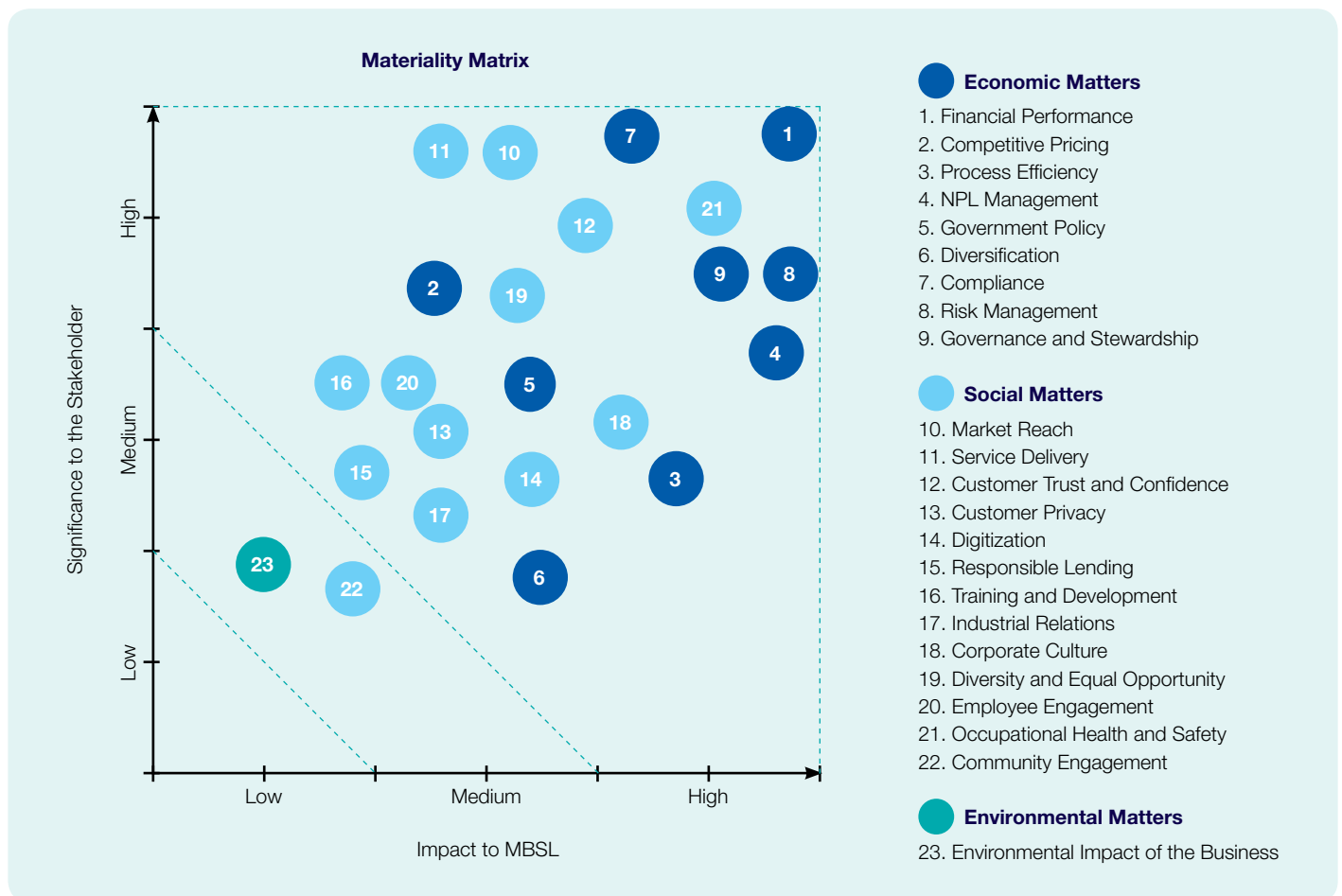
Materiality Analysis

GRI 102-46 GRI 102-47

Material issues are those that either represent a significant risk or opportunity for us in our business operations or could possibly affect stakeholders' perceptions regarding MBSL. These issues are identified through our periodic materiality assessment to determine a comprehensive list of economic, social and environmental matters that may affect our business or be of concern to stakeholders. All material topics so identified are then plotted on a Materiality Matrix to gauge their importance to stakeholders as against their impact on MBSL.

Material issues change over time, as knowledge about them increases, in turn giving rise to new issues. As such we update our assessment continuously through a structured discussions with representatives of different divisions within our Company, and further supported by our stakeholder engagement process.

The results of our ongoing materiality assessment process has revealed that the material topics for 2019 remain unchanged from the previous financial year. Therefore in this financial year too MBSL will continue to report on the 23 topics outlined below.



Materiality Analysis Contd.

Material Topic #1 - Financial Performance	
Why is it material?	Ensure the Company can continue to grow after meeting its financial and regulatory obligations
GRI Relevant Topic	GRI 201
Topic Boundary	Internal
Management Approach	Increase revenue generation by driving volume growth in all customer segments and through aggressive marketing and promotional activities as well as more market responsive financial solutions to capture a larger share of the market
Implementation	Business Reviews - page 50 Financial Capital - page 52
Evaluation	Volume growth in Deposits, Leasing, Pawning, Corporate and Retail Lending businesses PBT PAT
Material Topic #2 - Competitive Pricing	
Why is it material?	Enables MBSL to strategically grow the business
Topic Boundary	Internal / External
Management Approach	Strategic repricing of products to reflect movements in market interest rates
Implementation	Business Reviews - page 50 Financial Capital - page 52
Evaluation	Growth in the Deposits / Lending portfolios Growth in the customer base
Material Topic #3 - Process Efficiency	
Why is it material?	Enhances MBSL's ability to be more agile and cost effective and also improves service delivery to the customer
Topic Boundary	Internal
Management Approach	Continue to invest in strengthening core competencies
Implementation	Intellectual Capital - page 60
Evaluation	Cost to income ratio Cost per employee
Material Topic #4 - NPL Management	
Why is it material?	Improves the Company's cashflows and strengthens the Company's credibility among peers
Topic Boundary	Internal / External
Management Approach	Improving risk frameworks to enforce stringent pre credit screening, continuous and ongoing post-credit monitoring of individual and collective portfolios, together with proactive recovery management to minimize bad loans
Implementation	Financial Capital - page 52 Intellectual Capital - page 60 Risk Management Report - page 116
Evaluation	Arrears percentage NPL ratio Impairment Charge

Material Topic #5 - Government Policy	
Why is it material?	Impacts the Company's financial and operational performance
Topic Boundary	Internal / External
Management Approach	Compliance with all mandatory rules and regulations applicable to financial institutions in Sri Lanka
Implementation	Financial Capital - page 52
Evaluation	Incidents of non-compliance
	value of fines imposed / paid
	Other restrictions (deposit cap / lending cap etc)
Material Topic #6 - Diversification	
Why is it material?	Improves the risk spread by reducing the over exposure to a specific product or portfolio
Topic Boundary	Internal / External
Management Approach	Leverage on market trends to seize new business opportunities and reach out to new market segments in order to effectively reduce the dependency on certain product / portfolios
Implementation	Business Reviews - page 50
	Manufactured Capital - page 58
	Social and Relationship Capital - page 68
Evaluation	Market Share
	Credit Concentration Risk analysis (product wise / portfolio wise)
Material Topic #7 - Compliance	
Why is it material?	Confirms MBSL as a compliance leader in all aspects of the business
GRI Relevant Topic	GRI 307
Topic Boundary	Internal / External
Management Approach	Zero tolerance policy for non-compliance at all levels of the Company
Implementation	Intellectual Capital - page 60
	Risk Management Report - page 116
Evaluation	No. of incidents of non-compliance
Material Topic #8 - Risk Management	
Why is it material?	Safeguards the stability and sustainability of the business
Topic Boundary	Internal / External
Management Approach	Ensure all material risks are managed efficiently at all times based on sound risk fundamentals
Implementation	Risk Management Report - page 116
Evaluation	Overall Risk Rating
Material Topic #9 - Governance and Stewardship	
Why is it material?	Provides the foundation for building resilience, ensuring overall strength and stability of the Company and long term sustainability of the business
Topic Boundary	Internal / External
Management Approach	Maintaining an appropriate Governance Structure and oversight mechanisms in line with regulatory requirements for financial institutions in Sri Lanka
Implementation	Corporate Governance Report - page 78
Evaluation	Incidents of non-compliance

Materiality Analysis Contd.

Material Topic #10 - Market Reach	
Why is it material?	Enhances MBSL's competitive position in the market
Topic Boundary	Internal / External
Management Approach	Effective channel management to ensure the Company's products and services are accessible to the mainstream market across the Country
Implementation	Manufactured Capital - page 58 Social and Relationship Capital - page 68
Evaluation	Market Share Growth in the customer base
Material Topic #11 - Service Delivery	
Why is it material?	Enhances MBSL's competitive edge in the market
GRI Relevant Topic	GRI 203
Topic Boundary	Internal
Management Approach	Work towards continuously differentiating the Company's overall service proposition from peer offerings by developing new solutions that are more market driven, investing in improving the reach, raising awareness regarding available products and services and streamlining internal process efficiencies in order to exceed the customers expectations of service
Implementation	Business Review - page 50 Manufactured Capital - page 58 Social and Relationship Capital - page 68
Evaluation	Top of mind brand awareness Customer satisfaction index No. of complaints received
Material Topic #12 - Customer Trust and Confidence	
Why is it material?	Strengthens MBSL's reputation as a top tier financial institution in the Country
Topic Boundary	Internal / External
Management Approach	Improving MBSL's credibility on all fronts - stronger financial performance, better reach, diverse product range, faster service delivery
Implementation	Financial Capital - page 52 Manufactured Capital - page 58 Intellectual Capital - page 60 Social and Relationship Capital - page 68
Evaluation	Growth in the Deposits / Lending products Growth in the customer base Improvement in MBSL's Brand Equity value

Material Topic #13 - Customer Privacy	
Why is it material?	Supports the Company's efforts to enhance the customer experience
Topic Boundary	Internal
Management Approach	Adoption of globally accepted best practices to safeguard customer data and information
Implementation	Intellectual Capital - page 60
Evaluation	No. of cases reported with regard to a breach in customer privacy
Material Topic #14 - Digitization	
Why is it material?	Supports MBSL's efforts to become a fully-fledged digital financial institution
Topic Boundary	Internal
Management Approach	Invest in appropriate Digital technology to enable process automation that would drive internal efficiency improvement and strengthen front end customer service capacity
Implementation	Intellectual Capital - page 60 Social and Relationship Capital - page 68
Evaluation	Reduction in overall costs due to automation Speedier service to the customer No. of digital payment channels available to customers
Material Topic #15 - Responsible Lending	
Why is it material?	Enables a more sustainable lending model
Topic Boundary	Internal / External
Management Approach	Engage in lending activities by taking into consideration the Board approved credit appetite and credit concentration limit thresholds as well as taking comprehensive steps to strictly assess the customers' creditworthiness to ensure their ability to service debts over time and thereby avoid the likelihood of default risk
Implementation	Business Reviews - page 50 Risk Management Report - page 116
Evaluation	Arrears percentage NPL ratio Impairment Charge
Material Topic #16 - Training and Development	
Why is it material?	Improves employee capability to drive the Company's growth objectives
GRI Relevant Topic	GRI 404
Topic Boundary	Internal
Management Approach	Invest in training to enable employees to acquire the skills and competencies required to perform their job roles effectively
Implementation	Human Capital - page 62
Evaluation	No. of promotions Employee attrition rate

Materiality Analysis Contd.

Material Topic #17 - Industrial Relations	
Why is it material?	Keeps employees involved in the Company's activities
GRI Relevant Topic	GRI 204 GRI 407
Topic Boundary	Internal / External
Management Approach	Proactively address their key concerns to ensure employees are satisfied and motivated in their job role
Implementation	Human Capital - page 62
Evaluation	No. of grievances Employee Satisfaction level
Material Topic #18 - Corporate Culture	
Why is it material?	Serves as a platform to encourage employees to take ownership for the Company's future growth prospects
Topic Boundary	Internal
Management Approach	Create a corporate culture that would enable employees to be more performance driven and thus grow with the Company
Implementation	Human Capital - page 62
Evaluation	No. of promotions Employee attrition rate
Material Topic #19 - Diversity and Equal Opportunity	
Why is it material?	Provides employees with the assurance of an inclusive work environment free of harassment or discrimination
GRI Relevant Topic	GRI 405 GRI 406
Topic Boundary	Internal / External
Management Approach	Benchmarking globally accepted employment best practices across all HR processes
Implementation	Human Capital - page 62
Evaluation	No. of grievances regarding discrimination or harassment at the workplace
Material Topic #20 - Employee Engagement	
Why is it material?	Keeps employees engaged and motivated
GRI Relevant Topic	GRI 401 GRI 407 GRI 408 GRI 409
Topic Boundary	Internal
Management Approach	Regularly engage with employees to provide them with the opportunity to work together as a team and thereby collectively contribute to the Company's success
Implementation	Human Capital - page 62
Evaluation	Employee Satisfaction level

Material Topic #21 - Occupational Health and Safety	
Why is it material?	Provides employees with the assurance of a safe work environment
Topic Boundary	Internal / External
Management Approach	Benchmarking globally accepted occupational health and safety standards at all levels of the Company
Implementation	Human Capital - page 62
Evaluation	Injury Rate
	Lost Days
Material Topic #22 - Community Engagement	
Why is it material?	Clarifies MBSL's position as a good community steward
GRI Relevant Topic	GRI 413
Topic Boundary	Internal / External
Management Approach	Community empowerment through the core business as much as possible along with selective investments in CSR activities to support community needs more meaningfully
Implementation	Social and Relationship Capital - page 68
Evaluation	No. of beneficiaries
	Community Grievances
Material Topic #23 - Environmental Impact of the Business	
Why is it material?	Strengthens MBSL's credentials as a good environmental steward
GRI Relevant Topic	GRI 301 GRI 302 GRI 303
Topic Boundary	Internal / External
Management Approach	Ongoing efforts to minimize the direct impact resulting from the Company's operations as well contributing towards broader environmental change
Implementation	Natural Capital - page 72
Evaluation	Reduction in paper use
	Growth in the Green Lending portfolio



**Forging the links of
teamwork in running
a tight ship**



MANAGEMENT DISCUSSION AND ANALYSIS

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Operating Environment

Sri Lankan Economy

The Sri Lankan economy recorded a subdued growth of 2.3% in 2019, compared to the growth of 3.3% in 2018. The impact of the April 21st Easter Sunday attacks was felt across the economy with dire consequences for tourism, travel and leisure industries, while its adverse spillover effects further dampened business confidence leading to muted growth across many other sectors as well. The service sector after several years of robust growth, recorded subdued results as growth decelerated significantly to 2.3% in 2019, compared to 4.6% in 2018. The agriculture sector which continued to be burdened by extreme weather for much of the year, failed to grow in 2019 as well. The industry sector however performed reasonably well by recording growth of 2.7% in 2019 compared to only 1.2% in the previous year. Broadly reflecting sluggish economic activity, the unemployment rate increased to 4.8% in 2019 from 4.4% in 2018.

Subdued demand conditions allowed the continuation of low inflation during the year. Both headline and core inflation moved broadly in the desired range of 4-6% during 2019, mainly as a result of subdued demand conditions and well anchored inflation expectations.

However considering the need to stimulate economic activity amidst muted inflation, the Central Bank was seen adopting an accommodative monetary policy stance which included several consecutive reductions to market interest rates. On 31st May 2019, the Standing Deposit Facility Rate (SDFR) and the Standing Lending Facility Rate (SLFR) were both reduced by 50 basis points to 7.5% and 8.5%, respectively. The SDFR and SLFR were reduced once again, by a further 50 basis points each to 7% and 8% respectively on 23rd August 2019. Despite these measures however economic activity remained weak at best.

On a positive note, Sri Lanka moved up to claim a spot among the upper middle income countries, based on the World Bank's country classification of per capita Gross National Income (GNI) for 2019.

Country Outlook for 2020 and beyond

Just as signs of an economic revival began to emerge in the early part of 2020, it was cut short by the outbreak of the COVID-19 pandemic in March 2020. With the Country at a virtual standstill amidst the 6-week islandwide curfew declared by the Government, the economic fallout will likely be felt well into the future. With most key sectors affected, it is predicted that the Country would see de-growth in 2020 and even a slight revival in economic activity predicted only towards the end of 2021.

NBFI Sector Performance

The performance of the NBFI sector fell below expectations in 2019 as credit provided by the sector declined by 3% to Rs.1,102.7 billion, compared to the growth of 7.6% in reported in 2018. The demand for credit from the private sector was decidedly weak in 2019 due to several reasons, including the ongoing macroprudential policy measures aimed at curtailing importation of motor vehicles as well the strict LTV rules aimed at restricting credit facilities granted in respect of motor vehicles. Sluggish economic and commercial activities due to loss of business confidence following the Easter Sunday terror attacks and the political instability in the run up to the presidential election were some of the other factors responsible for low credit growth in the NBFI sector.

Asset Growth

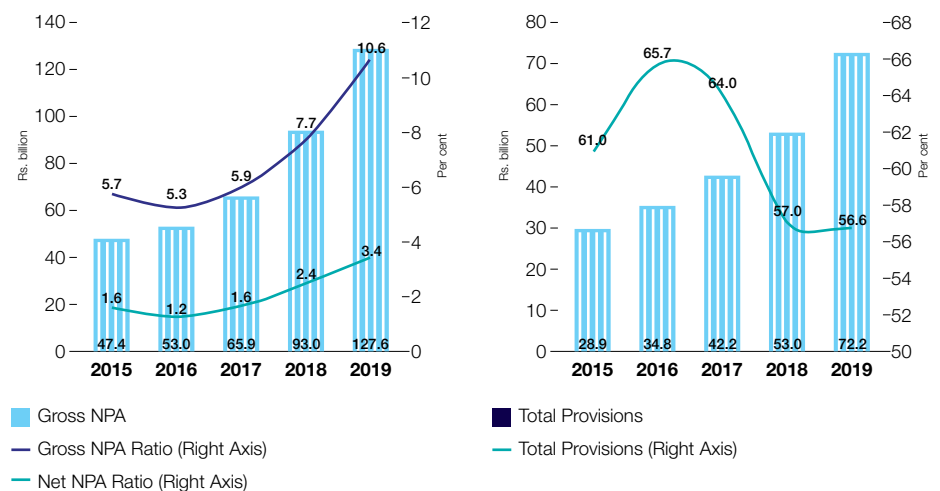
The total asset base of the NBFI sector grew only marginally to reach Rs. 1,432.7 billion by end 2019 from Rs. 1.3 billion reported at the end of the previous year. Loans and advances accounted for 77% of the total assets, while finance leases attributed for 53% of the gross loans and advances, and other secured loans, representing the remaining 37%.

It is noteworthy that the volume of finance leases contracted in 2019, as did secured loans and advances and hire purchases, while pawning advances increased significantly compared to the previous year.

Asset Quality

Gross non-performing assets (NPA) serve as the main measure indicating the asset quality of the NBFI sector. Reflecting deterioration in the asset quality, the NBFI sectors' gross NPA ratio increased to 10.6% by end-December 2019, from 7.7% reported at the end of 2018. The deterioration is attributed mainly to the post Easter Sunday economic downturn that affected the prospects of several key industries and to the spillover effects of the Debt Relief Program.

Non Performing Loans and Provision Coverage of the LFCs and SLCs Sector

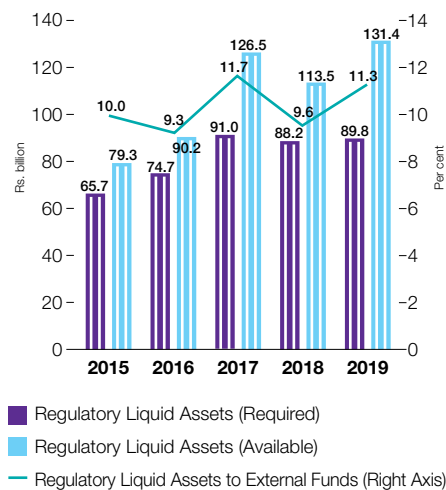


Source: Central Bank of Sri Lanka

Liquidity

The sector maintained adequate liquidity buffers well above the regulatory minimum levels. The overall regulatory liquid assets available in the sector at end-December 2019 indicated a surplus of Rs. 41.6 billion as against the stipulated minimum requirement of Rs. 89.8 billion. The liquidity ratio (liquid assets on deposits and borrowing) increased to 11.3% at end-December 2019, compared to 9.6% recorded at end-December 2018.

Regulatory Liquid Assets of the LFCs and SLCs Sector

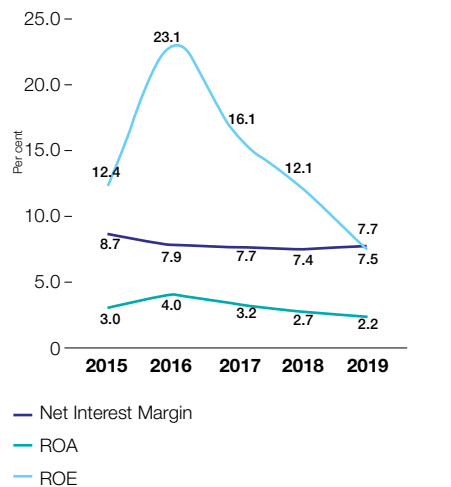


Sector Profitability

The sector posted a profit after tax of Rs. 14.5 billion, a decline of 31.9% over the profit recorded in year 2018. The decline in profit was largely due to higher loan loss provisions made against NPA's which increased to Rs. 30.2 billion in 2019, up by 16.2 % when compared to the provision made in 2018.

As a direct consequence of lower profitability in 2019, the NBF sector ROA decreased by 56 basis points while ROE decreased by 463 basis points.

Profitability Indicators of the LFCs and SLCs Sector



Capital Adequacy

The sector remained resilient with capital maintained at healthy levels during the year. The total regulatory capital levels improved by Rs. 22.3 billion in 2019, compared to the figure reported in 2018, thanks to steps taken by the Central Bank to enhance minimum capital requirement to Rs. 2 billion by 01 January 2020 and to Rs. 2.5 billion by 01 January 2021. The regulatory capital comprises Tier I and Tier II capital, of which Tier I capital contributed to 95% of the total regulatory capital. Tier I capital mainly comprises issued share capital, statutory reserve fund and published retained profits. The sector's core capital and total Risk Weighted Capital Adequacy (RWCAR) stood at 11.1% and 12.5% respectively in 2019, an increase of 1.3% and 1.4% respectively from the ratios reported in 2018.

Regulatory Developments

As part of ongoing efforts to further strengthen the supervisory and regulatory framework of the NBF sector, the CBSL continued with its program of policy measures and prudential regulations aimed at enhancing the stability and soundness of the sector. Accordingly the following directives were issued in 2019;

- **21st May 2019:** As part of a broader effort to mitigate the adverse impact on the tourism sector due to the easter Sunday attacks, a circular was issued authorizing NBF's to grant a debt moratorium to individuals and entities who have registered with the Sri Lanka Tourism Development Authority or any other authority/agency to provide services to the tourism sector.
- **04th June 2019:** The LTV Direction issued to LFCs was revised to incorporate the 2019 Budget proposals by allowing higher LTV ratios for light trucks
- **01st July 2019:** NBF's with assets less than Rs. 100.0 billion were required to maintain Tier I capital adequacy ratio of 6.5% and Total capital ratio of 10.5%, while those with assets of Rs. 100 billion or more were required to maintain Tier I capital adequacy ratio of 7% and Total capital ratio of 11%

Sector outlook and prospects

Going forward, operations of the NBF sector will be challenging. The increasing trend of NPL ratio and additional provisions for new NPL's will one of the key challenges facing the NBF sector. The end of the moratoria, which was granted to the tourism and Small and Medium Enterprises (SMEs) sectors in 2019, is also expected to push up the NPL ratio and provision requirements of the sector. Furthermore, the adverse economic impacts of the COVID-19 pandemic would reflect in the sector performance in 2020, especially as the sector remains under immense pressure to provide more relief to sectors adversely affected by the pandemic. Therefore, maintaining the stability of the financial sector will be a challenging task in the medium term.

Source: CBSL Annual Report 2019

Leasing

Operating Environment

Another challenging year for the leasing industry, as the demand for brand new motor vehicles and three-wheelers shrank even further, amidst regulatory controls restricting the volume of new vehicles hitting the roads. The demand for commercial vehicles too declined notably in 2019. This was attributed to the general economic slowdown and the easter Sunday attacks which had a crippling effect on several key sectors such as tourism, leisure and transport. Stemming from this, NPL's across the industry also rose significantly.

Strategic Response

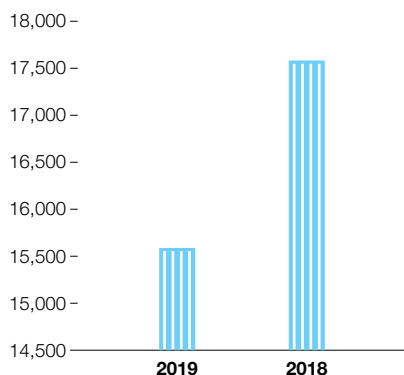
In light of the distinct lack of demand for leasing facilities for brand new motor vehicle and three-wheelers as well as rising NPL's in this category, MBSL took a strategic decision to mostly scale back from this line of business. The focus then shifted towards the registered vehicle market, mainly three-wheelers where strong growth potential was observed. Taking steps to deepen the penetration into this segment, marketing activities were intensified with ATL and ground level BTL programs activated concurrently to raise awareness among the target market. To complement these efforts, the Riya Pola campaign was held in selected provinces across the country, with the support of the MBSL branch network, car dealerships and agents in the respective areas.

Furthermore with unregistered vehicles becoming less and less affordable, MBSL was prompted to tap into the growing demand for registered motor vehicles, which led to launch a special leasing product to grow market share in this space.

Seeing the need to broad base the leasing business in order to reduce the over exposure to a single market segment, the Company also stepped up efforts to develop the motor bike leasing market. Several new dealer tie ups and a special business introducer campaign was initiated during the year, in the hope of making further inroads into the motor bike leasing segment.

To support the implementation of the collateral-based lending approach, a dedicated internal valuer was also appointed within the Central Credit Division.

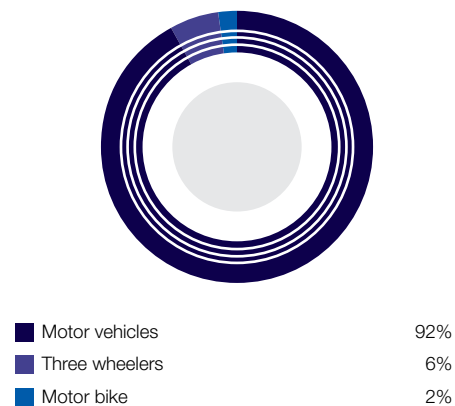
Leasing and Hire purchase (Rs. '000)



Performance Outcomes

	2019 Rs. '000	2018 Rs. '000
Leasing and Hire purchase	15,627,628	17,614,533

Portfolio Mix



Portfolio Mix (motor vehicles, three-wheelers, motor bikes)

Motor vehicles	92%
Three wheelers	6%
Motor bike	2%

Focus for 2020 and beyond

Improve the customer service proposition to capture a larger share of the market

Staying vigilant in order to leverage on alternative growth opportunities in the market

Corporate and Retail Credit

Operating Environment

The demand for credit fell for most of 2019 as the impact of the Easter Sunday attacks triggered a widespread economic slowdown. Meanwhile the uncertainty surrounding the presidential elections in November 2019 was also partly responsible for the sluggish credit appetite.

On a positive note, the CBSL's decision to cut policy interest rates did help to revive the demand for short term credit in the third quarter of the year.

Strategic Response

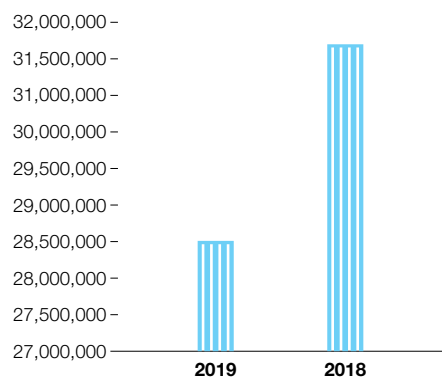
After a period of low demand for the first half of 2019, MBSL was quick to capitalize on the low interest rate environment, by redoubling efforts to tap into the demand for short term credit in both the corporate and retail segments.

Corporate lending activities focused mainly on the manufacturing and trading industries which appeared to have been the least affected by the economic slowdown. Promotional activities were intensified to reinforce the Company's corporate lending proposition among this particular target segment, while a specialized Corporate Credit Department (CCD) was set up at the head office to drive corporate lending. However given the economic climate in 2019, the CCD was mandated to pursue a selective lending strategy, stronger emphasis on balance sheet evaluation coupled with collateral if required, in a bid to reduce the NPL risk over time.

Aggressive BTL activities were launched targeting a larger share of the retail market as well. In this regard the main focus was on promoting bill discounting, working capital loans and short terms loans. Minimizing the risk of NPL's was key priority in the retail segment too, which prompted increased training to strengthen the credit evaluation capacity of branch field staff.

Performance Outcomes

Portfolio Value (Rs. '000)



	2019 Rs. '000	2018 Rs. '000
Loans	28,895,971	31,819,690

Focus for 2020 and beyond

Leverage on market opportunities to capture a larger share of both retail and corporate segments

Strengthen the evaluation capacity of branch field staff to minimize the NPL risk

Pawning / Gold Loan

Operating Environment

A robust demand for pawning was observed across the country, amidst a notable increase in world gold prices in 2019. The fact that pawning has evolved beyond its traditional purpose as a distress loan, is also another reason for its growth in recent years.

Strategic Response

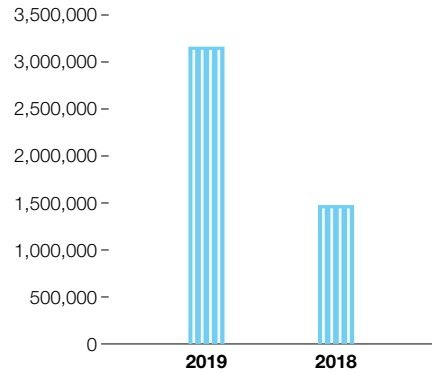
Moving away from its cautious approach towards pawning, MBSL made a strategic decision to deepen its penetration into the pawning space in 2019. Taking swift action to capitalize on the strong market demand, pawning facilities were made available at all 49 of the Company's branches in 2019. This was coupled with the introduction of 1, 3 and 6 month pawning solutions to give customers a wider range of options. Compared to the standard 12 month pawning product, these short term alternatives offer several attractive features, including a higher advance percentage, flexible redemption and competitive interest rates.

To raise awareness regarding the new short-term products, BTL activities were intensified, primarily through localized campaigns conducted by the Company's regional teams.

Meanwhile with higher volumes coming in, internal process improvements were also expedited. The central pawning division was established at the MBSL head office, with the aim of exercising direct supervisory control over branch level pawning portfolios. As part of their duties, the central pawning division is also required to undertake market research activities to assist the management in making proactive decisions to grow the Company's market share in the pawning space.

Performance Outcomes

Portfolio Value (Rs. '000)



	2019 Rs. '000	2018 Rs. '000
Portfolio Value	3,188,480	1,476,110

Focus for 2020 and beyond

Strengthen MBSL's pawning footprint by setting up dedicated pawning centers to service high growth regions across the country

Introduce value enhancements to gain first mover advantage in the market

Corporate Advisory

MBSL's Corporate Advisory Unit tabled a satisfactory performance in 2019. While weak trading conditions at the Colombo Stock Exchange offered no credible prospects for the equity trading portfolio in the first half, improved results were seen in the latter part of the year, as positive sentiments regarding the elections helped boost trading activity at the CSE from about September 2019. During the year 2019 MBSL equity portfolio reported the return of 5.6% which was outperformed the overall market return of 1.27%.

MBSL's Corporate Advisory Unit was able to secure the management of only IPO listing for 2019, thereby recording an improvement in fee based income compared to the previous year.

In other developments, the scope of the Corporate Advisory unit was expanded with the newly set up Corporate Credit Department (CCD) being brought under its purview. Accordingly the Corporate Advisory unit is required to provide the backend support to the CCD. This forms part of a focused effort to streamline the Corporate Lending model and introduce a more structured approach to credit evaluation and due diligence for high value credit facilities.

Focus for 2020 and beyond

Take advantage of market movements to improve returns generated from the equity trading portfolio

Improve fee based income by exploring potential opportunities to manage IPO listings and arrange private placements

Deposits

Operating Environment

It was quite challenging year for MBSL's Deposit Unit, with two main factors restricting the Company's deposit mobilization activities. Firstly, the CBSL's decision to cut policy rates, first by 50 basis points in April 2019 followed by another 50 basis points in August 2019 saw interest rates on the declining trend for most of the year. Amidst this low interest environment, term deposits and savings were perceived as less attractive investment options, prompting investors to seek out alternatives such as real estate and the capital market. Secondly, the deposit cap imposed on MBSL by the Central Bank put pressure on the Company's ability to canvass new deposits.

Strategic Response

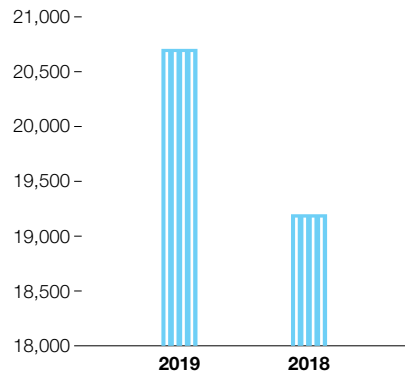
In response to these challenges, MBSL adopted a strategic approach to rationalize the deposit base and ensure that deposit mobilization activities were driven mainly by the Company's cash-flow requirements. The steps were taken to replace the rate sensitive larger deposits with lesser rate sensitive retail deposits for longer terms which favourably impacted on some risk aspects liquidity and interest rate risks. This was coupled with efforts to reduce the concentration risk of the Deposit portfolio, which prompted a move away from large high cost term deposits with the focus for the year shifting towards growing the volume of small ticket retail deposits. And with the low interest environment favouring high interest bearing deposits, a strong push was made to grow the 12 and 18 month term deposits which carry a significantly higher Average Effective Rate (AER) compared to the shorter term 3 and 6 month deposits.

Meanwhile proactive efforts to strengthen customer connectivity saw a new SMS generator tool being introduced to notify customers regarding their up-coming renewals, interest due etc directly to their mobile phone.

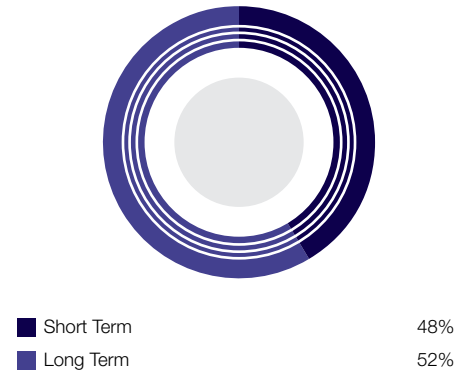
Renewed emphasis was also placed on growing the savings base. A focused campaign was launched specifically to drive minor savings, while the SMS generator tool was widely used raise awareness among customers and initiate up selling and cross selling activities in order to fuel growth in other savings segments.

Performance Outcomes

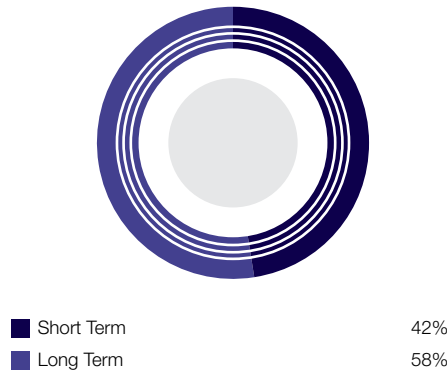
Growth in the Deposit Base (Rs. '000)



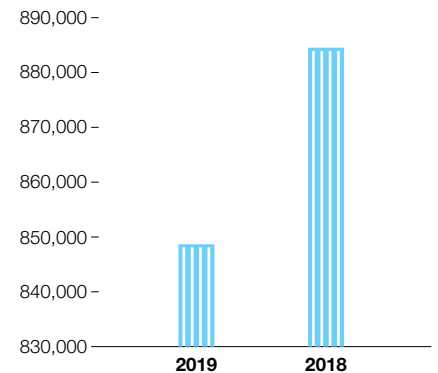
Deposit Mix (Long term Vs. Short term) 2019



Deposit Mix (Long term Vs. Short term) 2018



Growth in the Savings Base (Rs. '000)



Focus for 2020 and beyond

Grow the savings base by developing structured savings products that appeal to different customer segment

Increase the contribution made by the branches towards building the deposit base

Enhance the client communication widely using the SMS gateway for grabbing more cross selling and upselling opportunities

Focus on building up the minor savings base through the branch network by way of new channels and increased activities

Economic Value Added

GRI 103-1 GRI 103-2 GRI 103-3

The annual Economic Value Added (EVA) statement is the key metric used to measure MBSL's ability to create value for its shareholders, employees, regulators and other stakeholders. We use the EVA as an indicator to gauge the relevance of our strategy and how effectively our resources are being channeled towards driving MBSL's overall mission to maximize stakeholder value.

The EVA statement below highlights the progress made in 2019;

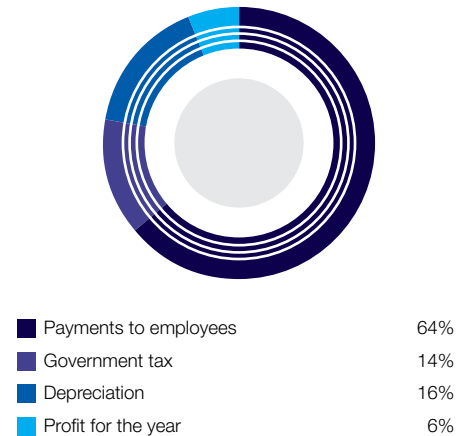
Statement of Value Added GRI 201-1

Value Added	2019 Rs. Mn	2018 Rs. Mn
Gross value added	6,839	6,550
Cost of borrowings & support services	(5,058)	(4,544)
Provision for bad debts & investments	(14)	(76)
	1,768	1,930
Value Allocated		
Payments to employees	1,144	1,096
Government tax	243	533
Depreciation	278	120
Profit for the year	103	181
	1,768	1,930

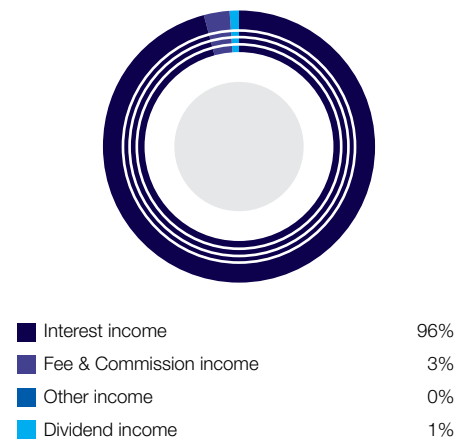
Sources & Utilization of Income

Sources of Income	2019 Rs. Mn	2018 Rs. Mn
Interest income	6,533	6,195
Fee & commission income	209	210
Dividend income	9	9
Other income	88	136
	6,840	6,550
Utilization of Income		
Payment to lenders	4,331	3,752
Payments to employees	1,144	1,096
Support services	727	792
Profit for the year	103	181
Depreciation & amortization	278	120
Impairment charges for loans and other losses	280	135
Impairment/(impairment reversal) of investment in subsidiary	(266)	(58)
Government taxes	243	532
	6,840	6,550

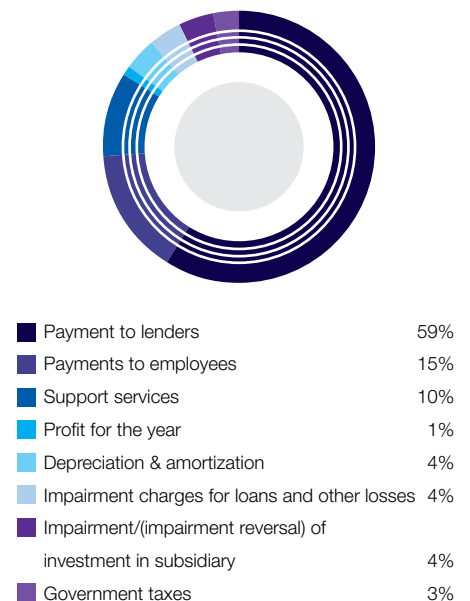
Value Allocation



Sources of Income



Utilization of Income



Financial Capital



Financial capital is the key enabler that allows MBSL to carry out its core business of lending. It is also the key resource that ensures all other capitals achieve their desired outcomes.

Financial Capital Strength

	2019 (Rs.'000)	2018 (Rs.'000)
Shareholder Funds	2,607,795	2,524,104
Customer Deposits	22,755,930	20,831,021
Borrowings	10,215,289	11,200,394
Retained Earnings	252,887	193,012

Management Approach

MBSL endeavors to manage its Financial Capital, efficiently and effectively in order to ensure;

- ▶ The Company continues to remain profitable in order to provide the expected shareholder returns
- ▶ Maintain a strong capital position that would improve stability and build resilience for the long term




Material Matters

Financial Performance
Competitive Pricing
Process Efficiency
NPL Management

Strategy and Resource Allocation	
Focus for 2019	Key Inputs for the year
Broad based lending strategy to generate returns from multiple income sources	<ul style="list-style-type: none"> ▶ Aggressive efforts to deepen the penetration into the registered vehicle market, mainly three-wheelers ▶ Focused effort to tap into the motor bike leasing market ▶ Introduction of 1, 3 and 6 month pawning solutions to capitalize on the strong demand for Pawning ▶ Promoting bill discounting, working capital loans and short terms loans to Corporates ▶ A specialized Corporate Credit Department (CCD) was set up at the head office to drive corporate lending
Sourcing of low cost funding	<ul style="list-style-type: none"> ▶ Reducing the concentration risk of the deposit portfolio by shredding large high cost term deposits ▶ Increasing the volume of small ticket retail deposits with a shorter tenure
Prudent lending approach coupled with proactive recovery management to reduce impairment provisions	<ul style="list-style-type: none"> ▶ Pursued a selective lending strategy, coupled with a stronger emphasis on collateral based lending. ▶ Introduction of new protocols to strengthen pre credit evaluation ▶ Increase training to strengthen the credit evaluation capacity of branch field staff ▶ Strengthened the overall Credit Risk Management framework ▶ All recovery monitoring activities were centralized under the control of the Central Recoveries Unit
Operational cost management to reduce the Company's overall cost to income ratio	<ul style="list-style-type: none"> ▶ The Operational Risk Management Committee (ORMC) was established ▶ A total of 1,720 training hours was conducted to build employee capacity in the areas of anti-money laundering, cashing, marketing, pawning and credit management ▶ Streamlined several processes in order to reduce risk of process failure and improve employee productivity
Improve liquidity position by minimizing the maturity mismatch between assets and liabilities	<ul style="list-style-type: none"> ▶ Tighter liquidity management protocols were introduced to ensure liquidity levels are managed in line with MBSL's Risk Appetite ▶ New KRIs to measure and manage Liquidity Risk more prudently ▶ Ongoing efforts to comply with the CBSL's Tier I and Tier II Capital Adequacy Requirement

Outcomes for 2019

Impact on other Capitals

	Impact	
Human Capital		Improved productivity and higher satisfaction levels among employees
Intellectual Capital		Improved brand equity
Social and Relationship Capital (Customer)		Improved value proposition builds customer confidence and loyalty

Financial Capital Contd.

Net Interest Income (NII)

NII, is the Company's main source of income. In 2019, NII declined 10% year on year, as interest expenses overshoot interest income for the year. While the Company's broad based lending strategies succeeded in pushing up interest income by 5.45% in the year under review, interest expenses increased by a much higher margin of 15.4% for the same period, causing a decline in both NII and the Net Interest Margin (NIM). NIM's declined from 7.83% in 2018 to 6.52% in 2019.

Impairment Provisions on Loans and Advances

Impairment Provisions on Loans and Advances doubled from Rs. 135 Mn in 2018 to Rs. 279 Mn in 2019 on the back of challenging economic conditions in the aftermath of the Easter Attacks that left many businesses facing difficult times.

On the back of higher impairment provisions, MBSL's Net NPA ratio (as per the CBSL classification) increased from 6.51% in 2018 to 7.93% in 2019.

Profitability

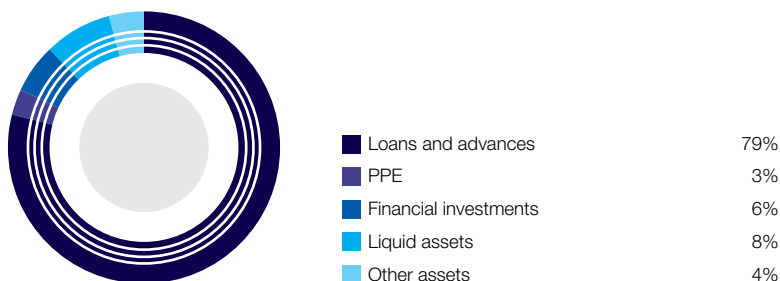
MBSL's reported Profit After Tax of Rs. 102.58 Mn in 2019, down by 43.4% from the Rs. 181.29 Mn recorded in 2018. The increase in funding costs and the higher impairment provisions are the main reasons attributed for the decline in profitability in the current financial year.

Asset Composition

The Company's total Asset Base grew by 3.69% year on year to reach Rs. 36.97 Mn as at 31st December 2019.

Loans and Advances continued to dominate the asset mix, accounting for 79% of the total asset base, notably lower than the 86% recorded in the previous year. The drop was attributed to the low volumes tabled in the Leasing and Personal Loan portfolios.

2019



Other Asset classes - PPE, Financial Investments, Liquid Assets and Other Assets all increased their contribution to the total asset base in 2019.

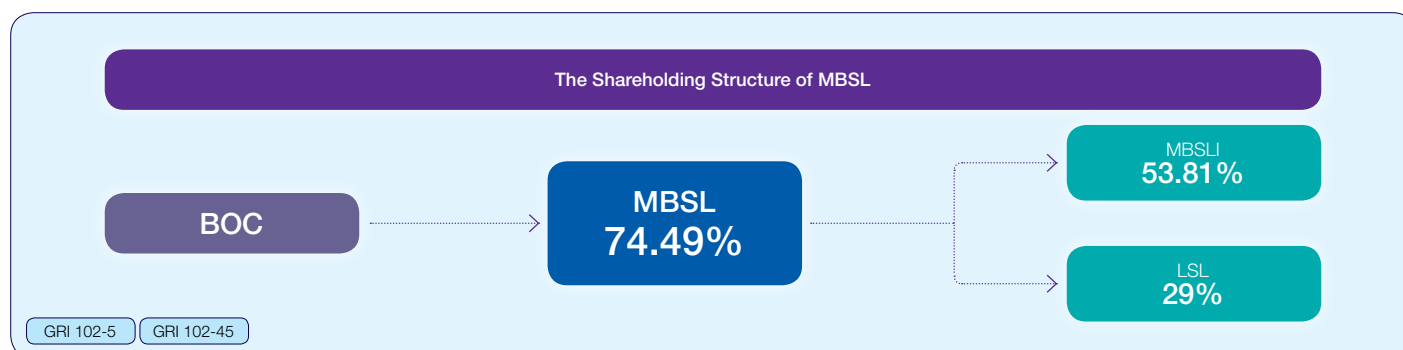
Meanwhile ROA declined from 0.51% in 2018 to 0.28% in 2019, owing to lower profits in the year under review.

Funding and Liquidity

Equity Capital, Borrowings and Deposits mobilized from the public remained MBSL's main funding sources. In 2019, the Company's funding mix changed somewhat in 2019 with Deposits increasing its share to 64% (60% in 2018) and Borrowings declining to 29% from 32% in the previous year.

Future Goals

- ▶ Expand lending activities to grow income, while exercising stringent control over cost of funding in order to improve profitability and generate consistent retained earnings
- ▶ Improve the Company's liquidity position to comply with regulatory minimum capital adequacy requirements



Shareholder Information

Public Holdings

	2019		2018	
	No. of shares	% of holding	No. of shares	% of holding
Shares held by the public	42,312,240	25.51%	42,306,809	25.51%
No. of public shareholders	11,218	99.96%	11,312	99.95%

Distribution of Ordinary Shares

	As at 31 December 2019				As at 31 December 2018			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
1 to 1,000	9,232	82.27%	1,613,499	0.97%	9,214	81.41%	1,619,758	0.98%
1,001 to 10,000	1,572	14.01%	5,525,485	3.33%	1,649	14.57%	5,827,079	3.51%
10,001 to 100,000	373	3.32%	10,478,726	6.32%	407	3.60%	11,486,006	6.92%
100,001 to 1,000,000	42	0.37%	11,418,126	6.88%	46	0.41%	11,467,136	6.91%
over 1,000,000	3	0.03%	136,838,705	82.50%	2	0.02%	135,474,562	81.67%
Total	11,222	100.00%	165,874,541	100.00%	11,318	100.00%	165,874,541	100.00%

Composition of Ordinary shareholders

	As at 31 December 2019				As at 31 December 2018			
	No. of shareholders	%	No. of shares	%	No. of shareholders	%	No. of shares	%
Resident - Individual	10,248	91.32%	21,361,275	12.88%	10,329	91.26%	20,912,414	12.61%
- company	926	8.25%	143,834,088	86.71%	940	8.31%	143,794,921	86.69%
Non Resident - Individual	47	0.42%	665,528	0.40%	46	0.41%	717,107	0.43%
- company	1	0.01%	13,650	0.01%	3	0.03%	450,099	0.27%
Total	11,222	100.00%	165,874,541	100.00%	11,318	100.00%	165,874,541	100.00%

Directors' Shareholding

Names of Directors	No. of shares 31.12.2019	As a % of total shares	No. of shares 31.12.2018	As a % of total shares
Mr. D N L Fernando	24	0.00001%	24	0.00001%

Financial Capital Contd.

Market Share Information

	2019	Q4	Q3	Q2	Q1	2018
Share price (Rs.)						
Highest	10.90	10.30	10.50	10.70	10.90	14.70
lowest	8.30	8.60	8.50	8.30	8.90	7.40
Closing	9.60	9.60	8.60	8.50	10.40	9.60
No. of transactions	7,149	1,023	1,825	1,280	3,021	5,376
No. of shares traded (Mn)	14.35	2.15	3.92	1.93	6.36	9.28
Total number of shares issued (Mn)	165.9	165.9	165.9	165.9	165.9	165.9
Shares traded to total shares (%)	8.65	1.29	2.36	1.16	3.83	5.59
Turnover (Rs. Mn)	139	21	37	17	63	96
Total market turnover (Rs. Mn)	171,408	53,097	54,522	26,034	37,756	198,743
MBSL turnover to total market turnover (%)	0.08	0.04	0.07	0.07	0.17	0.05
No. of days traded	241	62	62	59	58	237
Average daily turnover-CSE (Rs. Mn)	711	856	879	441	651	838
Market Capitalisation - CSE (MC) (Rs. Bn)	2,851	2,851	2,709	2,523	2,606	2,839
Market Capitalisation - MBSL (MC) (Rs. Bn)	1.59	1.59	1.43	1.41	1.72	1.59
MBSL MC to CSE MC (%)	0.06	0.06	0.05	0.06	0.07	0.06
MBSL market capitalisation ranking	174	174	169	164	152	166

Twenty largest shareholders

Shareholder	As at 31 December 2019		As at 31 December 2018	
	No. of shares	Percentage holding (%)	No. of shares	Percentage holding (%)
Bank of Ceylon No. 1 Account	123,562,267	74.49%	123,562,267	74.49%
Bank of Ceylon A/C Ceybank Unit Trust	11,797,191	7.11%	11,912,295	7.18%
People's Leasing & Finance PLC/Mr.D.M.P.Disanayake	1,479,247	0.89%	632,485	0.38%
Mr. R E Rambukwella	830,210	0.50%	286,500	0.17%
Mr. D F G Dalpethado	576,257	0.35%	-	-
J. B. Cocoshell (Pvt) Ltd	537,530	0.32%	537,530	0.32%
Merrill J Fernando & Sons (Pvt) Ltd	526,165	0.32%	526,165	0.32%
Seylan Bank PLC/Spice of Life (Pvt) Ltd	405,234	0.24%	405,234	0.24%
Mr. K.V.Hewavitarne	400,000	0.24%	400,000	0.24%
Hatton National Bank PLC/Dinesh Nagendra Sellamuttu	386,301	0.23%	386,301	0.23%
Mr.N. Balasingam	381,400	0.23%	381,400	0.23%
Seylan Bank PLC/MS.Prime Lands (Pvt) Ltd	375,000	0.23%	375,000	0.23%
Mr. B.T.Prathapasinghe	345,000	0.21%	345,000	0.21%
Mr. A.Chelliah (deceased)	333,800	0.20%	333,800	0.20%
Mr. A.M. Weerasinghe	305,583	0.18%	305,583	0.18%
Mr.M.F. Ozman	304,146	0.18%	290,657	0.18%
Mr. D. S. Tennakoon	303,600	0.18%	-	-
Mr. W.L.T. Anandawansa	300,100	0.18%	300,100	0.18%
Mrs. S. Tennakoon	300,000	0.18%	-	-
Bartleet Produce Marketing (Pvt) Limited	300,000	0.18%	300,000	0.18%
Total of Largest Shareholders	143,749,031			
Total of other Shareholders	22,125,510			
Total of all shareholders	165,874,541			

Debenture - Market Information										
Type	2019					2018				
	Type A 14 Nov	Type B 14 Nov	Type A 17 MAY	Type B 17 MAY	Type C 17 MAY	Type A 14 Nov	Type B 14 Nov	Type A 17 MAY	Type B 17 MAY	Type C 17 MAY
Tenure	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years
Issue date	13-Nov-14	13-Nov-14	12-May-17	12-May-17	12-May-17	13-Nov-14	13-Nov-14	12-May-17	12-May-17	12-May-17
Maturity date	12-Nov-19	12-Nov-19	3-May-22	3-May-22	3-May-22	12-Nov-19	12-Nov-19	3-May-22	3-May-22	3-May-22
Interest rate	9.00%	8.75%	15.00%	14.50%	11.47%	9.00%	8.75%	15.00%	14.50%	11.47%
Coupon rate (%)	9.00%	8.75%	15.00%	14.50%	11.47%	9.00%	8.75%	15.00%	14.50%	11.47%
Effective annual yield (%)	9.00%	8.94%	15.00%	15.03%	12.86%	9.00%	8.94%	15.00%	15.03%	12.86%
Interest rate comparable government security (%)	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%
Frequency of interest payable	Annually	Bi - annually	Annually	Bi - annually	Bi - annually	Annually	Bi - annually	Annually	Bi - annually	Bi - annually
Rating	A :ICRA Lanka Limited		A- :ICRA Lanka Limited			A :ICRA Lanka Limited		A- :ICRA Lanka Limited		
Amount (Rs. Mn)	909.77	1,090.23	805.76	1,193.23	1.01	909.77	1,090.23	805.76	1,193.23	1.01
ISIN No.	LK0186D22669	LK0186D22677	LK0186D23824	LK0186D23816	LK0186D23808	LK0186D22669	LK0186D22677	LK0186D23824	LK0186D23816	LK0186D23808
Highest	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	102.00	100.05	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED
Lowest			102.00	100.00						
Closing			100.00	100.00						
Current yield (%)			15.00%	14.50%						
YTM (%)			15.00%	14.50%						

Manufactured Capital



Manufactured Capital consists of the tangible and intangible assets including information technology (IT) assets, which are used to conduct business activities and deliver the Company's USP to the market.

Manufactured Capital Strength

- ▶ 49 branches
- ▶ 4 auto zones
- ▶ 54 dealer sales point

Customer Touch points

Infrastructure investments	2019	2018
Physical Assets Rs. '000	619,530	538,691
Technology Infrastructure Rs. '000	725,705	716,159

Customer Touch Points GRI 102-6

Region 1

- ▶ Head Office
- ▶ Malabe
- ▶ Nugegoda
- ▶ Moratuwa
- ▶ Panadura
- ▶ Kottawa
- ▶ Horana
- ▶ Wattala
- ▶ Kotahena
- ▶ Kiribathgoda
- ▶ Kadawatha
- ▶ Kandana
- ▶ Ja-Ela

Region 2

- ▶ Union Place
- ▶ Maharagama
- ▶ Matugama
- ▶ Galle
- ▶ Matara
- ▶ Ambalantota
- ▶ Kalutara
- ▶ Ambalangoda
- ▶ Deniyaya
- ▶ Embilipitiya
- ▶ Tissamaharamaya

Region 3

- ▶ Kurunagala
- ▶ Kuliyaipitiya
- ▶ Dambulla
- ▶ Anuradhapura
- ▶ Higurakgoda
- ▶ Kekirawa
- ▶ Puttalam
- ▶ Wennappuwa
- ▶ Negombo
- ▶ Chilaw

Region 4

- ▶ Kandy
- ▶ Kandy-City
- ▶ Avissawella
- ▶ Ratnapura
- ▶ Hatton
- ▶ Bandarawela
- ▶ Monaragala
- ▶ Nittambuwa
- ▶ Gampaha
- ▶ Ampara

North East

- ▶ Jaffna
- ▶ Kilinochchi
- ▶ Vavuniya
- ▶ Batticaloa
- ▶ Trincomallee

Management Approach GRI 103-1 GRI 103-2 GRI 103-3

Systematically invest in developing Manufactured Capital to enhance MBSL's competitive position and increase islandwide market share.





