

Inspired and Invigorated



Merchant Bank of
Sri Lanka & Finance PLC

MERCHANT BANK OF SRI LANKA & FINANCE PLC
ANNUAL REPORT 2020

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Our Journey

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Management Discussion and Analysis

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Statement of Profit or Loss

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Statement of Financial Position

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Shareholder Information

It was a year of revival in so many ways; as we geared up for continuous improvements that would see us reach the upper echelon of our capabilities. With each step we took we continued our mission of providing financial inclusivity while also revitalising our services in order to create a brand new experience for our diverse customer base.

While the current global situation has kept us on our toes in meeting the needs of the nation, we envision a future that is reinforced through strategic restructuring, and aggrandised by capital infusions. As we advance towards a new era heightened by sustainable growth, we remain inspired and invigorated for these brighter horizons.

ABOUT THE COMPANY

The Merchant Bank of Sri Lanka & Finance PLC is a leading financial services provider in the country with a rich financial history as Sri Lanka's pioneer specialist in trade finance and investment banking. Merchant Bank of Sri Lanka & Finance PLC is listed in the Colombo Stock Exchange and is a finance company licensed by the Central Bank of Sri Lanka.

We are one of the fastest growing financial services providers in the country with expanding branch network and product portfolio, and an increasing customer base. As one of the most stable finance companies in the country, we provide a range of secure investments for your funds, together with financial support for the growth and development for your entire family.

Merchant Bank of Sri Lanka & Finance PLC (MBSL) was incorporated in 1982 as Sri Lanka's first and only specialised 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 authorised to carry out finance business activities. Today MBSL operates through a network of 48 branches across the island and company operates only within Sri Lanka.

OUR VISION

- To be the most innovative business solution provider to the nation

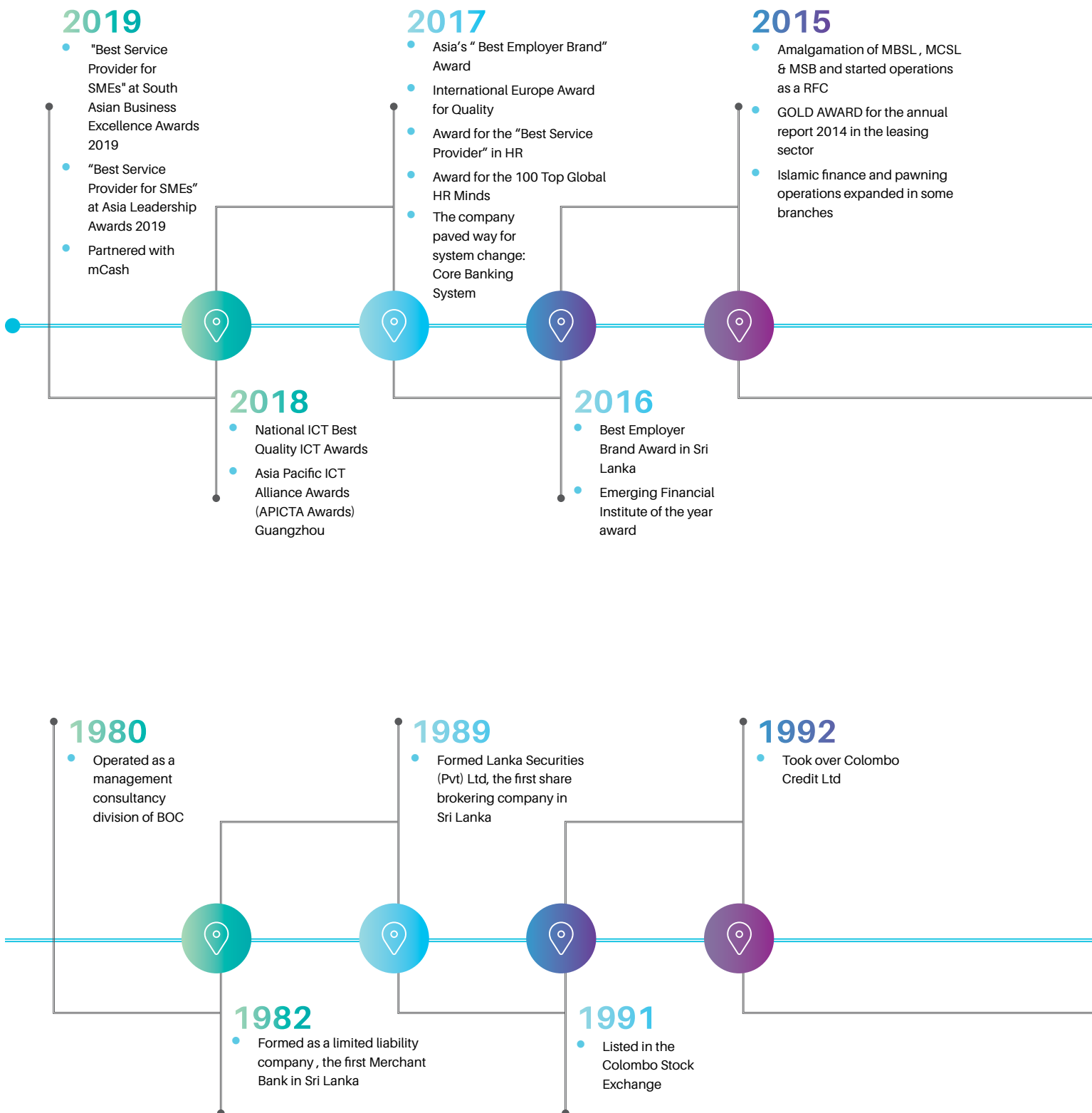
OUR MISSION

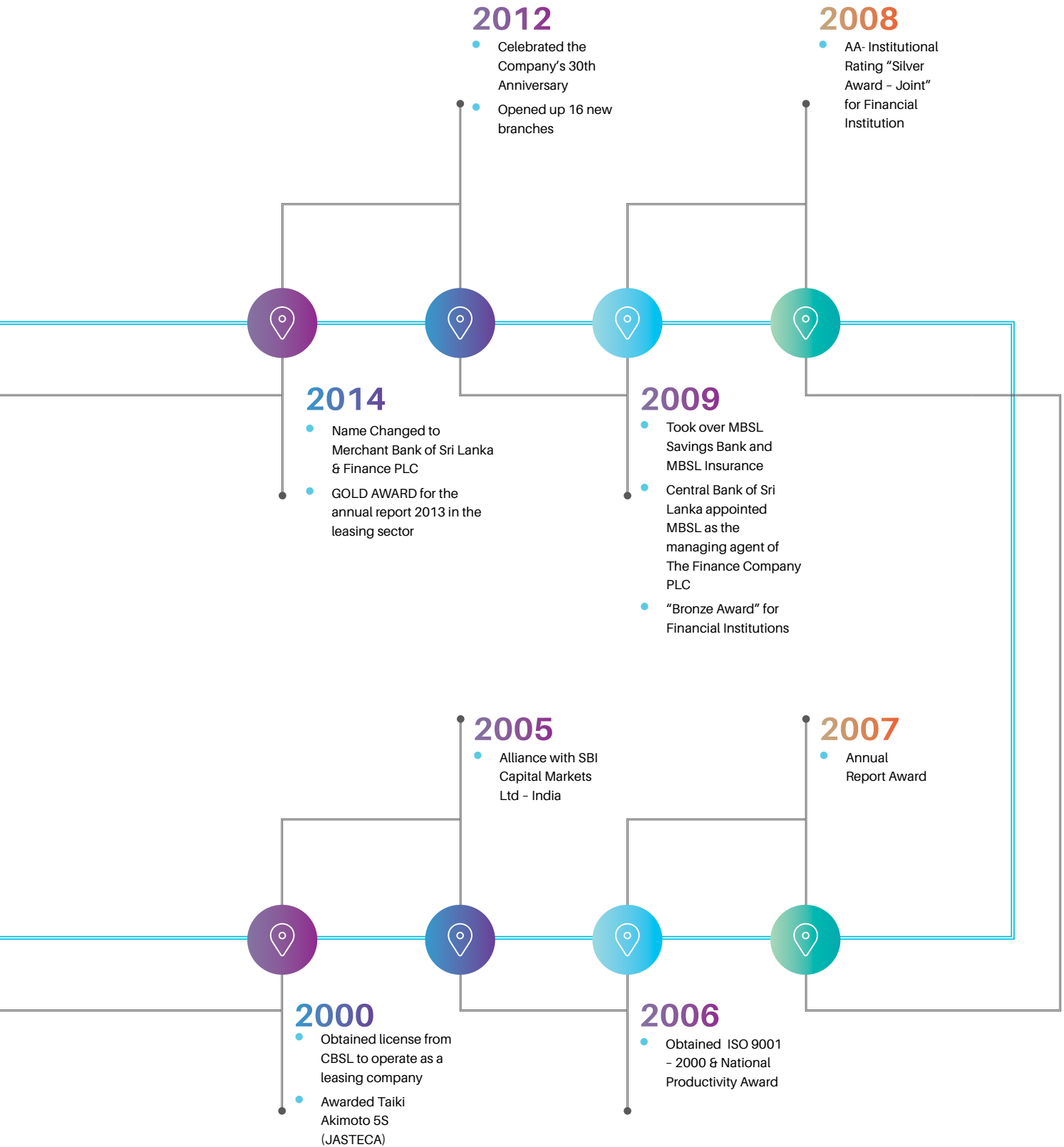
- To enhance our clients' wealth through innovative and sustainable solutions whilst developing entrepreneurship
- To enhance shareholder value upholding highest standards of corporate governance
- To enhance knowledge and skills of employees while rewarding them for achieving service excellence
- To 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

OUR JOURNEY





PRODUCT PORTFOLIO AND FEATURES

LEASING

Specialised leasing facilities for a wide range of brand new or registered vehicles & equipment including private & commercial cars, vans and SUVs, three wheelers, motor bikes, trucks, buses, lorries, tractors and machinery.

MBSL Leasing enables customers to benefit from the finest tailor-made financial plans to suit his/her income and lifestyle with hassle free processes and minimum loan approval times.



LOANS

Speed Personal loan

Specialised scheme aimed at employed citizens to full fill urgent financial requirements with quick delivery time and minimum hassle.



'Pravardana' Business loans

Special credit facility designed to support the growth and development of business ventures. Carefully designed to cater to businesses of varying sizes and stages of development. Loans are structured to suit customer's cash flows and business operations plus the company is ready to lift businesses to the next level with advisory services to support business growth.



Speed Draft

Mainly focused at providing speedy financial solutions to the Sri Lankan business community and professionals. The main feature of the 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.



Car loan

Granted to individuals who are interested in purchasing reputed brands of vehicles for personal usage.



Siyath saviya

MBSL's 'Siyath Saviya' micro finance programme is a specialised financial support system designed to give the best financial assistance to the low income earning and small & medium scale entrepreneurs.



Home loans

Aimed at customers seeking an easy advance payment loan scheme for all short term financial requirements when purchasing a land or a property.



PAWNING / GOLD LOAN

Ran Saviya

MBSL offers “Ran Saviya” to obtain a quick advance against personal gold items for those who need cash for any emergency or self-employment.

Key features

- Highest advance amount in the market
- Competitive 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



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 securitisation

Investments/Fund Management

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



**Corporate Advisory &
Capital Markets**

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 for those who have had enough of,

- paying rent & dealing with difficult land lords, constant relocation and issues in title searching
- Remarkably easy to obtain



PRODUCT PORTFOLIO AND FEATURES

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.
- The account holder will be eligible to receive a 25% bonus interest rate when there are no withdrawals within each calendar month an option to receive 12 bonuses on the interest per year



Higher Saver

A rewarding way for the 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 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 levels of account balances.

Punchi Star Minor Savings

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



Non Senior Citizen Fixed Deposits

These general fixed deposits focus on customers who are 18 years and above with a higher comparative interest

Senior Citizen Fixed Deposits

Specialised deposit scheme which focuses on senior citizens who are 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 citizens
- Partial or full premature withdrawal facility available with penalty interest rate
- Quick loans against deposit
- Offering embassy letters / Guarantee letters
- Superior customer service

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Fixed Deposits

BOARD OF DIRECTORS



Mr. K. Ratwatte
Chairman
(Non-Executive/
Non-Independent Director)

Mr. A. M. A. Perera
Senior Director
(Non-Executive/Independent)

Mr. W. P. R. P. H. Fonseka
Non-Executive
Non-Independent Director

Mr. D. N. L. Fernando
Non-Executive
Non-Independent Director



Mr. W. N. P. Surawimala
Non-Executive
Non-Independent Director

Mr. M. P. R. Kumara
Non-Executive
Non-Independent Director

Dr. N.S. Punchihewa
Non-Executive
Independent Director

Mr. G. A. Jayashantha
Non-Executive
Non-Independent Director

BOARD OF DIRECTORS

Mr. K. Ratwatte

Chairman (Non-Executive/Non-Independent Director)

Mr. Kanchana Ratwatte was appointed as the Chairman of Merchant Bank of Sri Lanka & Finance PLC (MBSL) in September 2020. He is a Lawyer by profession and has an LLB degree from the University of Colombo. During his legal career, he has appeared on behalf of corporate clients and individuals in both civil and criminal areas of the law.

Currently Mr. Ratwatte is also the Chairman of Bank of Ceylon, Property Development PLC, BOC Property Development and Management (Private) Limited, Hotels Colombo (1963) Limited the owning Company of GOH and Bank of Ceylon (UK) Limited.

Mr. Ratwatte has previously held public sector positions as the Director General of the Telecommunications Regulatory Commission of Sri Lanka, Chairman of the Sri Lanka Standards Institution and the Ceylon Shipping Corporation among many other organisations in his career. He brings a wealth of experience in public sector processes and regulations in the fields of commerce and administration due to his extensive experience in heading these public sector institutions. He also has extensive experience in administration and commerce, being a member of the Board of Directors of several private sector enterprises in the fields of IT, security data printing, software development, BPO, insurance broking and securities.

Mr. Ratwatte has had his primary and secondary education at Trinity College, Kandy.

Mr. A. M. A. Perera

Senior Director (Non-Executive/Independent Director)

Mr. A. M. A. Perera graduated from the University of Kelaniya with a Bachelor of Commerce (Hons). He holds Post Graduate certificates in Human Resource Management and Business Administration from the 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. Fonseka was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) on 26 July 2016. Mr. Fonseka has been a member of corporate management of the Bank of Ceylon since 2012 and currently serves as the Chief Financial Officer of the Bank. He has also held the positions of Senior Deputy General Manager (Corporate & Offshore Banking), Deputy General Manager (International, Treasury and Investment), Deputy General Manager (Retail Banking) and Deputy General Manager (Finance & Planning) of the Bank.

Mr. Fonseka graduated from the University of Sri Jayewardenepura, Sri Lanka with a Bachelor of Science (Special) Degree in Business Administration and holds a Postgraduate Diploma in Management from the Postgraduate Institute of Management (PIM), University of Sri Jayewardenepura Sri Lanka and a Master's Degree of Business Administration from the University of Southern Queensland, Australia. Mr. Fonseka 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.

Mr. Fonseka serves as a Director on the Boards of Property Development PLC, LankaClear (Private) Limited and Transnational Lanka Records Solutions (Private) Limited. Mr Fonseka acts as the Chairman to the Audit Committees of Property Development PLC and LankaClear (Private) Limited as well. He is a member of the Related Party Transactions Review Committee and Audit Committee of MBSL. Mr. Fonseka was appointed to the Council of Association of Accounting Technicians of Sri Lanka with effect from February 2020 and serves as the President of the Governing Council since then.

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 to almost all the spheres in Banking. In his early career, he had been involved in branch banking in remote areas of Badulla, Kandy and Nuwara Eliya. Subsequently, 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 with the responsibilities of Chief Risk Officer in 2016, 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 had been a member of the Executive Management for seven years. He has been holding the responsibilities of the Chief Risk Officer at Bank of Ceylon since 2016 until his retirement in August 2020.

Mr. Fernando is an Associate Member of the Institute of Bankers of Sri Lanka and a Member of Professional Bankers Association. He serves as Chairman of MBSL Insurance Company Limited (MBSLI), a subsidiary of MBSL.

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

Mr. Surawimala, currently the Deputy General Manager (Corporate & Offshore Banking) of Bank of Ceylon with an illustrious career spanning over 30 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), he 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. He has also taken pioneering initiatives for the management of Non - Performing Loan portfolio of 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 Bank of Ceylon as an Assistant General Manager.

He has commenced career with 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 several Companies namely, Transnational Lanka Records Solutions (Pvt.) Ltd., Transnational (Pvt.) Ltd and Merchant Bank of Sri Lanka & Finance PLC.

Mr. Surawimala holds a Bachelor's (Special) Degree in Public Administration and Master of Science (M.Sc.) in Management specialising 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 a Senior Lecturer in Law, Faculty of Law and is currently the Director of the University Business Linkage (UBL), University of Colombo. He is also an Attorney-at-Law of the Supreme Court of Sri Lanka. He has been appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as Independent/Non-Executive Director with effect from 16th July 2020.

Dr. Punchihewa is a Member of the Intellectual Property Advisory Commission constituted under the Intellectual Property Act of Sri Lanka and the Coordinator MPhil/ PhD Programme of the Faculty of Law, University of Colombo. He is currently serving as a National Legal Specialist in Intellectual Property Rights and Sri Lanka Law to the Food and Agricultural Organisation (FAO) of the United Nations and served as a Consultant to the World Intellectual Property Organisation (WIPO) on the project "Intellectual Property Rights in Tourism and Culture" from 2016 to 2019. He teaches both graduate and undergraduate courses including Intellectual Property (IP) Law at the Faculty of Law and is also a visiting lecturer in several postgraduate and undergraduate programs in leading academic institutions.

BOARD OF DIRECTORS

Dr. Punchihewa's research interests cover IP law with particular reference to patent, branding and trademarks, 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. Dr. Punchihewa has presented papers at conferences (both local and international) and published peer-reviewed journal articles on intellectual property, technology transfer and competition law. In 2018, he was awarded the Senate Award for Research Excellent by the University of Colombo. Furthermore, he has served as the Managing Editor of the Colombo Law Review (2017-2018) and currently is a member of the Editorial Board of the Sri Lanka Journal of International Law.

Dr. Punchihewa holds a Doctorate Degree in Law (Dr. jur.) with honours magna cum laude Ludwig-Maximilians from the University of Munich/Max Planck Institute for Innovation and Competition, Munich, Germany in 2014, LLM in Intellectual Property and Competition Law from the Munich Intellectual Property Law Center (MIPLC), Munich, Germany in 2009 and LLB (Hons.) Second Class (Upper Division) from the University of Colombo in 2000.

Mr. M. P. R. Kumara

Non-Executive / Non-Independent Director

Mr. M.P.R. Kumara is a member of the Corporate Management of Bank of Ceylon (BoC) since September 2020 and currently serves as Deputy General Manager - Finance and Planning. He has been appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as Non-Independent/Non-Executive Director with effect from 20th April 2021 and serves as a member of the Integrated Risk Management Committee of MBSL.

Mr. Ruwan Kumara possesses over 18 years of experience in Bank of Ceylon specialising in Financial Management, Strategic Planning, Investment Banking, Commercial Banking and Overseas Banking operations. He serves as a Director of BOC Property Development and Management (Private) Limited.

Mr. Ruwan Kumara holds a BSc (Special) degree in Accountancy from the University of Sri Jayawardenepura and a Master's degree in Business Administration (MBA) from the Open University of Sri Lanka. He is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka, Associate Member of Certified Management Accountants of Sri Lanka, Associate Member of the Institute of Bankers of Sri Lanka and Member of the Sri Lanka Institute of Directors (SLID).

Mr. G. A. Jayashantha

Non-Executive/Non-Independent Director

Mr. G. A. Jayashantha, currently the Deputy General Manager - Chief Risk Officer of the Bank of Ceylon has been appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as Non-Independent/Non-Executive Director with effect from 20th April 2021 and serves as Chairman of the Integrated Risk Management Committee of MBSL.

Mr. Jayashantha counts over 24 years of service in Bank of Ceylon. He has performed duties in the branch banking in the early part of his career and later he has specialised in various business segments such as treasury, Dealing & Primary Dealer Unit (PDU), Assets & Liabilities Management Unit (ALM), Risk Management, Corporate Recovery, Offshore Banking and Branch Operations. He has held the positions of Assistant General Manager - Corporate Recovery, Risk Management, Western Province - South & Offshore Banking and Deputy General Manager - Retail Banking Range - II in Bank of Ceylon.

Mr. Jayashantha serves as a Director of BoC Property Development & Management (Pvt.) Ltd since 24th February 2020. He also serves as a member/ an observer to various management committees and Board Sub Committees and shares experiences in policy matters/strategic decisions at Bank of Ceylon.

Graduated from the University of Sri Jayawardenepura, Sri Lanka in 1994 with a B.Sc. Business Administration (Special) degree in First Class, he also holds a degree in Master of Arts in Financial Economics from the University of Colombo and a Diploma in Credit Management. He is an Associate Member of the Institute of Bankers of Sri Lanka.

CORPORATE MANAGEMENT



Mr. J. Gamalath
Chief Executive Officer (Act.)

Mr. Gamalath has closer to 21 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 Ltd and Lanka Securities (Pvt) Ltd.



Mrs. K. Jayatilake
Deputy General Manager - Legal/ Head of Corporate Advisory & Capital Markets

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 and the Asian Development Bank.



Mr. C. Withanachchi
Head of 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 business domains.

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 Programming, Certified from Indian Institute of Management, Bangalore for Innovation and IT Management and Certified ITIL v3 (Information Technology Infrastructure Library) from AXELOS UK.

Under the guidance of Mr. Withanachchi MBSL had won merit awards from NBQSA (National Best Quality Software Award) in year 2019 and 2018 for in-house developed Velocity platform. And He won Digital Mastros award from Dynamic CIO forum in 2020.

He is an author for following articles as published in <https://orcid.org/0000-0002-9551-8157>

- Effective Dealing with Insider Threats a Comparison of Qualitative and Quantitative
- Qualities and Characteristics of Effective Entrepreneurs in Organizations Today

CORPORATE MANAGEMENT



Mr. K. Jayasundara

Assistant General Manager - Savings, Fixed Deposits, Pawning & Treasury Front Office

Mr. Jayasundara has multi-faceted exposure in diverse areas in financial services and has previously held senior management positions in operations, credit and recoveries. He has over 22 years' experience in the industry. He holds a MBA in Banking & Finance offered from the Post Graduate Institute of Management (PIM) and a BSc (Hons) degree with a specialisation 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 member of the Institute. He holds a LLB (Hons) degree from Buckinghamshire New University UK and completed the stage II of CIMA- UK exams.



Mr. S. Fernando

AGM - Compliance

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 21 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. Dhammika 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 Jayewardenapura, a BSc Degree in Business Administration from the same University, BMS. Sp. Degree (Second Class Upper Honors) (Specialised in Human Resource Management) from the Open University of Sri Lanka and holds a LLB (Honors) Degree



Mr. P. Kandanaarachchi
Head of Finance



Mr. A. Liyanage
Head of Recoveries

from Buckinghamshire University (UK). 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 Jayawardenapura 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 recognised awarding the HR Excellence Award on “100 Top Global HR Minds” conferred by the same professional body (World HRD Congress) in the year 2018.

Mr. Kandanaarachchi serves as the Head of Finance. He counts over 21 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 and The Institute of Certified Management 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.

Mr. Liyanage counts over 19 years of extensive experience in the Finance industry, particularly in Recovery Operations. He holds a Banking Diploma from the Institute of Bankers of Sri Lanka and currently reading the Master of Business Administration at University of Oxford, U.K. (final stage).

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

CORPORATE MANAGEMENT



Mr. R.M.S.P.K Ranathunga

Assistant General Manager - Central Credit

Mr. Ranatunga currently holds the position Assistant General Manager and Head of Centralised Credit Division in the Company and counts 25 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 Jayawardanapura and also a member of Sri Lanka Association of Accounting Technicians (AAT).

He counts over 29 years of experience in the fields of finance, auditing, accounting, and branch operations.



Mr. K. Ramanayake

Assistant General Manager - Retail & Branch Operations (Range 01)

Mr. Keerthi Ramanayake currently holds the position of Assistant General Manager- Retail & Branch Operations –Range 01. With over 24 years’ experience in MBSL he brings with him a diverse array of skills in Trade Finance, Leasing and Branch Operations.

Making his entry into MBSL in 1997 as an Executive - in Trade Finance, he subsequently progressed to hold the positions of Assistant Manager, Deputy Manager, Branch Manager, Senior Manager, Regional Manager.

Mr. Ramanayake holds a B’ Com (Special) Degree from University of Sri Jayawardhanapura, MBA Degree in Master of Business Administration from the London Metropolitan University. He is a Chartered Licentiate of Sri Lanka Institute of Chartered Accountants and he holds a Diploma in Intermediate Banking from the Institute of Bankers of Sri Lanka.



Mr. S. P. Niroshan

Assistant General Manager - Retail & Branch Operations (Range 02)

Mr. S P Niroshan, appointed to the Corporate Management of MBSL in 1st of January 2021. Prior to his appointment to the Corporate Management Mr Niroshan was a Regional Manager for 6 years. He had been AGM- Credit at MCSL before the merger with MBSL. His career in banking & finance counting over 20 years of experience in diverse positions from marketing, credits, and operations. He holds a BSc Marketing Management (Special) degree from the University of Sri Jayawardenapura.

**Mrs. F. Ishar**

Assistant General Manager - Legal

Mrs. Ishar is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public counting over 25 years' experience at the Bar. She has passed the Attorneys-at-Law Intermediate & Final Examinations with First Class Honours and has become First in order of Merit in both Examinations. She also holds a Masters Degree in Law (LLM in International Business and Commercial Law) from the University of West London, United Kingdom. She is a Member of the Bar Association of Sri Lanka and Association of Corporate Lawyers in Sri Lanka. Mrs. Ishar started her career at MBSL as a Management Trainee in the Legal Department and currently holds the position of Assistant General Manager (AGM) - Legal. She counts over 25 years of experience in MBSL.

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

	2020	2019
Operating Performance (Rs. Mn)		
Net interest income	1,418	2,201
Gross income	5,188	6,839
Operating profit/(loss) before tax	(885)	80
Profit/(loss) before tax	(1,343)	57
Tax reversal	235	45
Profit/(loss) after tax	(1,108)	103
Retained profit	(894)	253
Financial Position (Rs. Mn)		
Total assets	32,359	36,975
Gross loans and advances	30,205	32,118
Total deposits	21,725	22,756
Shareholders' funds	1,468	2,608
Operating Ratios (%)		
Return on assets	(3.20)	0.28
Return on equity	(54.39)	4.00
Cost to income ratio	119.72	85.51
Net non-performing loans ratio	7.42	7.33
Provision coverage	43.24	39.84
Loans to deposit ratio	139.03	141.14
Tier 1 capital ratio	4.41	5.64
Total capital ratio	5.59	8.64
Shareholder Ratios		
Earnings per share (Rs.)	(6.68)	0.62
Net asset value per share (Rs.)	8.85	15.72
Price earnings ratio (Times)	(1.12)	15.52
Market price per share (%)	7.50	9.60

CHAIRMAN'S STATEMENT



It is my pleasure to present you the Annual Report of the Merchant Bank of Sri Lanka & Finance PLC for the year ended 31st December, 2020.

There is no doubt that 2020 has been one of the most challenging years for the global economy as well as for Sri Lanka. The financial year which started on a COVID-19 pandemic threat affected all industries and sectors, and the non-banking financial sector was no exception. It was a year where activities were largely determined by the spread and seriousness of the pandemic within the country.

For MBSL, 2020 was a year of many uncertainties and challenges. For most part of the year, we found ourselves addressing the health and safety needs of our staff and our customers, with the COVID-19 breakout in the country. Staff health and safety was a key priority during the pandemic and the Company took measures to conduct frequent health checks, sanitize working areas and to ensure regional branches operated with minimum risk to staff and customers.

From a business perspective, MBSL was restricted in carrying out our core business functions due to several months of lockdown during the year. The COVID-19 impact on individual customers, SMEs and local industries had a negative impact on overall lending and recovery, and led to higher non-performing loans and difficulties in recovery. Further, the anticipated recovery from the economic impact of the Easter Sunday bomb blast of 2019, did not materialize as was expected.

The year was also marked by several regulatory and state policy decisions such as debt moratoria, import restrictions, interest rate and exchange rate impact that affected the bottom line of the Company. As a result, both the top and bottom line had a negative impact that led to an unfavorable performance during the year.

The challenges of the COVID prompted the Company to explore more cost effective and efficient ways of conducting the business. During the year, The MBSL management revisited the operational and business functions, to explore lean and efficient business models for the Company. This was a positive outcome of the COVID situation, and we are in the process of re-adjusting and re-assessing a sustainable business model for the longer term.

LOOKING FORWARD

For the financial year 2020, MBSL has dedicated the year under the theme of 'Revival' boosting our efforts and morale to rise above the challenges that set us back in the year under review.

With the government target to vaccinate majority of the population in the coming months, the Company doesn't foresee the threats and impact of the COVID-19 pandemic continuing into 2021 financial year. MBSL believes the vaccination drive will support lives and livelihoods to resume to pre-COVID status thereby encouraging greater economic activities in Sri Lanka as well as in key export countries.

The challenges of the COVID prompted the Company to explore more cost effective and efficient ways of conducting the business. During the year, The MBSL management revisited the operational and business functions, to explore lean and efficient business models for the Company.

MBSL will continue to strengthen its digital banking and online platforms to provide speedier, safer and an efficient service to the customer, in the coming year.

Although the year has proved to be tough and unpredictable, we are confident that a private sector credit growth is imminent in the future. MBSL is positive that in line with the government's production economy concept, many opportunities would arise for most sectors including the non-banking financial sector especially lending opportunities in the SMEs and agriculture. State import restrictions are also expected to give rise to a stronger SME and local industry growth, and MBSL is keen to be a growth partner for local businesses in this endeavor.

APPRECIATION

I wish to express my sincere appreciation to officials of the Department of Supervision of Non-Banking Financial Institutions, for their support at all times; the Board of Directors for their stewardship; the CEO, Management and Employees for the continued dedication and loyalty shown towards the company despite many challenges that were faced as individuals and as a community during this COVID-19 crisis. I wish to also thank the shareholders and all other stakeholders for their continued confidence and trust during this difficult year.



Mr. K. Ratwatte

Chairman (Non-Executive/ Non-Independent Director)

CHIEF EXECUTIVE OFFICER'S REPORT



The overall economy and the finance sector welcomed 2020 with new hope for economic revival and overall development across sectors, under the new government and leadership. The year began on a positive note, but it was short-lived as the end of the first quarter saw the COVID-19 outbreak leading to a nation-wide lockdown.

The reporting year proved to be unexpectedly challenging with the global pandemic coined with subsequent economic downturn and government import/export policy shifts impacting the financial sector that was recovering from effects of the April 2019 Easter Sunday attacks.

Much like the Non-Banking Financial Institution (NBFI) sector, MBSL's performance too was affected in 2020 by the COVID-19 outbreak that disabled industries and economies.

We faced many challenges in keeping the business functional whilst ensuring the wellbeing of all our stakeholders. However, we are pleased to share that despite the challenges and the economic uncertainties of the year, MBSL retained all its staff, offering relief and reassurance throughout the year.

FINANCIAL RESULTS

With the pandemic lockdown continuing for almost 8 months of the year, MBSL's operations of its financial services were limited to less than half of the year, which was the biggest challenge during 2020. The financials of MBSL was severely impacted and is reflected in the revenues for the year.

MBSL's post tax loss increased to LKR 1,108 Mn in 2020, 1,180 percent lower from the post tax profit of LKR 102.6 Mn in 2019. Lower profits were due to the overall impact of the pandemic on the business and the difficult economic conditions faced by customers resulting a higher impairment on loans and advances. MBSL reported a revenue of LKR 5,188 Mn during the year, 24 percent lower from LKR 6,839 Mn revenue recorded in 2019.

While the company's lending portfolio suffered in the absence of access to customers during the lockdown and thereafter, MBSL had favourable growth reported in other product categories despite the challenges.

The lending portfolio contracted 8.5 percent during the reporting year, while pawning/gold loans and margin trading showed a significant growth of 20 percent and 101 percent respectively. MBSL's total assets decreased by 12.5 percent and equity declined by 43.7 percent against the previous year.

The Company's deposits reduced by 4.5 percent to LKR 21.7 Bn, as at 31 December, 2020.

We see immense opportunities in the future for MBSL and with the strength of our parent company BOC we are confident that we can ride this difficult tide unscathed. While exploring these opportunities to leverage in the coming year, MBSL will remain committed to comply with all regulatory frameworks applicable to our business.

KEY BUSINESS SECTOR PERFORMANCE

MBSL's business segments faced many uncertainties and challenges during the year, and all business segments across the Company felt the impact.

The major drawback was the lockdown which restricted core business activities such as granting credit and recovery. This had a significant impact on the lending portfolio growth and the decline in revenue. Further, due to increased arrears position the impairment charge was also high. These paved the way for the recorded loss.

The pandemic had a domino effect on businesses triggering an economic downturn, exchange rate crisis, increased unemployment that in turn impacted our customer base and their credit worthiness. Leasing which is the major portion of our business continued with existing lease income, but new leasing opportunities were limited due to external conditions.

The external challenges were overwhelming and the situation was further aggravated by the debt moratoria granted by the government to offer relief to affected businesses. MBSL was keen to support customers to get back on track with their livelihoods with the moratorium, but executing it was a challenge under the work from home situation.

CHIEF EXECUTIVE OFFICER'S REPORT

However, the gold loans/pawning operation had a healthy volume growth as a ripple effect of the COVID outbreak which left many unemployed, and facing economic difficulties throughout the year. Our 48 branches were kept available for gold loans/pawning with multiple time gap options offered for pawning.

While on one hand we focused on business continuation, on the other staff health and safety were key priorities in operating the branch network. We were careful not to compromise stakeholder safety and took measures towards this.

KEY PRIORITIES

COVID has made us rethink, revisit and restructure our operations by prioritising and moving towards a leaner business model that is sustainable in the longer term.

In 2020, MBSL focused on building a strong risk management framework to enhance the Company's agility to face challenging situations. This would provide adequate insight into high, medium and low risk areas that can be addressed well in advance.

We are also investing in adding strategic positions to our management structure to enhance our core business segments.

TECHNOLOGY INFUSION

MBSL has relied on technology infrastructure investments made the previous year to function remotely and safely during this outbreak. We have implemented internal systems that can be accessed by staff from their homes while users can perform transactions online without hindrance to their commercial activities. This helped MBSL serve customers in a timely manner during the lockdown.

LOOKING FORWARD

MBSL's traditional customer is evolving. The new normal combined with external policy and economic factors are changing the drivers of the local economy.

The future for the finance sector and for the NBFi sector appears encouraging under the new regime's policy framework. We see limitless possibilities for the financial sector to become partners in the economic revival encouraged by state policies that promote domestic industries and an export oriented economy.

With local industries rising to meet the gaps of formerly imported goods and services, a rise in the SME sector is inevitable.

This would be further fuelled with the completion of a targeted state sponsored COVID vaccination drive that would help the country return to pre-COVID lifestyles and economic activities.

We also intend to increase our capital market activities whilst encouraging SME listings in the empower board at the CSE.

We see immense opportunities in the future for MBSL and with the strength of our parent company BOC we are confident that we can ride this difficult tide unscathed. While exploring these opportunities to leverage in the coming year, MBSL will remain committed to comply with all regulatory frameworks applicable to our business.

APPRECIATION

I wish to thank the Chairman and the Board of Directors for the continued guidance and support to me during this challenging time. I sincerely appreciate the hard work, commitment and loyalty of the management team and the staff who provide their service continuously and willingly without which the Company could not have steered this tough year.

I take this opportunity to thank the officials of the Central Bank of Sri Lanka for their guidance and support towards the NBFi sector.

Finally, my sincere gratitude to the shareholders, depositors, customers and other stakeholders who have placed their trust in MBSL. We look forward to your continued patronage in the years to come.



Mr. J. Gamalath
Chief Executive Officer (Act.)

MANAGEMENT DISCUSSION AND ANALYSIS

OPERATING ENVIRONMENT

Sri Lankan Economy

Impacted by the COVID-19 pandemic, Sri Lanka's economy contracted by 3.6 percent in 2020 recording a negative GDP growth rate vis a vis a growth rate of 2.3 percent in 2019, recording the deepest recession since independence.

Mobility restrictions and other containment measures imposed locally and internationally, with a view to preventing the spread of COVID-19, hampered real economic activity across all sectors. The sharp contraction observed in Industry activities during the year was driven by the significant slowdown in construction and manufacturing activities. Services activities also registered a notable contraction due to the pandemic driven deceleration in transportation, other personal services, and accommodation, food and beverage services. The Agriculture sector, too, registered a contraction during the year as the impact of the pandemic outweighed the positive effects of timely policy support and favorable weather conditions. However, the information and communication sector showed a 13.7 percent growth during the year fuelled by the demand for digital education, banking, shopping, and other activities during the lockdown period.

Unemployment rate also rose above 5 percent for the first time since 2009, with a decline in the force participation rate, in the wake of uncertainties surrounding the pandemic.

Inflation remained broadly within the desired range of 4-6 percent during 2020, while core inflation remained low throughout the year. Subdued demand conditions, well anchored inflation expectations, and downward revisions to administered prices helped maintain inflation at the targeted level, despite upward pressures from food inflation, particularly due to elevated prices of certain essential food items.

Reflecting the combined effect of the contraction in Gross Domestic Product (GDP) at current market prices and the depreciation of the Sri Lankan rupee against the US dollar, GDP per capita declined to US dollars 3,682 in 2020 from US dollars 3,852 in the previous year. The pandemic also caused a decline in the overall size of the economy to US dollars 80.7 Bn in 2020 from US dollars 84 Bn in 2019

NBFI Sector Performance

The non-bank financial institutions (licensed financial companies and specialised leasing companies sector) sector performance deteriorated during the year due to negative credit growth and high NPLs. Credit provided by the sector contracted by 5.7 percent (Rs.62.9 Bn) to Rs.1,039.9 Bn in 2020 compared to the contraction of 3.0 percent in the corresponding period of 2019.

In addition to the COVID-19 related growth impediments, the reduction of consumer confidence due to issues observed in the sector contributed towards the sluggish performance. However, despite certain institutions encountering difficulties to fulfill regulatory requirements at an individual level, the sector remained stable with capital and liquidity maintained at healthy levels above the minimum regulatory requirements.

The funding mix was dominated by deposits while borrowings of the sector declined compared to the previous year. The Central Bank continued to introduce prudential measure to maintain the stability the sector and granted regulatory flexibility to support the sector to face the challenges posed by the COVID-19 pandemic.

The NBFI sector comprised of 40 LFCs and 3 SLCs with 1,517 branches and 460 other outlets. More than 1000 branches were located out of the Western province providing credit facilities at village level.

Profitability

The NBFI sector posted a profit after tax of Rs.13.7 Bn, a decline of 6.1 percent compared to the profit recorded in year 2019, mainly due to the significant decline in interest income recorded during the period.

The sector also had a loan loss provision made against NPLs during the year of Rs.38.2 Bn which was an increase of 26.4 percent (Rs.8 Bn) compared with the provisions made in 2019.

Asset Growth

Total assets of the NBFI sector stood at Rs.1,401.6 Bn by end 2020, representing a 5.9 percent of Sri Lanka's financial sector.

Assets of the sector also contracted recording a negative growth rate of 2.2 percent (Rs.31 Bn) during the year reaching Rs.1,401.6 Bn compared to the 0.1 percent growth reported in 2019. Loans and advances accounted for 74.2 percent of the total assets of the sector. Finance leases accounted for the highest share of loans and advances, representing 53.7 percent followed by secured loans and advances adding upto the balance 36.2 percent.

Pawning showed a marked increase in volumes in 2020, whereas finance leasing, secured loans and loans against deposits contracted during the same period. A major reasons for lending to slow considerably during the year was slowed business activities amidst the COVID lockdowns and curtailment of vehicle imports.

MANAGEMENT DISCUSSION AND ANALYSIS

Asset Quality

Asset quality during the year was highly impacted with increased NPLs caused by the COVID-19 pandemic and its effects. The gross NPL ratio increased to 13.9 percent by end December 2020 from 10.6 percent reported as at December 2019, showing a severe deterioration in the asset quality of the sector. The net NPL ratio also increased to 4.2 percent by end of December from 3.4 percent reported in December 2019.

This was mainly due to the slowing down of the economic activities following the COVID-19 pandemic. NPL of the sector may increase further after the end of the debt moratorium and other concessions provided.

Capital Adequacy

The NBFIs sector remained resilient with capital maintained above the minimum required levels during the year. The capital base improved to Rs.218.9 Bn by end December 2020 compared with Rs.182 Bn recorded at end December 2019, with the infusion of new capital by LFCs to meet regulatory requirement and cancellation of license of a LFC with a large negative net worth.

The sector's core capital and total risk weighed capital adequacy ratio (RWCAR) stood at 14.5 percent and 15.7 percent respectively in 2020, an increase of 3.4 percent and 3.2 percent respectively from ratios reported in 2019.

The Central Bank has set a new target of Rs.2.5 Bn for core capital requirement by 1 January, 2022.

Liquidity

The sector maintained adequate liquidity buffers well above the regulatory minimum levels by end December 2020. The overall regulatory liquidity assets available in the sector indicated a surplus of Rs. 89 Bn as against the stipulated minimum requirement of Rs. 50.7 Bn. The liquidity asset ratio (liquid assets against deposits and borrowings) increased to 13 percent by December 2020 compared to 11.3 percent recorded in December 2019.

Source: Central Bank of Sri Lanka

FINANCIAL PERFORMANCE

MBSL's performance was mixed in 2020 with segments of the product portfolio performing well under the economic and COVID-19 pressures, whilst traditional product offerings suffered in the absence of access to regular market activities.

Since 2019, the finance industry was under pressure which resulted in a slowed economic condition due to the Easter Sunday attacks and further was hit a second time due to the COVID-19 pandemic. This caused substantial disruptions to domestic economic and business activities.

In addition, restrictions imposed on importation of motor vehicles, spare parts and other related items were impacted, and anticipated business growth did not realize.

As a result, MBSL could not achieve planned results in the targeted market segments and were also restricted in catering to the existing clientele. In year 2019, MBSL recorded a gross granting of LKR 16.26 Bn where as in the year 2020 a gross granting of LKR 14.14 Bn was recorded which was satisfactory.

The pandemic presented both opportunities as well as threats to MBSL. However, we are pleased to report MBSL has shown resilience and strategic foresight in managing the challenges of 2020 despite a contracted performance which was common to the industry caused by the pandemic and the lockdown that followed.

Going forward, MBSL has reviewed existing structures and cost centers to identify a leaner and a more efficient structure for the company to be capable of handling any future impacts.

Revenue

MBSL's revenue in 2020 fell 24 percent to LKR 5,188 Mn from LKR 6,839 Mn recorded in the previous year. The Company's profit after tax declined 1,180 percent to a loss of LKR 1,108 Mn during the reporting year against the profit of LKR 102.6 Mn reported in the corresponding period of the previous year.

The decrease in revenue and loss recorded for the year was directly a result of the COVID-19 induced lockdown which had a tremendous impact on negative credit growth and low recovery.

Profitability

MBSL's profit before tax (PBT) reported a loss of LKR 1,342.91 Mn against a profit before tax of LKR 57.19 Mn reported in the corresponding period of the previous year. Retained profits of the company for the year also recorded a loss of LKR 893.79 Mn against the retained profit of LKR 252.88 Mn reported in 2019.

Profitability was affected by unanticipated market challenges caused by the continuance of the pandemic worldwide. Lower income generation during the pandemic lockdown and the moratoria granted under Central Bank's regulatory request to support COVID-19 impacted customers.

Profitability declined as interest and similar incomes dipped 24 percent and impairment for loans and other losses increased by 101.5 percent to LKR 563.4 Mn compared to the previous year. Impairment charge of investment in subsidiary also increased by 271 percent to LKR 462.5 Mn during 2020.

With the strict monitoring, the Company was able to reduce the operational cost by 8 percent to LKR 1,955 Mn.

Assets

MBSL's total asset base decreased by 12.5 percent during the year under review to LKR 32.4 Bn as at 31 December 2020. Loans and other advances reflects 83 percent of the total asset base and this fell by 8.5 percent in 2020 vis a vis 2019. The prolonged lockdown and the pandemic in the country restricted loan disbursements in the financial year which led to the dip in the asset base.

The low interest rate regime that existed from mid to latter part of the year, led placements in banks and financial institutions to fall by 80 percent during the year. Real estate stock contribution to assets remained almost same as last year at 1 percent.

Interest Income/ Expense

The Company's net interest income decreased significantly vis a vis the corresponding period of the previous year due to lower interest and similar income earned during the year. Total interest and similar income declined by LKR 1.58 Bn reflecting a 24 percent dip. Lower volumes in lending caused by COVID-19 pandemic, coupled with the debt moratoria directed by the Central Bank of Sri Lanka were the main reasons for this decline. Approximately 19,664 of the bank's customers opted for the debt moratorium incurring a day one loss of LKR 658 Mn.

Total interest and similar expenses also decreased by 18 percent from LKR 4.33 Bn to LKR 3.53 Bn during the reporting year as the bank's borrowings and public deposit liabilities reduced. Interest rates were also brought down by the Central Bank's Monetary Board in an initiative to manage liquidity and encourage borrowings to spur economic activities.

MANAGEMENT DISCUSSION AND ANALYSIS

PORTFOLIO PERFORMANCE

Leasing and Auto Loans

Leasing represents majority of the lending portfolio at MBSL. Growth in leasing was stagnant due to lack of access to consumers most part of the year. Introduction of vehicle import restriction policies also slightly impacted new lease opportunities in 2020. However, lease portfolio of existing leases continued to bring in revenue. Customers opting to take the government initiated moratorium for leases dipped the leasing income by 31 percent during the year to LKR 2,242 Mn in 2020 from LKR 3,243 Mn in 2019.

There is a negative growth of 3 percent in leasing portfolio and a drop in gross granting of lease facilities in 2020. In year 2019, leasing gross granting was LKR 5.43 Bn which fell to 4.32 Bn in 2020, while auto loans dipped from LKR 436.22 Mn in 2019 to 104.90 Mn in 2020.

Pawning / Gold Loans

Increasing unemployment, slowdown in economic activities and general decline in liquidity against increasing inflation caused by the March 2020 COVID-19 lockdown had a positive impact on the pawning/gold loan segment. This was a common growth area seen across the banking and non-banking sector further encouraged by the increased gold prices in the global market, making pawning an attractive source of quick income. MBSL's pawning portfolio stood at LKR 3.18 Bn as 10 percent of the total lending portfolio in 2019 increased to LKR 3.82 Bn as 13 percent of the total lending portfolio.

The Management is keen to grow this segment as a high potential and low risk lending option, however, MBSL is mindful of price fluctuations of gold and therefore maintains an absorption value of approximately 25 percent negative value fluctuation without a capital loss. MBSL's pawning portfolio was 90 percent for shorter term periods (1-3 months) with possible speedy recovery in a case of negative gold value fluctuation. Further, disbursement for shorter periods has a positive impact on the maturity mismatch which reduces the liquidity risk in those maturity buckets.

Personal Loans

Majority of MBSL's personal loans target market were government sector, tourism, garment industry and manufacturing industry employees. The pandemic lowered the demand for personal loans and gross granting reduced from LKR 272.3 Mn in 2019 to LKR 91.92 Mn in 2020. Personal loan recovery was not as heavily impacted as they were tied to direct remittance from the employee salary.

Micro Finance, Bill Discounting & Cheque Discounting

The increased in NPA led MBSL to take a strategic decision to curtail credit such as micro finance, bill discounting and cheque discounting facilities.

Term Loan and Short Term Loan Facilities

Funding of short to medium term working capital to businesses were impacted by the COVID-19 restrictions imposed and businesses opted to operate under curtailed budgets instead of focusing on expansions due to uncertainties that surrounded the pandemic and economic slowdown in the country.

Corporate Finance and Capital Market

There was positive trading at the Colombo Stock Exchange during 2020 recording its highest annual increase the index has seen since 2014. During the year, the equity portfolio reported a return of 8.6 percent with respect to the overall market return of 10.5 percent.

Stock market activities started picking up from the beginning of 2020 until the outbreak of the COVID-19 pandemic situation in March 2020, where the stock market hit rock bottom and was closed for about one and a half months. Following the resumption of market activities in May 2020, the market stabilized. With political stability after the general election in August 2020, stock market activities picked up. MBSL managed to double our margin trading portfolio compared to the year 2019 due to increased stock market activities, our aggressive marketing efforts and the relationship with the stockbrokers.

Public Deposits

Public Deposits during the year decreased by 5 percent to LKR 21.72 Bn from LKR 22.75 Bn considering the year under review was economically challenging for customers and businesses alike.

Declining interest rates in the macro economic environment has encouraged individual investors to transfer funds to other investments modes such as properties, shares etc. Clients also opted to place their funds in low return yet low risk investments due to unstable market conditions during 2020. The senior citizen category switched to commercial banks and savings clients to transfer salary remittances to commercial banks for digital and ATM convenience, with access to funds at any time. As a result, the corporate base which stood at 23.6 percent of the deposit portfolio at the beginning of the year 2020 increased to 28.3 percent of the portfolio by the end of the year 2020.

CHANGES IN MATURITY BUCKETS

Macroeconomic conditions of the country that prevailed during the pandemic situation has led majority investors to seek short-term investment options. The declining trend in the interest rates especially in the short-term buckets (less than 6 months) has influenced client decisions on the investment period, and most preferred 6 to 12 month investments. The reinvestment of funds in a shorter-term bucket has positively impacted in reducing the WACC of deposits in substantial manner while it has increased the liquidity risk in the shorter terms buckets.

OPERATING ENVIRONMENT

Operating under the 'new normal' had its benefits and challenges. One of the key challenges were planning and predicting the short term environment due to the unpredictable nature and behavior of the COVID-19 pandemic that continues. In this scenario, the Company had to anticipate worst case scenarios for the business and address the challenges that may arise.

Another area of concern in the 'new normal' was the safety of the customers as well as staff. Ensuring a COVID-19 safe service environment whilst ensuring health guidelines directed by the government are conformed to as a new challenge that required time to adjust and prepare.

The situation also demanded that the Bank resort to contactless financial activities and customer servicing.

At the same time, deteriorating economic conditions and falling finance companies were affecting customer confidence in the sector and speedy action was required to reassure customers to obtain product and service offerings.

On a positive note, the situation prompted internal streamlining, efficiency improvement and reflecting and strategizing on new opportunities and new ways of overcoming these challenges.

TECHNOLOGY

MBSL had implemented a series of technology upgrades and improvements in the previous year which continued into the current year. This helped the Company adapt to the digital transformation that was required during the COVID-19 lockdown for both staff internal usage and for customer servicing.

The company also ensured that technology infrastructure was well secured and took measures to mitigate any information security risks by placing suitable controls where needed.

Technology investment helped the Company seamlessly transfer to a digital working platform with zero downtime for customers during the lockdown.

HUMAN RESOURCES

We are pleased to share that despite the year being one of the most challenging on the human resource front, MBSL reassured its commitment to its 976 employees by ensuring job security, health and safety, and work-life balance.

The Bank retained all its employees during the financial year, ending fears of job loss and staff send-offs, while taking measures to ensure staff were safe from the spread of the COVID-19 pandemic. New safety measures were initiated in line with the government's COVID-19 guidelines for the Bank's day to day operations.

New members of the senior management are expected to be recruited to the operational staff in line with the Management's forward thinking strategies to expand MBSL's operations in line with current trends and future requirements.

As a result of the lockdown for most months of the year, training and development activities were not implemented as was planned.

FUTURE OUTLOOK

Having overcome the most testing and challenging period of the COVID-19 outbreak, MBSL is confident that necessary systems, processes, technology and other measures are in place to tackle any future challenge that may arise.

We believe that 2021 will prove to offer new opportunities as the economy recovers from the effects of COVID-19 and consumers return to pre-COVID-19 lifestyles after the vaccination is completed.

The Company plans to add strategic senior management roles to support the impending growth potential of 2021, and to pick up the pace of business supported by the investment in technology from the previous year.

We feel the SME sector and domestic industrial sector prove promising in the medium to longer term, encouraged by the Government's food security and export oriented economic strategy.

MBSL is focused on being dynamic, speedy and strategic in achieving our growth targets, and plan to secure a larger market share in every segment of the business in the years to come.

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.

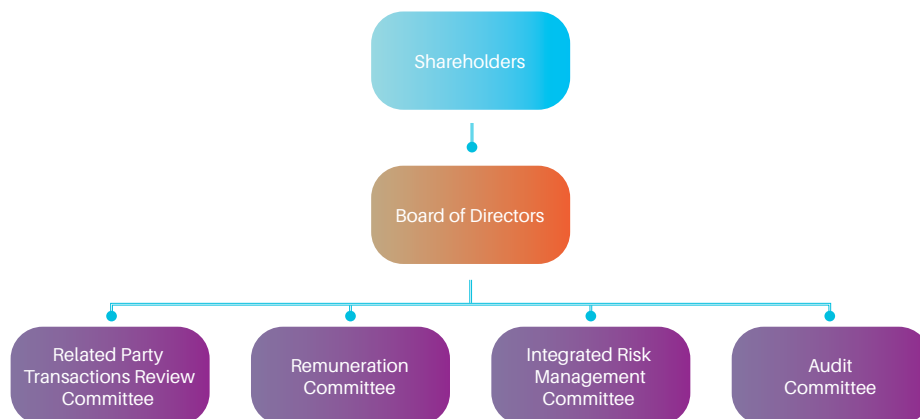
GOVERNANCE FRAMEWORK

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 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	
Vision, Mission and Values	Companies Act No. 7 of 2007	Stakeholder engagement
Articles of Association	Finance Companies (Corporate Governance) Direction No. 3 of 2008	Strategic planning
Director’s Code of Ethics	Finance Leasing (Corporate Governance) Direction No. 4 of 2009	Risk management
Group’s Corporate Governance Framework and practices	Listing Rules of the Colombo Stock Exchange	Compliance
Board Charter and Terms of Reference for Board sub-committees	Sri Lanka Accounting Standards	People management
Comprehensive framework of policies, systems and procedures		Internal and external audit
		Related Party Transactions

The Board of Directors

The Board of Directors is the apex governing body and consisted of six (06) Non-Executive Directors (including the Chairman) and one (01) alternate director of whom two (02) are deemed independent as at 31 December 2020. 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
	<ul style="list-style-type: none"> Review the adequacy and effectiveness of the Company’s internal controls
	<ul style="list-style-type: none"> 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
	<ul style="list-style-type: none"> Ensure compliance with all relevant regulations and legislation
	<ul style="list-style-type: none"> 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 the Chairman and the Board of Directors including the Executive (if any) and Non-Executive Directors together with the CEO and KMP.
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.
	<ul style="list-style-type: none"> Adopting and reviewing policies and procedures on related party transactions of the Company and overseeing existing policies and procedures.
	<ul style="list-style-type: none"> 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

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 62 to 68 and the Report of the Integrated Risk Management Committee on pages 60 to 61. 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.

The Board is also supported by nine management committees; namely Credit Committee, Information Technology Steering Committee, Recovery Committee, Asset and Liability Committee, Purchasing Committee, Vehicle Disposal Committee, Investment Committee, Real Estate Committee and Operational Risk Management 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 organised 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 capitalisation 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.

CORPORATE GOVERNANCE REPORT

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 2020
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 "Shareholder Information" 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 "Shareholder Information"
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 "Shareholder Information".
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 page 31.
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 'Stated 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 "Shareholder Information".
7.6 (xi)	Ratios and market price information on: EQUITY 1. Dividend per share. 2. Dividend payout. 3. Net asset value per share. 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year). DEBT 1. Interest rate of comparable government security. 2. Debt/equity ratio. 3. Interest cover. 4. Liquidity ratio. 5. The market prices & yield during the year. 6. Credit rating.	Not applicable. Not applicable. Please refer "Statement of Financial Position". Please refer "Shareholder Information". Please refer "Debenture Information". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Debenture Information". Please refer "Debenture Information".
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 2020.
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 pages 167 to 169.

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 2020
7.10.1	Non-Executive Directors	Complied.
	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.	All six (06) directors who comprise the Board are non-executive directors and have held office prior to and immediately preceding the Annual General Meeting.
	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.	
	c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.	
7.10.2	Independent Directors	
	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".	Complied. Two (02) out of the six (06) non-executive directors are independent.
	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.	Complied.
7.10.3	Disclosure relating to Directors	
	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."	Complied.
	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.	Not applicable.
	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.	Complied. Resume of each director is given on pages 10 to 14 of the Annual Report.
	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 itemised in paragraphs (a), (b) and (c) above.	Complied. The Company Secretary has provided the required information to the Exchange upon appointment of new directors.

CORPORATE GOVERNANCE REPORT

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 2020
7.10.5	Remuneration Committee	
	<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 58 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 58 of the Annual Report. Fees paid to directors are disclosed in the 'Note 15 to Financial Statements' on page 103 of the Annual Report. There are no executive directors on the Board.</p>
7.10.6	Audit Committee	
	<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>Complied.</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>Not applicable.</p>
	<p>One (1) non-executive director shall be appointed as the Chairman of the audit committee by the board.</p>	<p>Complied.</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>Complied CEO and Head of Finance attend the Audit Committee Meetings by invitation.</p>
	<p>The Chairman or one (1) member of the audit committee should be a Member of a recognised professional accounting body.</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 2020
7.10.6	Audit Committee	
	b. Functions The audit committee's functions shall include,	
	(i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards.	Complied. The functions of the Audit Committee and its report are given on pages 56 to 57.
	(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.	Complied.
	(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.	Complied.
	(iv) Assessment of the independence and performance of the company's external auditors.	Not applicable. 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.
	(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.	Not applicable.
	c. Disclosure in the Annual Report 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.	Complied. The names of members of the Audit Committee and its report are given on page 56 of the Annual Report.
	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.	Not applicable. The Auditor General is the auditor and his independence has been determined by the Constitution.
	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.	Complied. Please refer Audit Committee Report on page 57 of the Annual Report.

CORPORATE GOVERNANCE REPORT

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 2020
2	The Responsibilities of the Board of Directors	
2(1)	The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-	
	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;	a) Complied. The Strategic Plan for 2020- 2022 is available. Vision, mission and corporate values have been communicated to the staff via intranet of the 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;	b) Complied. Board has approved the Risk Policy which includes the Risk management procedures.
	c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	c) Complied. The implementation of the Risk Policy is being monitored by the Integrated Risk Management Committee (IRMC) and the Board through a well-structured risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of IRMC.
	d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	d) Complied. There is a Policy of Communication with all stakeholders approved by the Board.
	e) Reviewing the adequacy and the integrity of the finance company’s internal control systems and management information systems;	e) Complied. Implementation of internal controls is looked into by the Internal Audit Department (IAD). Board monitors these through the IRMC and the Audit Committee. Internal control systems and management information systems are continuously reviewed to identify any gaps to further improve governance.
	f) Identifying and designating key management personnel, who are in a position to; (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management;	f) Complied. The Board has identified Key Management Personnel (KMP), as required by the Direction.
	g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel;	g) Complied. Matters reserved for the Board are specifically identified and included in the approved Board Charter. Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions

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 2020
2(1)	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;	h) Complied. KMP make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas. KMP responsible for internal controls and compliance attend every IRMC meeting. Board has delegated the function of overseeing IAD to the Audit Committee. Board exercise oversight of the affairs of the Bank by KMP through the minutes of the meetings of the IRMC and Audit Committee tabled at Board meetings.
	i) Periodically assessing the effectiveness of its own governance practices, including; (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary;	i) Complied. The Board appraises its performance annually by using the Board of Directors self-assessment questionnaire. Every Director is required to complete the questionnaire which aims to obtain Directors' feedback on the Board's performance on many aspects. The responses received from the Directors are reviewed and discussed at the Board meeting.
	j) Ensuring that the finance company has an appropriate succession plan for key management personnel;	j) Complied. Succession Plan for KMP has been approved by the Board . Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.
	k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	k) Complied.
	l) Understanding the regulatory environment;	l) Compliance with Statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which covers all returns submitted to the regulators.
	m) Exercising due diligence in the hiring and oversight of external auditors.	m) Complied. The Auditor General is the external auditor of MBSL.
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. Functions and responsibilities of the Chairman and the CEO have been defined and approved by the Board. Chairman's functions and responsibilities are distinct from those of the CEO.
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.	Complied. Approved Board Charter includes a provision to enable the Directors to seek independent professional advice at the Company's expense.

CORPORATE GOVERNANCE REPORT

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 2020
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. Approved Board Charter includes specific provisions to avoid conflicts of interest.
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.	Complied. Matters reserved for Board are included in the approved Board Charter.
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 32 to 50.
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. Board appraises its performance by using the Board evaluation form which is filled by each Director in relation to business strategy and contributions of Board members based on their field of expertise annually. The records of these assessments are maintained with the Company Secretary.
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 resolutions/papers shall be avoided as far as possible.	As there was a delay in reconstitution of the Board only 11 meetings were held during the year. Please refer page 50 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. All Directors are entitled to include such matters and proposals in the Agenda of a regular Board meeting and the Board Charter provides for the same. Also monthly meetings are scheduled and informed to the Board at the beginning of each year to facilitate this.
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. The schedule of dates of meetings for the year is approved by the Board at, or before the first Board meeting of the year and such approved schedule is notified to every Director thereby giving more than 7 days notice. Any change to the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting. Board procedure further provides that any meeting other than that contained in the schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice.

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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 2020
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. Details of the Directors attendance is set out on Page 50 of the Annual Report No Director has violated this requirement during the financial year 2020.
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. JD of the Company Secretary includes the responsibility to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the Statutes and other regulations.
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. All Directors have access to the advice and services of the Company Secretary. Approved Board Charter provides for same.
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. Board minutes are maintained by the Company Secretary. The Directors have access to the Board papers and minutes through a secure electronic link.
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. Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings. Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.
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 comprised of six (06) non-executive directors as at 31.12.2020.
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.

CORPORATE GOVERNANCE REPORT

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 2020
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 53 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.
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 12 to 14 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 50 of the Annual Report. All meetings of the Board held during the year have been attended by a majority of Non-Executive Directors.
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 53 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. No director of the Company holds Directorships in more than 20 companies.

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 2020
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. Board Charter includes a provision for delegation of powers by the Board. Board has delegated matters pertaining to the affairs of the MBSL to the Board sub-committees within the scope of the respective Board approved Terms of Reference. All delegations have been done by the Board after due consideration.
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	
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. Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day-to-day operations of the Bank giving effect to the strategies and policies approved by the Board.
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 53 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 There is active participation by all directors at the Board meetings as well as at Board sub-committee meetings as evidenced in the minutes. The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise.

CORPORATE GOVERNANCE REPORT

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 2020
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 Chairman is a Non-Executive Director and does not engage in day-to-day supervision of management or other executive duties.
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.
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 56 to 61 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;	Not applicable. The Auditor General is the external auditor of MBSL.
	(ii) The implementation of the Central Bank guidelines issued to external auditors from time to time,	Not Applicable.
	(iii) The application of the relevant accounting standards; and	Complied.
	(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. 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.

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 2020
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) Constitution of Sri Lanka. Whether the skills and experience of the auditor make it a suitable provider of the non- audit services; (ii) Constitution of Sri Lanka. 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) Constitution of Sri Lanka. 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.
8 (2) (f)	The audit committee shall, before the audit commences, discuss and finalise 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 Ernst & Young, Chartered Accountants, who assisted the Auditor General in the year 2020 audit, met the Audit Committee without the presence of the management.
8 (2) (i)	The audit committee shall review the external auditor’s management letter and the management’s response thereto.	Complied.

CORPORATE GOVERNANCE REPORT

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 2020
8 (2) (j)	<p>The audit committee shall take the following steps with regard to the internal audit function of the finance 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. 	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 56 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, <ul style="list-style-type: none"> (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 50 to 56 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.

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 2020
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 authorised 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.	Complied. Please refer the Report on "Integrated Risk Management Committee" on pages 60 to 61 of the Annual Report for details.
	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.	Complied.
	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.	Complied.
	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.	Complied.
	e) The IRMC shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied.
	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.	Complied.
	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.	Partially Complied. Risk Assessment Report has not been submitted to the Board within a week.
	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.