Material Matters

- ▶ Market Reach
- ▶ Service Delivery
- ▶ Customer Trust and Confidence
- ▶ Diversification

Strategy and Resource Allocation GRI 203-1	
Focus for 2019	Key Inputs for the year
Increase the number of customer touch points to strengthen MBSL's islandwide visibility	<ul style="list-style-type: none"> ▶ Pawning was made available at all 49 branches ▶ Expanded the Company's reach by setting up MBSL branded sales points in partnership with the vehicle dealer network
Expand the Company's physical infrastructure to support business diversification	<ul style="list-style-type: none"> ▶ Converted the Maklola yard into an auto zone offering the full gamut of services for leading customers ▶ Set up another 3 auto zones in Sapugaskanda, Kuruneghala and Tissamaharama
Technology integration to further improve operational efficiency and minimize delays caused by manual intervention	<ul style="list-style-type: none"> ▶ Invested approximately Rs. 60 million to commission new Hyper Converged Infrastructure (HCI) to improve efficiency of backend system architecture such as the loan origination systems, HRIS, velocity systems etc. thereby creating a comprehensive ecosystem that would enhance scalability over the long term.

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital		Cost outlay in the short term
Financial Capital		Higher revenue generating capability in the long term
Intellectual Capital		Increased visibility enhances brand reputation
Social and Relationship Capital (Customer)		Wider access to reach out different customers segments

Contribution to the SDG's



Future Goals

- ▶ Invest in self service propositions such as ATMs and expand the number of digital interfaces to improve the customer experience

Intellectual Capital



Intellectual capital encompasses our brand and other knowledge based intangibles which supports the achievement of MBSL's strategic intent and thereby ability to deliver on stakeholder expectations.

Manufactured Capital Strength

	2019	2018
LMD Brand Ranking	68	66
Brand Value (Rs. Mn)	915	784

Management Approach

Consistent investments in developing Intellectual Capital to enhance the quality of other capitals (Financial Capital, Human Capital, Social and Relationship Capital) which would enable MBSL to stay ahead of peers.

Material Matters





- ▶ Customer Trust and Confidence
- ▶ Digitization
- ▶ Process Efficiency
- ▶ NPL Management
- ▶ Compliance
- ▶ Risk Management
- ▶ Governance and Stewardship

Strategy and Resource Allocation

Focus for 2019	Key Inputs for the year
Emphasis on strengthening MBSL's position as a retail brand	<ul style="list-style-type: none"> ▶ Made pawning available at all branches ▶ Launch of Auto Zones to promote MBSL as a one-stop-shop for all personal vehicle leasing needs ▶ Special Branding campaigns to increase MBSL's islandwide visibility
Adoption of globally accepted best practices to safeguard IT infrastructure	<ul style="list-style-type: none"> ▶ Commenced implementation of ISO 27001 for IT department ▶ Upgraded internal firewalls to cater for new threat vectors ▶ Revamped endpoint protection and monitoring systems with the inclusion of the latest AI and behaviour analytical based system for fast detection and prevention of malware attacks.
Building a compliance culture	<ul style="list-style-type: none"> ▶ To reinforce the importance of ethics and integrity at all levels of the business, branch employees were mandated to attend AML training conducted by the CBSL ▶ The KYC process was implemented in the real estate operation as well
Improving Risk Frameworks	<ul style="list-style-type: none"> ▶ Introduction of new protocols to strengthen pre credit evaluation ▶ Implemented daily post credit monitoring of portfolio risk for individually significant customers ▶ Formulation of a new BCP to align with updated software systems and hardware platforms, in order to minimize the risks associated with IT system failures
Strengthening Recovery Governance	<ul style="list-style-type: none"> ▶ All recovery monitoring activities were centralized under the control of the Central Recoveries Unit ▶ The fee approval process was automated and a new mobile App was also launched to minimize the delay in approving fee waivers that would speed up customer settlement ▶ A dedicated pre legal unit was set up in order to streamline the handling of legal documentation

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital		Cost outlay in the short term
Financial Capital		Lower NPL's resulting from better credit control, improved risk management and stricter recovery management
Human Capital		Process improvements and digitization leading to more productive employees
Social and Relationship Capital (Customer)		Internal efficiencies contributing to better service to the customer

Contribution to the SDG's



Future Goals

- ▶ Strengthen information security systems and architecture
- ▶ Enhance branch connectivity
- ▶ Improve backend support systems to enable employees to be more proactive on the field
- ▶ Digitize human capital management process

Human Capital



Human capital represents the MBSL's people, how they are selected, managed, and trained to develop capabilities, knowledge and experience which directly enables them to meet the needs of our customers, as well as innovate, and improve product and services delivery.

Human Capital Strength GRI 102-8

Employee Category	Male	Female	Total
Corporate Management	7	1	8
Senior Management	19	8	27
Middle Management	134	56	190
Executive	206	99	305
Non Executive	248	217	465
Other	3	2	5
Total	617	383	1,000
As a % of Total employees	62%	38%	100%

Employment contract	Head Office		Region 01		Region 02		Region 03		Region 04		North East		Total	
	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female	Male	Female
Permanent	159	132	86	67	103	66	102	49	80	47	50	13	580	374
Contract	26	5	1	1	4	0	2	1	2	1	2	0	37	8
Trainee	0	1	0	0	0	0	0	0	0	0	0	0	0	1
Total	185	138	87	68	107	66	104	50	82	48	52	13	617	383

Management Approach GRI 103-1 GRI 103-2 GRI 103-3

MBSL invests in building Human Capital by recruiting only full time employees. To strike the right balance between the needs of the company and those of its employees, our human capital development agenda prioritizes;

- Hiring the most qualified employees by pre planning staffing needs, ensuring an effective internal interview process, increasing company visibility in the employment marketplace, identifying the best and most cost effective recruitment sources and conducting thorough reference check to verify the authenticity of employee information
- Retaining our valued employees by providing competitive salaries and benefits; MBSL employees receive a fixed salary commensurate with the scope of work and responsibilities that come with their position along with relevant allowances and fringe benefits, including bonus, EPF/ETF, gratuity, medical scheme, personal insurance coverage, staff loans and reimbursement of examination fees and professional membership fees... etc. As a Non-discriminatory employer, both men and women in the same job roles across the Company are paid equally. In addition all employee are offered equal opportunities for interpersonal and career development interventions and coaching; GRI 405-2 GRI 401-2

- Developing and implementing appropriate policies and procedures in compliance with employment laws and government regulations as well as the Human Rights principles set out under the UN Global compact, in order to support the creation of a diverse and highly inclusive workforce in a safe environment that is free of discrimination and harassment of any form. Our Employee Code of Conduct plays a key role in this regard. It outlines our expectations regarding employees' behavior towards their colleagues, supervisors and the company as a whole. While we promote freedom of expression and open communication, we expect all employees to follow the principles laid out under our code of conduct to avoid offending, participating in serious disputes and disrupting our workplace. We also expect them to foster a well organized, respectful and collaborative environment. GRI 102-16
- Enhancing two way communication between employees and management and handling any grievances fairly and equitably. With 92% of MBSL employees covered under a collective bargaining agreement, the Company proactively engages with union representatives. The planned monthly meeting between MBSL management and the union reps serves as a official channel to inform operational changes and to review salaries and benefit structures including the bonus entitlement. The Collective bargaining agreement is typically renewed every 3 years. GRI 102-41
- Monitoring the performance of all employees to enable them to stay focused on meeting their year-end performance targets. In this regard, the annual performance review serves as the basis of measuring individual performance to determine their training needs and potential for career development. GRI 404-3

Material Matters

- ▶ Training and Development
- ▶ Industrial Relations
- ▶ Corporate Culture
- ▶ Diversity and Equal Opportunity
- ▶ Employee Engagement
- ▶ Occupational Health and Safety

Strategy and Resource Allocation	
Focus for 2019	Key Inputs for the year
Strengthening key HR processes	<ul style="list-style-type: none"> ▶ Appointment of an independent recruitment agency to handle recruitment of senior personnel ▶ Outsourcing payroll management ▶ Appointment of a dedicated legal officer to expedite matters pertaining to industrial relations
Reinforcing the performance based culture among front liners	<ul style="list-style-type: none"> ▶ Provided Career Development Opportunities for the Supreme Performers of Branch Front Line by promoting them in their next higher grades. ▶ Performance KPI's were developed and assigned to each employee based on a 70:30 model, where 70% of the weightage was allocated to technical competencies and 30% to behavioral aspects. ▶ Performance KPI's for front liners were integrated into the MIS to enable ongoing performance monitoring
Aligning Training and Development to support the performance based culture	<ul style="list-style-type: none"> ▶ Conducted a series of job tests to determine the technical competency levels of front liners. A total of 700 front liners from all employee categories were given a paper based assessments. These were customized job tests created for each employee grade and conducted simultaneously on a single day at 6 centers across the country. ▶ Based on the results of the job test, Individual Development Plans were drawn up for every employee ▶ The overall training plan was also updated line with the business needs. Accordingly priority was given to specific technical and behavioral streams. Technical covering ; Credit Appraisal, Credit Quality, Recovery and Behavioral covering ; Customer Focus, Service Excellence, Marketing and Sales, Leadership, High performance Mindset ▶ The results of the job test was further used as the basis of promoting employees
Making learning a part of career development	<ul style="list-style-type: none"> ▶ Provided high performing employees with advanced learning opportunities, such as MBA's and special diploma's to enable them to accelerate their career goals
Special Recognition programs	<ul style="list-style-type: none"> ▶ Year of the Lions 2019 awards ceremony was held to recognize high performers for 2018 as well as long standing employees with over 10, 20 and 30 years of service
Enhancing employee support mechanisms	<ul style="list-style-type: none"> ▶ Introduced a dedicated hotline to enable employees to directly contact the HR unit. A special team from the HR unit was assigned to manage all hotline calls
Employee motivation activities	<ul style="list-style-type: none"> ▶ Held a special art competition to give employees the opportunity to design MBSL's seasonal greeting card for the year. The theme of the competition was "The Strongest Team for 2020", again reflecting the focus on the performance driven culture ▶ Annual sports meet ▶ Year of the Lions 2019 awards ceremony was held to recognize high performers for 2018 as well as long standing employees with over 10, 20 and 30 years of service

Human Capital Contd.



MBSL Year of the Lions



Induction Programme

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital	-	Cost outlay in the short term
Financial Capital	+	Improved returns generated by high performing employees
Social and Relationship Capital (Customer)	+	Customer focused employees contributing to increased customer satisfaction
Intellectual Capital	+	Improves MBSL's profile as an employer of choice

Progress in Human Capital Development indicators

Employment

New Recruits GRI 401-1

Age wise

Age group	No. of employees	%
20-30	114	62
30-40	51	27
40-50	17	9
50-60	2	1
>60	2	1
Total	186	100

Gender wise

	No. of employees	%
Male	129	69
Female	57	31
Total	186	100

Region wise

	No. of employees	%
Head Office	42	23
Region 01	42	23
Region 02	23	12
Region 03	44	24
Region 04	23	12
North East	12	6
Total	186	100

Employee Turnover**Age wise**

Age Group	No. of employees	%
20-24	41	22
25-29	65	34
30-34	34	18
35-39	17	9
40-44	12	6
45-49	5	3
50 and above	15	8
Total	189	100

Gender wise

	No. of employees	%
Male	138	73
Female	51	27
Total	189	100

Region wise

	No. of employees	%
Region 1	33	17
Region 2	31	16
Region 3	43	23
Region 4	26	14
North East	16	8
Head office	40	21
Total	189	100

Return To Work and Retention Rates after Parental Leave GRI 401-3

Total No. Employees that were entitled to Maternity Leave	28
Total No. of Employees who took Maternity Leave	28
Total No of Employees that returned to work after Maternity leave	28
Total No of Employees that returned to work after Maternity Leave ended that were still employed 12 months after their return to work	29
Return to work (%)	100%
Retention rate of employees (%)	93.55%

Training and Education**Training Hours based on Employee Gender** GRI 404-1

Gender	Total Training Hours	Average Training Hours per Employee
Male	15,802	25.57
Female	8,554	22.39
Total Training Hours	24,356	24.36

Human Capital Contd.

Training Hours based on Employee Category

Training Hours Based on Employee Category			
Category	Total hours trained	No of Staff	Total Average Hours Trained
Corporate Management	120	8	15
Managerial Staff (Chief/ Senior/Managers / Branch Managers/Service Managers)	3,256	54	60
Second Officers	1,408	46	31
Marketing Officers	5,839	171	34
Recovery Officers	1,848	91	20
Cashiers/Tellers	2,964	97	30
Gold Loan Officers	1,257	51	25
FD & Savings Officers	817	25	32
Branch Back Office Staff (Documentation/Credit/Clerical/etc)	3,275	143	23
Staff of Centralized Business/ Service Departments (HO)	3,036	298	10
Management Trainees	536	16	33
Total Hours	24,356	1,000	-
Training Hours per Employee	24	-	-

Programs for upgrading Employee skills GRI 404-2

Type of training	No. of Programs	No. of employees	No. of Training hours	Cost (Rs.)
Internal & External Training				
Leadership & Managerial Competency Development	2	78	1,029	199,200
Branch Operational Management	3	111	1,536	544,400
Marketing & Selling Skills	1	3	23	26,970
Customer Service Excellence	2	171	995	285,000
Finance Insight Development	17	40	440	283,700
Credit Management & Evaluation	7	281	4,293	902,500
NPA Management & Recovery management	3	284	2,352	687,500
Information communication Technology	3	3	229	356,000
Practical Aspects of Labour Law	6	104	780	299,596
Legislative Framework and legal matters	9	51	796	301,800
Cash & Counter Management	3	270	1,933	365,050
Risk Management	2	8	32	55,000
Product & Process Knowledge (FD/Savings/ Gold Loan)	4	184	1,296	312,500
Performance Management & Analysis	5	661	5,784	977,772
Employee Motivational & Moral Building	2	84	645	161,000
Overview of Organizational Culture/Values/Strategic Frame-work/ Functions/Statutory Requirements	3	179	1,432	307,925
Documentation & Process Knowledge	1	37	315	55,000
Procurement Guidelines, Planning & Regulations & Other	2	5	80	71,000
Foreign training				
Training on Information communication Technology	3	6	368	544,655
Total Summary	78	2,560	24,356	6,736,568

Diversity and Equal Opportunity GRI 405-1

Composition of Governance Bodies and Breakdown of Employees per Employee Category According to Gender, Age Group

Category	Male	Female	Total
Corporate Management	7	1	8
Senior Management	19	8	27
Middle Management	134	56	190
Executive	206	99	305
Non Executive	248	217	465
Others	3	2	5
Grand Total	617	383	1,000

Category	Age group						Total
	Below 30 years	%	30-50 Years	%	Over 50 Years	%	
Corporate Management	-	-	6	1	2	4	8
Senior Management	-	-	17	3	10	19	27
Middle Management	4	1	167	32	19	35	190
Executive	72	17	225	42	8	15	305
Non Executive	337	82	114	21	14	26	465
Others	1	-	3	1	1	1	5
Total	414	100	532	100	54	100	1,000

Total number of incidents of discrimination during the reporting period	Zero	GRI 406-1
Operations in which workers' rights to exercise freedom of association or collective bargaining may be violated	None	GRI 407-1
Operations which are considered to have a risk of child labour	None	GRI 408-1
Operations which are considered to have forced or compulsory labour	None	GRI 409-1

Contribution to the SDG's



Future Goals

- ▶ Reinforce Performance & Value Based Organizational Culture
- ▶ Enhance People Efficiency
- ▶ Employee Motivation & Drive
- ▶ Employee Competency Development

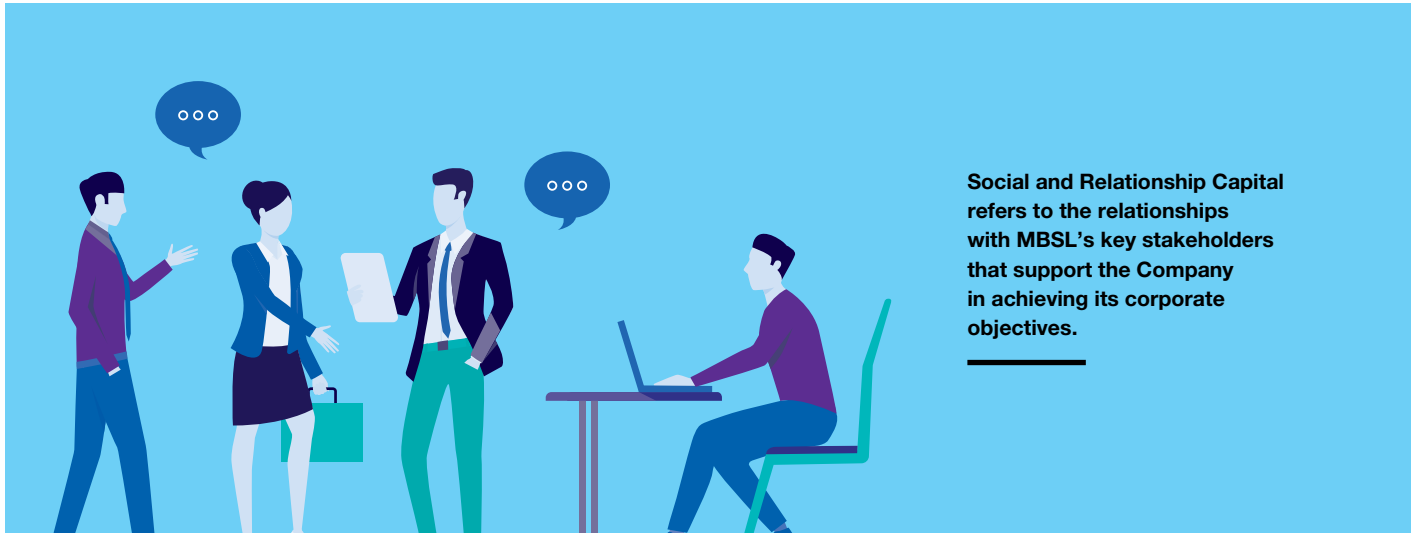


Art Competition



Case Study Based TP on Credit Evaluation

Social and Relationship Capital - Customer Capital



Social and Relationship Capital Strength



Customers

We service over 190,212 customers across Sri Lanka



Suppliers

We work with over 115 suppliers and business partners



Community

We serve thousands in the broader community in areas of the Country where MBSL has a presence

Management Approach (Customer)

We want to be known as the most customer centric financial services company in the industry. To achieve this objective, we put the customer at the center of everything we do and base our business decisions on solid fundamentals that will help generate superior value that will not only meet but exceed customer expectations each and every time.

Material Matters

- ▶ Market Reach
- ▶ Diversification
- ▶ Service Delivery
- ▶ Customer Trust and Confidence
- ▶ Customer Privacy
- ▶ Digitization

Strategy and Resource Allocation	
Focus for 2019	Key Inputs for the year
Improving islandwide reach	<ul style="list-style-type: none"> ▶ Made pawning solutions available at all 49 branches across the Country
Strengthening customer trust and confidence by improving the customer experience	<ul style="list-style-type: none"> ▶ Launch of Auto Zones which serve as a one-stop-shop for the customers vehicle needs ▶ Partnered with Mobitel (Pvt) Ltd to introduce the mCash platform enable customers to settle their dues using their mobile phone ▶ Invested in the SMS generator tool to provide customers with timely alerts to inform them of renewals / interest due / pending settlements / over dues etc. via SMS ▶ Introduced 1, 3 and 6 month pawning solutions to give customers a wider range of options
Driving internal process efficiency to enhance service delivery to the customer	<ul style="list-style-type: none"> ▶ Setting up the Corporate Credit Department (CCD) dedicated to serve corporate clients ▶ Centralized the deposit handling procedure under the purview of the Deposit unit at the head office to improve the time taken to issue a new deposit certificate

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital	-	Cost outlay in the short term
Financial Capital	+	Ability to generate higher revenues over the long term
Intellectual Capital	+	Strengthens MBSL's brand equity due to improved customer confidence

Contribution to the SDG's



Future Goals

- ▶ Invest in digital innovations to enhance customer convenience and improve customer experience

Management Approach (Supplier) GRI 102-9 GRI 103-1 GRI 103-2 GRI 103-3

We believe working together with our suppliers in the true spirit of partnership is the key to meeting and exceeding stakeholder expectations. Accordingly we constantly strive to establish and maintain close relationships with suppliers and integrate them into our business processes, with a comprehensive Procurement Procedure and Policy manual providing the basis for all our supply chain management activities.

There were no significant changes to MBSL's supply chain during the reporting period. GRI 102-10

Material Matters

- ▶ Government Policy
- ▶ Competitive Pricing

Strategy and Resource Allocation	
Focus for 2019	Key Inputs for the year
Improving transparency	▶ Introduction of a supplier ranking mechanism to categories suppliers based on their ability to meet the Company's requirements

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital	+	Facilitates better cost control by enhancing MBSL's ability to negotiate competitive pricing terms
Social and Relationship Capital (Customer)	+	Improves MBSL's ability to serve customers over the long term

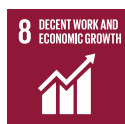
Social and Relationship Capital - Customer Capital Contd.

Supplier comparison on 2018 and 2019 GRI 204-1

	2019	2018
Total Number of Suppliers on the Supplier Registry	116	159
Percentage of Local Suppliers	88%	99%
Total Value Distributed to Suppliers (Rs.Mn)	267.90	184.59
Total Value Distributed to Local Suppliers (Rs.Mn)	234.52	180.86
Total Value Distributed to Local Suppliers (%)	88	98

Progress in Supplier Development indicators

Contribution to the SDG's



Future Goals

- ▶ Improve social and environmental screening within the supply chain

Management Approach (Community) GRI 103-1 GRI 103-2 GRI 103-3 GRI 413-1

At MBSL we support the community in various ways and regularly engage in community capacity building and welfare initiatives to provide relief for some of the grass root level issues that are brought to our attention through the branch network. Each year, the Company allocates a certain amount specifically to support community needs.

More recently we have moved beyond this traditional charity based approach to take a broader contextual view in order to provide consistent long term support to ensure that communities continue to grow and prosper well into the future. We believe the most meaningful to do this is to drive our community assistance programs through our core business. In this regard MBSL has undertaken to foster entrepreneurship among grass root level communities. Using our expertise as a financial institution we conduct workshops that aim to provide basic knowledge on business and financial management to budding community based entrepreneurs around the Country. GRI 203-2

Material Matters

- ▶ Community Engagement

Strategy and Resource Allocation	
Focus for 2019	Key Inputs for the year
Community support	<ul style="list-style-type: none"> ▶ Incurred Rs. 4.5 million for CSR activities ▶ 500+ Volunteer hours
Raising financial awareness among the community	<ul style="list-style-type: none"> ▶ Conducted a seminar on business intelligence for small and medium scale entrepreneurs

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital		Facilitates better cost control by enhancing MBSL's ability to negotiate competitive pricing terms
Social and Relationship (Customer) Capital		Improves MBSL's ability to serve customers over the long term

Progress in Social Capital Development indicators

Strengthening Community infrastructure based on identified needs

Venue	Qty	Beneficiaries	Volunteering Hours	Investment (Rs.)
Sri Dhammananda Dhamma School, Henanigala North	10 Computers	145 Students and 30 number of teachers	60 hrs	769,620
Sri Saddaransingh Dharmayathna Vidharshana Piriwena -Pemaduwa	15 Computers	37 families 100 number of students 26 monks	65 hrs	1,109,256
Church of Jesus Christ at Kochchikade	10 Computers	100 students 10 Teachers	15 hrs	779,560
Sapugaskanda Police Station	3 Computers	50 police officers	8 hrs	206,288
Sri Sumanaramaya, Kottawagama	10 Computers	Families of the Kottawagama village	70 hrs	724,989
Regimental Centre Sri Lanka Light Infantry - Panagoda.	4 Computers	449 Sporters 13 Soldier	8 hrs	160,590
Hindurangala Vidyalaya, Hindurangala	Rs. 100,000 worth cheque	250 students		100,000
Govt approved charitable organization - "Senehase nawathena"	3,000 books	Poorest children in Puttalam, Mullatewu, Killinochchi and Nuwara Eliya districts		217,350
Sri Lanka Military Academy, Diyathalawa	2 Computers	100 Academy Soldiers	80hrs	147,460
Mobile training School army camp - Nikewewa	Furniture and Fittings-222	250 students		318,089
	Computer Equipment-3			
	Fixtures and Fittings-16			
	Office Equipments-18			
	Other Equipments-16			

Contribution to the SDG's



Corporate Memberships and Associations GRI 102-13

The Company maintains membership of several industry organisations, professional institutes, associations. These relationships facilitate the maintenance of industry unity, enhances industry standards, enables networking and provides opportunities for employees to benefit from activities offered by these organisations. The Company maintains the following corporate memberships and associate.

1. Central Bank of Sri Lanka
2. Colombo Stock Exchange
3. Securities and Exchange Commission of Sri Lanka
4. The Institute of Chartered Accountants of Sri Lanka
5. Ministry of Public Enterprise Development
6. The Department of Registrar of Companies
7. The Institute of Bankers of Sri Lanka
8. Inland Revenue Department
9. Sri Lanka Accounting and Auditing Standards Monitoring Board
10. Leasing Association of Sri Lanka
11. Ceylon Chamber of Commerce
12. The Credit Information Bureau of Sri Lanka

Future Goals

- ▶ Promote greater financial inclusion in Sri Lanka

Natural Capital



Renewable and non-renewable environmental resources, consumed by MBSL in its pursuit of the Company's strategy.

Management Approach GRI 103-1 GRI 103-2 GRI 103-3

Despite having a limited impact on the environment, we do accept that as our business grows, we will need to consume more natural resources. This has reinforced our commitment to act responsibly in order to minimize the loss of Natural Capital in the future. In this regard, we take a two pronged approach:

1. Minimize the negative environmental impact arising as a result of MBSL's operations
2. Increasingly promote green financing through our core lending business.

Our Green lending scheme was launched some years ago as part of a focused effort to promote green ethics among our customers. The scheme is designed with special terms for leasing of hybrid and electric vehicles, which are known to have lower carbon emissions compared to diesel or petrol vehicles.

Environmental Compliance GRI 307-1

Being a financial service institution, our business is not subject to any direct environmental regulations. Nonetheless, our activities are managed in line with the national environmental policy. As such there have been no reported incidence of non-compliance against the company with regard to environmental laws and regulations.




Material Matters

- ▶ Environmental impact of the business

Strategy and Resource Allocation	
Focus for 2019	Key Inputs for the year
Reducing paper waste	<ul style="list-style-type: none"> ▶ Streamlined the distribution of stationery supplies to ensure distribution is made strictly on need basis only ▶ Digitization of key internal processes to reduce the use of paper on a daily basis
Tracking environmental performance	<ul style="list-style-type: none"> ▶ Introduced weekly monitoring of energy and water usage and paper waste generated to ensure all branches and business units remain within assigned targets ▶ The amount allocated to Green lending Rs. 662.54 Mn

Outcomes for 2019

Impact on other Capitals

	Impact	
Financial Capital		Cost savings arising out of lower energy, water and paper consumption
Intellectual Capital		Enhances MBSL's reputation as a responsible environmental steward
Manufactured Capital		Improve the operational procedure of branches, making them leaner and fitter

Progress on environmental indicators

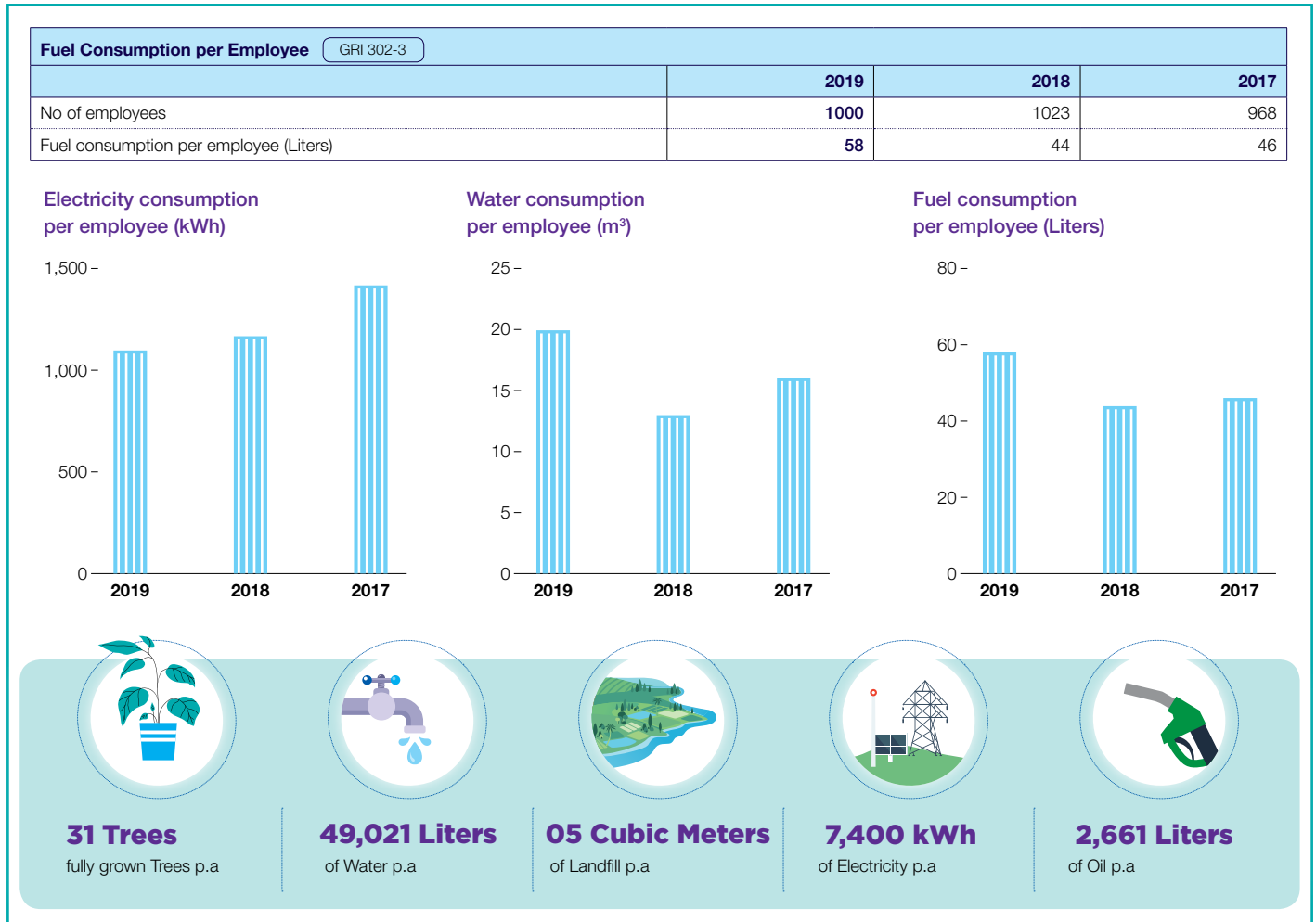
	2019	2018	2017
Electricity consumption (kWh) GRI 302-1	1,131,375	1,198,500	1,369,892
Electricity consumption per employee (kWh) GRI 302-3	1,131	1,172	1,415

	2019	2018	2017
Water consumption - (Municipal Water-m ³) GRI 303-1	19,561	13,130	15,350
Water consumption per employee (Municipal Water-m ³)	20	13	16

Stationery consumption (units) GRI 301-1	2019	2018	2017
Paper (Kg)	22,693	29,990	18,157
Files (No of Items)	43,830	60,819	15,064
Tonnors (No of Items)	503	465	290
Ribbons (No of Items)	383	286	450
Other (No of Items)	95,593	84,145	44,431

	2019	2018	2017
Carbon footprint (Kg)	141,797	111,268	109,445

Natural Capital Contd.



Green Lending Scheme for Hybrid vehicles

	2019
No. of Facilities Disbursed	259
Total Portfolio Value (Rs.)	662.54 Mn

Contribution to the SDG's



Future Goals

- ▶ Invest in energy management solutions to improve the Company's energy performance



**Ensuring our
buoyancy is fortified
with the best
materials**



GOVERNANCE AND RISK MANAGEMENT

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Audit Committee Report / 110

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Related Party Transactions Review Committee Report / 113

Integrated Risk Management Committee Report / 114

Risk Management Report / 116

Corporate Governance Report

MBSL is committed to maintaining high standards of integrity, transparency and ethical conduct facilitated by robust governance practices. These standards are articulated through a suite of policies, the Director's Code of Ethics and well-defined structures which ensure the equitable treatment of all employees and judicious empowerment.

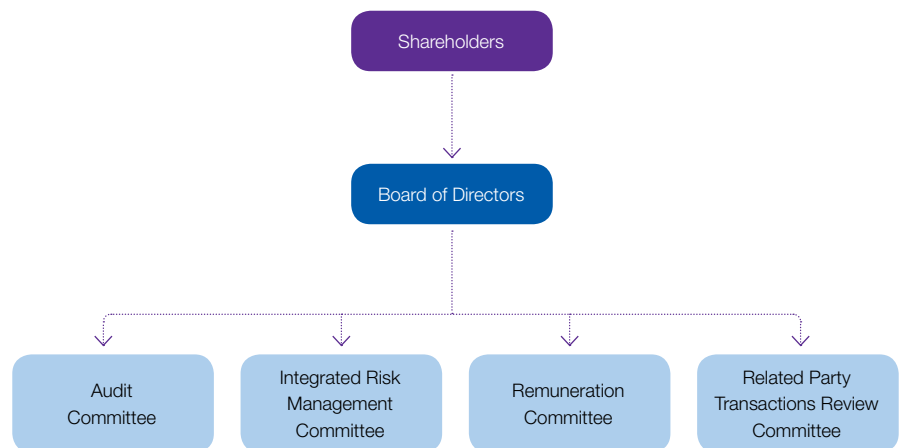
Governance Framework

MBSL's Corporate Governance framework has been developed to comply with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and other relevant laws and regulations. In addition, the Company has voluntarily adopted the GRI Standards for Sustainability Reporting issued by the Global Reporting Initiative and the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). In terms of subsection (1) (1) of Section 41 of the 19th Amendment (Amendment to Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka), the Auditor of the Company shall be the Auditor General of Sri Lanka.

Standards and Principles		Governance systems
Internal	External	
<ul style="list-style-type: none"> ▶ Vision, Mission and Values ▶ Articles of Association ▶ Director's Code of Ethics ▶ Group's Corporate Governance Framework and practices ▶ Terms of References for Board and Board sub-committees ▶ Comprehensive framework of policies, systems and procedures 	<ul style="list-style-type: none"> ▶ Companies Act No. 7 of 2007 ▶ Finance Companies (Corporate Governance) Direction No. 3 of 2008 ▶ Finance Leasing (Corporate Governance) Direction No. 4 of 2009 ▶ Listing Rules of the Colombo Stock Exchange ▶ Sri Lanka Accounting Standards ▶ Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) ▶ GRI Standards for Sustainability reporting issued by the Global Reporting Initiative 	<ul style="list-style-type: none"> ▶ Stakeholder engagement ▶ Strategic planning ▶ Risk management ▶ Compliance ▶ People management ▶ Internal and external audit ▶ Related Party Transactions

The Board of Directors

The Board of Directors is the apex governing body and consisted of 7 Non-Executive Directors (including the Chairman) and two alternate directors of whom 2 are deemed independent as at 31 December 2019. Directors combine a variety of perspectives and skills including professional, academic and entrepreneurial insights which enhance the depth and overall effectiveness of decisions. The Board's responsibilities include determining the Company's strategic direction, defining governance structures, setting the risk appetite and formulating policy frameworks. The Board is supported by several sub- committees which oversight responsibility for specific areas.



Board Sub- Committee	Mandate
Audit Committee	<ul style="list-style-type: none"> ▶ Ensuring the integrity of the Company's financial statements ▶ Review the adequacy and effectiveness of the Company's internal controls ▶ Ensures the internal audit activities are carried out objectively and independently
Integrated Risk Management Committee	<ul style="list-style-type: none"> ▶ Development and implementation of an integrated risk management framework ▶ Ensure compliance with all relevant regulations and legislation ▶ Monitors the adequacy of the contingency plans
Remuneration Committee	<ul style="list-style-type: none"> ▶ Makes recommendations to the Board on the remuneration paid to Executive Directors (if any) and the Chief Executive Officer
Related Party Transactions Review Committee	<ul style="list-style-type: none"> ▶ Review in advance all proposed related party transactions other than those transactions explicitly exempted in the Code. ▶ Adopting and reviewing policies and procedures on related party transactions of the Company and overseeing existing policies and procedures. ▶ Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board of Directors or Shareholders of the Company

The Board is also supported by eight management committees; namely Credit Committee, Information Technology Steering Committee, Recovery Committee, Asset and Liability Committee, Purchasing Committee, Vehicle Disposal Committee, Investment Committee and Real Estate Committee.

Board Meetings

The Board meets at least on a monthly basis with special meetings convened if and when the need arises. Board papers are circulated well in advance, providing adequate time for preparation. The Corporate Management is responsible for ensuring that timely and high-quality information is provided to the Board, in sufficient time ahead of every meeting.

Directors also receive regular briefings designed to update their skills and knowledge and also have the opportunity to participate in relevant external training sessions, such as those organized by the Sri Lanka Institute of Directors. The Board conducts a critical evaluation of its activities on an annual basis facilitated by the Company Secretary.

Guiding Strategy

The Board holds responsibility for formulating the Company's strategic agenda. Performance against the Strategic Plan is monitored based on a set of defined parameters covering earnings, financial position, credit quality and capitalization among others. During the year, given challenges in the external and internal operating landscape, the Company revisited its strategy with the objectives of nurturing a performance driven culture, enhancing customer centricity and strengthening risk consciousness.

Risk Management and Internal Controls

The Board holds apex responsibility for maintaining sound risk management and internal control frameworks. It is also responsible for determining the risk appetite the Company is willing to take in achieving its growth aspirations. The risk management framework and risk performance during the year are described in the Risk Management Report on pages 116 to 123 and the Report of the Integrated Risk Management Committee on pages 114 to 115. Directors are also responsible for formulating and implementing a comprehensive framework of internal controls which ensure that assets are safeguarded, and the integrity of financial reporting is preserved.

Corporate Governance Report Contd.

Section i

Compliance with Requirements on the Content of the Annual Report in Rule 7.6 of the Listing Rules

CSE Rule No.	Governance Requirement	Extent of Compliance in 2019
7.6 (i)	Names of persons who during the financial year were directors of the Company.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
7.6 (ii)	Principal activities of the Company and its Subsidiaries during the year and any changes therein.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
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.	Please refer "Financial Capital" for the 20 largest holders of voting shares. The Company has not issued any non-voting shares.
7.6 (iv)	The public holding percentage.	Please refer "Financial Capital"
7.6 (v)	Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year.	Please refer "Financial Capital".
7.6 (vi)	Information pertaining to material foreseeable risk factors.	Please refer "Risk Management Report".
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Please refer "Human Capital".
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties.	Please refer "Note 29 and 30" to the "Financial Statements".
7.6 (ix)	Number of shares representing the stated capital.	Please refer "Note 41" to the "Financial Statements" on 'Capital'.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Please refer "Financial Capital".
7.6 (xi)	Ratios and market price information on: EQUITY Dividend per share. Dividend payout. Net asset value per share. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year). DEBT Interest rate of comparable government security. Debt/equity ratio. Interest cover. Quick asset ratio. The market prices & yield during the year. Changes in credit rating.	Not applicable. Not applicable. Please refer "Statement of Financial Position". Please refer "Financial Capital". Please refer "Financial Capital". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Financial Capital" Please refer "Annual Report of the Board of Directors".
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Please refer "Note 30" to the "Financial Statements" on 'Property & Equipment'.
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement.	The Company has not raised funds through a public issue, a rights issue or a private placement during the year 2019.
7.6 (xiv)	Information in respect of Employee Share Option Schemes or Employee Share Purchase Schemes.	The Company does not have any Employee Share Option Schemes or Employee Share Purchase Schemes at present.
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.	This report provides the disclosures referred to in Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.
7.6 (xvi)	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.	Complied. Please refer "Note 44 to the Financial Statements" on page 214

Section ii

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2019
7.10.1	<p>Non-Executive Directors</p> <p>a. The board shall include at least, two (2) non-executive directors; or such number of non-executive directors' equivalent to one third (1/3) of the total number of directors, whichever is higher.</p> <p>b. The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.</p> <p>c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.</p>	<p>Complied.</p> <p>All seven (07) directors who comprise the Board are non-executive directors and have held office prior to and immediately preceding the Annual General Meeting.</p>
7.10.2	<p>Independent Directors</p> <p>a. Where the constitution of the board includes only two (2) non-executive directors in terms of Rule 7.10.1 above, both such non-executive directors shall be "independent" (as per the criteria set out in Rule 7.10.4 of the CSE Listing Rules). In all other instances two (2) or one third (1/3) of non-executive directors appointed to the board, whichever is higher, shall be "independent".</p> <p>b. The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.</p>	<p>Complied.</p> <p>Two (02) out of the seven (07) non-executive directors are independent.</p> <p>Complied.</p>
7.10.3	<p>Disclosure relating to Directors</p> <p>a. The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the Annual Report the names of directors determined to be "independent."</p> <p>b. In the event a director does not qualify as "independent" against any of the criteria set out below but if the board, taking into account all the circumstances, is of the opinion that the director is nevertheless "independent" the board shall specify the criteria not met and the basis for its determination in the Annual Report.</p> <p>c. In addition to disclosures relating to the independence of a director set out above, the board shall publish in its Annual Report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.</p> <p>d. Upon appointment of a new director to its board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.</p>	<p>Complied.</p> <p>Not applicable.</p> <p>Complied.</p> <p>Resume of each director is given on pages 15 to 17 of the Annual Report.</p> <p>Complied.</p> <p>The Company Secretary has provided the required information to the Exchange upon appointment of new directors.</p>

Corporate Governance Report Contd.

Section ii

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2019
7.10.5	<p>Remuneration Committee</p> <p>a. Composition The remuneration committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its board); or of non-executive directors a majority of whom shall be independent, whichever is higher. One (1) non-executive director shall be appointed as Chairman of the committee by the board.</p>	<p>Complied. Remuneration Committee consists of three (03) non-executive directors, two (02) of whom are independent.</p>
	<p>b. Functions The remuneration committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer ("CEO") of the company and/or equivalent position thereof, to the board of the company which will make the final determination upon consideration of such recommendations.</p>	<p>Complied. Please refer the "Remuneration Committee' Report on page 112 of the Annual Report.</p>
	<p>c. Disclosure in the Annual Report The Annual Report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.</p>	<p>Complied. The names of the members of the Remuneration Committee together with the remuneration policy are given in the "Remuneration Committee Report" on page 112 of the Annual Report. Fees paid to directors are disclosed in the 'Note 15 to Financial Statements' on page 159 of the Annual Report. There are no executive directors on the Board.</p>
7.10.6	<p>Audit Committee</p> <p>a. Composition The audit committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where an entity has only two (2) directors on its board); or of non-executive directors, a majority of whom shall be independent, whichever shall be higher.</p> <p>In a situation where both the parent company and the subsidiary are 'listed Entities', the audit committee of the parent company may function as the audit committee of the subsidiary</p> <p>One (1) non-executive director shall be appointed as the Chairman of the audit committee by the board.</p> <p>Unless otherwise determined by the audit committee, the CEO and the Chief Financial Officer ("CFO") of the company shall attend audit committee meetings.</p> <p>The Chairman or one (1) member of the audit committee should be a Member of a recognized professional accounting body.</p>	<p>Complied.</p> <p>Both MBSL and its Parent Company, the Bank of Ceylon (BOC) are listed companies and both have separate Audit committees.</p> <p>Complied</p> <p>Complied. CEO and Head of Finance attend the Audit committee Meetings by invitation.</p> <p>Complied. Audit Committee Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka</p>

Section ii

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2019
7.10.6	<p>b. Functions</p> <p>The audit committee's functions shall include,</p> <p>(i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards.</p> <p>(ii) Overseeing of the company's compliance with financial reporting requirements, information requirements of the Companies Act No. 7 of 2007 and other relevant financial reporting related regulations and requirements.</p> <p>(iii) Overseeing the processes to ensure that the company's internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards.</p> <p>(iv) Assessment of the independence and performance of the company's external auditors.</p> <p>(v) To make recommendations to the board pertaining to appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.</p>	<p>Complied.</p> <p>The functions of the audit committee and its report are given on pages 110 to 111</p> <p>Complied.</p> <p>Complied.</p> <p>Not applicable.</p> <p>Since the Auditor General is the external auditor of the Company where the independence is guaranteed under the Constitution of Sri Lanka and the Committee has no role to play in the engagement of the external auditor.</p> <p>Not applicable.</p>
	<p>c. Disclosure in the Annual Report</p> <p>The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the Annual Report.</p> <p>The audit committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.</p> <p>The Annual Report shall contain a report by the audit committee setting out the manner of compliance by the company in relation to the above, during the period to which the Annual Report relates.</p>	<p>Complied.</p> <p>The names of members of the audit committee and its report are given on page 110 of the Annual Report.</p> <p>Not applicable. The Auditor General is the auditor and his independence has been determined by the Constitution of Sri Lanka.</p> <p>Complied.</p> <p>Please refer Audit Committee Report on page 110 of the Annual Report.</p>

Corporate Governance Report Contd.

Section iii

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

Section	Governance Requirement	Extent of Compliance in 2019
2	The Responsibilities of the Board of Directors GRI 102-26	
2(1)	<p>The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-</p> <ul style="list-style-type: none"> a) Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company; b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years; c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently; d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers; e) Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems; f) Identifying and designating key management personnel, who are in a position to; <ul style="list-style-type: none"> i) Significantly influence policy; ii) Direct activities; and iii) Exercise control over business activities, operations and risk management; g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel; 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; i) Periodically assessing the effectiveness of its own governance practices, including; <ul style="list-style-type: none"> 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; j) Ensuring that the finance company has an appropriate succession plan for key management personnel; k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives; l) Understanding the regulatory environment; m) Exercising due diligence in the hiring and oversight of external auditors. 	<p>Strategic Plan for 2020-2022 is available which will be reviewed and approved by the Board of Directors.</p> <p>Complied.</p> <p>Communication Policy of the Company is being finalized. This would be submitted for the Board approval by end of November 2020.</p> <p>Internal control systems are continuously reviewed to identify any gaps to further improve governance.</p> <p>Complied.</p>
2(2)	The Board shall appoint the Chairman and the Chief Executive Officer ("CEO") and define and approve the functions and responsibilities of the Chairman and the CEO in line with paragraph 7 of this Direction.	Complied.
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 documented procedure will be adopted facilitating the Directors to seek independent professional advice when deemed necessary.
2(4)	A director shall abstain from voting on any Board resolution in relation to matter to which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied.
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.	A formal Board Charter specifying matters specifically reserved to the Board of Directors will be documented.

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Section	Governance Requirement	Extent of Compliance in 2019
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 applicable. No such circumstance arose during the financial year under review.
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.	Complied. The "Corporate Governance Report" is included in the Annual Report in pages 78 to 103
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied.
3	Meetings of the Board	Complied.
3(1)	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolutions/papers shall be avoided as far as possible.	Please refer page 103 of the Annual Report for details of attendance.
3(2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied.
3(3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied.
3(4)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
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.	Complied.
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.	Complied.
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.	Complied.
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.	Complied.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.

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

Section	Governance Requirement	Extent of Compliance in 2019
4	Composition of the Board	
4(1)	The number of directors on the Board shall not be less than five (5) and not more than thirteen (13).	Complied. The Board including the Chairman comprises of seven (07) non – executive directors.
4(2)	Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (09) years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
4(3)	An employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an “executive director”) provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4(4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4) of the total number of directors.	Complied. Please refer page 406 of the Annual Report.
4(5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Two (02) alternate directors have been appointed for two non-independent non-executive directors.
4(6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors qualifications and experience are given in pages 15 to 17 of the Annual Report.
4(7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half (1/2) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied. Please refer page 103 of the Annual Report.
4(8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer page 106 of the Annual Report.
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied.
4(10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director’s disagreement with the Board, if any.	Complied.
5	Criteria to assess the fitness and propriety of directors	
5(1)	A person over the age of seventy (70) years shall not serve as a director of the finance company.	Complied.
5(2)	A director of the finance company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/societies/ bodies corporate, including associate companies and subsidiaries of the finance company. Provided that such director shall not hold office of a director or any other equivalent position in more than ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act, No. 15 of 1995.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2019
6	Delegation of Functions	
6(1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6(2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied.
7	The Chairman and the Chief Executive Officer GRI 102-23	
7(1)	The roles of the Chairman and the CEO shall be separate and shall not be performed by one and the same person.	Complied.
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.	Complied. The company has appointed an independent non-executive director as the Senior Director. Please refer page 106 of the "Annual Report of the Board of Director's on the affairs of the Company".
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 CEO and the nature of any relationship [including financial, business, family or other material /relevant relationship(s)], if any, between the Chairman and the CEO and the relationships among members of the Board.	Complied.
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.	Complied.
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied
7(6)	The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied
7(7)	The Chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied
7(8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied. There are no executive directors on the Board.
7(9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
7 (11)	The CEO shall function as the apex executive-in-charge of day-to-day management of the finance company's operations and business.	Complied.

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

Section	Governance Requirement	Extent of Compliance in 2019
8	Board Appointed Committees	
8(1)	Every finance company shall have at least the two (2) Board committees set out in paragraph 8(2) and 8(3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performances, duties and functions of each Committee, at the annual general meeting of the finance company.	Complied. The Audit Committee, Remuneration Committee, Integrated Risk Management Committee and the Related Party Transactions Review Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 110 to 115 of the Annual Report.
8(2)	Audit Committee The following shall apply in relation to the Audit Committee:	
8(2) (a)	The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied.
8 (2) (b)	The Board members appointed to the audit committee shall be non-executive directors.	Complied. The Audit Committee consists of three (03) non- executive directors, two (2) of whom are independent.
8 (2) (c)	The audit 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 external 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 (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.	Not applicable. The Auditor General is the external auditor of MBSL. Not Applicable. Complied. Not Applicable. Auditor General has been appointed In terms of subsection (1)(1) of Section 36 of the 19th amendment (amendment to the Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.
8 (2) (d)	The Audit Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Not applicable. MBSL's auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.
8 (2) (e)	The audit committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the audit committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the audit committee shall consider: (i) Whether the skills and experience of the auditor make it a suitable provider of the non- audit services; (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/ or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) Whether the nature of the non-audit services, the related fee levels and the fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor.	Not Applicable. This does not arise since the Auditor General is the Auditor of MBSL.

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Section	Governance Requirement	Extent of Compliance in 2019
8 (2) (f)	The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with the Directions issued under the Finance Companies Act No. 78 of 1988 (the "Act") and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one (1) auditor is involved.	Complied. The scope and extent of audit have been determined by the Auditor General.
8 (2) (g)	The audit committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the audit committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied. The Audit Committee reviews the Company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.
8 (2) (h)	The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied. The Audit Committee discusses issues, problems and reservations arising from the final audit. The representatives of BDO Partners, Chartered Accountants, who assisted the Auditor General in the year 2019 audit, met the Audit Committee.
8 (2) (i)	The audit committee shall review the external auditor's management letter and the management's response thereto.	Complied.
8 (2) (j)	The audit committee shall take the following steps with regard to the internal audit function of the finance company: (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; (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; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the audit committee is apprised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied.
8 (2) (k)	The audit committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.
8 (2) (l)	The CFO, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the CEO may also attend meetings upon the invitation of the audit committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors being present.	Complied Please refer the Audit Committee Report on page 110 of the Annual Report for details.

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Section	Governance Requirement	Extent of Compliance in 2019
8 (2) (m)	The audit committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
8 (2) (n)	The audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied.
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.	Complied. Please refer pages 110 and 103 of the Annual Report for details of attendance of each individual member at audit committee meetings.
8 (2) (p)	The secretary to the audit committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the audit committee meetings.	Complied. Company Secretary acts as the Secretary of the Audit Committee.
8 (2) (q)	The audit committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Department is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.
8 (3)	Integrated Risk Management Committee The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"): a) The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the IRMC. b) The IRMC shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the company basis and group basis. c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset – liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the IRMC. d) The IRMC shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the company's policies and regulatory and supervisory requirements. e) The IRMC shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans. f) The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non- Bank Financial Institutions of the Central bank of Sri Lanka. g) The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions. h) The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.	Complied. Please refer the Report on "Integrated Risk Management Committee" on pages 114 to 115 of the Annual Report for details. Complied. Complied. Complied. Complied. Complied. Complied.

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Section	Governance Requirement	Extent of Compliance in 2019
9	Related Party Transactions GRI 102-25	
9(2)	<p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> (a) A subsidiary of the finance company; (b) Any associate company of the finance company; (c) A director of the finance company; (d) A key management personnel of the finance company; (e) A relative of a director or a key management personnel of the finance company ; (f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company; (g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company, has substantial interest. 	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms-length basis.</p>
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> (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. 	<p>Complied</p>
9(4)	<p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party "more favourable treatment" than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph "more favourable treatment" shall mean:</p> <ul style="list-style-type: none"> (a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the finance company's regulatory capital, as determined by the Board. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company's share capital and debt instruments with a remaining maturity of five (5) years or more. (b) Charging a rate of interest lower than the finance company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. (c) Providing preferential treatment, such as favorable terms, covering trade losses and/ or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; (d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; (e) Maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for performance of legitimate duties and functions. 	<p>Complied.</p> <p>Please refer Note 44 under "Notes to the Financial Statements" on pages 214 to 216 of the Annual Report.</p> <p>The mechanism to identify and monitor the related parties is being strengthened covering all the areas.</p>

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

Section	Governance Requirement	Extent of Compliance in 2019
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.	Complied.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	Complied.
	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.	Please refer "Directors' Responsibility for Financial Reporting" on page 121 of the Annual Report.
	b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer page 127 of the Annual Report for the relevant report by the Board.
	c) The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 127
	d) Details of directors, including names, transactions with the finance company.	Complied. Please refer page 214 of the Annual Report for details.
	e) Fees/remuneration paid by the finance company to the directors in aggregate.	Complied. Please refer page 107 of the Annual Report for details.
	f) Total net accommodation as defined in paragraph 9(4) of this Direction outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied. Please refer Note 44 under "Notes to the Financial Statements" on pages 214 to 216 of the Annual Report.
	g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted, and deposits or investments made in the finance company.	Complied. Please refer Note 44 under "Notes to the Financial Statements" on page 214 of the Annual Report.
	h) A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.	Complied. Please refer the "Annual Report of the Board of Directors on the Affairs of the Company" and the Statement of "Directors' Responsibilities for Financial Reporting" on pages 104 and 129 respectively of the Annual Report for details.
	i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or noncompliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Finance Companies (Corporate Governance) Direction No.03 of 2008 Section 2 (1) j, Section 8 (2)(e), Section 8 (2)(f), Section 8 (3)(a), Section 4.4, Section 7.2 Corrective actions have been taken for all matters
	j) The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the annual corporate governance reports.	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

Section iv

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

Section	Governance Requirement	Extent of Compliance in 2019
2	The Responsibilities of the Board of Directors	
2 (1)	<p>The Board is responsible for strengthening the safety and soundness of the company by-</p> <p>a) Approving and overseeing the company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the company;</p> <p>b) Approving the overall business strategy of the company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years;</p> <p>c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;</p> <p>d) Approving policy of communication with all stakeholders of the company, including lenders, creditors, shareholders and borrowers;</p> <p>e) Reviewing the adequacy and the integrity of the company's internal control systems and management information systems;</p> <p>f) Identifying and designating key management personnel who are in a position to</p> <p>i) significantly influence policy;</p> <p>ii) direct activities;</p> <p>and</p> <p>iii) exercise control over business activities, operations and risk management;</p> <p>g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel;</p> <p>h) Ensuring that there is appropriate oversight of the affairs of the company by key management personnel, that is consistent with the company's policy;</p> <p>i) Periodically assessing the effectiveness of its own governance practices, including</p> <p>i) The selection, nomination and election of directors and appointment of key management personnel;</p> <p>ii) The management of conflicts of interests; and</p> <p>iii) The identification of weaknesses and implementation of changes where necessary;</p> <p>j) Ensuring that the company has an appropriate succession plan for key management personnel;</p> <p>k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;</p> <p>l) Understanding the regulatory environment;</p> <p>m) Exercising due diligence in the hiring and oversight of external auditors;</p>	<p>Strategic Plan for 2020-2022 is available which will be reviewed and approved by the Board of Directors.</p> <p>Complied.</p> <p>Communication Policy of the Company is being finalized. This would be submitted for the Board approval by end of November 2020.</p> <p>Internal control systems are continuously reviewed to identify any gaps to further improve governance.</p> <p>Complied.</p>
2(2)	The Board shall appoint the Chairman and Chief Executive Officer ("CEO") and define and approve their functions and responsibilities in line with paragraph 7 of this Direction.	Complied.
2 (3)	The Board shall determine a procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the company.	A documented procedure will be adopted facilitating the Directors to seek independent professional advice when deemed necessary.
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.	Complied.
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 company is firmly under its authority.	Complied.
2 (6)	The Board shall, if it considers that the company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review

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Section iv

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

Section	Governance Requirement	Extent of Compliance in 2019
2 (7)	The Board shall include in the company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The "Corporate Governance Report" is included in the Annual Report in pages 78 to 103
2 (8)	The Board shall adopt a scheme of self – assessment to be undertaken by each director annually, and maintain records of such assessment	Complied.
3	Meetings of the Board	
3 (1)	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolution/papers shall be avoided as far as possible.	Complied. Please refer page 103 of the Annual Report for details of attendance.
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 company.	Complied.
3 (3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied.
3 (4)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the director's meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
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.	Complied.
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.	Complied.
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.	Complied.
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.	Complied.
3 (9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2019
4	Composition of the Board	
4 (1)	The number of directors on the Board shall not be less than five (5) and not more than nine (9).	Complied. The Board including the Chairman comprises of seven (07) non- executive directors.
4 (2)	Subject to paragraph 5(1) of this Direction and the transitional provisions contained herein the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (9) years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
4 (3)	An employee of the company may be appointed, elected or nominated as a director of the company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4 (4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4) of the total number of directors.	Complied. Please refer to page 106 of the Annual Report.
4 (5)	In the event an alternate director is appointed to represent an independent non- executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Two (02) alternate directors have been appointed for two non independent non-executive directors .
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors' qualifications and experience are given in pages 15 to 17 of the Annual Report.
4 (7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one third (1/3) of the number of directors that constitute the quorum at such meeting are non- executive directors.	Complied. Please refer page 103 of the Annual Report.
4 (8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the company. The company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer page 106 of the Annual Report.
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied.
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.

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

Section	Governance Requirement	Extent of Compliance in 2019
5	Criteria to assess the fitness and propriety of directors	
5 (1)	A person over the age of seventy (70) years shall not serve as a director of the company.	Complied.
5 (2)	A director of the company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/societies/ bodies corporate, including associate companies and subsidiaries of the company. Provided that such director shall not hold office of a director or any other equivalent position in more than ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied.
6	Management functions delegated to the Board	
6 (1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6 (2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the company.	Complied.
7	The Chairman and the Chief Executive Officer	
7 (1)	The roles of the Chairman and the CEO shall be separated and shall not be performed by one and the same person.	Complied.
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 company's Annual Report.	Complied. The company has appointed an independent non-executive director as the Senior Director. Please refer page 106 of the "Annual Report of the Board of Director's on the affairs of the Company".
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 CEO and the nature of any relationship [including financial, business, family or other material /relevant relationship(s)], if any, between the chairman and the CEO and the relationships among members of the Board.	Complied.
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.	Complied.
7 (5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the company secretary.	Complied.
7 (6)	The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied.
7 (7)	The Chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the company.	Complied.
7 (8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied. There are no executive directors on the Board.
7 (9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2019
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
7 (11)	The CEO shall function as the apex executive-in-charge of day-to-day management of the company's operations and business.	Complied.
8	Board appointed Committees	
8 (1)	Every company shall have at least two (2) Board committees set out in paragraph 8(2) and 8(3) of this Direction. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the Committee. The Board shall present a report on the performances, duties and functions of each Committee, at the AGM of the Company.	Complied. The Audit Committee, Remuneration Committee, Integrated Risk Management Committee and the Related Party Transactions Review Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 110 to 115 of the Annual Report.
8 (2)	Audit Committee The following shall apply in relation to the Audit Committee:	
8 (2) (a)	The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied.
8 (2) (b)	The majority of the Board members appointed to the audit committee shall be non- executive directors.	Complied.
8 (2) (c)	The audit 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 external 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 external auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.	Not applicable. The Auditor General is the external auditor of MBSL. Not applicable. Complied. Not applicable. The Auditor General has been appointed in terms of subsection (1) (1) of Section 36 of the 19th Amendment (Amendment to the Article 154(1))of the Constitution of the Democratic Socialist Republic of Sri Lanka
8 (2) (d)	The audit committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Not Applicable. MBSL's auditor being the Auditor General his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.

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Section	Governance Requirement	Extent of Compliance in 2019
8 (2) (e)	<p>The audit committees shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the audit committee shall ensure that provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditors independence or objectivity in relation to the provision of non-audit services, the audit committee shall consider:</p> <ul style="list-style-type: none"> (i) Whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) Whether the nature of the non-audit services, the related fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor. 	<p>Not Applicable.</p> <p>This does not arise since the Auditor General is the Auditor of MBSL.</p>
8 (2) (f)	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the company's compliance with Directions issued under the Finance Leasing Act No. 56 of 2000 and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one (1) auditor is involved.</p>	<p>Complied.</p> <p>The scope and extent of audit have been determined by the Auditor General.</p>
8 (2) (g)	<p>The audit committee shall review the financial information of the company, in order to monitor the integrity of the financial statements of the company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the company's Annual Report and accounts and periodical reports before submission to the Board, the Audit Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.</p>	<p>Complied.</p> <p>The Audit Committee reviews the Company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.</p>
8 (2) (h)	<p>The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.</p>	<p>Complied.</p> <p>The Audit Committee discussed issues, problems and reservations arising from the final audit. The representatives of BDO Partners, Chartered Accountants, who assisted the Auditor General in the year 2019 audit met the Audit Committee.</p>
8 (2) (i)	<p>The audit committee shall review the external auditor's management letter and the management's response thereto.</p>	<p>Complied.</p>
8 (2) (j)	<p>The audit committee shall take the following steps with regard to the internal audit function of the company:</p> <ul style="list-style-type: none"> (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; (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; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the audit committee is apprised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (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; 	<p>Complied.</p>

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Section	Governance Requirement	Extent of Compliance in 2019
8 (2) (k)	The audit committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.
8 (2) (l)	The CFO, the Chief Internal Auditor and a representative of the external auditors may normally attend audit committee meetings. Other Board members and the CEO may also attend meetings upon the invitation of the Audit Committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors of the Company being present.	Complied. Please refer the Audit Committee Report on page 110 of the Annual Report for details.
8 (2) (m)	The audit committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
8 (2) (n)	The audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied.
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.	Complied. Please refer pages 110 and 103 of the Annual Report for details of attendance of each individual member at Audit Committee meetings.
8 (2) (p)	The secretary to the audit committee (who may be the company secretary or the head of the internal audit function) shall record and keep detailed minutes of the Audit Committee meetings.	Complied. Company Secretary acts as Secretary of the Audit Committee.
8 (2) (q)	The audit committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Division is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.

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Section	Governance Requirement	Extent of Compliance in 2019
8 (3)	<p>Integrated Risk Management Committee</p> <p>The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):</p> <p>(a) The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the IRMC.</p> <p>(b) The IRMC shall assess all risks, i.e. credit, market, liquidity, operational and strategic risks to the company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the company basis and group basis.</p> <p>(c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset –liability committee to address specific risks and to manage those risks within quantitative risk limits as specified by the IRMC.</p> <p>(d) The IRMC shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the company's policies and regulatory and supervisory requirements.</p> <p>(e) The IRMC shall meet, at least quarterly, to assess all aspects of risk management including updated business continuity plans.</p> <p>(f) The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka.</p> <p>(g) The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.</p> <p>(h) The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.</p>	<p>Complied.</p> <p>Please refer the Report of the Integrated Risk Management Committee on pages 114 to 115 of the Annual Report for details.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p>

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Section	Governance Requirement	Extent of Compliance in 2019
9	Related Party Transactions	
9 (2)	<p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> (a) A subsidiary of the company; (b) Any associate company of the company; (c) A director of the company; (d) A key management personnel of the company; (e) A relative of a director or a key management personnel of the company ; (f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company; (g) A concern in which a director of the company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company, has substantial interest. 	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>
9 (3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> (a) Granting accommodation, (b) Creating liabilities to the company in the form of borrowings or investments, (c) Providing financial or non-financial services to the company or obtaining those services from the company, (d) Creating or maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	Complied.
9 (4)	<p>The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to an unrelated comparable counterparty of the company. For the purpose of this paragraph "more favorable treatment" shall mean:</p> <ul style="list-style-type: none"> (a) Granting of "total net accommodation" to a related party, exceeding a prudent percentage of the company's regulatory capital, as determined by the Board. <p>The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the company's share capital and debt instrument with a remaining maturity of five (5) years.</p> <ul style="list-style-type: none"> (b) Charging a rate of interest lower than the company's best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. (c) Providing preferential treatment, such as favorable terms, covering trade losses and/ or waiving fees/ commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; (d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; (e) Maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for performance of legitimate duties and functions. 	<p>Complied.</p> <p>Please refer Note 44 under "Notes to the Financial Statements" on pages 214 to 216 of the Annual Report.</p> <p>The mechanism to identify and monitor the related parties is being strengthened covering all the areas.</p>

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Section	Governance Requirement	Extent of Compliance in 2019
10	Disclosures	
10 (1)	The Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	Complied.
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.	Complied. Please refer "Directors' Responsibility for Financial Reporting" on page 129 of the Annual Report.
10(2) (b)	A report by the Board on the company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer page 127of the Annual Report for the relevant report by the Board.
10 (2) (c)	The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 127
10(2) (d)	Details of directors, including names, transactions with the company.	Complied. Please refer page 214 of the Annual report for details.
10 (2) (e)	Fees/remuneration paid by the company to the directors in aggregate.	Complied. Please refer page 104 of the Annual Report for details.
10 (2) (f)	Total net accommodation as defined in paragraph 9(4) of this Direction outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of capital funds of the company.	Complied. Rs. 258,684 Mn (6.79% of Capital funds of the Company).
10 (2) (g)	The aggregate values of remuneration paid by the company to its key management personnel and the aggregate values of the transactions of the company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and borrowing through debt instruments or investments made in the company.	Complied. Please refer 'Note 44' under "Notes to the Financial Statements" on page 214 of the Annual Report.
10 (2) (h)	A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non- compliance.	Complied. Please refer the "Annual Report of the Board of Directors on the Affairs of the Company" and the Statement of "Directors' Responsibilities for Financial Reporting" on pages 104 and 129 respectively of the Annual Report for details.
10 (2) (i)	The external auditor's certification of the compliance with the Finance Leasing Act No. 56 of 2000 and directions issued by the Director of Department of Supervision of Non- Bank Financial Institutions in the annual corporate governance reports .	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

Attendance at the Meetings of the Board & Board Sub-Committees held during the financial year 2019

Name of the Director	Directorship Status	Board	Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Related Party Transactions Review Committee
		No. of Meetings Held				
		18	07	-	04	04
Dr. S. Lokuhewa	Non Independent Non-Executive Director	18	N/A	-	N/A	N/A
Mr. K. B. S. Bandara	Non Independent Non-Executive Director	16	-	-	N/A	-
Mr. G. A. Jayashantha (Alt. Director to Mr. K. B. S. Bandara)	Non Independent Non-Executive Director	-	-	-	N/A	-
Mr. C.Amarasinghe (Alt. Director to Mr. K. B. S. Bandara)	Non Independent Non-Executive Director	02	02	-	N/A	01
Mr. W. P. R. P. H. Fonseka	Non Independent Non-Executive Director	16	07	-	N/A	04
Mr. M. P. R. Kumara (Alt. Director to Mr.W.P.R.P.H.Fonseka)	Non Independent Non-Executive Director	01	-	-	N/A	-
Mr. S. N. Dayaratne	Senior Independent Non-Executive Director	18	07	-	04	04
Mr. S. P. Arakularatne	Independent Non-Executive Director	17	07	-	N/A	04
Mr. R. M. D. V. Jayabahu	Non Independent Non-Executive Director	06	N/A	-	01	N/A
Mr. D.N.L.Fernando	Non Independent Non-Executive Director	16	N/A	-	03	N/A
Mr. C. Amarasinghe	Non Independent Non-Executive Director	06	N/A	-	N/A	01

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

GRI 102-25

General

The Directors have the pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31 December 2019 of Merchant Bank of Sri Lanka & Finance PLC.

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

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

The Registered Office of the Company is situated at Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 03 at which address the Company's head office is also located.

This Report provides the information as required by the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on 09 September 2020.

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report and is disclosed hereunder in respect of the year under review (i.e., for the year ended 31 December 2019)

	Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference (section of the Companies Act No. 7 of 2007)	Extent of compliance by the Company
i	The nature of the business of the Group and the Company together with any change thereof during the accounting period and the classes of business in which the Company has an interest.	Section 168 (1) (a)	Refer on page 140
ii	Signed Financial Statements of the Company and the Group for the accounting period completed	Section 168 (1) (b)	Refer on page 137
iii	Auditors' Report on the Financial Statements of the Company and of the Group	Section 168 (1) (c)	Refer on page 130 to 133
iv	Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer on page 140 to 239
v	Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on page 107 and 214 to 216
vi	Director's fee and other benefits paid to Directors of the Company and its subsidiaries during the accounting period	Section 168 (1) (f)	Refer on page 107
vii	Information on donations made by the Company during the accounting period	Section 168 (1) (g)	Refer on page 108
viii	Names of Directors of the Company as at the end of the accounting period and the names of persons who ceased to hold office as Directors during the accounting period	Section 168 (1) (h)	Refer on page 106
ix	Disclosure on amounts payable to the Auditor as Audit Fees and a separate disclosure on amounts payable to the Auditor as Fees for other services rendered during the accounting period	Section 168 (1) (i)	Refer on page 108
x	Particulars of the Auditors' relationship with the Company and/ or any of its subsidiaries (other than that of Auditor) or any interest the Auditor has in the Company and/or its Subsidiaries	Section 168 (1) (j)	Refer on page 108
xi	Acknowledgement of the contents of this Report/ Signatures on behalf of the Board by any two Directors and the Company Secretary	Section 168 (1) (k)	Refer on page 109

Vision, Mission and Corporate Conduct

The Company's vision, mission and values are given on page 05 of this Report.

Principal Activities

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

The principal activities of the Company are Leasing and Hire Purchase, Corporate and Retail Credit, Corporate Advisory, Capital Market activities, lending to SMEs and Agriculture sectors, Deposit mobilization and the Provision of other related financial services.

The principal activities of the subsidiary and associate are given in Note 1.3 to the Financial Statements on page 140.

Review of Operations

A review of the operations of the Company during the financial year ended 31 December 2019 and results of those operations are contained in the Chairman's Review on pages 24 to 25, the Chief Executive Officer's Review on pages 26 to 27 and Management Discussion and Analysis on pages 44 to 75. These reports form an integral part of the Annual Report.

Future Outlook

An overview of the future plans and developments of the Company is presented in the Chairman's review on pages 24 to 25 and in the Acting Chief Executive Officer's Review on pages 26 to 27 of this Annual Report.

Financial Statements of The Company and The Group

The Audited Financial Statements of the Company and of the Group for the year ended 31 December 2019 duly signed by the Head of Finance, the Acting Chief Executive Officer and approved by the Board of Directors of the Company are given on pages 134 to 239 and form an integral part of this Report of the Board.

Directors' Responsibility for Financial Reporting

The Board of Directors are responsible for the preparation of the Financial Statements of the Group and the Company, which reflects a true and fair view of the state of affairs of the Company and of the Group. The Directors are of the view that the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 134 to 239 have been prepared in conformity with the requirements of the Sri Lanka Accounting Standards as mandated by the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995 and the Companies Act No. 07 of 2007. Further, these Financial Statements also comply with the requirements of the Finance Leasing Act No. 56 of 2000, Finance Business Act No 42 of 2011, Regulation of Insurance Industry Act No 43 of 2000 and the Banking Act No 30 of 1988 and amendments thereto and the Listing Rules of the Colombo Stock Exchange. The 'Statement of Directors' Responsibility for Financial Reporting' appearing on page 129 forms an integral part of this Report.

Auditors' Report

The Auditor General is the Auditor of Merchant Bank of Sri Lanka & Finance PLC in terms of the provisions of Article 154(4) of the Constitution of the Democratic Socialist Republic of Sri Lanka. Report of the Auditor General on the Financial Statements of the Company and the Consolidated Financial Statements for the year ended 31 December 2019 is given on page 130 of this Annual Report.

Significant Accounting Policies and Changes During The Year

During the year under review, there were no changes in the accounting policies that had been adopted by the Group and the Company and were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standards- LKAS 01 on 'Presentation of Financial Statements' and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007. The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Company are given on pages 140 to 239 of the Annual Report.

Income

The income of the Company for the year ended 31 December 2019 was Rs. 6,839 Mn (2018 - Rs. 6,550 Mn). An analysis of the Income is given in Note 4 to the Financial Statements on page 150.

Financial Results and Appropriations

Details of the Company and Group performance and appropriation of profit are tabulated as follows.

For the year ended 31 December	Company		Group	
	2019 Rs.Mn	2018 Rs.Mn	2019 Rs.Mn	2018 Rs.Mn
Profit before taxation	57.19	446.68	(272.55)	230.92
Taxation	45.39	(265.39)	(196.02)	240.80
Profit after taxation	102.58	181.29	(468.57)	471.73
Non-controlling interest		-	122.41	(56.69)
Profit for the year /profit attributable to the parent company	102.58	181.29	(346.16)	415.03
Profit brought forward from the previous year	193.01	924.95	457.81	948.42
Impairment adjustment and the 01 day impact to deferred tax under SLFRS 09	-	(891.88)	-	(891.96)
Acquisition, disposal and changes in non-controlling interest	-	-	37.65	-
Profit available for appropriation	295.60	214.35	144.29	471.48
Appropriations				
Other comprehensive income	(22.19)	14.92	(23.65)	22.58
Transfer to reserves	(20.52)	(36.26)	(20.52)	(36.26)
Total appropriation	(42.71)	(21.34)	(44.16)	(13.68)
Un-appropriated profit carried forward	252.89	193.01	105.12	457.81

Reserves

A summary of Company and Group reserves are given in below table.

For the year ended 31 December	Company		Group	
	2019 Rs. Mn	2018 Rs. Mn	2019 Rs. Mn	2018 Rs. Mn
Statutory Reserve	234.61	214.10	234.61	214.10
OCI Reserve	(4.16)	(7.46)	(9.10)	(19.05)
Retained Earnings	252.89	193.01	105.12	457.81

Information on the movement of reserves are given in the Statement of Changes in Equity on page 138 and in Note 42 respectively to the Financial Statements on page 213.

Annual Report of the Board of Directors on the Affairs of the Company Contd.

Taxation

The Company is liable for income tax at the rate of 28% (2018-28%) and VAT on Financial Services at 15% (2018-15%).

Statutory Payments

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

Property, Plant and Equipment

The total capital expenditure incurred on the acquisition of property, plant and equipment and intangible assets of the Group and the Company amounted to Rs. 221 Mn and Rs. 243 Mn respectively. The details of property, plant and equipment of the Company are given in Note 30 to the Financial Statements on page 198.

Market Value of Freehold Properties

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer. The Directors are of the opinion that the carrying amount is not in excess of the current market values of the property. The details of freehold property owned by the Company are given in Note 30 to the Financial Statements on page 198.

Issue of Shares And Debentures

The Company did not issue any shares and debentures during the financial year.

Stated Capital and Debentures

The Company's Stated Capital as at 31 December 2019 was LKR 2,124.46 Mn., comprising of 165,874,541 ordinary voting shares. The details of the Stated Capital are given in Note 41 to the Financial Statements on page 212.

The details of debentures redeemed during the year ended 31 December 2019 and those outstanding as at 31 December 2019 are given in Note 35.3 to the Financial Statements on page 205.

Capital Adequacy

The Company ensures that it maintains the statutory requirement on core capital and supplementary capital, to mitigate the liquidity risk and safe guard the depositors, thus ensuring the sustainability of the Company and the industry as a whole. Core capital and total risk weighted capital adequacy ratios of the Company stood at 5.6 percent and 8.78 percent respectively as at 01 July 2019. The information on minimum capital requirement is given on page 239.

Share Information

Information relating to earnings, net assets and market value per share is given in 'Key Figures' on page 22. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given under the information pertaining to 'Financial Capital' on pages 55 to 56.

Substantial Shareholdings

Information on Top Twenty Shareholders

Details of the top twenty shareholders percentages of their respective holdings and percentage holding of the public are given in the section on 'Financial Capital' on pages 55 and 56.

Directors

The names of the Directors who comprised the Board of Directors of the Company as at 31 December 2019 are given below and their attendance at the board meetings during the year is given on page 103 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent /Non-Independent Status
Dr. S Lokuhewa (Resigned w.e.f. 16.07.2020)	Chairman Non Executive Director	Non-Independent
Mr. W P R P H Fonseka	Non Executive Director	Non-Independent
Mr. K B S Bandara (Resigned w.e.f. 16.07.2020)	Non Executive Director	Non-Independent
Mr. S N Dayaratne (Senior Director) (Resigned w.e.f. 16.07.2020)	Non Executive Director	Independent
Mr. S P Arsakularatne (Resigned w.e.f. 16.07.2020)	Non Executive Director	Independent
Mr. R M D V Jayabahu (Resigned w.e.f. 10.06.2019)	Non Executive Director	Non Independent
Mr. D N L Fernando	Non Executive Director	Non Independent
Mr. C Amarasinghe (Appointed w.e.f 12.07.2019 and Resigned w.e.f 09.09.2020)	Non Executive Director	Non Independent
Mr. C Amarasinghe (Resigned w.e.f 12.07.2019)	Alternate Director to Mr. K B S Bandara	
Mr. M P R Kumara	Alternate Director to Mr. W P R P H Fonseka	
Mr. G A Jayashantha (Appointed w.e.f 12.07.2019 and resigned w.e.f. 16.07.2020)	Alternate Director to Mr. K.B.S.Bandara	

Changes to The Directorate

Appointments During the Year under Review

Mr. C Amarasinghe was appointed to the Directorate of MBSL as a Non-Executive/Non Independent Director w.e.f. 12.07.2019

Mr. G A Jayashantha was appointed as Alternate Director to Mr. K.B.S.Bandara w.e.f. 12.07.2019.

Resignations During the Year under Review

Mr. R M D V Jayabahu resigned from the Directorate of MBSL as a Non-Executive/Non Independent Director w.e.f. 10.06.2019

Mr. C Amarasinghe resigned as Alternate Director to Mr. K B S Bandara w.e.f. 12.07.2019

Appointments after 1st January 2020

Mr. A M A Perera was appointed to the Directorate of MBSL as Protem Chairman/ Non-Executive/ Independent Director w.e.f. 16.07.2020

Dr. N S Punchihewa was appointed to the Directorate of MBSL as a Non-Executive/ Independent Director w.e.f. 16.07.2020

Mr. W N P Surawimala was appointed to the Directorate of MBSL as a Non-Executive/Non Independent Director w.e.f. 16.07.2020

Resignations after 1st January 2020

Dr. S Lokuhewa resigned from the Directorate of MBSL as Chairman/Non-Executive/Non Independent Director w.e.f. 16.07.2020

Mr. K B S Bandara resigned from the Directorate of MBSL as a Non-Executive/ Non Independent Director w.e.f. 16.07.2020

Mr. S N Dayaratne resigned from the Directorate of MBSL as Senior Director/Non-Executive/ Independent w.e.f. 16.07.2020

Mr. S P Arsakularatne resigned from the Directorate of MBSL as a Non-Executive/ Independent Director w.e.f. 16.07.2020

Mr. G A Jayashantha resigned from the Directorate of MBSL as Alternate Director to Mr. K B S Bandara, Non-Executive/ Non Independent Director w.e.f. 16.07.2020

Mr. C Amarasinghe resigned from the Directorate of MBSL as a Non-Executive/Non Independent Director w.e.f 09.09.2020.

Recommendations for Election and Re-election

Mr. W P R P H Fonseka retires in terms of Article 86 read with Article 87 of the Articles of Association of the Company and being eligible for re-election has offered himself for re-election at the forthcoming Annual General Meeting and is recommended by the Board of Directors.

Mr. A M A Perera, Dr. N S Punchihewa, and Mr. W N P Surawimala retire in terms of Article 93 of the Articles of Association of the Company and being eligible for election have offered themselves for election at the forthcoming Annual General Meeting and are recommended by the Board of Directors.

Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings namely Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee are presented on page 103

Interests Register

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

The Company's Directors have made general declarations in relation to their respective interests in transactions/ proposed transactions with the Company as provided for in section 192(2) of the Companies Act No.7 of 2007. Arising from these, details of contracts in which the Directors' have an interest are given under Note 44 to the Financial Statements on page 214 to 215 of the Annual Report, dealing with related party disclosures.

Directors' Remuneration

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

	Company Rs.Mn	Group Rs.Mn
Directors' Fees and Emoluments	5.31	5.31

Directors' Interest in Shares of The Company

The directors' shareholding and the relevant interest of directors in the shares of the Company as at 31st December 2019 and 31st December 2018 are as follows.

	No. of shares held as at 31.12.2019	No. of shares held as at 31.12.2018
Mr. D.N.L Fernando	24	24

Directors' Interests in Contracts or Proposed Contracts

Directors' interests in contracts or proposed contracts with the Company, both direct and indirect are disclosed on page 215.

Annual Report of the Board of Directors on the Affairs of the Company Contd.

Related Party Transactions

Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standard - LKAS 24 - 'Related Party Disclosures', which is adopted in preparation of the Financial Statements. This Disclosure is given in Note 44 to the Financial Statements on page 214 which form an integral part of the Annual Report of the Board of Directors.

All Related party Transactions have been placed before the Related party Transactions Review Committee formed under the listing rules of the Colombo Stock exchange, for its review and recommendations.

The Board confirms that the Company has not engaged in transactions with any related party in a manner that would grant such party more favorable treatment than that accorded to other similar constituents of the Company.

The Directors declare that the Company is in compliance with Section 09 of the Listing rules of the Colombo Stock Exchange pertaining to Related party Transactions during the financial year 2019.

Appointment of Auditors

The retiring Auditors, the Auditor General has expressed his willingness to continue in office for the financial year 2020.

A resolution to re-appoint the Auditor General and to authorize the Directors to determine his audit fees will be proposed at the forthcoming Annual General Meeting.

Auditors' Remuneration and Interests in The Company / Group

The Auditor General as the Auditor of the Company was paid Rs. 2,947,929 for the year ended 31 December 2019 as audit fees by the Company. In addition, a sum of Rs. 575,000 was paid by the Company for permitted non-audit-related services.

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

Compliance With Laws And Regulations

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

Environmental Protection

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

Corporate Donations

During the year under review, the Company has made donations amounting to Rs. 63,201 (2018 - Rs.119,724) in terms of the resolution passed at the last Annual General Meeting. This amount excludes contributions made towards the Company's Corporate Social Responsibility (CSR) initiatives. The CSR initiatives of the Company are presented in Social and Relationship Capital Report given on page 71 of this Annual Report.

Events After The Reporting Period

Details of events after the reporting period are reflected in Note 45 to the Financial Statements on page 217.

Outstanding Litigation

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company disclosed in Note 49 to the Financial Statements on page 220 will not have a material impact on the financial position of the Company or on its future operations.

Going Concern

The Board of Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, the Board of Directors continue to adopt the going concern basis in preparing Financial Statements.

Risk Management and System of Internal Controls

Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Company in managing risks are detailed in the Risk Management Report on pages 116 to 123.

Corporate Governance

Directors' Declarations

The Board of Directors declare that-

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

The measures taken and the extent to which the Company has complied with the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 78 to 103.

Human Resources

The Company continued to implement appropriate Human Resource Management Policies to develop employees and optimize their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees which has resulted in high motivation.

Annual General Meeting

The Thirty Eighth Annual General Meeting of the Company will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on 14 October 2020 at 10.00 am. The Notice convening the Thirty Eighth Annual General Meeting is given on page 264.


Acknowledgement of The Contents of The Report

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

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



A.M.A Perera
Chairman Protem



W.P.R.P.H Fonseka
Director



A. Belpamulla
Company Secretary

31 August 2020
Colombo

Audit Committee Report

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

Key Responsibilities of the Committee

Audit Committee of the MBSL which functions as a subcommittee of the Board, assists the Board in discharging its responsibilities and fulfilling its oversight over financial reporting, internal controls, internal audit and external audit. The following areas come under the purview of the Audit Committee;

Financial Reporting

- ▶ Review of financial reporting system of the company in order to ensure effectiveness and integrity of the financial statements and information submitted to the Board, Management, and other stakeholders.
- ▶ Evaluating, reviewing and monitoring the adequacy and effectiveness of the internal control systems to mitigate risks.

Compliance

- ▶ Ensuring appropriate accounting policies are in place, all applicable accounting standards are adopted and adherence to statutory and regulatory compliance requirements.
- ▶ Review and follow up with the Management on the management responses and action plans with regard to any findings from the audits carried out by internal and external auditors and regulatory agencies.

Internal Audit

- ▶ Review of the Internal audit charter, audit plans, activities, audit scope, reporting requirements, of the internal audit function of the company
- ▶ Review of performance of the Internal Audit Function, audit reports and follow up on the progress to implement recommendations.
- ▶ Review findings and recommendations by the Internal Auditor, together with comments and action taken by Management to close the matters raised.

External Audit

Review of External Audit Report on the financial statements and observations and recommendations in the Management Letter and the status of corrective action plans.

Composition of Audit Committee

The composition of the Audit committee was as follows:

Audit Committee as at 31/12/2019

- Mr. W.P.R.P.H Fonseka – Chairman
Non Executive / Non Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. K.B.S Bandara - Member
Non Executive / Non Independent Director
(Appointed w.e.f 24/01/2017 and Resigned w.e.f. 02/09/2019)
- Mr. S.N. Dayaratne - Member
Non Executive / Independent Director
(Appointed w.e.f 10/08/2016 and Resigned w.e.f. 16/07/2020)
- Mr. S. Arsakularatne - Member
Non Executive / Independent Director
(Appointed w.e.f 10/08/2016 and Resigned w.e.f. 16/07/2020)

New Committee for 2020

Pursuant to the reconstitution of the Board in July 2020, the following Directors were appointed/ continue as members of the audit committee .

- Mr. Anura Perera-Chairman
Non-Executive / Independent Director
(Appointed w.e.f 16/07/2020)
- Mr. W.P.R.P.H Fonseka -Member
Non Executive / Non Independent Director
(Appointed w.e.f 10/08/2016)
- Dr. N.S. PUNCHIHewa – Member
Non Executive / Independent Director
(Appointed w.e.f 16/07/2020)

The Secretary to the Board of Directors functions as the Secretary to the Audit Committee.

Areas of Focus and Activities in 2019

The Committee held 07 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors. (Attendance given on page 103 of this Report)

The Acting Head of Internal Audit, Acting Chief Executive Officer, Head of Finance attend the meetings by invitation. The Heads of Divisions are invited to the meetings of the Committee to seek clarifications.

Reporting Financial performance and information

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

Compliance:

Committee reviewed the effectiveness of the systems and procedures of the company to monitor compliance with applicable laws and regulations and the reports submitted by the Compliance Officer on the state of compliance with the relevant laws and regulations. Compliance with statutory payments were also reviewed.

Internal Audits

Committee assigned the Internal Auditor at regular intervals the review of effectiveness of the internal control procedures, accounting systems and operations procedures of the organization , reviewed the reports received from the Internal Auditor covering audits and investigations and discussed with the Management on the recommendations made and followed up on the implementation.

External Audit

The external audit is carried out by the Auditor General . The Auditor General was assisted by M/s Ernst & Young, Chartered Accountants during the year 2019. Prior to commencement of the Audit, the Committee met with the representatives of the Auditor General and M/s Ernst & Young to discuss the audit plan, scope and audit methodology.

The Committee reviewed the Management Letter issued by the External Auditors and the management response thereto. The Auditors were provided with the opportunity to meet with the non-executive directors without any executives being present, to ensure that auditors had the independence to discuss any matter with the Committee.

The committee reviewed and followed up upon final audit issues identified by the Auditors pertaining to the audit for the year 2018.

The Committee wishes to appreciate the past Chairman and the members of the Audit Committee who functioned during the year 2019 for their valuable contribution and service .



A. M. A. Perera
Chairman - Audit Committee

31 August 2020
Colombo

Remuneration Committee Report

Composition of the Committee

The Remuneration Committee is a sub-committee of the Board of Directors which comprised of the following members:

Dr. Sujeewa Lokuheewa - *Chairman/ Non Independent/Non-Executive Director*
(resigned w.e.f. 16.07.2020)

Mr. S. N. Dayaratne - *Independent/Non Executive (Senior Director) Director*
(resigned w.e.f. 16.07.2020)

Mr. S. P. Arsakularatne - *Independent/Non-Executive Director Director*
(resigned w.e.f. 16.07.2020)

Pursuant to the reconstitution of the MBSL Board of Directors, the Remuneration Committee was also reconstituted with the following members, w.e.f. 16th July 2020.

Mr. A. M. A. Perera - *Chairman -Independent/Non-Executive Director*

Dr. N. S. Punchihewa - *Member - Independent/Non-Executive Director*

Mr. W. N. P. Surawimala - *Member - Non Independent/Non-Executive Director*

The Remuneration Committee of Merchant Bank of Sri Lanka & Finance PLC is responsible to determine a remuneration framework for the Chairman and the Board of Directors including Executive (if any) and Non-Executive Directors guided by the Circulars and Directions pertaining to Public Enterprises (Public Finance Enterprise Circulars) issued from time to time and the Subsidiaries Management Charter of the Bank of Ceylon in relation thereto.

The Directors are entitled for fees for attendance at Board Meetings and sub-committee meetings (per sitting) and also a reimbursable travelling allowance. Further, the members are also entitled for the payment of additional fees for any additional services/responsibilities taken by them through committee level participation as may be determined from time to time.

The remuneration of the Chairman shall be determined by taking into account his/her relevant experience, academic and competency levels, leadership qualities and having regard to competitive market rates paid by similar institutions.

The Remuneration Committee is also responsible to determine the remuneration of the Chief Executive Officer. The Remuneration Policy of the Company endeavours to attract, motivate and retain quality management in a competitive environment with the relevant expertise to achieve the desired objectives of the Company.

The remuneration of the CEO shall be determined based on his/her industry experience, academic and competency levels, leadership credentials, competitive market rates paid by similar institutions and any other relevant factors as may be determined by the Remuneration Committee/Board in line with the remuneration structure of the organization .

The remuneration of the CEO may comprise of different components such as cash and non-cash benefits and will be linked to measurable standards of performance. The Remuneration Committee makes its recommendations to the Board of Directors for final approval.

The total Directors' emoluments are disclosed in Note 15 on page 159 of the Financial Statement.

The Company Secretary functions as the Secretary of the Committee.



A. M. A. Perera
Chairman
Remuneration Committee

31 August 2020
Colombo

Related Party Transactions Review Committee Report

GRI 102-25

Purpose of The Committee

The purpose of the Committee is to assist the Board in reviewing all related party transactions entered by the Company as per the Code of Best Practice on Related Party Transactions issued by the Securities and Exchange Commission of Sri Lanka (SEC).

Scope of The Committee

- ▶ Adopting policies and procedures to review related party transactions of the Company and reviewing and overseeing existing policies and procedures.
- ▶ Reviewing in advance all proposed related party transactions of the Company except those explicitly exempted in the Code under Rule 27.
- ▶ Determining whether Related Party Transactions that are to be entered into by the Company require the approval of the Board or Shareholders of the Company.
- ▶ Establishing guidelines in respect of recurrent Related Party Transactions to be followed by the Corporate Management in respect of ongoing dealings with the relevant related party.
- ▶ Ensuring that no Director of the Company shall participate in any discussion of a proposed Related Party Transaction for which he or she is a related party, unless such Director is requested to do so by the Committee for the expressed purpose of providing information concerning the Related Party Transaction to the Committee.
- ▶ Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulation are made in a timely and detailed manner.

Composition of The Committee

The Related Party Transactions Review Committee is appointed by the Board of Directors of the Company. It comprises of the following Directors:

Name of the Directors	Directorship Status	Membership Status
1 Mr. S. N. Dayaratne (resigned w.e.f 16.07.2020)	Non-Executive Independent Director	Chairman
2 Mr. A. M. Anura Perera (appointed on 16.07.2020)	Non-Executive Independent Director	Chairman
3 Mr. W. P. R. P. H. Fonseka	Non-Executive Non- Independent Director	Member
4 Mr. K.B.S Bandara (resigned w.e.f 07.11.2019)	Non-Executive Non- Independent Director	Member
5 Mr. S. P. Arsakularatne (resigned w.e.f 16.07.2020)	Non-Executive Independent Director	Member
6 Mr. C. Amarasinghe (appointed on 07.11.2019 and resigned w.e.f 16.07.2020)	Non-Executive Non- Independent Director	Member
7 Dr. N. Sampath Punchihewa (appointed on 16.07.2020)	Non-Executive Independent Director	Member

Policies and Procedures

The Company has in place a Related Party Transactions Policy (RPT) whereby the categories of persons/entities who shall be considered as “related parties” have been identified. The RPT Policy ensures that the Company does not engage in transactions with related parties in a manner that would grant related parties “more favorable” treatment.

In accordance with the RPT Policy, self-declarations are obtained from each Director for the purpose of identifying parties related to them.

The Code of Business Conduct and Ethics of the Company, which sets out internal policies applicable to conflicts of interests, also plays a key role in managing Related Party Transactions.

Meetings of The Committee

The Committee had four meetings during the year under review. The quorum for a meeting is 3 members. Members of the Corporate Management were invited to participate in the meeting of the Committee as required. The Finance Division submitted comprehensive reports on Related Party Transactions to the Committee

Related Party Transactions for The Year 2019

Details of all transactions with the related parties during the year 2019 were reviewed by the Committee and the Committee made recommendations and communicated its observations to the Board.

The details of the recurrent and non-recurrent transactions that exceeded the thresholds during the financial year 2019 are disclosed under “Note 44-Related party Disclosure” of the Financial Statements.

Declaration

The declaration by the Board of Directors that no related party transaction falling within the ambit of the Listing Rules was entered into by the Company during 2019 is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 104.



A. M. A. Perera
Chairman
Related Party Transactions Review Committee

31 August 2020
Colombo

Integrated Risk Management Committee Report

The Integrated Risk Management Committee (IRMC) of the Merchant Bank of Sri Lanka & Finance PLC (MBSL) functions in terms of the Risk Management Policy approved by the Board of Directors. The Risk Management Policy is reviewed and updated regularly in order to maintain prudent risk management practices within the Company.

The IRMC Meetings

The IRMC held 4 meetings during the year under review. The Risk Assessment Reports, Risk Management Polices, Compliance Reports and other risk related reports are reviewed at the IRMC meeting and Risk Management Polices and Risk Assessment Reports are forwarded to the Board of Directors with recommendation as specified by the corporate governance directions issued by the Central Bank of Sri Lanka (CBSL).

Composition of Integrated Risk Management Committee

Name	Designation
Board Level Members	
Mr. V. Jayabahu*	Chairman of the IRMC Non-Executive Non Independent Director
Mr. D. N. L. Fernando**	Chairman of the IRMC Non-Executive Non Independent Director
Mr. S. N. Dayaratne****	Non-Executive Independent Director
Management Level Members	
Mr. Jude Gamalath	Actg. Chief Executive Officer
Mr. Senaka Uduwawala***	DGM – Post Credit Monitoring & Quality Assurance
Mrs. Kamika Jayatilake	DGM – Legal / Company Secretary/ In-Charge of CA & CM
Mr. Chamara Withanachchi	Head of IT
Mr. Kumudu Jayasundara	AGM – Recoveries
Mr. Purna Kandanaarachchi	Head of Finance
Mr. H. N. Wijayatunga	Manager Risk Management

*Resigned from the IRMC with effect from 17 May 2019

** Appointed to the IRMC with effect from 17 May 2019

*** Retired with effect from 1 Oct 2019

**** Resigned with effect from 16 July 2020

The Committee was reinstated with effect from 16th July 2020 and present composition of the IRMC committee as follows.

Name	Designation
Board Level Members	
Mr. D. N. L. Fernando	Chairman of the IRMC Non-Executive Non-Independent Director
Mr. Anura Perera	Non-Executive Independent Director
Mr. W. N. P. Surawimala	Non-Executive Non-Independent Director
Management Level Members	
Mr. Jude Gamalath	Acting Chief Executive Officer
Mrs. K. Jayatilake	DGM Legal & Head of CA&CM
Mr. C. Withanachchi	DGM IT
Mr. K. Jayasundera	AGM Pawning & FD/ Savings
Mr. Shalintha Fernando	AGM Compliance
Mr. T. D. D. K. Gunawardena	AGM HR & Support Services
Mr. P. I. Kandanaarachchi	AGM Finance & Strategic Planning
Mr. Asela Liyanage	AGM Recoveries
Mr. H. N. Wijayatunga	Manager Risk

Key Responsibilities of the Committee

IRMC is a Board appointed subcommittee consist of three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The Company Secretary of MBSL acts as the secretary to the committee.

IRMC works 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. In addition to that the committee is responsible for;

- (i) Assess all risks to the Company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.
- (ii) 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.
- (iii) 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 Company's policies and regulatory and supervisory requirements.
- (iv) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
- (v) 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.
- (vi) Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.

(VII) Establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

Conclusion

The Committee has reviewed the process of identification, evaluation and management of all significant risks of MBSL and supported execution of the overall business strategy of the company within predefined risk parameters.

Gratitude

The Committee wishes to express its sincere gratitude to Mr. V. Jayabahu and Mr. Senaka Uduwawala for their valuable contribution to the Committee during their tenure.



D. N. L. Fernando

Chairman

Integrated Risk Management Committee

31 August 2020
Colombo

Risk Management Report

GRI 102-11 GRI 102-15

Risk refers to the uncertainty that surrounds future events and outcomes of the organization. It is the expression of the likelihood and impact of an event with the potential to influence the achievement of strategic and financial objectives.

A systematic Risk Management process is vital to achieve the strategic and financial goals of the Company. For MBSL which faces higher risks compared to other commercial organizations due to the complexity of its macro and micro business environment, Risk Management remains a critical component the strategy execution framework.

MBSL's Risk Management process involves several steps including risk identification, analyzing & evaluation, managing and reporting the risk.

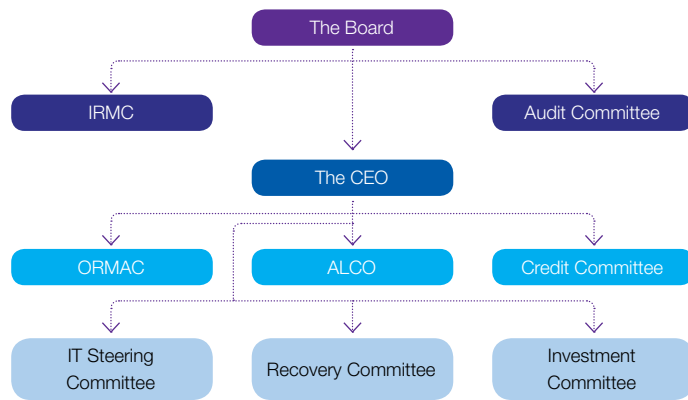


Risk Identification is a process of finding, recognizing and describing risks, which affect MBSL's strategic financial goals. Risk Analysis is the process of analyzing the nature of risks and their potential impact to MBSL. Risk Evaluation is the process of determining risks and/or establishing if its magnitude is acceptable or tolerable. Risk Management is the process of

formulation and implementation of strategies to reduce the identified risk, while reporting involves keeping the Board of Directors (BOD) and Integrated Risk Management Committee (IRMC) apprised of all key risks, strategies and their respective outcomes.

Risk can present itself in many forms, and has the potential impact to MBSL's business, employees, customers, reputation, environment, regulatory and financial performance and thereby the achievement of the Company's strategic objectives.

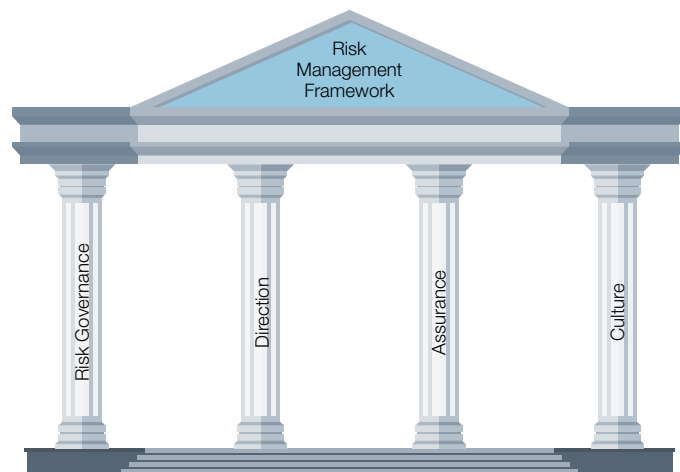
In our dynamic operating environment, a strong Risk Management Framework is essential to safeguard the interests of our stakeholders. The purpose of our Risk Management Framework is to ensure an effective and efficient process is in place to manage the Company wide risk at all times.



MBSL's Risk Management Framework seeks to achieve the following specific objectives:

1. Identify major risks applicable to the Company.
2. Reduce the negative impact on profitability, capital, people and other stakeholders from unforeseen events.
3. Safeguard the Company's reputation among stakeholders.
4. Maintain an optimum tradeoff between risk and return.
5. Set and communicate Risk Appetite level of MBSL.
6. Ensure business continuity of the organization.

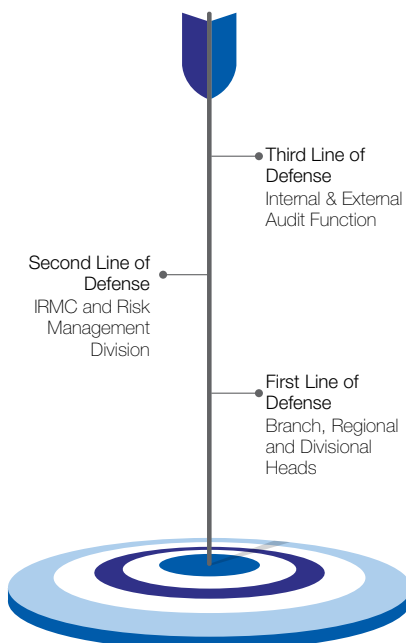
To achieve the above objectives, MBSL's Risk Management Framework is based on four key pillars;



1. Risk Governance

Risk Governance is vital for effective Risk Management of any organization. MBSL has a well-established Governance Structure to provide oversight for managing current and potential risks. MBSL's Board of Directors are ultimately responsible for the implementation of effective Risk Management across the Company. In this regard, the Board is also responsible for setting up and communicating both quantitative and qualitative risk appetite limits. The Board is further involved in deciding risk management goals and setting the tone from the top towards building a Company wide Risk Management Culture. In the performance of these duties, the Board is assisted by the IRMC. The IRMC is responsible for the stewardship of Risk across the business, including making recommendations to the Board regarding policy matters and risk threshold limits.

MBSL has established the three-lines-of-defense model, which outlines Risk Management duties and responsibilities across the Company. The corporate management, respective business heads and branch management act as the first line of defense by ensuring that all risk-taking activities in the course of the business are conducted in line with established risk management principles.



The IRMC and Risk Management division act as second line of defense to ensure that financial and business risks are managed in line with the Company's risk appetite and tolerance limits. The Audit Committee serves as the third line of defense and provides an independent verification of the efficiency and effectiveness of the Risk Management Framework in supporting the achievement of business objectives.

2. Direction

The Board and Senior Management are responsible to provide clear direction for the Company's Risk Management function, while the Risk Appetite Statement, Risk Management Policies, Procedures and Guidelines provide the necessary framework for the effective management of risk at all levels of the business.

Risk Appetite Statement

Risk Appetite reflects the maximum tolerance level, the Company is willing to accept in order to meet its strategic objectives. The Risk Appetite Statement defines risk limits of the Company. The Board is responsible for establishing MBSL's Risk Appetite after considering the optimal risk return trade off of the Company. In formulating the Risk Appetite Statement, the Board prioritizes the most significant risks which MBSL is exposed to and informs the approach towards managing these risks, with all strategic plans and business plans developed accordingly.

The Risk Appetite Statement is reviewed annually by the IRMC and the Board to take cognizance of any changes to current risk profiles as well as to account for potential or emerging risks that may likely impact the company in the short to medium term time horizon.

Risk Management Policies

The Company's Risk Appetite underpins the process of formulating Risk Management Policies. In addition, industry best practices, BASEL guidelines and regulatory requirements are also considered when formulating Risk Management Policies. Risk Management Policies outline maximum tolerable limits which serve as a benchmark for acceptance of risk at any given time.

Risk Management Policies are approved by the Board for specific risk categories and are based on the recommendations made by the IRMC. Examples of risk policies include;

the overall Risk Management Policy, Liquidity Risk Management Policy, Business Continuity Management Policy etc.

Guidelines and Procedures

Guidelines refer to the breadth and quality of information required to make a certain risk management decision. Guidelines are developed covering various areas of the business and are implemented vis-a-vis policy developed by the Risk Management Function.

Procedures are formulated to support the Risk Management division and Business units to carry out their duties. Senior management teams are responsible for preparing procedures in order to inform specific action and ensure Risk Management activities are conducted in conformity with the Company's Risk Appetite.

3. Assurance

Regular monitoring and assurance ensure that Risk Management activities are conducted in line with approved policies, guidelines and procedures with all key risk indicators escalated to the IRMC on a quarterly basis and any detected breaches immediately reported to the Board for necessary action.

Risk Management Requires independent assurance in order to verify the Company has sound risk management practices. The Audit Committee appoints an internal auditor to perform a detailed risk assessment every year with the findings submitted to the Board. Moreover, as a parent BOC risk management division provides necessary support and directions in order to comply with group risk appetite limits.

4. Culture

A proactive Risk Culture is central to the execution of MBSL's Risk Management Framework. MBSL works with the understanding that building a Company-wide Risk culture will foster appropriate values and behaviors that shapes risk decisions of management and employees in line with the company's Risk Management and strategic objectives. The MBSL Board and Senior Management play vital role in setting the tone for a sound risk culture within the Company. In addition, Risk Management responsibilities are clearly communicated across the Company with the Board required to take necessary action against employees who violate or fail to adhere to the Company policies and directions.

Risk Management Report Contd.

Key Risks Face by MBSL

As per the BASEL Guidelines and CBSL directions the Company has to manage the following risks prudently while achieving strategic objectives of the Company.

Credit Risk

Credit risk is one of MBSL's principle risks of any financial institutions due to business nature. Credit risk is arising from financial losses if any customers, clients or market counterparties fail to fulfill their contractual obligations to MBSL as and when they fall due. For MBSL Credit Risk arises mainly from corporate and retail leading products.

Default Risk Vs. Concentration Risk

Credit Risk can be divided as default risk and concentration risk. Default risk is the risk of potential losses arising from inability of MBSL's customers to settle the loan in full by the due dates.

Credit Concentration Risk is the degree of exposure within the Company's credit portfolio. Concentration risk arises from individual, product and sector.

While the MBSL Board sets the overall direction for managing Credit Risk in both retail and corporate lending segments based on changes in the Company's immediate risk universe, the dimensions of Credit Risk and the scope of its application are defined in the Credit Policy.

The assessment of Credit Risk among retail customers, is done using credit score models, credit bureau records as well as internally and externally available customer behavior records to determine their alignment with MBSL's established Risk Acceptance Criteria (RAC) for specific asset classes such as leasing, pawning and other retail lending products. Credit applications are proposed by the business unit, and applications outside the RAC are independently assessed by the risk management division.

To holistically manage Credit Risk of the corporate lending portfolio, MBSL has implemented detail procedures to control both Default Risk as well as Concentration risk. The Risk Management division monitors credit exposures, portfolio performance and external environmental factors potentially affecting

Credit Risk profiles. This is achieved through analysis done at the total portfolio or sub-portfolio level, to assess the impact of changing economic conditions on asset quality, earnings performance, capital adequacy and liquidity. In addition, credit trends, which may include industry analysis, early warning alerts and non-performing loan indicators, are submitted to the Credit Committee and the Board to enable key strategies and action plans to be formulated and evaluated.

The end-to-end credit process is continually reviewed and improved through various front-to-back initiatives involving the business units, the operations divisions, the risk management divisions and other key stakeholders.

In 2019, the following Risk Management strategies were implemented in order to manage credit risk;

1. The Risk Management Division commenced monitoring high risk marketing officers, specifically those who continue to maintain 3 to 6 months arrears were analyzed and identified on a monthly basis with the top 20 officers being shortlisted and called in for a meeting with the Risk unit to submit their reasons. The Strategy is aimed at reducing possible NPA cases and default risk of the Company.
2. The Risk Management Division began measuring branch-wise Credit Risk, with the results being uploaded to a new dashboard to enable branch staff to view their performance on a monthly basis.
3. Introduced monthly business review meetings with the CEO to raise awareness regarding the Company's Credit Risk management protocols and encourage proactive participation of branch staff towards the recovery process.
4. Introduction of maximum threshold limits for individual products and sector wise to ensure concentration limits are continuously monitored.
5. After prudent analysis of macro-economic factors, the Company decided to reduce lending exposure to several vehicle categories in order to reduce the potential Default Risk as well as the Concentration Risk of the Company.
6. As per the results of ongoing analysis conducted by the Risk Management Division the Company decided to discontinue several products in order to reduce the potential Default Risk to the Company.
7. Tightened evaluation procedures for several lending products which were found have an elevated Default Risk due to macro-economic reasons. Accordingly, borrowers of these products are now required to face tight scrutiny in order to reduce Default Risk of the Company. In this regard the CCD conducts special evaluations for borrowers of these high-risk products. The CCD reports directly to the Credit Committee and the Board regarding their findings. The CCD has the authority to propose or decline the facility and based on their findings. Furthermore, all facilities will be granted only subject to the approval of the CCD which will ensure the credit quality of the facility while reducing Default Risk of the Company.
8. Introduction of a Central Recoveries unit to expedite the follow-up of past-dues and ensure stricter monitoring to prevent customers from lapsing on their rental payments the Central Recoveries unit is headed by the AGM Recoveries who directly reports to the CEO and the Recovery Committee.
9. Further streamlined the ground-level recovery mechanism, with the appointment of Zonal Recovery Officers who are directly responsible to manage recoveries in their respective regions and report directly to the AGM Recoveries.
10. The fee approval process was automated and a new mobile app was launched to minimize the delay in approving fee waivers that would speed up customer settlement
11. A dedicated pre legal unit was set up in order to streamline the handling of legal documentation.
12. Expedited legal action against willful defaulters, with the Company's internal lawyers given the authority to take legal actions against the willful defaulters. The process has helped to reduce NPA portfolio significantly during the year.

Industry wise concentration

Industry wise Portfolio 2018



■ Agriculture & Fishing	35%
■ Manufacturing	11%
■ Tourism	1%
■ Transport	9%
■ Construction	6%
■ Trades	6%
■ Financial and Business Services	2%
■ Other Services	25%
■ Other Customers	5%

Industry wise Portfolio 2019



■ Agriculture & Fishing	31%
■ Manufacturing	15%
■ Tourism	1%
■ Transport	11%
■ Construction	8%
■ Trades	8%
■ Financial and Business Services	7%
■ Other Services	9%
■ Other Customers	10%

In the year under review, the concentration on agriculture and fisheries sectors has reduced considerably compared to 2018. This is due to the decision made by the Company to reduce the lending exposure to the micro finance segment. Further, the exposure to the financial and Business services sectors have increased, while the concentration on tourism sector continued to be low which has enabled MBSL to reduce its default risk exposure to the tourism industry.

Geographical concentration

Geographical breakdown 2018



■ Central	10%
■ Eastern & Uva	8%
■ North Central	8%
■ Northern	3%
■ North Western	13%
■ Southern & Sabaragamuwa	18%
■ Western	40%

Geographical breakdown 2019

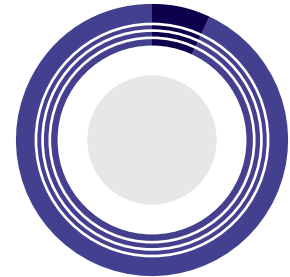


■ Central	9%
■ Eastern & Uva	7%
■ North Central	5%
■ Northern	4%
■ North Western	14%
■ Southern & Sabaragamuwa	16%
■ Western	45%

Geographical concentration on western province has increased significantly due to discontinuation of several products and the lower exposure to several sectors in order to mitigate potential credit risk.

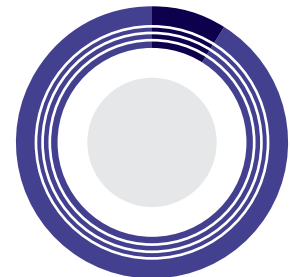
Concentration top 20 customers

2018



■ Top 20 Customers	7%
■ Other Customers	93%

2019



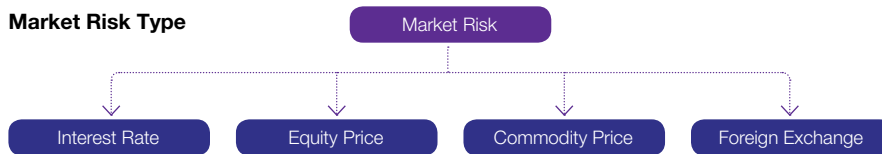
■ Top 20 Customers	9%
■ Other Customers	91%

In 2019, the concentrations to top 20 customer increased to 9% from 7% in 2018. However, it is well below the risk appetite levels of MBSL.

Risk Management Report Contd.

Market Risk

Market Risk is defined as the risk of loss on MBSL's on-balance sheet and off-balance sheet positions arising from movements in market variables. For MBSL, Market Risk arises due to adverse movement in interest rates, equity markets, commodity prices and exchange rates.