CORPORATE GOVERNANCE REPORT

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 2020
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 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) Parent company of the finance company; b) Subsidiary company of the finance company; c) Associate company of the finance company; d) Directors of the finance company; e) Key management personnel of the finance company; f) Directors of the Parent Company; g) Directors of the Subsidiary company; h) Directors of the Associate company; i) A relative of a director or a key management personnel of the finance company ; j) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company; k) 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 and relevant approvals have been obtained where necessary.</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. 	<p>Complied.</p> <p>Relevant approvals have been obtained where necessary.</p> <p>Please refer Note 44 under "Notes to the Financial Statements" on pages 167 to 169 of the Annual Report.</p> <p>The mechanism to identify and monitor the related parties is being strengthened covering all the areas.</p>

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 2020
9(4)	<ul style="list-style-type: none"> 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. 	
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:	
	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 71 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 71 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 pages 71 to 72.
	d) Details of directors, including names, transactions with the finance company.	Complied. Please refer pages 167 to 169 of the Annual Report for details.
	e) Fees/remuneration paid by the finance company to the directors in aggregate.	Complied. Please refer page 54 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 167 to 169 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 pages 167 to 168 of the Annual Report.

CORPORATE GOVERNANCE REPORT

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 2020
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-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 page 55 and 73 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 non-compliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, 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.

ATTENDANCE AT THE MEETINGS OF THE BOARD & SUB-COMMITTEES HELD DURING THE FINANCIAL YEAR 2020

	Name of the Director	Directorship Status	Board	Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Related Party Transactions Review Committee
			No. of Meetings Held				
			11	5	2	4	3
1	Mr. K Ratwatte- Chairman	Non Independent/ Non-Executive Director	5	N/A	N/A	N/A	N/A
2	Mr. A M A Perera -(Senior Director)	Independent/ Non-Executive Director	11	5	2	4	3
3	Dr. N S Punchihewa	Independent/ Non-Executive Director	11	5	2	N/A	3
4	Dr. S. Lokuhewa	Non Independent/ Non-Executive Director	-	N/A	N/A	N/A	N/A
5	Mr. K. B. S. Bandara	Non Independent/ Non-Executive Director	-	N/A	N/A	N/A	N/A
6	Mr. G.A. Jayashantha (Alt.Director to Mr. K. B. S. Bandara)	Non Independent/ Non-Executive Director	-	N/A	N/A	N/A	N/A
7	Mr. W. P. R. P. H. Fonseka	Non Independent/ Non-Executive Director	11	4	N/A	N/A	3
8	Mr.M.P.R.Kumara (Alt.Director to Mr. W. P. R. P. H. Fonseka)	Non Independent/ Non-Executive Director	-	N/A	N/A	N/A	N/A
9	Mr. S. N. Dayaratne	Independent/ Non-Executive Director	-	N/A	N/A	N/A	N/A
10	Mr. S. P. Arsakularatne	Independent/ Non-Executive Director	-	N/A	N/A	N/A	N/A
11	Mr. D. N. L. Fernando	Non Independent/ Non-Executive Director	10	N/A	N/A	4	N/A
12	Mr. C.Amarasinghe	Non Independent/ Non-Executive Director	2	N/A	N/A	N/A	N/A
13	Mr. W N P Surawimala	Non Independent/ Non-Executive Director	10	N/A	2	3	N/A

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

GENERAL

The Board of Directors presents this report to the shareholders as required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Directions issued thereunder, and the Listing Rules of the Colombo Stock Exchange in respect of year ended 31 December 2020. This Report was approved by the Board of Directors on 12th May 2021.

The Board of Directors wishes to confirm that the Audited Financial Statements included in this Annual Report and the significant accounting policies and notes thereto have been prepared and presented with the relevant disclosures in accordance with the Sri Lanka Accounting Standards and other applicable regulatory requirements.

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.

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 with page references and other disclosures
(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 84
(ii) Signed Financial Statements of the Company and the Group for the accounting period completed	Section 168 (1) (b)	Refer on page 81
(iii) Auditors' Report on the Financial Statements of the Company and of the Group	Section 168 (1) (c)	Refer on pages 74 to 77
(iv) Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer on pages 84 to 198
(v) Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on pages 54 and 167 to 169
(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 pages 54 and 167 to 168
(vii) Information on donations made by the Company during the accounting period	Section 168 (1) (g)	Refer on page 55
(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 pages 53 to 54
(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 54
(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 54
(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 55

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission and values are given on page 03 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, Deposit mobilisation 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 84.

REVIEW OF OPERATIONS

A review of the operations of the Company during the financial year ended 31 December 2020 and results of those operations are contained in the Chairman's Review on pages 22 to 23, the Acting Chief Executive Officer's Review on pages 24 to 26 and Management Discussion and Analysis on pages 27 to 31. 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 page 23 and in the Acting Chief Executive Officer's Review on page 26 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 2020 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 78 to 198 and form an integral part of this Report.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is 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 78 to 198 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 73 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 2020 is given on pages 74 to 77 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 84 to 198 of the Annual Report.

INCOME

The income of the Company for the year ended 31 December 2020 is given in Financial Statements on page 78.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Company and the Group performance and appropriation of profit are given on page 78 and pages 78 to 83 respectively.

RESERVES

Information on the movement of reserves is given in the Statement of Changes in Equity on page 82 and in Note 42 respectively to the Financial Statements on page 165.

TAXATION

The Company is liable for income tax at the rate of 28% (2019-28%) and VAT on Financial Services at 15% (2019-15%).

STATUTORY PAYMENTS

The Board of Directors confirms 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 AND EQUIPMENT

The total capital expenditure incurred on the acquisition of property and equipment and intangible assets of the Company and the Group amounted to Rs. 58.49 Mn and Rs. 62.27 Mn respectively. The details of property and equipment of the Company are given in Note 30 and 31 to the Financial Statements on pages 148 to 153.

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 value of the property. The details of freehold property owned by the Company are given in Note 30 to Financial Statements on pages 150 to 151.

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 2020 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 165.

The details of debentures redeemed during the year ended 31 December 2020 and those outstanding as at 31 December 2020 are given in Note 35.3 to the Financial Statements on page 158.

CAPITAL ADEQUACY

Core capital and total capital adequacy ratios of the Company stood at 4.4 percent and 5.6 percent respectively as at 31 December 2020, which are below the stipulated minimum as at 31.12.2020. Board of Directors will take remedial action to close the gap in the capital adequacy in the financial year 2021.

SHARE INFORMATION

Information relating to earnings, net assets and market value per share is given in ‘Key Figures’ on page 21 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 ‘Shareholder Information’ on pages 204 to 205.

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 ‘Shareholder Information’ on page 205.

DIRECTORS

The names of the Directors who comprised the Board of Directors of the Company as at 31 December 2020 are given below and their attendance at the board meetings during the year is given on page 50 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent /Non-Independent Status
Mr. K. Ratwatte	Chairman Non-Executive Director	Non-Independent
Mr. A. M. A. Perera	Senior Director Non-Executive Director	Independent
Mr. W. P. R. P. H. Fonseka	Non-Executive Director	Non-Independent
Mr. D. N. L. Fernando	Non-Executive Director	Non-Independent
Dr. N.S. Punchihewa	Non-Executive Director	Independent
Mr. W.N.P. Surawimala	Non-Executive Director	Non-Independent
Mr. M.P.R. Kumara	Alternate Director to Mr. W. P. R. P. H. Fonseka	

CHANGES TO THE DIRECTORATE

Appointments During the Year under Review

Mr. A. M. A. Perera was appointed to the Directorate of MBSL as a Non-Executive/ Independent Director w.e.f. 16.07.2020. He was appointed as Senior Director w.e.f. 30.09.2020.

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

Mr. Kanchana Ratwatte was appointed to the Directorate of MBSL as Chairman/Non-Executive/ Non-Independent Director w.e.f. 30.09.2020

Resignations During the Year under Review

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 Director 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

ANNUAL REPORT OF THE BOARD OF DIRECTORS ON THE AFFAIRS OF THE COMPANY

Appointments after 1st January 2021

Mr. M. P. R. Kumara was appointed to the Directorate of MBSL as a Non-Executive/Non-Independent Director w.e.f. 20.04.2021

Mr. G. A. Jayashantha was appointed to the Directorate of MBSL as a Non-Executive/Non-Independent Director w.e.f. 20.04.2021

Resignations after 1st January 2021

Mr. M. P. R. Kumara tendered his resignation as Alternate Director to Mr. W. P. R. P. H. Fonseka w.e.f. 20.04.2021.

Recommendations for Election and Re-election

Mr. D. N. L. Fernando and Mr. A. M. A. Perera retire 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 themselves for re-election at the forthcoming Annual General Meeting. Board of Directors have recommended their re-election.

Mr. M. P. R. Kumara and Mr. G. A. Jayashantha 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. Board of Directors have recommended their election.

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 and details of Attendance at such meetings are presented on page 50.

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 pages 167 to 168 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	1.82	1.82

DIRECTORS' INTEREST IN SHARES OF THE COMPANY

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31st December 2020 and 31st December 2019 are as follows:

	No. of shares held at 31.12.2020	No. of shares held at 31.12.2019
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 pages 167 to 168.

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 pages 167 to 169 which form an integral part of the Annual Report.

All Related Party Transactions have been placed before the Related Party Transactions Review Committee 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 2020.

APPOINTMENT OF AUDITORS

The retiring Auditors, the Auditor General has expressed his willingness to continue in office for the financial year 2021.

A resolution to re-appoint the Auditor General and to authorise 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. 2,127,225 for the year ended 31 December 2020 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 is 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 not made any donation. (2019 - Rs.63,201).

EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are reflected in Note 45 to the Financial Statements on page 169.

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 pages 178 to 182 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 continues 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 62 to 68.

CORPORATE GOVERNANCE

Directors' Declarations

The Board of Directors declare that-

- (a) The Company has complied with all applicable laws and regulations, except for Capital adequacy 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 32 to 50.

HUMAN RESOURCES

The Company continued to implement appropriate Human Resource Management Policies to develop employees and optimise their contribution towards the achievement of corporate objectives. These policies and procedures ensure the equitable treatment of all employees.

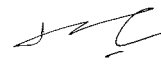
ANNUAL GENERAL MEETING

The Thirty Ninth (39th) Annual General Meeting of the Company will be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3 on Tuesday 29th June 2021 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform without the physical presence of the Shareholders. The Notice convening the Thirty Ninth (39th) Annual General Meeting is given on page 222.

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:



K. Ratwatte
Chairman



A. M. A. Perera
Director



A. Belpamulla
Company Secretary

12 May 2021
Colombo

AUDIT COMMITTEE REPORT

The Audit Committee of 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 Charter is reviewed and updated regularly taking into consideration new developments and best practices relating to the role of the Committee.

KEY RESPONSIBILITIES OF THE COMMITTEE

The Audit Committee assists the Board in discharging its responsibilities in 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

- Reviewing the 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, including IT system audit plans, activities, audit scope and reporting requirements.
- Review of findings and recommendations by the Head of Internal Audit, together with comments and action taken by Management to close the matters raised.

- Review of performance of the Internal Audit Function and performance review of the Head of Internal Audit.
- Ensure that the Internal Audit function has the required independence to carry out its activities impartially, proficiently and professionally.

External Audit

Review of the 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 during the year 2020 was as follows:

- Mr. Anura Perera-Chairman
Non-Executive / Independent Director (Senior Director)
(Appointed w.e.f 16/07/2020)
- Mr. W.P.R.P.H Fonseka - Member
Non-Executive / Non-Independent Director
(functioned as the Chairman from 10/08/2016 to 16/07/2020)
- Dr. N.S. Punchihewa - Member
Non-Executive / Independent Director
(Appointed w.e.f 16/07/2020)
- Mr. S. N Dayaratne - Member
Non-Executive/ Independent Director (Senior Director)
(resigned w.e.f 16/07/2020)
- Mr. S. Arsakularatne - Member
Non-Executive/Independent Director
(resigned w.e.f 16/07/2020)

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

The Acting Head of Internal Audit, Acting Chief Executive Officer and Head of Finance attend meetings regularly. The Heads of Divisions are invited to the meetings to seek any clarifications.

AREAS OF FOCUS AND ACTIVITIES IN 2020

The Committee held 5 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors. (Attendance given on page 50 of this Report.)

REPORTING FINANCIAL PERFORMANCE AND INFORMATION

The quarterly and annual financial statements of the Company were reviewed and discussed 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.

Implementation of SLFRS 9

A model validation of SLFRS 9 including methodology for computation of Expected Credit Losses (ECL) was done during the year with the help of external consultants.

Compliance:

The 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.

Whistleblowing Policy

Company's Whistleblowing Policy empowers any member of the staff who has a legitimate concern on any fraudulent activity, breach of ethical business conduct or violation of law or regulations to report such concerns without any fear of discrimination to the Internal Auditor or Chairman of the Audit Committee.

Internal Audits

The Committee reviewed the Internal Audit Plan and assigned the Head of Internal Audit the review of specific areas of the internal control procedures, accounting systems and operations procedures of the organisation, reviewed the reports received from the Head of Internal Audit covering audits and investigations and discussed with the Management on the recommendations made and followed up on the implementation. Sixty seven (67) internal audit reports including thirteen (13) information system audit reports and twenty eight (28) special assignments and investigation reports were reviewed by the Committee.

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 2020. 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 the presence of the management to ensure that auditors had the independence to discuss any matter with the Committee.

The Committee wishes to appreciate the past Chairman and the members of the Audit Committee who functioned during the year 2020 for their valuable contribution and service.



A. M. A. Perera
Chairman - Audit Committee

12 May 2021
Colombo

REMUNERATION COMMITTEE REPORT

COMPOSITION OF THE COMMITTEE

The Remuneration Committee functions under the Terms of Reference approved by the Board.

TERMS OF REFERENCE

The Committee assists the Board in fulfilling its corporate governance and oversight responsibilities in relation to the MBSL's remuneration framework, succession planning and remuneration of Key Management Personnel (KMP)

The Committee also reviews and makes recommendations to the Board with regard to the remuneration framework for Chairman and non-executive directors.

COMPOSITION AND MEETINGS

The Committee was reconstituted with the following members with effect from 16 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*

Dr. Sujeewa Lokuhewa , *Chairman/ Non-Independent/ Non-Executive Director*, Mr S. N. Dayaratne *Independent / Non-Executive Director* and Mr. S. P. Arakularatne , *Independent/Non-Executive Director* functioned as the members of the Committee from 01 January 2020 to 16 July 2020.

The Company Secretary functions as the Secretary of the Committee.

The Remuneration Committee held two meetings during the year under review.

REMUNERATION POLICY

Remuneration Policy of the Company endeavors to attract, motivate and retain quality management with the relevant expertise to achieve the desired objectives of the Company.

DIRECTORS' REMUNERATION

Committee recommended to the Board the fees for attending Board and Board Sub-Committee meetings including travelling allowances for attending such meetings. Committee also recommended the remuneration payable to the Chairman of the Board.

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 Committee and Committee members have direct access to MBSL's Senior Management and advisors (both internal and external). The Committee may obtain external professional advice as and when required.

The total Directors' emoluments and remuneration paid to KMP's are disclosed in Note 44 on page 167 of the Financial Statement.



A. M. A. Perera
Chairman
Remuneration Committee

12 May 2021
 Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

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 Practices 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.

COMPOSITION OF THE COMMITTEE

The Related Party Transactions Review Committee was reconstituted on 16 July 2020 and the composition of the Committee is given below.

Name of the Directors	Directorship Status	Membership Status
1. Mr. A. M. Anura Perera (appointed on 16.07.2020)	Non-Executive / Independent Director	Chairman
2. Mr. W. P. R. P. H. Fonseka	Non-Executive / Non-Independent Director	Member
3. Dr. N. Sampath Punchihewa (appointed on 16.07.2020)	Non-Executive / Independent Director	Member

Prior to the reconstitution the following members comprised the Committee.

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 S. P. Arsakularatne (resigned w.e.f 16.07.2020)	Non-Executive / Independent Director	Member
3. Mr. C. Amarasinghe (resigned w.e.f 16.07.2020)	Non-Executive / Non-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.

MEETINGS OF THE COMMITTEE

The Committee had three meetings during the year under review considering operational restrictions due to the COVID 19 pandemic situation. The quorum for a meeting is 3 members. Members of the Corporate Management were invited to participate at the meetings of the Committee as required. The attendance at the meetings are given in page 50 of this report.

RELATED PARTY TRANSACTIONS FOR THE YEAR 2020

Details of all transactions with the related parties during the year 2020 were reviewed by the Committee and made recommendations and communicated its observations to the Board.

The details of the recurrent and non-recurrent transactions during the financial year 2020 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 2020 is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 54.



A. M. A. Perera

Chairman

Related Party Transactions Review Committee

12 May 2021
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Integrated Risk Management Committee (IRMC) of Merchant Bank of Sri Lanka & Finance PLC (MBSL) functions in compliance with the Finance Companies (Corporate Governance) Direction No.03 of 2008 issued by the Monetary Board of the Central Bank of Sri Lanka.

THE IRMC MEETINGS

The IRMC held four 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. 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. D. N. L. Fernando	Chairman Non-Executive / Non-Independent Director
Mr. A. M. A. Perera*	Non-Executive / Independent Director
Mr. W. N. P. Surawimala*	Non-Executive / Non-Independent Director
Mr. S. N. Dayaratne **	Non-Executive / Independent Director
Management Level Members	
Mr. G. M. J. A. Gamalath	Acting Chief Executive Officer
Mrs. K. D. Jayatilake	DGM Legal /Head of CA & CM
Mr. C. S. Withanachchi	DGM IT
Mr. K. Jayasundera	AGM FD/Savings, Pawning & Treasury
Mr. W. S. M. Fernando	AGM Compliance
Mr. T. D. D. K. Gunawardena	AGM HR & Support Services
Mr. P. I. Kandanaarachchi	AGM Finance & Strategic Planning
Mr. L. D. P. A. Liyanage	AGM Recoveries
Mr. H. N. Wijayatunga***	Manager Risk

* Appointed to the IRMC with effect from 16 July 2020

** Resigned from the IRMC with effect from 16 July 2020

*** Resigned from the IRMC with effect from 19 January 2021

The committee was reconstituted with effect from 20 April 2021 and present composition of IRMC is as follows.

Name	Designation
Board Level Members	
Mr. G. A. Jayashantha	Chairman Non-Executive / Non-Independent Director
Mr. D. N. L. Fernando	Non-Executive / Non-Independent Director
Mr. A. M. A. Perera	Non-Executive / Independent Senior Director
Mr. W. N. P. Surawimala	Non-Executive / Non-Independent Director
Mr. M. P. R. Kumara	Non-Executive / Non-Independent Director
Management Level Members	
Mr. G. M. J. A. Gamalath	Acting Chief Executive Officer
Mrs. K. D. Jayatilake	DGM Legal /Head of CA&CM
Mr. C. S. Withanachchi	DGM IT
Mr. K. Jayasundera	AGM FD/Savings, Pawning & Treasury
Mr. W. S. M. Fernando	AGM Compliance
Mr. T. D. D. K. Gunawardena	AGM HR & Support Services
Mr. P. I. Kandanaarachchi	AGM Finance & Strategic Planning
Mr. L. D. P. A. Liyanage	AGM Recoveries

Key Responsibilities of the Committee

IRMC is a Board appointed subcommittee currently consist of five 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. Assessing 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. Reviewing 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. Taking 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. Meeting at least quarterly to assess all aspects of risk management including updated business continuity plans.
- V. Taking 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. Submitting a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- VII. Establishing 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. S. N. Dayaratne and Mr. H. N. Wijayatunga for their valuable contribution to the Committee during their tenure.



G. A. Jayashantha

Chairman

Integrated Risk Management Committee

12 May 2021

Colombo

RISK MANAGEMENT REPORT

Risk management plays a vital role in the execution of our business strategy. A strong Risk Management Framework is essential in this dynamic operating and business environment to safeguard customer interests while ensuring our business continues to grow in order to meet the key deliverables of all stakeholders.

MBSL’s Risk Management process involves risk identification, analysis and evaluation, managing and reporting the risk.



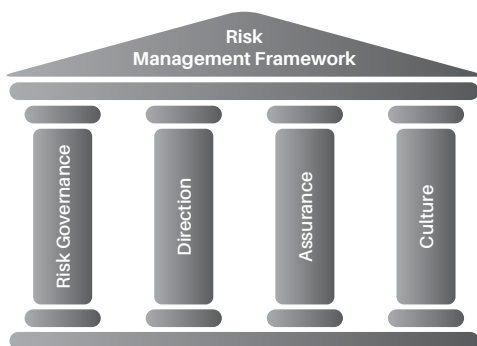
Risk Identification finds, recognises and describes risks that affect MBSL’s strategic financial goals. Risk Analysis would analyse the nature of the risks and their potential impact to MBSL. Risk Evaluation is the process of identifying and measuring the risk. Risk Management would formulate and implement strategies to reduce the identified risks. Throughout this process, keeping the Board of Directors (BOD) and Integrated Risk Management Committee (IRMC) informed and apprised of all key risks, strategies and their respective outcomes is Risk Reporting.

As a financial sector entity, MBSL is potentially exposed to multiple risks by nature of the industry. It has potential impact to MBSL’s business, employees, customers, reputation, environment, regulatory and financial performance and as a result the meeting the company’s strategic objectives. The purpose of our Risk Management Framework is to ensure that an effective and efficient process is in place to manage the company-wide risks at all times.

MBSL’s Risk Management Framework seeks to achieve the following 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 amongst 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 organisation

MBSL’s Risk Management Framework is based on four key pillars;

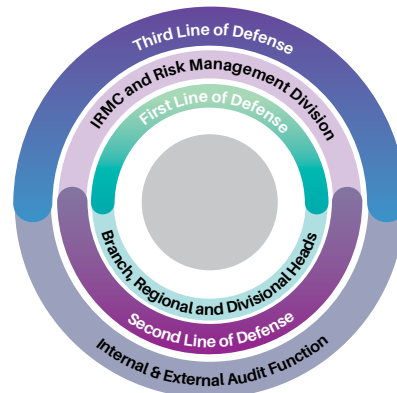


1. Risk Governance

Risk Governance is vital for effective risk management of any organisation. 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 holds the responsibility to decide on 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 of 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 function as the 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 that supports the achievement of business objectives.

2. Direction

The Board and the 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 the company should maintain. The Board of Directors is responsible to establish MBSL's Risk Appetite after considering the optimal risk return trade off of the company. In formulating the Risk Appetite Statement, the Board prioritises the most significant risks MBSL is exposed to and informs the approach towards managing these risks, inclusive of strategic plans and business plans developed accordingly.

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

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 are approved by the Board, based on the recommendations made by the IRMC. Risk policies would be 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 in place to support the Risk Management Division and the business units to carry out their duties. Senior management teams take the lead in formulating procedures in order to inform specific action, and to 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. Key risk indicators are escalated to the IRMC on a quarterly basis and any breach in these would immediately be reported to the Board for necessary action.

Risk management requires independent assurance in order to verify that 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 while the Auditor General of Sri Lanka perform independent external audits as dictated by the Constitution of Sri Lanka .

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 would guide the risk decisions of management and employees in line with the company's risk management and strategic objectives. The MBSL Board and Senior Management play a vital role in establishing a sound risk culture within the company. In addition, risk management responsibilities are clearly communicated across the company. The responsibility of initiating action against employee who violate or fail to adhere to company policies and direction in risk aversions rest with the Board.

Managing Key Risks

In line with CBSL directions & BASEL Guidelines, the Company manage the following risks prudently while achieving strategic objectives of the company.

Credit Risk

Credit risk is one of the major risks for MBSL, due to the nature of the business. Credit risk arise from financial losses made from customers, clients or market counterparts failure to fulfill their contractual obligations to MBSL within their due timeframes.

Impact of COVID -19

The outbreak of COVID 19 pandemic has affected the financial sector & the economy of Sri Lanka during 2020. This has directly affected MBSL's business activities & operations, specially the business growth & loan recoveries during the curfew period & thereafter. MBSL was unable to grow the loan portfolio as planned, while the loan recovery process was slow due to the on going impact of COVID 19. This caused a significant drop in annual revenue while the loan loss provision has significantly increased compared to the previous year.

The pandemic affected the overall credit risk position of MBSL while the lending portfolio decreased , which resulted in increasing the Non Performing Loans Ratio in 2020. However MBSL has granted debt moratorium to the affected customers honoring the Central Bank's directives. CBSL has issued moratorium directives and have further directed extensions to the existing directives several times during the year focusing on affected individuals & businesses. Some of debt moratorium ended on 01 April 2021 while extensions given for another 6 month for specific sectors continue.

Default 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 date.

RISK MANAGEMENT REPORT

While the MBSL Board sets the overall direction for managing credit risk in both retail and corporate lending segments, 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 conducted 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.

Borrower's capacity which is the ability to pay debt on time is act as a key driver for the default risk. The key factors which decide the borrower's capacity is assessed at the initial credit risk assessment of the borrower. Collaterals in the forms of movable & immovable are obtained as a second recourse to absorb the default impact. Immovable collaterals are valued by an independent valuer in line with the directions given in Finance Business Act Directions (Valuation of Immovable Properties) No. 04 of 2018 & it's amendments.

Significant credit applications proposed by the business units are independently assessed by the Risk Management Division. The Risk Management Division monitors credit exposures, portfolio performance and external environmental factors that has the potential to impact credit risk profiles. This is achieved through analysed 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 IRMC and the Board to enable key strategies and action plans to be formulated and evaluated.

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

Default Risk Management Activities in 2020

1. **Credit Policies & Procedures**- Credit policies & procedures were reviewed in 2020 in order to ensure that policies are updated in line with the current conditions & overall strategic objectives of MBSL.
2. **Customer Credit Evaluation Process**- Tightened evaluation procedures elevated default risk management mechanism in MBSL. Accordingly, significant borrowers are required to face tight scrutiny in order to mitigate default risk of the Company. In this regard the Central Credit Division (CCD) conducts special evaluations for borrowers of these specific categories. 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 which will ensure the credit quality of the facility while reducing default risk of the Company.
3. **Risk Culture**-Monthly business meeting are conducted to raise awareness regarding the company's credit risk management protocols and encourage proactive approaches by branch staff towards the recovery process.
4. **Involvement by the Central Credit Division (CCD)**-CCD consists of three distinct segments; pre credit, credit processing and post-credit monitoring with a view to centralising end-to-end credit engagement.
5. **Recovery Procedure**-Central Recoveries Unit expedite the follow up of past dues and impose stricter monitoring protocols to prevent customers from lapsing into NPL category. Recoveries Unit is headed by the AGM Recoveries who directly reports to the CEO and the Recovery Committee. Further, the ground-level recovery mechanism is streamlined with the appointment of Zonal Recovery Officers who are responsible to manage recoveries in their respective regions and report directly to the AGM Recoveries.
6. **Involvement by the Risk Management Division (RMD)**- Significant credit proposals are specifically assessed by the Risk Management Division. The risk report together with risk mitigation actions are recommended to the credit committee and/or Board. Monthly Branch Risk Dashboards are prepared by the RMD to provide key credit risk information to every branch in MBSL which helps the default risk management process of the branches.
7. **Legal Action**-Expedited legal action is taken against willful defaulters, by the company's internal lawyers who are entrusted with this authority to take legal actions against the willful defaulters. The process has helped to manage the NPA portfolio significantly during the year.

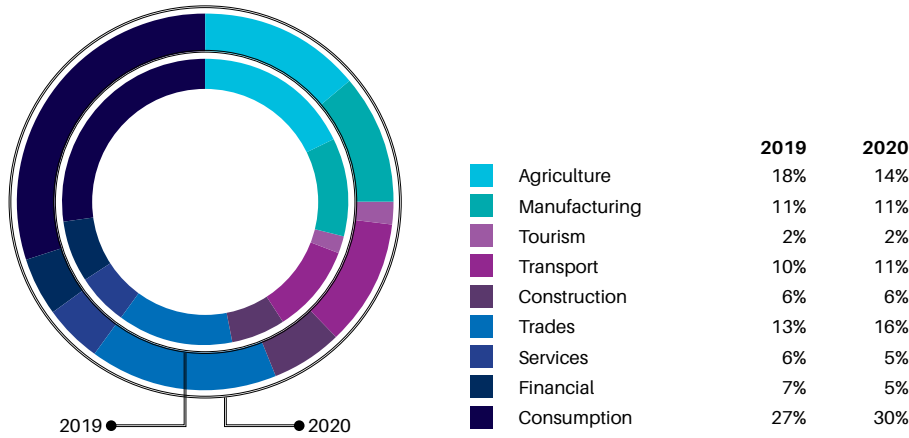
Concentration Risk

Credit Concentration Risk is the degree of exposure within the company's credit portfolio. Concentration risk may arise from customer, product, geographical location, and sector etc...

Concentration Risk Management Activities in 2020

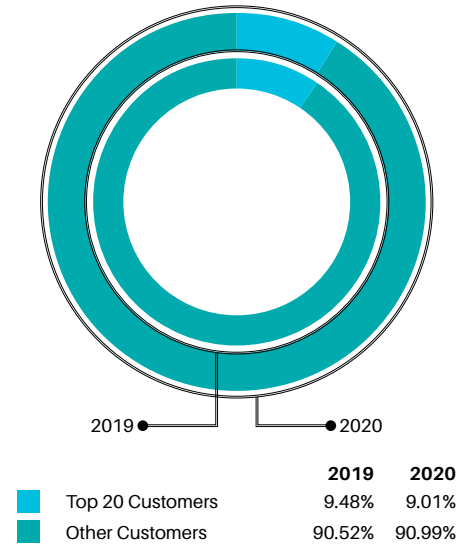
1. **Setting Limits**-Maximum threshold limits for customer, products, and sector to ensure concentration limits are manageable.
2. **Review Mechanism**- Review threshold limits based on the current market & other conditions in order to ensure that concentration risk are manageable in any situation.
3. **Strict Compliance**- Strict adherence to single borrower limits defined by the Central Bank of Sri Lanka
4. **Monitoring**- Regular monitoring of concentration risk through monthly dashboards

Industry wise concentration



In the year under review, the concentration on agriculture sector has reduced considerably compared to 2019. Further, the exposure to consumption, trade and transportation sectors have slightly 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.

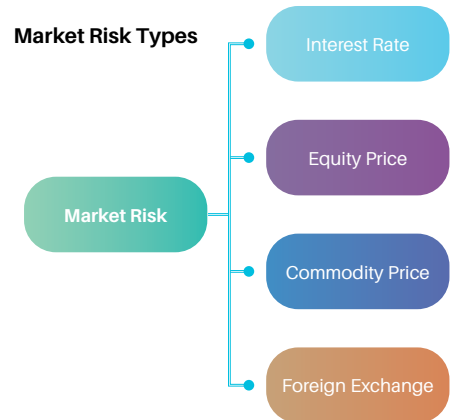
Concentration top 20 customers



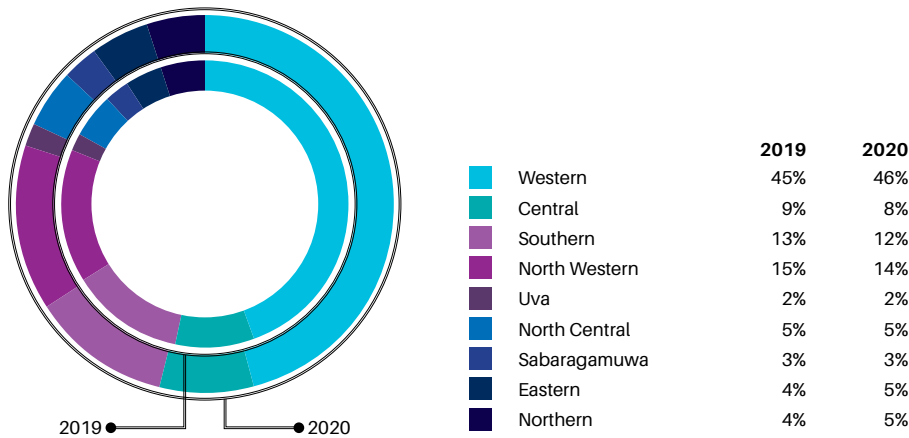
Market Risk

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

Market Risk Types

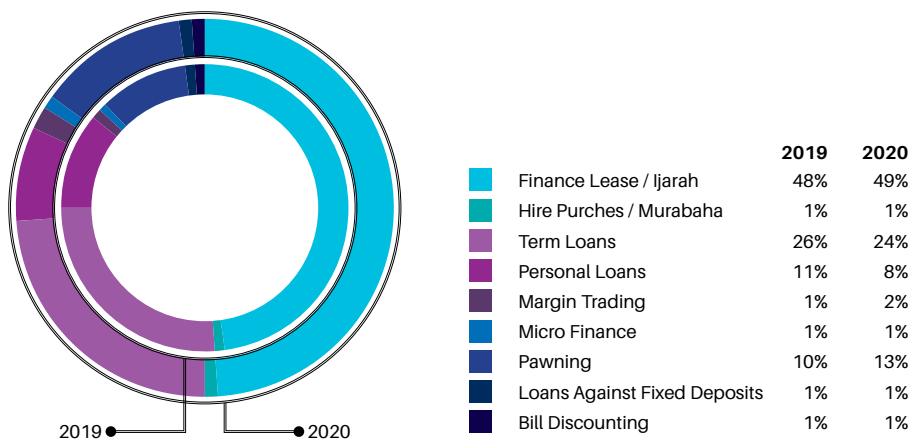


Geographical concentration



There were no significant changes in geographical concentration since the current economic condition has not supported a significant growth in loan portfolio during the 2020.

Product Concentration



Interest rates, equity markets and commodity prices directly influence the possibility to achieve 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.

RISK MANAGEMENT REPORT

Interest Rate Risk

Interest rate risk is the key component of market risk. Interest rate risk arise 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 a regular basis and identifies possible impacts of its fluctuations on 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 2020, market interest rates significantly dropped due to COVID -19 impact and government policies on interest rates. Maximum interest which can be offered by LFC's on deposits were reduced gradually in response to 364 days Treasury Bills WAYR. Cost of deposits of MBSL decreased during the year due to the significant movement in interest rates while the lending rates were adjusted according to the market trends & internal WACC.

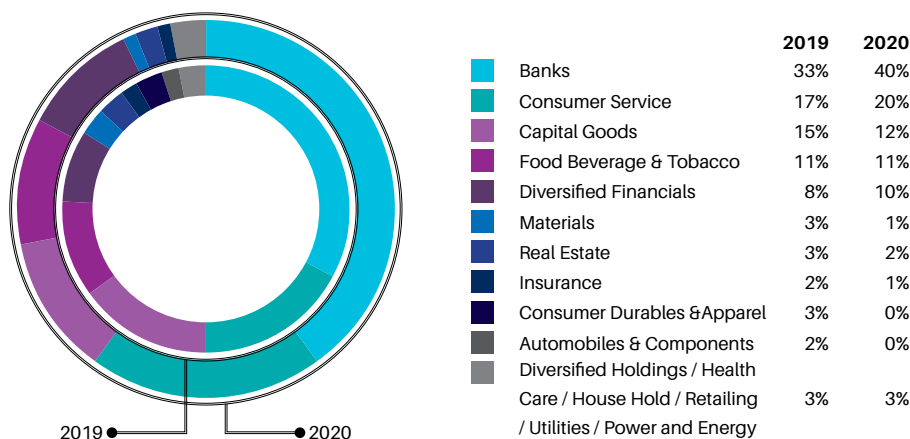
Equity Risk Management

Adverse movement in share prices create market risks for 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 is handled by the Capital Market Division which is directly responsible to the Investment Committee.

The Investment Committee oversees the management of the company's share portfolio while the IRMC conducts a periodic review of the performance and concentration of the share portfolio in order to mitigate equity risk.

In 2020, the Company reduced its exposure in share investments based on the negative outlook for the share market.

Sector wise Equity portfolio risk



Even though the exposure (percentage) to banking, consumer and diversified financial sectors increased significantly in 2020, there were no significant movements in the amount invested in such sectors.

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. There was a significant increase in gold prices during 2020 with the Covid 19 pandemic. MBSL's pawning portfolio significantly grew benefited by key financial products' slow growth under current market conditions. Monitoring the loan to value ratio for gold loan portfolio has helped greatly in minimising the impact due to the volatility of gold prices while pawning advances were focused for shorter period. However, the pawning portfolio was kept below the risk appetite on product concentration.

Liquidity Risk

Liquidity risk arises when a financial institution is unable to maintain or generate sufficient cash resources to meet its payment obligations.

At MBSL, liquidity risk management falls under the purview of the ALCO. Under the supervision of the ALCO, the AGM FD/ Savings, Pawning & 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.

Liquidity Risk Management Activities in 2020

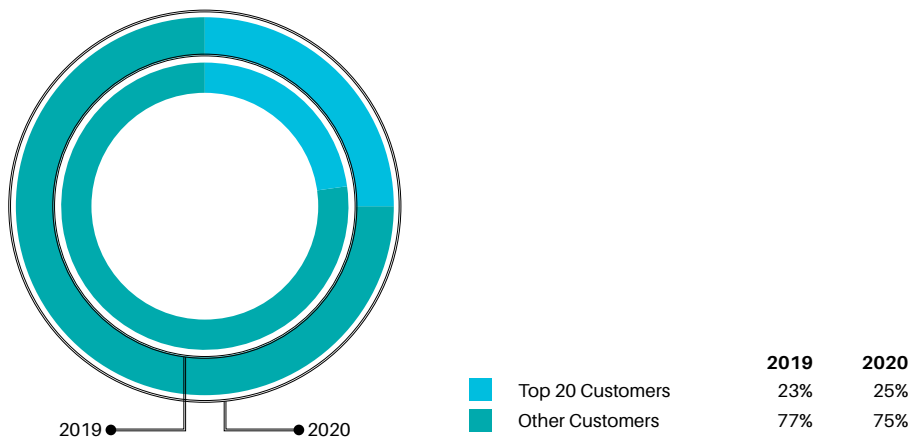
1. Reviewed the existing Liquidity Risk Management Policy to manage Liquidity Risk more prudently.
2. Ensure that liquidity is strictly managed in line with MBSL's Risk Appetite

3. In a declining interest rate environment, our focus was on long term funding in order to reduce the shock on liquidity.
4. Strict adherence to the liquidity requirements issued by the Central Bank of Sri Lanka.
5. Strategies to reduce concentration on corporate deposits and focus more on promoting retail deposits.
6. 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 will take necessary steps to meet current CAR requirement and minimum capital requirement as specified by the CBSL.

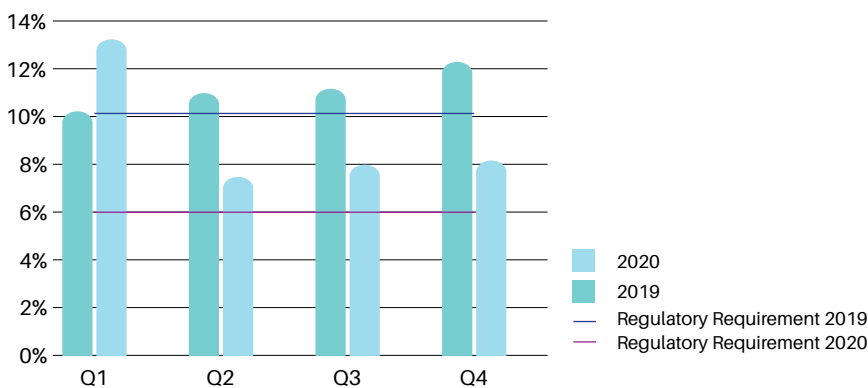
Due to the COVID-19 situation, CBSL has temporarily reduced the regulatory liquid asset requirement for LFC's during the year which has currently extended up to 30 June 2021. Reduced liquid assets requirements made available more funds to be utilised in the normal business activities in MBSL.

Top 20 depositors



In 2020 dependency on top 20 depositors increased by 2%

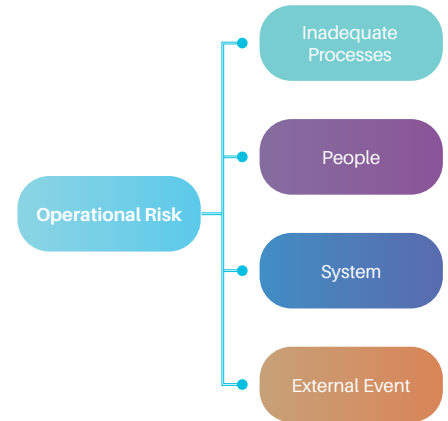
Liquid Assets Ratio



The Company continued to maintain its liquidity ratios in compliance with the regulatory minimum requirements throughout 2020. CBSL has temporarily reduced the regulatory liquid asset requirements in 2020 in order to support more liquid funds on business operations for LFC's throughout the COVID-19 situation.

Operational Risk

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



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

Operational Risk Management Activities in 2020

1. The Operational Risk Management Committee (ORMAC) at MBSL is 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 approved by the Board of Directors
3. Sharing information effectively with staff members on COVID 19 situation, red flags on anti-money laundering, cashing, marketing, pawning and credit management etc..
4. Implemented the performance-based culture supported by a continuous evaluation of employee performance to determine their achievement of KPI's which are linked to MBSL's strategic objectives

RISK MANAGEMENT REPORT

5. System modifications were completed to automate customer screening with OFAC & UN sanctions. Some other system modifications are ongoing to align with anti-money laundering measures 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 under current conditions.

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 Division 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 Division to verify if they conform with 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.

Compliance Risk Management Activities in 2020

1. A dedicated Compliance Officer performs duties as the head of MBSL's Compliance Division. The Compliance Officer reports directly to the IRMC regarding any non-compliance issues.
2. MBSL's Anti-Money Laundering (AML) & Countering the Financing of Terrorism (CFT) Policy & Procedure was reviewed in order to ensure that the company is compliant with the regulations laid down by the Financial Intelligence Unit of CBSL.
3. Screening of customers with sanction lists were automated to ensure the compliance with applicable rules & regulations.
4. System modifications are at the final stage for system based Money Laundering Risk Profiling of customers
5. Initiated for online compliance training programs for staff members under ongoing COVID-19 situation.

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FINANCIAL CALENDAR

FINANCIAL CALENDAR 2020

Annual General Meetings	Date
39th Annual General Meeting	29-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 the CSE	Date published/ to be published in Newspapers (in Sinhala, English & Tamil)
1st Quarter ended 31 March 2020	4-Aug-20	N/A
2nd Quarter ended 30 June 2020	15-Sep-20	25-Sep-20
3rd Quarter ended 30 September 2020	12-Nov-20	N/A
4th Quarter ended 31 December 2020	1-Mar-21	N/A
Annual Financial Statements		
Annual financial statements for 2020	31-Mar-21	31-Mar-21

PROPOSED FINANCIAL CALENDAR 2021

Annual General Meetings	Date
40th Annual General Meeting on or before	30-Jun-22

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 2021	13-May-21	N/A
2nd Quarter ended 30 June 2021	13-Aug-21	31-Aug-21
3rd Quarter ended 30 September 2021	15-Nov-21	N/A
4th Quarter ended 31 December 2021	28-Feb-22	N/A
Annual Financial Statements		
Annual financial statements for 2021	31-Mar-22	31-Mar-22

DIRECTORS' RESPONSIBILITY STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

The Board of Directors presents the Directors' Statement on Internal Controls 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 and principal D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

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 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 in place is sound and 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 assists the Board in ensuring that MBSL complies with policies and procedures, evaluates 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 assurance 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 reviews internal control gaps identified by the internal audit division, external auditors, regulatory authorities and management, and evaluates 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 2020 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 2020.
 - In 2020, the Company further strengthened its internal control processes to ensure that the impact of the COVID-19 debt moratorium on interest income and impairment provisions were accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without interruption during the lockdown periods.

DIRECTORS' RESPONSIBILITY STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

- To ensure business continuity, protect workers and continue to serve customers during the COVID-19 pandemic, the Company had to move certain areas of its operations online. However, this was done with all required safeguards in place to protect the Company and its customers.

The Company has also Recognised 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 financial statements disclosures related to financial risk management, fair value and IT controls were being implemented as at the reporting date to minimise manual intervention.

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.

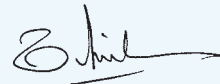
REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

Based on the procedures performed, the external auditors have reported to the Board that nothing has come to their attention that causes them to believe that this Statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of internal control system over financial reporting of the Company.

For and on behalf of the Board,



A. M. A. Perera
Director



W. P. R. P. H. Fonseka
Director

12 May, 2021
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 74 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 2020, 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 2020 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 Page 74 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

12 May, 2021
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/2020
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

30 March 2021

BAF/B/BOC-S/MBSL/2020

The Chairman
Merchant Bank of Sri Lanka & Finance PLC

Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Merchant Bank of Sri Lanka & Finance PLC and its subsidiary for the year ended 31 December 2020 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 & Finance PLC (the “Company”) and the consolidated financial statements of the company and its subsidiary (the “Group”) for the year ended 31 December 2020 comprising the statement of financial position as at 31 December 2020 and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and the statement of cash flow 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 2020 and of its financial performance and its 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.

Emphasis of Matter

I draw attention to Note no. 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 this matter.

1.3 Key Audit Matters

Key audit matters are those matters that, in my professional judgment, 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 on Loans & receivables at amortised cost</p> <p>As described in Notes 3.5.12, 12, 23 and 50.2, impairment allowance on such financial assets carried at amortised cost is determined in accordance with Sri Lanka Accounting Standard – SLFRS 9 Financial Instruments (SLFRS 9).</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> materiality of the reported impairment allowance which involved complex calculations; and the degree of assumptions, judgements and estimation uncertainty associated with the calculations. <p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the impairment allowance included the following;</p> <ul style="list-style-type: none"> the probable impacts of COVID-19 and related industry responses (e.g. government stimulus packages and debt moratorium relief measures granted by the Company); the determination on whether or not customer contracts have been substantially modified due to such COVID - 19 - related stimulus and relief measures granted and related effects on the amount of interest income recognised on affected loans and advances and forward-looking macroeconomic factors, including developing and incorporating macroeconomic scenarios, given the wide range of potential economic outcomes and probable impacts from COVID-19 that may impact future expected credit losses. 	<ul style="list-style-type: none"> I assessed the alignment of the Group’s expected credit loss model computations and underlying methodology with the requirements of SLFRS 9 with consideration of COVID 19 impacts and related industry responses based on the best available information up to the date of my report. My audit procedures included amongst others the following: I evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for impairment policies and procedures by the Board and management. I checked the completeness and accuracy of the underlying data used in the computations by agreeing significant details to source documents and accounting records of the Group. I checked the underlying calculations. In addition to the above, the following procedures were performed: <ul style="list-style-type: none"> ◆ For a sample of loans and advances assessed on an individual basis for impairment: <ul style="list-style-type: none"> Assessing the appropriateness of the criteria used by the management to determine whether there are any indicators of impairment; and Evaluating the associated reasonability of the provisions made with particular focus on the impact of COVID-19 on high risk industries, strategic responsive actions taken, collateral values, and the value and timing of recoveries. ◆ For loans and advances assessed on a collective basis for impairment: <ul style="list-style-type: none"> Assessing the reasonability of assumptions and estimates used by the Management including the reasonableness of forward-looking information and scenarios As relevant, the basis for and data used by Management to determine overlays in consideration of the probable effects of the COVID-19 pandemic. ◆ For loans and advances affected by government stimulus and debt moratorium relief measures granted <ul style="list-style-type: none"> Assessing the reasonableness of judgements, calculations and data used to determine whether customer contracts have been substantially modified or not and to determine the resulting accounting implications; and Evaluating the reasonability of the interest income Recognised on such affected loans and advances. I assessed the adequacy of the related financial statement disclosures as set out in Note no. 3.5.12, 12, 23 and 50.2.

REPORT OF THE AUDITOR GENERAL



Key audit matter	How my audit addressed the key audit matter
<p>IT systems and controls relevant to financial reporting</p> <p>The Company uses multiple IT systems in its operations. As such the Company’s financial reporting process is heavily dependent on information derived from its IT systems. Key financial statement disclosures involved use of reports generated from multiple systems, collation of information and spreadsheet - based calculations.</p> <p>In addition, during the year, new procedures were also introduced to address the changes in working environment resulting from Covid 19 Accordingly, I considered this as a Key audit matter.</p>	<p>My audit procedures included the following,</p> <ul style="list-style-type: none"> • Understanding the changes made to security monitoring procedures over IT systems relevant to financial reporting, given the increase in remote access. • Understanding and evaluating the design and operating effectiveness of key automated, IT dependent and manual controls implemented by management over generation of multiple system reports and collation of required information in calculating the significant information for financial statements disclosures. • Checking the source data of the reports used to generate significant disclosures for accuracy and completeness. • Checking the underlying calculations and the reasonableness of classifications made by management. • Assessing the reasonability of Management’s general ledger reconciliation procedures which includes cross checking to system reports and source data where relevant.

1.4 Other information included in the Company’s 2020 Annual Report

The other information comprises the information included in the Company’s 2020 Annual Report, but does not include the financial statements and my auditor’s report thereon, which is expected to be made available to me after the date of this auditor’s report. Management is responsible for the other information.

My opinion on the financial statements does not cover the other information and I do 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 identified above when it becomes available 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.

When I read the Company’s 2020 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those

will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements

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 determine 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 intends 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 Group 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 Group.

1.6 Auditor’s Responsibilities for the Audit of the Financial Statements

My objective is 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 Group’s internal control.
- 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.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

2.1.1 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 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.

2.1.2 The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.

2.1.3 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) (iii) of the National Audit Act, No. 19 of 2018.

2.1.4 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 6 (1) (d) (iv) of the National Audit Act, No. 19 of 2018.

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

2.2.1 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 course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Company has not complied 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 no. 51.1 of the financial statements.

2.2.3 to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

2.2.4 to state that the resources of the Company had not been procured and Utilised economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of 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	Company			Group		
		2020 Rs.'000	2019 Rs.'000	Change %	2020 Rs.'000	2019 Rs.'000	Change %
Income	4	5,188,013	6,839,015	(24.1)	5,472,169	7,023,770	(22.1)
Interest and similar income		4,950,638	6,532,729	(24.2)	5,056,499	6,650,029	(24.0)
Interest and similar expenses		(3,532,790)	(4,331,275)	18.4	(3,532,144)	(4,332,252)	18.5
Net interest income	5	1,417,848	2,201,454	(35.6)	1,524,355	2,317,777	(34.2)
Fee and commission income		116,893	208,928	(44.1)	109,569	204,588	(46.4)
Fee and commission expenses		(22,071)	(25,847)	14.6	(6,102)	(20,687)	70.5
Net fee and commission income	6	94,822	183,081	(48.2)	103,467	183,901	(43.7)
Insurance premium income	7	-	-	-	178,408	50,883	250.6
Net claims and benefits	8	-	-	-	(101,585)	(29,434)	(245.1)
Net trading income	9	10,312	9,652	6.8	10,312	9,652	6.8
Net gain/(loss) on financial instruments at fair value through profit or loss	10	63,629	18,768	239.0	64,105	21,017	205.0
Other operating income	11	46,541	68,938	(32.5)	53,276	87,601	(39.2)
Total operating income		1,633,152	2,481,893	(34.2)	1,832,338	2,641,397	(30.6)
Impairment charges for loans and other losses	12	(563,431)	(279,673)	(101.46)	(563,431)	(279,673)	(101.5)
Net operating income		1,069,721	2,202,220	(51.43)	1,268,907	2,361,724	(46.3)
Personnel expenses	13	(1,091,985)	(1,143,504)	4.5	(1,236,582)	(1,235,808)	(0.1)
Depreciation and amortisation	14	(291,273)	(278,100)	(4.7)	(305,392)	(294,362)	(3.7)
Other operating expenses	15	(571,882)	(700,713)	18.4	(674,777)	(807,499)	16.4
Total operating expenses		(1,955,140)	(2,122,317)	7.9	(2,216,751)	(2,337,669)	5.2
Operating profit/(loss) before VAT on financial services and impairment of investment in group companies		(885,419)	79,903	(1,208.1)	(947,844)	24,055	(4,040.3)
Impairment reversal/(charge) of investment in subsidiary	28.6	(462,544)	270,692	(270.9)	-	-	-
Impairment reversal/(charge) of investment in associate	27	5,058	(5,058)	200.0	-	-	-
Profit/(loss) from operations after impairment of investment in group companies		(1,342,905)	345,537	(488.6)	(947,844)	24,055	(4,040.3)
Taxes on financial services	16.1	-	(288,343)	100.0	-	(288,343)	100.0
Share of associate company's profit/(loss) before tax	27.1	-	-	-	20,212	(8,263)	344.6
Profit/(loss) before income tax		(1,342,905)	57,194	(2,448.0)	(927,632)	(272,551)	(240.4)
Income tax (expense)/reversal	16.2	234,600	45,390	417	18,550	(196,019)	109.5
Profit/(loss) for the year		(1,108,305)	102,584	(1,180.4)	(909,082)	(468,570)	(94.0)
Profit/(loss) for the year attributable to:							
Equity holders of the parent		(1,108,305)	102,584	(1,180.4)	(780,666)	(346,162)	(125.5)
Non-controlling interests		-	-	-	(128,416)	(122,408)	(4.9)
Profit/(loss) for the year		(1,108,305)	102,584	(1,180.4)	(909,082)	(468,570)	(94.0)
Earnings per share:							
Basic/diluted earning per share (Rs.)	17	(6.68)	0.62	(1,180.4)	(4.71)	(2.09)	(125.5)

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 84 to 198 form an integral part of the Financial Statements.

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Company			Group		
		2020 Rs.'000	2019 Rs.'000	Change %	2020 Rs.'000	2019 Rs.'000	Change %
Profit/(loss) for the year		(1,108,305)	102,584	(1,180.4)	(909,082)	(468,570)	(94.0)
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		6,737	3,299	104.2	16,994	15,663	8.5
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		6,737	3,299	104.2	16,994	15,663	8.5
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	(53,290)	(30,822)	(72.9)	(52,356)	(33,406)	(56.7)
Share of associates company's other comprehensive income	27.1	-	-	-	(679)	(65)	(949.8)
Deferred tax effect relating to components of other comprehensive income	16.2	14,921	8,630	72.9	14,921	8,630	72.9
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		(38,369)	(22,192)	(72.9)	(38,114)	(24,841)	(53.4)
Other comprehensive income/(expenses) for the year, net of tax		(31,632)	(18,893)	(67.4)	(21,120)	(9,178)	(130.1)
Total comprehensive income/(expenses) for the year, net of tax		(1,139,937)	83,691	(1,462.1)	(930,202)	(477,748)	(94.7)
Total comprehensive income/(expenses) attributable to:							
Equity holders of the parent		(1,139,937)	83,691	(1,462.1)	(806,955)	(359,858)	(124.2)
Non controlling interests		-	-		(123,247)	(117,890)	(4.5)
Total comprehensive income/(expenses) for the year, net of tax		(1,139,937)	83,691	(1,462.1)	(930,202)	(477,748)	(94.7)

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 84 to 198 form an integral part of the Financial Statements.

STATEMENT OF FINANCIAL POSITION

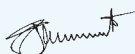
As at 31 December	Note	Company			Group		
		2020 Rs.'000	2019 Rs.'000	Change %	2020 Rs.'000	2019 Rs.'000	Change %
Assets							
Cash and cash equivalents	20	742,106	1,355,785	(45.3)	2,263,447	2,178,946	3.9
Placements with banks & financial institutions	21	299,746	1,477,103	(79.7)	778,598	2,126,932	(63.4)
Financial investments at fair value through profit or loss	22	950,012	945,199	0.5	960,328	955,040	0.6
Loans & receivables at amortised cost	23	26,785,517	29,261,351	(8.5)	26,548,397	29,006,921	(8.5)
Financial investments at fair value through other comprehensive income	24	1,292,616	1,216,478	6.3	1,465,111	1,954,350	(25.0)
Financial investments at amortised cost	25	1,519	1,513	0.4	1,519	1,513	0.4
Real estate stock	26	328,824	297,075	10.7	328,824	297,075	10.7
Investment in associate company	27	81,084	76,026	6.7	95,106	76,026	25.1
Investment in subsidiary	28	387,424	849,968	(54.4)	-	-	-
Investment properties	29	114,370	117,276	(2.5)	114,370	117,276	(2.5)
Property, equipment and right-of-use assets	30	758,690	895,799	(15.3)	796,287	928,706	(14.3)
Intangible assets	31	146,493	180,255	(18.7)	148,909	187,460	(20.6)
Deferred tax Assets	38	52,760	-	-	102,065	264,901	(61.5)
Other assets	32	418,048	301,288	38.8	704,678	518,612	35.9
Total assets		32,359,209	36,975,116	(12.5)	34,307,639	38,613,758	(11.2)
Liabilities							
Due to banks	33	5,436,682	7,749,021	(29.8)	5,442,511	7,749,807	(29.8)
Due to customers at amortised cost	34	21,725,261	22,755,930	(4.5)	21,665,256	22,755,930	(4.8)
Debt issued and borrowed funds at amortised cost	35	2,568,829	2,466,268	4.2	2,568,829	2,466,268	4.2
Insurance contract liabilities-life	36.1	-	-	-	498,767	546,253	(8.7)
Insurance contract liabilities-non life	36.2	-	-	-	488,784	383,164	27.6
Current tax liabilities	37	14,831	14,851	(0.1)	14,831	14,851	(0.1)
Deferred tax liabilities	38	-	212,520	(100.0)	-	212,520	(100.0)
Other liabilities	39	793,849	897,039	(11.5)	1,141,429	1,147,789	(0.6)
Retirement benefits obligations	40	351,906	271,699	29.5	363,816	283,558	28.3
Total liabilities		30,891,358	34,367,328	(10.1)	32,184,223	35,560,140	(9.5)

As at 31 December	Note	Company			Group		
		2020 Rs.'000	2019 Rs.'000	Change %	2020 Rs.'000	2019 Rs.'000	Change %
Equity							
Stated capital	41	2,124,457	2,124,457	-	2,124,457	2,124,457	-
Statutory reserves	42.1	234,613	234,613	0.0	234,613	234,613	0.0
Retained earnings	42.2	(893,794)	252,880	(453.4)	(714,093)	105,118	(779.3)
OCI reserve	42.3	2,575	(4,162)	161.9	3,157	(9,099)	134.7
Total equity attributable to equity holders of the parent		1,467,851	2,607,788	(43.7)	1,648,134	2,455,089	(32.9)
Non controlling interests		-	-	-	475,282	598,529	(20.6)
Total equity		1,467,851	2,607,788	(43.7)	2,123,416	3,053,618	(30.5)
Total liabilities and equity							
		32,359,209	36,975,116	(12.5)	34,307,639	38,613,758	(11.2)
Commitments and contingent liabilities	49	107,800	121,337	(11.2)	177,514	190,086	(6.6)
Net assets value per share (Rs.)		8.85	15.72	(43.7)	9.94	14.80	(32.9)

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

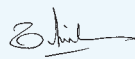


G. M. J. A. R. Gamalath
Acting Chief Executive Officer

The board of directors is responsible for these Financial Statements. Approved and signed for and on behalf of the board by;



Director



Director

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 84 to 198 form an integral part of the Financial Statements.

30 March 2021
Colombo

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 2019	2,124,457	214,096	(7,461)	193,005	2,524,097
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)	252,880	2,607,788
Balance as at 01 January 2020	2,124,457	234,613	(4,162)	252,880	2,607,788
Net loss for the year	-	-	-	(1,108,305)	(1,108,305)
Other comprehensive income, net of tax	-	-	6,737	(38,369)	(31,632)
Balance as at 31 December 2020	2,124,457	234,613	2,575	(893,794)	1,467,851

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 2019	2,124,457	214,096	(19,051)	457,799	64,007	2,841,308
Acquisition, disposal and changes in non-controlling interest	-	-	-	37,645	652,412	690,057
Net loss 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)	105,118	598,529	3,053,618
Balance as at 01 January 2020	2,124,457	234,613	(9,099)	105,118	598,529	3,053,618
Acquisition, disposal and changes in non-controlling interest	-	-	-	-	-	-
Net loss for the year	-	-	-	(780,666)	(128,416)	(909,082)
Other comprehensive income, net of tax	-	-	12,256	(38,545)	5,169	(21,120)
Balance as at 31 December 2020	2,124,457	234,613	3,157	(714,093)	475,282	2,123,416

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 84 to 198 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 no. 20.

For the year ended 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Cash flows from operating activities					
Profit/(loss) before income tax		(1,342,905)	57,194	(927,632)	(272,551)
Adjustments for :					
Change in operating assets	43.1	1,858,059	432,151	1,792,456	407,185
Change in operating liabilities	43.2	(1,213,717)	2,175,382	(1,085,068)	2,238,421
Share of associate company's profit/(loss) before tax	27.1	-	-	(20,212)	8,263
Contribution to defined benefit plans	40.1	56,674	51,652	59,739	54,220
Other non-cash items included in profit before tax	43.3	1,051,366	173,347	602,444	447,360
Dividends received	11	(7,340)	(9,043)	(8,765)	(10,726)
		402,137	2,880,683	412,962	2,872,172
Gratuity paid	40	(29,758)	(58,483)	(31,837)	(60,712)
Net cash generated from/(used in) operating activities before income tax		372,379	2,822,200	381,125	2,811,460
Tax paid	37	-	-	-	-
Net cash generated from/(used in) operating activities		372,379	2,822,200	381,125	2,811,460
Cash flows from investing activities					
Purchase of financial assets designated at FVTPL		(172,760)	(1,216,805)	(172,760)	(1,216,803)
Proceeds from disposal of financial assets designated at FVTPL		241,888	567,132	241,888	567,132
Purchase of financial investments		(1,625,313)	(1,722,496)	(1,625,313)	(1,778,682)
Proceeds from sale and maturity of financial investments		1,653,433	1,761,567	2,229,068	1,761,567
Net increase/(decrease) in other investment		1,177,357	(806,528)	1,288,329	(1,352,357)
Purchase of property & equipment	30	(57,171)	(139,668)	(60,952)	(152,719)
Purchase of intangible assets	31	(1,321)	(24,011)	(1,321)	(24,010)
Investment in Subsidiary from parent and other parties		-	(500,000)	-	700,000
Proceeds from sale of property & equipment		267	3,164	406	7,400
Dividend received		7,340	9,043	8,765	10,726
Net cash used in investing activities		1,223,720	(2,068,602)	1,908,111	(1,477,746)
Cash flows from financing activities					
Net increase/(decrease) reverse repo and repo agreements		(269,243)	767,301	(269,243)	767,301
Net increase/(decrease) in other borrowings at amortised cost		(1,956,952)	545,746	(1,956,952)	545,746
Payments on redemption of debentures	35.3	-	(2,122,912)	-	(2,122,912)
Net cash used in financing activities		(2,226,195)	(809,865)	(2,226,195)	(809,865)
Net decrease in cash and cash equivalents during the year		(630,096)	(56,267)	63,041	523,849
Cash and cash equivalents at the beginning of year		1,022,800	1,079,067	1,845,175	1,321,326
Cash and cash equivalents at the end of year		392,704	1,022,800	1,908,216	1,845,175
Analysis of cash and cash equivalents at the end of the year					
Cash and short-term funds	20	742,106	1,355,785	2,263,447	2,178,946
Dues to banks	33.1	(349,402)	(332,985)	(355,231)	(333,771)
		392,704	1,022,800	1,908,216	1,845,175

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 84 to 198 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 authorisation.

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 2020 were 976 and 1,160 respectively. (1,000 and 1,166 as at 31 December 2019)

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31 December 2020, 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

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 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 2020 (including comparatives) were approved and authorised for issue on 30 March 2021 in accordance with the resolution of the Board of Directors on 30 March 2021.

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 2020 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
- The Statement of Financial Position providing the information on the financial position of the Company and the Group as at year end

- The Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group
- 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; and
- Notes to the Financial Statements comprising accounting policies and other explanatory information

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.

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	116
Loans & receivables at amortised cost /Financial Investments-at amortised cost	amortised cost	23, 25	129, 140
Financial investments at fair value through other comprehensive income (Financial Investments-OCI)	Fair value	24	137
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	163
Financial Liabilities at amortised cost	Amortised cost	34, 35	155, 157
Freehold land and buildings and buildings on leasehold lands are measured at	Cost less any subsequent accumulated depreciation and impairment losses.	30	149

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 estimates are recognised prospectively.