Interest rates, equity markets and commodity prices directly influence achieving strategic goals of the Company while exchange rates create an indirect impact on MBSL's performance. Market Risk exposures are monitored and managed using various models and market forecasts that take into account best industry practices, BASEL guidelines and regulatory requirements.

The Assets and Liabilities Committee (ALCO) and the Investment Committee play a vital role in managing MBSL's Market Risk. To further strengthen the existing Market Risk management mechanism the Treasury middle office was introduced in 2019. The Treasury middle office operates under purview of the Risk Management division and reports directly to the ALCO and the IRMC.

In 2019, a set of new KRI's (Key Risk Indicators) were also introduced along with new monitoring protocols to enable the Risk Management Division to track these KRI's and report to the senior management.

Interest Rate Risk

Interest Rate Risk is the key component of Market Risk. Interest Rate Risk arises due to adverse and unforeseen changes in market interest rates. Movements in interest rate directly impacts the Company's interest income and interest expense and thereby affects MBSL's profitability. In addition, Interest Rate Risk also affects MBSL funding strategy, term structure and rate sensitive assets and liabilities mismatch, maturity gap etc.

The ALCO reviews the interest rate movement on regular basis and identifies possible impacts to the Company. Based on these findings, the ALCO initiates necessary actions to reduce the Interest Rate Risk. The Risk Management division calculates the maturity mismatch, rate sensitive gap and identifies the possible negative impact to the Company's earnings. The IRMC reviews the short term and medium-term interest rate risk and directs relevant departments to take appropriate actions.

In 2019 several new deposit products were launched to minimize the rate sensitive gap. Moreover, in an effort to address MBSL's high dependence on corporate deposits, it was decided to reduce the concentration on corporate deposits, with the Deposit unit instructed to promote retail deposit products in order to minimize Interest Rate Risk. Furthermore, in order to reduce maturity gap, the Treasury focused on increasing long term funding while reducing the exposure to short term funding sources.

Equity Risk Management

Adverse movement in share prices creates Market Risk towards the MBSL. The share price volatility influences value of the investment portfolio and thus has an impact on investment income. As such, MBSL has taken necessary measures to reduce the Equity Market Risk. Equity Management activities are handled by the Capital Market Division which directly responsible to the Investment Committee.

The Investment Committee oversees the management of the Company's share portfolio while the IRMC conducts a quarterly review of the performance and concentration of the share portfolio in order to mitigate Equity Risk.

In 2019, the Company reduced its exposure in share investments based on the negative outlook for the share market. The share portfolio was also further diversified to reduce the exposure to identified

sectors, specifically those adversely affected by macroeconomic factors. These initiatives enabled MBSL to effectively manage its share portfolio and minimize Equity Risk.

Sector wise Equity portfolio risk

Sector Portfolio 2018



Banks /Finance & Insurance	41%
Diversified Holdings	3%
Telecom	0%
Manufacturing	12%
Investment Trust	2%
Hotels & Travels	20%
Construction & Engineering	3%
Beverage Food & Tobacco	10%
Footwear & Textile	2%
Power & Energy	7%

Sector Portfolio 2019



Banks /Finance & Insurance	49%
Diversified Holdings	4%
Telecom	0%
Manufacturing	11%
Investment Trust	2%
Hotels & Travels	22%
Construction & Engineering	3%
Beverage Food & Tobacco	8%
Footwear & Textile	0%
Power & Energy	1%

In the year 2019 MBSL reduced its exposure to certain sectors, while increasing concentration in other sectors in order to manage market risk of the Company. Stemming from this, the exposure to Banking, Finance & Insurance sectors increased significantly in 2019 compared to 2018.

Commodity Risk Management

Commodity Risk is the risk of change in value of a portfolio of commodities held by the Company. Gold is the main commodity managed by MBSL. The Pawning division is responsible to manage commodity risk (gold stock) arising due to fluctuations in world gold prices. To support proactive decision making, the Company introduced a range of new KRI's were introduced to monitor the exposure of gold stock. These included; LTV wise KRI for gold stocks. Monitoring of the loan to value ratio for the gold loan portfolio has helped greatly in minimizing the impact due to the volatility of gold prices. Maximum lending limits for individual customers were also revised in order to reduce Commodity Risk.

Liquidity Risk

Liquidity Risk arises when a financial institution is unable to maintain or generate sufficient cash resources to meet its payment obligations as they fall due.

At MBSL Liquidity Risk Management falls under the purview of the ALCO. Under the supervision of the ALCO, the Head of Finance & Treasury are expected to adhere to the Board approved Liquidity Risk Management Policy in order to ensure adequate liquidity levels and capital buffers are maintained at all times. The main aim here is to ensure key ratios such as Tier 1 CAR, total Capital Ratio, minimum capital and the Liquid Asset Ratio are in line with regulatory minimum requirements. Timely reports are submitted to the Board and the IRMC in order to ensure necessary actions are taken to reduce MBSL's Liquidity Risk.

The Company practices accepted mechanisms such as stress testing, sensitivity analysis, and gap analysis techniques to provide a more accurate indication of MBSL's liquidity requirements during the normal course of business and prevent a business disruption in stress situations.

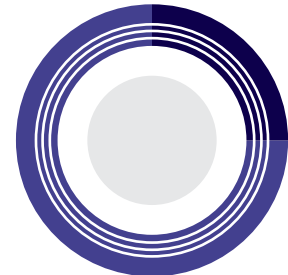
In 2019, the following Risk Management strategies were implemented in order to manage Liquidity Risk;

1. Reviewed the existing Liquidity Risk Management Policy and introduced new KRIs to measure and manage Liquidity Risk more prudently.
2. New monitoring protocols were introduced to ensure that liquidity is strictly managed in line with MBSL's Risk Appetite
3. In a declining interest rate environment, the Treasury was instructed to favor long term funding in order to reduce the shock on liquidity.
4. Implemented necessary strategies to reduce concentration on corporate deposits and ensure the Deposit unit focuses more on promoting retail deposits.
5. Deposit division implemented necessary strategies to grow the Company's savings base, specifically by promoting minor savings accounts.

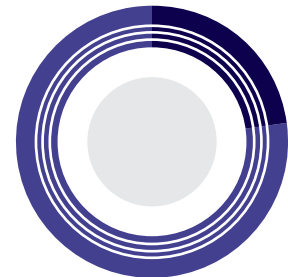
The Central Bank of Sri Lanka (CBSL) revised Tier I and Tier II Capital Adequacy Requirement in 2018 and accordingly the Company has taken necessary steps to meet CAR requirement and minimum capital requirement as specified by the CBSL.

Top 20 depositors

Deposit Customers 2018



Deposit Customers 2019

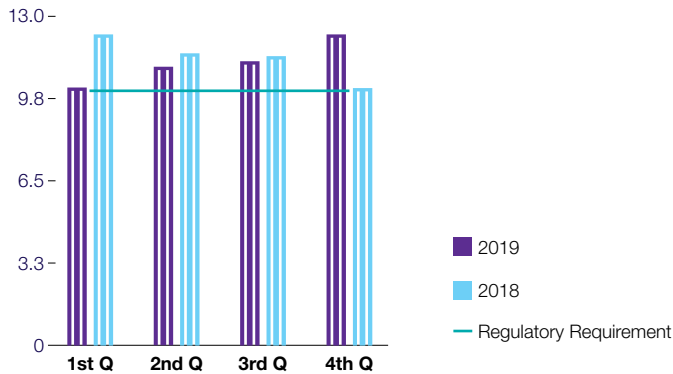


In 2019 MBSL succeeded in reducing the dependency on top 20 depositors to 23% from 25% in 2018. Furthermore, the concentration on Top 20 customers was well below the risk appetite limits of MBSL.

Risk Management Report Contd.

Liquid Assets Ratio

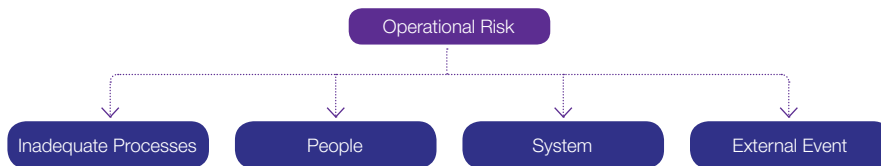
Liquid Assets Ratio (%)



The Company continued to maintain its liquidity ratios well above the regulatory minimum requirements throughout the year 2019.

Operational Risk

Operational Risk is inherited with MBSL's operational environment. Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems of MBSL, or from external events.



MBSL's Operational Risk Management Policy provides the basis of managing Operational Risk at all levels of the Company. The ORMP has several objectives; implementing measures in order to ensure business continuity, ensuring the accuracy of information used internally, developing competent staff and ensuring adequate safeguards to protect the physical and IT resources of the Company.

The following Risk Management strategies were implemented during the year in order to manage Operational Risk;

1. The Operational Risk Management Committee (ORMAC) at MBSL. A cross functional team chaired by the Compliance Officer, the ORMAC has authority to escalate their findings directly to the CMC and IRMC of MBSL.
2. The Business Continuity Management Policy and BCP plan was formulated and the Company expected to obtain ISO certification for BCP implementation during the next year.

3. Conducted several training programs focusing on anti-money laundering, cashing, marketing, pawning and credit management in order to reduce people risk. A total of 1,720 training hours was covered by the HR Division on training activities to build employee capacity in these areas.
4. Implemented the performance based culture supported by a quarterly evaluation of employee performance to determine their achievement of KPI's which are linked to MBSL's strategic objectives.
5. Improvements were made to the Company's IT system infrastructure to automate the measurement of money laundering risk among lending customers. System modifications are ongoing to align these measurements to fully comply with guidelines issued by the Financial Intelligence Unit (FIU) of CBSL.
6. Streamlined several processes in order to reduce risk of process failure and improve employee productivity.

Compliance Risk

Compliance Risk is the risk of losses arising from the failure to comply with regulatory or legal requirements imposed by the CBSL or other regulatory institutions. MBSL has a dedicated Compliance officer who is tasked with monitoring the Company's Compliance Risk. Under the purview of the Compliance Officer, the Compliance Unit conducts compliance checks across all business units on a monthly basis with any incident of non-compliance reported directly to the IRMC/ Board for necessary action. New products and publications are reviewed by the Compliance Unit to verify if they conform to all relevant Compliance requirements of the Company. It is also the responsibility of the Compliance Unit to conduct training as and when needed, to reinforce the compliance culture among employees.

The following risk management strategies were implemented in order to manager the Company's Compliance risk;

1. With the financial sector compliance environment becoming increasingly more complex, it was decided to bring more focus on strengthening the compliance culture at all levels of the Company. Accordingly, a dedicated Compliance Officer was appointed as the head MBSL's Compliance Unit. The Compliance Officer reports directly to the IRMC regarding any non-compliance issues.
2. Under the supervision of the new Compliance Officer, steps were taken to review and update MBSL's Anti-Money Laundering (AML) & Countering the Financing of Terrorism (CFT) Policy & Procedure in order to ensure that the Company is compliant with the regulations laid down by the Financial Intelligence Unit of CBSL.
3. Improvements were made to the Company's IT system infrastructure to automate the measurement of money laundering risk among lending customers. System modifications are ongoing to align these measurements to fully comply with guidelines issued by the Financial Intelligence Unit (FIU) of the CBSL.
4. Conducted extensive staff regarding compliance requirements and regulations stipulated by the CBSL, in order to minimize the violations by the Company.



**Steered into calm
waters through
clear leadership**



FINANCIAL INFORMATION

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Financial Calendar

Financial Calendar 2019

Annual General Meetings	Date
38th Annual General Meeting on or before	14-Oct-20

Interim Financial Statements published in terms of Rule 7.4 of the Colombo Stock Exchange (CSE), as per the requirements of the Central Bank of Sri Lanka & Under Section 29.2 of Finance Business ACT, No. 42 of 2011:

Interim Financial Statements	Date released to the CSE	Date published/to be published in Newspapers (in Sinhala, English & Tamil)
1st Quarter ended 31 March 2019	15-May-19	N/A
2nd Quarter ended 30 June 2019	16-Aug-19	30-Aug-19
3rd Quarter ended 30 September 2019	08-Nov-19	N/A
4th Quarter ended 31 December 2019	02-Mar-20	N/A
Annual Financial Statements		
Annual financial statements for 2019		18-Sep-20

Proposed Financial Calendar 2020

Annual General Meetings	Date
39th Annual General Meeting on or before	30-Jun-21

Interim Financial Statements published in terms of Rule 7.4 of the Colombo Stock Exchange (CSE), as per the requirements of the Central Bank of Sri Lanka & Under Section 29.2 of Finance Business ACT, No. 42 of 2011:

Interim Financial Statements	Date released/to be released to the CSE	Date published/to be published in Newspapers (in Sinhala, English & Tamil)
1st Quarter ended 31 March 2020	04-Aug-20	N/A
2nd Quarter ended 30 June 2020	15-Sep-20	30-Sep-20
3rd Quarter ended 30 September 2020	15-Nov-20	N/A
4th Quarter ended 31 December 2020	15-Feb-21	N/A
Annual Financial Statements		
Annual financial statements for 2020		15-Jun-21

Directors' Responsibility Statement on Internal Control Over Financial Reporting

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

Responsibility

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

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

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

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

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

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- ▶ Internal audit department established by the Board is to assist the Board to ensure that MBSL complies with policies and procedures, evaluate the effectiveness of the internal control system in place and highlights significant findings in respect of any non-compliance on an ongoing basis. Internal audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- ▶ The Audit Committee of the Company review internal control Gaps identified by the internal audit division, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. Further it highlights the areas that need more internal controls while suggesting improvements to existing internal controls. The minutes of the Audit Committee meetings are tabled to the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report in the Annual Report.
- ▶ Operational committees are established by the Board with appropriate empowerment to assist the Board in ensuring the effectiveness of the company's daily operations and that the company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- ▶ In assessing the internal control system, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of company. These in turn were observed and checked by the Internal Audit department to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.
- ▶ SLFRS 9 – "Financial Instruments", became applicable for financial reporting periods beginning on or after 1 January 2018. SLFRS 9 poses a significant impact on impairment assessment of financial assets where by the impairment assessment approach shifted from an "incurred credit loss model" applied based on LKAS 39 – "Financial Instruments – Recognition and Measurement" to an "expected credit loss model". The Board will continuously take steps to strengthen the processes and controls around management information systems and information required for validation and compliance in line with SLFRS 9. The Financial statements for the year ended 31 December 2019 is compliant with all accounting standards currently in force.
- ▶ The Company adopted Sri Lanka Accounting Standard - SLFRS 16 "Leases" which became effective for financial reporting periods beginning on or after 1 January 2019 and required adjustments have been incorporated in financial statements for the year ended 31 December 2019.

Directors' Responsibility Statement on Internal Control Over Financial Reporting Contd.

The Company is in the process of updating relevant procedure manuals pertaining to these new requirements. The Company has also recognized the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosures of the financial instruments more effectively and efficiently.

Progressive improvements on processes to comply with new Sri Lanka Accounting Standards requirements of recognition measurement, classification and disclosure are being made whilst some processes were not fully completed at the reporting date. In particular, areas with respect to the related party transactions, monthly impairment computation, treasury, and compliance with regulation, management information system, financial statements disclosures related to financial risk management, fair value and IT controls were being implemented as at the reporting date.

The confirmation by the Board

Based on the above processes, the Board confirms that the financial reporting system of MBSL has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the statement by external auditors

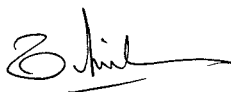
The External Auditors have submitted a certification on the process adopted by the Directors on the system of internal controls over financial reporting. The matters addressed by the External Auditors in this respect, are being looked into.

For and on behalf of the Board,



A. M. A. Perera

Director



W. P. R. P. H. Fonseka

Director

31 August 2020

Colombo

Directors' Responsibility for Financial Reporting

This Statement sets out the responsibilities of the Directors in relation to the financial statements of the Company and the Group. The responsibilities of the auditors in relation to the financial statements are set out in the 'Independent Auditor's Report' on page 130 of the Annual Report.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that the Company and the Group keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Company and the Group as at end of each financial year and of the financial performance of the Company and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31 December 2019, Income Statement and Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows for the year then ended and Notes thereto.

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

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

The Directors are required to ensure that the financial statements of the Company and the Group for the financial year ended 31 December 2019 have been prepared and presented based on the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting & Auditing standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereto, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

The Directors have also taken reasonable measures to safeguard the assets of the Company and of the Group and to prevent and detect frauds and other irregularities. In that regard, the Directors have established appropriate systems of internal control with the view to preventing and detecting fraud and other irregularities. The Directors have reasonable expectations, after making enquiries and following a review of the Company's Budget for the ensuring year including cash flows and borrowing facilities, that the Company has adequate resources to continue in operational existence for the foreseeable future, and therefore has continued to adopt the going concern basis in preparing the financial statements.

The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other shareholders a soft copy each in a CD containing the Annual Report within the stipulated period of time as required by the Rule No. 7.5 (a) and (b) on Continuing Listing Requirements of the Listing Rules of the Colombo Stock Exchange.

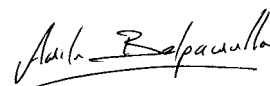
The Directors also wish to confirm that all shareholders in each category have been treated equitably in accordance with the original terms of issue.

Pursuant to provision of Article 154 (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Company and issue the final opinion on the Financial Statements of the Company. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on Pages 130 to 133 of this Annual Report.

Compliance Report

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

By Order of the Board,



A. Belpamulla

Company Secretary

31 August 2020
Colombo

Report of the Auditor General



ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



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My No. }

BAF/B/BOC-S/MBSL/2019

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Your No. }

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திகதி }
Date }

04 September 2020

The Chairman
Merchant Bank of Sri Lanka and Finance PLC

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Merchant Bank of Sri Lanka and Finance PLC for the year ended 31 December 2019 in terms of Section 12 of the National Audit Act, No. 19 of 2018

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Merchant Bank of Sri Lanka and Finance PLC (“the Company”) and the consolidated financial statements of the company and its subsidiary (“the Group”), which comprise the statement of financial position as at 31 December 2019, and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution will be tabled in due course. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2019 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

1.2 Basis for Opinion

I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor’s Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

1.3 Emphasis of Matter

I draw attention to Note 51.1 of the financial statements, which describes the Company’s level of compliance with stipulated minimum capital adequacy ratios, and the remedial actions taken by the Company there of. My opinion is not modified in respect of these matter.

1.4 Key Audit Matters

Key audit matters are those matters that, in my professional judgement, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of my audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor’s responsibilities for the audit of the financial statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.



Key audit matter	How my audit addressed the key audit matter
<p>Impairment Allowance for Loans & receivables at amortised cost:</p> <p>My audit considered impairment for Loans & receivables at amortised cost as a key audit matter. The materiality of the reported amounts of those balances (and impairment thereof), the subjectivity associated with management's impairment estimation, complex manual calculations of impairment underpinned my basis for considering it as a Key Audit Matter.</p> <p>As at 31 December 2019, 75% of total assets of the Group consisted of Loans & receivables at amortised cost amounting to LKR 28,974 Million (Note 23) net of impairment allowance of LKR 2,856 Million (Note 23).</p> <p>Significant estimates and assumptions used by the management in such calculations, their sensitivities and basis for allowance for impairment are disclosed in Note 3.5.12& Note 50.2.</p>	<p>I designed my audit procedures to obtain sufficient appropriate audit evidence on the reasonableness of the impairment allowance; that included the following procedures;</p> <ul style="list-style-type: none"> ▶ I evaluated the design, implementation and operating effectiveness of key internal controls over estimation of impairment for Loans & receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management. ▶ I evaluated the effectiveness of the Company's process around modifications to terms after initial granting, focusing on identification of rescheduled and restructured credit facilities. ▶ I test-checked the underlying calculations and data used in such calculations. <p>In addition to the above, following focused procedures were performed:</p> <p>For those individually assessed for impairment:</p> <ul style="list-style-type: none"> ▶ I assessed the main criteria used by the management for determining whether an impairment event had occurred. ▶ Where impairment indicators existed, I assessed the reasonableness of management's estimated future recoveries including the expected future cash flows and discount rates. I also compared the actual recoveries against previously estimated amounts of future recoveries. <p>For those collectively assessed for impairment:</p> <ul style="list-style-type: none"> ▶ I tested the completeness of the underlying information used in the impairment calculations by agreeing details to the source documents and information in IT systems. ▶ I also considered reasonableness of macro-economic and other factors used by management in their judgmental overlays, by comparing them with relevant publicly available data and information sources. ▶ I assessed the adequacy of the related financial statement disclosures as set out in Note 3.5.12, 50.2 and 23.
<p>Deferred Tax Asset of Subsidiary</p> <p>As detailed in Note 16.4.1 and Note 38.2 to the financial statements, the brought forward tax losses of the Merchant Bank of Sri Lanka Insurance Company Ltd (MBSLI), as of 31 December 2019 amounted to Rs. 1,804 Million. Deferred tax asset of the Group includes Rs. 264 Million recognized based on such tax losses.</p> <p>Management has exercised critical judgments and estimates described in Note 38.2 and Note 16.4, in estimating the Deferred Tax Asset as of the reporting date.</p> <p>Due to the significant assumptions and judgements involved, recognition and measurement of deferred tax asset relating to subsidiary is considered to be a key audit matter.</p>	<p>My procedures included the following;</p> <ul style="list-style-type: none"> ▶ Assessing the reasonableness of the estimates and judgements made by the management on the assessments of the recoverability of the Deferred Tax Asset by comparing industry data where applicable. ▶ Assessing the business plans used and thus the likelihood that taxable profits would be available to utilise the tax losses in the future. ▶ I independently assessed the future cash flows prepared by management and used my professional judgement corroborated with external information sources to make appropriate adjustments to the cash flows. ▶ Assessing the adequacy of disclosures stated in Note 38 and Note 16.4.

Report of the Auditor General Contd.



1.5 Other Information included in the 2019 Annual Report

Other information consists of the information included in the Annual Report, other than the financial statements and my auditor's report thereon. Management is responsible for other information.

My opinion on the financial statements does not cover the other information and I do not and will not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work I have performed, I conclude that there is a material misstatement of this other information, I am required to report that fact. I have nothing to report in this regard.

1.6 Responsibilities of the Management and Those Charged with Governance

Management is responsible for the preparation of financial statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the financial statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company.

1.7 Auditor's Responsibilities for the Audit of the Financial Statements

My objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- ▶ Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- ▶ Obtain an understanding of internal control relevant to the audit 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 internal control of the Company and the Group.
- ▶ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- ▶ Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- ▶ Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- ▶ Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.



I communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that I identify during the audit.

From the matters communicated with those charged with governance, I determine those matters that were of most significance in the audit of the financial statements of the current period and are therefore the key audit matters. I describe these matters in my auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, I determine that a matter should not be communicated in my report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

2. Report on Other Legal and Regulatory Requirements

National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007 include specific provisions for following requirements.

- ▶ I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of the section 163 (2) (d) of the Companies Act, No. 7 of 2007 and the section 12 (a) of National Audit Act, No. 19 of 2018.
- ▶ The financial statements of the Company comply with the requirement of the section 151 of the Companies Act, No. 07 of 2007.
- ▶ The financial statements presented is consistent with the preceding year as per the requirement of the section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.
- ▶ The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of the section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention;

- ▶ to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal cause of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.
- ▶ to state that the Company has not complies with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of the section 12 (f) of the National Audit Act, No. 19 of 2018 except for non-compliances that are material are given below,

Reference to Law/ Direction	Description
Direction No. 03 of 2018 issued by the Central Bank of Sri Lanka (Risk Weighted Average Capital Adequacy Requirements)	Non-compliance with the Risk Weighted Capital Adequacy Ratios as disclosed in Note 51.1 of the financial statements.

- ▶ to state that the Company has not performed according to its powers, functions and duties as per the requirement of the section 12 (g) of the National Audit Act, No. 19 of 2018.
- ▶ to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of the section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne
Auditor General

Statement Of Profit or Loss

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Income	4	150	6,839,015	6,549,905	7,023,770	6,710,903
Interest and similar income			6,532,729	6,194,937	6,650,029	6,260,825
Interest and similar expenses			(4,331,275)	(3,752,471)	(4,332,252)	(3,766,881)
Net interest income	5	151	2,201,454	2,442,466	2,317,777	2,493,944
Fee and commission income			208,928	210,175	204,588	210,048
Fee and commission expenses			(25,847)	(2,033)	(26,673)	(7,637)
Net fee and commission income	6	152	183,081	208,142	177,915	202,411
Insurance premium income	7	153	-	-	50,883	69,960
Net claims and benefits	8	154	-	-	(23,448)	(76,602)
Net trading income	9	154	9,652	(2,337)	9,652	(2,337)
Net gain/(loss) on financial instruments at fair value through profit or loss	10	155	18,768	(29,999)	21,017	(29,394)
Other operating income	11	155	68,938	177,129	87,601	201,801
Total operating income			2,481,893	2,795,401	2,641,397	2,859,783
Impairment charges for loans and other losses	12	156	(279,673)	(134,531)	(279,673)	(135,630)
Net operating income			2,202,220	2,660,870	2,361,724	2,724,153
Personnel expenses	13	157	(1,143,504)	(1,096,230)	(1,235,808)	(1,180,570)
Depreciation and amortisation	14	158	(278,100)	(119,806)	(294,362)	(132,776)
Other operating expenses	15	159	(700,713)	(789,583)	(807,499)	(904,790)
Total operating expenses			(2,122,317)	(2,005,619)	(2,337,669)	(2,218,136)
Operating profit before VAT on financial services and impairment of investment in group companies'			79,903	655,251	24,055	506,017
Impairment reversal/(charge) of investment in subsidiary	28.6	195	270,692	58,160	-	-
Impairment reversal/(charge) of investment in associate	27	192	(5,058)	-	-	-
Profit from operations after impairment of investment in group companies'			345,537	713,411	24,055	506,017
Taxes on financial services	16.1	159	(288,343)	(266,735)	(288,343)	(266,735)
Share of associate company's profit/(loss) before tax	27.1	192	-	-	(8,263)	(8,360)
Profit before income tax			57,194	446,676	(272,551)	230,922
Income tax (expense)/reversal	16.2	160	45,390	(265,391)	(196,019)	240,803
Profit for the year			102,584	181,285	(468,570)	471,725
Profit for the year attributable to:						
Equity holders of the parent			102,584	181,285	(346,162)	415,031
Non-controlling interests			-	-	(122,408)	56,694
Profit for the year			102,584	181,285	(468,570)	471,725
Earnings per share:						
Basic/diluted earning per share (Rs.)	17	163	0.62	1.09	(2.09)	2.50

Figures in brackets indicate deductions.

The accounting policies and notes on page 140 to 239 form an integral part of the Financial Statements.

31 August 2020
Colombo, Sri Lanka

Statement Of Comprehensive Income

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit/(loss) for the year			102,584	181,285	(468,570)	471,725
Other comprehensive income/(expenses)						
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):						
Gains/(Losses) on re-measuring financial investments at fair value through other comprehensive income			3,299	(14,038)	15,663	(21,543)
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods			3,299	(14,038)	15,663	(21,543)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):						
Actuarial gains/(losses) on defined benefit plans	40	211	(30,822)	27,670	(33,406)	36,329
Share of associates company's other comprehensive income	27.1	192	-	-	(65)	378
Deferred tax effect relating to components of other comprehensive income	16.2	160	8,630	(12,750)	8,630	(12,750)
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			(22,192)	14,920	(24,841)	23,957
Other comprehensive income/(expenses) for the year, net of tax			(18,893)	882	(9,178)	2,414
Total comprehensive income/(expenses) for the year, net of tax			83,691	182,167	(477,748)	474,138
Total comprehensive income/(expenses) attributable to:						
Equity holders of the parent			83,691	182,167	(359,858)	417,262
Non controlling interests			-	-	(117,890)	56,876
Total comprehensive income/(expenses) for the year, net of tax			83,691	182,167	(477,748)	474,138

Figures in brackets indicate deductions.

The accounting policies and notes on page 140 to 239 form an integral part of the Financial Statements.

31 August 2020

Colombo, Sri Lanka

Statement of Financial Position

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Assets						
Cash and cash equivalents	20	168	1,355,785	1,587,292	2,178,946	1,832,705
Placements with banks & financial institutions	21	170	1,477,103	670,575	2,126,932	774,575
Financial investments at						
fair value through profit or loss	22	171	945,199	267,106	955,040	274,700
Loans & receivables at amortised cost	23	182	29,228,215	30,721,147	28,973,785	30,485,412
Financial investments at fair value through						
other comprehensive income	24	189	1,216,478	1,180,998	1,954,350	1,850,320
Financial investments at amortised cost	25	191	1,513	60,828	1,513	60,828
Real estate stock	26	191	297,075	78,503	297,075	78,503
Investment in associate company	27	192	76,026	81,084	76,026	84,415
Investment in subsidiary	28	193	849,968	79,276	-	-
Investment properties	29	196	117,276	120,181	117,276	120,181
Property, equipment and right-of-use assets	30	199	895,799	320,113	928,706	334,493
Intangible assets	31	201	180,255	193,121	187,460	205,681
Deferred tax assets	38	208	-	-	264,901	506,249
Other assets	32	202	334,431	299,303	551,755	497,507
Total assets			36,975,123	35,659,527	38,613,765	37,105,569
Liabilities						
Due to banks	33	203	7,749,021	5,869,317	7,749,807	5,872,471
Due to customers at amortised cost	34	204	22,755,930	20,831,021	22,755,930	20,821,606
Debt issued and borrowed funds at amortised cost	35	205	2,466,268	5,331,077	2,466,268	5,331,077
Insurance contract liabilities-life	36.1	206	-	-	546,253	574,399
Insurance contract liabilities-non life	36.2	207	-	-	383,164	336,825
Current tax liabilities	37	207	14,851	424	14,851	424
Deferred tax liabilities	38	209	212,520	340,444	212,520	340,444
Other liabilities	39	209	897,039	515,432	1,147,789	730,364
Retirement benefits obligations	40	211	271,699	247,708	283,558	256,644
Total liabilities			34,367,328	33,135,423	35,560,140	34,264,254

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Equity						
Stated capital	41	212	2,124,457	2,124,457	2,124,457	2,124,457
Statutory reserves	42.1	213	234,613	214,096	234,613	214,096
Retained earnings	42.2	213	252,887	193,012	105,125	457,806
OCI reserve	42.3	213	(4,162)	(7,461)	(9,099)	(19,051)
Total equity attributable to equity holders of the parent			2,607,795	2,524,104	2,455,096	2,777,308
Non controlling interests			-	-	598,529	64,007
Total equity			2,607,795	2,524,104	3,053,625	2,841,315
Total liabilities and equity			36,975,123	35,659,527	38,613,765	37,105,569
Commitments and contingent liabilities	49	220	121,337	124,250	190,086	177,350
Net assets value per share (Rs.)			15.72	15.22	14.80	16.74

These Financial Statements have been prepared in compliance with the requirements of the companies act no. 7 of 2007.



P. I. Kandanaarachchi

Head of Finance



J. Gamalath

Acting Chief Executive Officer

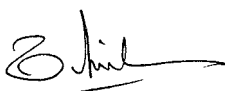
The board of directors is responsible for the preparation and presentation of these Financial Statements.

Approved and signed for and on behalf of the board by;



A. M. A. Perera

Director



W. P. R. P. H. Fonseka

Director

Figures in brackets indicate deductions.

The accounting policies and notes on page 140 to 239 form an integral part of the Financial Statements.

31 August 2020

Colombo, Sri Lanka

Statement of Changes in Equity

Company	Stated capital Rs.'000	Statutory reserves Rs.'000	OCI reserve Rs.'000	Retained earnings Rs.'000	Total equity Rs.'000
Balance as at 01 January 2018	2,124,457	177,839	6,577	924,947	3,233,820
Impairment adjustment as per SLFRS 9	-	-	-	(1,093,454)	(1,093,454)
01 day impact to deferred tax under SLFRS 9	-	-	-	201,571	201,571
Balance as at 01 January 2018 after the restatement	2,124,457	177,839	6,577	33,064	2,341,937
Net profit for the year	-	-	-	181,285	181,285
Other comprehensive income, net of tax	-	-	(14,038)	14,920	882
Transfers to statutory reserve fund	-	36,257	-	(36,257)	-
Balance as at 31 December 2018	2,124,457	214,096	(7,461)	193,012	2,524,104
Balance as at 01 January 2019	2,124,457	214,096	(7,461)	193,012	2,524,104
Net profit for the year	-	-	-	102,584	102,584
Other comprehensive income, net of tax	-	-	3,299	(22,192)	(18,893)
Transfers to statutory reserve fund	-	20,517	-	(20,517)	-
Balance as at 31 December 2019	2,124,457	234,613	(4,162)	252,887	2,607,795

Group	Stated capital Rs.'000	Statutory reserves Rs.'000	OCI reserve Rs.'000	Retained earnings Rs.'000	Non controlling interests Rs.'000	Total equity Rs.'000
Balance as at 01 January 2018	2,124,457	177,839	1,300	948,415	7,145	3,259,156
Impairment adjustment as per SLFRS 9	-	-	-	(1,093,535)	(15)	(1,093,550)
Transfers to statutory reserve fund	-	-	-	201,571	-	201,571
Balance as at 01 January 2018 after the restatement	2,124,457	177,839	1,300	56,451	7,130	2,367,177
Net profit for the year	-	-	-	415,031	56,694	471,725
Other comprehensive income, net of tax	-	-	(20,351)	22,581	183	2,413
Transfers to statutory reserve fund	-	36,257	-	(36,257)	-	-
Balance as at 31 December 2018	2,124,457	214,096	(19,051)	457,806	64,007	2,841,315
Balance as at 01 January 2019	2,124,457	214,096	(19,051)	457,806	64,007	2,841,315
Acquisition, disposal and changes in non-controlling interest	-	-	-	37,645	652,412	690,057
Net profit for the year	-	-	-	(346,162)	(122,408)	(468,570)
Other comprehensive income, net of tax	-	-	9,952	(23,647)	4,518	(9,177)
Transfers to statutory reserve fund	-	20,517	-	(20,517)	-	-
Balance as at 31 December 2019	2,124,457	234,613	(9,099)	105,125	598,529	3,053,625

Figures in brackets indicate deductions.

The accounting policies and notes on page 140 to 239 form an integral part of the Financial Statements.

Statement of Cash Flows

Accounting Policy

The Statement of Cash Flows has been prepared by using the 'Indirect Method' of preparing cash flow in accordance with the Sri Lanka Accounting Standard-LKAS 7 on 'Statement of Cash Flows', whereby operating activities, investing activities and financing activities are separately recognised. Cash and cash equivalents comprise of short-term, highly liquid investments that are readily convertible to known amounts of cash and are subject to an insignificant risk of changes in value. Cash and cash equivalents as referred to in the statement of cash flows is comprised of those items as explained in note 20 on page 168.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Cash flows from operating activities						
Profit before income tax			57,194	446,676	(272,551)	230,922
Adjustments for :						
Change in operating assets	43.1	213	432,151	(3,329,180)	407,185	(2,923,951)
Change in operating liabilities	43.2	214	2,175,382	(1,040,378)	2,238,421	(1,144,020)
Share of associate company's profit/(loss) before tax	27.1	192	-	-	8,263	8,360
Contribution to defined benefit plans	40.1	211	51,652	45,862	54,220	49,424
Other non-cash items included in profit before tax	43.3	214	173,347	89,393	447,360	162,541
Dividends received	11	155	(9,043)	(9,192)	(10,726)	(11,379)
			2,880,683	(3,796,819)	2,872,172	(3,628,103)
Gratuity paid	40	211	(58,483)	(33,471)	(60,712)	(39,451)
Net cash generated from/(used in) operating activities before income tax			2,822,200	(3,830,290)	2,811,460	(3,667,554)
Tax paid	37	207	-	-	-	-
Net cash generated from/(used in) operating activities			2,822,200	(3,830,290)	2,811,460	(3,667,554)
Cash flows from investing activities						
Purchase of financial assets designated at FVTPL			(1,216,805)	(218,384)	(1,216,803)	(218,385)
Proceeds from disposal of financial assets designated at FVTPL			567,132	150,206	567,132	150,206
Purchase of financial investments			(1,722,496)	(183,934)	(1,778,682)	(483,722)
Proceeds from sale and maturity of financial investments			1,761,567	1,278,534	1,761,567	1,278,534
Net increase/(decrease) in other investment			(806,528)	839,022	(1,352,357)	823,210
Purchase of property & equipment	30	199	(139,668)	(89,020)	(152,719)	(89,020)
Purchase of intangible assets	31	201-202	(24,011)	(4,469)	(24,010)	(4,469)
Investment in Subsidiary from parent and other parties			(500,000)	-	700,000	-
Proceeds from sale of property & equipment			3,164	95,193	7,400	97,725
Dividend received			9,043	9,192	10,726	11,379
Net cash used in investing activities			(2,068,602)	1,876,340	(1,477,746)	1,565,458
Cash flows from financing activities						
Net increase/(decrease) reverse repo and repo agreements			767,301	(270,778)	767,301	(270,778)
Net increase/(decrease) in other borrowings at amortised cost			545,746	3,364,722	545,746	3,364,722
Payments on redemption of debentures	35.3	205	(2,122,912)	(1,658,309)	(2,122,912)	(1,658,309)
Net cash used in financing activities			(809,865)	1,435,635	(809,865)	1,435,635
Net decrease in cash and cash equivalents during the year			(56,267)	(518,315)	523,849	(666,461)
Cash and cash equivalents at the beginning of year			1,079,067	1,597,784	1,321,326	1,988,189
Impairment charges of cash and cash equivalents			-	(402)	-	(402)
Cash and cash equivalents at the end of year			1,022,800	1,079,067	1,845,175	1,321,326
Analysis of cash and cash equivalents at the end of the year						
Cash and short-term funds	20	168	1,355,785	1,587,292	2,178,946	1,832,705
Dues to banks	33.1	203	(332,985)	(508,225)	(333,771)	(511,379)
			1,022,800	1,079,067	1,845,175	1,321,326

Figures in brackets indicate deductions.

The accounting policies and notes on pages 140 to 239 form an integral part of the Financial Statements.

Notes to The Financial Statements

1 Corporate Information

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

1.1 Reporting Entity

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

Number of Employees

The staff strength of the Company and the Group as at 31 December 2019 were 1,000 and 1,166 respectively. (1,023 and 1,152 as at 31 December 2018)

1.2 Consolidated Financial Statements GRI 102-45

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31 December 2019, comprise the Company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

Parent Entity & Ultimate Parent Entity GRI 102-5

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

1.3 Group Information

Ownership by the Company in its Subsidiary and Associate.



Principal Activities and Nature of Operations

Entity	Principal business activities
Company	
Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit, corporate advisory services, capital market operations, margin trading, micro financing, agricultural credit facilities, real estate, pawning operations, Islamic finance and accepting of savings and fixed deposits.
Subsidiary	
MBSL Insurance Company Limited	Underwriting of all classes of life and general insurance.
Associate	
Lanka Securities (Pvt) Limited	Registered stock broker which engages in equity trading, debt trading and margin trading.

There were no significant changes in the nature of the principal activities of the Company and the Group during the financial year under review.

1.4 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended 31 December 2019 (including comparatives) were approved and authorized for issue on 31 August 2020 in accordance with the resolution of the Board of Directors on 31 August 2020.

2 Basis of Preparation

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

2.1 Basis of Preparation and Other Significant Accounting Policies

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

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

2.2 Statement of Compliance

The consolidated Financial Statements of the Group and the Separate Financial Statements of the Company, as at 31 December 2019 and for the year ended, have been prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No.42 of 2011, Regulation of Insurance Industry Act No.43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

- ▶ Statement of Profit or Loss and Statement of Comprehensive Income providing the information on the financial performance of the Company and the Group for the year under review (Refer pages 134 to 135);

- ▶ The Statement of Financial Position providing the information on the financial position of the Company and the Group as at year end (Refer pages 136 to 137);
- ▶ The Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer page 138);
- ▶ The Statement of Cash Flows providing the information to the users, on the ability of the Company and the Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 139); and
- ▶ Notes to the Financial Statements comprising accounting policies and other explanatory information (Refer pages 140 to 239)

2.3 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility in relation to the Financial Statements, as set out in the 'Statement of Directors' Responsibility for Financial Reporting', 'Annual Report of the Board of Directors on the Affairs of the Company' and in the certification on the Statement of Financial Position on pages 136 to 137.

2.4 Basis of Measurement

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

Item	Basis of measurement	Note no./s	Page reference
Financial investments at fair value through profit or loss	Fair value	22	181
Loans & receivables at amortised cost /Financial Investments- at amortised cost	Amortised cost	23,25	182,191
Financial investments at fair value through other comprehensive income (Financial Investments-OCl)	Fair value	24	188
Retirement benefits obligations	Retirement benefits obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to date.	40	210
Financial Liabilities at amortised cost	Amortised cost	34,35	204,205
Freehold land and buildings and buildings on leasehold lands are measured at	Cost less any subsequent accumulated depreciation and impairment losses.	29	196

2.5 Functional and Presentation Currency

The Financial Statements of the Company and the Group are presented in Sri Lankan Rupees, which is the currency of the economic environment in which the Company and the Group operates.

2.6 Presentation of Financial Statements

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

2.7 Use of Materiality, Offsetting and Rounding

Materiality & Aggregation

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

Offsetting

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

Rounding

"The amounts in the Financial Statements have been rounded off to the nearest Rupees thousand, (Rs.'000) except where otherwise indicated Sri Lanka Accounting Standards - LKAS 01 - 'Presentation of Financial Statements'.

2.8 Summary of Significant Accounting Judgments, Estimates and Assumptions

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

Notes to The Financial Statements Contd.

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

- ▶ Impairment losses on non-financial assets - Note No. 28,29,30,31
- ▶ Deferred tax liabilities - Note No. 38
- ▶ Provision for impairment of loans and advances - Note No. 23
- ▶ Retirement benefits obligation - Note No. 40
- ▶ Provision and contingent liabilities - Note No. 49

2.8.1 Going Concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group 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 Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.8.2 Events After the Reporting Period

Events after the reporting period are those events, favorable and unfavorable, that occur between the reporting date and the date on which the Financial Statements are authorized for issue.

2.9 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year. The Company/ Group has not restated the comparative information for contracts within the scope of Sri Lanka Accounting Standard – SLFRS 16 on “Leases” (SLFRS 16). Therefore, the

comparative information is reported under Sri Lanka Accounting Standard – LKAS 17 on “Leases” (LKAS 17) and is not comparable with the information presented for 2019.

3 Significant Accounting Policies

3.1 Basis of Consolidation

The Consolidated Financial Statements for the year ended 31 December 2019 comprise the Financial Statements of the Company (Parent Company) and its subsidiary (together referred to as the ‘Group’) and the Company's interest in associate company as per the requirements of Sri Lanka Financial Reporting Standard - SLFRS 10 - ‘Consolidated Financial Statements’ and Sri Lanka Accounting Standard LKAS 27 - “Consolidated and Separate Financial Statements” and the proportionate share of the profit or loss and net assets of it's Associates as per the requirements of Sri Lanka Accounting Standard - LKAS 28 - ‘Investment in Associates and Joint Ventures’. The Financial Statements of all companies in the Group have common financial year which ends on 31 December, and use consistent accounting policies.

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

3.2 Business Combination and Goodwill

Business combinations are accounted for using the acquisition method as per requirements of Sri Lanka Financial Reporting Standard - SLFRS 03 - ‘Business Combinations’.

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

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

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

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

3.3 Common Control Business Combination

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

Accordingly,

- ▶ The net assets of the combining entities are consolidated using the existing book values.
- ▶ No amount is recognised as goodwill which arise as a result of difference between the consideration and net assets acquired.
- ▶ Comparative amounts in the Financial Statements are restated as if the companies had been combined at the previous financial position date.

3.3.1 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the

loss of control is recognised in the Statement of Profit or Loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.3.2 Transactions Eliminated on Consolidations

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

3.4 Foreign Currency

3.4.1 Foreign Currency Transactions and Balances

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

Monetary assets and liabilities denominated in foreign currency are re-translated to the functional currency equivalents at the spot exchange rate prevailing at the financial position date.

The gains or losses arising on translation of monetary items are recognised in the Statement of Profit or Loss.

3.5 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

3.5.1 Date of Recognition

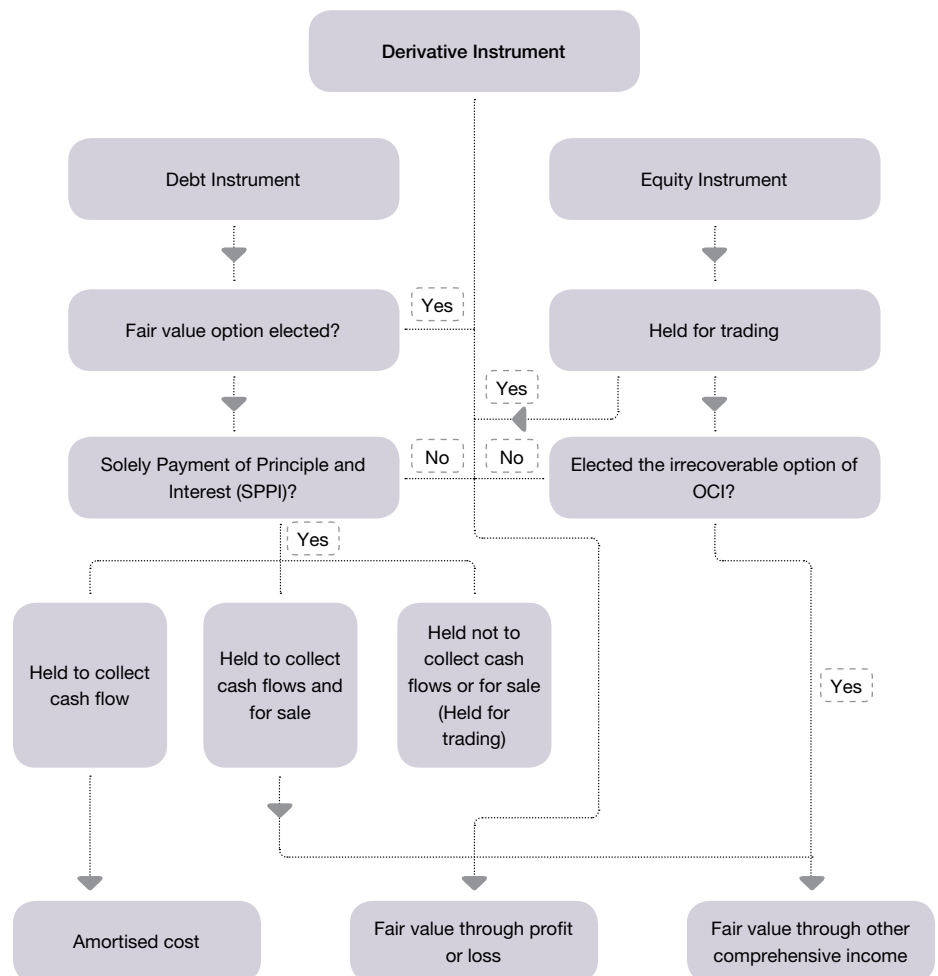
Financial assets and financial liabilities are initially recognised when a Group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets are recognised and de-recognised on a trade date basis. Regular way purchases or sales are purchases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

Classification of financial instruments between debt and equity depends on following characteristics of such instruments:

- ▶ Name or labels given to the instruments
- ▶ Presence or absence of a fixed maturity date
- ▶ Life of the instrument
- ▶ Source of payments
- ▶ Right to enforce payments
- ▶ Rights to participate in management
- ▶ Risk involved in the instruments
- ▶ Volatility of cash flows
- ▶ Securities given as collaterals

3.5.2 Classification and Measurement

To determine their classification and measurement category, SLFRS 9 requires all financial assets, except equity instruments and derivatives, to be assessed based on a combination of the entity's business model for managing the assets and the instruments' cash flow characteristics.



Notes to The Financial Statements Contd.

3.5.3 Effective Interest Method (EIR)

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

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as fair value through profit or loss.

3.5.4 Financial Investments at Fair Value Through Profit or Loss (FVTPL)

Details of "Financial investments at fair value through profit or loss (FVTPL)" are given in Note No. 22 on page 171.

3.5.5 Loans & Receivables at Amortised Cost

Details of "Loans & receivables at amortised cost" are given in Note No. 23 on pages 181 to 188.

3.5.6 Financial Investments at Amortised Cost

Details of "Financial investments at amortised cost" are given in Note No. 25 on page 191.

3.5.7 Financial Investments at Fair Value Through Other Comprehensive Income (FVTOCI)

Details of "Financial investments at fair value through other comprehensive income" are given in Note No. 24 on pages 188 to 190.

3.5.8 Classification & Subsequent Measurement of Financial Liabilities

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

- ▶ Financial liabilities designated at fair value through profit or loss
- ▶ Financial liabilities at amortised cost
- ▶ Due to customers at amortised cost
- ▶ Debt issued and borrowed funds at amortised cost

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

3.5.8.1 Financial Liabilities Designated at Fair Value Through Profit or Loss

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

Financial liabilities at fair value through profit or loss are recorded in the Statement of Financial Position at fair value. Interest arose is accrued in 'Interest expense', using the EIR.

3.5.8.2 Financial Liabilities at Amortised Cost

Financial instruments issued by the Company and the Group that are not designated at fair value through profit or loss, are classified as financial liabilities at amortised cost.

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

3.5.9 Initial Measurements of Financial Instruments

Financial assets and liabilities are initially measured at their fair value plus transaction cost, except in the case of financial assets and liabilities recorded at fair value through profit or loss. Transaction cost in relation to financial assets and liabilities at fair value through profit or loss are dealt with in the Statement of Profit or Loss.

3.5.10 Business Model Assessment

Company and the Group determines it's business model at the level that best reflects how it manages the financial assets to achieve it's objectives. The Company's and the Group's business model is not assessed on an instrument by instrument basis, but at a higher level of aggregated portfolios and is based on observable factors such as :

- ▶ How the performance of the business model and the financial asset held within that business model are evaluated and reported to the Group's key Management personnel.
- ▶ The risks that affects the performance of the business model (and the financial asset held within that business model) and, in particular, the way those are managed.
- ▶ How managers of the business are compensated (for example, whether the compensation is based on the fair value of the assets managed or on the contractual cash flow collected).
- ▶ The expected frequency, value and timing of sales are also important aspect of Company and Group's assessment.

The business model assessment is based on reasonably expected scenarios without taking 'Worst Case' or 'Stress Case' scenarios in to account. If cash flows after initial recognition are realized in away that is different from the Company's and the Group's original expectation, the Company and the Group does not change the classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

3.5.11 Contractual Cash Flow Characteristic Test

As the second test of the classification process the Company and the Group assesses the contractual terms of the financial asset to identify whether they meet Solely the Payment of Principle & Interest (SPPI).

Principle' for the purpose of this test is defined as the fair value of the financial asset at initial recognition and may change over the life of the financial asset (for example, if there are repayments of principle or amortisation of the premium/discount).

The most significant elements of interest within a lending arrangement are typically the consideration for the time value of money and credit risk. To make SPPI assessment, the Company and the Group applies judgment and considers relevant factors such as currency in which the financial asset is denominated and the period for which the interest rate is set.

In contrast to contractual exposures that introduce a more than demonisms exposure to risk or volatility in the contractual cash flows that are unrelated to a basic lending arrangement do not give rise to contractual cash flows that are solely the payment of principle and interest on the amount outstanding. In such cases the financial asset is required to be measured at FVTPL.

3.5.12 Impairment of Financial Assets

3.5.12.1 Overview of Expected Credit Loss Principle (ECL)

ECL allowance is based on credit losses expected to arise over the life of the asset (Lifetime Expected Credit Loss or 'LTECL'), unless there has been no significant increase in credit risk since origination in which case the loss allowance will be 12month expected credit loss (12mECL).

12mECL is the portion of LTECL that represent the ECL that results from default events on a financial instrument that are possible within 12months. after the reporting date

The Company has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below :

- ▶ **Stage 1** : When loans are first recognised, the Company recognises an allowance based on 12mECL. Stage 1 loans also include the facilities where the credit risk has improved and the loans has been re-classified from Stage 2. Assessment of Stage 1 will be performed collectively.
- ▶ **Stage 2** : When a loan has shown a significant increase in credit risk since origination, the Company records an allowance for the LTECL. Stage 2 loans also include facilities, where the credit risk has improved and the loan has been reclassified from stage 3. Assessment of stage 3 will be performed collectively.
- ▶ **Stage 3** : Loan considered to be credit Impaired/contains objective evidence of incurred losses records an allowance for the LTECL. Stage 3 assessment will be performed Individual/Collectively.

3.5.12.2 Significant Increase in Credit Risk

The Company continuously monitors all assets subject to ECL, in order to determine whether an instrument or a portfolio of instruments is subject to 12mECL or LTECL, the Company assess whether there has been a significant increase in credit risk since initial recognition. The Company considers an exposure to have significantly increased in credit risk when the either of the following criteria are met :

- ▶ Facilities exceeding 30 days past due
- ▶ Counterparties/facilities reflected coded any elevated risk industries as per the assessment performed by the Credit Risk Management Team.
- ▶ Re-structured facilities
- ▶ Secondary qualitative indicators triggering a significant increase in credit risk for an asset, such as moving a customer/facility to watch list.

3.5.12.3 Individually Significant Assessment and Not Impaired Individually

Individual assessment will be performed for all the customers with objective evidence of incurred losses (under stage 3). Loans which are individually significant but not impaired will be assessed collectively for impairment either under stage 1 or stage 2 based on the criteria whether there have been significant credit deterioration since origination.

While establishing significant credit deterioration the Company will consider the following criteria :

- ▶ Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- ▶ Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- ▶ Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- ▶ An actual/expected internal credit rating downgrade for the borrower or decrease in behavioral score used to assess credit risk internally.

- ▶ Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet it's obligation.
- ▶ An actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing, liquidity management problems.
- ▶ Significant increase in credit risk on other financial instruments of the same borrower.
- ▶ An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

3.5.12.4 Grouping Financial Assets Measured on a Collective Basis

As explained above, the Company calculates ECL either on collective or individual basis. Asset classes where the Company calculates ECL on an individual basis includes all individually significant assets which are belong to stage 3. All assets which belong stage 1 & 2 will be assessed collectively for impairment.

The Company groups these exposures for smaller homogenous exposures, based on a combination of internal and external characteristics of the loan as described below :

- ▶ Product Type
- ▶ Type of Collateral
- ▶ Days Past Due

3.5.12.5 The Calculation of ECL

The Company calculates ECL based on 3 probability weighted scenarios to measure expected cash shortfalls, discounted at an approximation to the EIR.

A cash shortfall is the difference between the cash flows that are due to an entity in accordance with the contract and the cash flows that the entity expects to receive.

Notes to The Financial Statements Contd.

The Mechanics of the ECL Calculation are Outlined Below and the Key Elements are as Follows :

- ▶ **PD** : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.
- ▶ **EAD** : Exposure at Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.
- ▶ **LGD** : Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realisation of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, the Company considers 3 scenarios (Base Case, Best Case & Worst Case). Each of these scenarios associated with different loss rates. For all products the Company considers the maximum period of which the credit losses are determined is the contractual life of a financial instrument.

3.5.12.6 Forward Looking Information

In it's ECL model the Company relies on broad range qualitative/quantitative forward looking information as economic input such as :

Quantitative	Qualitative
▶ GDP Growth	▶ Government Policies
▶ Inflation	▶ Status of the Industry Business
▶ Unemployment	▶ Regulatory Impact
▶ Interest Rates	
▶ Exchange Rates	

3.5.13 De-recognition of Financial Assets and Financial Liabilities

3.5.13.1 Financial Assets

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

- ▶ The rights to receive cash flows from the asset have expired; or
- ▶ The Company and the Group 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 and the Group has transferred substantially all the risks and rewards of the asset; or
 - ▶ The Company and the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

On de-recognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset transferred), and consideration received (including any new asset obtained less any new liability assumed) and any cumulative gain or loss that had been recognised in the Other Comprehensive Income is recognised in the Statement of Profit or Loss.

When the Company and the Group 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 and the Group's continuing involvement in the asset. In that case, the Company and the Group 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 and the Group 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 and the Group could be required to repay.

3.5.13.2 Financial Liabilities

A financial liability is de-recognised when the obligation under the liability is discharged or cancelled or expired. When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a de-recognition of the original liability and the recognition of a new liability. The difference between the carrying value of the original financial liability and the consideration paid is recognised in the Statement of Profit or Loss.

3.5.14 Offsetting of Financial Instruments

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

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

3.5.15 Determination of Fair Value

The fair value for financial instruments traded in active markets at the Statement of Financial Position date is based on their quoted market price without any deduction for transaction costs.

For all other financial instruments not traded in an active market, the fair value is determined by using appropriate valuation techniques. Valuation techniques include the discounted cash flow method, comparison to similar instruments for which market observable prices exist and other relevant valuation models.

Certain financial instruments are recorded at fair value using valuation techniques in which current market transactions or observable market data are not available. Their fair value is determined using valuation models with the Group's best estimate of the most appropriate model assumptions.

3.6 Impairment of Non-Financial Assets

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

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

Impairment losses are recognised immediately in the Statement of Profit or Loss. For assets excluding goodwill, an assessment is made at each reporting date to determine 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 Group estimates the asset's or CGU's recoverable amount. Previously recognised impairment losses are reversed only if there has been a change in the assumptions used to determine the recoverable amount of the asset since the last impairment loss was 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, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.7 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow

of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 - 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimate of the consideration required to settle the present obligation at the Statement of Financial Position Date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

3.8 SLFRS 15 - 'Revenue from Contracts with Customers'

The core principle of SLFRS 15 is that an entity has to recognize revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as disclosed below.