NOTES TO THE FINANCIAL STATEMENTS

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

COVID-19 impact on the use of estimates and assumptions

On 11 March 2020, the World Health Organisation declared COVID-19 is a global pandemic. While COVID-19 is a health crisis, it has caused socioeconomic disruption on a global scale. The Company has considered the impact of COVID-19 when preparing the Financial Statements and related note disclosures. While the effects of COVID-19 do not change the significant estimates, judgments and assumptions in the preparation of financial statements, it has resulted in increased estimation uncertainty and application of further judgment within those identified areas.

COVID-19 financial reporting considerations in the preparation of the Financial Statements

Given the increased economic uncertainties from COVID-19, the Company has enhanced its financial reporting procedures and governance practices surrounding the preparation of the Financial Statements. In addition to standard financial year end reporting practices, the Company has:

- Developed a detailed program of work to understand and analyse how COVID-19 may impact key disclosures in the Financial Statements;
- Critically assessed estimates, judgments and assumptions used in the preparation of the Financial Statements, including updating the Company's outlook on economic conditions arising from COVID-19;

- Reviewed external publications and market communications to identify other potential COVID-19 impacts in the preparation of the Financial Statements;
- Considered emerging market practice and trends along with regulatory pronouncements to assess the completeness of assessed COVID-19 impacts in the preparation of the Financial Statements;
- Determined the impact of COVID-19 has had on the reported amounts and disclosures in the Financial Statements and updated these disclosures accordingly.

The most significant areas of estimation, uncertainty and critical judgements in applying accounting policies that have most significant effect on the amounts recognised in the Financial Statements of the Company are as follows.

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.

The outbreak of COVID-19 has caused disruption to business and economic activities, and uncertainty to the global and local economy. Therefore, in the assessment of the existence of a material uncertainty, the management took into consideration the existing and anticipated effects of the Pandemic on the Group's activities based on all available information about the future that was obtained after the reporting date, up until the date on which the Financial Statements are issued.

Subsequent to the outbreak of COVID-19 in Sri Lanka, the Group has strictly adhered to the guidelines and directions issued by both the Government and CBSL when conducting its business operations. Further, the Bank has provided reliefs for the affected businesses and individuals in line with the directions

issued by the CBSL. These relief measures include deferment of repayment terms of credit facilities, offering concessionary rates of interest to eligible loan products (debt moratorium) and waiving off certain fees and charges.

The Management has considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Group, in making this assessment. However, considering a wide range of factors including history of profitable operations, strong liquidity position and stable external funding sources, diversified lending profile and the initiatives taken by the Company for strengthening risk monitoring at borrower level, the Management satisfied itself that the going concern basis is appropriate.

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 authorised 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.

3. SIGNIFICANT ACCOUNTING POLICIES

3.1 Basis of Consolidation

The Consolidated Financial Statements for the year ended 31 December 2020 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 its 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 these 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 Effective Interest Method (EIR)

The effective interest method (EIR) is a method of calculating the amortised cost of a financial

NOTES TO THE FINANCIAL STATEMENTS

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.

3.5.3 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

3.5.4 Loans & Receivables at Amortised Cost

Details of "Loans & receivables at amortised cost" are given in Note no. 23

3.5.5 Financial Investments at Amortised Cost

Details of "Financial investments at amortised cost" are given in Note no. 25

3.5.6 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

3.5.7 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.

3.5.7.1 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.

3.5.7.2 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.

3.5.8 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.

3.5.9 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 realised in away that is different from the Company's and the Group's original expectation, the Company and the Group do 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.

Covid-19 pandemic has resulted in significant volatility in the financial markets. However, the Group did not require to reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

3.5.10 Contractual Cash Flow Characteristic Test

As the second test of the classification process the Company and the Group assess 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.

3.5.11 Impairment of Financial Assets

3.5.11.1 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.

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.

3.5.11.2 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.

3.5.11.3 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.

3.5.11.4 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

3.5.11.5 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.

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.

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- **EAD** : Exposure at Default is the estimate of the exposure at a future default date, taking in to account expected changes 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.

3.5.11.6 Forward Looking Information

In its 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	

3.5.11.7 Relief Measures to assist COVID-19 affected businesses and individuals by the Central Bank of Sri Lanka (CBSL)

The COVID-19 pandemic has significantly impacted the local economy since the government imposed travel bans and lockdowns on several parts of the country. Numerous residences in numerous areas are currently being subjected to quarantine measure by the government. Numerous business have a significant decline in revenue and a disruption in the supply chain which

resulted in labor layoffs and other adverse. The Central Bank of Sri Lanka has provided financial assistance to the disrupted industries & sectors and the affected businesses / individuals in the form of a debt moratorium through licensed banks/financial institutions in the country.

(a) COVID-19 Moratorium (First Wave): Circular No. 4 of 2020

The Central Bank of Sri Lanka issued Circular No. 4 of 2020 on 24 March 2020 instructing financial institutions to offer a debt moratorium to COVID - 19 affected segments of the economy. According to the above circular, financial institutions were required to offer moratoriums of 2 to 6 months for eligible borrowers under different qualifying criteria.

Instalment (both capital and interest) fallen due during the moratorium period have been converted to a new loan account which can be repaid by the borrowers after the moratorium period. Repayment period of the new loan varies based on the repayment capacity of each borrower and the terms and conditions of the loan agreement with the Company. When initially recognised, the new loans were recorded at their nominal value as the Company considers that it is representative of the fair value.

As per the Circular No. 4 of 2020 and the subsequent communication issued by the CBSL in this regard, finance companies were required to charge interest at a reduced rate of 11.5% per annum during the moratorium period.

Modification to the original terms and conditions of the loan due to COVID-19 moratorium did not resulted in a derecognition of the original loans as the Company concluded that the modification was not substantial. Consequently a 'Day 1 Loss' has been recognised and the original EIR has been applied to the present value of the facility. We have arrived Day 1 loss with considering the expected cash flow together with the moratorium interest and discounting to the original rate to the remaining period.

(b) COVID-19 Moratorium (Second Wave): CBSL Circular No. 9 of 2020 / No. 11 of 2020

Second wave of the COVID-19 outbreak in the country resulted in reimposing the

travel restrictions, leading to disruption of economic activities. Giving due consideration to the requests received from affected individuals and businesses, CBSL advised licensed finance companies, to extend the debt moratorium for a further period of six months commencing from 1 October 2020 to 31 March 2021. Finance Companies shall convert the capital and interest falling due during the moratorium period commencing from 1 October 2020 to 31 March 2021 into a term loan of which repayment shall commence from July 2021. Further, the finance companies are eligible to charge an interest rate for the converted loan, not exceeding the latest auction rate for 364-days Treasury Bills, available as at 1 April 2021, plus 5.5 percent per annum not exceeding 11.5 percent per annum. Repayment period of the new loan shall be two years in general; however, this may vary based on the terms and conditions agreed with the borrower. The finance companies were also allowed to recover interest at the original EIR during the moratorium period and therefore did not recognise any modification loss on account of the second phase of the COVID-19 moratorium.

The granting of the moratorium is directly related to the cash flow difficulties generated by the occurrence of the COVID-19 pandemic. However, it did not lead to an automatic transfer of these credit facilities into stage 2 or stage 3. Further, the real impact of the pandemic on ECL allowance is expected to be realised upon the cessation of the moratorium.

3.5.11.8 Impact of COVID-19 on the provision for impairment on loans and receivables

The Company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Utilisation of a payment deferral program does not, all else being equal, automatically trigger a Significant increase in Credit Risk (SICR). As such, key issue will be to distinguish between cases where the payment holidays provide relief from short-term liquidity constraints impacting the borrower that do not amount to a SICR. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgements in the assessment of the impact of the COVID-19 outbreak on the

loans and advances portfolio of the Group, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures including concessionary financing and payment moratorium. The impact of the outbreak has been assessed and adjusted in these Financial Statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka.

In response to COVID-19 and the Company's expectations of economic impacts, key assumptions used in the Company's calculation of ECL have been revised. As at the reporting date, the expected impacts of COVID-19 have been captured via the modelled outcome as well as a separate management overlay reflecting the considerable uncertainty remaining in the modelled outcome given the unprecedented impacts of COVID-19. Although the credit model inputs and assumptions, including forward-looking macroeconomic assumptions, were revised in response to the COVID-19 pandemic, the fundamental credit model mechanics and methodology underpinning the Group's calculation of ECL have remained consistent with prior periods.

With the objective of capturing the impact of COVID-19 and uncertainties and volatilities in future outlook on the ECL computation as at the reporting date, expert credit judgment, the Company stressed the ECL parameters such as PDs and LGDs to reflect the real economic scenario that is not reflected due to the deferrals and concessions granted due to COVID-19. Early observations of payment behaviour of expiries for this year were considered in the assessment of the changes in the risk of default occurring over the expected life of a financial instrument when determining staging and is a key input in determining migration.

The Company has provided reliefs such as deferment of repayment terms of credit facilities, for the affected businesses and individuals due to COVID-19 in line with the directions issued by the CBSL. Utilisation of a payment deferral program does not, all else being equal, automatically trigger a Significant increase in Credit Risk (SICR). As such, key issue will be to distinguish between cases where the payment holidays provide relief

from short-term liquidity constraints impacting the borrower that do not amount to a SICR. Given the high degree of uncertainty and unprecedented circumstances in the short-term economic outlook, the Management exercised judgements in the assessment of the impact of the COVID-19 outbreak on the loans and advances portfolio of the Group, relying more on the long-term outlook as evidenced by past experience and taking into consideration various relief measures including concessionary financing and payment moratorium. The impact of the outbreak has been assessed and adjusted in these Financial Statements based on the available information and assumptions made as at reporting date in line with the guidelines issued by the CBSL and the CA Sri Lanka.

3.5.11.9 Write-off of Financial Assets at Amortised Cost

Financial Assets (and the related impairment allowance accounts) are normally written off, either partially or in full, when there is no realistic prospect of recovery. If the amount to be written off is greater than the accumulated impairment, the difference is first treated as an addition to the impairment that is then applied against the gross carrying amount. Any subsequent recoveries are credited to the Income Statement. Where financial assets are secured, this is generally after receipt of any proceeds from the realisation of security.

3.5.12 De-recognition of Financial Assets and Financial Liabilities

3.5.12.1 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 have 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 have 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 have 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 have 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.

3.5.12.2 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.

3.5.12.3 Derecognition of Financial Assets and Liabilities

Modifications to the original terms and conditions of the loans due to Covid-19 moratorium, did not result in a derecognition of the original loans as the Group concluded that the modifications were not substantial. Accordingly, a modification loss has been recognised as the "Day 1 loss" as of the

NOTES TO THE FINANCIAL STATEMENTS

beginning of the moratorium period during the year ended 31 December 2020 under interest income in Note no. 5, representing the difference between the original carrying value of the loan (before modification) and the discounted present value of the revised cash flows (at the Original EIR) at the date of the loan modification

3.5.13 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 realise 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.

3.5.14 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 Revenue from Contracts with Customers

The core principle of SLFRS 15 is that an entity has to recognise 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
- recognise 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 amortisation 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 amortisation 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.

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 equalisation 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 unitised 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-unitised contracts are subsequently also carried at fair value, which is determined by using valuation techniques such as discounted cash flows and stochastic modeling. Models

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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

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

Leases where the Company does not transfer substantially all of the risk and benefits of ownership of the asset are classified as finance 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

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 no. 30 - property, equipment and right-of-use assets and are subject to impairment in line with the Company's policy as described in Note no. 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-use assets/ lease liability to key assumptions

Sensitivity discount rates

1% increase/(decrease) in discount rate as at 31 December 2020 would have increased/(decreased) the lease liability by approximately Rs. 14 Mn with a similar increased/(decreased) in the right-of-use asset (2019 it was Rs. 14 Mn). Had the Company increased/(decreased) the discount rate by 1%, The Company's profit before tax for the year would have increased/(decreased) by approximately Rs.1 Mn (2019 it Was Rs. 1 Mn).

The following are the amounts recognised in profit or loss

	2020 Rs.'000	2019 Rs.'000
Depreciation expense of Right of use Assets	153,264	149,439
Interest expense on Lease liabilities	64,081	71,658
	217,345	221,097

The Company had total cash outflows for leases of Rs. 173 Mn (2019: Rs. 171 Mn). The initial application of IFRS 16 resulted in non-cash additions to right-of-use assets and lease liabilities of Rs. 721 Mn at 31 December 2020

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Interest and similar income	4,950,638	6,532,729	5,056,499	6,650,029
Fee and commission income	116,893	208,928	109,569	204,588
Insurance premium income	-	-	178,408	50,883
Net trading gain/(loss)	10,312	9,652	10,312	9,652
Net gain/(loss) on financial instruments at fair value through profit or loss	63,629	18,768	64,105	21,017
Other operating income	46,541	68,938	53,276	87,601
	5,188,013	6,839,015	5,472,169	7,023,770

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.

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5. NET INTEREST INCOME (CONTD.)**Accounting Policy (Contd.)**

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 no. 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.

Overdue Interest

Interest from overdue rentals have been accounted for on a cash received basis.

For the year ended 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Interest and similar income					
Loans & receivables at amortised cost	5.1	4,631,125	6,067,449	4,581,842	6,015,167
Financial investments at FVTOCI & amortised cost		271,309	366,702	294,200	427,106
Placements with banks & financial institutions		48,204	98,578	180,457	207,756
		4,950,638	6,532,729	5,056,499	6,650,029
Interest and similar expenses					
Due to banks		571,702	747,614	571,692	800,168
Due to customers at amortised cost	5.2	2,513,606	2,883,965	2,509,937	2,883,965
Interest expense on lease liabilities	39.1	64,081	71,658	64,081	71,658
Debt issued and borrowed funds at amortised cost		383,401	628,038	386,434	576,461
		3,532,790	4,331,275	3,532,144	4,332,252
Net Interest Income		1,417,848	2,201,454	1,524,355	2,317,777

5.1 Interest and similar income - Loans & receivables product wise

For the year ended 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Finance lease/ijarah	2,242,025	3,243,890	2,242,025	3,243,888
Hire purchase/murabaha	4,489	8,646	4,489	8,646
Term loans	841,911	1,110,680	792,628	1,058,400
Short term loans	204,680	294,498	204,680	294,498
Personal loans	458,768	730,507	458,768	730,507
Pawning	749,239	484,405	749,239	484,405
Micro finance	18,642	81,926	18,642	81,926
Loans against fixed deposits	63,035	78,464	63,035	78,464
Margin trading	48,336	34,433	48,336	34,433
	4,631,125	6,067,449	4,581,842	6,015,167

5.2 Interest and similar expenses - Due to customers product wise

For the year ended 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Savings deposits	34,825	50,617	34,825	50,617
Term deposits	2,478,781	2,833,348	2,475,112	2,833,348
	2,513,606	2,883,965	2,509,937	2,883,965

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Fee and commission income				
Trade & other related activities	116,893	208,928	100,923	203,254
Reinsurance commission income	-	-	263	-
Others	-	-	8,383	1,334
	116,893	208,928	109,569	204,588
Fee and commission expenses				
Commission expenses	22,071	25,847	6,102	20,687
	22,071	25,847	6,102	20,687
Net Fee and Commission Income	94,822	183,081	103,467	183,901

NOTES TO THE FINANCIAL STATEMENTS

7. INSURANCE PREMIUM INCOME**Accounting Policy****Gross Premiums**

Gross recurring premiums on life and investment contracts with DPF are recognised as revenue when receivable from the policyholder. For single premium business, revenue is recognised 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 recognised 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 recognised 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 recognised on the date on which the policy incept. 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.

For the year ended 31 December	Group	
	2020 Rs.'000	2019 Rs.'000
Non-life insurance	290,688	118,412
Life insurance	40,996	54,756
Total gross written premium	331,684	173,168
Premium ceded to reinsurers	(85,436)	(53,249)
Net premium income	246,248	119,919
Change in unearned premium provisions-net	(67,840)	(69,036)
Total net earned premium	178,408	50,883

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 recognised 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.

For the year ended 31 December	Group	
	2020 Rs.'000	2019 Rs.'000
General Insurance		
Claims Paid	90,446	42,297
Claims Outstanding	37,780	(22,691)
	128,226	19,606
Reinsurance on claims paid	8,323	2,647
Reinsurance on claims outstanding	751	(14,480)
Reinsurance recoveries	9,074	(11,833)
General insurance net claim and benefits	119,152	31,439
Life Insurance		
Claims Paid	21,886	35,436
Change in life insurance contract liabilities	(15,975)	(7,394)
	5,911	28,042
Claims outstanding	2,571	(661)
Gross claims - death, disability and hospitalisation	8,482	27,381
Reinsurance on claims paid	3,140	2,311
Reinsurance on claims outstanding	(653)	946
Reinsurance recoveries	2,487	3,257
Shareholder's profit	36,696	32,115
Long term insurance net claim and benefits	(30,701)	(7,991)
Underwriting and net acquisition costs	13,134	5,986
Net Claims and Benefits	101,585	29,434

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Gain/(loss) on disposal of quoted shares	10,312	9,652	10,312	9,652
Net trading income	10,312	9,652	10,312	9,652

NOTES TO THE FINANCIAL STATEMENTS

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Government securities	22	57,014	14,864	57,014	14,865
Quoted securities		6,615	3,904	7,091	6,152
		63,629	18,768	64,105	21,017

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Profit on sale of real estate	18,664	21,061	18,664	21,061
Recovery of bad debts written off	11,371	24,296	11,371	24,296
Dividend income	7,340	9,043	8,765	10,726
Profit/(loss) on sale of property & equipment including foreclosed properties	173	655	173	873
Other income	8,993	13,883	14,303	30,645
	46,541	68,938	53,276	87,601

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 no. 3.5 to these Financial Statements.

For the year ended 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Loans and advances to customers					
Impairment on individually significant loans	23	322,200	320,975	322,200	320,975
Impairment on collective loans	23	241,348	(39,392)	241,348	(39,392)
Total impairment charges for loans and advances to customers		563,548	281,583	563,548	281,583
Cash and cash equivalents	20.1.1	(113)	1	(113)	1
Placements with banks & financial institutions	21.1	(4)	(1,911)	(4)	(1,911)
		563,431	279,673	563,431	279,673

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 2020	Company		Group	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
Loans & receivables at amortised cost				
Stage 1	-	(68,253)	-	(68,253)
Stage 2	-	1,908	-	1,908
Stage 3	322,200	307,693	322,200	307,693
Cash and cash equivalents				
Stage 1	-	(113)	-	(113)
Placements with banks & financial institutions				
Stage 1	-	(4)	-	(4)
Total impairment charges	322,200	241,231	322,200	241,231

For the year ended 31 December 2019	Company		Group	
	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)

NOTES TO THE FINANCIAL STATEMENTS

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 contributes 12% and 8% of gross emoluments of employees to Employees’ Provident Fund. The Group contributes 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 no. 40

For the year ended 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Staff emoluments		925,527	985,884	1,051,240	1,064,844
Employees' Provident Fund		87,970	84,782	100,625	93,403
Employees' Trust Fund		21,993	21,186	25,157	23,341
Retirement benefit expenses	40.1	56,495	51,652	59,560	54,220
		1,091,985	1,143,504	1,236,582	1,235,808

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 no. 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	5 years
Computers & accessories	20	5 years
Building	5	20 years
Other assets	10-50	2-10 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 no. 30 and 31

For the year ended 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Depreciation of investment property	29	2,906	2,906	2,906	2,906
Depreciation of property, equipment and right-of-use assets	30	253,284	239,617	262,616	250,525
Amortisation of intangible assets	31	35,083	35,577	39,870	40,931
		291,273	278,100	305,392	294,362

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

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Directors' emoluments	1,820	5,313	1,820	5,313
Audit fees	2,127	2,373	5,077	3,323
Non audit fees	575	575	802	575
Professional & legal fees	34,603	66,781	36,186	66,464
Donations	-	63	-	63
Insurance premium for deposits paid to the central bank	30,999	31,426	30,999	31,426
Crop insurance levy	436	2,416	436	2,416
Advertising and business promotional expenses	71,112	87,912	71,112	87,912
Office administration & establishment expenses	430,210	503,854	528,345	610,007
	571,882	700,713	674,777	807,499

NOTES TO THE FINANCIAL STATEMENTS

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% (2019 - 15%).

Nation Building Tax (NBT) on Financial Services

With effect from 1 January 2021 2014, NBT of 2% was introduced on supply of financial services via an amendment to the NBT Act No. 09 of 2009. Upto 30 November 2019, NBT was chargeable on the same base used for calculation of VAT on financial services as explained in Note no. 16.1 above. As per notice published by the Department of Inland Revenue dated 29 November 2019, NBT was abolished with effect from 1 December 2019.

Debt Repayment Levy (DRL)

As per the Finance Act No. 35 of 2018, with effect from 1 October 2018, DRL of 7% was introduced on the value addition attributable to the supply of financial services by each financial institution. DRL was chargeable on the same base used for calculation of VAT on financial services as explained in Note no. 16.1 above. As per notice published by the Department of Inland Revenue dated 20 January 2020, DRL was abolished with effect from 1 January 2020.

For the year ended 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Value Added Tax on financial services	-	167,586	-	167,586
Nation Building Tax on financial services	-	22,590	-	22,590
Debt Repayment Levy	-	98,167	-	98,167
	-	288,343	-	288,343

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 31 March 2018) thereto, and the Inland Revenue Act No. 24 of 2017, effective from 1 April 2018. This Note no. 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 no. 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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Statement of Profit or Loss					
Current Tax					
Current income tax	16.3	-	104,799	454	104,859
(Over)/under provision of taxes in respect of prior years	16.3	15,757	(30,896)	15,757	(30,896)
Deferred Tax					
Deferred tax charged/(reversed)	38.1	(250,357)	(119,293)	(34,761)	122,056
Tax charged/(reversed) to the Statement of Profit or Loss		(234,600)	(45,390)	(18,550)	196,019
Statement of Comprehensive Income					
Deferred Tax					
Deferred tax charged/(reversed)	38.1	(14,921)	(8,630)	(14,921)	(8,630)
Tax charged/(reversed) to the Statement of Comprehensive Income		(14,921)	(8,630)	(14,921)	(8,630)
Total income tax expense/(reversal) for the year		(249,521)	(54,020)	(33,471)	187,389
Effective tax rate (excluding deferred tax)		0.00%	183.24%	(0.05%)	(38.47%)
Effective tax rate		17.47%	(79.36%)	2.00%	(71.92%)

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Profit/(loss) as per the Statement of Profit or Loss	(1,342,905)	57,194	(927,632)	(272,551)
Add : Disallowable expenses	958,629	879,512	983,193	981,434
Add : Lease capital recoverable	4,272,286	5,880,076	4,272,286	5,880,076
Less : Allowable expenses	3,024,654	4,949,693	3,035,481	4,955,040
Less : Exempted/allowable income	1,543,274	1,492,809	1,614,199	1,332,941
Statutory income	(679,918)	374,280	(321,833)	300,978
Less : Tax loss set off	-	-	(119,610)	(112,387)
Assessable income	(679,918)	374,280	(202,223)	413,365
Taxable/(deductible) income	(679,918)	374,280	(202,223)	374,280
At the effective income tax rate	-	104,799	-	104,798
(Over)/under provision-previous years	15,757	(30,896)	15,757	(30,896)
Current tax on profits for the year	15,757	73,903	15,757	73,902
Deferred tax charge/(reversal) for the year	(250,357)	(119,293)	(34,761)	122,056
Share of associate company's current tax	-	-	454	61
Tax expense/(reversal) for the year	(234,600)	(45,390)	(18,550)	196,019

NOTES TO THE FINANCIAL STATEMENTS

16. TAXES (CONTD.)**16.3 Reconciliation of the Total Tax Charged (Contd.)**

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, 2020 as the legislature has not been substantively enacted as at the reporting date. The Company recorded a net deferred tax asset of Rs. 52.7 Mn as at 31 December 2020. 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. 242 Mn and a reversal of Rs. 12 Mn respectively.

16.4 Analysis of Tax Losses of the Subsidiary-MBSL

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 change 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 31 December 2020 is Rs.1,823 Mn (2019 is Rs.1,773 Mn).

16.4.1 The break up of Tax Losses is as follows;

For the year ended 31 December	Group	
	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January	1,772,501	1,811,587
Tax loss during the year	169,812	73,302
Tax loss Utilised during the year	(119,610)	(112,387)
Balances as at 31 December	1,822,704	1,772,501

16.5 Taxes paid to the government during the year

For the year ended 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Direct Taxes				
Value added tax on financial services	23,166	252,641	23,166	252,641
Nation building tax on financial services	-	32,359	-	32,359
Crop insurance levy	1,950	2,215	1,950	6,001
Economic service charge	15,778	58,079	15,778	58,163
Debt repayment levy	3,620	108,948	3,620	108,948
Total direct taxes	44,514	454,242	44,514	458,112
Indirect Taxes				
Value added tax	494	83,164	514	83,164
Nation building tax	-	222	-	2,248
Stamp duty	21,240	43,699	21,240	43,759
Withholding tax on interest	9,096	143,369	9,096	145,682
PAYE/APIIT tax	283	12,924	283	16,419
Total indirect taxes	31,113	283,378	31,133	291,272

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	
	2020	2019	2020	2019
Profit/(loss) attributable to ordinary shareholders (Rs.'000)	(1,108,305)	102,584	(780,666)	(346,162)
Number of ordinary shares used as denominator ('000)	165,875	165,875	165,875	165,875
Basic earnings per ordinary share (Rs.)	(6.68)	0.62	(4.71)	(2.09)

17.2 Dividend Per Share

No dividend has been declared and paid by the Company and the Group during the year 2020 and 2019.

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 - 2020

	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	-	-	742,106	742,106
Placements with banks & financial institutions	-	-	299,746	299,746
Financial investments at fair value through profit or loss	950,012	-	-	950,012
Loans & receivables at amortised cost	-	-	26,785,517	26,785,517
Financial investments at fair value through other comprehensive income	-	1,292,616	-	1,292,616
Financial investments at amortised cost	-	-	1,519	1,519
Other assets	-	-	58,446	58,446
Total financial assets	950,012	1,292,616	27,887,334	30,129,962

NOTES TO THE FINANCIAL STATEMENTS

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

18.1 Company - 2020 (Contd.)

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	5,436,682	5,436,682
Due to customers at amortised cost	21,725,261	21,725,261
Debt issued and borrowed funds at amortised cost	2,568,829	2,568,829
Other liabilities	219,204	219,204
Total financial liabilities	29,949,976	29,949,976

18.2 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	-	-	29,261,351	29,261,351
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	32,143,745	34,305,422

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
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

18.3 Group - 2020

	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	-	-	2,263,447	2,263,447
Placements with banks & financial institutions	-	-	778,598	778,598
Financial investments at fair value through profit or loss	960,328	-	-	960,328
Loans & receivables at amortised cost	-	-	26,548,397	26,548,397
Financial investments at fair value through other comprehensive income	-	1,465,111	-	1,465,111
Financial investments at amortised cost	-	-	1,519	1,519
Other assets	-	-	58,446	58,446
Total financial assets	960,328	1,465,111	29,650,407	32,075,846

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	5,442,511	5,442,511
Due to customers at amortised cost	21,665,256	21,665,256
Debt issued and borrowed funds at amortised cost	2,568,829	2,568,829
Other liabilities	219,204	219,204
Total financial liabilities	29,895,800	29,895,800

NOTES TO THE FINANCIAL STATEMENTS

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS (CONTD.)

18.4 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	-	-	29,006,921	29,006,921
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	33,362,305	36,271,695

	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

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.

Covid-19 pandemic has resulted in significant volatility in the financial markets. However, the Group did not require to reclassify any of its financial assets as a result of the significant volatility created by the pandemic.

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		2020				2019			
		Note	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
Financial assets									
Financial investments at FVTPL									
Government securities	22.1	745,679	-	-	745,679	691,539	-	-	691,539
Investment securities - Quoted	22.2, 22.5	202,583	-	-	202,583	252,095	-	-	252,095
Other debt securities - Quoted	22.3, 22.6	1,750	-	-	1,750	1,565	-	-	1,565
		950,012	-	-	950,012	945,199	-	-	945,199
Financial investments at FVTOCI									
Government securities	24.1	1,244,438	-	-	1,244,438	1,174,677	-	-	1,174,677
Equity securities - Quoted	24.3	25,500	-	-	25,500	19,125	-	-	19,125
Equity securities - Unquoted	24.4	-	-	22,678	22,678	-	-	22,676	22,676
		1,269,938	-	22,678	1,292,616	1,193,802	-	22,676	1,216,478
Total financial assets		2,219,950	-	22,678	2,242,628	2,139,001	-	22,676	2,161,677

NOTES TO THE FINANCIAL STATEMENTS

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)
19.1.2 Group

As at 31 December		2020				2019				
		Note	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	745,679	-	-	745,679	691,539	-	-	691,539	
Investment securities - Quoted	22.2, 22.5	212,899	-	-	212,899	261,936	-	-	261,936	
Other debt securities - Quoted	22.3, 22.6	1,750	-	-	1,750	1,565	-	-	1,565	
		960,328	-	-	960,328	955,040	-	-	955,040	
Financial investments at FVTOCI										
Government securities	24.1	1,364,098	-	-	1,364,098	1,864,256	-	-	1,864,256	
Equity securities - Quoted	24.3	25,500	-	-	25,500	19,125	-	-	19,125	
Equity securities - Unquoted	24.4	-	-	22,678	22,678	-	-	22,676	22,676	
Unit trust		-	52,835	-	52,835	-	48,293	-	48,293	
		1,389,598	52,835	22,678	1,465,111	1,883,381	48,293	22,676	1,954,350	
Total financial assets		2,349,926	52,835	22,678	2,425,439	2,838,421	48,293	22,676	2,909,390	

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 of the instrument differs from the fair value at origination and fair value is based on a valuation technique using only inputs observable in market transactions, the Group recognises the difference between the transaction price and fair value in net gains/(losses) from trading. In those cases, where the fair value is based on models for which some inputs are not observable, the difference between the transaction price and the fair value is deferred and is only recognised in profit or loss when the inputs become observable, or when the instrument is derecognised.

The “Day 1 loss” arising in the case of loans granted to employees at concessionary rates under uniformly applicable schemes is deferred and amortised using Effective Interest Rates (EIR) in “Interest income” and “Personnel expenses” over the remaining service period of the employees or tenure of the loan whichever is shorter.

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January	83,852	90,556	83,852	90,556
Reduction due to passage of time	(30,196)	(34,176)	(30,196)	(34,176)
Deferral of profit on new transactions	17,275	45,142	17,275	45,142
Derecognition of the instruments	(11,264)	(17,670)	(11,264)	(17,670)
Balance as at 31 December	59,667	83,852	59,667	83,852

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			
	2020		2019		2020		2019	
	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000
Financial assets								
Placements with banks & financial institutions	299,746	299,746	1,477,103	1,477,103	778,598	778,598	2,126,932	2,126,932
Loans & receivables at amortised cost	26,785,517	28,381,702	29,261,351	34,419,524	26,548,397	28,381,702	29,006,921	34,189,300
Financial investments at amortised cost	1,519	1,542	1,513	1,528	1,519	1,542	1,513	1,528
Other assets	58,446	58,446	47,993	47,993	58,446	58,446	47,993	47,993
Total	27,145,228	28,741,436	30,787,960	35,946,148	27,386,960	29,220,288	31,183,359	36,365,753
Financial liabilities								
Due to customers at amortised cost	21,725,261	20,665,659	22,755,930	22,476,286	21,665,256	20,665,659	22,755,930	22,476,286
Debt issued and borrowed funds at amortised cost	2,568,829	2,568,829	2,466,268	2,466,268	2,568,829	2,568,829	2,466,268	2,466,268
Other liabilities	219,204	219,204	240,908	240,908	219,204	219,204	240,908	240,908
Total	24,513,294	23,453,692	25,463,106	25,183,462	24,453,289	23,453,692	25,463,106	25,183,462

NOTES TO THE FINANCIAL STATEMENTS

19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

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.

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	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Cash in hand		152,170	157,017	152,477	157,256
Cash at bank		259,439	201,927	299,704	219,253
Repurchase agreements		330,497	996,841	1,811,266	1,802,437
		742,106	1,355,785	2,263,447	2,178,946

20.1 Analysis of Cash at Banks

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Cash at bank		259,334	201,936	299,598	219,268
Less: Allowance for impairment losses					
Collective impairment	20.1.1	(105)	9	(106)	15
		259,439	201,927	299,704	219,253

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 2019	(9)	-	-	(9)
Charge during the year	(1)	-	-	(1)
Balance as at 31 December 2019	(9)	-	-	(9)
Reversals during the year	114	-	-	114
Balance as at 31 December 2020	105	-	-	105
Group				
Collective				
Balance as at 01 January 2019	(14)	-	-	(14)
Charge during the year	(1)	-	-	(1)
Balance as at 31 December 2019	(15)	-	-	(15)
Reversals during the year	121	-	-	121
Balance as at 31 December 2020	106	-	-	106

20.1.2 Cash and cash equivalents allocated for the liquidity requirement

As at 31 December	Company	
	2020 Rs.'000	2019 Rs.'000
Cash in hand	146,028	145,630
Balances in current accounts free from lien	247,499	190,621
Government securities, maturing within one year, free from any lien or charge	272,315	885,562
	665,842	1,221,813

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Fixed deposits and other deposits		300,143	1,477,503	778,995	2,127,410
Less : Allowance for impairment losses					
Individual impairment		-	-	-	-
Collective impairment	21.1	397	400	397	478
		299,746	1,477,103	778,598	2,126,932

NOTES TO THE FINANCIAL STATEMENTS

21. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS (CONTD.)

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 2019	(2,311)	-	-	(2,311)
Charge during the year	1,911	-	-	1,911
Balance as at 31 December 2019	(400)	-	-	(400)
Charge during the year	3	-	-	3
Balance as at 31 December 2020	(397)	-	-	(397)

Group	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2019	(2,389)	-	-	(2,389)
Charge during the year	1,911	-	-	1,911
Balance as at 31 December 2019	(478)	-	-	(478)
Charge during the year	4	-	-	4
Balance as at 31 December 2020	(474)	-	-	(474)

21.2 Placements with banks allocated for the liquidity requirement

As at 31 December	Company	
	2020 Rs.'000	2019 Rs.'000
Deposits in Commercial Banks free from lien	176,455	1,083,278
	176,455	1,083,278

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Government securities	22.1	745,679	691,539	745,679	691,539
Investment securities - Quoted	22.2, 22.5	202,583	252,095	212,899	261,936
Other debt securities - Quoted	22.3, 22.6	1,750	1,565	1,750	1,565
		950,012	945,199	960,328	955,040

22.1 Government Securities

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Treasury bonds	745,679	691,539	745,679	691,539
	745,679	691,539	745,679	691,539

22.2 Quoted Equities and Unit Trusts

Company

As at 31 December	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Automobiles & Components						
Kelani Tyres PLC	-	-	-	115,000	9,023	5,704
		-	-		9,023	5,704
Banks						
Commercial Bank of Ceylon PLC	15,597	1,759	1,262	15,241	1,759	1,448
Commercial Bank of Ceylon PLC-Non Voting	55,597	5,410	3,897	54,194	5,410	4,498
DFCC Bank PLC	120,713	24,535	7,882	120,000	24,535	11,028
Hatton National Bank PLC-Non Voting	10,457	1,820	1,052	10,191	1,820	1,381
National Development Bank PLC	109,918	19,255	8,585	104,798	19,255	10,480
Nations Trust Bank PLC	209,949	19,546	12,597	209,949	19,546	16,796
Pan Asia Banking Corporation PLC	80,000	1,341	1,040	80,000	1,341	1,024
Sanasa Development Bank PLC	101,270	9,258	5,884	93,368	9,258	5,966
Seylan Bank PLC	207,144	16,528	9,529	192,917	16,028	10,128
Seylan Bank PLC-Non Voting	512,299	20,949	17,418	496,240	20,949	16,773
Union Bank of Colombo PLC	500,000	6,756	5,850	500,000	6,756	6,650
		127,157	74,996		126,657	86,172

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)**22.2 Quoted Equities and Unit Trusts (Contd.)****Company****As at 31 December**

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Capital Goods						
Access Engineering PLC	25,000	627	614	-	-	-
Aitken Spence PLC	110,000	11,111	6,358	110,000	11,111	5,115
Brown & Company PLC	30,000	2,231	3,156	112,500	8,341	8,201
Hemas Holdings PLC	-	-	-	30,000	2,537	2,400
John Keells Holdings PLC	10,000	1,605	1,496	-	-	-
Kelani Cabels PLC	15,000	1,776	1,748	-	-	-
Lanka Walltiles PLC	-	-	-	14,659	1,048	1,063
MTD Walkers PLC	165,000	6,751	2,442	165,000	6,751	2,442
Royal Ceramics Lanka PLC	25,000	3,022	4,428	87,000	10,557	7,700
Sierra Cables PLC	-	-	-	1,500,000	6,030	4,950
Softlogic Holdings PLC	525,000	7,751	6,510	350,000	5,763	5,565
The Colombo Fort Land & Building PLC	140,500	2,546	1,812	80,500	1,770	1,079
Unisyst Engineering PLC	117,500	2,796	1,986	60,000	1,660	828
		40,216	30,550		55,568	39,343
Consumer Durables & Apparel						
Abans Electricals PLC	-	-	-	5,000	501	479
Ambeon Capital PLC	-	-	-	250,000	1,283	1,250
Ambeon Holdings PLC	-	-	-	750,000	9,841	9,675
Hayleys Fibre PLC	-	-	-	1,931	183	178
		-	-		11,808	11,582
Consumer Services						
Aitken Spence Hotel Holdings PLC	63,219	5,779	2,042	63,219	5,779	1,713
Amaya Leisure PLC	16,433	898	690	16,433	898	603
Asian Hotels & Properties PLC	-	-	-	15,000	662	607
Dolphin Hotels PLC	15,000	443	396	-	-	-
Eden Hotel Lanka PLC	127,743	3,677	1,469	127,743	3,677	1,558
John Keells Hotels PLC	-	-	-	225,000	2,555	2,610
Palm Garden Hotels PLC	147,472	10,890	3,982	147,472	10,890	3,996
The Kingsbury PLC	1,937,727	41,834	23,059	1,937,727	41,834	25,384
Waskaduwa Beach Resort PLC	500,000	2,270	1,950	-	-	-
		65,791	33,588		66,295	36,471

Company

As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Diversified Financials						
Alliance Finance Company PLC	5,000	280	268	5,000	280	257
Asia Asset Finance PLC	349,999	3,803	3,185	113,928	1,623	1,003
Asia Capital PLC	50,443	393	338	-	-	-
Central Finance Company PLC	52,199	6,291	4,333	51,483	6,291	5,354
Ceylon Investment PLC	66,974	6,411	4,976	65,727	6,411	3,385
Citizens Development Business Finance PLC-Non Voting	9,543	824	620	9,543	824	644
Commercial Credit And Finance PLC	22,500	1,498	562	22,500	1,498	664
First Capital Holdings PLC	-	-	-	37,500	1,953	1,515
LOLC Finance PLC	285,000	1,083	1,026	225,101	849	878
LOLC Holdings PLC	7,500	1,044	1,012	-	-	-
Orient Finance PLC	275,000	3,467	3,245	175,000	2,466	2,082
Renuka Capital PLC	-	-	-	405,000	1,800	1,499
Sinhaputhra Finance PLC	242,000	1,692	1,162	150,000	1,076	1,005
Softlogic Finance PLC	67,215	3,532	786	67,215	3,532	1,122
The Finance Company PLC-Non Voting	200,000	973	-	200,000	973	-
		31,291	21,513		29,576	19,408
Diversified Holdings						
Richard Pieris & Company PLC	100,000	1,600	1,490	-	-	-
		1,600	1,490		-	-
Energy						
Laugfs Gas PLC	-	-	-	175,000	3,380	3,062
Laugfs Gas PLC-Non Voting	32,500	671	650	32,500	671	429
		671	650		4,051	3,491
Food & Staples Retailing						
Cargills (Ceylon) PLC	-	-	-	1,655	327	319
		-	-		327	319

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

22.2 Quoted Equities and Unit Trusts (Contd.)

Company

As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Food Beverage & Tobacco						
Bairaha Farms PLC	32,500	4,862	4,566	25,000	3,962	2,800
Browns Investments PLC	2,250,000	8,638	9,675	-	-	-
Ceylon Grain Elevators PLC	-	-	-	25,010	1,691	1,713
Distilleries Company Of Sri Lanka PLC	-	-	-	55,000	1,048	1,017
Elpitiya Plantations PLC	-	-	-	60,000	1,704	1,134
Hatton Plantation PLC	-	-	-	50,000	425	345
Keells Food Products PLC	39,058	6,240	5,468	39,058	6,240	4,785
Lankem Developments PLC	-	-	-	575,000	2,990	2,012
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,514,546	14,958	2,766
Malwatte Valley Plantations PLC	-	-	-	64,429	353	258
Malwatte Valley Plantations PLC-Non Voting	-	-	-	50,000	340	310
Melstacorp PLC	-	-	-	22,756	1,140	990
Renuka Agri Foods PLC	100,000	510	470	-	-	-
Renuka Foods PLC	-	-	-	50,000	635	615
Sunshine Holdings PLC	-	-	-	65,211	3,756	3,065
Watawala Plantations PLC	-	-	-	19,725	577	513
		35,208	22,945		39,819	22,323
Health Care Equipment & Services						
Asiri Surgical Hospital PLC	-	-	-	44,000	467	444
Ceylon Hospitals PLC (Durdans)	-	-	-	5,000	500	390
The Lanka Hospitals Corporation PLC	-	-	-	35,000	1,470	1,425
		-	-		2,437	2,259
Household & Personal Products						
B P P L Holding PLC	-	-	-	100,000	1,205	1,220
		-	-		1,205	1,220
Insurance						
Arpico Insurance PLC	-	-	-	10,000	200	192
Janashakthi Insurance Company PLC	82,500	2,683	2,475	135,000	4,467	4,387
Softlogic Capital PLC	325,000	1,664	1,268	225,000	1,240	1,239
		4,347	3,743		5,907	5,818

Company
As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Materials						
Alumex PLC	-	-	-	130,000	2,031	1,924
Chevron Lubricants Lanka PLC	72	7	8	37,500	3,831	2,809
CIC Holdings PLC-Non Voting	-	-	-	47,000	2,222	2,237
Dipped Products PLC	2,500	875	868	16,380	1,431	1,376
Industrial Asphalts (Ceylon) PLC	5,000,000	1,500	1,500	-	-	-
Pelwatte Sugar Industries PLC	41,600	1,799	-	41,600	1,799	-
		4,181	2,376		11,314	8,346
Power and Energy						
Vallibel Power Erathna PLC	-	-	-	250,000	1,913	1,575
		-	-		1,913	1,575
Real Estate						
Cargo Boat Development Company PLC	-	-	-	9,984	899	534
City Housing & Real Estate Company PLC	38,435	190	138	38,435	190	138
Commercial Development Company PLC	-	-	-	4,649	451	368
East West Properties PLC	-	-	-	304,020	5,446	2,554
Lee Hedges PLC	14,000	1,110	1,126	-	-	-
Millennium Housing Developers PLC	200,000	1,536	1,380	-	-	-
Property Development PLC	8,547	1,058	1,109	8,547	1,057	1,199
Seylan Developments PLC	100,000	1,424	1,440	160,750	2,194	1,849
		5,318	5,193		10,237	6,642
Retailing						
C.W.Mackie & Co. PLC	18,980	949	911	-	-	-
R I L Properties PLC	250,000	2,484	2,150	-	-	-
United Motors Lanka PLC	17,500	1,398	1,383	17,500	1,184	1,102
		4,831	4,444		1,184	1,102
Utilities						
Lotus Hydro Power PLC	75,000	819	795	-	-	-
Panasian Power PLC	-	-	-	100,000	350	320
Vidullanka PLC	50,000	299	300	-	-	-
		1,118	1,095		350	320
Total value of quoted equities and unit trusts		321,729	202,583		377,671	252,095

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

22.3 Other Debt Securities

Company

As at 31 December

	2020			2019		
	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						
Hatton National Bank PLC	17,500	1,600	1,750	17,500	1,600	1,565
Total value of listed debentures		1,600	1,750		1,600	1,565
Total value of financial assets at FVTPL		323,329	204,333		379,271	253,660
Marked to market valuation loss		(118,996)			(125,611)	
Fair value of financial assets designated at FVTPL		204,333			253,660	

22.4 GICS analysis of equity securities

As at 31 December	2020		2019	
	Total Cost Rs.'000	Fair Value Rs.'000	Total Cost Rs.'000	Fair Value Rs.'000
Automobiles & Components	-	-	9,023	5,704
Banks	128,757	76,746	128,257	87,736
Capital Goods	40,216	30,550	55,568	39,342
Consumer Durables & Apparel	-	-	11,808	11,581
Consumer Services	65,791	33,588	66,295	36,473
Diversified Financials	31,291	21,513	29,576	19,408
Diversified Holdings	1,600	1,490	-	-
Energy	671	650	4,051	3,492
Food & Staples Retailing	-	-	327	319
Food Beverage & Tobacco	35,207	22,945	39,819	22,323
Health Care Equipment & Services	-	-	2,437	2,259
Household & Personal Products	-	-	1,205	1,220
Insurance	4,347	3,743	5,907	5,817
Materials	4,181	2,376	11,314	8,346
Power and Energy	-	-	1,913	1,575
Real Estate	5,318	5,193	10,237	6,642
Retailing	4,832	4,444	1,184	1,103
Utilities	1,118	1,095	350	320
Total value of financial assets at FVTPL	323,329	204,333	379,271	253,660
Marked to market valuation loss	(118,996)		(125,611)	
Fair value of financial assets designated at FVTPL	204,333		253,660	

22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

22.5 Quoted Equities and Unit Trusts

Group

As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Automobiles & Components						
Kelani Tyres PLC	-	-	-	115,000	9,023	5,704
					9,023	5,704
Banks						
Commercial Bank Of Ceylon PLC	15,597	1,759	1,262	15,241	1,759	1,448
Commercial Bank Of Ceylon PLC-Non Voting	55,597	5,410	3,897	54,194	5,410	4,498
DFCC Bank PLC	120,713	24,535	7,882	120,000	24,535	11,028
Hatton National Bank PLC-Non Voting	10,457	1,820	1,052	10,191	1,820	1,381
National Development Bank PLC	109,918	19,255	8,585	104,798	19,255	10,480
Nations Trust Bank PLC	209,949	19,546	12,597	209,949	19,546	16,796
Pan Asia Banking Corporation PLC	80,000	1,341	1,040	80,000	1,341	1,024
Sanasa Development Bank PLC	101,270	9,258	5,884	93,368	9,258	5,966
Seylan Bank PLC	207,144	16,528	9,529	192,917	16,028	10,128
Seylan Bank PLC-Non Voting	512,299	20,949	17,418	496,240	20,949	16,773
Union Bank Of Colombo PLC	500,000	6,756	5,850	500,000	6,756	6,650
		127,157	74,996		126,657	86,172
Capital Goods						
Access Engineering PLC	25,000	628	614	-	-	-
Aitken Spence PLC	110,000	11,111	6,358	110,000	11,111	5,115
Brown & Company PLC	30,000	2,231	3,156	112,500	8,341	8,201
Hemas Holdings PLC	-	-	-	30,000	2,537	2,400
John Keells Holdings PLC	31,371	4,950	4,692	21,371	3,344	3,582
Kelani Cabels PLC	15,000	1,776	1,748	-	-	-
Lanka Walltiles PLC	-	-	-	14,659	1,048	1,063
MTD Walkers PLC	165,000	6,751	2,442	165,000	6,751	2,442
Royal Ceramics Lanka PLC	25,000	3,022	4,428	87,000	10,557	7,699
Sierra Cables PLC	-	-	-	1,500,000	6,030	4,950
Softlogic Holdings PLC	525,000	7,751	6,510	350,000	5,763	5,565
The Colombo Fort Land & Building PLC	140,500	2,546	1,812	80,500	1,770	1,079
Unisyst Engineering PLC	117,500	2,796	1,986	60,000	1,660	828
		43,562	33,746		58,912	42,924

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

22.5 Quoted Equities and Unit Trusts (Contd.)

Group

As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Consumer Durables & Apparel						
Abans Electricals PLC	-	-	-	5,000	501	478
Ambeon Capital PLC	-	-	-	250,000	1,283	1,250
Ambeon Holdings PLC	-	-	-	750,000	9,841	9,675
Hayleys Fibre PLC	-	-	-	1,931	183	178
					11,808	11,581
Consumer Services						
Aitken Spence Hotel Holdings PLC	63,219	5,779	2,042	63,219	5,779	1,713
Amaya Leisure PLC	16,433	898	690	16,433	898	603
Asian Hotels & Properties PLC	-	-	-	15,000	662	608
Dolphin Hotels PLC	15,000	442	396	-	-	-
Eden Hotel Lanka PLC	127,743	3,677	1,469	127,743	3,677	1,558
John Keells Hotels PLC	-	-	-	225,000	2,555	2,610
Palm Garden Hotels PLC	147,472	10,890	3,982	147,472	10,890	3,997
The Kingsbury PLC	1,937,727	41,834	23,059	1,937,727	41,834	25,384
Waskaduwa Beach Resort PLC	500,000	2,270	1,950	-	-	-
		65,790	33,588		66,295	36,473
Diversified Financials						
Alliance Finance Company PLC	5,000	280	268	5,000	280	257
Asia Asset Finance PLC	349,999	3,803	3,185	113,928	1,623	1,003
Asia Capital PLC	50,443	393	338	-	-	-
Central Finance Company PLC	52,199	6,291	4,333	51,483	6,291	5,353
Ceylon Investment PLC	66,974	6,411	4,976	65,727	6,411	3,385
Citizens Development Business Finance PLC-Non Voting	9,543	824	620	9,543	824	644
Commercial Credit And Finance PLC	22,500	1,498	562	22,500	1,498	664
First Capital Holdings PLC	-	-	-	37,500	1,953	1,515
Guardian Capital Partners PLC	18,472	1,007	646	18,472	1,006	554
LOLC Finance PLC	285,000	1,083	1,026	225,101	849	878
LOLC Holdings PLC	7,500	1,043	1,013	-	-	-
Orient Finance PLC	275,000	3,467	3,245	175,000	2,466	2,082
Renuka Capital PLC	13,500	172	95	418,500	1,971	1,548
Sinhaputhra Finance PLC	242,000	1,692	1,162	150,000	1,076	1,005
Softlogic Finance PLC	67,215	3,532	786	67,215	3,532	1,122
The Finance Company PLC-Non Voting	200,000	973	-	200,000	973	-
		32,469	22,255		30,753	20,010

**Group
As at 31 December**

	No of Shares	2020 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000
Diversified Holdings						
Richard Pieris & Company PLC	100,000	1,600	1,490	-	-	-
		1,600	1,490		-	-
Energy						
Laugfs Gas PLC	-	-	-	175,000	3,380	3,063
Laugfs Gas PLC-Non Voting	32,500	671	650	32,500	671	429
		671	650		4,051	3,492
Food & Staples Retailing						
Cargills (Ceylon) PLC	-	-	-	1,655	327	319
		-	-		327	319
Food Beverage & Tobacco						
Bairaha Farms PLC	32,500	4,862	4,566	25,000	3,962	2,800
Browns Investments PLC	2,250,000	8,638	9,675	-	-	-
Ceylon Grain Elevators PLC	-	-	-	25,010	1,691	1,713
Distilleries Company Of Sri Lanka PLC	-	-	-	55,000	1,048	1,017
Elpitiya Plantations PLC	-	-	-	60,000	1,704	1,134
Hatton Plantation PLC	-	-	-	50,000	425	345
Keells Food Products PLC	39,058	6,240	5,468	39,058	6,240	4,785
Lankem Developments PLC	-	-	-	575,000	2,990	2,012
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,514,546	14,958	2,766
Malwatte Valley Plantations PLC	-	-	-	64,429	353	258
Malwatte Valley Plantations PLC-Non Voting	-	-	-	50,000	340	310
Melstacorp PLC	-	-	-	22,756	1,140	990
Renuka Agri Foods PLC	100,000	510	470	-	-	-
Renuka Foods PLC	-	-	-	50,000	635	615
Sunshine Holdings PLC	-	-	-	65,211	3,756	3,065
Watawala Plantations PLC	-	-	-	19,725	577	513
		35,208	22,945		39,819	22,323

NOTES TO THE FINANCIAL STATEMENTS

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	2020 Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	2019 Total Cost Rs.'000	Fair Value Rs.'000
Health Care Equipment & Services						
Asiri Surgical Hospital PLC	-	-	-	44,000	467	444
Ceylon Hospitals PLC (Durdans)	-	-	-	5,000	500	390
The Lanka Hospitals Corporation PLC	-	-	-	35,000	1,470	1,425
					2,437	2,259
Household & Personal Products						
B P P L Holding PLC	-	-	-	100,000	1,205	1,220
					1,205	1,220
Insurance						
Arpico Insurance PLC	-	-	-	10,000	200	192
Janashakthi Insurance Company PLC	82,500	2,683	2,475	135,000	4,467	4,387
Softlogic Capital PLC	325,000	1,664	1,268	225,000	1,240	1,238
		4,347	3,743		5,907	5,817
Materials						
Alumex PLC	-	-	-	130,000	2,031	1,924
Chevron Lubricants Lanka PLC	72	7	8	37,500	3,831	2,809
CIC Holdings PLC-Non Voting	-	-	-	47,000	2,222	2,237
Dipped Products PLC	2,500	875	868	16,380	1,431	1,376
Industrial Asphalts (Ceylon) PLC	5,000,000	1,500	1,500	-	-	-
Pelwatte Sugar Industries PLC	68,400	2,924	-	68,400	2,925	-
		5,306	2,376		12,440	8,346
Power and Energy						
Vallibel Power Erathna PLC	-	-	-	250,000	1,913	1,575
					1,913	1,575

Group
As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Real Estate						
Cargo Boat Development Company PLC	-	-	-	9,984	899	534
City Housing & Real Estate Company PLC	38,435	190	138	38,435	190	138
Colombo Land & Development Company PLC	2,700	96	66	2,700	96	70
Commercial Development Company PLC	-	-	-	4,649	451	368
East West Properties PLC	-	-	-	304,020	5,446	2,554
Lee Hedges PLC	14,000	1,110	1,126	-	-	-
Millennium Housing Developers PLC	200,000	1,536	1,380	-	-	-
Property Development PLC	8,547	1,057	1,109	8,547	1,057	1,199
Seylan Developments PLC	100,000	1,424	1,440	160,750	2,194	1,849
		5,413	5,259		10,333	6,712
Retailing						
C.W.Mackie & Co. PLC	18,980	949	911	-	-	-
R I L Properties PLC	250,000	2,484	2,150	-	-	-
United Motors Lanka PLC	17,500	1,398	1,383	17,500	1,184	1,103
		4,831	4,444		1,184	1,103
Utilities						
Lotus Hydro Power PLC	75,000	819	795	-	-	-
Panasian Power PLC	-	-	-	100,000	350	320
Resus Energy PLC	223,381	3,408	6,312	223,381	3,407	5,585
Vidullanka PLC	50,000	299	300	-	-	-
		4,526	7,407		3,757	5,905
Total value of quoted equities and unit trusts		330,880	212,899		386,822	261,936

NOTES TO THE FINANCIAL STATEMENTS

22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS (CONTD.)

22.6 Other Debt Securities

As at 31 December

	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Banks						
Hatton National Bank PLC	17,500	1,600	1,750	17,500	1,600	1,565
Total value of listed debentures		1,600	1,750		1,600	1,565
Total value of financial assets at FVTPL		332,480	214,649		388,422	263,501
Marked to market valuation loss		(117,831)			(124,921)	
Fair value of financial assets designated at FVTPL		214,649			263,501	

22.7 GICS analysis of equity securities

As at 31 December

	2020		2019	
	Total Cost Rs.'000	Fair Value Rs.'000	Total Cost Rs.'000	Fair Value Rs.'000
Automobiles & Components	-	-	9,023	5,704
Banks	128,756	76,746	128,257	87,736
Capital Goods	43,560	33,747	58,912	42,924
Consumer Durables & Apparel	-	-	11,808	11,581
Consumer Services	65,791	33,588	66,295	36,473
Diversified Financials	32,470	22,254	30,755	20,012
Diversified Holdings	1,600	1,490	-	-
Energy	671	650	4,051	3,492
Food & Staples Retailing	-	-	327	319
Food Beverage & Tobacco	35,207	22,945	39,818	22,323
Health Care Equipment & Services	-	-	2,437	2,259
Household & Personal Products	-	-	1,205	1,220
Insurance	4,347	3,743	5,907	5,817
Materials	5,307	2,376	12,439	8,346
Power and Energy	-	-	1,913	1,575
Real Estate	5,414	5,258	10,334	6,712
Retailing	4,832	4,444	1,184	1,103
Utilities	4,525	7,408	3,757	5,905
Total value of financial assets at FVTPL	332,480	214,649	388,422	263,501
Marked to market valuation loss	(117,831)		(124,921)	
Fair value of financial assets designated at FVTPL	214,649		263,501	

23. LOANS AND RECEIVABLES AT AMORTISED COST

Accounting Policy

As per SLFRS 9, Loans and receivables to the Companies 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 Companies' 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.

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Bills receivable	23.2	308,569	437,185	308,569	437,185
Loans and advances to customers	23.3	14,767,545	16,094,444	14,530,425	15,840,014
Lease and hire purchase receivable	23.4	15,129,187	15,585,958	15,129,187	15,585,958
Less: Allowance for impairment losses					
Bills receivable	23.2	172,462	180,544	172,462	180,544
Loans and advances to customers	23.3	1,426,077	1,145,258	1,426,077	1,145,258
Lease and hire purchase receivable	23.4.3	1,821,245	1,530,434	1,821,245	1,530,434
Net loans and receivables		26,785,517	29,261,351	26,548,397	29,006,921

NOTES TO THE FINANCIAL STATEMENTS

23. LOANS AND RECEIVABLES AT AMORTISED COST (CONTD.)

23.1 Analysis of Loans and Receivables

23.1.1 Product wise analysis of loans and receivables

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Finance lease/ijarah		14,847,294	15,292,648	14,847,294	15,292,648
Hire purchase/murabaha		281,893	293,311	281,893	293,311
Term loans		7,340,432	8,330,750	7,103,312	8,076,321
Personal loans		2,339,062	3,431,549	2,339,062	3,431,549
Margin trading		502,368	249,402	502,368	249,402
Micro finance		318,594	396,615	318,594	396,615
Pawning		3,825,661	3,188,480	3,825,661	3,188,480
Loans against fixed deposits		441,428	497,648	441,428	497,648
Bill discounting		308,569	437,184	308,569	437,183
Gross loans and receivables		30,205,301	32,117,587	29,968,181	31,863,157

23.1.2 Sector/Industry wise analysis of loans and receivables

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Agriculture		4,239,083	5,630,919	4,239,083	5,630,919
Manufacturing		3,223,841	3,463,522	3,223,841	3,463,522
Tourism		717,481	806,401	717,481	806,401
Transportation		3,383,137	3,226,540	3,383,137	3,226,540
Construction		1,791,277	1,875,947	1,791,277	1,875,947
Trade		4,657,691	4,344,345	4,657,691	4,344,345
Services		1,586,164	1,881,989	1,349,044	1,627,559
Financials		1,517,846	2,173,693	1,517,846	2,173,693
Consumption		9,088,781	8,714,231	9,088,781	8,714,231
Gross loans and receivables		30,205,301	32,117,587	29,968,181	31,863,157

23.1.3 Contractual maturity analysis of loans and receivables - 2020

	Company/Group			Total Rs.'000
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	
Agriculture	1,516,991.00	949,733.00	1,772,359.00	4,239,083
Manufacturing	769,560.00	490,995.00	1,963,287.00	3,223,842
Tourism	57,364.00	199,028.00	461,089.00	717,481
Transportation	450,809.00	668,963.00	2,263,365.00	3,383,137
Construction	477,538.00	283,467.00	1,030,273.00	1,791,278
Trade	400,745.00	878,928.00	3,378,018.00	4,657,691
Services	118,711.00	1,483	1,228,850.00	1,349,044
Financials	339,730.00	360,602.00	817,514.00	1,517,846
Consumption	5,983,732.00	1,039,836.00	2,065,211.00	9,088,779
Gross loans and receivables	10,115,180	4,873,035	14,979,966	29,968,181

23.1.4 Contractual maturity analysis of loans and receivables - 2019

	Company/Group			Total Rs.'000
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years 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	5,900,784	2,562,067	251,381	8,714,233
Gross loans and receivables	17,161,374	14,294,538	407,245	31,863,157

NOTES TO THE FINANCIAL STATEMENTS

23. LOANS AND RECEIVABLES AT AMORTISED COST (CONTD.)

23.2 Bills Receivable

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Bills discounted		308,569	437,185	308,569	437,185
Less: Allowance for impairment losses					
Individual impairment	23.2.2	158,393	154,538	158,393	154,538
Collective impairment	23.2.2	14,068	26,006	14,069	26,006
Net bills receivables		136,108	256,641	136,108	256,641

23.2.1 Analysis of bill discounting on maximum exposure to credit risk as at 31 December 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	5,351	6,484	296,734	308,569
Individual impairment	-	-	(158,393)	(158,393)
Collective impairment	(1,062)	(1,840)	(11,166)	(14,068)
As at 31 December	4,289	4,644	127,174	136,108

23.2.2 Movement of impairment during the year 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	154,538	154,538
Charge during the year	-	-	3,855	3,855
As at 31 December	-	-	158,393	158,393
Collective				
As at 01 January	16,725	2,052	7,229	26,006
Charge during the year	(15,663)	(212)	3,937	(11,938)
As at 31 December	1,062	1,840	11,166	14,068

23.2.3 Analysis of bill discounting on maximum exposure to credit risk as at 31 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
Individual 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

23.2.4 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

NOTES TO THE FINANCIAL STATEMENTS

23. LOANS AND RECEIVABLES AT AMORTISED COST (CONTD.)

23.3 Loans and Advances to Customers

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Term loans and receivables		14,767,545	16,094,444	14,530,425	15,840,014
Less: Allowance for impairment losses					
Individual impairment	23.3.2	780,624	598,320	780,624	598,320
Collective impairment	23.3.2	645,453	546,937	645,453	546,937
Net loans and advances receivables		13,341,468	14,949,187	13,104,348	14,694,757

23.3.1 Analysis of term loans receivables on maximum exposure to credit risk as at 31 December 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	7,775,150	1,426,219	5,566,175	14,767,545
Individual impairment	-	-	(780,624)	(780,624)
Collective impairment	(64,479)	(49,979)	(530,995)	(645,453)
As at 31 December	7,710,671	1,376,240	4,254,556	13,341,468

23.3.2 Movement of impairment during the year 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	598,320	598,320
Charge during the year	-	-	182,304	182,304
As at 31 December	-	-	780,624	780,624
Collective				
As at 01 January	127,920	54,620	364,398	546,938
Charge during the year	(63,441)	(4,641)	166,597	98,515
As at 31 December	64,479	49,979	530,995	645,453

23.3.3 Analysis of term loans receivables on maximum exposure to credit risk as at 31 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
Individual 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

23.3.4 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	-	-	49,382	49,382
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)	(92,412)	(179,244)
As at 31 December	127,920	54,620	364,398	546,937

23.4 Lease and Hire Purchase Receivable

23.4.1 Finance Lease/Hire Purchase Receivable Within One Year from the Reporting Date

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Total lease and hire purchase rental receivable		18,767,288	19,644,052	18,767,288	19,644,052
Less : lease and hire purchase rental receivable after one year		12,280,798	12,457,434	12,280,798	12,457,434
Rental receivable within one year from the reporting date		6,486,490	7,186,618	6,486,490	7,186,618
Less : Unearned lease and hire purchase income		1,928,855	2,136,817	1,928,855	2,136,817
		4,557,635	5,049,801	4,557,635	5,049,801

23.4.2 Finance Lease/Hire Purchase Receivable After One Year from the Reporting Date

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Rental receivable after one year from the reporting date		12,280,798	12,457,434	12,280,798	12,457,434
Less : Unearned lease and hire purchase income		1,709,246	1,921,277	1,709,246	1,921,277
		10,571,552	10,536,157	10,571,552	10,536,157
Gross investment in leases and hire purchase		15,129,187	15,585,958	15,129,187	15,585,958

NOTES TO THE FINANCIAL STATEMENTS

23. LOANS AND RECEIVABLES AT AMORTISED COST (CONTD.)
23.4.3 Lease and Hire Purchase Receivable

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Gross investment in leases and hire purchase		15,129,187	15,585,958	15,129,187	15,585,958
Less: Allowance for impairment losses					
Individual impairment	23.4.5	1,078,312	942,271	1,078,312	942,271
Collective impairment	23.4.5	742,933	588,163	742,933	588,163
Net investment in leases and hire purchase		13,307,942	14,055,524	13,307,942	14,055,524

23.4.4 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31 December 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	6,001,587	3,523,353	5,604,247	15,129,187
Individual impairment	-	-	(1,078,312)	(1,078,312)
Collective impairment	(102,591)	(138,325)	(502,017)	(742,933)
As at 31 December	5,898,996	3,385,028	4,023,919	13,307,942

23.4.5 Movement of impairment during the year 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	942,271	942,271
Charge during the year	-	-	136,041	136,041
As at 31 December	-	-	1,078,312	1,078,312
Collective				
As at 01 January	91,740	131,565	364,858	588,163
Charge during the year	10,851	6,760	137,159	154,770
As at 31 December	102,591	138,325	502,017	742,933

23.4.6 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31 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	7,029,539	4,316,134	2,751,521	14,097,194

23.4.7 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	-	-	681,277	681,277
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

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 Income Statement as 'Operating income' when the right to receive the payment had been established.