- ▶ Identify the contract(s) with a Customer
- ▶ Identify the performance obligations in the contract
- ▶ Determine the transaction Price
- ▶ Allocate the transaction price to the performance obligations in the contract
- ▶ Recognize revenue when the entity satisfies a performance obligation

3.9 Significant Accounting Policies that are Specific to the Business of the Subsidiary – MBSL Insurance Company Limited

3.9.1 Deferred Expenses

3.9.1.1 Deferred Acquisition Costs (DAC)

The costs of acquiring new businesses including commission, underwriting, marketing and policy issue expenses, which vary with and directly related to production of new businesses and/or investment contracts with DPF, are deferred to the extent that these costs are recoverable out of future premiums. All other acquisition costs are recognised as an expense when incurred. Subsequent to initial recognition, DAC for general insurance is amortised over the period on the basis unearned premium is amortised. The reinsurances' share of deferred acquisition cost is amortised in the same manner as the underlying asset amortization is recorded in the Statement of Profit or Loss.

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortization period and are treated as a change in an accounting estimate.

DAC are derecognised when the related contracts are either expired or cancelled.

3.9.1.2 Deferred Expenses - Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised.

3.9.2 Reinsurance

The subsidiary-MBSL Insurance (MBSLI) cedes insurance risk in the normal course of business for all of its businesses. Reinsurance assets represent balances due from reinsurance companies. Amounts recoverable from reinsurers are estimated in a manner consistent with the outstanding claims provision or settled claims associated with the reinsurer's policies and are in accordance with the related reinsurance contract.

Reinsurance assets are reviewed for impairment at each reporting date or more frequently when an indication of impairment arises during the reporting year. Impairment occurs when there is objective evidence as a result of an event that occurred after initial recognition of the reinsurance asset that the MBSLI may not receive all outstanding amounts due under the terms of the contract and the event has a reliably measurable impact on the amounts that the MBSLI will receive from the reinsurer. The impairment loss is recorded in the Statement of Profit or Loss.

The subsidiary-MBSLI also assumes reinsurance risk in the normal course of business for life insurance and non-life insurance contracts where applicable. Premiums and claims on assumed reinsurance are recognised as revenue or expenses in the same manner as they would be if the reinsurance were considered direct business, taking into account the product classification of the reinsured business. Reinsurance liabilities represent balances due to reinsurance companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

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Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance. Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.9.3 Insurance Contract Liabilities

3.9.3.1 Life Insurance Contract Liabilities

These liabilities are measured by using the gross premium valuation method as prescribed by the Regulation of Insurance Industry ACT, No. 43 of 2000. The liability is determined as the discounted value of the expected contractual cash outflows less the discounted value of the expected premiums. Valuation assumptions are derived based on the best estimate experience with a prescribed risk margin to allow for adverse deviations.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a liability adequacy test.

Liability Adequacy Test (LAT)

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is adequate to meet future benefits and expenses.

Any deficiency is recognised in the Statement of Profit or Loss by setting up a provision for liability adequacy.

3.9.3.2 Non-Life Insurance Contract Liabilities

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a

margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognised as premium income. At each reporting date the company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognised in the Statement of Profit or Loss by setting up a provision for liability adequacy.

3.9.3.3 Investment Contract Liabilities

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

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

Deposits and withdrawals are recorded directly as an adjustment to the liability in the Statement of Financial Position. Fair value adjustments are performed at each reporting date and are recognised in the Statement of Comprehensive Income. Fair value is determined through the use of prospective discounted cash flow techniques. For unitized contracts, fair value is calculated as the number of units allocated

to the policy holder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit-prices at the reporting date are valued on a basis consistent with their measurement basis in the Statement of Financial Position adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

Non-unitized contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modeling. Models are validated, calibrated and periodically reviewed by an independent qualified person.

"The liability is derecognised when the contract expires, is discharged or is cancelled. For a contract that can be cancelled by the policyholder, the fair value cannot be less than the surrender value.

When contracts contain both a financial risk component and a significant insurance risk component and the cash Flows from the two components are distinct and can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance.

3.9.4 Discretionary Participation Features (DPF)

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

3.10 Leases (Policy applicable before 1 January 2019)

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

3.10.1 Company as a lessee

Company as a lessee Leases that do not transfer to the Company substantially all of the risks and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the income statement on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they it is incurred.

3.10.2 Company as a lessor

Company as a lessor Leases where the Company does not transfer substantially all of the risk and benefits of ownership of the asset are classified as operating leases. Rental income is recorded as earned based on the contractual terms of the lease in Other operating income. Initial direct costs incurred in negotiating operating leases are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.11 SLFRS-16 Leases (Policy applicable as of 1 January 2019)

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

3.11.1 Company as a lessee

Company as a lessee The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 30-Property, equipment and right-of-use assets and are subject to impairment in line with the Company's policy as described in Note 3.6, Impairment of non-financial assets.

Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

3.11.2 Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

3.11.3 Sensitivity of right-of-used assets/lease liability to key assumptions

Sensitivity discount rates

1% increase/(decrease)in discount rate as at 31st December 2019 would have (decreased)/increased the lease liability by approximately Rs. 14 Mn with a similar(decrease)/increase in the right-of-used asset. Had the Company(decreased)/increased the discount rate by 1% , The Company's profit before tax for the year would have increased/(decreased) by approximately Rs.1 Mn.

The following are the amounts recognized in profit or loss

	2019 Rs.'000
Depreciation expense of right of used assets	149,439
Interest expense on lease liabilities	71,658
	221,097

The Company had total cash outflows for leases of Rs. 181 Mn.

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Specific Accounting Policies and Notes

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

4 Income**Accounting Policy**

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

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Interest and similar income	6,532,729	6,194,937	6,650,029	6,260,825
Fee and commission income	208,928	210,175	204,588	210,048
Insurance premium income	-	-	50,883	69,960
Net trading gain/(loss)	9,652	(2,337)	9,652	(2,337)
Net gain/(loss) on financial instruments at fair value through profit or loss	18,768	(29,999)	21,017	(29,394)
Other operating income	68,938	177,129	87,601	201,801
	6,839,015	6,549,905	7,023,770	6,710,903

5 Net Interest Income**Accounting Policy**

Interest income and expense are recognised in the Statement of Profit or Loss using the effective interest rate (EIR) method.

The EIR is the Rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or when appropriate, shorter Period to the net carrying amount of the financial asset.

As per SLFRS 9, the interest income and expense presented in the Statement of Profit or Loss include:

- ▶ Interest on financial assets measured at amortised cost calculated using EIR method;
- ▶ Interest on financial assets measured at fair value through other comprehensive income (FVTOCI) calculated using EIR method;
- ▶ Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- ▶ Interest on financial liabilities measured at amortised cost calculated using EIR method.

When calculating the EIR for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs).

When a financial asset becomes credit-impaired (as set out in Note 12.1) and is, therefore, regarded as 'stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures are no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Once the recorded value of a financial assets 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.

5 Net Interest Income (contd.)**Overdue Interest**

Interest from overdue rentals have been accounted for on a cash received basis.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Interest and similar income						
Loans & receivables at amortised cost	5.1	151	6,067,449	5,832,841	6,015,167	5,814,021
Financial investments at FVTOCI & amortised cost			366,702	326,125	427,106	376,222
Placements with banks & financial institutions			98,578	35,971	207,756	70,582
			6,532,729	6,194,937	6,650,029	6,260,825
Interest and similar expenses						
Due to banks			747,614	388,027	800,168	421,703
Due to customers at amortised cost	5.2	151	2,883,965	2,584,026	2,883,965	2,583,033
Interest expense on lease liabilities	39.1	210	71,658	-	71,658	-
Debt issued and borrowed funds at amortised cost			628,038	780,418	576,461	762,145
			4,331,275	3,752,471	4,332,252	3,766,881
Net Interest Income			2,201,454	2,442,466	2,317,777	2,493,944

5.1 Interest and similar income - Loans & receivables product wise

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Finance lease/ijarah	3,243,890	3,172,919	3,243,888	3,172,919
Hire purchase/murabaha	8,646	28,503	8,646	28,503
Term loans	1,110,680	1,085,050	1,058,400	1,066,230
Short term loans	294,498	83,180	294,498	83,180
Personal loans	730,507	935,738	730,507	935,738
Pawning	484,405	205,401	484,405	205,401
Micro finance	81,926	222,913	81,926	222,913
Loans against fixed deposits	78,464	74,701	78,464	74,701
Margin trading	34,433	24,436	34,433	24,436
	6,067,449	5,832,841	6,015,167	5,814,021

5.2 Interest and similar expenses - Due to customers product wise

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Savings deposits	50,617	44,352	50,617	44,352
Term deposits	2,833,348	2,539,674	2,833,348	2,538,681
	2,883,965	2,584,026	2,883,965	2,583,033

Notes to The Financial Statements Contd.

6 Net Fee and Commission Income

Fee and Commission Income

Accounting Policy

Fee and commission income is earned from a diverse range of services provided by the Group to its customers. Fees and commission income is accounted for as follows:

- ▶ Income earned on the execution of a significant act is recognised as revenue when the act is completed; and
- ▶ Income earned from the provision of services is recognised as revenue as the services are provided;

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Fee and commission income				
Trade & other related activities	208,928	210,175	203,254	210,175
Reinsurance commission income	-	-	-	(126)
Others	-	-	1,334	(1)
	208,928	210,175	204,588	210,048
Fee and commission expenses				
Fees	25,847	2,033	26,673	7,637
	25,847	2,033	26,673	7,637
Net fee and commission income	183,081	208,142	177,915	202,411

7 Insurance Premium Income

Accounting Policy

Gross Premiums

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

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

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

Reinsurance Premiums

Gross reinsurance premiums on life and investment contracts are recognized as an expense when the date on which the policy is effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior Accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

7 Insurance Premium Income (contd.)*Reinsurance Premiums (contd.)*

For the year ended 31 December	Group	
	2019 Rs.'000	2018 Rs.'000
Non-life insurance	118,412	(512)
Life insurance	54,756	65,839
Total gross written premium	173,168	65,327
Premium ceded to reinsurers	(53,249)	(27,014)
Net premium income	119,919	38,313
Change in unearned premium provisions-net	(69,036)	31,647
Total net earned premium	50,883	69,960

8 Net claims and benefits**Accounting Policy***Gross benefits and claims*

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

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

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

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

Notes to The Financial Statements Contd.

8 Net claims and benefits (contd.)

Accounting Policy (contd.)

Gross benefits and claims (contd.)

For the year ended 31 December	Group	
	2019 Rs.'000	2018 Rs.'000
General Insurance		
Claims paid	42,297	90,302
Claims outstanding	(22,691)	(61,621)
	19,606	28,681
Reinsurance on claims paid	2,647	14,301
Reinsurance on claims outstanding	(14,480)	(13,913)
Reinsurance recoveries	(11,833)	388
General insurance net claim and benefits	31,439	28,293
Life Insurance		
Claims paid	35,436	25,012
Change in life Insurance contract liabilities	(7,394)	17,090
	28,042	42,102
Claims outstanding	(661)	9,839
Gross claims - death, disability and hospitalisation	27,381	51,941
Reinsurance on claims paid	2,311	3,632
Reinsurance on claims outstanding	946	-
Reinsurance recoveries	3,257	3,632
Share holder's profit	32,115	-
Long term insurance net claims and benefits	(7,991)	48,309
Net claims and benefits	23,448	76,602

9 Net Trading Income

Accounting Policy

Results arising from trading activities include gain/(loss) on disposal of financial assets at FVTPL.

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Gain/(loss) on disposal of quoted shares	9,652	(2,337)	9,652	(2,337)
Net trading income	9,652	(2,337)	9,652	(2,337)

10 Net Gain/(Loss) on Financial Instruments at Fair Value Through Profit or Loss**Accounting Policy**

Fair value gains and losses attributable to changes in the fair values of the equity and debt securities classified under financial assets at FVTPL is recognised in the Statement of Profit or Loss, when there is a change to the fair value of the asset.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Government securities	22	171	14,864	-	14,865	-
Quoted securities			3,904	(29,999)	6,152	(29,394)
			18,768	(29,999)	21,017	(29,394)

11 Other Operating Income**Accounting Policy**

Other operating income includes gains on disposal of property & equipment, dividend income, profit & losses from real estates, profit & losses from investment properties and write-off collection.

Dividend Income

Dividend income shall be recognised when the Group's right to receive payment is established.

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit on sale of real estate	21,061	35,474	21,061	35,474
Recovery of bad debts written off	24,296	36,331	24,296	36,331
Dividend income	9,043	9,192	10,726	11,379
Profit/(loss) on sale of property & equipment including foreclosed properties	655	83,199	873	81,675
Other income	13,883	12,933	30,645	36,942
	68,938	177,129	87,601	201,801

Notes to The Financial Statements Contd.

12 Impairment Charges for Loans and Other Losses**Accounting Policy**

The Company and the Group recognised the changes in the impairment provisions for loans and receivables which are assessed as per Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments'. The methodology adopted by the Company and the Group is explained in Note 3.5 to these Financial Statements.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Loans and advances to customers						
Impairment on individually significant loans	23	182-188	320,975	654,888	320,975	654,888
Impairment on collective loans	23	182-188	(39,392)	(483,844)	(39,392)	(483,844)
Total impairment charges for loans and advances to customers			281,583	171,044	281,583	171,044
Cash and cash equivalents	20.1.1	169	1	(4)	1	(4)
Placements with banks & financial institutions	21.1	170	(1,911)	1,922	(1,911)	1,922
Insurance receivables			-	-	-	1,099
Above 90 days seized interest receivables			-	(38,431)	-	(38,431)
			279,673	134,531	279,673	135,630

12.1 Analysis of Impairment Charges

The below table shows the ECL charges on financial instruments for the year recorded in the Statement of Profit or Loss.

For the year ended 31 December	Company 2019		Group 2019	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
Loans & receivables at amortised cost				
Stage 1	-	(24,436)	-	(24,436)
Stage 2	-	(4,312)	-	(4,312)
Stage 3	320,975	(10,644)	320,975	(10,644)
Cash and cash equivalents				
Stage 1	-	1	-	1
Placements with banks & financial institutions				
Stage 1	-	(1,911)	-	(1,911)
Total impairment charges	320,975	(41,302)	320,975	(41,302)

12 Impairment Charges for Loans and Other Losses (contd.)**12.1 Analysis of Impairment Charges (contd.)**

For the year ended 31 December	Company		Group	
	2018		2018	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
Loans & receivables at amortised cost				
Stage 1	-	(140,567)	-	(140,567)
Stage 2	-	(82,428)	-	(82,428)
Stage 3	654,888	(260,849)	654,888	(260,849)
Cash and cash equivalents				
Stage 1	-	(4)	-	(4)
Placements with banks & financial institutions				
Stage 1	-	1,922	-	1,922
Insurance receivables				
Stage 3	-	-	-	1,099
Above 90 days seized interest receivables				
Stage 3	-	(38,431)	-	(38,431)
Total impairment charges	654,888	(520,357)	654,888	(519,258)

13 Personnel Expenses**Accounting Policy**

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

Defined Contribution Plan – Employees' Provident Fund and Employees' Trust Fund (EPF & ETF)

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

Defined Benefit Plan – Gratuity

Retirement benefit obligation is recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability in accordance with Sri Lanka Accounting Standard - LKAS 19 - 'Employee Benefit' as explained in Note 40 on page 210.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019	2018	2019	2018
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff emoluments			985,884	949,489	1,064,844	1,020,077
Employers' contribution to defined contribution & benefit plans						
Employees' Provident Fund			84,782	80,697	93,403	88,850
Employees' Trust Fund			21,186	20,182	23,341	22,219
Retirement benefit expenses	40.1	211	51,652	45,862	54,220	49,424
			1,143,504	1,096,230	1,235,808	1,180,570

Notes to The Financial Statements Contd.

14 Depreciation and Amortisation

Accounting Policy

Depreciation

Depreciation is recognised in the Statement of 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. Depreciation of an asset ceases at the earlier of that the asset is classified as held-for-sale or the date that the asset is derecognised. Depreciation does not cease when the assets become idle or is retired from active unless the asset is fully depreciated.

Depreciation of right-of-use assets are presented together with property and equipment in the Statement of Profit or Loss, refer to the accounting policy in Note 3.11.1. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The estimated useful lives for the current and comparative years are as follows:

Class of asset	Percentage per annum (%)	Period
Motor vehicles	20-25	04 - 05 years
Computers & accessories	20-25	04 - 05 years
Building	5	20 years
Other assets	10-50	02 - 10 years

Amortisation of Intangible Assets

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a 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 benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates.

The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset.

Class of asset	Percentage per annum (%)	Period
Computer software	12.5-25	4-8 Years

All classes of property, equipment and intangible assets together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and the end of the year are given in Note 30 and 31.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Depreciation of investment property	29	196	2,906	2,906	2,906	2,906
Depreciation of property, equipment and right-of-use assets	30	199-200	239,617	79,259	250,525	86,556
Amortisation of intangible assets	31	201	35,577	37,641	40,931	43,314
			278,100	119,806	294,362	132,776

15 Other Operating Expenses

Accounting Policy

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

Directors' Emoluments

Directors' emoluments include fees paid to non-executive directors

15 Other Operating Expenses (contd.)**Accounting Policy (contd.)****Crop Insurance Levy**

The Crop Insurance Levy (CIL) was introduced with effect from 1 April 2013, as per the provisions of the Section 14 of the Finance Act No. 12 of 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Directors' emoluments	5,313	7,953	5,313	7,953
Auditors' remuneration				
Audit fees	2,373	1,918	3,323	2,828
Non audit fees	575	653	575	653
Professional & legal fees	66,781	42,655	66,464	63,063
Donations	63	120	63	120
Insurance premium for deposits paid to the central bank	31,426	28,859	31,426	28,859
Crop insurance levy	2,416	2,621	2,416	2,621
Advertising and business promotional expenses	87,912	76,253	87,912	76,252
Office administration & establishment expenses	503,854	628,551	610,007	722,441
	700,713	789,583	807,499	904,790

16 Taxes**16.1 Taxes on financial services**

Taxes on financial services includes Value Added Tax (VAT), Nation Building Tax (NBT) and Debt Repayment Levy (DRL) calculated based on the value addition made on financial services.

Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The value base for the computation of value added tax on financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before VAT and NBT on financial services and emoluments payable. Emoluments payable include cash benefits, non-cash benefits including terminal benefits. VAT rate applied for the current financial year is 15% (2018 - 15%).

Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% (2018 - 2%) of the value addition used for the purpose of Value Added Tax (VAT) on financial services.

Debt Repayment Levy

In accordance with Section 36 of Finance Act No. 35 of 2018, Debt Repayment Levy is charged and levied for every month commencing from October 2018 till December 2021 from every financial institution at the rate of 7% (2018 - 7%) on the value addition attributable to the supply of financial services.

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Value Added Tax	167,586	210,874	167,586	210,874
Nation Building Tax	22,590	28,461	22,590	28,461
Debt Repayment Levy	98,167	27,400	98,167	27,400
	288,343	266,735	288,343	266,735

Notes to The Financial Statements Contd.

16.2 Income Tax Expense

Accounting Policy

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position 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 amendments (up to March 31, 2018) thereto, and the Inland Revenue Act No. 24 of 2017, effective from April 1, 2018. This Note also includes the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes'.

Deferred Tax

Detailed disclosure of accounting policies and estimate of deferred tax are available in the Note 38 to the financial statements.

The Company and the Group is liable for income tax on profit from operations and deferred tax on taxable temporary differences is calculated at the rate of 28%.

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Statement of Profit or Loss						
Current Tax						
Current income tax	16.3	161	104,799	109,838	104,859	109,894
(Over) / under provision of taxes in respect of prior years	16.3	161	(30,896)	-	(30,896)	-
Deferred Tax						
Deferred tax charged/(reversed)	38.1	208	(119,293)	155,553	122,056	(350,696)
Tax charged to the Statement of Profit or Loss			(45,390)	265,391	196,019	(240,802)
Statement of Comprehensive Income						
Deferred Tax						
Deferred tax charged/(reversed)	38.1	208	(8,630)	12,750	(8,630)	12,750
Tax charged to the Statement of Comprehensive Income			(8,630)	12,750	(8,630)	12,750
Total income tax expense/(reversal) for the year			(54,020)	278,141	187,389	(228,052)
Effective tax rate (excluding deferred tax)			183.24%	24.59%	-38.47%	47.59%
Effective tax rate			-79.36%	59.41%	-71.92%	-104.28%

16.3 Reconciliation of the Total Tax Charged

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

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Profit as per the Statement of Profit or Loss	57,194	446,676	(272,551)	230,922
Add : Disallowable expenses	879,512	758,616	981,434	775,396
Add : Lease capital recoverable	5,880,076	9,241,947	5,880,076	9,241,947
Less : Allowable expenses	4,949,693	6,748,975	4,955,040	6,759,919
Less : Exempted/allowable income	1,492,809	2,427,697	1,332,941	2,392,788
Less : Business loss from non-leasing business	-	(77,290)	-	(69,071)
Statutory income	374,280	1,347,857	300,978	1,164,629
Less : Tax loss set off	-	955,579	(73,302)	772,351
Assessable income	374,280	392,278	374,280	392,278
Taxable income	374,280	392,278	374,280	392,278
At the effective income tax rate	104,799	109,838	104,798	109,838
(Over)/under provision - previous years	(30,896)	-	(30,896)	-
Current tax on profits for the year	73,903	109,838	73,902	109,838
Deferred tax charge/(reversal) for the year	(119,293)	155,553	122,056	(350,696)
Share of associate company's current tax	-	-	61	56
Tax expense for the year	(45,390)	265,391	196,019	(240,802)

Income Tax rate of Corporates has been revised to 24% from 28% and dividend income will be taxed at 14% effective from January 1, 2020

However, the Company continued to apply the Income Tax rate of 28% in calculating the deferred tax liabilities/assets as at December 31, 2019 as the legislature has not been substantively enacted as at the reporting date. The Company recorded a net deferred tax liability of Rs. 213.4 Mn. as at December 31, 2019. If the Income Tax rate was revised to 24% from 28%, the deferred tax impact to the Company's Statement of Profit or Loss and Other Comprehensive Income would have been an reversal of Rs. 97.4 Mn. and a reversal of Rs. 7.3 Mn., respectively.

Notes to The Financial Statements Contd.

16 Taxes (contd.)

16.4 Analysis of Tax Losses of the Subsidiary-MBSLI

MBSL Insurance company Limited is liable to income tax at 28% in terms of inland Revenue Act No. 24 of 2017 and amendments thereto. Current year income tax charge wholly consists of income tax charge on General Insurance division. However, there is no payment due to the Department of inland revenue as the tax liability is fully absorbed by payments made in lieu of economic Service charge and credit available on the notional tax from government securities. The tax loss carried forward as at 31st December 2019 is Rs.1,804 million (2018 is Rs.1,843 million)

16.4.1 The break up of Tax Losses is as follows;

For the year ended 31 December	2019 Rs.'000	2018 Rs.'000
Balance as at 01 January	1,843,274	1,706,555
Tax loss during the year	73,302	183,228
Tax loss utilized during the year	(112,387)	(46,509)
Balances as at 31 December	1,804,189	1,843,274
Analysis of during the year tax losses		
Loss Before Income Tax	(87,962)	(149,232)
Income from other sources and exempt from Tax	(81,916)	(31,613)
Aggregate allowable expenses	(5,346)	(10,944)
Aggregate disallowed expenses	101,922	16,780
Tax loss from non-life insurance	(73,302)	(175,009)
Tax loss from life insurance	-	(8,219)
Total tax loss for the year	(73,302)	(183,228)

16.5 Taxes paid to the government during the year

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Direct Taxes				
Value added tax on financial services	252,641	154,626	252,641	154,626
Nation building tax on financial services	32,359	20,617	32,359	20,617
Crop insurance levy	2,215	2,369	6,001	2,369
Economic service charge	58,079	55,575	58,163	55,575
Debt repayment levy	108,948	19,887	108,948	19,887
Total direct taxes	454,242	253,074	458,112	253,074
Indirect Taxes				
Value added tax	83,164	92,553	83,164	92,553
Nation building tax	222	345	2,248	345
Stamp duty	43,699	57,368	43,759	57,391
Withholding tax on interest	143,369	137,820	145,682	138,553
PAYE tax	12,924	14,197	16,419	14,914
Total indirect taxes	283,378	302,283	291,272	303,756

17 Earnings Per Share and Dividend Per Share

17.1 Basic/Diluted Earnings Per Share

Accounting Policy

As per the Sri Lanka Accounting Standard - LKAS 33 - 'Earnings per Share', is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

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. The Group does not have any potentially dilutive shares.

For the year ended 31 December	Company		Group	
	2019	2018	2019	2018
Profit attributable to ordinary shareholders (Rs.'000)	102,584	181,285	(346,162)	415,031
Number of ordinary shares used as denominator ('000)	165,875	165,875	165,875	165,875
Basic earnings per ordinary share (Rs.)	0.62	1.09	(2.09)	2.50

17.2 Dividend Per Share

No dividend has been declared and paid by the Company and the Group during the year 2019 and 2018.

18 Analysis of Financial Instruments by Measurement Basis

Accounting Policy

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments' under heading of the Statement of Financial Position.

18.1 Company - 2019

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	1,355,785	1,355,785
Placements with banks & financial institutions	-	-	1,477,103	1,477,103
Financial investments at fair value through profit or loss	945,199	-	-	945,199
Loans & receivables at amortised cost	-	-	29,228,215	29,228,215
Financial investments at fair value through other comprehensive income	-	1,216,478	-	1,216,478
Financial investments at amortised cost	-	-	1,513	1,513
Other assets	-	-	47,993	47,993
Total financial assets	945,199	1,216,478	32,110,609	34,272,286
Liabilities				
			Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Due to banks			7,749,021	7,749,021
Due to customers at amortised cost			22,755,930	22,755,930
Debt issued and borrowed funds at amortised cost			2,466,268	2,466,268
Other liabilities			240,908	240,908
Total financial liabilities			33,212,127	33,212,127

Notes to The Financial Statements Contd.

18.2 Company - 2018

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	1,587,292	1,587,292
Placements with banks & financial institutions	-	-	670,575	670,575
Financial investments at fair value through profit or loss	267,106	-	-	267,106
Loans & receivables at amortised cost	-	-	30,721,147	30,721,147
Financial investments at fair value through other comprehensive income	-	1,180,998	-	1,180,998
Financial investments at amortised cost	-	-	60,828	60,828
Other assets	-	-	41,068	41,068
Total financial assets	267,106	1,180,998	33,080,910	34,529,014

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	5,869,317	5,869,317
Due to customers at amortised cost	20,831,021	20,831,021
Debt issued and borrowed funds at amortised cost	5,331,077	5,331,077
Other liabilities	313,691	313,691
Total financial liabilities	32,345,106	32,345,106

18.3 Group - 2019

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	2,178,946	2,178,946
Placements with banks & financial institutions	-	-	2,126,932	2,126,932
Financial investments at fair value through profit or loss	955,040	-	-	955,040
Loans & receivables at amortised cost	-	-	28,973,785	28,973,785
Financial investments at fair value through other comprehensive income	-	1,954,350	-	1,954,350
Financial investments at amortised cost	-	-	1,513	1,513
Other assets	-	-	47,993	47,993
Total financial assets	955,040	1,954,350	33,329,169	36,238,559

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	7,749,807	7,749,807
Due to customers at amortised cost	22,755,930	22,755,930
Debt issued and borrowed funds at amortised cost	2,466,268	2,466,268
Other liabilities	240,908	240,908
Total financial liabilities	33,212,913	33,212,913

18.4 Group - 2018

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	1,832,705	1,832,705
Placements with banks & financial institutions	-	-	774,575	774,575
Financial investments at fair value through profit or loss	274,700	-	-	274,700
Loans & receivables at amortised cost	-	-	30,485,412	30,485,412
Financial investments at fair value through other comprehensive income	-	1,850,320	-	1,850,320
Financial investments at amortised cost	-	-	60,828	60,828
Other assets	-	-	41,068	41,068
Total financial assets	274,700	1,850,320	33,194,588	35,319,608

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	5,872,471	5,872,471
Due to customers at amortised cost	20,821,606	20,821,606
Debt issued and borrowed funds at amortised cost	5,331,077	5,331,077
Other liabilities	313,691	313,691
Total financial liabilities	32,338,845	32,338,845

19 Fair Value of Financial Instruments

Determination of Fair Value and Fair Value Hierarchy

Accounting Policy

Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at FVTPL valued using valuation techniques or pricing models primarily consist of quoted investments. These quoted investments are valued using quoted market price in an active market of each securities.

Financial Assets and Liabilities Carried at Amortised Cost

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated based on the discounted cash flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under level 3 in the fair value hierarchy.

Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an active market, direct observation of a traded price may not be possible. In these circumstances, the Company/Group 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.

Notes to The Financial Statements Contd.

19 Fair Value of Financial Instruments (contd.)

19.1 Determination of Fair Value and Fair Value Hierarchy

The Company and the Group use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

Level 1: Quoted (unadjusted) prices in active markets for identical assets or liabilities;

Level 2: Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

Level 3: Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

19.1.1 Company

As at 31 December	Note	Page No.	2019				2018			
			Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total
Financial assets										
Financial investments at FVTPL										
Government securities	22.1	171	691,539	-	-	691,539	-	-	-	-
Investment securities - Quoted	22.2, 22.4	172-176	252,095	-	-	252,095	265,391	-	-	265,391
Other debt securities - Quoted	22.3	175	1,565	-	-	1,565	1,715	-	-	1,715
			945,199	-	-	945,199	267,106	-	-	267,106
Financial investments at FVTOCI										
Government securities	24.1	189	1,174,677	-	-	1,174,677	1,135,633	-	-	1,135,633
Equity securities - Quoted	24.3	189	19,125	-	-	19,125	21,420	-	-	21,420
Equity securities - Unquoted	24.4	190	-	-	22,676	22,676	-	-	23,945	23,945
			1,193,802	-	22,676	1,216,478	1,157,053	-	23,945	1,180,998
Total			2,139,001	-	22,676	2,161,677	1,424,159	-	23,945	1,448,104

19.1.2 Group

As at 31 December	Note	Page No.	2019				2018			
			Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total
Financial assets										
Financial investments at FVTPL										
Government securities	22.1	171	691,539	-	-	691,539	-	-	-	-
Investment securities - Quoted	22.5, 22.7	176-180	252,095	-	-	252,095	272,985	-	-	272,985
Other debt securities - Quoted	22.6	180	1,565	-	-	1,565	1,715	-	-	1,715
			945,199	-	-	945,199	274,700	-	-	274,700
Financial investments at FVTOCI										
Government securities	24.1	189	1,864,256	-	-	1,864,256	1,761,657	-	-	1,761,657
Equity securities - Quoted	24.3	189	19,125	-	-	19,125	21,420	-	-	21,420
Equity securities - Unquoted	24.4	190	-	-	22,676	22,676	-	-	23,945	23,945
Unit trust			-	48,293	-	48,293	-	43,298	-	43,298
			1,883,381	48,293	22,676	1,954,350	1,783,077	43,298	23,945	1,850,320
Total			2,828,580	48,293	22,676	2,899,549	2,057,777	43,298	23,945	2,125,020

19 Fair Value of Financial Instruments (contd.)**19.2 Accounting Policy****Financial Instruments Recorded at Fair Value**

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

Financial Instruments Carried at Fair Value

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

Financial Investments at Fair Value Through Other Comprehensive Income

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

These assets are valued using models that use both observable and unobservable data. The un-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other Financial Assets Designated at Fair Value Through Profit or Loss

Other financial assets designated at FVTPL valued using the market price since an active market exists.

Day 1 Profit

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

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 1 January	90,556	76,229	90,556	76,229
Reduction due to passage of time	(20,585)	(31,206)	(20,585)	(31,206)
Deferral of profit on new transactions	75,898	52,348	75,898	52,348
Derecognition of the instruments	(19,381)	(6,815)	(19,381)	(6,815)
Balance as at 31 December	126,488	90,556	126,488	90,556

Notes to The Financial Statements Contd.

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

As at 31 December	Company				Group			
	2019		2018		2019		2018	
	Rs.'000 Carrying Amount	Rs.'000 Fair Value Carrying	Rs.'000 Carrying Amount	Rs.'000 Fair Value Carrying	Rs.'000 Carrying Amount	Rs.'000 Fair Value Carrying	Rs.'000 Carrying Amount	Rs.'000 Fair Value Carrying
Financial assets								
Placements with banks & financial institutions	1,477,103	1,477,103	670,575	670,575	2,126,932	2,126,932	774,575	774,575
Loans & receivables at amortised cost	29,228,215	34,419,524	30,721,147	30,721,147	28,973,785	34,189,300	30,485,412	30,485,412
Financial investments at amortised cost	1,513	1,528	60,828	61,506	1,513	1,528	60,828	61,506
Other assets	47,993	47,993	41,068	41,068	47,993	47,993	41,068	41,068
Total	30,754,824	35,946,148	31,493,618	31,494,296	31,150,223	36,365,753	31,361,883	31,362,561
Financial liabilities								
Due to customers at amortised cost	22,755,930	22,476,286	20,831,021	20,831,021	22,755,930	22,476,286	20,821,606	20,821,606
Debt issued and borrowed funds at amortised cost	2,466,268	2,466,268	5,331,077	5,331,077	2,466,268	2,466,268	5,331,077	5,331,077
Other liabilities	240,908	240,908	313,691	313,691	240,908	240,908	313,691	313,691
Total	25,463,106	25,183,462	26,475,789	26,475,789	25,463,106	25,183,462	26,466,374	26,466,374

Fair Value of Financial Assets and Liabilities not Carried at Fair Value

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

20 Cash and Cash Equivalents

Accounting Policy

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

Securities Purchased Under Resale Agreements

Securities purchased under agreements to resell at a specified future date are recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash and cash equivalents', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cash in hand	157,017	172,431	157,256	172,680
Cash at bank	201,927	122,191	219,253	219,206
Repurchase agreements	996,841	1,292,670	1,802,437	1,440,819
	1,355,785	1,587,292	2,178,946	1,832,705

20 Cash and Cash Equivalents (contd.)**20.1 Analysis of Cash at Banks**

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Cash at bank			201,936	122,199	219,268	219,220
Less : Allowance for impairment losses						
Collective impairment	20.1.1	169	9	8	15	14
			201,927	122,191	219,253	219,206

20.1.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2018	(12)	-	-	(12)
Charge during the year	4	-	-	4
Balance as at 31 December 2018	(8)	-	-	(8)
Reversals during the year	(1)	-	-	(1)
Balance as at 31 December 2019	(9)	-	-	(9)

20.1.2 Movement of impairment during the year - Group

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2018	(18)	-	-	(18)
Charge during the year	4	-	-	4
Balance as at 31 December 2018	(14)	-	-	(14)
Reversals during the year	(1)	-	-	(1)
Balance as at 31 December 2019	(15)	-	-	(15)

20.1.3 Cash and cash equivalents allocated for the liquidity requirement

As at 31 December	Company	
	2019 Rs.'000	2018 Rs.'000
Cash in hand	145,630	164,778
Balances in current accounts free from lien	190,621	83,963
Government securities, maturing within one year, free from any lien or charge	885,562	1,292,670
	1,221,813	1,541,411

Notes to The Financial Statements Contd.

21 Placements with Banks & Financial Institutions

Accounting Policy

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

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Fixed deposits			1,477,503	672,886	2,127,410	776,964
Less : Allowance for impairment losses						
Collective impairment	21.1	170	400	2,311	478	2,389
			1,477,103	670,575	2,126,932	774,575

21.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2018	(389)	-	-	(389)
Charge during the year	(1,922)	-	-	(1,922)
Balance as at 31 December 2018	(2,311)	-	-	(2,311)
Charge during the year	1,911	-	-	1,911
Balance as at 31 December 2019	(400)	-	-	(400)

21.2 Movement of impairment during the year - Group

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2018	(473)	-	-	(473)
Charge during the year	(1,916)	-	-	(1,916)
Balance as at 31 December 2018	(2,389)	-	-	(2,389)
Charge during the year	1,911	-	-	1,911
Balance as at 31 December 2019	(478)	-	-	(478)

21 Placements with Banks & Financial Institutions (contd.)**21.3 Placements with banks allocated for the liquidity requirement**

As at 31 December	Company	
	2019 Rs.'000	2018 Rs.'000
Deposits in commercial banks free from lien	1,083,278	327,084
	1,083,278	327,084

22 Financial Investments at Fair Value Through Profit or Loss**Accounting Policy**

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

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

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Government securities	22.1	171	691,539	-	691,539	-
Investment securities - Quoted	22.2, 22.7	172-181	252,095	265,391	261,936	272,985
Other debt securities - Quoted	22.3, 22.6	175,180	1,565	1,715	1,565	1,715
			945,199	267,106	955,040	274,700

22.1 Government Securities

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Treasury bonds	691,539	-	691,539	-
	691,539	-	691,539	-

Notes to The Financial Statements Contd.

22 Financial Investments at Fair Value Through Profit or Loss (contd.)

22.2 Quoted Equities and Unit Trusts

Company As at 31 December	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Bank, Finance and Insurance						
Alliance Finance Company PLC	5,000	280	257	-	-	-
Arpico Insurance PLC	10,000	200	192	8,900	165	163
Asia Asset Finance PLC	113,928	1,623	1,003	1,139,289	1,623	1,025
Central Finance Company PLC	51,483	6,291	5,354	51,014	6,291	4,525
Citizens Development Business Finance PLC-Non Voting	9,543	824	644	9,233	824	646
Commercial Bank Of Ceylon PLC	15,241	1,759	1,448	15,000	1,759	1,725
Commercial Bank Of Ceylon PLC-Non Voting	54,194	5,410	4,498	53,179	5,410	5,052
Commercial Credit And Finance PLC	22,500	1,498	664	22,500	1,498	641
DFCC Bank PLC	120,000	24,535	11,028	120,000	24,535	11,160
First Capital Holdings PLC	37,500	1,953	1,515	25,000	775	720
Hatton National Bank PLC-Non Voting	10,191	1,820	1,381	10,000	1,820	1,685
Janashakthi Insurance Company PLC	135,000	4,467	4,387	35,000	1,043	1,050
L B Finance PLC	-	-	-	12,500	1,645	1,538
Lanka Orix Leasing Company PLC	-	-	-	32,500	3,431	2,922
LOLC Finance PLC	225,101	849	878	200,000	775	680
Multi Finance PLC	-	-	-	20,000	280	278
National Development Bank PLC	104,798	19,255	10,480	99,374	19,255	10,613
Nations Trust Bank PLC	209,949	19,546	16,796	205,492	19,546	18,330
Orient Finance PLC	175,000	2,466	2,082	80,000	1,191	1,240
Pan Asia Banking Corporation PLC	80,000	1,341	1,024	80,000	1,341	1,184
People's Merchant Finance PLC	-	-	-	2,500	27	29
Sanasa Development Bank PLC	93,368	9,258	5,966	93,368	9,258	7,003
Seylan Bank PLC	192,917	16,028	10,128	141,233	13,846	11,016
Seylan Bank PLC-Non Voting	496,240	20,949	16,773	354,984	17,834	15,797
Sinhaputhra Finance PLC	150,000	1,076	1,005	5,000	45	44
Softlogic Capital PLC	225,000	1,240	1,239	-	-	-
Softlogic Finance PLC	67,215	3,532	1,122	67,215	3,532	1,788
The Finance Company PLC-Non Voting	200,000	973	-	200,000	973	220
Union Bank Of Colombo PLC	500,000	6,756	6,650	662,828	8,977	7,291
		153,929	106,514		147,699	108,365
Beverage, Food and Tobacco						
Bairaha Farms PLC	25,000	3,962	2,800	25,000	3,962	3,118
Cargills (Ceylon) PLC	1,655	327	319	11,659	2,302	2,332
Distilleries Company Of Sri Lanka PLC	55,000	1,048	1,017	55,000	1,048	886
HVA Foods PLC	-	-	-	16,850	83	74
Keells Food Products PLC	39,058	6,240	4,785	39,058	6,240	5,234
Lion Brewery Ceylon PLC	-	-	-	7,999	4,574	4,559
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,514,546	14,958	2,766
Renuka Agri Foods PLC	-	-	-	1,697,738	5,266	3,565
Renuka Foods PLC	50,000	635	615	29,535	488	411
		27,170	12,302		38,921	22,945

22 Financial Investments at Fair Value Through Profit or Loss (contd.)**22.2 Quoted Equities and Unit Trusts (contd.)**

Company As at 31 December	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Chemical and Pharmaceuticals						
CIC Holdings PLC	-	-	-	28,000	1,530	1,109
CIC Holdings PLC-Non Voting	47,000	2,222	2,237	50,164	2,483	1,505
		2,222	2,237		4,013	2,614
Construction and Engineering						
Access Engineering PLC	-	-	-	35,000	586	494
Colombo Dockyard PLC	-	-	-	5,000	300	278
Lankem Developments PLC	575,000	2,990	2,012	275,000	1,900	1,128
MTD Walkers PLC	165,000	6,751	2,442	165,000	6,751	1,815
		9,741	4,454		9,537	3,715
Diversified						
Taprobane Holdings PLC	250,000	1,283	1,250	250,000	1,283	1,000
		1,283	1,250		1,283	1,000
Diversified Holdings						
Aitken Spence PLC	110,000	11,111	5,115	110,000	11,111	5,258
Browns Investments PLC	-	-	-	1,300,000	4,005	2,470
Expolanka Holdings PLC	-	-	-	725,000	3,548	2,900
Hemas Holdings PLC	30,000	2,537	2,400	12,500	1,176	1,110
John Keells Holdings PLC	-	-	-	10,000	1,535	1,597
Melstacorp PLC	22,756	1,140	990	7,756	465	390
Richard Pieris & Company PLC	-	-	-	30,000	313	315
Softlogic Holdings PLC	350,000	5,763	5,565	50,000	1,030	1,075
Sunshine Holdings PLC	65,211	3,756	3,065	60,712	3,531	3,266
The Colombo Fort Land & Building PLC	80,500	1,770	1,079	44,799	1,224	672
Vallibel One PLC	-	-	-	39,485	725	671
		26,077	18,214		28,663	19,724
Footwear and Textiles						
Hayleys Fabric PLC	-	-	-	680,408	9,144	6,191
					9,144	6,191
Health Care						
Asiri Surgical Hospital PLC	44,000	467	444	-	-	-
Ceylon Hospitals PLC (Durdans)	5,000	500	390	5,000	500	356
The Lanka Hospitals Corporation PLC	35,000	1,470	1,425	-	-	-
		2,437	2,259		500	356

Notes to The Financial Statements Contd.

22 Financial Investments at Fair Value Through Profit or Loss (contd.)

22.2 Quoted Equities and Unit Trusts (contd.)

Company As at 31 December	2019			2018		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Hotels and Travels						
Aitken Spence Hotel Holdings PLC	63,219	5,779	1,713	63,219	5,779	1,707
Amaya Leisure PLC	16,433	898	603	-	-	-
Asian Hotels & Properties PLC	15,000	662	607	-	-	-
Beruwala Resorts PLC	-	-	-	200,000	180	140
Eden Hotel Lanka PLC	127,743	3,677	1,558	127,743	3,677	1,558
John Keells Hotels PLC	225,000	2,555	2,610	200,000	2,335	1,560
Palm Garden Hotels PLC	147,472	10,890	3,996	147,472	10,890	3,156
The Kingsbury PLC	1,937,727	41,834	25,384	1,937,727	41,833	29,453
Waskaduwa Beach Resort PLC	-	-	-	110,000	463	275
		66,295	36,471		65,157	37,849
Investment Trust						
Ceylon Investment PLC	65,727	6,411	3,385	65,727	6,411	2,563
Lanka Century Investments PLC	750,000	9,841	9,675	700,000	9,361	7,770
Lanka Realty Investments PLC	-	-	-	10,000	250	206
		16,252	13,060		16,022	10,539
Land and Property						
Cargo Boat Development Company PLC	9,984	899	534	9,984	899	729
City Housing & Real Estate Company PLC	38,435	190	138	35,935	178	176
Commercial Development Company PLC	4,649	451	368	4,649	451	326
East West Properties PLC	304,020	5,446	2,554	45,000	768	585
Kelsey Developments PLC	-	-	-	2,000	70	61
Property Development PLC	8,547	1,057	1,199	8,547	1,057	1,019
Seylan Developments PLC	160,750	2,194	1,849	100,000	1,480	1,100
		10,237	6,642		4,903	3,996
Manufacturing						
Abans Electricals PLC	5,000	501	479	6,417	642	370
ACL Cables PLC	-	-	-	60,000	3,175	2,220
Alufab PLC	60,000	1,660	828	60,000	1,660	990
Alumex PLC	130,000	2,031	1,924	80,000	1,386	1,080
BPPL Holding PLC	100,000	1,205	1,220	-	-	-
Ceylon Grain Elevators PLC	25,010	1,691	1,713	60,000	4,079	3,570
Chevron Lubricants Lanka PLC	37,500	3,831	2,809	37,428	3,830	2,724
Dankotuwa Porcelain PLC	-	-	-	9,100	64	59
Dipped Products PLC	16,380	1,431	1,376	-	-	-
Hayleys Fibre PLC	1,931	183	178	-	-	-
Kelani Tyres PLC	115,000	9,023	5,704	115,000	9,022	4,128
Lanka Walltiles PLC	14,659	1,048	1,063	-	-	-
Pelwatte Sugar Industries PLC	41,600	1,799	-	41,600	1,799	-
Richard Pieris Exports PLC	-	-	-	2,000	470	430
Royal Ceramics Lanka PLC	87,000	10,557	7,700	87,000	10,557	6,490
Sierra Cables PLC	1,500,000	6,030	4,950	1,390,000	5,656	2,919
Swisstek (Ceylon) PLC	-	-	-	14,745	641	605
Teejay Lanka PLC	-	-	-	250,000	8,343	8,125
Tokyo Cement Company (Lanka) PLC-Non Voting	-	-	-	75,833	2,235	1,744
		40,990	29,944		53,559	35,454

22 Financial Investments at Fair Value Through Profit or Loss (contd.)**22.2 Quoted Equities and Unit Trusts (contd.)**

Company As at 31 December	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Motors						
United Motors Lanka PLC	17,500	1,184	1,102	-	-	-
		1,184	1,102		-	-
Plantations						
Elpitiya Plantations PLC	60,000	1,704	1,134	50,000	1,496	990
Hatton Plantation PLC	50,000	425	345	50,000	425	345
Malwatte Valley Plantations PLC	64,429	353	258	64,429	353	264
Malwatte Valley Plantations PLC-Non Voting	50,000	340	310	-	-	-
Watawala Plantations PLC	19,725	577	513	19,498	577	372
		3,399	2,560		2,851	1,971
Power and Energy						
Laugfs Gas PLC	175,000	3,380	3,062	71,444	1,568	1,336
Laugfs Gas PLC-Non Voting	32,500	671	429	25,000	569	385
Panasian Power PLC	100,000	350	320	500,000	1,550	1,500
Vallibel Power Erathna PLC	250,000	1,913	1,575	250,000	1,913	1,600
		6,314	5,386		5,600	4,821
Service						
Ceylon Tea Brokers PLC	-	-	-	114,778	554	321
Renuka Capital PLC	405,000	1,800	1,499	100,000	528	380
		1,800	1,499		1,082	701
Telecommunication						
Dialog Axiata PLC	-	-	-	75,000	750	758
		-	-		750	758
Trading						
Brown & Company PLC	112,500	8,341	8,201	72,009	5,337	4,392
		8,341	8,201		5,337	4,392
Total value of quoted equities and unit trusts		377,671	252,095		395,021	265,391

22.3 Other Debt Securities

Company As at 31 December	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Bank, Finance and Insurance						
Hatton National Bank PLC	17,500	1,600	1,565	17,500	1,600	1,715
Total value of listed debentures		1,600	1,565		1,600	1,715

Total value of financial assets at FVTPL	379,271	253,660	396,621	267,106
Marked to market valuation loss	(125,611)	(129,515)		
Fair value of financial assets designated at FVTPL	253,660		267,106	

Notes to The Financial Statements Contd.

22 Financial Investments at Fair Value Through Profit or Loss (contd.)

22.4 Sector wise analysis of equity securities

Company As at 31 December	2019		2018	
	Total Cost	Fair Value	Total Cost	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bank, Finance and Insurance	155,529	108,079	149,299	110,080
Beverage, Food and Tobacco	27,170	12,302	38,921	22,945
Chemical and Pharmaceuticals	2,222	2,237	4,013	2,614
Construction and Engineering	9,741	4,454	9,537	3,715
Diversified	1,283	1,250	1,283	1,000
Diversified Holdings	26,077	18,214	28,663	19,724
Footwear and Textiles	-	-	9,144	6,191
Health Care	2,437	2,259	500	356
Hotels and Travels	66,295	36,471	65,157	37,849
Investment Trust	16,252	13,060	16,022	10,539
Land and Property	10,237	6,642	4,903	3,996
Manufacturing	40,990	29,944	53,559	35,454
Motors	1,184	1,102	-	-
Plantations	3,399	2,560	2,851	1,971
Power and Energy	6,314	5,386	5,600	4,821
Service	1,800	1,499	1,082	701
Telecommunication	-	-	750	758
Trading	8,341	8,201	5,337	4,392
Total value of financial assets at FVTPL	379,271	253,660	396,621	267,106
Marked to market valuation loss	(125,611)		(129,515)	
Fair value of financial assets designated at FVTPL	253,660		267,106	

22.5 Quoted Equities and Unit Trusts

Group As at 31 December	2019			2018		
	No of Shares	Total Cost	Fair Value	No of Shares	Total Cost	Fair Value
		Rs.'000	Rs.'000		Rs.'000	Rs.'000
Bank, Finance and Insurance						
Alliance Finance Company PLC	5,000	280	257	-	-	-
Arpico Insurance PLC	10,000	200	192	8,900	165	163
Asia Asset Finance PLC	113,928	1,623	1,003	1,139,289	1,623	1,025
Central Finance Company PLC	51,483	6,291	5,354	51,014	6,291	4,525
Citizens Development Business Finance PLC-Non Voting	9,543	824	644	9,233	824	646
Commercial Bank Of Ceylon PLC	15,241	1,759	1,448	15,000	1,759	1,725
Commercial Bank Of Ceylon PLC-Non Voting	54,194	5,410	4,498	53,179	5,410	5,052
Commercial Credit And Finance PLC	22,500	1,498	664	22,500	1,498	641
DFCC Bank PLC	120,000	24,535	11,028	120,000	24,535	11,160
First Capital Holdings PLC	37,500	1,953	1,515	25,000	775	720
Hatton National Bank PLC-Non Voting	10,191	1,820	1,381	10,000	1,820	1,685
Janashakthi Insurance Company PLC	135,000	4,467	4,387	35,000	1,043	1,050
L B Finance PLC	-	-	-	12,500	1,645	1,538
Lanka Orix Leasing Company PLC	-	-	-	32,500	3,431	2,922
LOLC Finance PLC	225,101	849	878	200,000	775	680
Multi Finance PLC	-	-	-	20,000	280	278
National Development Bank PLC	104,798	19,255	10,480	99,374	19,255	10,613

22 Financial Investments at Fair Value Through Profit or Loss (contd.)

22.5 Quoted Equities and Unit Trusts (contd.)

Group As at 31 December	2019			2018		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Bank, Finance and Insurance						
Nations Trust Bank PLC	209,949	19,546	16,796	205,492	19,546	18,330
Orient Finance PLC	175,000	2,466	2,082	80,000	1,191	1,240
Pan Asia Banking Corporation PLC	80,000	1,341	1,024	80,000	1,341	1,184
People's Merchant Finance PLC	-	-	-	2,500	27	29
Sanasa Development Bank PLC	93,368	9,258	5,966	93,368	9,258	7,003
Seylan Bank PLC	192,917	16,028	10,128	141,233	13,846	11,016
Seylan Bank PLC-Non Voting	496,240	20,949	16,773	354,984	17,834	15,797
Sinhaputhra Finance PLC	150,000	1,076	1,005	5,000	45	44
Softlogic Capital PLC	225,000	1,240	1,239	-	-	-
Softlogic Finance PLC	67,215	3,532	1,122	67,215	3,532	1,788
The Finance Company PLC-Non Voting	200,000	973	-	200,000	973	220
Union Bank Of Colombo PLC	500,000	6,756	6,650	662,828	8,977	7,291
		153,929	106,514		147,699	108,365
Beverages, Food and Tobacco						
Bairaha Farms PLC	25,000	3,962	2,800	25,000	3,962	3,118
Cargills (Ceylon) PLC	1,655	327	319	11,659	2,302	2,332
Distilleries Company Of Sri Lanka PLC	55,000	1,048	1,017	55,000	1,048	886
HVA Foods PLC	-	-	-	16,850	83	74
Keells Food Products PLC	39,058	6,240	4,785	39,058	6,240	5,234
Lion Brewery Ceylon PLC	-	-	-	7,999	4,574	4,559
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,514,546	14,958	2,766
Renuka Agri Foods PLC	-	-	-	1,697,738	5,266	3,565
Renuka Foods PLC	50,000	635	615	29,535	488	411
		27,170	12,302		38,921	22,945
Chemical and Pharmaceuticals						
CIC Holdings PLC	-	-	-	28,000	1,530	1,109
CIC Holdings PLC-Non Voting	47,000	2,222	2,237	50,164	2,483	1,505
		2,222	2,237		4,013	2,614
Construction and Engineering						
Access Engineering PLC	-	-	-	35,000	586	494
Colombo Dockyard PLC	-	-	-	5,000	300	278
Lankem Developments PLC	575,000	2,990	2,012	275,000	1,900	1,128
MTD Walkers PLC	165,000	6,751	2,442	165,000	6,751	1,815
		9,741	4,454		9,537	3,715
Diversified						
Taprobane Holdings PLC	250,000	1,283	1,250	250,000	1,283	1,000
		1,283	1,250		1,283	1,000

Notes to The Financial Statements Contd.

22 Financial Investments at Fair Value Through Profit or Loss (contd.)

22.5 Quoted Equities and Unit Trusts (contd.)

Group As at 31 December	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Diversified Holdings						
Aitken Spence PLC	110,000	11,111	5,115	110,000	11,111	5,258
Browns Investments PLC	-	-	-	1,300,000	4,005	2,470
Expolanka Holdings PLC	-	-	-	725,000	3,548	2,900
Hemas Holdings PLC	30,000	2,537	2,400	12,500	1,176	1,110
John Keells Holdings PLC	21,371	3,344	3,582	31,371	4,879	5,010
Melstacorp PLC	22,756	1,140	990	7,756	465	390
Richard Pieris & Company PLC	-	-	-	30,000	313	315
Softlogic Holdings PLC	65,211	3,756	3,065	60,712	3,531	3,266
Sunshine Holdings PLC	350,000	5,763	5,565	50,000	1,030	1,075
The Colombo Fort Land & Building PLC	80,500	1,770	1,079	44,799	1,224	672
Vallibel One PLC	-	-	-	39,485	725	671
		29,421	21,796		32,007	23,137
Footwear and Textiles						
Hayleys Fabric PLC	-	-	-	680,408	9,144	6,191
		-	-		9,144	6,191
Health Care						
Ceylon Hospitals PLC (Durdans)	5,000	500	390	5,000	500	356
Asiri Surgical Hospital PLC	44,000	467	444	-	-	-
The Lanka Hospitals Corporation PLC	35,000	1,470	1,425	-	-	-
		2,437	2,259		500	356
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	63,219	5,779	1,713	63,219	5,779	1,707
Amaya Leisure PLC	16,433	898	603	-	-	-
Asian Hotels & Properties PLC	15,000	662	607	-	-	-
Beruwala Resorts PLC	-	-	-	200,000	180	140
Eden Hotel Lanka PLC	127,743	3,677	1,558	127,743	3,677	1,558
John Keells Hotels PLC	225,000	2,555	2,610	200,000	2,335	1,560
Palm Garden Hotels PLC	147,472	10,890	3,996	147,472	10,890	3,156
The Kingsbury PLC	1,937,727	41,834	25,384	1,937,727	41,833	29,453
Waskaduwa Beach Resort PLC	-	-	-	110,000	463	275
		66,295	36,471		65,157	37,849
Investment Trust						
Ceylon Investment PLC	65,727	6,411	3,385	65,727	6,411	2,563
Guardian Capital Partners PLC	18,472	1,006	554	18,472	1,006	444
Lanka Century Investments PLC	750,000	9,841	9,675	700,000	9,361	7,770
Lanka Realty Investments PLC	-	-	-	10,000	250	206
		17,258	13,614		17,028	10,983

22 Financial Investments at Fair Value Through Profit or Loss (contd.)**22.5 Quoted Equities and Unit Trusts (contd.)**

Group As at 31 December	2019			2018		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Land and Property						
Cargo Boat Development Company PLC	9,984	899	534	9,984	899	729
City Housing & Real Estate Company PLC	38,435	190	138	35,935	178	176
Colombo Land & Development Company PLC	2,700	96	70	2,700	96	41
Commercial Development Company PLC	4,649	451	368	4,649	451	326
East West Properties PLC	304,020	5,446	2,554	45,000	768	585
Kelsey Developments PLC	-	-	-	2,000	70	61
Property Development PLC	8,547	1,057	1,199	8,547	1,057	1,019
Seylan Developments PLC	160,750	2,194	1,849	100,000	1,480	1,100
		10,333	6,712		4,999	4,037
Manufacturing						
Abans Electricals PLC	5,000	501	479	6,417	642	370
ACL Cables PLC	-	-	-	60,000	3,175	2,220
Alufab PLC	60,000	1,660	828	60,000	1,660	990
Alumex PLC	130,000	2,031	1,924	80,000	1,386	1,080
BPPL Holding PLC	100,000	1,205	1,220	-	-	-
Ceylon Grain Elevators PLC	25,010	1,691	1,713	60,000	4,079	3,570
Chevron Lubricants Lanka PLC	37,500	3,831	2,809	37,428	3,830	2,724
Dankotuwa Porcelain PLC	-	-	-	9,100	64	59
Dipped Products PLC	16,380	1,431	1,376	-	-	-
Hayleys Fibre PLC	1,931	183	178	-	-	-
Kelani Tyres PLC	115,000	9,023	5,704	115,000	9,022	4,128
Lanka Walltiles PLC	14,659	1,048	1,063	-	-	-
Pelwatte Sugar Industries PLC	68,400	2,925	-	68,400	2,925	-
Richard Pieris Exports PLC	-	-	-	2,000	470	430
Royal Ceramics Lanka PLC	87,000	10,557	7,700	87,000	10,557	6,490
Sierra Cables PLC	1,500,000	6,030	4,950	1,390,000	5,656	2,919
Swisstek (Ceylon) PLC	-	-	-	14,745	641	605
Teejay Lanka PLC	-	-	-	250,000	8,343	8,125
Tokyo Cement Company (Lanka) PLC-Non Voting	-	-	-	75,833	2,235	1,744
		42,116	29,944		54,685	35,454
Motors						
United Motors Lanka PLC	17,500	1,184	1,102	-	-	-
		1,184	1,102	-	-	-
Plantation						
Elpitiya Plantations PLC	60,000	1,704	1,134	50,000	1,496	990
Hatton Plantation PLC	50,000	425	345	50,000	425	345
Malwatte Valley Plantations PLC	64,429	353	258	64,429	353	264
Malwatte Valley Plantations PLC-Non Voting	50,000	340	310	-	-	-
Watawala Plantations PLC	19,725	577	513	19,498	577	372
		3,399	2,560		2,851	1,971

Notes to The Financial Statements Contd.

22 Financial Investments at Fair Value Through Profit or Loss (contd.)

22.5 Quoted Equities and Unit Trusts (contd.)

Group						
As at 31 December						
	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Power and Energy						
Laugfs Gas PLC	175,000	3,380	3,062	71,444	1,568	1,336
Laugfs Gas PLC-Non Voting	32,500	671	429	25,000	569	385
Panasian Power PLC	100,000	350	320	500,000	1,550	1,500
Resus Energy PLC	223,381	3,407	5,585	172,737	3,407	3,645
Vallibel Power Erathna PLC	250,000	1,913	1,575	250,000	1,913	1,600
		9,721	10,971		9,007	8,466
Service						
Ceylon Tea Brokers PLC	-	-	-	114,778	554	321
Renuka Capital PLC	418,500	1,972	1,549	113,500	700	431
		1,972	1,549		1,254	752
Telecommunication						
Dialog Axiata PLC	-	-	-	75,000	750	758
		-	-		750	758
Trading						
Brown & Company PLC	112,500	8,341	8,201	72,009	5,337	4,392
		8,341	8,201		5,337	4,392
Total value of quoted equities and unit trusts		386,822	261,936		404,172	272,985

22.6 Other Debt Securities

Group						
As at 31 December						
	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Bank, Finance and Insurance						
Hatton National Bank PLC	17,500	1,600	1,565	17,500	1,600	1,715
Total value of listed debentures		1,600	1,565		1,600	1,715

Total value of financial assets at FVTPL		388,422	263,501		405,772	274,700
Marked to market valuation loss		(124,921)			(131,072)	
Fair value of financial assets designated at FVTPL		263,501			274,700	

22 Financial Investments at Fair Value Through Profit or Loss (contd.)**22.7 Sector wise analysis of equity securities (contd.)**

Group As at 31 December	2019		2018	
	Total Cost	Fair Value	Total Cost	Fair Value
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Bank, Finance and Insurance	155,529	108,079	149,299	110,080
Beverages, Food and Tobacco	27,170	12,302	38,921	22,945
Chemical and Pharmaceuticals	2,222	2,237	4,013	2,614
Construction and Engineering	9,741	4,454	9,537	3,715
Diversified	1,283	1,250	1,283	1,000
Diversified Holdings	29,421	21,796	32,007	23,137
Footwear and Textiles	-	-	9,144	6,191
Health Care	2,437	2,259	500	356
Hotels and Travel	66,295	36,471	65,157	37,849
Information and Technology	-	-	-	-
Investment Trust	17,258	13,614	17,028	10,983
Land and Property	10,333	6,712	4,999	4,037
Manufacturing	42,116	29,944	54,685	35,454
Motors	1,184	1,102	-	-
Plantation	3,399	2,560	2,851	1,971
Power and Energy	9,721	10,971	9,007	8,466
Service	1,972	1,549	1,254	752
Telecommunication	-	-	750	758
Trading	8,341	8,201	5,337	4,392
Total value of financial assets at FVTPL	388,422	263,501	405,772	274,700
Marked to market valuation loss	(124,921)		(131,072)	
Fair value of financial assets designated at FVTPL	263,501		274,700	

23 Loans and Receivables at Amortised Cost**Accounting Policy**

As per SLFRS 9, Loans and receivables to the Company's are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

As per LKAS 39 'Loans and advances to the Companys' comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

After initial measurement, loans and receivables are subsequently measured at amortised cost using EIR, less allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest income' in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss 'Impairment charges for loans and receivables and other losses'.

Lease and Hire Purchase Receivables

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

'Day 1' Profit or Loss

Staff loans granted at below market interest rates are recognised at fair value. The difference between the fair value and the amount disbursed were treated as 'day 1' difference and amortised as staff cost over the loan period by using effective interest rate (EIR). The staff loans subsequently measured at amortised costs.

Notes to The Financial Statements Contd.

23 Loans and Receivables at Amortised Cost (contd.)

Write-off of Loans and Receivables

Loans and receivables (and the related impairment allowance accounts) are normally written off, either partially or in fully, when there is no realistic prospect of recovery. Where loans and receivables are secured, this is generally after receipt of any proceeds from the realisation of security.

Re-negotiated Loans and Receivables

Where possible, the Group/Company seeks to re-structure loans and receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreements 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. The management continuously reviews the re-negotiated loans and receivables to ensure that all criteria are met and that future payments are likely to occur. The loans and receivables continue to be subject to any criteria are met and that future payments are likely to occur. The loans and receivables continue to be subjected to an individual or collective impairment assessment calculated using the original EIR.

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Bills receivable	23.2	184	437,185	597,332	437,185	597,332
Loans and advances to customers	23.3	185	16,019,638	15,083,935	15,765,208	14,848,200
Lease and hire purchase receivable	23.4	186	15,627,628	17,614,533	15,627,628	17,614,533
Less : Allowance for impairment losses						
Bills Receivable	23.2.2	184	180,544	163,341	180,544	163,341
Loans and Advances to Customers	23.3.2	185	1,145,258	1,275,119	1,145,258	1,275,119
Lease and Hire Purchase Receivable	23.4.5	187	1,530,434	1,136,193	1,530,434	1,136,193
Net loans and Receivables			29,228,215	30,721,147	28,973,785	30,485,412

23.1 Analysis of Loans and Receivables

23.1.1 Product wise analysis of loans and receivables

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Finance lease/ijarah	15,334,318	17,283,348	15,334,318	17,283,348
Hire purchase/murabaha	293,311	331,185	293,311	331,185
Term loans	8,253,034	7,447,045	7,998,605	7,211,310
Personal loans	3,431,549	4,724,585	3,431,549	4,724,585
Margin trading	252,311	170,502	252,311	170,502
Micro finance	396,615	683,328	396,615	683,328
Pawning	3,188,480	1,476,110	3,188,480	1,476,110
Loans against fixed deposits	497,648	582,365	497,648	582,365
Bill Discounting	437,185	597,332	437,185	597,332
Gross loans and receivables	32,084,451	33,295,800	31,830,022	33,060,065

23 Loans and Receivables at Amortised Cost (contd.)**23.1.2 Sector/Industry wise analysis of loans and receivables**

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Agriculture	5,630,919	8,758,248	5,630,919	8,758,248
Manufacturing	3,463,522	3,616,369	3,463,522	3,616,369
Tourism	806,401	733,597	806,401	733,597
Transportation	3,226,540	3,175,836	3,226,540	3,175,836
Construction	1,875,947	1,937,524	1,875,947	1,937,524
Trade	4,344,345	3,799,512	4,344,345	3,799,512
Services	1,881,989	2,118,479	1,627,559	2,118,479
Financials	2,173,693	2,248,088	2,173,693	2,012,353
Consumption	8,681,095	6,908,147	8,681,095	6,908,147
Gross loans and receivables	32,084,451	33,295,800	31,830,021	33,060,065

23.1.3 Contractual maturity analysis of loans and receivables - 2019

	Company/Group			
	Within one year	1 - 5 Years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Agriculture	3,368,926	2,257,036	4,957	5,630,919
Manufacturing	1,749,105	1,630,174	84,243	3,463,522
Tourism	269,471	531,386	5,544	806,401
Transportation	1,458,003	1,761,634	6,903	3,226,540
Construction	975,230	896,276	4,441	1,875,947
Trade	1,790,140	2,544,933	9,272	4,344,345
Services	599,504	1,001,667	26,387	1,627,558
Financials	1,050,211	1,109,365	14,117	2,173,693
Consumption	5,867,648	2,562,067	251,381	8,681,096
Gross loans and receivables	17,128,238	14,294,538	407,245	31,830,021

23.1.4 Contractual maturity analysis of loans and receivables - 2018

	Company/Group			
	Within one year	1 - 5 Years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Agriculture	4,415,514	4,207,529	135,205	8,758,248
Manufacturing	1,797,044	1,711,851	107,474	3,616,369
Tourism	214,614	466,044	52,940	733,598
Transportation	1,219,899	1,852,469	103,468	3,175,836
Construction	740,002	1,059,087	138,435	1,937,524
Trade	1,337,061	2,267,324	195,127	3,799,512
Services	548,079	998,614	336,051	1,882,744
Financials	1,125,661	1,035,643	86,784	2,248,088
Consumption	4,305,641	2,106,892	495,613	6,908,146
Gross loans and receivables	15,703,515	15,705,453	1,651,097	33,060,065

Notes to The Financial Statements Contd.

23 Loans and Receivables at Amortised Cost (contd.)

23.2 Bills Receivable

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Bills discounted			437,185	597,332	437,185	597,332
Less : Allowance for impairment losses						
Individual impairment	23.2.2	184	154,538	143,940	154,538	143,940
Collective impairment	23.2.2	184	26,006	19,401	26,006	19,401
Net bills receivables			256,641	433,991	256,641	433,991

23.2.1 Analysis of bill discounting on maximum exposure to credit risk as at 31st December 2019

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross Receivables	124,575	7,812	304,797	437,185
Individually Impairment	-	-	(154,538)	(154,538)
Collective Impairment	(16,725)	(2,052)	(7,229)	(26,006)
As at 31 December	107,851	5,760	143,030	256,641

23.2.2 Movement of impairment during the year 2019

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	143,940	143,940
Charge during the year	-	-	10,598	10,598
As at 31 December	-	-	154,538	154,538
Collective				
As at 01 January	4,760	4,499	10,142	19,401
Charge during the year	11,965	(2,447)	(2,913)	6,605
As at 31 December	16,725	2,052	7,229	26,006

23.2.3 Analysis of bill discounting on maximum exposure to credit risk as at 31st December 2018

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross Receivables	271,536	112,304	213,491	597,332
Individually Impairment	-	-	(143,940)	(143,940)
Collective Impairment	(4,760)	(4,499)	(10,142)	(19,401)
As at 31 December	266,777	107,805	59,409	433,991

23 Loans and Receivables at Amortised Cost (contd.)**23.2.4 Movement of impairment during the year 2018**

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	122,666	122,666
Charge during the year	-	-	21,274	21,274
As at 31 December	-	-	143,940	143,940
Collective				
As at 01 January	3,978	5,599	2,167	11,744
Impairment adjustment as per SLFRS 9	9,397	13,224	5,118	27,739
As at 01 January after the restatement	13,375	18,823	7,284	39,482
Charge during the year	(8,615)	(14,324)	2,858	(20,081)
As at 31 December	4,760	4,499	10,142	19,401

23.3 Loans and Advances to Customers

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Term loans and receivables			16,019,638	15,083,935	15,765,208	14,848,200
Less : Allowance for impairment losses						
Individual impairment	23.3.2	185	598,320	548,938	598,320	548,938
Collective impairment	23.3.2	185	546,937	726,181	546,937	726,181
Net loans and advances receivables			14,874,381	13,808,816	14,619,951	13,573,081

23.3.1 Analysis of term loans receivables on maximum exposure to credit risk as at 31st December 2019

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross Receivables	9,144,631	2,011,171	4,863,836	16,019,638
Individually Impairment	-	-	(598,320)	(598,320)
Collective Impairment	(127,920)	(54,620)	(364,398)	(546,937)
As at 31 December	9,016,711	1,956,551	3,901,118	14,874,381

23.3.2 Movement of impairment during the year 2019

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	548,938	548,938
Charge during the year	-	-	49,383	49,383
As at 31 December	-	-	598,320	598,320
Collective				
As at 01 January	175,684	93,687	456,810	726,181
Charge during the year	(47,764)	(39,067)	(92,411)	(179,243)
As at 31 December	127,920	54,620	364,399	546,938

Notes to The Financial Statements Contd.

23 Loans and Receivables at Amortised Cost (contd.)

23.3.3 Analysis of term loan receivables on maximum exposure to credit risk as at 31st December 2018

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross Receivables	9,609,456	1,810,124	3,664,355	15,083,936
Individually Impairment	-	-	(548,937)	(548,937)
Collective Impairment	(175,684)	(93,687)	(456,811)	(726,182)
As at 31 December	9,433,772	1,716,437	2,658,607	13,808,816

23.3.4 Movement of impairment during the year 2018

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	386,701	386,701
Charge during the year	-	-	162,236	162,236
As at 31 December	-	-	548,937	548,937
Collective				
Charge during the year	104,782	50,272	206,917	361,971
Impairment adjustment as per SLFRS 9	166,300	79,786	328,393	574,479
As at 01 January after the restatement	271,082	130,058	535,310	936,450
Charge during the year	(95,398)	(36,371)	(78,499)	(210,268)
As at 31 December	175,684	93,687	456,811	726,182

23.4 Lease and Hire Purchase Receivable

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
23.4.1 Finance Lease/Hire Purchase Receivable Within One Year from the Reporting Date				
Total lease and hire purchase rental receivable	19,685,722	22,459,160	19,685,722	22,459,160
Less : lease and hire purchase rental receivable after one year	12,499,104	15,826,687	12,499,104	15,826,687
Rental receivable within one year from the reporting date	7,186,618	6,632,473	7,186,618	6,632,473
Less : Unearned lease and hire purchase income	2,136,817	2,350,419	2,136,817	2,350,419
	5,049,801	4,282,054	5,049,801	4,282,054
23.4.2 Finance Lease/Hire Purchase Receivable After One Year from the Reporting Date				
Rental receivable after one year from the reporting date	12,499,104	15,826,687	12,499,104	15,826,687
Less : Unearned lease and hire purchase income	1,921,277	2,494,208	1,921,277	2,494,208
	10,577,827	13,332,479	10,577,827	13,332,479
Gross investment in leases and hire purchase	15,627,628	17,614,533	15,627,628	17,614,533

23 Loans and Receivables at Amortised Cost (contd.)**23.4 Lease and Hire Purchase Receivable (contd.)**

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
23.4.3 Lease and Hire Purchase Receivable						
Gross investment in leases and hire purchase			15,627,628	17,614,533	15,627,628	17,614,533
Less : Allowance for impairment losses						
Individual impairment	23.4.5	187	942,271	681,277	942,271	681,277
Collective impairment	23.4.5	187	588,163	454,916	588,163	454,916
Net investment in leases and hire purchase			14,097,194	16,478,340	14,097,194	16,478,340

23.4.4 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31st December 2019

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross Receivables	7,121,279	4,447,699	4,058,651	15,627,628
Individual impairment	-	-	(942,271)	(942,271)
Collective impairment	(91,740)	(131,565)	(364,858)	(588,163)
As at 31 December	7,029,538	4,316,134	2,751,521	14,097,195

23.4.5 Movement of impairment during the year 2019

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	681,276	681,276
Charge during the year	-	-	260,994	260,994
As at 31 December	-	-	942,271	942,271
Collective				
As at 01 January	80,376	94,363	280,177	454,916
Charge during the year	11,364	37,202	84,681	133,247
As at 31 December	91,740	131,565	364,858	588,163

23.4.6 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31st December 2018

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross Receivables	8,608,509	4,825,745	4,180,279	17,614,533
Individual impairment	-	-	(681,277)	(681,277)
Collective impairment	(80,376)	(94,363)	(280,177)	(454,916)
As at 31 December	8,528,133	4,731,382	3,218,825	16,478,341

Notes to The Financial Statements Contd.

23 Loans and Receivables at Amortised Cost (contd.)

23.4.7 Movement of impairment during the year 2018

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	209,900	209,900
Charge during the year	-	-	471,377	471,377
As at 31 December	-	-	681,277	681,277
Collective				
As at 01 January after the restatement	35,913	38,728	142,934	217,575
Impairment adjustment as per SLFRS 9	81,017	87,368	322,449	490,834
As at 01 January after the restatement	116,930	126,096	465,383	708,409
Charge during the year	(36,554)	(31,733)	(185,206)	(253,493)
As at 31 December	80,376	94,363	280,177	454,916

24 Financial Investments at Fair Value through Other Comprehensive Income**Accounting Policy**

As per SLFRS 9, this comprises debt instruments measured at FVTOCI and equity instruments designated at FVTOCI.

Debt instruments at FVTOCI

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated at FVTPL:

- ▶ The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

These instruments comprise Government Securities that had previously been classified as available for sale classified and Loans and receivables under LKAS 39.

Equity instruments at FVTOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVTOCI when they meet the definition of Equity under Sri Lanka Accounting Standard - LKAS 32 - 'Financial Instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVTOCI are not subject to an impairment assessment.

These instruments comprise quoted and unquoted shares that had been previously classified as Available-for-sale under LKAS 39.

As per LKAS 39, Available-for-sale financial investments included equity and debt securities. Equity investments classified as available-for-sale were those which were neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category were 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 Group had 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 were recognised in Equity through OCI in the 'Available-for-sale reserve'. When these financial investments were disposed, the cumulative gain or loss previously recognised in Equity was recycled to profit or loss through 'Operating income'. Interest earned while holding available-for-sale financial investments was reported as 'Interest income' using the EIR. Dividend earned while holding available-for-sale financial investments were recognised in the Statement of Profit or Loss as 'Operating income' when the right to receive the payment had been established.

24 Financial Investments at Fair Value through Other Comprehensive Income (contd.)

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Government securities	24.1	189	1,174,677	1,135,633	1,864,256	1,761,657
Equity securities - Quoted	24.3	189	19,125	21,420	19,125	21,420
Equity securities - Unquoted	24.4	190	22,676	23,945	22,676	23,945
Unit trust			-	-	48,293	43,298
Net financial investments at FVTOCI			1,216,478	1,180,998	1,954,350	1,850,320

24.1 Government Securities

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Treasury bills			1,174,677	843,407	1,549,926	1,168,056
Treasury bonds			-	292,226	314,330	593,601
			1,174,677	1,135,633	1,864,256	1,761,657

24.2 Government securities allocated for the liquidity requirement

As at 31 December	Company	
	2019 Rs.'000	2018 Rs.'000
Government securities, maturing within one year, free from any lien or charge	1,174,677	1,003,787
	1,174,677	1,003,787

24.3 Equity Securities - Quoted

As at 31 December	No of Shares	2019		No of Shares	2018	
		Total Cost Rs.'000	Fair Value Rs.'000		Total Cost Rs.'000	Fair Value Rs.'000
Company						
Power and Energy						
LVL Energy Fund PLC	2,550	20,521	19,125	2,550	20,521	21,420
		20,521	19,125		20,521	21,420
Group						
Power and Energy						
LVL Energy Fund PLC	2,550	20,521	19,125	2,550	20,521	21,420
		20,521	19,125		20,521	21,420

Notes to The Financial Statements Contd.

24 Financial Investments at Fair Value through Other Comprehensive Income (contd.)

24.4 Equity Securities - Unquoted

As at 31 December		Note	Page No.	Holding %	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Company										
Mega Containers Limited				6.21	1,000,000	10,000	21,781	1,000,000	10,000	22,601
Ceylinco Investment Company Limited	24.4.1	190		46.35	500,000	5,000	-	500,000	5,000	-
Credit Information Bureau of Sri Lanka Limited		0.22		540	54	54	540	54	54	-
Ranwan Industries (Private) Limited				5.00	165,790	3,600	-	165,790	3,600	-
Finance & Guarantee Company Limited				0.15	2,506,562	17,546	841	2,506,562	17,546	1,290
San Michele Limited				-	50,000	500	-	50,000	500	-
					36,700	22,676	-	36,700	23,945	
Adjustment for fair value changes						13,176			12,601	
Adjustment due to impairment						(27,200)			(25,356)	
Total unquoted investments						22,676			23,945	

As at 31 December		Note	Page No.	Holding %	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2018 Total Cost Rs.'000	Fair Value Rs.'000
Group										
Mega Containers Limited				6.21	1,000,000	10,000	21,781	1,000,000	10,000	22,601
Ceylinco Investment Company Limited	24.4.1	190		46.35	500,000	5,000	-	500,000	5,000	-
Credit Information Bureau of Sri Lanka Limited		0.22		540	54	54	540	54	54	-
Ranwan Industries (Private) Limited				5.00	165,790	3,600	-	165,790	3,600	-
Finance & Guarantee Company Limited				0.15	2,506,562	17,546	841	2,506,562	17,546	1,290
San Michele Limited				-	50,000	500	-	50,000	500	-
Equity One Limited				-	26,664	-	-	26,664	-	-
					36,700	22,676	-	-	36,700	23,945
Adjustment for fair value changes						13,176			12,601	
Adjustment due to impairment						(27,200)			(25,356)	
Total unquoted investments						22,676			23,945	

24.4.1 Although the Company has acquired 46.35% equity capital of Ceylinco Investment Company Limited, the investment has not been classified as an associate company due to pending court decision on the ownership structure of the Company.

25 Financial Investments at Amortised Cost

Accounting Policy

As per SLFRS 9, 'Financial investments' are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- ▶ The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- ▶ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' while the losses arising from impairment are recognised in 'impairment charges for loans and other losses' in the Statement of Profit or Loss.

As per previously classified under LKAS 39, this included financial investments held-to-maturity

Held-to-maturity financial investments were non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group had the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. After initial measurement, held-to-maturity financial investments were subsequently measured at amortised cost using the EIR, less provision for impairment. EIR is calculated by taking into account any discount or premium on acquisition and fees. The amortisation is included in 'Interest Income' while the losses arising from impairment of such investments are recognised in 'Impairment charges and other losses' in the Statement of Profit or Loss.

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Debt securities - Treasury bonds	1,513	60,828	1,513	60,828
	1,513	60,828	1,513	60,828

26 Real Estate Stock

Accounting Policy

Property acquired or being constructed for sale in the ordinary course of the business. They are measured at the lower of cost or net realisable value. The cost comprises all costs of purchase, costs of conversion and the costs incurred in bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of the business less the estimated costs of completion necessary to make the sale.

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Real estate stock	297,075	78,503	297,075	78,503
	297,075	78,503	297,075	78,503

Notes to The Financial Statements Contd.

27 Investment in Associate Company**Accounting Policy**

Investment in associate is accounted for at cost, net of any impairment losses which are charged to the Statement of Profit or Loss and it is in accordance with the Sri Lanka Accounting Standard - LKAS 28 - 'Investment in Associates and Joint Ventures' in the Company's Financial Statements and cost less impairment if any in the Consolidated Financial Statements.

Under the equity method, the investment in associate is initially accounted for at cost and the carrying amount is adjusted for post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the Company's net investment in associate.

Associate is an entity in which the Company has significant influence, but no control over the financial and operating policies.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised but it subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses.

The Consolidated Financial Statements include the Company's share of the income and expenses and equity movements of the associate, after adjustments being made to align the accounting policies with those of the Group from the date that significant influence effectively commences until the date that significant influence effectively ceases.

When the Company's share of losses exceeds its interest in the associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Profit and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment cost in accordance with the Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments'.

As at 31 December	Country of Incorporation	Principal Activity	No. of Shares	Holding %	Company			
					2019		2018	
					Cost Rs.'000	Fair Value Rs.'000	Cost Rs.'000	Fair Value Rs.'000
Unquoted								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,212,543	29.00%	81,084	76,026	81,084	81,084
Less : Impairment provision					5,058		-	
Balance as at 31 December					76,026		81,084	

27.1 Carrying Value on Equity Basis Group

As at 31 December	Lanka Securities (Pvt) Ltd	
	2019 Rs.'000	2018 Rs.'000
Net assets at the beginning of the year	84,415	92,453
Add : Profit/(loss) before tax accruing to the group	(8,263)	(8,360)
Less : Income tax	(61)	(56)
Add : Other comprehensive income for the year	(65)	378
Net assets at the end of the year	76,026	84,415

27 Investment in Associate Company (contd.)**27.2 Summarized Financial Information of Associate**

As at 31 December	Lanka Securities (Pvt) Ltd	
	2019	2018
	Rs.'000	Rs.'000
Income	82,268	84,530
Less : Expenses	110,766	113,357
Profit/(loss) before taxation	(28,498)	(28,827)
Less : Income tax expense/(reversal)	209	192
Profit/(loss) for the period	(28,707)	(29,019)
Other comprehensive income/(expenses)	(223)	1,302
Total comprehensive income/(expense) for the period	(28,930)	(27,717)

As at 31 December	2019	2018
	Rs.'000	Rs.'000
Total assets	383,606	354,660
Total liabilities	121,451	63,574

28 Investment in Subsidiary**Accounting Policy**

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

Subsidiaries are entities that are controlled by the Company. Subsidiaries are consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. The Company is presumed to control an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company. Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position but separate from parent shareholder's equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this result in a deficit balance. Acquisition of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

Subsidiaries are not quoted in the Colombo Stock Exchange (CSE) and the Directors' valuation of investment in subsidiaries has been carried out on fair value basis.

The consolidated financial statements of the Group include:

As at 31 December	Note	Page No.	Principal activity	Country of incorporation	Equity interest %	2019	Fair value	Equity interest	2018	Fair value
						Cost	Rs.'000	Rs.'000	Cost	Rs.'000
						Rs.'000	Rs.'000	Rs.'000	Rs.'000	
MBSL Insurance Company Ltd	28.2	194	Insurance	Sri Lanka	53.81	1,016,096	849,968	84.12	516,096	79,276
Less : Impairment provision	28.2	194				166,128			436,820	
Balance as at 31 December						849,968			79,276	

Notes to The Financial Statements Contd.

28 Investment in Subsidiary (contd.)

28.2 The following table summarises the investment made in subsidiary-MBSL:

	MBSL Insurance Rs.'000
Cost	
Balance as at 01 January 2018	516,096
Investment made during the year	-
Balance as at 31 December 2018	516,096
Investment made during the year	500,000
Balance as at 31 December 2019	1,016,096
Impairment provision	
Balance as at 01 January 2018	(494,980)
Impairment reversal/(charge)	58,160
Balance as at 31 December 2018	(436,820)
Impairment reversal/(charge)	270,692
Balance as at 31 December 2019	(166,128)
As at 31 December 2018	79,276
As at 31 December 2019	849,968

The following table summarises the information relating to the subsidiary and proportion of equity interest held by non-controlling interests. This information is based on amounts before inter company eliminations.

28.3 Summarized Financial Information of MBSL Insurance Company Ltd

	01.01.2019 To 31.03.2019 Rs.'000	01.04.2019 To 31.12.2019 Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
Non-controlling interest (NCI) percentage (%)	15.88%	46.19%		15.88%
Net operating income	(4,000)	163,503	159,503	63,283
Operating expenses	(45,048)	(170,302)	(215,350)	(212,517)
Profit before income tax	(49,048)	(6,799)	(55,847)	(149,234)
Income tax (expense)/reversal	-	(241,349)	(241,349)	506,249
Profit for the year	(49,048)	(248,147)	(297,195)	357,015
Profit allocated to non-controlling interest (NCI)	(7,789)	(114,619)	(122,408)	56,694
Other comprehensive income allocated to non-controlling interest (NCI)	-	4,518	4,518	183

28 Investment in Subsidiary (contd.)

28.4

As at 31 December	2019 Rs.'000	2018 Rs.'000
Cash and cash equivalents	823,161	245,414
Placements with banks & financial institutions	649,829	113,416
Financial investments at fair value through profit or loss	9,841	7,593
Loans & receivables at amortised cost	4,254	6,294
Financial investments at fair value through other comprehensive income	737,872	669,322
Property, equipment and right-of-use assets	40,113	26,940
Deferred tax assets	267,283	506,249
Other assets	225,915	188,260
Total assets	2,758,268	1,763,489
Due to banks	786	3,154
Insurance contract liabilities-life	546,253	574,398
Insurance contract liabilities-non life	383,164	336,825
Other liabilities	518,026	456,962
Retirement benefits obligations	11,859	8,937
Total liabilities	1,460,088	1,380,277
Net assets value	1,295,798	383,212
Carrying amount of non-controlling interest (NCI)	598,529	60,854

28.5 Valuation assumptions and the Sensitivity

The sensitivity on the total value of the Subsidiary MBSLI was based on the sensitivity of Non-life fund + fixed value of Life fund

Key valuation assumptions used in Non-life business		Sensitivity Table (Total Equity value of MBSLI company)				
		Cost of Equity [valuation of Non-life & Life business] in Rupees				
		16.87%	17.12%	17.37%	17.62%	17.87%
Risk free rate	9.9%					
Equity return premium	6.0%					
Company risk premium	1.5%					
Cost of equity	17.4%					
Terminal growth	5.0%					
Terminal Value Growth [valuation of Non-life business]	4.00%	859,497,697	847,555,454	836,092,383	825,081,705	814,498,581
	4.50%	867,204,018	854,723,422	842,760,619	831,285,617	820,270,671
	5.00%	875,559,567	862,482,806	849,967,921	837,981,123	826,491,254
	5.50%	884,649,992	870,909,951	857,782,409	845,229,064	833,214,713
	6.00%	894,576,704	880,094,932	866,284,187	853,100,751	840,504,596

28.6 Impairment Provision/Reversal

Impairment of Investment in Subsidiary :

With the investment of Rs. 500 Mn on 1st April, 2019, the Company assessed the recoverable amount of the investment in subsidiary at the end of the financial position date as Rs. 850 Mn and as at 31 December 2018 it was Rs. 79.3 Mn. Accordingly impairment reversal of Rs. 271 Mn (2018 impairment reversal : Rs. 58.1 Mn) was recorded during the year 2019 in the Company's Financial Statements.

Notes to The Financial Statements Contd.

29 Investment Properties**Accounting Policy**

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

Basis of Measurement

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

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

Derecognition

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

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Cost as at 01 January			148,408	149,094	148,408	149,094
Less: Disposals			-	687	-	687
Cost as at 31 December	29.1	197	148,408	148,408	148,408	148,408
Accumulated depreciation as at 31 December			31,132	28,226	31,132	28,226
Net book value as at 31 December			117,276	120,181	117,276	120,181
Accumulated depreciation						
Balance as at 01 January			28,226	25,320	28,226	25,320
Charge for the year			2,906	2,906	2,906	2,906
Balance as at 31 December			31,132	28,226	31,132	28,226
Rental income derived from investment property			Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that generated rental income during the year			Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that did not generate rental income during the year			-	931	-	931

29 Investment Properties (contd.)**29.1 Investment Properties Held by the Company/Group**

As at 31 December					2019					
Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	Cost/Carrying amount			Fair Value		
					Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.			16.61P	Level 3	1,750	-	1,750	30,000	N/A	30,000
No 385/1, Kotte Road, Pitakotte.	1	2,896	19.01P	Level 3	2,958	1,730	4,688	53,000	-	53,000
No 116/4,116/7,116/26, 116/27,116/29 1st Cross Street, Colombo 11.			12.35P	Level 3	1,249	-	1,249	5,000	N/A	5,000
No 102 & 104, Dam Street, Colombo 12. (Note.29.1.a)	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	188,000	-	188,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.			2.0A	Level 3	600	-	600	55,000	N/A	55,000
Mirissawelawatta hena; Thekkawatta Dambadeniya			1A-0R-28.00P	Level 3	162	-	162	2,000	N/A	2,000
Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralessgamuwa	1		2A-1R-4.35P	Level 3	65,604	44,396	110,000	200,191	119,809	320,000
					90,293	58,115	148,408	533,191	119,809	653,000

As at 31 December					2018					
Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	Cost/Carrying amount			Fair Value		
					Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.			16.61P	Level 3	1,750	-	1,750	30,000	N/A	30,000
No 385/1, Kotte Road, Pitakotte.	1	2,896	19.01P	Level 3	2,958	1,730	4,688	3,343	1,955	5,298
No 116/4,116/7,116/26, 116/27,116/29 1st Cross Street, Colombo 11.			12.35P	Level 3	1,249	-	1,249	5,000	N/A	5,000
No 102 & 104, Dam Street, Colombo 12.	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	188,000	-	188,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.			2.0A	Level 3	600	-	600	55,000	N/A	55,000
Mirissawelawatta hena; Thekkawatta Dambadeniya			1A-0R-28.00P	Level 3	162	-	162	2,000	N/A	2,000
Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralessgamuwa	1		2A-1R-4.35P	Level 3	65,604	44,396	110,000	200,191	119,809	320,000
					90,293	58,115	148,408	483,534	121,764	605,298

29.1.a The fair value of the investment properties as at 31 December 2019 was based on market valuations carried out in the year 2019 and 2018 by Mr. D N Dhammika Baranage RICS (UK), DIV AIS (SL) and Mr. S. A. M. A. Perera. F.I.V (Sri Lanka), Chartered valuer (MRICSuk), L.G.T Tungasiri (AIV). F.I.V (Sri Lanka). Dip.in Valuation (S.L.T.C), who are independent valuers not connected with the Company. The Directors have reviewed the values of the investment properties as at 31 December 2019 and concluded that there was no impairment.

29.1.b "The Company has entered into an agreement with 71 tenants to sell the lease hold rights of the property at No. 102 & 104, Dam Street, Colombo 12 subject to the approval of Urban Development Authority (UDA). The date of the completion of this sale and the execution of the deed of transfer in favor of the purchaser in respect of lease hold rights of the premises shall be fixed subsequent to the registration of the said premises as a condominium unit and upon a condominium deed of declaration being executed and obtaining all necessary approvals from the UDA for such registration. However, the Company has not obtained the condominium status and other necessary approval from UDA to proceed selling the lease hold right agreement till the reporting date. MBSL shall expeditiously affect the transfer deeds contemplated by the agreement after having obtained the registration of the condominium plan and the condominium declaration and any other statutory approval from UDA and upon the balance payment of the purchase consideration settled in full.

Notes to The Financial Statements Contd.

30 Property, equipment and right-of-use assets

Accounting Policy

Basis of Recognition

Property and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

Basis of Measurement

An item of property 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 cost incurred subsequently to add to or replace a part of it. 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 at the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property & equipment.

The Company and the Group apply the cost model to property & equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Subsequent Cost

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property and equipment are charged to the Statement of Profit or Loss as incurred.

Repairs and Maintenance

Repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Derecognition

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other operating income' in the Statement of Profit or Loss in the year the asset is de-recognised.

Borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property & equipment during the year.

30 Property, equipment and right-of-use assets (contd.)

30.1 Company	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Right -of -use Assets	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost								
Balance as at 01 January 2018	23,961	2,943	82,495	4,585	349,186	359,534	-	822,704
Additions during the year	-	-	7,583	-	9,251	72,186	-	89,020
Disposals during the year	(9,961)	(2,943)	-	-	(2,258)	(1,692)	-	(16,854)
Balance as at 31 December 2018	14,000	-	90,078	4,585	356,179	430,028	-	894,870
Effect of adoption of IFRS 16								
as at 1 January 2019	-	-	-	-	-	-	619,449	619,449
Additions during the year	-	-	44,856	-	42,854	51,958	57,535	197,203
Disposals during the year	-	-	(9,381)	-	(4,333)	(6,594)	(6,813)	(27,121)
Balance as at 31 December 2019	14,000	-	125,553	4,585	394,700	475,392	670,171	1,684,401
Accumulated Depreciation								
Balance as at 01 January 2018	-	1,753	57,375	3,490	219,047	219,379	-	501,044
Charge for the year	-	98	8,509	306	36,832	33,514	-	79,259
On disposals	-	(1,851)	-	-	(2,257)	(1,438)	-	(5,546)
Balance as at 31 December 2018	-	-	65,884	3,796	253,622	251,455	-	574,757
Charge for the year	-	-	14,090	789	39,324	35,975	149,439	239,617
On disposals	-	-	(9,379)	-	(4,319)	(5,401)	(6,673)	(25,772)
Balance as at 31 December 2019	-	-	70,595	4,585	288,627	282,029	142,766	788,602
Net book value								
As at 31 December 2018								320,113
As at 31 December 2019								895,799

30.2 Group	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Right -of -use Assets	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost								
Balance as at 01 January 2018	23,961	2,943	82,733	4,585	410,449	447,887	-	972,558
Additions during the year	-	-	7,583	-	9,251	72,186	-	89,020
Disposals during the year	(9,961)	(2,943)	-	-	(2,258)	(14,599)	-	(29,761)
Balance as at 31 December 2018	14,000	-	90,316	4,585	417,442	505,474	-	1,031,817
Effect of adoption of IFRS 16								
as at 1 January 2019	-	-	-	-	-	-	632,944	632,944
Additions during the year	-	-	44,856	-	43,449	54,984	75,789	219,078
Disposals during the year	-	-	(9,381)	-	(4,333)	(8,774)	(10,361)	(32,849)
Adjustment for the year	-	-	-	-	(3,060)	-	-	(3,060)
Balance as at 31 December 2019	14,000	-	125,791	4,585	453,498	551,684	698,372	1,847,930
Accumulated Depreciation								
Balance as at 01 January 2018	-	1,753	57,587	3,490	273,944	288,391	-	625,165
Charge for the year	-	98	8,521	306	38,990	38,641	-	86,556
On disposals	-	(1,851)	-	-	(2,257)	(10,289)	-	(14,397)
Balance as at 31 December 2018	-	-	66,108	3,796	310,677	316,743	-	697,324

Notes to The Financial Statements Contd.

30 Property, equipment and right-of-use assets (contd.)

30.2 Group (contd.)	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Right -of -use Assets	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Charge for the year	-	-	14,104	789	40,551	39,900	155,181	250,525
On disposals	-	-	(9,379)	-	(4,319)	(7,250)	(6,673)	(27,621)
Adjustment for the year	-	-	-	-	(1,004)	-	-	(1,004)
Balance as at 31 December 2019	-	-	70,833	4,585	345,905	349,393	148,508	919,224
Net book value								
As at 31 December 2018								334,493
As at 31 December 2019								928,706

Information on the Freehold Land and Buildings of the Company

Location	Extent (Perches)	Revalued Amounts Land Rs.'000	Net Book Value Land Rs.'000	As a % of Total NBV
Kurunduwatta, Ekala	1A-1R-27.93	95,000	14,000	679%
		95,000	14,000	

The market value of the land at Kurunduwatta, Ekala was Rs. 95,000,000 as per the valuation carried out in August 2017 by Mr. D N Dhammika Baranage RICS (UK), DIV AIS (SL). The Directors have reviewed the values of the land as at 31 December 2019 and concluded that there was no impairment.

Title Restriction on Property and Equipment

There were no restrictions existed on the title of the property and equipment of the Group as at the date of the Statement of Financial Position.

Property and Equipment Pledged as Security for Liabilities

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

Compensation from Third Parties for Items of Property and Equipment

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

Fully Depreciated Property and Equipment

The cost of fully depreciated property and equipment of the Company and the Group which are still in use as at the date of the Statement of Financial Position as follows:

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Motor vehicles	46,475	52,694	46,475	52,694
Computer equipments	173,278	171,952	226,309	222,594
Equipment, furniture & fittings	146,832	112,596	194,852	144,007
Total	366,585	337,242	467,636	419,295

Temporarily Idle Property and Equipment

There were no property and equipment of the Company and the Group that were temporarily idle as at the date of the Statement of Financial Position.

Property and Equipment Retired from Active Use

There were no property and equipment of the Company and the Group were retired from active use as at the date of the Statement of Financial Position.

31 Intangible Assets

Accounting Policy

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Company and to the Group in accordance with the Sri Lanka Accounting Standard - LKAS 38 - 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are stated in the Statement of Financial Position at cost less any accumulated amortisation and any accumulated impairment losses if any.

Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful Economic Lives

The useful economic lives of intangible assets are assessed to be either finite or indefinite.

Derecognition

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the assets is recognised in the Statement of Profit or Loss in the year the assets is de-recognised.

31.1 Company	Computer Software Rs.'000	Total Rs.'000
Cost		
Balance as at 01 January 2018	355,510	355,510
Additions and improvements during the year	4,469	4,469
Balance as at 31 December 2018	359,979	359,979
Additions and improvements during the year	24,011	24,011
Disposals during the year	(58,654)	(58,654)
Balance as at 31 December 2019	325,336	325,336
Accumulated amortisation		
Balance as at 01 January 2018	129,217	129,217
Amortisation for the year	37,641	37,641
Balance as at 31 December 2018	166,858	166,858
Amortisation for the year	35,577	35,577
Disposals during the year	(57,354)	(57,354)
Balance as at 31 December 2019	145,081	145,081
Net book value		
As at 31 December 2018		193,121
As at 31 December 2019		180,255

Notes to The Financial Statements Contd.

31 Intangible Assets (contd.)

31.2 Group	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
Cost			
Balance as at 01 January 2018	403,702	18,193	421,895
Additions and improvements during the year	4,469	-	4,469
Balance as at 31 December 2018	408,171	18,193	426,364
Additions and improvements during the year	24,010	-	24,010
Disposals during the year	(58,654)	-	(58,654)
Balance as at 31 December 2019	373,527	18,193	391,720
Accumulated amortisation and impairment			
Balance as at 01 January 2018	159,176	18,193	177,369
Amortisation for the year	43,314	-	43,314
Balance as at 31 December 2018	202,490	18,193	220,683
Amortisation for the year	40,931	-	40,931
Disposals during the year	(57,354)	-	(57,354)
Balance as at 31 December 2019	186,067	18,193	204,260
Net book value			
As at 31 December 2018			205,681
As at 31 December 2019			187,460

Fully Amortised Intangible Assets

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

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Computer Software	69,967	103,995	78,863	112,771

There were no restrictions existed on the title of the intangible assets of the Company and the Group as at the Statement of Financial Position date. Further, there were no items pledged as securities for liabilities.

32 Other Assets

Accounting Policy

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

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Claims and commission receivables	14,148	15,241	14,148	15,241
Other receivables	72,888	1,080	79,568	9,143
Advances and pre payments	120,193	85,860	130,554	96,562
Other accounts	147,547	197,122	156,770	207,054
Reinsurance assets-insurance contracts	-	-	124,356	165,903
Insurance receivables	-	-	66,704	3,604
Commercial paper	434,967	434,967	434,967	434,967
	789,743	734,270	1,007,067	932,474
Less : Allowance for impairment losses	455,312	434,967	455,312	434,967
	334,431	299,303	551,755	497,507

33 Due to Banks**Accounting Policy**

Due to banks include bank overdrafts and long term and short-term loans obtained by the Company and the Group from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method.

Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are recognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as a liability with a corresponding obligation to return it, including accrued interest as a liability within 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Bank overdraft	332,985	508,225	333,771	511,379
Reverse repurchase agreements	934,195	166,894	934,195	166,894
Bank borrowings - Short-term loans	4,684,555	4,186,801	4,684,555	4,186,801
Bank borrowings - Long-term loans	1,797,286	1,007,397	1,797,286	1,007,397
	7,749,021	5,869,317	7,749,807	5,872,471

33.1 Analysis of Cash and Cash Equivalents at the End of the Year

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Dues to banks	332,985	508,225	333,771	511,379
	332,985	508,225	333,771	511,379

33.2 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2019

	Company/Group			Total Rs.'000
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Reverse repurchase agreements	934,195	-	-	934,195
Bank borrowings - Short-term loans	4,684,555	-	-	4,684,555
Bank borrowings - Long-term loans	-	1,797,286	-	1,797,286
	5,618,750	1,797,286	-	7,416,036

33.3 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2018

	Company/Group			Total Rs.'000
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Reverse repurchase agreements	166,894	-	-	166,894
Bank borrowings - Short-term loans	4,186,801	-	-	4,186,801
Bank borrowings - Long-term loans	-	1,007,397	-	1,007,397
	4,353,695	1,007,397	-	5,361,092

Notes to The Financial Statements Contd.

34 Due to Customers at Amortised Cost

Accounting Policy

Due to customers at amortised cost include fixed deposits and saving deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are de-recognised as well as through the EIR amortisation process.

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Savings deposits	848,782	884,653	848,782	884,654
Time deposits	21,907,148	19,946,368	21,907,148	19,936,952
	22,755,930	20,831,021	22,755,930	20,821,606

34.1 Contractual Maturity Analysis of Customer Deposits

	2019			Total Rs.'000
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Company				
Savings deposits	848,782	-	-	848,782
Time deposits	14,896,337	6,950,381	60,430	21,907,148
	15,745,119	6,950,381	60,430	22,755,930
Group				
Savings deposits	848,782	-	-	848,782
Time deposits	14,896,337	6,950,381	60,430	21,907,148
	15,745,119	6,950,381	60,430	22,755,930

34.2 Contractual Maturity Analysis of Customer Deposits

	2018			Total Rs.'00
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Company				
Savings deposits	884,653	-	-	884,653
Time deposits	11,689,030	8,193,908	63,430	19,946,368
	12,573,683	8,193,908	63,430	20,831,021
Group				
Savings deposits	884,653	-	-	884,653
Time deposits	11,689,030	8,184,493	63,430	19,936,953
	12,573,683	8,184,493	63,430	20,821,606

35 Debt Issued and Borrowed Funds at Amortised Cost**Accounting Policy**

Debt issued represent the funds borrowed by the Company and the Group for long term and short term liquidity fund requirements. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are de-recognised as well as through the EIR amortisation process.

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Debentures	35.3	205	2,107,810	4,229,470	2,107,810	4,229,470
Long term Loan - Securitization			358,458	1,101,607	358,458	1,101,607
Total debt issued and borrowed funds	35.1/35.2		2,466,268	5,331,077	2,466,268	5,331,077

35.1 Contractual Maturity Analysis of Long Term Securitization - 2019

	Within one year Rs.'000	Company/Group		Total Rs.'000
		1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Long term Loan - Securitization	358,458	-	-	358,458

35.2 Contractual Maturity Analysis of Long Term Securitization - 2018

	Within one year Rs.'000	Company/Group		Total Rs.'000
		1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Long term Loan - Securitization	788,035	313,573	-	1,101,607

35.3 Debentures

ISIN No.	Face Value Rs.'000	Interest Rate	Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Company / Group Value as at	
								2019 Rs.'000	2018 Rs.'000
Fixed Rate Debentures									
LK0186D23824	805,760	15.00%	listed	Nil	Annually	03-May-17	02-May-22	885,298	884,964
LK0186D23816	1,193,230	14.50%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,221,479	1,220,562
LK0186D23808	1,010	13.89%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,033	1,032
Debenture Redeemed During the Year									
Fixed Rate									
LK0186D22669	909,770	9.00%	listed	Nil	Annually	13-Nov-14	12-Nov-19	-	991,901
LK0186D22677	1,090,230	8.75%	listed	Nil	Bi Annually	13-Nov-14	12-Nov-19	-	1,131,011
Total Debentures	2,000,000							2,107,810	4,229,470

Notes to The Financial Statements Contd.

35.4 Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company

	2019				2018			
	Within one year	1 - 5 Years	Over 5 years	Total	Within one year	1 - 5 Years	Over 5 years	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Unsecured debentures	-	2,107,810	-	2,107,810	2,122,912	2,106,558	-	4,229,470

Outstanding number of debentures as at 31 December 2019 consisted of 20,000,000 unsecured redeemable debentures of Rs. 100/- each issued by the Company.

The Company has not repurchased any of its own debt during the year. (2018: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2019 and 2018.

36 Insurance contract liabilities

Accounting Policy

36.1 Life insurance contract liabilities

These liabilities are measured by using the gross premium valuation method as prescribed by the Regulation of Insurance Industry ACT, No. 43 of 2000. The liability is determined as the discounted value of the expected contractual cash outflows less the discounted value of the expected premiums. Valuation assumptions are derived based on the best estimate experience with a prescribed risk margin to allow for adverse deviations.

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate, by using a liability adequacy test.

Liability adequacy test (LAT)

At each reporting date, an assessment is made of whether the recognised life insurance liabilities are adequate by using an existing liability adequacy test as laid out under SLFRS 4. The liability value is adjusted to the extent that it is adequate to meet future benefits and expenses.

Any deficiency is recognised in the income statement by setting up a provision for liability adequacy.

36.1.1 Insurance Contract Liabilities-Life

As at 31 December	Group	
	2019 Rs.'000	2018 Rs.'000
Life fund balance as at 31st December	499,864	527,349
Unclaimed benefits	46,389	47,050
Balance as at 31 December	546,253	574,399

36.2 Accounting Policy

Non-life insurance contract liabilities

Non-life insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

36 Insurance contract liabilities (contd.)**36.2 Accounting Policy (contd.)****Liability adequacy test (LAT)**

The provision for unearned premiums represents premiums received for risks that have not yet expired. Generally the reserve is released over the term of the contract and is recognized as premium income. At each reporting date the company reviews its unexpired risk and a liability adequacy test is performed to determine whether there is any overall excess of expected claims and deferred acquisition costs over unearned premiums. This calculation uses current estimates of future contractual cash flows after taking account of the investment return expected to arise on assets relating to the relevant non-life insurance technical provisions. If these estimates show that the carrying amount of the unearned premiums (less related deferred acquisition costs) is inadequate, the deficiency is recognized in the statement of comprehensive income by setting up a provision for liability adequacy.

36.2.1 Insurance Contract Liabilities-Non Life

As at 31 December	Group	
	2019 Rs.'000	2018 Rs.'000
Provision for reported claims by policy holders	308,044	332,156
Provision for claims IBNR	5,917	4,497
Outstanding claims provision	313,961	336,653
Provision for unearned premiums	69,203	172
Total non life insurance contract liabilities	383,164	336,825

Liability adequacy test

A Liability Adequacy Test ("LAT") for non life contract liability was carried out by Mr. Sivaraman Kumar for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31st December 2019 as required by SLFRS 4 - Insurance Contracts.

The IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at a 50th percentile of confidence, to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2019, in many but not all scenarios of future experience. The UPR provision of LKR 69,202,787 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of MBSL Insurance Co Ltd as at 31 December 2019, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

37 Current Tax Liabilities**Accounting Policy**

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

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

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance at 01 January	424	(41,955)	424	(41,955)
Add: Provision for taxation	104,799	109,838	104,799	109,838
Add: Adjustments/Write offs	1,251	-	1,251	-
(Over)/under provision of taxes in respect of prior years	(30,896)	-	(30,896)	-
Less : Tax credit setoff in the year	60,374	37,887	60,374	37,887
Less : WHT & NTC movement for the year	2,648	11,884	2,648	11,884
Less: ESC & ACT movement for the year	(2,295)	17,688	(2,295)	17,688
Balance as at 31 December	14,851	424	14,851	424

Notes to The Financial Statements Contd.

38 Deferred tax liabilities**Accounting Policy**

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

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

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

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

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

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Net deferred tax liability	38.2	209	212,520	340,444	212,520	340,444
Net deferred tax asset	38.2	209	-	-	(264,901)	(506,249)
Net deferred tax liabilities			212,520	340,444	(52,381)	(165,805)

38.1 Deferred Tax Movement

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 01st January	340,444	373,712	(165,805)	373,712
01 day impact to deferred tax under SLFRS 9	-	(201,571)	-	(201,571)
Balance as at 01 January after the restatement	340,444	172,141	(165,805)	172,141
Charge for the year	(119,293)	155,553	122,056	(350,696)
Deferred tax charge relating to components of the Statements of Comprehensive Income	(8,630)	12,750	(8,630)	12,750
Balance as at 31 December	212,520	340,444	(52,381)	(165,805)

38 Deferred tax liabilities (contd.)**38.2 Reconciliation of Deferred Tax Liability**

Deferred tax assets and liabilities are attributable to the following:

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Deferred Tax Assets				
Carry forward tax losses	-	-	(264,121)	(507,244)
Retirement benefit obligation	(67,446)	(77,105)	(70,406)	(79,607)
Actuarial gains/(losses) recognised in the Statement of Comprehensive Income	(8,630)	7,748	(8,630)	7,748
AFS Reserve T-Bond & Bills	-	-	(202)	-
Right of Use Assets	(10,603)	-	(10,603)	-
Impairment	(87,234)	(118,272)	(87,234)	(118,272)
	(173,913)	(187,629)	(441,196)	(697,375)
Deferred tax liability				
Accelerated depreciation allowance for tax purpose (Rentals receivable)	317,111	470,624	317,111	470,625
Right of Use Assets	-	-	469	-
Accelerated depreciation allowance for tax purpose (Property and equipment)	69,322	57,449	71,235	60,945
	386,433	528,073	388,815	531,570
Net deferred tax liabilities	212,520	340,444	212,520	340,444
Net deferred tax assets	-	-	(264,901)	(506,249)

39 Other Liabilities**Accounting Policy**

Other liabilities include accrued expenses and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

As at 31 December	Note	Page No.	Company		Group	
			2019	2018	2019	2018
			Rs.'000	Rs.'000	Rs.'000	Rs.'000
Accrued expenses			35,989	34,827	35,989	34,827
Lease liability	39.1	210	541,470	-	567,102	12,360
Payable to employees & suppliers			180,273	226,502	230,887	266,935
Insurance payable			-	-	11,797	11,333
Margin accounts			20,868	18,050	20,868	18,050
Other liabilities			118,439	236,053	281,146	386,859
			897,039	515,432	1,147,789	730,364

Notes to The Financial Statements Contd.

39 Other Liabilities (contd.)

39.1 The below table shows the carrying amounts of lease liabilities and the movements during the period:

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Operating Lease						
Effect of adoption of IFRS 16 as at 1 January 2019	39.2	210	596,930	-	610,425	-
Additions			35,645	-	51,587	-
Accretion of interest			71,658	-	71,658	-
Payments			(162,763)	-	(171,415)	-
Finance Lease						
Within 12 months			-	-	3,184	4,509
Later than 12 months			-	-	1,663	7,851
As at 31 December 2019			541,470	-	567,102	12,360

The maturity analysis of lease liabilities are disclosed in Note 50 on pages 225 and 238.

39.2 Reconciliation of Lease Liabilities as at 1st January 2019 to the Operating Lease Commitments as at 31st December 2018

	Company Rs.'000	Group Rs.'000
Operating Lease Commitments as at 31st December 2018	911,201	926,198
Discounted Operating Leasing commitments as at 1st January 2019	596,930	610,425

Present Value of Operating Lease liabilities as at 1st January 2019 has been calculated using Monthly Fixed Deposits Interest Rates of the Bank.

40 Retirement Benefits Obligations

Accounting Policy

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

Gratuity

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

Recognition of Actuarial Gains and Losses

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

Funding Arrangements

The gratuity liability is not externally funded.

Accounting Estimates

The actuarial valuation involves making demographic & financial assumptions as mentioned in Note 38.2 The mortality rates represent the probabilities of "death" occurring within one year of any given age based on publicly available A 67/70 mortality table issued by Institute of Actuaries, London. In determining the appropriate long term rate of discount management considers market rates of interest on long term Corporate Bonds/Government Bonds and the anticipated long term rate of inflation.

40 Retirement Benefits Obligations (contd.)

As at 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 01 January			247,708	262,987	256,644	283,000
Expense recognised in the Statement of Profit or Loss	40.1	211	51,652	45,862	54,220	49,424
Payment made during the year			(58,483)	(33,471)	(60,712)	(39,451)
Actuarial gains/(losses) recognised in the Statement of Other Comprehensive Income			30,822	(27,670)	33,406	(36,329)
Balance as at 31 December			271,699	247,708	283,558	256,644

40.1 Expense Recognised in the Statement of Profit or Loss

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Current service cost	21,432	18,511	22,991	20,151
Interest cost	30,220	27,351	31,229	29,273
Total	51,652	45,862	54,220	49,424

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2019 by Messrs Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the liability is the "Projected Unit Credit" the method recognised by the Sri Lanka Accounting Standard - LKAS 19 - 'Employee Benefits'.