NOTES TO THE FINANCIAL STATEMENTS

24. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME (CONTD.)

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Government securities	24.1	1,244,438	1,174,677	1,364,098	1,864,256
Equity securities - Quoted	24.3	25,500	19,125	25,500	19,125
Equity securities - Unquoted	24.4	22,678	22,676	22,678	22,676
Unit trust		-	-	52,835	48,293
Net financial investments at FVTOCI		1,292,616	1,216,478	1,465,111	1,954,350

24.1 Government Securities

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Treasury bills	1,244,438	1,174,677	1,244,438	1,549,926
Treasury bonds	-	-	119,660	314,330
	1,244,438	1,174,677	1,364,098	1,864,256

24.2 Government securities allocated for the liquidity requirement

As at 31 December	Company	
	2020 Rs.'000	2019 Rs.'000
Government securities, maturing within one year, free from any lien or charge	1,245,188	1,174,677
	1,245,188	1,174,677

24.3 Equity Securities - Quoted

As at 31 December	2020			2019		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Company						
Power and Energy						
LVL Energy Fund PLC	2,550	20,000	25,500	2,550	20,521	19,125
		20,000	25,500		20,521	19,125
Group						
Power and Energy						
LVL Energy Fund PLC	2,550	20,000	25,500	2,550	20,521	19,125
		20,000	25,500		20,521	19,125

24.4 Equity Securities - Unquoted

As at 31 December	2020				2019		
	Holding %	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Company							
Mega Containers Limited	6.21	1,000,000	10,000	21,786	1,000,000	10,000	21,781
Ceylinco Investment Company Limited	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	838	2,506,562	17,546	841
San Michele Limited	-	50,000	500	-	50,000	500	-
			36,700	22,678		36,700	22,676
Adjustment for fair value changes			11,786			13,176	
Adjustment due to impairment			(25,808)			(27,200)	
Total unquoted investments			22,678			22,676	

As at 31 December	2020				2019		
	Holding %	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Group							
Mega Containers Limited	6.21	1,000,000	10,000	21,786	1,000,000	10,000	21,781
Ceylinco Investment Company Limited	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	838	2,506,562	17,546	841
San Michele Limited	-	50,000	500	-	50,000	500	-
			36,700	22,678		36,700	22,676
Adjustment for fair value changes			11,786			13,176	
Adjustment due to impairment			(25,808)			(27,200)	
Total unquoted investments			22,678			22,676	

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.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Debt securities - Treasury bonds	1,519	1,513	1,519	1,513
	1,519	1,513	1,519	1,513

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Real estate stock	328,824	297,075	328,824	297,075
	328,824	297,075	328,824	297,075

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	Fair Value Rs.'000
					2020	Cost		
					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%	76,026	81,084	81,084	76,026
Less : Impairment provision/ (reversal)					(5,058)		5,058	
Balance as at 31 December					81,084		76,026	

NOTES TO THE FINANCIAL STATEMENTS

27. INVESTMENT IN ASSOCIATE COMPANY (CONTD.)

27.1 Carrying Value on Equity Basis

As at 31 December	Group	
	Lanka Securities (Pvt) Ltd	
	2020 Rs.'000	2019 Rs.'000
Net assets at the beginning of the year	76,026	84,415
Add : Profit/(loss) before tax accruing to the Group	20,212	(8,263)
Less : Income tax	(454)	(61)
Add : Other comprehensive income for the year, net of income tax	(679)	(65)
Net assets at the end of the year	95,106	76,026

27.2 Summarised Financial Information of Associate

For the year ended 31 December	Lanka Securities (Pvt) Ltd	
	2020 Rs.'000	2019 Rs.'000
	Income	228,941
Less : Expenses	159,245	110,766
Profit/(loss) before taxation	69,696	(28,498)
Less : Income tax expense/(reversal)	1,564	209
Profit/(loss) for the year	68,132	(28,707)
Defined benefit plan actuarial gains/(losses)	(3,252)	(223)
Tax impact on actuarial gains/(losses)	911	62
Total comprehensive income/(expense) for the year	65,791	(28,868)
As at 31 December	2020 Rs.'000	2019 Rs.'000
Total assets	1,136,231	383,606
Total liabilities	808,284	121,451

28. INVESTMENT IN SUBSIDIARIES

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.

28.1 The consolidated financial statements of the Group include:

As at 31 December				2020		2019			
	Note	Principal activity	Country of incorporation	equity interest %	Cost Rs.'000	Fair Value Rs.'000	equity interest %	Cost Rs.'000	Fair Value Rs.'000
MBSL Insurance Company Ltd	28.2	Insurance	Sri Lanka	53.81	1,016,096	387,424	53.81	1,016,096	849,968
Less : Impairment provision	28.2				628,672			166,128	
Balance as at 31 December					387,424			849,968	

NOTES TO THE FINANCIAL STATEMENTS

28. INVESTMENT IN SUBSIDIARIES (CONTD.)

28.2 The following table summarises the investment made in subsidiary-MBSL:

	MBSL Insurance Rs.'000
Cost	
Balance as at 01 January 2019	516,096
Investment made during the year	500,000
Balance as at 31 December 2019	1,016,096
Investment made during the year	-
Balance as at 31 December 2020	1,016,096
Impairment provision	
Balance as at 01 January 2019	(436,820)
Impairment reversal/(charge)	270,692
Balance as at 31 December 2019	(166,128)
Impairment reversal/(charge)	(462,544)
Balance as at 31 December 2020	(628,672)
As at 31 December 2019	849,968
As at 31 December 2020	387,424

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 Summarised Financial Information of MBSL Insurance Company - Statement of Profit or Loss

	2020 Total Rs.'000	01.01.2019 To 31.03.2019 Rs.'000	01.04.2019 To 31.12.2019 Rs.'000	2019 Total Rs.'000
Non-controlling interest (NCI) percentage (%)	46.19%	15.88%	46.19%	46.19%
Net operating income	199,188	(4,000)	163,503	159,503
Operating expenses	(261,611)	(45,048)	(170,302)	(215,350)
Profit/(loss) before income tax	(62,423)	(49,048)	(6,799)	(55,847)
Income tax (expense)/reversal	(215,596)	-	(241,349)	(241,349)
Profit/(loss) for the year	(278,018)	(49,048)	(248,147)	(297,195)
Profit/(loss) allocated to non-controlling interest (NCI)	(128,416)	(7,789)	(114,619)	(122,408)
Other comprehensive income allocated to non-controlling interest (NCI)	5,169	-	4,518	4,518

28.4 Summarised Financial Information of MBSL Insurance Company - Statement of Financial Position

As at 31 December	2020 Rs.'000	2019 Rs.'000
Cash and cash equivalents	1,521,340	823,161
Placements with banks & financial institutions	538,857	649,829
Financial investments at fair value through profit or loss	10,317	9,841
Loans & receivables at amortised cost	3,837	4,254
Financial investments at fair value through other comprehensive income	172,494	737,872
Property, equipment and right-of-use assets	40,015	40,113
Deferred tax Assets	49,305	267,283
Other assets	286,634	225,915
Total assets	2,622,799	2,758,268
Due to banks	5,829	786
Insurance contract liabilities-life	498,767	546,253
Insurance contract liabilities-non life	488,784	383,164
Other liabilities	588,537	518,027
Retirement benefits obligations	11,910	11,859
Total liabilities	1,593,827	1,460,089
Net assets value	1,028,972	1,295,798
Carrying amount of non-controlling interest (NCI)	475,282	598,529

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																	
		13.59%	13.84%	14.09%	14.34%	14.59%													
Risk free rate	6.6%	<table border="1" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 15%;">Terminal Value Growth</td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> <td style="width: 15%;"></td> </tr> <tr> <td>[valuation of Non-life business]</td> <td style="text-align: right;">5.00%</td> <td style="text-align: right;">405,998,093</td> <td style="text-align: right;">396,517,862</td> <td style="text-align: right; border: 2px solid black;">387,423,526</td> <td style="text-align: right;">378,694,365</td> <td style="text-align: right;">370,311,083</td> </tr> </table>					Terminal Value Growth						[valuation of Non-life business]	5.00%	405,998,093	396,517,862	387,423,526	378,694,365	370,311,083
Terminal Value Growth																			
[valuation of Non-life business]	5.00%						405,998,093	396,517,862	387,423,526	378,694,365	370,311,083								
Equity return premium	6.5%																		
Company risk premium	1.0%																		
Cost of equity	14.09%																		
Terminal growth	5.0%																		

The Subsidiary MBSLI valuation of life segment based on Net Asset where it was valued at Price to Book Value approach in the previous year.

28.6 Impairment Provision/Reversal

Impairment of Investment in Subsidiary:

Recoverable amount of the investment in subsidiary at the end of the financial position date as Rs. 387 Mn (With the investment of Rs. 500 Mn on 1 April 2019, the Company assessed the recoverable amount of the investment in subsidiary as Rs. 850 Mn). Accordingly impairment charge of Rs. 463 Mn (2019 impairment reversal: Rs. 271 Mn) was recorded during the year 2020 in the Company's Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Cost as at 01 January		148,408	148,408	148,408	148,408
Less : Disposals		-	-	-	-
Cost as at 31 December	29.1	148,408	148,408	148,408	148,408
Accumulated depreciation as at 31 December		34,038	31,132	34,038	31,132
Net book value as at 31 December		114,370	117,276	114,370	117,276
Accumulated depreciation					
Balance as at 01 January		31,132	28,226	31,132	28,226
Charge for the year		2,906	2,906	2,906	2,906
Balance as at 31 December		34,038	31,132	34,038	31,132
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

29.1 Investment Properties Held by the Company/Group

As at 31 December

Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	2020 Cost/Carrying amount			Fair Value		
					Land	Buildings	Total	Land	Buildings	Total
					Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	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 no. 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, Boralesgamuwa	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

Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	2019 Cost/Carrying amount			Fair Value		
					Land	Buildings	Total	Land	Buildings	Total
					Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	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 no. 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, Boralesgamuwa	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

NOTES TO THE FINANCIAL STATEMENTS

29. INVESTMENT PROPERTIES (CONTD.)

29.1.a The fair value of the investment properties as at 31 December 2020 was based on market valuations carried out in the year 2020, 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 2020 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.

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.

NOTES TO THE FINANCIAL STATEMENTS

30. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS (CONTD.)

30.2 Group

	Freehold Land Rs.'000	Freehold Buildings Rs.'000	Motor Vehicles Rs.'000	Leasehold Vehicles Rs.'000	Computer Equipment Rs.'000	Office Equipment & Furniture Rs.'000	Right-of-use Assets Rs.'000	Total Rs.'000
Cost								
Balance as at 01 January 2019	14,000	-	90,316	4,585	417,442	505,474	-	1,031,817
Effect of adoption of IFRS 16 as at 01 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
Additions during the year	-	-	-	-	31,958	28,994	70,011	130,963
Disposals during the year	-	-	-	-	-	(419)	(9,021)	(9,440)
Balance as at 31 December 2020	14,000	-	125,791	4,585	485,456	580,259	759,362	1,969,453
Accumulated Depreciation								
Balance as at 01 January 2019	-	-	66,108	3,796	310,675	316,743	-	697,322
Charge for the year	-	-	14,104	789	40,551	39,900	155,181	250,525
On disposals	-	-	(9,379)	-	(4,319)	(7,248)	(6,673)	(27,619)
Adjustment for the year	-	-	-	-	(1,004)	-	-	(1,004)
Balance as at 31 December 2019	-	-	70,833	4,585	345,903	349,395	148,508	919,224
Charge for the year	-	-	16,712	-	47,167	40,394	158,343	262,616
On disposals	-	-	-	-	-	(186)	(8,488)	(8,674)
Balance as at 31 December 2020	-	-	87,545	4,585	393,070	389,603	298,363	1,173,166
Net book value								
As at 31 December 2019								928,706
As at 31 December 2020								796,287

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	125,000	14,000	893%
		125,000	14,000	

The market value of the land at Kurunduwatta, Ekala was Rs. 125 Mn as per the valuation carried out in May 2019 by independent valuer, Mr. S. A. M. A. Perera. F.I.V (Sri Lanka), Chartered valuer (MRICSuk). The Directors have reviewed the values of the land as at 31 December 2020 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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Motor vehicles	46,475	46,475	46,475	46,475
Computer equipment	197,279	173,278	197,335	226,309
Equipment, furniture & fittings	180,432	146,832	180,484	194,852
Total	424,186	366,585	424,294	467,636

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.

NOTES TO THE FINANCIAL STATEMENTS

31. INTANGIBLE ASSETS (CONTD.)

31.1 Company

	Computer Software Rs.'000	Total Rs.'000
Cost		
Balance as at 01 January 2019	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
Additions and improvements during the year	1,321	1,321
Balance as at 31 December 2020	326,657	326,657
Accumulated amortisation		
Balance as at 01 January 2019	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
Amortisation for the year	35,083	35,083
Balance as at 31 December 2020	180,164	180,164
Net book value		
As at 31 December 2019		180,255
As at 31 December 2020		146,493

31.2 Group

	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
Cost			
Balance as at 01 January 2019	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
Additions and improvements during the year	1,321	-	1,321
Balance as at 31 December 2020	374,848	18,193	393,041
Accumulated amortisation and impairment			
Balance as at 01 January 2019	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
Amortisation for the year	39,870	-	39,870
Disposals during the year	2	-	2
Balance as at 31 December 2020	225,939	18,193	244,132
Net book value			
As at 31 December 2019			187,460
As at 31 December 2020			148,909

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Computer Software	96,856	69,967	96,866	78,863

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.

NOTES TO THE FINANCIAL STATEMENTS

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Claims and commission receivables	14,148	14,148	14,148	14,148
Other receivables	70,872	72,888	108,920	79,567
Advances and pre payments	89,695	120,193	101,447	130,554
Other accounts	263,678	114,404	280,528	123,628
Reinsurance assets-insurance contracts	-	-	132,783	124,356
Insurance receivables	-	-	87,197	66,704
Commercial paper	107,700	434,967	107,700	434,967
	546,093	756,600	832,723	973,924
Less : Allowance for impairment losses	128,045	455,312	128,045	455,312
	418,048	301,288	704,678	518,612

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Bank overdraft	349,402	332,985	355,231	333,771
Reverse repurchase agreements	664,952	934,195	664,952	934,195
Bank borrowings - Short-term loans	3,413,592	4,684,555	3,413,592	4,684,555
Bank borrowings - Long-term loans	1,008,736	1,797,286	1,008,736	1,797,286
	5,436,682	7,749,021	5,442,511	7,749,807

33.1 Analysis of Cash and Cash Equivalents at the End of the Year

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Dues to banks	349,402	332,985	355,231	333,771
	349,402	332,985	355,231	333,771

33.2 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2020

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Reverse repurchase agreements	664,952	-	-	664,952
Bank borrowings - Short-term loans	3,413,592	-	-	3,413,592
Bank borrowings - Long-term loans	-	1,008,736	-	1,008,736
	4,078,544	1,008,736	-	5,087,280

33.3 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2019

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total 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

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Savings deposits	901,624	848,782	901,624	848,782
Time deposits	20,823,637	21,907,148	20,763,632	21,907,148
	21,725,261	22,755,930	21,665,256	22,755,930

NOTES TO THE FINANCIAL STATEMENTS

34. DUE TO CUSTOMERS AT AMORTISED COST (CONTD.)

34.1 Contractual Maturity Analysis of Customer Deposits

	2020			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Company				
Savings deposits	689,555	112,803	99,266	901,624
Time deposits	14,871,419	6,100,990	63,298	21,035,706
	15,560,973	6,213,794	162,564	21,937,331
Group				
Savings deposits	901,624	-	-	901,624
Time deposits	14,871,419	6,040,985	63,298	20,975,701
	15,773,043	6,040,985	63,298	21,877,325

34.2 Contractual Maturity Analysis of Customer Deposits

	2019			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total 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

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Debentures	35.3	2,107,493	2,107,810	2,107,493	2,107,810
Long term Loan - Securitisation		461,336	358,458	461,336	358,458
Total debt issued and borrowed funds	35.1, 35.2	2,568,829	2,466,268	2,568,829	2,466,268

35.1 Contractual Maturity Analysis of Long Term Securitisation - 2020

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Long term Loan - Securitisation	213,226	248,110	-	461,336

35.2 Contractual Maturity Analysis of Long Term Securitisation - 2019

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Long term Loan - Securitisation	358,458	-	-	358,458

NOTES TO THE FINANCIAL STATEMENTS

35. DEBT ISSUED AND BORROWED FUNDS AT AMORTISED COST (CONTD.)
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	
								2020 Rs.'000	2019 Rs.'000
Fixed Rate									
LK0186D23824	805,760	15.00%	listed	Nil	Annually	03-May-17	02-May-22	884,981	885,298
LK0186D23816	1,193,230	14.50%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,220,256	1,221,479
LK0186D23808	1,010	10.00%	listed	Nil	Bi Annually	03-May-17	02-May-22	2,255	1,033
Debenture Redeemed During the Year									
Fixed Rate									
LK0186D22669	909,770	9.00%	listed	Nil	Annually	13-Nov-14	12-Nov-19	-	-
LK0186D22677	1,090,230	8.75%	listed	Nil	Bi Annually	13-Nov-14	12-Nov-19	-	-
Total Debentures	2,000,000							2,107,492	2,107,810

35.4 Contractual Maturity Analysis of Debt Instruments Issued and Other Borrowed Funds - Company

	2020				2019			
	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	-	2,107,492	-	2,107,492	-	2,107,810	-	2,107,810

Outstanding number of debentures as at 31 December 2020 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. (2019: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2020 and 2019.

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	
	2020 Rs.'000	2019 Rs.'000
Life fund balance as at 31 December	449,807	499,864
Unclaimed benefits	48,960	46,389
Balance as at 31 December	498,767	546,253

36.2 Accounting Policy**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 equalisation 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 comprehensive income by setting up a provision for liability adequacy.

36.2.1 Insurance Contract Liabilities-Non Life

As at 31 December	Group	
	2020 Rs.'000	2019 Rs.'000
Provision for reported claims by policy holders	332,937	308,044
provision for Claims IBNR	18,804	5,917
Outstanding claims provision	351,741	313,961
Provision for unearned premiums	137,043	69,203
Total Non life insurance contract liabilities	488,784	383,164

NOTES TO THE FINANCIAL STATEMENTS

36. INSURANCE CONTRACT LIABILITIES (CONTD.)**36.2.1 Insurance Contract Liabilities-Non Life (Contd.)****Liability adequacy test**

A Liability Adequacy Test ("LAT") for non life contract liability was carried out by J.S.A. Plugge for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31 December 2020 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 2020, in many but not all scenarios of future experience. The UPR provision of LKR 137,042,519 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of MBSL Insurance Co Ltd as at 31 December 2020, 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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance at 01 January	14,851	424	14,851	424
Add : Provision for taxation	-	104,799	-	104,799
Add : Adjustments/Write offs	-	1,251	-	1,251
(Over)/under provision of taxes in respect of prior years	15,757	(30,896)	15,757	(30,896)
Less : Tax credit setoff in the year	-	60,374	-	60,374
Less : WHT & NTC movement for the year	-	2,648	-	2,648
Less : ESC & ACT movement for the year	15,777	(2,295)	15,777	(2,295)
Balance as at 31 December	14,831	14,851	14,831	14,851

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Net deferred tax liability	38.2	-	212,520	-	212,520
Net deferred tax asset	38.2	(52,760)	-	(102,065)	(264,901)
Net deferred tax liabilities		(52,760)	212,520	(102,065)	(52,381)

38.1 Deferred Tax Movement

	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01st January	212,520	340,444	(52,381)	(165,805)
Charge for the year	(250,359)	(119,293)	(250,357)	122,056
Deferred tax charge relating to components of the Statements of Comprehensive Income	(14,921)	(8,630)	(14,921)	(8,630)
Balance as at 31 December	(52,760)	212,520	(317,659)	(52,381)

38.2 Reconciliation of Deferred Tax Liability

Deferred tax assets and liabilities are attributable to the following:

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Deferred Tax Assets				
Carry forward tax losses	(190,377)	-	(237,210)	(264,121)
Retirement benefit obligation	(83,613)	(67,446)	(86,655)	(70,406)
Actuarial gains/(losses) recognised in the Statement of Comprehensive Income	(14,921)	(8,630)	(14,921)	(8,630)
AFS reserve T-bond & bills	-	-	(830)	(202)
Right of use assets	(18,040)	(10,603)	(18,040)	(10,603)
Impairment	(98,980)	(87,234)	(98,980)	(87,234)
	(405,931)	(173,913)	(456,636)	(441,196)
Deferred tax liability				
Accelerated depreciation allowance for tax purpose (Rentals receivable)	280,829	317,111	280,829	317,111
Right of use assets	-	-	162	469
Accelerated depreciation allowance for tax purpose (Property and equipment)	72,342	69,322	73,580	71,235
	353,171	386,433	354,571	388,815
Net deferred tax liabilities	-	212,520	-	212,520
Net deferred tax assets	(52,760)	-	(102,065)	(264,901)

NOTES TO THE FINANCIAL STATEMENTS

39. OTHER LIABILITIES INCLUDE ACCRUED EXPENSES AND OTHER PROVISIONS. THESE LIABILITIES ARE RECORDED AT AMOUNTS EXPECTED TO BE PAYABLE AS AT THE REPORTING DATE.

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	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Accrued expenses		58,209	35,989	59,135	35,989
Lease liability	39.1	476,033	541,470	505,158	567,102
Payable to employees & suppliers		197,868	180,273	270,123	230,887
Insurance payable		-	-	71,202	11,797
Margin accounts		6,065	20,868	6,065	20,868
Other liabilities		55,674	118,439	229,746	281,146
		793,849	897,039	1,141,429	1,147,789

39.1 The below table shows the carrying amounts of lease liabilities and the movements during the period:

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Operating Lease					
Balance as at 01 January	39.2	541,470	596,930	567,102	610,425
Additions		43,032	35,645	43,032	51,587
Accretion of interest		64,081	71,658	64,081	71,658
Payments		(172,550)	(162,763)	(172,550)	(171,415)
Finance Lease					
Within 12 months		-	-	1,944	3,184
Later than 12 months		-	-	-	1,663
As at 31 December		476,033	541,470	503,609	567,102

The maturity analysis of lease liabilities are disclosed in Note no. 50.8

39.2 Reconciliation of lease liabilities as at 1 January 2019 to the operating lease commitments as at 31 December 2018

	Company Rs.'000	Group Rs.'000
Operating lease commitments as at 31 December 2018	911,201	926,198
Discounted operating leasing commitments as at 1 January 2019	596,930	610,425

Present value of operating lease liabilities as at 1 January 2019 has been calculated using monthly fixed deposits interest rates of the Company.

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 no. 40.2

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.

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January	271,700	247,708	283,558	256,644
Expense recognised during the year	56,674	51,652	59,739	54,220
Payment made during the year	(29,758)	(58,483)	(31,837)	(60,712)
Actuarial gains/(losses) recognised in the Statement of Comprehensive Income	53,290	30,822	52,356	33,406
Balance as at 31 December	351,906	271,699	363,816	283,558

40.1 Expense Recognised in the Statement of Profit or Loss

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Current service cost	28,961	21,432	30,841	22,991
Interest cost	27,713	30,220	28,898	31,229
Expense recognised during the year	56,674	51,652	59,739	54,220
Gratuity payable and forfeited the payment in 2020	(179)	-	(179)	-
Expense Recognised in the Statement of Profit or Loss	56,495	51,652	59,560	54,220

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2020 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'.

NOTES TO THE FINANCIAL STATEMENTS

40. RETIREMENT BENEFITS OBLIGATIONS (CONTD.)

40.2 Actuarial Assumptions

	Company	
	2020	2019
Financial Assumptions		
Discount rate	10.20%	12.20%
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 6.94 years as of 31 December 2020 (6.88 years as of 31 December 2019)

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	2020		2019	
	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year Rs.'000	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs.'000	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year Rs.'000	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs.'000
1%	(20.66)	(20.66)	(13.58)	(13.58)
(1%)	23.15	23.15	15.06	15.06

Maturity Profile of the Defined benefit Obligation

	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Within the next 12 months	62,431	53,730	62,431	54,143
Between 1-2 years	46,106	53,456	46,593	53,904
Between 2-5 years	88,587	67,670	100,010	78,668
Between 5-10 years	78,102	47,344	78,102	47,344
Beyond 10 years	76,680	49,500	76,680	49,500
Total	351,906	271,700	363,816	283,559

41. STATED CAPITAL

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 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	
	2020 No. of Shares	2019 No. of Shares	2020 No. of Shares	2019 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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January	234,613	214,096	234,613	214,096
Add: Transfers during the year	-	20,517	-	20,517
Balance as at 31 December	234,613	234,613	234,613	234,613

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January	252,880	193,005	105,118	457,799
Add : Profit/(loss) for the year	(1,108,305)	102,584	(780,666)	(346,162)
Transfers to statutory reserves	-	(20,517)	-	(20,517)
Acquisition, disposal and changes in non-controlling interest	-	-	-	37,645
Other comprehensive income	(38,369)	(22,192)	(38,545)	(23,647)
Balance as at 31 December	(893,794)	252,880	(714,093)	105,118

NOTES TO THE FINANCIAL STATEMENTS

42. RESERVES (CONTD.)

42.3 OCI Reserve

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January	(4,162)	(7,461)	(9,099)	(19,051)
Gains/(losses) on remeasuring financial investments at FVTOCI	6,737	3,299	12,256	9,952
Balance as at 31 December	2,575	(4,162)	3,157	(9,099)

43. ADDITIONAL CASH FLOW INFORMATION

43.1 Change in Operating Assets

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Loans and advances given to customers	2,475,834	1,459,796	2,476,251	1,478,491
Other operating assets	(148,510)	(220,568)	(209,229)	(241,769)
Right of use assets	94,166	(527,405)	88,865	(549,864)
Adjustment for impairment	(563,431)	(279,673)	(563,431)	(279,673)
	1,858,059	432,151	1,792,456	407,185

43.2 Change in Operating Liabilities

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Due to customers	(1,030,669)	1,924,909	(1,030,669)	1,934,324
Other operating liabilities	(10,498)	413,236	60,017	457,619
Payments made under operating leases	(172,550)	(162,763)	(172,550)	(171,715)
Insurance provision	-	-	58,134	18,193
	(1,213,717)	2,175,382	(1,085,068)	2,238,421

43.3 Other Non-Cash Items Included in Profit Before Tax

As at 31 December	Company		Group	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Loss on disposal of quoted shares	(10,312)	(9,652)	(10,312)	(9,652)
Interest accrued on government securities	(97,527)	(11,937)	(97,527)	(11,937)
Gain/(loss) on sale of property and equipment	(173)	(655)	(173)	(872)
Net gain/loss on financial instruments at FVTPL	(63,629)	(18,768)	(64,105)	(21,017)
Impairment charges for loans and other losses	563,431	279,673	563,431	279,673
Interest charged on operating lease	64,081	71,658	64,081	71,984
Provision/(reversal) of impairment of investment in subsidiary	462,544	(270,692)	-	-
Charged of impairment of investment in subsidiary	(5,058)	5,058	-	-
Depreciation and amortisation	138,009	128,661	147,049	139,181
	1,051,366	173,347	602,444	447,360

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 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

Mr. K. Ratwatte, Mr. A. M. A. Perera, Mr. N. S. PUNCHIHEWA, Mr. W. P. R. P. H. Fonseka, Mr. D. N. L. Fernando, Mr. W. N. P. Surawimala, Mr. M. P. R. Kumara (Alternate Director to W.P.R.P.H. Fonseka) were directors of the Company as at 31 December 2020.

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
(a) Remuneration to Board of Directors				
Short term employees benefits	1,616	5,313	11,766	12,738
	1,616	5,313	11,766	12,738
(b) Remuneration to Corporate Management				
Short term employees benefits	41,296	50,948	73,823	70,018
Post employment benefits	-	21,785	-	21,785
	41,296	72,733	73,823	91,803

Transactions, arrangements and agreements involving Key Management Personnel (KMPs), their close family members and other entities.

NOTES TO THE FINANCIAL STATEMENTS

44. RELATED PARTY DISCLOSURE (CONTD.)

44.c Transactions with Key Management Personnel and their Close Family Members (Contd.)

	Board of Directors		Corporate Management	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
(a) Items in the Statement of Financial Position				
Assets - Loan and receivables	-	8,000	16,921	20,811
Liabilities - Due to customers	10,453	10,527	1,631	715
(b) Items in the Statement of Profit or Loss				
Interest income	-	404	92	1,209
Interest expense	74	527	15	23

Share Transactions With Key Management Personnel

As at 31 December	Company	
	2020	2019
No. of ordinary shares held	24	24

44.d 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.

Company	Nature of Transactions	Income/(Expenses) Recognised During the Year		Assets/(Liabilities) as at 31 December	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Transactions with parent company					
Bank of Ceylon	Money market loan	(117,356)	(185,127)	(700,000)	(1,550,000)
	Debenture	(120,972)	(118,151)	(771,780)	(771,780)
	Current accounts	(1,239)	(2,412)	(78,047)	(102,337)
	Interest received-REPO	21	171	-	-
	Fixed deposits and savings	-	30,790	-	325,000
Transactions with subsidiary					
MBSL Insurance Company Limited	Loans and advances	49,283	52,280	240,957	258,684
	Fixed deposits and savings	(3,669)	-	(60,005)	-
	Insurance agency commission	15,970	5,674	-	-
	Insurance expenses	(21,627)	(4,064)	-	-
	Loans granted to key management personnel of MBSL Insurance Company Limited	1,511	1,074	59,232	60,000

Company	Nature of Transactions	Income/(Expenses) Recognised During the Year		Assets/(Liabilities) as at 31 December	
		2020	2019	2020	2019
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Transactions with other companies					
BOC Property Development and Management Company Limited	Rent paid	(83,498)	(72,611)	-	-
	Electricity, water, office maintenance, rates	(10,984)	(11,516)	-	-
	Fixed deposits and savings	-	(1,232)	-	-
Ceybank Asset Management Limited	Fixed deposits and savings	(29)	(1,403)	-	-
	Business promotion	(89)	(25)	-	-
Ceybank Holiday Homes (Pvt) Ltd	Staff training	-	(16)	-	-

45. EVENTS AFTER THE REPORTING PERIOD

The Central Bank of Sri Lanka has issued No 4 of 2021 guideline on 12 March 2021, to provide concessions for the payment of lease facilities obtained by COVID-19 affected business and individuals engaged in passenger transportation services for a period of six months commencing from 01 April 2021.

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.

NOTES TO THE FINANCIAL STATEMENTS

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, 2020.

	Reference	Company			Group		
		Current Presentation 2020 Rs.'000	As Reported Previously 2019 Rs.'000	Impact	Current Presentation 2020 Rs.'000	As Reported Previously 2019 Rs.'000	Impact
Statement of Financial Position							
Assets							
Loans & receivables at amortised cost	1	29,261,351	29,228,215	(33,136)	29,006,921	28,973,785	(33,136)
Other assets	1&2	301,288	334,431	33,143	518,612	551,755	33,143
Equity							
Retained earnings	2	252,880	252,887	(7)	105,118	105,125	(7)

Comparative figures have been changed due to following classification changes for the year 2020.