40.2 Actuarial Assumptions

	Company	
	2019	2018
Financial Assumptions		
Discount rate	10.20%	12.2%
Demographic Assumptions		
Mortality :	A 1967/70 Mortality Table	A 1967/70 Mortality Table
Disability :	10% of the Mortality Table	10% of the Mortality Table
Retirement age :	55 and 60 years	55 and 60 years

Expected average working life of the active participants is 6.88 years as of 31 December 2019 (8.42 years as of 31 December 2018).

Notes to The Financial Statements Contd.

40 Retirement Benefits Obligations (contd.)

40.3 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and Statement of Financial Position is the effect of the assumed changes in discount rate on the profit or loss and employment benefit obligation for the year.

Increase/(Decrease) in Discount Rate	2019		2018	
	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
1%	(13.58)	(13.58)	(11.77)	(11.77)
(1%)	15.06	15.06	13.08	13.08

Maturity Profile of the Defined benefit Obligation	Company	
	2019 Rs.'000	2018 Rs.'000
Within the next 12 months	53,730	62,409
Between 1-2 years	53,456	51,130
Between 2-5 years	67,670	48,317
Between 5-10 years	47,344	40,017
Beyond 10 years	49,500	45,835
Total	271,700	247,708

41 Stated Capital

As at 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Value of shares in issue	2,124,457	2,124,457	2,124,457	2,124,457

As at 31 December	Company		Group	
	2019 No. of Shares	2018 No. of Shares	2019 No. of Shares	2018 No. of Shares
No. of shares in issue	165,874,541	165,874,541	165,874,541	165,874,541

42 Reserves**42.1 Statutory Reserves**

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 January	214,096	177,839	214,096	177,839
Add: Transfers during the year	20,517	36,257	20,517	36,257
Balance as at 31 December	234,613	214,096	234,613	214,096

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

42.2 Retained Earnings

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 January	193,012	924,947	457,806	948,415
01 day impact to deferred tax under SLFRS 9	-	201,571	-	201,571
Impairment adjustment as per SLFRS 9	-	(1,093,454)	-	(1,093,535)
Balance as at 01 January 2018 after the restatement	193,012	33,064	457,806	56,451
Add: Profit for the year	102,584	181,285	(346,162)	415,031
Transfers to statutory reserves	(20,517)	(36,257)	(20,517)	(36,257)
Acquisition, disposal and changes in non-controlling interest	-	-	37,645	-
Other comprehensive income	(22,192)	14,920	(23,647)	22,581
Balance as at 31 December	252,887	193,012	105,125	457,806

42.3 OCI Reserve

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Balance as at 01 January	(7,461)	6,577	(19,051)	1,300
Gains/(losses) on remeasuring financial investments at FVTOCI	3,299	(14,038)	9,952	(20,351)
Balance as at 31 December	(4,162)	(7,461)	(9,099)	(19,051)

43 Additional Cash Flow Information**43.1 Change in Operating Assets**

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Loans and advances given to customers	1,492,932	(1,960,653)	1,511,627	(1,730,095)
Other operating assets	(253,703)	(1,233,996)	(274,905)	(1,058,226)
Right of Use Assets	(527,405)	-	(549,864)	-
Adjustment for impairment	(279,673)	(134,531)	(279,673)	(135,630)
	432,151	(3,329,180)	407,185	(2,923,951)

Notes to The Financial Statements Contd.

43 Additional Cash Flow Information (contd.)

43.2 Change in Operating Liabilities

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Due to customers	1,924,909	(1,087,848)	1,934,324	(1,088,778)
Other operating liabilities	413,236	47,470	457,644	10,653
Payments made under operating leases	(162,763)	-	(171,740)	-
Insurance provision	-	-	18,193	(65,895)
	2,175,382	(1,040,378)	2,238,421	(1,144,020)

43.3 Other Non-Cash Items Included in Profit Before Tax

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Loss on disposal of quoted shares	(9,652)	2,337	(9,652)	2,337
Interest accrued on Government securities	(11,937)	(55,921)	(11,937)	(55,921)
Gain on sale of property and equipment	(655)	(83,199)	(872)	(81,675)
Net (gain)/loss on financial instruments at FVTPL	(18,768)	29,999	(21,017)	29,394
Impairment charges for loans and other losses	279,673	134,531	279,673	135,630
Interest charged on operating lease	71,658	-	71,984	-
Reversal of impairment of investment in subsidiary	(270,692)	(58,160)	-	-
Charged of impairment of investment in subsidiary	5,058	-	-	-
Depreciation and amortisation	128,661	119,806	139,181	132,776
	173,347	89,393	447,360	162,541

Other Financial Disclosures

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

44 Related Party Disclosure

The Company/Group carried out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard - LKAS 24 - 'Related Party Disclosures'.

44. a Transactions with Key Management Personal (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 - 'Key Management Personnel' are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the directors of the Company / Group (including executive and non-executive directors), chief executive officer, chief operating officer and corporate management committee have been classified as KMP of the Company and the Group.

44. b Directors Interest in Contracts/ Transactions with Related Parties

Dr. S. Lokuhewa, Mr. W. P. R. P. H. Fonseka, Mr. K. B. S. Bandara, Mr. S. N. Dayaratne, Mr. S. P. Arsakularatne, Mr. D. N. L. Fernando, Mr. C. Amarasinghe, Mr. M. P. R. Kumara (Alternate Director to Mr. W. P. R. P. H. Fonseka), Mr. G. A. Jayashantha (Alternate Director to Mr. K. B. S. Bandara) were directors of the Company as at 31 December 2019.

44 Related Party Disclosure (contd.)**44. c Transactions with Key Management Personnel and their Close Family Members**

Remuneration to Key Management Personnel

For the year ended 31 December	Company		Group	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
(a) Remuneration to Board of Directors				
Short term employees benefits	5,313	7,953	5,313	7,953
	5,313	7,953	5,313	7,953
(b) Remuneration to Corporate Management				
Short term employees benefits	49,287	68,420	49,287	68,420
Post employment benefits	21,785	23,911	21,785	23,911
	71,072	92,331	71,072	92,331

Transactions, arrangements and agreements involving Key Management Personnel (KMPs), their close family members and other entities.

	Board of Directors		Corporate Management	
	2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
(a) Items in the Statement of Financial Position				
Assets - Loan and receivables	8,000	-	20,811	29,125
Liabilities - Due to customers	10,527	28	715	339
(b) Items in the Statement of Profit or Loss				
Interest income	404	-	1,209	1,084
Interest expense	527	1	23	1

Share Transactions With Key Management Personnel

As at 31 December	Company	
	2019	2018
No. of ordinary shares held	24	24

Notes to The Financial Statements Contd.

44 Related Party Disclosure (contd.)

44.e Details of significant related party transactions that have been carried out in the ordinary course of business in an arms length basis with entities are disclosed below.

	Nature of Transactions	Income/(Expenses) Recognised During the Year		Assets/(Liabilities) as at 31 December	
		2019	2018	2019	2018
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Company					
Transactions with parent company					
Bank of Ceylon	Money Market Loan	(185,127)	(122,577)	(1,550,000)	(1,500,000)
	Debenture	(118,151)	(232,770)	(771,780)	(2,596,525)
	Current accounts	(2,412)	(1,589)	(102,337)	(357,031)
	Interest received-REPO	171	9,245	-	-
	Interest paid-REPO	-	(505)	-	-
	Fixed Deposits and savings	30,790	1,471	325,000	-
Transactions with subsidiary					
MBSL Insurance Company Limited	Loans and Advances	52,280	18,820	258,684	242,029
	Fixed Deposits and savings	-	(993)	-	(9,416)
	Insurance agency commission	5,674	-	-	-
	Insurance expenses	(4,064)	-	-	-
	Impairment of loans and advances at amortised cost	-	(4,698)	-	(4,698)
	Loans granted to Key management personnel of MBSL Insurance Company Limited	1,074	-	60,000	-
Transactions with other companies					
BOC Property Development and Management Company Limited	Rent paid	(72,611)	(71,210)	-	-
	Electricity, water, office maintenance, rates	(11,516)	(14,450)	-	-
	Fixed Deposits and savings	(1,232)	(8,925)	-	(35,000)
Ceybank Asset Management Limited	Fixed Deposits and savings	(1,403)	(2,567)	-	(15,143)
	Business Promotion	(25)	-	-	-
Ceybank Holiday Homes (Pvt) Ltd	Staff Training	(16)	-	-	-
Group					
Subsidiary - MBSL Insurance Company Limited					
Bank of Ceylon	Gross written premium	-	-	-	-
	Premium receivable	-	-	-	-
	Claim incurred	-	-	-	-

45 Events after the Reporting Period

The outbreak and spread of the coronavirus globally since January 2020 have caused disruption to business and economic activities, and uncertainty to the global economy. Quarantine measures taken by respective countries widely affected the Company's clientele directly or indirectly linked to industry sectors such as Financials, Agriculture, Manufacturing, Tourism, Transportation, Construction, Trade, Services, Consumption. Recent COVID 19 containing measures taken by Local Government has also caused temporal disruption to business operations and economic activities of the Company and its customers. Resulting financial effects would be negative, financial repercussions would be felt by the Company in the first quarter of FYE 2020.

Moratorium and reduced interest rate schemes announced, is likely to have negative impact on the earnings, cash flows and liquidity positions of the Company. A one- to six-month debt moratorium, depending on the type of credit line, will have negative first-order, but a reduction of the liquid-asset requirement for deposits and borrowings could reduce near-term liquidity shocks stemming mainly from non-payment of loan rentals.

45 Events after the Reporting Period (contd.)

The ECL and Fair Value of Investments as at 31 December 2019 was estimated based on a range of forecast economic conditions as at that date. The impact to GDP and other key indicators will be considered when determining the severity and likelihood of downside economic scenarios that will be used to estimate ECL and Fair Value of Investment for the FY2020.

The Company will continue to take appropriate actions to mitigate any potential impact and will keep its contingency and risk management measures under review, as the situation evolves. With the situation and the spread of the coronavirus still evolving, the impact to our core markets and also to the Company's financial results cannot be reasonably estimated at the current stage.

46 Going Concern of Subsidiary

Going Concern of MBSL Insurance Company Limited (MBSLI)

After considering the financial position as at the reporting date and considering the future prospects of the company, the Directors have a reasonable expectation that the company has adequate resources to continue in operations in foreseeable future.

47 Classification Changes in Comparatives

Classification changes in comparatives had and impact on the following components of the Financial Statements for the year ended 31 December 2019.

	Reference	Company		Impact	Group		Impact
		Current Presentation 2018	As Reported Previously 2018		Current Presentation 2018	As Reported Previously 2018	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Statement of Profit or Loss							
Operating Income							
Net trading income	1	(2,337)	6,855	9,192	(2,337)	9,042	11,379
Other operating income	1	177,129	167,937	(9,192)	201,801	190,422	(11,379)
Statement of Financial Position							
Assets							
Cash and cash equivalents	2	1,587,292	294,622	(1,292,670)	1,832,705	391,886	(1,440,819)
Security purchased under resale agreements	2	-	1,292,670	1,292,670	-	1,440,819	1,440,819
Deferred tax assets	3	-	187,629	(187,629)	506,249	697,375	(191,126)
Deferred tax liabilities	3	340,444	528,073	(187,629)	340,444	531,570	(191,126)
Other assets	4,5	299,303	316,573	17,270	497,507	514,778	17,271
Liabilities							
Current tax liabilities	4	424	15,042	14,618	424	15,042	14,618
Other liabilities	5	515,432	518,084	2,652	730,364	733,017	2,653

Comparative figures have been changed due to following classification changes for the year 2019.

- Dividend income which was categorized under the net trading income in the Statement of Profit or Loss, has been reclassified under other operating income.
- Repurchase agreements which was categorized under Security purchased under resale agreements has been reclassified under cash and cash equivalents
- Deferred tax assets which was categorized as assets in the Companies Statement of Financial Position, has been net off with deferred tax liability and Deferred tax liabilities which was categorized as liability in the Groups Statement of Financial Position, has been net off with deferred tax assets for better presentation in the Statement of Financial Position.
- WHT Receivables which was categorised under other assets has ben reclassified under current tax liabilities
- Cash margin - Chq discounting which was categorised under other assets has ben reclassified under other liabilities

Notes to The Financial Statements Contd.

48 Financial Reporting by Segment

Accounting Policy

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

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

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

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group.

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

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

Group	Leasing		Loans and Receivables	
	2019	2018	2019	2018
As at 31 December	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Revenue from external customers				
Interest and similar income	3,252,535	3,201,421	2,780,480	2,606,984
Interest and similar expenses	1,761,040	1,640,850	1,685,226	1,389,139
Net interest income	1,491,495	1,560,571	1,095,254	1,217,845
Net fee and commission income	54,625	86,028	32,304	72,052
Real estate profit	-	-	21,061	35,474
Other income	20,788	23,061	3,508	13,271
Total operating income	1,566,908	1,669,660	1,152,127	1,338,642
Impairment (charges)/reversal for loans and other losses	(394,241)	(180,113)	114,569	45,581
Net operating income	1,172,667	1,489,547	1,266,696	1,384,223
Personnel expenses	464,934	479,351	444,918	405,817
Depreciation and amortisation	127,537	68,847	122,046	58,286
Other operating expenses	284,901	345,262	272,636	292,298
Segment result	295,295	596,087	427,096	627,822
Profit/(loss) before VAT on financial services				
Taxes on financial services				
Share of associate company's profit/(loss) before tax				
Profit/(Loss) before income tax				
Income tax expense/(reversal)				
Profit/(Loss) for the year				
Assets				
Capital expenditures				
Property, equipment and right-of-use assets	65,037	39,817	70,003	34,696
Intangible assets	8,963	1,996	9,647	1,739
Total segment assets	14,097,194	16,478,340	15,173,666	14,085,575
Total segment liabilities	12,550,988	14,918,768	13,509,391	12,752,463

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

Lease and Hire-Purchase

This segment includes lease and hire purchase products offered to the customers.

Loans and Receivables

This segment includes loan products offered to the customers.

Corporate Advisory and Capital Markets

This segment includes capital market and corporate advisory services.

Insurance

Insurance business segment includes life and general insurance.

Eliminations/Other

This segment includes all other business activities other than the above segments

Corporate Advisory & Capital Markets		Insurance		Eliminations/ Other		Total	
2019	2018	2019	2018	2019	2018	2019	2018
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
34,433	24,436	117,302	65,888	465,279	362,096	6,650,029	6,260,825
88,017	30,082	978	14,410	796,991	692,400	4,332,252	3,766,881
(53,584)	(5,646)	116,324	51,478	(331,712)	(330,304)	2,317,777	2,493,944
78	5,136	(5,167)	(5,731)	96,075	44,926	177,915	202,411
-	-	-	-	-	-	21,061	35,474
42,021	(18,564)	48,346	18,635	9,980	91,551	124,643	127,954
(11,485)	(19,074)	159,503	64,382	(225,657)	(193,827)	2,641,396	2,859,783
3,904	(29,999)	-	(1,099)	(3,904)	30,000	(279,672)	(135,631)
(7,581)	(49,073)	159,503	63,283	(229,561)	(163,828)	2,361,724	2,724,153
23,238	8,788	92,304	84,340	210,414	202,274	1,235,808	1,180,570
6,374	1,262	21,616	18,643	16,789	(14,262)	294,362	132,776
14,239	6,330	106,784	115,207	128,939	145,693	807,499	904,790
(51,432)	(65,453)	(61,201)	(154,907)	(585,703)	(497,533)	24,055	506,017
						24,055	506,017
						(288,343)	(266,735)
						(8,263)	(8,360)
						(272,552)	230,922
						(196,019)	240,803
						(468,571)	471,725
5,668	724	18,254	-	60,116	13,783	219,078	89,020
781	36	-	-	4,619	698	24,010	4,469
1,228,632	299,543	849,968	79,276	7,264,305	6,162,835	38,613,765	37,105,569
1,093,874	271,193	1,462,470	1,383,773	6,943,417	4,938,057	35,560,140	34,264,254

Notes to The Financial Statements Contd.

49 Contingent Liabilities and Commitments

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

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

As at 31 December	Company		Group	
	2019	2018	2019	2018
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial guarantees & claims to the customers	121,337	124,250	190,086	177,350
Total commitments and contingencies	121,337	124,250	190,086	177,350

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

Pending Litigations

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

No.	Action / Case No.	Purpose / Cause of Action	Current status
1	43156/MR DC - Colombo	This action has been filed against MBSL for releasing the leased article to the third party who was authorized in writing by the lessee to receive the certificate of registration etc. from MBSL. Following the full settlement of the lease facility by the third party, MBSL released the vehicle and the lessee thereafter filed this action against MBSL claiming damages thus disputing the signature on his own letter of authority.	Plaintiff's action dismissed on 15/07/2016. Appeal No. WP/HCCA/LA/33/2016(f) is fixed for Argument on 26/03/2020
2	4124/M DC - Gampaha	The Lessee/ Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle. However the injunction sought by the lessee/ plaintiff preventing MBSL from disposing the vehicle in issue was disallowed.	Trial on 20/01/2020
3	23840/M DC - Anuradhapura	The Lessee/ Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle seeking a declaration to the effect that MBSL has violated the provisions of the Lease Agreement.	Further Trial on 20/01/2020
4	DMR/3675/11 DC - Colombo	This action has been filed against the MBSL to recover Rs.2,500,000/- as damages for refusal to grant a Hire Purchase facility.	Further Trial on 27/04/2020
5	Appeal No.134/2009 (F) Civil Appellate Court Gampaha	This is an appeal instituted against the order of DC Gamapaha in favour of MBSL in case No.426/L filed by a Mortgagor seeking to nullify the Mortgage bond executed by her to secure a financial leasing facility obtained in 1998. Against the dismissal of that action she filed this appeal and the hearing has been concluded.	Judgement reserved for delivery and the date of delivery of judgment to be notified.
6	DMR/000578/13 - DC Kandy	The Plaintiff has filed this action against the registered owner of the vehicle and MBSL seeking damages for injuries caused to the Plaintiff in an accident involving the leased vehicle. As the MBSL is the absolute owner the MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Case was laid by due to non-availability of instructions from the Plaintiff
7	LT application No.13/305/02	This is an application filed by an ex. Employee of MBSL in the Labour Tribunal seeking re-instatement and the payment of back wages. This employee's service was terminated due to a financial fraud committed by him when functioning as the Cashier. On a complaint made by MBSL the Colombo Fraud Bureau through the Attorney General's Department filed criminal action bearing No.HC/1676/2004 in the Criminal High Court of Colombo. Trial is being heard at present and the MBSL witnesses have finished their evidence. In the event that this criminal action is decided against this employee the question of reinstatement and payment of back wages are unlikely to arise.	The hearing of the LT application kept in abeyance pending the final determination of the High Court Action. Further Trial on 17/01/2020
8	CL/146/2015 (HC/Civil/MR/529/08) DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008. Civil Appeal No. EP/HCCA/TCO/FA/247/19	Order delivered in favour of Petitioner and Appeal is pending

No.	Action / Case No.	Purpose / Cause of Action	Current status
9	CL/147/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008.	Claim Upheld by court
10	CL/148/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008.	Claim Upheld by court
11	CL/149/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008.	Claim Upheld by court
12	SC/HC/LA/43/2015 (HC/CIVIL496/09/MR)	This Appeal was submitted by the Respondent/ Lessee in HC/Civil case No. 496/2009 the order of which was delivered in favour of MBSL by the High court.	Leave to appeal dismissed and matter is transferred to high court.
13	2963/L DC - Gampaha	Plaintiff filed this action seeking a declaration that the Mortgage Bond taken as security by MBSL be declared a nullity .	Trial on 31/03/2020
14	DC Colombo 19426/L	Seeking to set aside the mortgage bond on the grounds that the owner of the property denies the signature in the Mortgage Bond.	Case is laid by until identification of the heirs of the plaintiff.
15	Mt. Lavinia 2357/07/L (L/18/08) DC Nugegoda 8/08 Connected to DC Col 17451/MB	Third party seeks a declaration of title on the property that was mortgaged to MBSL by the borrower where judgment has been entered in favour of MBSL.	This case is laid by till the steps taken by the plaintiff.
16	DC Chilaw 4145/L	A third party seeks a declaration of title on the property that was mortgaged to MBSL and owned by MBSL through court auction.	Trial on 12/02/2020
17	DC Galle L/ 16855	Third party seeks a declaration of title in respect of the property mortgaged to MBSL and owned by MBSL through court auction.	Further trial on 04/05/2020
18	HC/CIVIL/06/2013/MR	The Plaintiff is seeking, inter alia, the refund of the advance payment of Rs. LKR 50,761,866 made by the Plaintiff to MBSL, in connection with a Share Sale and Purchase Agreement entered in March 2012 in respect of the sale of MBSL's shareholding in MBSL Savings Bank Limited at that time to a consortium of investors led by the Plaintiff and a Mandatory Injunction in this connection. Interim injunction sought by the Plaintiff was refused.	Corrections of Proceedings and further trial on 13/01/2020
19	CHC/695/15/MR	The Plaintiff being a member of the consortium of investors who entered into a Share Transfer Agreement with MBSL in March 2012 with regard to the sale and purchase of MBSL's shareholding in MBSL Savings Bank Limited has instituted this action against MBSL, seeking the refund of the advance payment of LKR 19,842,233 made by the Plaintiff to MBSL together with interest thereon at the rate of 25% per annum commencing from 28/03/2012 amounting to a total sum of LKR 37,617,567 as at 27/10/2015.	Trial on 11/03/2020.
20	SC/SPL/CA/139/2019 CA 198/07 HC(CIVIL) 145/98/1	A Restitution - Integrum Action to set aside the judgment of Commercial High court dated 01.09.2003 which was in favour of MBSL and to set aside the Auction held on 17/01/2005.	Judgement delivered on 15/03/2019 dismissing the Petitioner's Application. Customer has appealed against the said dismissal to the Supreme Court. Support for leave on 11/02/2020.
21	DSP/62/2015 DC - Colombo	The customer who has obtained a term loan facility from MBSL has filed this action seeking inter alia a declaration that they have to pay only another LKR 3,321,489/- to settle the facility in full. Interim injunction sought by the customer was refused.	Further Trial on 08/01/2020
22	DC Embilipitiya 9473/L	Plaintiff seeks a declaration of title on the property that was mortgaged to MBSL and owned by MBSL through court auction.	Case laid by till the final determination of the case No. 12941/SPL filed against the petitioner by a 3rd party.

Notes to The Financial Statements Contd.

No.	Action / Case No.	Purpose / Cause of Action	Current status
23	826/L -DC Attanagalla	This action has been filed against MCSL Financial Services Limited (5th defendant), seeking for an order declaring mortgage bond No1505 dated 16/11/2011 attested by J.C Ponnaiah, Notary Public and deed of transfer null and void.	Further Trial on 19/03/2020
24	1520/MR/14 - DC Kaduwela	This action has been filed against MCSL Financial Services Limited (1st Defendant) and two others by a Customer of MCSL Financial Services Limited who has obtained a Lease Facility and defaulted. MCSL Financial Services Limited has been made a party to this action only for the notice purpose.	Trial on 13/05/2020
25	DMR/8867/09 - DC Colombo	This action has been filed by the defendant against MCSL Financial Services Limited seeking an order for damages caused to the plaintiff by wrongful conduct of the defendant (MCSL) - Appeal filed by the plaintiff.	On 01/04/2015, Order delivered in favour of MBSL- Civil Appellate case will be called on 24/02/2020 for argument (WP/HPCA/COL/302/15)
26	DSP 98/10 - DC Colombo (WP/HCCA/ COL 125/2016 (F))	The Plaintiff has filed action against MCSL Financial Services Limited (1st Defendant) and another person (2nd Defendant- Customer of Lease Facility) seeking a declaration that plaintiff is the owner of the land which has been mortgaged to MCSL Financial Services Limited.	On 25/04/2016 Judgment Delivered in favour of MBSL. Appeal filed by the Plaintiff. Argument on 30/04/2020.
27	4977/SPL - DC Colombo	Plaintiff is seeking an order declaring Mortgage Bond No 77 dated 02-10-1995 attested by Mihirun Nisha Nachchiya Abdeen, Notary Public null and void. This case has been filed against MCSL Financial Services Limited and 3 others in 1997	Further Trial on 24/01/2020
28	3114/L - DC Gampaha	This action has been filed against MCSL Financial Services Ltd (2nd Defendant) seeking declaration of title for the land which has been Mortgaged to MCSL Financial Services Ltd by the 1st Defendant. (Notice Only)	Commission Returnable on 25/03/2020
29	00007/2016/DCL	This action was instituted by a claimant, claiming the articles seized by MBSL through fiscal in the execution of writ against 2nd Defendant in the case No. 1043/12/MR. In consequences of the execution of the writ Claim case has been filed by the petitioner in DC Colombo	Judgment on 24/02/2020
30	DC/Matara/SPL/ 868	This action has been filed challenging the repossession of a Vehicle regarding a Hire Purchase facility granted by MCSL Financial Services Limited	Further Trial on 25/02/2020
31	DSP 115/2016 DC - Colombo	This action has been instituted by the Customer seeking a Restitution integram order with regard to the Leased vehicle and an interim injunction restraining the Bank from disposing the vehicle from the District Court of Colombo	Ex-Parte Judgment given in favour of MBSL on 27/08/2019. Decree has been filed
32	CHC/215/2015/MR (Commercial High Court)	Plaintiffs are the Shareholders of MBSL (formally MBSL Savings Bank Ltd) and they have instituted an action in District Court of Colombo (Case No. DMR/785/13) claiming Rs.3,841,000/- for the shares they have invested amounting to Rs.2,400,000/-. This case has been transferred to the Commercial High Court by the District Court order dated 20.11.2015 considering the value of the case.	Trial on 26/02/2020
33	LT/2/627/2016	The applicant has filed this action in the Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or as an alternative reasonable compensation against termination of his employment.	Case Dismissed on 19/11/2019 - Petition of Appeal has been filed by the Applicant Petitioner
34	LT/2/676/2016	The applicant has filed this action in the Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or as an alternative reasonable compensation against termination of his employment.	Judgment delivered in favour of the defendant on 19/11/2019, Appeal case filed under the case No. HCALT No. 102/19 in the High court at colombo
35	DLA 8014/2017 - DC Negombo	This action has been filed by the Plaintiff against the MBSL and another in the District Court of Negombo seeking interim injunction preventing the MBSL auctioning the mortgaged property. Further the Plaintiff has sought to nullify the mortgage bond executed in favour of the MBSL.	Pre-Trial on 27/03/2020

No.	Action / Case No.	Purpose / Cause of Action	Current status
36	DMR/01189/16 DC-Colombo	This action has been filed by an accident victim against the Registered Owner, the Driver, the Insurer and MBSL seeking damages for causing permanent disabilities to the Plaintiff in an accident involving the leased vehicle. As the MBSL is the absolute owner the MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However, as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Trial on 25/03/2020
37	DC-Kandy DSP/00079/2016	This is an action filed by the Registered owner/lessee on the alleged failure of MBSL to handover the original of the certificate of registration to the registered owner and seeking a restraining order against the possible repossession of the vehicle by MBSL. However, the position of MBSL is that the facility is not yet fully settled.	Order on 16/01/2020
38	4016/M DC Marawila	This is an action instituted by the Plaintiff seeking damages for wrongfully demanding a further sum of money despite the plaintiff alleged settlement of the facility.	Written Submission on 31/03/2020
39	DC-Gampaha 3385/L	This is an action instituted by the Plaintiff seeking to have the mortgage bond executed in favour of MBSL as security for the facility declared a nullity, on the basis of a constructive trust.	Trail on 04/03/2020
40	2093/L DC - Marawila	This is an action instituted by the Plaintiff seeking to have the mortgage bond executed in favour of MBSL as security for the facility declared a nullity on the basis that the plaintiff was not in a mentally fit and sound state at the time of execution of the mortgage bond.	Written Submission on 02/04/2020
41	SC Appeal 26/2014	This is a special leave to appeal sought by the UB Finance Company Ltd (formerly known as The Finance and Guarantee Ltd) against the Court of Appeal judgment dismissing its application for writ of Certiorari and Mandamus restraining the Commissioner of Labour effecting their decision that the UB Finance should deposit money amounting to a sum of LKR 567,318/- In favour of a former employee of The Finance and Guarantee Ltd. MBSL had been named as a necessary party as MBSL was the Managing Agent of The Finance and Guarantee Ltd at that time.	Argument on 11/03/2020.
42	DC Gampaha 988/T	Testamentary case filed with regard to the intestate estate of the owner of a property mortgaged to MBSL for a financial facility.	Inquiry on 03/04/2020
43	CHC/381/17/MR	The Plaintiff is seeking inter alia, damages from MBSL amounting to a sum of Rs. 9,000,000/- or such other sum to be determined by the court for cancellation of the Purchase Order dated 26/04/2016 in respect of the e-Financial Suit (Core Leasing Software Solution)	Trial on 10/03/2020
44	8691/Land - Kegalle	This action is filed by a third party against MBSL and a customer of MBSL who has executed the mortgage bond in favour of MBSL, based on constructive trust seeking inter alia cancellation of the said mortgage bond	Summons Returnable for the 1st Defendant on 11/03/2020
45	8707/Land Kegalle DC	This action is filed by a third party against MBSL and a customer of MBSL who has executed the mortgage bond in favour of MBSL, based on constructive trust, seeking inter-alia cancellation of the said Mortgage Bond.	Trial on 24/02/2020
46	SPL/1018- Matara DC	This action is filled by a third party against MBSL and a customer of MBSL who has executed the mortgage bond in favour of MBSL based on constructive trust, seeking inter-alia cancellation of the said mortgage bond.	Replication and Answer of the 1st Defendant on 27/03/2020
47	Claim 01/2019 - CHC Colombo	This claim action is arising from the execution of writ by MBSI in case No. CHC/ARB/54/2014	Objections on 12/02/2020
48	000337/17/CL - DC Colombo	This action was filed by a claimant, claiming the articles seized by MBSL through fiscal in the execution of writ against 2D in the case No. 1675/12/MR	Application dismissed on 10/12/2019 - Petitioner has appealed
49	3379/Land/Gampaha	The Plaintiff had been the previous owner of a property which had been mortgaged to the MBSL. This action has been filed on the basis that the alienation of the said property to the mortgagor is a forgery. Therefore the Plaintiff has sought a declaration nullifying the Deed of Gift executed in favour of the Mortgagor. In this matter the MBSL has been named as the 3rd Defendant being the Mortgagee of the said property.	Trial on 17/03/2020
50	28394/Land Avissawella	The subject property has been mortgaged to the MBSL by the 1st Defendant to this action. Upon default the MBSL has already filed a MB action bearing Case No.309/2014. The Plaintiff to this action alleged that the transfer executed in favour of the Mortgagor in respect of the subject property is a forgery. Therefore the Plaintiff has sought a nullity on both Deed of Transfer executed in the name of the 1st Defendant and the Mortgage Bond executed in favour of the MBSL.	Pre-Trial on 16/01/2020

Notes to The Financial Statements Contd.

No.	Action / Case No.	Purpose / Cause of Action	Current status
51	WP/HCCA/ COL/33/2016 (F) DC Colombo No. 43156 MR	The plaintiff - Appellant filed this action against the MBSL (Defendant Respondent) in the Civil Appellate High court of Colombo to set aside the judgment dated 15/07/2016 which was delivered against the Plaintiff in the District court of Colombo	Argument on 26/03/2020
52	DMR/925/2017	This action involves a vehicle which belongs to a leasing customer of MBSL. The Plaintiff has purchased the said vehicle through a financial facility from UB Finance Company Limited. However, due to a certain offence purported to have been committed by the previous owner i.e. the lessee of MBSL, the Magistrate court of Matale has issued a confiscation order on the said vehicle soon after the vehicle was released to the Plaintiff by MBSL. Thereafter the plaintiff has filed this action against UB Finance Company Limited which in turn made MBSL an added party to this action and MBSL has already filed its objections.	Case laid by (DC- Colombo) the court on 05/11/2019. Currently at Civil Appellate High Court of Colombo. Argument is fixed on 08/12/2020. (WP/HCCA/COL/52/2019/ LC)
53	M/1818 DC- Wellawaya	This action has been filed by the wife of an accident victim who was killed by a road accident. However MBSL Insurance Limited failed to pay the Sum of LKR 100,000/- being the value of the Life Insurance Policy despite its obligation to do so. MBSL too has been made a party to this action since the deceased has obtained the vehicle involved in the accident through a lease facility from MBSL.	Answer for 1st Defendant on 27/01/2020
54	115/2015 - DC Hingurakgoda	This action has been filed by an accident victim against the Driver, Registered Owner, and MBSL seeking damages for causing serious injuries to him in an accident involving the leased vehicle. As the MBSL is the absolute owner of the vehicle MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Lease Agreement the liability falls entirely on the registered owner and the Insurer.	Pre -Trial on 09/01/2020
55	L/270 DC-Dambulla	This action has been filed against MBSL (3rd Defendant) by a defaulted customer of MBSL and another. MBSL has been made a party to this action only for the notice purpose.	Answer on 20/02/2020
56	DSP 65/18 District Court of Colombo	The Plaintiff filed this action against MBSL on or about 17/05/2018 seeking, inter alia, a Judgement and Decree that the letter dated 14/05/2018 issued by MBSL interdicting the Plaintiff from the services is illegal, null and void and has no force or avail in law and an enjoining order and interim injunction to that effect. A further application regarding contempt of court was filed by the Plaintiff against MBSL and its Directors on or about 02nd November 2018. The enjoining order sought was refused by the order dated 23/05/2018. The Leave to Appeal Application made by the Plaintiff in this regard was dismissed by the court by its order dated 16th November 2018 (WP/HCCA/LA/COL/82/2018). The interim injunction sought by the Plaintiff was also refused on 11/01/2019.	Court delivered its order dated 30th April 2019 refusing issuing notices to MBSL and its Directors with regard to the Contempt of Court Application made by the Plaintiff. The main case is fixed for trial on 24th March 2020.
57	WP/HCCA/LA/ COL/84/ 2019 Civil Appellate High Court	Leave to Appeal Application filed by the Plaintiff aforesaid against the Order dated 30th April 2019 delivered in the case bearing No. DSP 65/18 with regard to the Contempt of Court Application made by the Plaintiff.	The case was mentioned on 30th July 2019 for support and re-fixed for 07th February 2020.
58	SC FR 193/2018 Supreme Court of Sri Lanka	Fundamental Rights Application made by the Petitioner against MBSL, its Board of Director, Acting CEO and few others seeking, inter alia, declarations that the Petitioner's Fundamental Rights under Articles 12(1) and 14(1)(g) are infringed by the Respondents and that the letter of interdiction is illegal, null and void, and has no force or avail in law. Parties made oral submissions and have also tendered written submissions with regard to the preliminary objection raised by MBSL that the Supreme Court has no jurisdiction to determine this FR application.	On 13th September 2018 this matter was reserved for order.
59	00009/2019/DCL (DC Kandy)	This action was instituted by a claimant, claiming the articles seized by MBSL in the execution of writ against the Defendant in the case No. CHC/29/14/MR (Note no.4943387). The Claim case has been filed by the petitioner in DC Kandy	Objections on 12/02/2020

49.1 Group

Contingencies and commitments of MBSI Insurance Company Limited.

49.1.1 Contingent assets

The litigation initiated by the Company which is currently in favour to the Company in the normal course of business are as follows:

- ▶ A litigation has been initiated by the Company against the Cricket Board of Sri Lanka to recover an unpaid premium of US \$ 619,158.

49.1 Group (contd.)**49.1.2 Contingent Liabilities**

Litigation and claims which are currently against the subsidiary, MBSL Insurance Company Limited, in the normal course of business is summarized as follows:

As at 31 December	Group	
	2019 Rs.'000	2018 Rs.'000
Bond claims	49,000	40,000
Insurance claims	19,749	13,100
Third party claims	747,008	809,471
	815,757	862,571

No provision has been made in the financial statements for a performance bond insurance claim amounting to Rs. 293,932,500 intimated in the year 2016. The performance bond was issued on behalf of a contractor, for a period of three years (from 1st November 2013 to 1st November 2016) annually renewable. However, the premium for the final year had not been settled by the contractor and the policy has been cancelled on 12th January 2016. The cancellation has been informed to the claimant in writing. On 1st September 2016, the claimant has called on the performance bond informing that the contractor has failed to perform as per the agreement entered with the claimant. There is a probability that the claimant would initiate legal action against MBSL Insurance Company Limited. However, the opinion of the directors in consultation with the company lawyers is that the claimant has no legal right to claim under the performance bond as it was cancelled by MBSL Insurance Company Limited for the non-settlement of premium and this was informed to the claimant several months before the claimant made the claim.

50 Risk Management

Risk Management of the Company is the systematic process of identifying, quantifying and managing all risks and opportunities that can affect the achievement of the Merchant Bank of Sri Lanka & Finance PLC strategic and financial goals. Merchant Bank of Sri Lanka & Finance PLC has established a sound risk management framework to identify and mitigate the risk exposure.

The Board of Directors (BOD) is primarily responsible for overall risk management of Merchant Bank of Sri Lanka & Finance PLC. Hence the BOD has established Integrated Risk Management Committee for prudent risk management. Integrated Risk Management Committee (IRMC) of the company is responsible for:

- ▶ Assessing all risks that affect to Merchant Bank of Sri Lanka & Finance PLC and taking necessary actions to mitigate risks.
- ▶ Reviewing the adequacy and effectiveness of all management level committees to address specific risks and managing those risks within quantitative risks limits identified by the committee.
- ▶ Assessing all aspects of risk management including updated business continuity plan.
- ▶ Take prompt corrective actions to mitigate the effects of specific risks identified by the IRMC or Risk Management division.

Merchant Bank of Sri Lanka & Finance PLC has identified 4 critical types of risk which can effect on MBSL's operations adversely as credit, market, liquidity and operational risks.

Risk Mitigation

Merchant Bank of Sri Lanka & Finance PLC has established IRMC, Assets and Liability Committee (ALCO), Investment and Credit Committees for mitigating the risk exposure, faced by the Company. Credit Committee is responsible to mitigate the credit risk while ALCO is responsible to mitigate the liquidity risk of Merchant Bank of Sri Lanka & Finance PLC by managing assets and liabilities of the Company. All the other committees report to the IRMC. The IRMC is responsible to manage the overall risk of Merchant Bank of Sri Lanka & Finance PLC and headed by a Board member. The Merchant Bank of Sri Lanka & Finance PLC uses accepted methods to mitigate risks faced by the Company.

Risk Measurement Systems

Merchant Bank of Sri Lanka & Finance PLC measures the expected and unexpected losses using various accepted models. The models make use of probabilities derived from historical experience, adjusted to reflect the economic environment. Merchant Bank of Sri Lanka & Finance PLC is developing exposure limits, forecasting, ratios and risk assessment forms to identify and measure the risk.

Notes to The Financial Statements Contd.

50 Risk Management (contd.)**50.1 Credit Risk**

Credit risk is the potential that a company, borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Financial Institutions need to manage the credit risk inherent in the entire portfolio as well as the risks associated with individual credits or transactions. Merchant Bank of Sri Lanka & Finance PLC has established a Credit committee to ensure the credit quality of the Company. Credit committee makes necessary amendments to collateral requirement, interest rates and exposure limits by analyzing credit worthiness of the counterparties. At present Merchant Bank of Sri Lanka & Finance PLC is in the process of developing a credit rating system to analyze the clientele. Exposure, Repayment capacity, Collateral value and purpose are used as criteria of credit ratings. Merchant Bank of Sri Lanka & Finance PLC analyzes the concentration to loan portfolio to mitigate the credit risk. Concentration is measured based on industry sector and geographical spread.

Concentration Risk

Concentration risk can arise from uneven distribution of exposures to its borrowers. Concentration risk can create in several ways:

- (a). Individual counterparties
- (b). Groups of individual counterparties or related entities
- (c). Counterparties in specific geographical locations
- (d). Industry sectors
- (e). Specific products

Sector wise concentration and geographical concentration is considered to assess the concentration risk of the Company. Merchant Bank of Sri Lanka & Finance PLC focuses to maintain a diversified portfolio to reduce the concentration risk.

The methodology used in the determination of expected credit losses is explained in Note 3.5.12.1 to financial statements.

50.2 Movement of the total allowance for expected credit losses during the period

For the year ended 31 December	Note	Page No.	Company		Group	
			2019 Rs.'000	2018 Rs.'000	2019 Rs.'000	2018 Rs.'000
Balance as at 01st January			2,574,653	2,403,609	2,574,653	2,403,609
Net charge for the year	12	156	281,583	171,044	281,583	171,044
Balance as at 31st December			2,856,236	2,574,653	2,856,236	2,574,653

50.2.1 Sensitive Analysis:

50.2.1.(a) Impact of extending the recovery cash flows by further one year for individually significant impaired loans

Had the Company further extended the recovery cash flows by one year, only for instances where cash flow is forecasted based on collateral realisation, the cumulative impairment provision for individually significant impaired loans would have increased by Rs 419 Mn.

50.2.1.(b) Impact of staging of loans on collective impairment

As explained in Note 3.5.12.1, the Company categorises its loans into stage 1, stage 2, stage 3 and originated credit impaired when determining the collective impairment provision under SLFRS 9. The sensitivity of collective impairment provision to staging of the loans is given below.

- ▶ If performing loans and advances currently in stage 2, were moved to stage 1, the ECL provision of the Company as at 31st December 2019 would have reduced by approximately 3.3%. The total loans and advances in stage 2 as at 31st December 2019 amounts to Rs 6.5 Bn for the Company.
- ▶ If performing loans and advances currently in stage 1, were moved to stage 2, the ECL provision of the Company as at 31st December 2019 would have increased by approximately 11.4%. The total loans and advances in stage 1 as at 31st December 2019 amounts to Rs 15.3 Bn for the Company. The management believes that a movement of the entire stage 1 loan portfolio to stage 2 highly unlikely.

50.2.1.(c) Impact on collective impairment due to changes in forward looking information

The Company calculated expected credit losses based on three probability-weighted scenarios. 10% increase/decrease in the worst case scenario with a similar decrease/increase in the best case scenario would have increase/decreased the collective impairment provision of the Company by approximately Rs 5.7 Mn as at 31st December 2019.

50.2.2 Overview of rescheduled/restructured loans and advances

An analysis rescheduled/restructured loans and advances of the Company, amounting to Rs. 233 Mn which are in stage 3 along with the impairment for ECL is as follows:

It is raised Rs. 40.6 Mn as impairment charge as at 31st December 2019. This does not include individually significant impaired loans and advances for which ECLs have been derived by discounting future cash flows of such loans.

50.3 Market Risk

Market risk is the risk of losses in on and off balance sheet positions arising from movements in market prices. Market risk can arise due to variations in interest rates, exchange rates, equity prices and commodity market prices. Interest rate risk and equity price risk mainly effect on Merchant Bank of Sri Lanka & Finance PLC business activities. Merchant Bank of Sri Lanka & Finance PLC uses sensitivity analysis, discounted cash flows and maturity gap analysis to calculate the market risk.

Notes to The Financial Statements Contd.

50 Risk Management (contd.)

50.4 Industry Analysis Risk Concentration

50.4.1 The Company's concentrations of risk are managed by industry sector.

As at 31 December	Financials Rs.'000	Agriculture Rs.'000	Manufacturing Rs.'000	Tourism Rs.'000	Transportation Rs.'000	Construction Rs.'000
Financial assets						
Cash and cash equivalents	1,355,785	-	-	-	-	-
Placements with banks & financial institutions	1,477,103	-	-	-	-	-
Financial investments at fair value through profit or loss	811,677	2,560	29,942	36,473	1,103	16,484
Loans & receivables at amortised cost	2,173,693	5,630,919	3,463,522	806,401	3,226,540	1,875,947
Financial investments at fair value through other comprehensive income						
Government securities	1,174,677	-	-	-	-	-
Equity securities - Quoted	-	-	-	-	-	19,125
Equity securities - Unquoted	895	-	-	-	-	-
Financial investments at amortised cost	1,513	-	-	-	-	-
Other assets	47,993	-	-	-	-	-
Total financial assets as at 31 December 2019	7,043,336	5,633,479	3,493,464	842,874	3,227,643	1,911,556
Total financial assets as at 31 December 2018	5,868,100	8,759,874	3,658,014	771,791	3,175,836	1,971,476

1 Trade includes Chemical and Pharmaceuticals, Diversified, Diversified Holdings and Trading

2 Construction includes Construction and Engineering, Land & Property and Power & Energy

50.4.2 The Group's concentrations of risk are managed by industry sector.

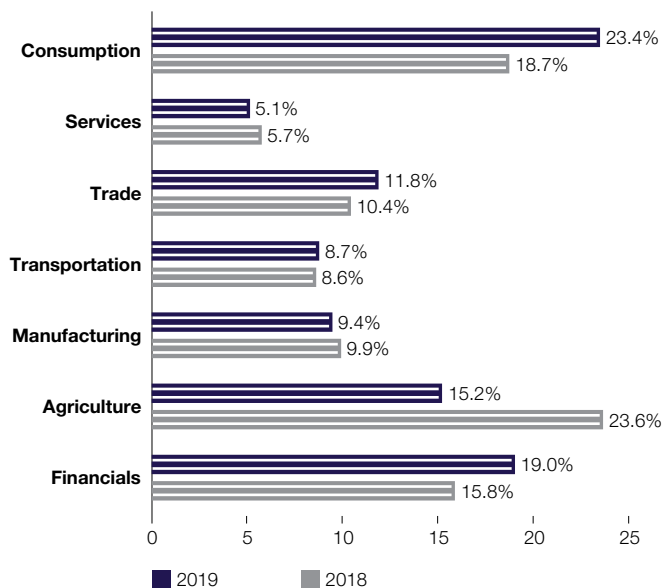
As at 31 December	Financials Rs.'000	Agriculture Rs.'000	Manufacturing Rs.'000	Tourism Rs.'000	Transportation Rs.'000	Construction Rs.'000
Financial assets						
Cash and cash equivalents	2,178,946	-	-	-	-	-
Placements with banks & financial institutions	2,126,932	-	-	-	-	-
Financial investments at fair value through profit or loss	821,518	2,560	29,942	36,473	1,103	16,484
Loans & receivables at amortised cost	1,919,263	5,630,919	3,463,522	806,401	3,226,540	1,875,947
Financial investments at fair value through other comprehensive income						
Government securities	1,864,256	-	-	-	-	-
Equity securities - Quoted	-	-	-	-	-	19,125
Equity securities - Unquoted	895	-	-	-	-	-
Unit trust	48,293	-	-	-	-	-
Financial investments at amortised cost	1,513	-	-	-	-	-
Other assets	47,993	-	-	-	-	-
Total financial assets as at 31 December 2019	9,009,609	5,633,479	3,493,464	842,874	3,227,643	1,911,556
Total financial assets as at 31 December 2018	6,651,544	8,759,874	3,658,014	771,791	3,175,836	1,975,162

1 Trade includes Chemical and Pharmaceuticals, Diversified, Diversified Holdings and Trading

2 Construction includes Construction and Engineering, Land & Property and Power & Energy

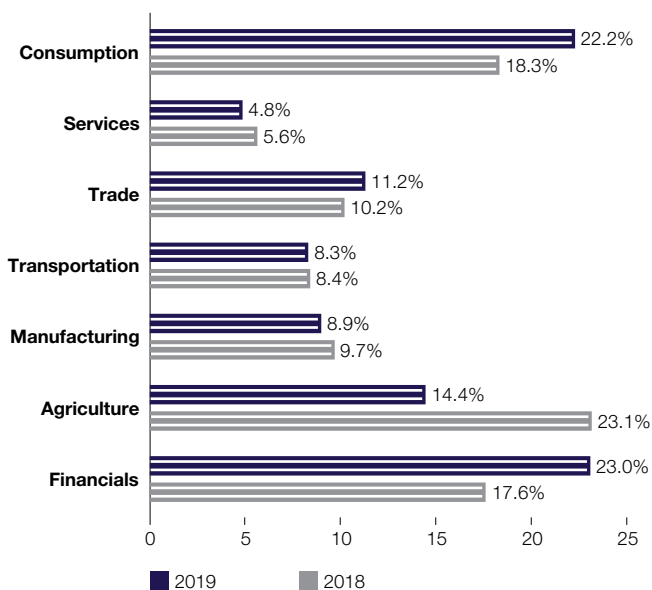
			2019	2018
Trade	Services	Consumption	Total	Total
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
-	-	-	1,355,785	1,587,292
-	-	-	1,477,103	670,575
30,899	3,758	12,303	945,199	267,106
4,344,345	1,881,989	8,681,095	32,084,451	33,295,800
-	-	-	1,174,677	1,135,633
-	-	-	19,125	21,420
21,781	-	-	22,676	23,945
-	-	-	1,513	60,828
-	-	-	47,993	43,721
4,397,025	1,885,747	8,693,398	37,128,522	
3,849,843	2,120,294	6,931,092		37,106,320

Company



			2019	2018
Trade	Services	Consumption	Total	Total
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
-	-	-	2,178,946	1,832,705
-	-	-	2,126,932	774,575
30,899	3,758	12,303	955,040	274,700
4,344,345	1,881,989	8,681,095	31,830,021	33,060,065
-	-	-	1,864,256	1,761,657
-	-	-	19,125	21,420
21,781	-	-	22,676	23,945
-	-	-	48,293	43,298
-	-	-	1,513	60,828
-	-	-	47,993	43,721
4,397,025	1,885,747	8,693,398	39,094,795	
3,853,256	2,120,345	6,931,092		37,896,914

Group



Notes to The Financial Statements Contd.

50 Risk Management (contd.)

50.5 Geographical Analysis

The following table presents the distribution of financial assets of the Company & Group by geographical segment, allocated based on the location in which the financial assets and liabilities are recorded for the year ended 31 December 2019 together with comparative figures for the year ended 31 December 2018.

50.5.1 The Company's concentrations of risk are managed by geographical segment.

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000	North Western Rs.'000	Uva Rs.'000	North Central Rs.'000
Financial assets						
Cash and cash equivalents	1,276,203	10,441	17,181	22,617	3,682	6,775
Placements with banks & financial institutions	1,477,103	-	-	-	-	-
Financial investments at fair value through profit or loss	945,199	-	-	-	-	-
Loans & receivables at amortised cost	14,510,043	2,778,742	4,141,381	4,673,213	715,412	1,555,872
Financial investments at fair value through other comprehensive income						
Government securities	1,174,677	-	-	-	-	-
Equity securities - Quoted	19,125	-	-	-	-	-
Equity securities - Unquoted	22,676	-	-	-	-	-
Unit trust	-	-	-	-	-	-
Financial investments at amortised cost	1,513	-	-	-	-	-
Other assets	47,993	-	-	-	-	-
Total financial assets as at 31 December 2019	19,474,532	2,789,183	4,158,562	4,695,830	719,094	1,562,647
Total financial assets as at 31 December 2018	17,995,587	3,224,910	4,665,505	5,182,578	717,522	1,774,694

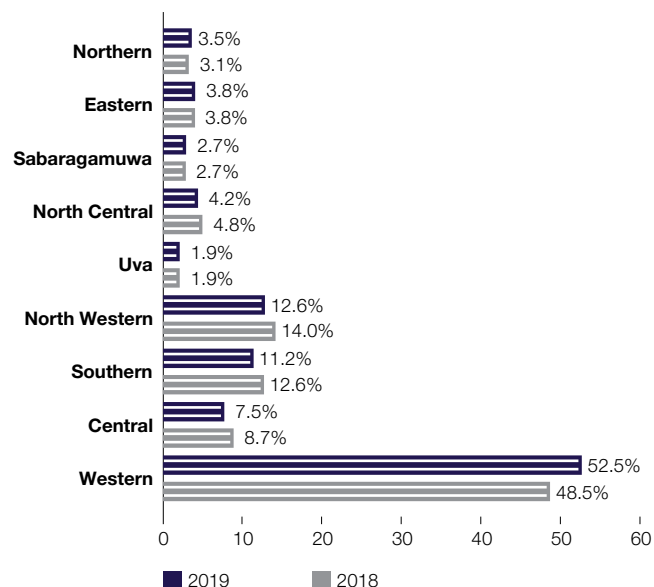
50.5.2 The Group's concentrations of risk are managed by geographical segment.

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000	North Western Rs.'000	Uva Rs.'000	North Central Rs.'000
Financial assets						
Cash and cash equivalents	2,099,364	10,441	17,181	22,617	3,682	6,775
Placements with banks & financial institutions	2,126,932	-	-	-	-	-
Financial investments at fair value through profit or loss	955,040	-	-	-	-	-
Loans & receivables at amortised cost	14,255,613	2,778,742	4,141,381	4,673,213	715,412	1,555,872
Financial investments at fair value through other comprehensive income						
Government securities	1,864,256	-	-	-	-	-
Equity securities - Quoted	19,125	-	-	-	-	-
Equity securities - Unquoted	22,676	-	-	-	-	-
Unit trust	48,293	-	-	-	-	-
Financial investments at amortised cost	1,513	-	-	-	-	-
Other assets	47,993	-	-	-	-	-
Total financial assets as at 31 December 2019	21,440,805	2,789,183	4,158,562	4,695,830	719,094	1,562,647
Total financial assets as at 31 December 2018	18,786,180	3,224,910	4,665,505	5,182,578	717,522	1,774,694

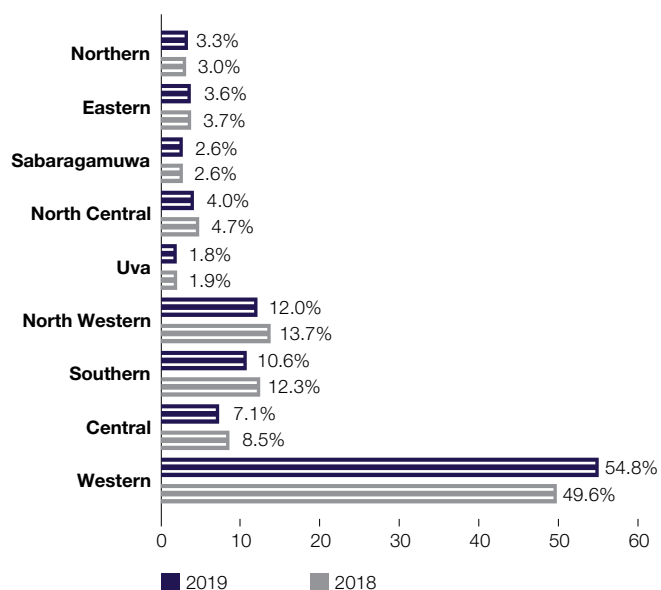
Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
6,570	5,901	6,414	1,355,785	1,587,292
-	-	-	1,477,103	670,575
-	-	-	945,199	267,106
1,013,855	1,420,689	1,275,244	32,084,451	33,295,800
-	-	-	1,174,677	1,135,633
-	-	-	19,125	21,420
-	-	-	22,676	23,945
-	-	-	-	-
-	-	-	1,513	60,828
-	-	-	47,993	43,721
1,020,425	1,426,590	1,281,658	37,128,522	-
997,860	1,392,762	1,154,902	-	37,106,320

Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
6,570	5,901	6,414	2,178,946	1,832,705
-	-	-	2,126,932	774,575
-	-	-	955,040	274,700
1,013,855	1,420,689	1,275,244	31,830,021	33,060,065
-	-	-	1,864,256	1,761,657
-	-	-	19,125	21,420
-	-	-	22,676	23,945
-	-	-	48,293	43,298
-	-	-	1,513	60,828
-	-	-	47,993	43,721
1,020,425	1,426,590	1,281,658	39,094,795	-
997,860	1,392,762	1,154,902	-	37,896,913

Company



Group



Notes to The Financial Statements Contd.

50 Risk Management (contd.)

50.6 Liquidity Risk

Liquidity risk is the possibility of losses arising from fluctuations in Group's ability to sell or dispose the assets and settle the liabilities.

Group believes that effective management of liquidity risk is vital for continuing Group's operations successful. Accordingly, Merchant Bank of Sri Lanka & Finance PLC has implemented the Board Approved Liquidity Risk Management Policy and established an Assets and Liability Committee (ALCO).

Merchant Bank of Sri Lanka & Finance PLC uses ratios and maturity gap analysis to identify the liquidity risk of the Group.

Maturity Analysis

The table below summarises the maturity portfolio of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December 2019.

Repayments which are subject to notice are treated as if notice were to be given immediately. However, the Group expects that many customers will not request repayment on the earliest date the Group could be required to be paid and the table does not reflect the expected cash flows indicated by the Group's deposit retention history.

50.6.1 Company

	On Demand Rs.'000	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
Assets								
Financial assets								
Cash and cash equivalents	570,328	257,897	527,560	-	-	-	1,355,785	1,587,292
Placements with banks & financial institutions	-	35,360	1,334,263	107,480	-	-	1,477,103	670,575
Securities purchased under resale agreements	-	-	-	-	-	-	-	-
Financial investments at								
fair value through profit or loss	-	945,199	-	-	-	-	945,199	267,106
Loans & receivables at amortised cost	3,345,053	3,086,683	6,693,948	11,018,153	2,782,338	2,302,040	29,228,215	30,721,147
Financial investments at fair value through								
other comprehensive income	-	916,648	277,154	-	-	22,676	1,216,478	1,079,743
Financial investments at amortised cost	-	-	-	1,513	-	-	1,513	162,083
Financial other assets	-	47,993	-	-	-	-	47,993	43,721
Total financial assets								
as at 31 December 2019	3,915,381	5,289,780	8,832,925	11,127,146	2,782,338	2,324,716	34,272,286	
Total financial assets								
as at 31 December 2018	3,455,250	3,206,366	5,253,596	2,167,640	1,622,141	18,826,674		34,531,667
Non financial assets								
Real estate stock	-	-	297,075	-	-	-	297,075	78,503
Investment in associate company	-	-	-	-	-	76,026	76,026	81,084
Investment in subsidiary	-	-	-	-	-	849,968	849,968	79,276
Investment properties	-	-	-	-	-	117,276	117,276	120,181
Property, equipment and right-of-use assets	-	-	-	-	-	895,799	895,799	320,113
Intangible assets	-	-	-	-	-	180,255	180,255	193,121
Deferred tax assets	-	-	-	-	-	-	-	187,629
Other assets	-	286,438	-	-	-	-	286,438	272,852
Total non-financial assets								
as at 31 December 2019	-	286,438	297,075	-	-	2,119,324	2,702,837	-
Total non-financial assets								
as at 31 December 2018	-	272,852	78,503	-	-	981,404	-	1,332,759
Total assets as at 31 December 2019								
	3,915,381	5,576,218	9,130,000	11,127,146	2,782,338	4,444,040	36,975,123	
Total assets as at 31 December 2018								
	3,455,250	3,479,218	5,332,099	2,167,640	1,622,141	19,808,078		35,864,426

50 Risk Management (contd.)

50.6 Liquidity Risk (contd.)

50.6.1 Company (contd.)

	On Demand Rs.'000	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
Financial liabilities								
Due to banks	2,245,922	3,411,147	294,666	1,180,802	616,484	-	7,749,021	5,869,317
Due to customers at amortised cost	249,530	4,942,174	10,553,415	2,814,445	4,135,936	60,430	22,755,930	20,831,021
Debt issued and borrowed funds at amortised cost	-	181,376	177,082	2,107,810	-	-	2,466,268	5,331,077
Other financial liabilities	-	240,908	-	-	-	-	240,908	316,345
Total financial liabilities as at 31 December 2019	2,495,452	8,775,605	11,025,163	6,103,057	4,752,420	60,430	33,212,127	
Total financial liabilities as at 31 December 2018	2,017,986	5,667,000	12,980,478	5,691,038	5,927,828	63,430		32,347,760
Non financial liabilities								
Current tax liabilities	-	-	14,851	-	-	-	14,851	15,042
Deferred tax liabilities	-	-	-	-	-	212,520	212,520	528,073
Lease liability	-	40,480	116,309	243,225	102,870	38,587	541,470	-
Other liabilities	-	114,661	-	-	-	-	114,661	201,739
Retirement benefits obligations	-	-	-	-	-	271,699	271,699	247,708
Total non financial liabilities as at 31 December 2019	-	155,141	131,159	243,225	102,870	522,806	1,155,201	
Total non financial liabilities as at 31 December 2018	-	201,739	15,042	-	-	775,781	-	992,562
Total liabilities as at 31 December 2019	2,495,452	8,930,746	11,156,322	6,346,282	4,855,290	583,236	34,367,328	
Total liabilities as at 31 December 2018	2,017,986	5,868,739	12,995,520	5,691,038	5,927,828	839,211		33,340,322
Equity								
Stated capital	-	-	-	-	-	2,124,457	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	252,887	252,887	193,012
OCl reserve	-	(4,162)	-	-	-	-	(4,162)	(7,461)
Statutory reserves	-	-	-	-	-	234,613	234,613	214,096
Total equity as at 31 December 2019	-	(4,162)	-	-	-	2,611,957	2,607,795	
Total equity as at 31 December 2018	-	7,461	-	-	-	2,531,565		2,524,104
Total liabilities and equity								
as at 31 December 2019	2,495,452	8,926,584	11,156,322	6,346,282	4,855,290	3,195,193	36,975,123	
Total liabilities and equity as at 31 December 2018	2,017,986	5,861,278	12,995,520	5,691,038	5,927,828	3,370,776		35,864,426

Notes to The Financial Statements Contd.

50 Risk Management (contd.)

50.6 Liquidity Risk (contd.)

50.6.2 Group

	On Demand Rs.'000	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
Assets								
Financial assets								
Cash and cash equivalents	587,893	257,897	1,333,156	-	-	-	2,178,946	391,886
Placements with banks & financial institutions	-	35,360	1,984,092	107,480	-	-	2,126,932	774,575
Securities purchased under resale agreements	-	-	-	-	-	-	-	1,440,819
Financial investments at fair value through profit or loss	-	955,040	-	-	-	-	955,040	274,700
Loans & receivables at amortised cost	3,345,053	3,090,937	6,435,264	11,018,153	2,782,338	2,302,040	28,973,785	30,485,412
Financial investments at fair value through other comprehensive income	-	1,340,190	480,655	-	110,829	22,676	1,954,350	1,749,065
Financial investments at amortised cost	-	-	-	1,513	-	-	1,513	162,083
Financial other assets	-	47,993	-	-	-	-	47,993	43,721
Total financial assets as at 31 December 2019	3,932,946	5,727,417	10,233,166	11,127,146	2,893,167	2,324,716	36,238,559	
Total financial assets as at 31 December 2018	3,552,514	3,521,919	5,300,491	2,377,157	1,742,603	18,827,579		35,322,261
Non financial assets								
Real estate stock	-	-	297,075	-	-	-	297,075	78,503
Investment in associate company	-	-	-	-	-	76,026	76,026	84,415
Investment properties	-	-	-	-	-	117,276	117,276	120,181
Property, equipment and right-of-use assets	-	-	-	-	-	928,706	928,706	334,493
Intangible assets	-	-	-	-	-	187,460	187,460	205,681
Deferred tax assets	-	-	13,081	126,475	125,345	-	264,901	697,375
Other assets	-	503,762	-	-	-	-	503,762	471,057
Total non-financial assets as at 31 December 2019	-	503,762	310,156	126,475	125,345	1,309,468	2,375,206	
Total non-financial assets as at 31 December 2018	-	471,057	78,503	-	-	1,442,145		1,991,705
Total assets as at 31 December 2019	3,932,946	6,231,179	10,543,322	11,253,621	3,018,512	3,634,184	38,613,765	
Total assets as at 31 December 2018	3,552,514	3,992,976	5,378,994	2,377,157	1,742,603	20,269,724		37,313,966
Financial liabilities								
Due to banks	2,245,922	3,411,933	294,666	1,180,802	616,484	-	7,749,807	5,872,471
Due to customers at amortised cost	249,530	4,942,174	10,553,415	2,814,445	4,135,936	60,430	22,755,930	20,821,606
Debt issued and borrowed funds at amortised cost	-	181,376	177,082	2,107,810	-	-	2,466,268	5,331,077
Other financial liabilities	-	240,908	-	-	-	-	240,908	316,345
Total financial liabilities as at 31 December 2019	2,495,452	8,776,391	11,025,163	6,103,057	4,752,420	60,430	33,212,913	
Total financial liabilities as at 31 December 2018	2,017,986	5,670,154	12,971,063	5,691,038	5,927,828	63,430		32,341,499

50 Risk Management (contd.)

50.6 Liquidity Risk (contd.)

50.6.2 Group

	On Demand Rs.'000	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2019 Total Rs.'000	2018 Total Rs.'000
Non financial liabilities								
Insurance contract liabilities-life	-	-	546,253	-	-	-	546,253	574,399
Insurance contract liabilities-non life	-	-	383,164	-	-	-	383,164	336,825
Current tax liabilities	-	-	14,851	-	-	-	14,851	15,042
Deferred tax liabilities	-	-	-	-	-	212,520	212,520	531,570
Lease liability	-	41,121	118,386	254,869	109,294	38,587	562,256	-
Other liabilities	-	344,625	-	-	-	-	344,625	416,672
Retirement benefits obligations	-	-	-	-	-	283,558	283,558	256,644
Total non financial liabilities as at 31 December 2019	-	385,746	1,062,653	254,869	109,294	534,665	2,347,227	-
Total non financial liabilities as at 31 December 2018	-	416,672	926,266	-	-	788,214	-	2,131,152
Total liabilities as at 31 December 2019	2,495,452	9,162,137	12,087,816	6,357,926	4,861,714	595,095	35,560,140	-
Total liabilities as at 31 December 2018	2,017,986	6,086,826	13,897,329	5,691,038	5,927,828	851,644	-	34,472,651
Equity								
Stated capital	-	-	-	-	-	2,124,457	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	105,125	105,125	457,806
OCI reserve	-	(4,162)	-	-	-	(4,937)	(9,099)	(19,051)
Statutory reserves	-	-	-	-	-	234,613	234,613	214,096
Non controlling interests	-	-	-	-	-	598,529	598,529	64,007
Total equity as at 31 December 2019	-	(4,162)	-	-	-	3,057,787	3,053,625	-
Total equity as at 31 December 2018	-	7,461	-	-	-	2,848,776	-	2,841,315
Total liabilities and equity as at 31 December 2019	2,495,452	9,157,975	12,087,816	6,357,926	4,861,714	3,652,882	38,613,765	-
Total liabilities and equity as at 31 December 2018	2,017,986	6,079,365	13,897,329	5,691,038	5,927,828	3,700,420	-	37,313,966

Notes to The Financial Statements Contd.

50 Risk Management (contd.)

50.7 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 December 2019

Repayments of short term loans which are subject to notice are treated as if notice were to be given immediately. However the company expects that banks will not request repayment on the earliest date that the company is required to pay and the table does not reflect the expected cash flows indicated by the company.

Company	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	Total Rs.'000
Financial assets						
Cash and cash equivalents	358,943	-	-	-	-	358,943
Placements with banks & financial institutions	36,438	1,400,602	126,198	-	-	1,563,238
Financial investments at FVTPL	945,199	-	-	-	-	945,199
Loans & receivables at amortised cost	14,768,612	8,785,594	13,392,724	3,041,376	200,408	40,188,714
Financial investments at FVTOCI	916,647	277,154	-	-	22,676	1,216,477
Financial investments at amortised cost	-	-	1,567	-	-	1,567
Financial other assets	47,993	-	-	-	-	47,993
Total financial assets as at 31 December 2019	17,073,832	10,463,350	13,520,489	3,041,376	223,084	44,322,132
Financial liabilities						
Due to banks	5,678,876	305,399	1,490,348	904,883	-	8,379,506
Due to customers at amortised cost	6,036,437	10,483,704	3,976,009	4,603,201	2,052	25,101,403
Debt issued and borrowed funds at amortised cost	184,970	186,196	2,785,985	-	-	3,157,151
Other financial liabilities	240,908	-	-	-	-	240,908
Total financial liabilities as at 31 December 2019	12,141,191	10,975,299	8,252,342	5,508,084	2,052	36,878,968

Group	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	Total Rs.'000
Financial assets						
Cash and cash equivalents	376,508	805,596	-	-	-	1,182,104
Placements with banks & financial institutions	36,438	2,050,432	126,198	-	-	2,213,068
Financial investments at FVTPL	955,040	-	-	-	-	955,040
Loans & receivables at amortised cost	14,772,866	8,526,910	13,392,724	3,041,376	200,408	39,934,284
Financial investments at FVTOCI	916,647	277,154	-	-	22,676	1,216,477
Financial investments at amortised cost	-	-	1,567	-	-	1,567
Financial other assets	47,993	-	-	-	-	47,993
Total financial assets as at 31 December 2019	17,105,493	11,660,091	13,520,489	3,041,376	223,084	45,550,533
Financial liabilities						
Due to banks	5,679,662	305,399	1,490,348	904,883	-	8,380,292
Due to customers at amortised cost	6,036,437	10,483,704	3,976,009	4,603,201	2,052	25,101,403
Debt issued and borrowed funds at amortised cost	184,970	186,196	2,785,985	-	-	3,157,151
Other financial liabilities	240,908	-	-	-	-	240,908
Total financial liabilities as at 31 December 2019	12,141,977	10,975,299	8,252,342	5,508,084	2,052	36,879,754

50 Risk Management (contd.)**50.8 Maturity of the Group's Contingent Liabilities and Commitments**

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

For issued guarantees to customers the maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called.

	2019							Total Rs.'000
	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		
Company								
Financial guarantees & claims to the customers	3,300	13,800	104,237	-	-	-	121,337	
Total Commitments and Contingencies	3,300	13,800	104,237	-	-	-	121,337	
Group								
Financial guarantees & claims to the customers	3,300	13,800	104,237	-	-	-	121,337	
Total Commitments and Contingencies	3,300	13,800	104,237	-	-	-	121,337	

	2018							Total Rs.'000
	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years		
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000		
Company								
Financial guarantees & claims to the customers	500	10,500	113,250	-	-	-	124,250	
Total Commitments and Contingencies	500	10,500	113,250	-	-	-	124,250	
Group								
Financial guarantees & claims to the customers	500	10,500	113,250	-	-	-	124,250	
Total Commitments and Contingencies	500	10,500	113,250	-	-	-	124,250	

The Group expects that not all the contingent liabilities and commitments will be drawn before expiry of the commitments.

Notes to The Financial Statements Contd.

50 Risk Management (contd.)

50.9 Operational Risk

Operational risk refers to the risk that risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Group's integrated risk management committee and risk management division has taken necessary actions to identify and manage the company operational risk prudently and effectively.

The Company recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, legal or regulatory penalties if such risks are not objectively managed.

51 Capital Management

The primary objectives of the Company's capital management policy are to ensure that the Company complies with externally imposed capital requirements and that the Company maintains strong credit ratings and healthy capital ratios in order to support its business and to maximise shareholder value.

The Company manages its capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of its activities. In order to maintain or adjust the capital structure, the Company may adjust the amount of dividend payment to shareholders, return capital to shareholders or issue capital securities. No changes yet have been made in the objectives, policies and processes from the previous years, however, it is under constant scrutiny of the Board.

51.1 Capital Adequacy Ratio (CAR)

Central Bank of Sri Lanka introduced Finance Business Act Direction No 03 of 2018 with effect from 1st July 2018 and accordingly the Licensed Finance Companies in Sri Lanka need to maintain a minimum Tier 1 Capital and Total Capital Ratios (CAR) as shown in table below

	Required Ratio		Actual Ratio	
	01-July-2018	01-July-2019	01-July-2018	01-July-2019
Tier 1 Capital	6.0	6.5	4.7	5.6
Total Capital	10.0	10.5	8.98	8.78

However, the company has recorded Capital Ratios which are below the required minimum as stated above. Hence Central Bank of Sri Lanka has imposed with caps of LKR 35 Bn on loan and advances (net of interest in suspense) and LKR 23 Bn on deposits with effect from April 2019 and May 2019 respectively.

Central Bank of Sri Lanka has granted an extension till 31 December 2020 to infuse the additional capital required, to which the company has taken necessary actions. Further Bank of Ceylon (Parent) has agreed to provide funding needed to meet regulatory capital requirements in case company fails to attract required additional funding on its own.



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Quarterly Analysis

Statement of Profit or Loss For the quarter ended	2019				2018			
	31st December	30th September	30th June	31st March	31st December	30th September	30th June	31st March
Net interest income	614,194	615,673	440,227	531,361	596,773	665,647	577,482	602,565
Net fee and commission income	57,501	53,184	37,346	35,050	46,605	59,061	52,589	49,887
Net trading income	(3,098)	6,326	4,973	1,451	(9,663)	648	3,936	2,742
Net gain/(loss) on financial instruments at fair value through profit or loss	35,778	24,529	(12,409)	(29,131)	11,712	(21,525)	(26,474)	6,289
Other operating income	20,958	17,458	14,790	15,732	90,685	47,720	20,080	18,644
Total operating income	725,333	717,170	484,927	554,463	736,111	751,551	627,613	680,127
Less : Impairment charges from loans and other losses	142,680	(18,727)	104,935	50,785	(391,486)	109,542	181,512	234,964
Net operating income	582,653	735,897	379,991	503,678	1,127,597	642,009	446,101	445,163
Less : Total operating expense	565,865	515,301	516,786	524,365	434,721	547,783	523,971	499,144
Profit/(loss) from operations	16,788	220,596	(136,794)	(20,687)	692,876	94,226	(77,870)	(53,981)
Less : Impairment charge/(Reversal) from investment in Group companies	(100,022)	17,140	(182,752)	-	(79,277)	-	21,117	-
Profit/(loss) from operations after impairment of group companies'	116,810	203,456	45,958	(20,687)	772,153	94,226	(98,987)	(53,981)
Less : Taxes on financial services	72,214	81,580	81,748	52,801	164,132	43,913	29,506	29,184
Profit before income tax	44,596	121,876	(35,790)	(73,487)	608,021	50,314	(128,493)	(83,165)
Less : Income tax expense/(Reversal)	45,391	-	-	-	242,589	22,802	-	-
Profit/(loss) for the period	89,986	121,876	(35,790)	(73,487)	365,432	27,512	(128,493)	(83,165)
Statement of Comprehensive Income								
Other comprehensive income for the period, net of tax	(23,759)	250	(4,934)	9,550	10,393	(5,963)	(2,847)	(702)
Total comprehensive income for the period, net of tax	66,227	122,126	(40,724)	(63,937)	375,825	21,549	(131,340)	(83,867)

Statement of Financial Position For the quarter ended	2019				2018			
	31st	30th	30th	31st	31st	30th	30th	31st
	December	September	June	March	December	September	June	March
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Total assets	36,975,123	38,673,803	38,384,382	37,859,223	35,659,527	36,397,150	35,192,948	33,965,257
Loans & receivables at amortised cost	29,228,215	30,750,428	30,742,525	31,244,252	30,721,147	31,016,844	29,860,060	28,857,757
Due to customers at amortised cost	22,755,930	22,502,975	22,927,307	22,953,187	20,831,021	22,111,764	21,234,288	20,401,513
Total equity	2,607,795	2,541,569	2,419,443	2,247,484	2,524,104	3,043,912	3,018,613	3,149,953

Market price per share (LKR) For the quarter ended	2019				2018			
	31st	30th	30th	31st	31st	30th	30th	31st
	December	September	June	March	December	September	June	March
Highest	10.30	10.50	10.70	10.90	9.60	10.40	14.00	14.70
Lowest	8.60	8.50	8.30	8.90	7.40	7.70	9.50	12.60
Closing	9.60	8.60	8.50	10.40	9.60	8.10	10.00	13.00

Regulatory Liquidity For the quarter ended	2019				2018			
	31st	30th	30th	31st	31st	30th	30th	31st
	December	September	June	March	December	September	June	March
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Required minimum amount of liquid assets	2,870,890	3,129,186	3,085,616	3,066,782	2,859,480	2,868,070	2,737,754	2,518,181
Available total liquid assets	3,479,769	3,446,137	3,341,029	3,079,030	2,872,282	3,235,251	3,120,111	3,046,459
Statutory liquid asset ratio (%)	12.30	11.17	10.99	10.19	10.20	11.47	11.59	12.32

Decade at a Glance

	SLFRS				
	2019	2018	2017	2016	2015
Operating Results					
Income	6,839,015	6,549,905	6,402,825	4,888,155	4,216,991
Interest expenses	4,331,275	3,752,471	3,708,808	2,709,604	2,133,325
Net interest income	2,201,454	2,442,466	2,448,478	2,028,170	1,939,834
Operating expenses & provisions	2,401,990	2,140,150	2,465,367	1,945,654	2,119,094
Share of associate company	-	-	-	-	-
Profit before income tax	57,194	446,676	228,650	232,897	(35,428)
Income tax on profit	45,391	265,391	127,799	154,247	42,878
Profit for the year	102,584	181,285	100,851	78,650	(78,306)
Statement of Financial Position Information					
	SLFRS				
	2019	2018	2017	2016	2015
Assets					
Cash & cash equivalents including placements	1,836,047	965,197	1,928,482	520,234	820,923
Reverse repurchase agreement	996,841	1,292,670	1,302,748	265,687	785,965
Financial investments at FVTPL	945,199	267,106	2,046,445	3,059,300	2,296,177
Financial investments at FVTOCI	1,216,478	1,180,998	-	-	-
Loans & receivable at amortised cost	29,229,728	30,781,975	29,233,023	27,109,765	23,282,286
Real state stock	297,075	78,503	-	-	-
Investment in associate & Subsidiary companies	925,994	160,360	102,201	158,390	391,281
Property, equipment, intangible assets and investment properties	1,193,330	633,415	671,726	470,738	403,918
Other assets	334,431	299,303	360,582	342,640	294,000
Total assets	36,975,123	35,659,527	35,645,207	31,926,754	28,274,550
Liabilities					
Due to banks	6,814,826	5,702,423	123,849	201,635	258,062
Cash collateral on securities lent and repurchase agreements	934,195	166,894	437,672	401,820	416,472
Due to customers	22,755,930	20,831,021	21,918,869	18,518,419	15,846,306
Debt issued and borrowed funds	2,466,268	5,331,077	8,818,862	8,722,787	7,883,323
Other liabilities & deferred taxation	1,109,559	855,876	1,112,135	975,578	862,325
Current tax liabilities & Retirement benefits obligations	286,550	248,132	-	-	-
Total liabilities	34,367,328	33,135,423	32,411,387	28,820,239	25,266,488
Net assets	2,607,795	2,524,104	3,233,820	3,106,515	3,008,062
Capital Employed					
Stated capital	2,124,457	2,124,457	2,124,457	2,124,457	2,124,457
Retained earnings & reserves	483,338	399,647	1,109,363	982,058	883,602

SLAS					
2014	2013	2012	2011	2010	2009
4,734,641	2,355,366	1,869,714	1,393,526	1,522,980	1,155,731
2,579,431	1,371,937	1,035,739	541,370	419,041	584,247
1,805,198	893,899	779,559	782,407	688,080	398,298
2,101,923	807,547	590,572	483,141	535,870	345,720
-	60,248	82,639	28,500	-	-
53,287	175,882	243,403	429,263	650,708	254,264
83,957	58,942	42,156	92,992	201,037	53,286
(30,670)	116,940	201,247	336,271	449,671	200,978
SLAS					
2014	2013	2012	2011	2010	2009
2,026,901	964,584	296,372	97,260	71,097	39,511
465,211	140,768	116,532	450,000	10,000	10,024
2,060,990	930,672	1,007,544	704,942	704,113	605,276
21,422,320	9,905,403	9,286,076	7,513,481	5,528,347	4,386,121
597,180	1,008,106	678,823	629,484	568,327	354,546
373,195	95,132	107,675	54,201	47,144	39,267
368,127	224,135	398,289	378,374	212,189	144,180
27,313,924	13,268,800	11,891,311	9,827,742	7,141,217	5,578,925
200,002	99,118	138,239	183,718	64,780	-
442,170	-	419,462	930,597	150,031	-
11,092,643	-	-	-	-	-
11,141,793	9,623,147	7,946,502	5,356,872	3,776,027	2,733,145
1,285,893	765,659	693,449	594,280	521,946	515,008
24,162,501	10,487,924	9,197,652	7,065,467	4,512,784	3,248,153
3,151,423	2,780,876	2,693,659	2,762,275	2,628,433	2,330,772
2,124,457	1,607,000	1,607,000	1,607,000	1,607,000	1,607,000
1,026,965	1,173,876	1,086,659	1,155,275	1,072,193	723,772

Decade at a Glance Contd.

	2019	2018	2017	2016	2015
Investors Ratios					
Market value of a voting share - Rs.	9.60	9.60	13.50	13.60	15.00
Basic earnings per share - Rs.	0.62	1.09	0.60	0.50	(0.47)
Net assets value per share - Rs.	15.72	15.22	19.50	18.73	18.13
Price earnings ratio - Times	15.52	8.78	22.20	28.68	(31.77)
Earning yield - %	6.44	11.38	4.50	3.49	(3.15)
Operating Ratios					
Return on net assets - %	3.93	7.18	3.18	2.57	(2.54)
Net profit - %	1.50	2.77	1.58	1.61	(1.86)
Return on assets - %	0.28	0.51	0.30	0.26	(0.28)
Net Interest margin - %	6.52	7.83	7.64	7.18	7.61
Cost to income ratio - %	85.51	71.07	73.10	71.89	66.89
Income growth - %	4.41	2.30	30.99	15.92	(10.93)
Assets growth - %	3.10	0.02	11.65	12.92	3.52
Net assets growth - %	3.32	(21.95)	4.10	3.27	(4.55)
Gearing Ratios					
Debt to equity - Times	13.18	13.21	9.68	8.96	8.11
Interest cover - Times	1.01	1.12	1.06	1.09	0.98
Liquidity Ratios					
Quick ratio - Times	-	-	0.77	0.66	0.76
Liquidity ratio	12.30	10.20	11.49	10.75	11.25

2014	2013	2012	2011	2010	2009
17.50	13.60	19.90	39.60	45.80	19.50
(0.18)	0.87	1.49	2.49	3.33	1.49
19.00	20.60	19.95	20.46	19.85	17.26
(94.65)	15.70	13.35	15.90	13.75	13.09
(1.06)	6.37	7.49	6.29	7.27	7.64
(0.97)	4.21	7.47	12.17	16.78	8.62
(0.65)	4.96	10.76	24.13	29.53	17.39
(0.11)	0.88	1.69	3.42	6.30	3.60
9.96	8.22	8.37	11.14		
62.05	65.71	55.03	34.19	42.58	54.95
86.46	25.97	34.17	(8.50)	31.78	11.64
75.91	11.58	21.00	37.62	28.75	17.00
4.95	3.24	(2.48)	5.09	14.95	38.75
3.88	3.50	3.16	2.34	1.45	1.17
1.02	1.13	1.24	1.79	2.55	1.44
0.88	0.69	0.75	1.15	0.93	1.04
-	-	-	-	-	-

Independent Assurance Report

GRI 102-56



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Independent Assurance Report to Merchant Bank of Sri Lanka & Finance PLC on the Sustainability Reporting Criteria Presented in the Integrated Annual Report-2019

Introduction and scope of the engagement

The management of Merchant Bank of Sri Lanka & Finance PLC (“the Bank”) engaged us to provide an independent assurance on the following elements of the sustainability reporting criteria presented in the annual report- 2019 (“the Report”).

- ▶ Reasonable assurance on the information on financial performance as specified on page 51 of the Report.
- ▶ Limited assurance on other information presented in the Report, prepared in accordance with the requirements of the Global Reporting Initiative GRI Standards: ‘In accordance’ – Core guidelines.

Basis of our work and level of assurance

We performed our procedures to provide limited assurance in accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): ‘Assurance Engagements Other than Audits or Reviews of Historical Financial Information’, issued by the Institute of Chartered Accountants of Sri Lanka (“CASL”).

The evaluation criteria used for this limited assurance engagement are based on the Sustainability Reporting Guidelines (“GRI Guidelines”) and related information in particular, the requirements to achieve GRI Standards ‘In accordance’ - Core guideline publication, publicly available at GRI’s global website at “www.globalreporting.org”.

Our engagement provides limited assurance as well as reasonable assurance. A limited assurance engagement is substantially less in scope than a reasonable assurance engagement conducted in accordance with SLSAE-3000 and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement. Accordingly, we do not express an opinion providing reasonable assurance.

Management of the Bank’s responsibility for the Report

The management of the Bank is responsible for the preparation of the self-declaration, the information and statements contained within the Report, and for maintaining adequate records and internal controls that are designed to support the sustainability reporting process in line with the GRI Sustainability Reporting Guidelines.

Ernst & Young’s responsibility

Our responsibility is to express a conclusion as to whether we have become aware of any matter that causes us to believe that the Report is not prepared in accordance with the requirements of the Global Reporting Initiative, GRI Standards: ‘In accordance’ - Core guidelines. This report is made solely to the Bank in accordance with our engagement letter dated 24 May 2020. We disclaim any assumption of responsibility for any reliance on this report to any person other than the Bank 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 for Ethics for Professional Accountants issued by the CASL.

Key assurance procedures

We planned and performed our procedures to obtain the information and explanations considered necessary to provide sufficient evidence to support our limited assurance conclusions. Key assurance procedures included:

- ▶ Interviewing relevant the Bank’s personnel to understand the process for collection, analysis, aggregation and presentation of data.
- ▶ Reviewing and validation of the information contained in the Report.
- ▶ Checking the calculations performed by the Bank on a sample basis through recalculation.
- ▶ Reconciling and agreeing the data on financial performance are properly derived from the Bank’s audited financial statements for the year ended 31 December 2019.
- ▶ Comparison of the content of the Report against the criteria for a Global Reporting Initiative, GRI Standards: ‘In accordance’ – Core guidelines.

Our procedures did not include testing electronic systems used to collect and aggregate the information.

Limitations and considerations

Environmental and social performance data are subject to inherent limitations given their nature and the methods used for determining, calculating and estimating such data.

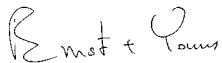
Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K P M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA Ms. P V K N Sajjewanani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principal G B Goudian ACMA A A J R Perera ACA ACMA T P M Ruberu FCMA FCCA

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Conclusion

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

- ▶ The information on financial performance as specified on page 51 of the Report are properly derived from the audited financial statements of the Bank for the year ended 31 December 2019.
- ▶ Nothing has come to our attention that causes us to believe that other information presented in the Report are not fairly presented, in all material respects, in accordance with the Bank's sustainability practices and policies some of which are derived from Sustainability Reporting Guideline, GRI Standards- 'In accordance' Core.



Ernst & Young

Chartered Accountants

31 August 2020
Colombo

GRI Checklist

GRI 102-55

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Basis of Ratio & 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 equivalent.

Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount.

Asset and Liability Committee (ALCO)

A risk management committee that generally comprises the senior management levels of the Company. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Company's forecast and strategic balance sheet allocations.

Associate company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

Available-for-Sale financial Asset

Non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss

C

Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commercial Paper

An unsecured short term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Consolidated Financial Statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

Contingencies

A condition or situation existing on the statement of financial position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

Cost to Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

$$\frac{\text{Total Operating cost Without VAT on Financial Services}}{\text{Net Operating Income}} \times 100$$

Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

Credit Risk

Credit risk or default risk is the potential that a borrower or counterparty failing to meet its obligations in accordance with agreed terms and conditions.

Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

D

Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

Dividend Per Share (DPS)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current years dividend attributable to an ordinary share in issue

$$\frac{\text{Profit / (Loss) Attributable to Ordinary Shareholders}}{\text{Number of Ordinary Shares}}$$

Dividend Yield

Dividend per share as a percentage of its market value.

$$\frac{\text{Dividend Per Ordinary Share}}{\text{Market Price Per Share}} \times 100$$

E

Earning Yield (EY)

The earnings yield refers to the earnings per share for the period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of the Company's earnings per share.

$$\frac{\text{Earning Per Share}}{\text{Market Price Per Share}} \times 100$$

Earnings per Ordinary share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

$$\frac{\text{Profit / (Loss) Attributable to ordinary shareholders}}{\text{Average number of Shares}}$$

Economic Value Added (EVA)

A measure of productivity that takes into consideration cost of total invested equity.

Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

Employee Turnover (%)

Employee turnover refers to the workers leaving an organization over a period as a percentage of average employees during the period.

$$\frac{\text{Number of attritions during the year}}{\text{Average number of employees during the year}} \times 100$$

Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

Exposure

A claim, contingent claim or position which carries a risk of financial loss.

F

Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

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 Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

Financial Guarantee Contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

Basis of Ratio & Glossary Contd.

G

Gearing

Long term borrowings divided by the total funds available for shareholders.

Global Reporting Initiative (GRI)

GRI is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

Group

A group is a parent and all its subsidiaries.

Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

H

Held-to-Maturity (HTM) Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

I

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

This occurs when recoverable amount of an asset is less than its carrying amount.

Impairment Allowances

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

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

A ratio showing the number of times interest charges are covered by earnings before interest and tax.

$$\frac{\text{Profit Before Interest \& Tax}}{\text{Interest Expenses}}$$

Interest in Suspense

Interest suspended on non-performing leases, hire purchases and other advances.

Interest Margin

Net interest income expressed as a percentage of average interest earnings assets.

Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

Interest Spread

Represents the difference between the average interest rate earned on interest earnings assets and the average interest rate paid on interest-bearing liabilities.

International Financial Reporting Standards (IFRS)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

Investment properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use or sale.

K

Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

L

Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with Banks, bills of exchange and Treasury Bills and Bonds.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

Loan to Value Ratio (LTV)

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

Loan to value ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

Loans and Receivables

Conventional loan assets that are unquoted (originated or acquired).

M

Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.
Market price per share x Number of shares

Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

N

Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

$$\frac{\text{Total Share Holders Equity}}{\text{Number of Share}}$$

Net Interest Income (NII)

The difference between income earned from interest bearing assets and cost incurred on financial instrument/facilities used for funding the interest bearing assets.

Net Interest Margin (NIM)

Net interest income expressed as a percentage of average interest earning assets.

$$\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}} \times 100$$

Non-Controlling Interest

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

Non-performing ratio

Total non-performing leases, hire purchase loans and other advances divided by total advances portfolio.

$$\frac{\text{Gross non- performing portfolio}}{\text{Gross loans and receivables}} \times 100$$

O

Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

Offsetting of 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 amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

P

Parent Company

A Parent is an entity which has one or more subsidiaries.

Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

$$\frac{\text{Market price per share}}{\text{Earnings per share}}$$

Price to Book Value (PBV - Times)

$$\frac{\text{Market Price Per Share}}{\text{Net Assets Per Share}}$$

Probability of Default (PD)

The probability that an obligor will default within a one-year time horizon.

Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

R

Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

Return on Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

$$\frac{\text{Profit After tax}}{\text{Total Assets}} \times 100$$

Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

Basis of Ratio & Glossary Contd.

Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of risk mitigants such as collateral, guarantee and credit protection

Risk weighted assets

On statement of financial position assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

S

Segment Analysis

Analysis of financial information by segments of an entity specifically the different business in which it operates.

Shareholders' Funds

Total of stated capital and reserves.

Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company.

Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka. They comprise Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise which is known as the parent.

Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

T

Tier I Capital

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

Tier II Capital

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

Total Return of Share (%)

Total shareholder return is the financial gain that results from a change in the stock's price plus any dividends paid by the company during the measured interval divided by the initial purchase price of the stock.

$$\frac{(\text{Closing Market Price} - \text{Opening Market Price}) + \text{Dividend Per Share}}{\text{Opening Market Price}} \times 100$$

Transaction costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

V

Value Added

Value of wealth created by providing financial and other-related services less the cost of providing such services.

Y

Yield

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value.

Yield to Maturity

Discount rate at which the present value of future cash flows would equal the security's current price.

Contact Information

GRI 102-4

GRI 102-6

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL.
REGION 01					
519, T B Jayah Mawatha, Colombo 10	011-4504940	011-4504940	Mr. Sulochana Munasinghe Regional Manager - Region 01	076-9956527	sulochanam@mbslbank.com
HEAD OFFICE BRANCH					
BOC Merchant Tower, No.28, St.Michael's Road, Colombo 03	011-4711782	011-4711768	Mr. Chiran Nimanka Manager	077-9519460	nimankac@mbslbank.com
MALABE BRANCH					
390 A, Kaduwela Rd, Malabe	011-4498505	011-4498502	Mr.Chandrasekaran Sanjeev Acting Branch Manager	077-3240053	sanjeevc@mbslbank.com
NUGEGODA BRANCH					
196, High Level Road, Nugegoda	011-4504966/7	011-2815535	Mr.Saman Liyanarachchi Manager	077-6721662	samanl@mbslbank.com
MORATUWA BRANCH					
731, Galle Road, Idama,Moratuwa	011-4504964	011-2642120	Mr. Chalaka Ariyasinghe Manager	076-0169033	chalakaa@mbslbank.com
PANADURA BRANCH					
No.159/2,Galle Road,Panadura	038-4927941	038-2236889	Mr.Prasanna Buddika Gunarathne Manager	077-7360320	prasannabg@mbslbank.com
KOTTAWA BRANCH					
262/2A, High Level Road, Kottawa	011-4504962/3 011-4324170/1 011-4062583	011-2783389	Mr. Sampath Gunasekera Acting Branch Manager	077-6721537	sampathg@mbslbank.com
HORANA BRANCH					
212, Panadura Road, Horana	034-4200101 034-4200102	034-2262973	Mr.Emil Cooray Branch Manager	077-3240846	emilc@mbslbank.com
WATTALA BRANCH					
No.500/B/C, Negombo Road, Wattala	011-2931761 011-4062586 011-4504671	011-4504672	Mr. Dilip Niroshan Branch Manager	077-4550970	dilipn@mbslbank.com
KOTAHENA BRANCH					
No:295, 2/2, Rathi Tower, Geroge R.De Silva Mw, Kotahena, Colombo - 13	011-2388377	011-2432088	Mr. Madushan Abeyrathne Branch Manager	077-3054317	madushana@mbslbank.com
KIRIBATHGODA BRANCH					
No.276/A, Nawajeewana Place, Kandy Road, Kiribathgoda	011-2910771 011-2910772	011-2910771	Mr. Nadeesha Saparamadu Manager	077-6721708	nadeeshap@mbslbank.com
KADAWATHA BRANCH					
1246/A, Kandy Road, Kadawatha	011-4504920	011-2920335	Ms. Megha Fernando Manager	077-8466002	megaf@mbslbank.com
KANDANA BRANCH					
NO.310, Colombo Road, Kandana	011 -4344073 011-4344072	-	Mr. Lasantha Segera Acting Branch Manager	076-3946000 077-3331313	lasanthas@mbslbank.com
JA-ELA BRANCH					
No:270/1,Negombo Road,Thudella, Ja-ela	011-2249292 011-4504674 011-4504675	011-2249292	Mr. Pradeep Kumarage Acting Branch Manager	077-6722479 076-2073662	pradeepk@mbslbank.com

Contact Information Contd.

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL.
REGION 02					
519, T B Jayah Mawatha, Colombo 10	011-2374000	011-2374044	Mr. Nirosan Selvarajah Regional Manager	077-7514795	nirosans@mbslbank.com
UNION PLACE BRANCH					
519, T B Jayah Mawatha, Colombo 10	011-2374000	011-2374044	Mr. Daya Sagar Vijayan Manager	076-9716907	dayasv@mbslbank.com
MAHARAGAMA BRANCH					
No. 232, Laksiri Building, Highlevel Road, Maharagama	011-4306096 011-4306097	011-2745451	Mr Praveen Ferdinandusz Manager	077-6721418	praveenf@mbslbank.com
MATHUGAMA BRANCH					
No.92/4, Agalawatta Road, Mathugama	034-4947811 034-4947812	034-2249992	Mr. Thusara Muramudali Acting Branch Manager	077-6720479	thusaram@mbslbank.com
GALLE BRANCH					
No. 37, New Street, Gnanobhashatha Mawatha, Galle	091-4711711 091-4711700	091-2234750	Mr.Manjula Prasad Krasinghe Arachchige Manager	077-9286365	manjulak@mbslbank.com
MATARA BRANCH					
No:344/F,Anagarika Dharmapala Mawatha, Nupe, Matara	041-4650400 041-4650420	041-2233886	Mr. Shayaman Karunanayaka Manager	077-5506573	shyamank@mbslbank.com
AMBALANTHOTA BRANCH					
No:133, Main street, Ambalanthota	047-4711711 047-4711700	047-2225610	Mr. Priyajith Subasinghe Branch Manager	077-3240827	priyajiths@mbslbank.com
KALUTHARA BRANCH					
426, Galle Road, Kalutara South	034-4200105	034-2229482	Mr.Pathum Dassanayake Manager	077-6720861	pathumd@mbslbank.com
AMBALANGODA BRANCH					
No.45, Station Road, Ambalangoda	091-4943759 091-4943765	091-2256675	Mr.Dharmendra Niwantha Branch Manager	0773240887	dharmendraa@mbslbank.com
DENIYAYA BRANCH					
1/153, Hospitle road, Deniyaya	041-4935173 041-4935174	041-2273731	Mr. Ranuka Sanjeeewa Acting Branch Manager	077-3434143	ranukas@mbslbank.com
EMBILIPITIYA BRANCH					
79/A , New Town Road , Embilipitiya	047-7711711 047-7711700	047-2261735	Mr. Kishan Keerthi Branch Manager	0773240572	keerthid@mbslbank.com
TISSAMAHARAMA BRANCH					
No.117, Halambagaswala Road, Palliyawatta Junction, Tissamaharama	047-2238716	047-2238717	Mr. Ruchira Sameera Manager	076-7348744	ruchiras@mbslbank.com
REGION 03					
No. 55, Kings Groove, Rajapihilla Road, Kurunegala	037-4711700	037-2224215	Mr.Keerthi Ramanayake Regional Manager	077-3219578	keerthir@mbslbank.com
KURUNEGALA BRANCH					
No. 55, Kings Groove, Rajapihilla Road, Kurunegala	037-4711711	037-2224570	Mr.Nishantha Dhahanaka Acting Manager	077-3661977	nishanthad@mbslbank.com
KULIYAPITIYA BRANCH					
No.413/1/1, Madampe Road, Kuliypitiya	037-2281730 037-4941147 037-4200130 037-4200131	037-2281731	Mr. Lakmal Jayathunga Acting Branch Manager	077-3240896	lakmalj@mbslbank.com

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL.
DAMBULLA BRANCH					
1/690, Anuradhapura Road, Dambulla	066-4200105 066-2284204/5	066-2284204	Mr.Krishantha Bandara Branch Manager	077-3241027	krishanthab@mbslbank.com
ANURADHAPURA BRANCH					
No. 82, Maithreepala Senanayake, Mawatha, Anuradhapura	025-4580507 025-2234485 025-2221774	025-4580508	Mr. Thilanka Hettihewa Manager	076-1755207	thilankad@mbslbank.com
HINGURAKGODA BRANCH					
No.17, Air-Port Road, Hingurakgoda	027-4924761 027-4924762	027-2245483	Mr.Chaminda Batagoda Branch Manager	077-3240274	kumarab@mbslbank.com;
KEKIRAWA BRANCH					
No.24, Yakalla Road, Kekirawa	025-4928951 025-4928952	025-2264799	Mr. Amila W. Mawathawewa Manager	077-2519083	amilaw@mbslbank.com
PUTTALAM BRANCH					
No.126/B, Kurunagala Road, Puttalam	032-2267285 032-4928795 032-4928796	032-2267776	Mr.Chaminda Medawaththa Manager (Overlooking)	077-1024291	chamindam@mbslbank.com
WENNAPPUWA BRANCH					
No.177, Samagi Building, Kolinjadiya, Wennappuwa	031-4200109 031-4200110	031-2249979	Mr.Chaminda Medawaththa Manager	077-1024291	chamindam@mbslbank.com
NEGOMBO BRANCH					
No:329/16, Main Street, Negombo	031-4200107 031-4200108 031-2237355	031-2228324	Mr. Chinthana Jayasekera Manager	077-7151216	chinthanap@mbslbank.com
CHILAW BRANCH					
No.6,Ebert Silva Estate,Colombo Road, Chillaw	032-4928790 032-4928791	032-2224033	Mr. Nuwan Prasanga Manager	077-3973424 077-6643542	nuwanp@mbslbank.com
REGION 04					
284, Katugasthota Road, Kandy	081-4481702 081-2224820 081-2202213	081-2213880	Mr.Saman Pathmadeera Regional Manager	077-3219579	samanp@mbslbank.com
KANDY BRANCH					
284, Katugasthota Road, Kandy	081-2224818/9 081-4951786/7	081-2213880	Mr. Asanka Weerasinghe Acting Branch Manager	077-7749820	asankaw@mbslbank.com
KANDY BRANCH - CITY OFFICE					
No.88, "Ceybank House" Dalada Veediya, Kandy	081-2237378 081-2237380 081-2237379	081-2237378	Mr.Chaminda Amarasinghe Manager	077-3047775	chamindaa@mbslbank.com
AVISSAWELLA BRANCH					
No.89 /1/1, Ratnapura Road, Avissawella	036-4928208 036-4928209	036-2232030	Mr. Amal Geekiyanage Branch Manager	077-3240384	amals@mbslbank.com
RATNAPURA BRANCH					
No.231, Main Street, Rathnapura	045-4928089 045-4928093	045-2232524	Mr.Chinthaka Athukorala Branch Manager	077-3241089	chinthakaa@mbslbank.com
HATTON BRANCH					
No: 263, Dimbula Road, Hatton	051-4924641 051-4924642	051-2224375	Mr. Ajith Priyantha Branch Manager	077-3240193	ajithp@mbslbank.com

Contact Information Contd.

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL.
BANDARAWELA BRANCH					
No.11, Thanthiriya, Badulla Road, Bandarawela	057-4926910 057-4926911	057-2233807	Mr. Chandana Rohan Acting Branch Manager	077-3240335	rohanr@mbslbank.com
MONARAGALA BRANCH					
No.280, Wellawaya Road, Monaragala	055-4929361 055-4929362	055-2276087	Mr.Sumith Karunaratne Manager	077-3240329	sumiths@mbslbank.com
NITTAMBUWA BRANCH					
No.48/3, Kandy Road, Nittambuwa	033-4937564 033-4937565	033-2288842	Mr.Udesh Manjula Branch Manager	077-3240873	udeshm@mbslbank.com
GAMPAHA BRANCH					
390, Colombo Road, Gampaha	033-4200110 033-4200109	033-2234227	Mr.Indika Pushpakumara Manager	077-3792957	indikap@mbslbank.com
AMPARA BRANCH					
No.6, D S Senanayake Veediya, Ampara	063-4923540 063-4923541	063-2224260	Mr.Chaminda Kadigamuwa Acting Branch Manager	077-3240817	sanjeewac@mbslbank.com
NORTH EAST REGION					
No: 99, Station Road, Vavuniya	024-4711700-11 024-4711704	024-2226108	Mr.Rengasamy Saravanan Acting Regional Manager	077-6519372	saravananr@mbslbank.com
JAFFNA BRANCH					
No.317,Clock Tower Road, Jaffna	021-4200141	021-2220381	Mr.K Sethukavalar Manager	076-9080112	sethukavalar@mbslbank.com
KILINCHCHI BRANCH					
No. 30, A9 Road, Karadippokku, Kilinochchi	021-2280078	021-2280079	Mr. Shanmugavel Harishangar Manager	077-5147548	harishangars@mbslbank.com
VAVUNIYA BRANCH					
No: 99, Station Road, Vavuniya	024-4711700-11 024-4711704	024-2226108	Mr. K. Thusijanthan Officer In Charge	077-3241007	thusijanthank@mbslbank.com
BATTICALOA BRANCH					
No:28, Bar Road, Batticaloa	065-4926799 065-4926787	065-2228575	Mr. P Nivaraj Manager	077-3240721	nivarajp@mbslbank.com
TRINCOMALEE BRANCH					
No: 133, Main Street, Trincomalee	026-4928888 026-4595151	026-2226784	Mr. Rajith Senevirathna Officer In Charge	076-5476554	rajithm@mbslbank.com

Corporate Information

Name of Company GRI 102-1

Merchant Bank of Sri Lanka & Finance PLC
(Formerly known as 'Merchant Bank of Sri Lanka PLC')

Company Registration No

PQ10

Legal Form GRI 102-5

A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 on 4th May 2007 and quoted on the Colombo Stock Exchange.

A Registered Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

A Registered Finance Company licensed under the Finance Business Act No. 42 of 2011.

Stock Exchange Listing

25th April 1991

Registered Office GRI 102-3

Bank of Ceylon Merchant Tower,
No. 28, St. Michael's Road,
Colombo 03

Tel : 011 4711711 **Fax**. 011 4711742

web : www.mbslbank.com

Tax Payer Identification No

124011426

VAT Registration No.

124011426 7000

Central Bank registration No.

050

Financial Year End

31st December

Website

www.mbslbank.com

Board of Directors:

Mr. A M A Perera (Protem Chairman)

Mr. W P R P H Fonseka

Mr. D N L Fernando

Dr. N S Punchihewa

Mr. W N P Surawimala

Mr. M P R Kumara (Alternate Director to Mr. W P R P H Fonseka)

Board Sub Committees

Audit Committee

Integrated Risk Management Committee

Related Party Transactions Review Committee

Remuneration Committee

Chief Executive Officer:

Mr. G M J A R Gamalath (Acting CEO)

Tel: 4711700 **Fax**: 4711704 **E-mail** : judeg@mbslbank.com

Company Secretary

Ms. Amila Belpamulla

Tel: 4711708 **E-mail** : amilac@mbslbank.com

Subsidiary Company

MBSL Insurance Company Limited

No. 122, Kew Road

Colombo 02

Tel : 2 304500 **Fax**: 2 300499

E-mail : info@mbslinsurance.lk **Web** : www.mbslinsurance.lk

Associate Company

Lanka Securities (Pvt.) Ltd

228/1, Galle Road

Colombo 04

Tel : 4706757 **Fax**: 4706767

E-mail : lankasec@sltnet.lk **Web** : www.lsl.lk

Auditors

The Auditor General of the Democratic Socialist Republic of Sri Lanka

Lawyers

Julius & Creasy

Attorneys-at-Law, Solicitors & Notaries Public

No. 371, R A De Mel Mawatha

Colombo 03

Principal Banker

Bank of Ceylon

Notice of Meeting

NOTICE IS HEREBY GIVEN that the Thirty Eighth Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on 14 October 2020 at 10.00 a.m. for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 December 2019 together with the Report of the Auditors thereon.
2. To re-elect as a Director Mr. W P R P H Fonseka who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To elect as a Director Mr. A M A Perera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company
4. To elect as a Director Dr. N S Punchihewa who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company
5. To elect as a Director Mr. W N P Surawimala who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company
6. To re-appoint the Auditor General as the auditor of the Company in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the financial year ending 31.12.2020. The Audit Fees shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.
7. To authorize the Directors to determine donations for the financial year ending 31.12.2020.

By Order of the Board of

MERCHANT BANK OF SRI LANKA & FINANCE PLC



A. Belpamulla

Company Secretary

18 September 2020

Colombo

NOTES:

1. A Form of Proxy is attached hereto, for use if necessary, in which event, it should be completed and returned to the Registered Office of the Company – Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a Shareholder of the Company.
3. The instrument appointing a Proxy may be in writing under the hand of the appointor or of his/her Attorney, or if such appointor is a corporation under its Common Seal or under the hand of its Attorney or duly authorized person.

Form of Proxy

I/We..... of.....
being a shareholder/ shareholders of the Merchant Bank of Sri Lanka & Finance PLC, hereby appoint
..... of..... whom failing
..... of
whom failing (Mr. A M A Perera, Mr. W P R P H Fonseka, Mr. D N L Fernando, Dr. N S Punchihewa, and Mr. W N P Surawimala) as *my/our Proxy, to represent * me/us, and ...*..... to vote on *my/our behalf at the Annual General Meeting of the Company to be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on 14 October 2020 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof. *I/We the undersigned hereby authorize my/our Proxy to vote on *my/our behalf in accordance with the preference indicated below:

	For	Against
01. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 December 2019 together with the Report of the Auditors thereon.		
02. To re-elect as a Director Mr. W P R P H Fonseka who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.		
03. To elect as a Director Mr. A M A Perera who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company		
04. To elect as a Director Dr. N S Punchihewa who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company		
05. To elect as a Director Mr. W N P Surawimala who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company		
06. To re-appoint the Auditor General as the auditor of the Company in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the financial year ending 31.12.2020. The Audit Fees shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.		
07. To authorize the Directors to determine donations for the financial year ending 31.12.2020		

Signed this.....day of.....Two Thousand and Twenty.

.....
Signature

Notes:

1. Please delete the words which are not applicable.
2. Please indicate with an 'X' in the space provided how your proxy is to vote. If there is in the view of the proxy holder (doubt by reason of the way in which the instructions contain in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder shall vote as he thinks fit.
3. If you wish your proxy to speak at the meeting, you should instruct the words "to speak and" in the space indicated with an asterisk.
4. A proxy holder need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the Meeting.
5. Instructions as to completion of the Form of Proxy is given on the reverse hereof.

Form of Proxy Contd.

Instructions as to The Completion of the Form Of Proxy

1. To be valid, this form of proxy must be deposited at the Registered Office of the Company Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. Kindly perfect the form of proxy after filling legibly your full name and address by signing in the space provided and filling in the date of signature.
3. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given the proxy in his / her discretion may vote as he / she thinks fit.
4. The instrument appointing a proxy may be in writing under the hand of the appointor or of his/her Attorney, duly authorized in writing, or if such appointor is a corporation under its Common Seal or under the hand of its Attorney or duly authorized person. If the form of proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed form of proxy, if it has not already been registered with the Company.

Guidelines and Registration Process for the AGM to be held via Online Meeting Platform

On 14 October 2020

Dear Shareholders,

We wish to inform you that the Thirty Eighth (38th) Annual General Meeting (AGM) of Merchant Bank of Sri Lanka & Finance PLC (MBSL) will be held in accordance with the guidelines given by the Colombo Stock Exchange for conducting Virtual/ Hybrid Meetings.

The AGM is scheduled to be held on 14 October 2020 at 10.00 am at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on the assumption that there would be no restrictions imposed by the authorities on conducting meetings.

In the interest of protecting public health and facilitating social distancing in line with the guidelines issued by the authorities in view of the Covid19 pandemic, the AGM will be held in the manner set out below;

- (i) The Chairman, members of the Board of Directors, the Acting Chief Executive Officer, Company Secretaries/Registrars, Corporate Management Committee members, representatives from the Auditor General and Company Lawyers will be assembled at the place specified in paragraph (2) above for the purpose of hosting the meeting;
- (ii) Shareholders who wish to participate in the AGM are required to duly complete and forward the 'Registration Form' annexed to this notice (Annexure I) together with a copy of National Identity Card (NIC) or Passport of the shareholder/proxy holder to the e-mail address: dinushar@mbslbank.com or Fax to No. 0114711742 or post to the address given in the Registration Form to be received by the Company on or before 08 October 2020;
- (iii) A maximum of three hundred (300) shareholders or such number of shareholders together holding ten percent (10%) of the total voting shares of the Company, whichever is higher will be allowed to assemble physically and participate in the meeting at the place set out in paragraph (2) above either in person or by proxy. Arrangements will also be made for the shareholders to participate in the AGM via an online meeting platform;
- (iv) Once the duly completed Registration Forms together with NIC or passport copies of the shareholders as mentioned in (ii) above are received by the Company, the shareholders who will be eligible to physically participate at the AGM will be selected. This selection is made through the Registration Forms on first come, first served basis. Upon the selection, MBSL will inform such shareholders of their eligibility to physically attend the AGM via e-mail in advance of the AGM. Other than the shareholders selected as aforesaid, no other shareholder is permitted to physically attend the AGM.
- (v) The shareholders/proxy holders who are eligible to attend the meeting physically as mentioned in (iv) above shall bring their NIC when attending to the AGM. They also need to comply with the health and safety precautions including temperature and health screening measures implemented by MBSL. The shareholders/proxy holders who fails to satisfy the health screen measures will not be permitted to attend to the AGM premises.
- (vi) All the other shareholders who are registered with MBSL as mentioned in (ii) above but do not qualify to attend the AGM physically or do not wish to attend to the AGM physically can attend the AGM via the online platform. The Company will forward to such shareholders the meeting log-in information via e-mail in advance of the AGM. The meeting log-in information is authorized only for the use by the shareholders/ proxy holders.
- (vii) All individuals participating at the meeting remotely through online platform are required to identify themselves when communicating online at the AGM.
- (viii) MBSL encourage shareholders to submit duly completed proxy forms appointing one of the Directors of MBSL to act on their behalf in order that each such shareholder may be identified and recorded as if such shareholder was present at the meeting.
- (ix) The shareholders who are unable to participate in the AGM could share their queries and matters, if any, in writing via e-mail to dinushar@mbslbank.com or via Fax No. 0114711742. The responses from the Board of Directors and the Management to the queries/ matters will be forwarded to the shareholders by MBSL within thirty (30) working days from the date of AGM.
- (x) MBSL will be proceeding to hold the AGM as set out herein irrespective of whether it is declared as a holiday or curfew is imposed since the aforesaid measures will enable the required participation at the meeting.
- (xi) The shareholders are kindly requested to adhere to the following;
 - (1) It is mandatory for shareholders attending the AGM to wear a mask. You will not be permitted to the meeting without a mask.
 - (2) Please keep one (01) meter safety distance at the point of registration. Seating will be arranged keeping the said distance.
 - (3) Shareholders' having fever with or without acute onset respiratory systems such as running nose, sore throat and or shortness of breath should not attend the meeting.

Note:

For any queries regarding these Guidelines, please contact Ms. Dinusha Rajapaksha on 0114711711 (Ext. 1667) OR 0114711777 during normal working hours (8.30 a.m. to 5.00 p.m.)

Registration Form

Registration Form

Annual General Meeting - 14 October 2020

To: The Company Secretary
Merchant Bank of Sri Lanka & Finance PLC
Bank of Ceylon Merchant Tower
No. 28, St. Michael's Road
Colombo 03

Full Name of the Shareholder (In the event of joint shareholders, please mention the name of primary holder)		
Address of the Shareholder		
Shareholder's NIC No./Passport No./Company Registration Number		
Telephone Number	Mobile:	
	Landline:	
E mail Address:		
Preference in participation (Please indicate)	In Person	Via Online
	<input type="text"/>	<input type="text"/>
IF A PROXY IS APPOINTED		
Full Name of the proxy holder		
Proxy holder's NIC No./Passport No.		
Telephone Number	Mobile:	
	Landline:	
E mail Address		

.....
Shareholder's signature

Date:

Notes:

- ▶ In the case of a Company/Corporation, this form should be attested in the manner prescribed by its Articles of Association
- ▶ If this form is signed by an Attorney for and on behalf of a shareholder, notarially certified copy of the Power of Attorney registered in the Books of the Company should be attached.



Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 03, Sri Lanka.
Tel. 011 4711711 | Fax. 011 4711742

www.mbslbank.com