1. Provision on interest concession given, Festival advance, Pre-paid introducer commission and Debtors-margin trading are classified as other assets
2. Adjustment made due to impact of roundings

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 are 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.

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

NOTES TO THE FINANCIAL STATEMENTS

48. FINANCIAL REPORTING BY SEGMENT (CONTD.)

Group

As at 31 December	Leasing		Loans and Receivables	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Revenue from external customers				
Interest and similar income	2,246,514	3,252,536	2,336,275	2,780,480
Interest and similar expenses	1,387,838	1,793,166	1,423,469	1,708,057
Net interest income	858,676	1,459,370	912,806	1,072,423
Net fee and commission income	35,755	54,595	4,858	32,334
Real estate profit	-	-	18,664	21,061
Other income	9,685	20,788	1,686	3,508
Total operating income	904,116	1,534,753	938,014	1,129,326
Impairment (charges)/reversal for loans and other losses	(290,811)	(394,241)	(272,620)	114,569
Net operating income	613,305	1,140,512	665,394	1,243,895
Personnel expenses	428,981	473,415	439,994	450,946
Depreciation and amortisation	114,425	115,135	117,363	109,670
Other operating expenses	224,661	290,098	230,429	276,329
Segment result	(154,762)	261,864	(122,392)	406,950
Impairment (charges)/reversal of investment in subsidiary				
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	53,624	65,910	52,653	70,335
Intangible assets	541	9,083	531	9,693
Total segment assets	13,307,942	14,055,524	13,066,911	14,999,070
Total segment liabilities	11,982,766	12,509,811	11,765,736	13,349,594

Corporate Advisory & Capital Markets		Insurance		Eliminations/		Total	
2020	2019	2020	2019	2020	2019	2020	2019
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
48,336	34,433	105,861	117,302	319,513	465,278	5,056,499	6,650,029
64,880	48,384	(646)	978	656,603	781,667	3,532,144	4,332,252
(16,544)	(13,951)	106,507	116,324	(337,090)	(316,389)	1,524,355	2,317,777
627	78	8,646	819	53,581	96,074	103,467	183,900
-	-	-	-	-	-	18,664	21,061
86,399	42,021	84,035	42,360	4,048	9,980	185,853	118,657
70,482	28,148	199,188	159,503	(279,461)	(210,335)	1,832,339	2,641,395
6,614	3,904	-	-	(6,615)	(3,904)	(563,432)	(279,672)
77,096	32,052	199,188	159,503	(286,076)	(214,239)	1,268,907	2,361,723
20,055	12,774	144,596	92,304	202,956	206,369	1,236,582	1,235,808
5,349	3,107	14,119	16,263	54,136	50,187	305,392	294,362
10,503	7,828	102,895	106,784	106,289	126,460	674,777	807,499
41,189	8,343	(62,422)	(55,848)	(649,457)	(597,255)	(947,844)	24,054
						-	-
						(947,844)	24,054
						-	(288,343)
						20,212	(8,263)
						(927,632)	(272,553)
						18,550	(196,019)
						(909,082)	(468,572)
3,042	2,459	10,913	18,254	10,731	62,120	130,963	219,078
31	339	-	-	218	4,895	1,321	24,010
754,879	524,343	1,806,217	1,460,526	5,371,690	7,574,295	34,307,639	38,613,758
679,710	466,680	1,593,827	1,462,470	6,162,184	7,771,586	32,184,223	35,560,140

NOTES TO THE FINANCIAL STATEMENTS

48. FINANCIAL REPORTING BY SEGMENT (CONTD.)

Company

As at 31 December

	Western Rs.'000	Central Rs.'000	Southern Rs.'000
Revenue from external customers			
Interest and similar income	2,323,955	411,328	615,571
Interest and similar expenses	3,044,943	156,641	38,048
Net interest income	(720,988)	254,687	577,523
Net fee and commission income	39,759	10,840	12,333
Real estate profit	18,664	-	-
Other income	182,120	1,113	1,202
Total operating income	(480,445)	266,640	591,058
Impairment (charges)/reversal for loans and other losses	(263,263)	(27,822)	(76,186)
Net operating income	(743,708)	238,818	514,872
Personnel expenses	924,842	51,622	78,626
Depreciation and amortisation	270,950	4,249	7,952
Other operating expenses	494,364	29,858	43,677
Segment result	(2,433,864)	153,089	384,617
Impairment reversal/(impairment) of investment in subsidiary			
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	96,942	385	2,046
Intangible assets	312,588	2,650	2,240
Total segment assets	30,816,300	80,939	(347,901)
Total segment liabilities	26,236,588	1,550,752	333,103

North Western Rs.'000	Uva Rs.'000	North Central Rs.'000	Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2020 Rs.'000
710,010	123,321	221,881	151,090	254,854	244,489	5,056,499
232,599	4,020	11,471	12,959	8,002	23,461	3,532,144
477,411	119,301	210,410	138,131	246,852	221,028	1,524,355
17,042	4,371	5,755	4,155	6,603	2,611	103,469
-	-	-	-	-	-	18,664
1,184	10	53	-	109	59	185,850
495,637	123,682	216,218	142,286	253,564	223,698	1,832,338
(97,870)	(6,879)	(43,383)	(9,545)	(21,301)	(17,181)	(563,431)
397,767	116,803	172,835	132,741	232,263	206,517	1,268,907
60,207	14,746	31,573	19,390	30,100	25,475	1,236,581
8,734	1,948	2,715	2,402	3,403	3,039	305,392
40,951	7,943	13,797	10,587	13,904	19,697	674,778
287,875	92,166	124,750	100,362	184,855	158,306	(947,844)
						-
						(947,844)
						-
						20,212
						(927,632)
						18,550
						(909,082)
1,876	514	793	875	1,842	2,229	107,502
2,724	548	1,147	548	991	568	324,004
614,765	111,217	11,141	345,276	133,686	611,725	32,377,148
2,277,504	48,608	156,149	118,283	93,768	273,367	31,088,122

NOTES TO THE FINANCIAL STATEMENTS

48. FINANCIAL REPORTING BY SEGMENT (CONTD.)

Group

As at 31 December

	Western Rs.'000	Central Rs.'000	Southern Rs.'000
Revenue from external customers			
Interest and similar income	2,997,634	580,413	808,058
Interest and similar expenses	3,844,239	147,367	42,646
Net interest income	(846,605)	433,046	765,412
Net fee and commission income	99,761	13,808	17,399
Real estate profit	21,061	-	-
Other income	111,832	426	826
Total operating income	(613,951)	447,280	783,637
Impairment (charges)/reversal for loans and other losses	51,061	(56,288)	(104,052)
Net operating income	(562,890)	390,992	679,585
Personnel expenses	900,688	53,908	84,192
Depreciation and amortisation	259,194	4,421	7,756
Other operating expenses	607,836	30,817	48,667
Segment result	(2,330,608)	301,846	538,970
Impairment reversal/(Impairment) of investment in subsidiary			
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	774,329	(2)	5,509
Intangible assets	(345,911)	(2,650)	(2,240)
Total segment assets	33,751,677	443,184	279,295
Total segment liabilities	29,835,405	1,328,231	429,295

North Western Rs.'000	Uva Rs.'000	North Central Rs.'000	Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2019 Rs.'000
1,015,876	142,672	328,261	200,353	309,203	267,561	6,650,031
240,270	4,732	10,929	16,217	8,261	17,593	4,332,253
775,606	137,940	317,332	184,136	300,942	249,969	2,317,778
23,296	3,947	8,169	4,117	8,298	5,106	183,901
-	-	-	-	-	-	21,061
5,037	172	85	265	14	-	118,657
803,939	142,059	325,586	188,518	309,254	255,075	2,641,397
(59,519)	(14,306)	(45,032)	(12,938)	(27,284)	(11,315)	(279,673)
744,420	127,753	280,554	175,580	281,970	243,760	2,361,724
70,231	16,076	31,008	21,538	33,682	24,487	1,235,810
9,445	1,785	2,743	2,460	3,356	3,201	294,361
46,062	9,380	14,918	11,407	17,505	20,906	807,498
618,682	100,512	231,885	140,175	227,426	195,166	24,055
						-
						24,055
						(288,343)
						(8,263)
						(272,551)
						(196,019)
						(468,570)
(108)	1,916	1,376	2,004	2,981	1,527	789,532
(2,724)	(548)	(1,147)	(548)	(991)	(568)	(357,327)
1,246,982	122,396	129,033	319,788	212,582	432,844	36,937,781
2,081,725	53,816	118,271	131,491	83,904	178,980	34,241,118

NOTES TO THE FINANCIAL STATEMENTS

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	
	2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Financial guarantees & claims to the customers	107,800	121,337	177,514	190,086
Total Commitments and Contingencies	107,800	121,337	177,514	190,086

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. Accordingly, set out below are the unresolved legal claims against the Company as at December 31, 2020 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Company that has not been listed here on the basis of non-materiality and significance to operations.

No.	Action/Case No.	Purpose/Cause of Action	Current status	Claim amount
1	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 08/07/2021	Rs. 1,000,000
2	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 16/06/2021	Rs. 2,500,000
3	HC/ CIVIL/06/2013/ MR	The Plaintiff is seeking, inter alia, the refund of the advance payment of Rs. 50,761,866.10 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 27/08/2021	Rs. 50,761,866.10 together with interest at the rate of 14% per annum on the same from 27/07/2021 until the Decree and legal interest from the date of the Decree until payment in full.
4	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 Rs. 19,842,233.06 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 Rs. 37,617,567 as at 27/10/2015.	Call to fix for trial on 02/09/2021 & 04/10/2021	Rs. 37,617,567 together with legal interest from 29/12/2015 till the Decree and interest at the rate of 25% on the same from the date of the decree until payment in full

No.	Action/Case No.	Purpose/Cause of Action	Current status	Claim amount
5	DMR/8867/09 - DC Colombo (WP/HCCA/ Col/302/15)	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). District Court delivered judgment in favour of the Defendant (MBSL). The Plaintiff has appealed against the said Judgment.	Appeal made by the plaintiff against judgement delivered in favour of MBSL was allowed on 12/06/2020	Rs. 11,000,000
6	4977/SPL - DC Colombo	This case has been filed against MCSL Financial Services Limited and 3 others in 1997. 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.	Further Trial on 29/03/2021	Sum of Rs. 5,000,000 as damages together with interest at the rate of 24% per annum from 02/10/1995
7	DSP 115/2016 DC - Colombo	This action has been instituted by the Customer seeking a Restitution integrum 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-Prte Judgment given in favour of MBSL on 27/08/2019. Decree has been filed.	Rs. 2,534,814
8	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 the 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 subsequently transferred to Commercial High Court.	Trial on 09/09/2021	Rs. 3,841,600
9	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.	Further Trial on 01/07/2021	Rs. 35,050,000
10	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.	Trail on 18/05/2021	Rs. 9,000,000
11	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).	Further Trial on 24/05/2021	Rs. 9,000,000 together with the legal interest thereupon from 23 Aug. 2017 up to the Decree and the legal interest thereon up to the date of payment in full

NOTES TO THE FINANCIAL STATEMENTS

49. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

Pending Litigations (Contd.)

No.	Action/Case No.	Purpose/Cause of Action	Current status	Claim amount
12	115/2015 - DC Hingurakgoda	This action has been filed by an accident victim against the 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.	Further Trial on 25/03/2021	Rs. 2,000,000
13	DLM/151/19	This action is filed against MBSL by the previous owner of the property based on constructive trust. The subject property had been transferred to MBSL prior to the merger by the previous owner in settlement of the dues of facilities granted by MBSL to the customer with a subsequent buy back agreement and upon entering into lease agreement with the previous owner.	Call to fix for Pre-trial on 23/04/2021	Rs. 1,000,000,000 and interest on the same from September 2019 and interest on the Decreed amount until payment in full.
14	DMR 2793/2020 DC - Colombo	The Plaintiff has instituted this action against the Bank on wrongful termination of a HP Facility. Enjoining order has been issued already restraining the Bank from repossessing the vehicle. MBSL has already filed objection in respect of the restraining order and and reserve the right to file answer.	Order on Interim injunction on 21/04/2021	Order on Interim injunction on 21/04/2021
15	DMR 2793/2020 DC - Colombo	The Plaintiff has instituted this action against the Bank on wrongful termination of a HP Facility. Enjoining order has been issued already restraining the Bank from repossessing the vehicle. MBSL has already filed objection in respect of the restraining order and and reserve the right to file answer.	Calling on 03/05/2021	Back wages - For the period from April 2014 to 19 September 2016 - Rs. 2,927,003/- Compensation - For 17 Years for the period from 02/11/1998 (date of joining) to 19/09/2016 (date of termination letter) at the rate of Basic Salary of Rs. 127,500/- and also at the rate of 1 1/2 months per month. Rs.127,500 x 17 x 1 1/2 = Rs. 3,251,250/- Total Compensation =Rs. 2,927,003/- + Rs. 3,251,250/- = Rs. 6,178,253/-

No.	Action/Case No.	Purpose/Cause of Action	Current status	Claim amount
				<p>MBSL has duly made payment in a sum of Rs. 6,178,253/- (being the total sum specified as back wages/compensation in the Order of the aforesaid labour Tribunal matter) to the credit of the Labour Tribunal Case in satisfaction of the pre-requisite of the appeal to High Court of the Province Holden in Colombo and made the appeal No. HCALT 102/19 on 24th December 2019 praying Orders;</p> <p>a) Setting aside the order dated 26th November 2019 of the Labour Tribunal in LT Application No. LT 2/676/2016;</p> <p>b) Dismissing the application of Mr. Bakmeewewa in the Labour Tribunal in LT Application No. LT/2/676/2016;</p> <p>c) For cost</p> <p>d) For such other and further relief as the court may seem meet.</p>
16	CA/TAX/43/2019 Court of Appeal	An appeal against the determination dated 2nd September 2019 delivered by the Tax Appeals Commission holding that the reversal of provision made for related party receivables should not be made liable for VAT on Financial Services.	To be Mentioned on 28/04/2021	VAT on Rs. 95,000,000
17	SC FR 193/2018 Supreme Court of Sri Lanka	Fundamental Rights Application made by the Petitioner against MBSL, its Board of Directors, 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. When this matter was taken up for support on 14 October 2020, the Petitioner has moved to withdraw the application. Hence the same has been dismissed by the court.	-

NOTES TO THE FINANCIAL STATEMENTS

49. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

Pending Litigations (Contd.)

No.	Action/Case No.	Purpose/Cause of Action	Current status	Claim amount
18	Writ Application bearing No. CA/Writ/137/2020 Court of Appeal Sri Lanka	Writ Application filed against MBSL, its Board of Directors, Acting CEO and the Inquiring Officers of the Domestic Inquiry seeking a writ of Certiorari quashing the entire Inquiry proceedings and/or decisions pursuant to the interdiction.	The matter was fixed for support on 21 September 2020. The Petitioner had filed the motion dated 8 September 2020 to support their application for amending the Petition and Affidavit on the basis that the circumstances have been substantially changed due to the Termination of Services of the Petitioner. The court has terminated the proceedings by its order dated 11 September 2020. Hence this case is now concluded.	-
19	DSP 65/18 District Court of Colombo	Labour Tribunal Application filed against MBSL seeking inter alia to grant reinstatement with full back wages or in the alternative to grant compensation.	Labour Tribunal Application filed against MBSL seeking inter alia to grant reinstatement with full back wages or in the alternative to grant compensation.	Back wages from 14 May 2018, or in the alternative compensation and costs.

49.1 Group

Commitments of MBSL Insurance Company Limited.

49.1.1 Contingent Assets

The litigation initiated by the Company which is currently in favor 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.

49.1.2 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	
	2020 Rs.'000	2019 Rs.'000
Bond claims	51,185	49,000
Insurance claims	18,529	19,749
Third party claims	604,065	747,008
	673,779	815,757

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 1 November 2013 to 1 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 12 January 2016. The cancellation has been informed to the claimant in writing. On 1 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 at 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.

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 no. 3.5.11.1 to financial statements.

NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)**50.2 Movement of the total allowance for expected credit losses during the period**

As at 31 December	Note	Company		Group	
		2020 Rs.'000	2019 Rs.'000	2020 Rs.'000	2019 Rs.'000
Balance as at 01 January		3,419,784	2,574,653	3,419,784	2,574,653
Net charge for the year	12	563,548	281,583	563,548	281,583
Balance as at 31 December		3,983,332	2,856,236	3,983,332	2,856,236

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, the cumulative impairment provision for individually significant impaired loans would have increased by Rs. 422 Mn.

50.2.1.(b) Impact of staging of loans on collective impairment

As explained in Note no. 3.5.11.1, 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 31 December 2020 would have reduced by approximately 6.9%. The total loans and advances in stage 2 as at 31 December 2020 amounts to Rs. 4.9 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 31 December 2020 would have increased by approximately 16.5%. The total loans and advances in stage 1 as at 31 December 2020 amounts to Rs. 13.8 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 base case scenario would have increase/decreased the collective impairment provision of the Company by approximately Rs. 11.2 Mn as at 31 December 2020.

The Company calculated expected credit losses based on three probability-weighted scenarios. 10% increase/decrease in the best case scenario with a similar decrease /increase in the base case scenario would have increase/decreased the collective impairment provision of the Company by approximately Rs. 0.6 Mn as at 31 December 2020.

50.2.2 Overview of resheduled/restructured loans and advances

An analysis resheduled/restructured loans and advances of the Company, amounting to Rs. 294 Mn which are in stage 3 along with the impairment for ECL is as follows:

It is raised Rs. 58 Mn as impairment charge as at 31 December 2020. 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.

50.4 Responding to COVID-19 pandemic risks

The Company's risk measurement and reporting functions were further strengthened during the year amidst the COVID-19 pandemic. The credit risk of the Company's loan book increased as the loan repayments were impacted by the lock downs and movement restrictions imposed locally and globally. Further, the Company monitored the liquidity position with concern as it was under pressure due to the payment holidays offered under moratoriums. The operational risks too increased owing to the work from home arrangements etc. during the lock down periods.

In this back drop, the Company took additional measures to ensure that the risks caused by the pandemic are adequately managed. Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

- Reviewed risk elevated industries in the context of COVID-19 pandemic.
- Assessed the impact of the COVID-19 lock downs and moratoriums (payment holidays) on the portfolio staging.
- Used of a range of additional stress tests to assess the impact on Company's performance and capital.
- Strengthened Cyber Security Management in light of the increase in use of digital platforms.
- Ensured adequate liquidity resources were held to meet Company's obligations, given the uncertainties caused by the pandemic.

NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)

50.5 Industry Analysis Risk Concentration

50.5.1 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
Financial assets				
Cash and cash equivalents	742,106	-	-	-
Placements with banks & financial institutions	299,746	-	-	-
Loans & receivables at amortised cost	1,463,003	3,152,513	2,711,259	664,508
Financial investments at fair value through other comprehensive income				
Government securities	1,244,438	-	-	-
Equity securities - Quoted	-	-	-	-
Equity securities - Unquoted	892	-	-	-
Financial investments at amortised cost	1,519	-	-	-
Other assets	58,446	-	-	-
Total financial assets as at 31 December 2020	3,810,150	3,152,513	2,711,259	664,508
Total financial assets as at 31 December 2019	6,231,659	5,630,919	3,463,522	806,401

50.5.2 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
Financial assets				
Cash and cash equivalents	2,263,447	-	-	-
Placements with banks & financial institutions	778,598	-	-	-
Loans & receivables at amortised cost	1,463,003	3,152,513	2,711,259	664,508
Financial investments at fair value through other comprehensive income				
Government securities	1,364,098	-	-	-
Equity securities - Quoted	-	-	-	-
Equity securities - Unquoted	892	-	-	-
Unit trust	-	-	-	52,835
Financial investments at amortised cost	1,519	-	-	-
Other assets	-	-	-	58,446
Total financial assets as at 31 December 2020	5,871,557	3,152,513	2,711,259	775,789
Total financial assets as at 31 December 2019	8,188,091	5,630,919	3,463,522	806,401

Transportation Rs.'000	Construction Rs.'000	Trade Rs.'000	Services Rs.'000	Consumption Rs.'000	2020 Total Rs.'000	2019 Total Rs.'000
-	-	-	-	-	742,106	1,355,785
-	-	-	-	-	299,746	1,477,103
3,023,348	1,586,892	4,358,476	1,473,761	8,351,755	26,785,517	32,084,451
-	-	-	-	-	1,244,438	1,174,677
-	25,500	-	-	-	25,500	19,125
-	-	21,786	-	-	22,678	22,676
-	-	-	-	-	1,519	1,513
-	-	-	-	-	58,446	47,993
3,023,348	1,612,392	4,380,262	1,473,761	8,351,755	29,179,950	
3,226,540	1,895,072	4,366,126	1,881,989	8,681,095		36,183,323

Transportation Rs.'000	Construction Rs.'000	Trade Rs.'000	Services Rs.'000	Consumption Rs.'000	2020 Total Rs.'000	2019 Total Rs.'000
-	-	-	-	-	2,263,447	2,178,946
-	-	-	-	-	778,598	2,126,932
3,023,348	1,586,892	4,358,476	1,236,641	8,351,755	26,548,397	31,830,021
-	-	-	-	-	1,364,098	1,864,256
-	25,500	-	-	-	25,500	19,125
-	-	21,786	-	-	22,678	22,676
-	-	-	-	-	52,835	48,293
-	-	-	-	-	1,519	1,513
-	-	-	-	-	58,446	47,993
3,023,348	1,612,392	4,380,262	1,236,641	8,351,755	31,115,518	
3,226,540	1,895,072	4,366,126	1,881,989	8,681,095		38,139,755

NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)
50.6 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 2020 together with comparative figures for the year ended 31 December 2019.

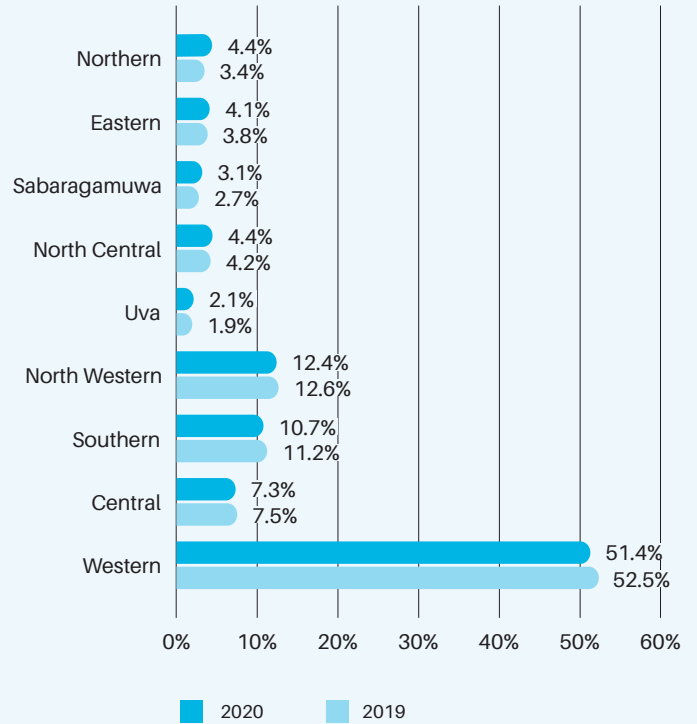
50.6.1 The Company's concentrations of risk are managed by geographical segment.

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	654,915	16,315	18,556	22,330	3,113	3,952
Placements with banks & financial institutions	299,746	-	-	-	-	-
Financial investments at fair value through profit or loss	950,012	-	-	-	-	-
Loans & receivables at amortised cost	13,977,646	2,438,565	3,587,436	4,137,706	712,591	1,482,822
Financial investments at fair value through other comprehensive income						
Government securities	1,244,438	-	-	-	-	-
Equity securities - Quoted	25,500	-	-	-	-	-
Equity securities - Unquoted	22,678	-	-	-	-	-
Financial investments at amortised cost	1,519	-	-	-	-	-
Other assets	58,446	-	-	-	-	-
Total financial assets as at 31 December 2020	17,234,900	2,454,880	3,605,992	4,160,036	715,704	1,486,774
Total financial assets as at 31 December 2019	19,507,670	2,789,183	4,158,562	4,695,830	719,094	1,562,647

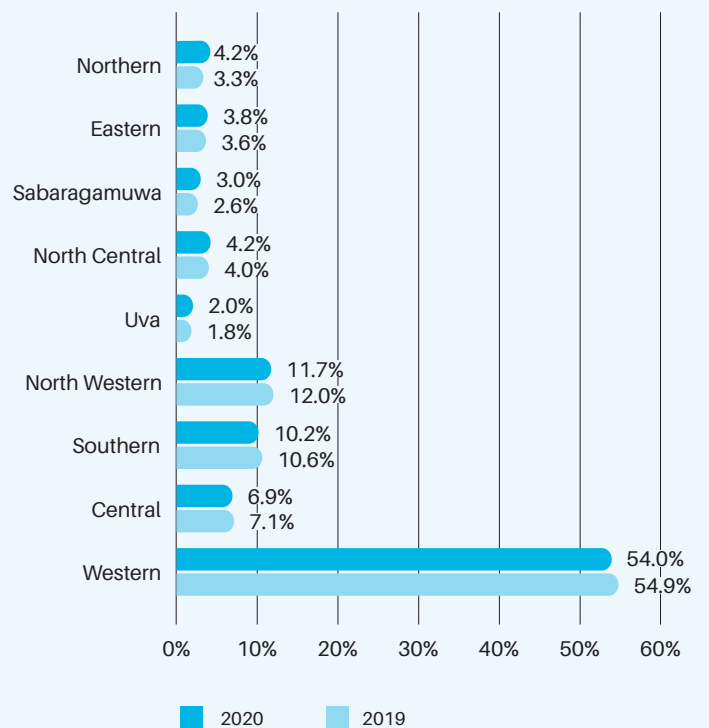
50.6.2 The Group's concentrations of risk are managed by geographical segment.

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	2,176,254	16,315	18,556	22,330	3,113	3,952
Placements with banks & financial institutions	778,598	-	-	-	-	-
Financial investments at fair value through profit or loss	960,328	-	-	-	-	-
Loans & receivables at amortised cost	13,740,526	2,438,565	3,587,436	4,137,706	712,591	1,482,822
Financial investments at fair value through other comprehensive income						
Government securities	1,364,098	-	-	-	-	-
Equity securities - Quoted	25,500	-	-	-	-	-
Equity securities - Unquoted	22,678	-	-	-	-	-
Unit trust	52,835	-	-	-	-	-
Financial investments at amortised cost	1,519	-	-	-	-	-
Other assets	58,446	-	-	-	-	-
Total financial assets as at 31 December 2020	19,180,783	2,454,880	3,605,992	4,160,036	715,704	1,486,774
Total financial assets as at 31 December 2019	21,473,942	2,789,183	4,158,562	4,695,830	719,094	1,562,647

Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2020 Total Rs.'000	2019 Total Rs.'000
8,396	6,926	7,604	742,106	1,355,785
-	-	-	299,746	1,477,103
-	-	-	950,012	945,199
1,046,744	1,356,116	1,465,675	30,205,301	32,117,588
-	-	-	1,244,438	1,174,677
-	-	-	25,500	19,125
-	-	-	22,678	22,676
-	-	-	1,519	1,513
-	-	-	58,446	47,993
1,055,140	1,363,042	1,473,279	33,549,746	
1,020,425	1,426,590	1,281,658		37,161,659



Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2020 Total Rs.'000	2019 Total Rs.'000
8,396	6,926	7,604	2,263,446	2,178,946
-	-	-	778,598	2,126,932
-	-	-	960,328	955,040
1,046,744	1,356,116	1,465,675	29,968,181	31,863,157
-	-	-	1,364,098	1,864,256
-	-	-	25,500	19,125
-	-	-	22,678	22,676
-	-	-	52,835	48,293
-	-	-	1,519	1,513
-	-	-	58,446	47,993
1,055,140	1,363,042	1,473,279	35,495,629	
1,020,425	1,426,590	1,281,658		39,127,931



NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)
50.7 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 2020.

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.

50.7.1 Company

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	2020 Total Rs.'000	2019 Total Rs.'000
Assets								
Financial assets								
Cash and cash equivalents	411,609	58,182	272,315	-	-	-	742,106	1,355,785
Placements with banks & financial institutions	-	79,879	219,867	-	-	-	299,746	1,477,103
Financial investments at fair value through profit or loss	-	204,333	-	282,691	462,988	-	950,012	945,199
Loans & receivables at amortised cost	3,196,366	3,286,626	5,973,060	9,188,310	2,118,618	3,022,537	26,785,517	29,228,215
Financial investments at fair value through other comprehensive income	-	1,052,516	217,422	-	-	22,678	1,292,616	1,216,478
Financial investments at amortised cost	-	-	1,519	-	-	-	1,519	1,513
Financial other assets	-	58,446	-	-	-	-	58,446	47,993
Total financial assets as at 31 December 2020	3,607,975	4,739,981	6,684,183	9,471,001	2,581,606	3,045,215	30,129,962	
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

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	2020 Total Rs.'000	2019 Total Rs.'000
Non financial assets								
Real estate stock	-	-	328,824	-	-	-	328,824	297,075
Investment in associate company	-	-	-	-	-	81,084	81,084	76,026
Investment in subsidiary	-	-	-	-	-	387,424	387,424	849,968
Investment properties	-	-	-	-	-	114,370	114,370	117,276
Property, equipment and right-of-use assets	-	-	-	-	-	758,690	758,690	895,799
Intangible assets	-	-	-	-	-	146,493	146,493	180,255
Deferred tax Assets	-	-	-	-	-	52,760	52,760	-
Other assets	-	359,602	-	-	-	-	359,602	286,438
Total non-financial assets as at 31 December 2020	-	359,602	328,824	-	-	1,540,821	2,229,247	
Total non-financial assets as at 31 December 2019	-	286,438	297,075	-	-	2,119,324		2,702,837
Total assets as at 31 December 2020	3,607,975	5,099,583	7,013,007	9,471,001	2,581,606	4,586,036	32,359,209	
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
Financial liabilities								
Due to banks	1,366,140	3,061,807	335,255	673,480	-	-	5,436,682	7,749,021
Due to customers at amortised cost	220,878	4,319,436	11,020,660	4,944,091	1,156,899	63,298	21,725,261	22,755,930
Debt issued and borrowed funds at amortised cost	-	-	213,226	2,355,603	-	-	2,568,829	2,466,268
Other financial liabilities	-	219,204	-	-	-	-	219,204	240,908
Total financial liabilities as at 31 December 2020	1,587,018	7,600,446	11,569,141	7,973,174	1,156,899	63,298	29,949,976	
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

NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)

50.7.1 Company (Contd.)

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	2020 Total Rs.'000	2019 Total Rs.'000
Non financial liabilities								
Current tax liabilities	-	-	14,831	-	-	-	14,831	14,851
Deferred tax liabilities	-	-	-	-	-	-	-	212,520
Lease liability	-	43,887	121,415	189,214	77,855	43,662	476,033	541,470
Other liabilities	-	98,612	-	-	-	-	98,612	114,661
Retirement benefits obligations	-	-	-	-	-	351,906	351,906	271,699
Total non-financial liabilities as at 31 December 2020	-	142,499	136,246	189,214	77,855	395,568	941,382	
Total non-financial liabilities as at 31 December 2019	-	155,141	131,159	243,225	102,870	522,806		1,155,201
Total liabilities as at 31 December 2020	1,587,018	7,742,945	11,705,387	8,162,388	1,234,754	458,866	30,891,358	
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
Equity								
Stated capital	-	-	-	-	-	2,124,457	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	893,794	(893,794)	252,887
OCI reserve	-	2,575	-	-	-	-	2,575	(4,162)
Statutory reserves	-	-	-	-	-	234,613	234,613	234,613
Total equity as at 31 December 2020	-	2,575	-	-	-	1,465,276	1,467,851	
Total equity as at 31 December 2019	-	(4,162)	-	-	-	2,611,957		2,607,795
Total liabilities and equity as at 31 December 2020	1,587,018	7,745,520	11,705,387	8,162,388	1,234,754	1,924,142	32,359,209	
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

50.7.2 Group

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	2020 Total Rs.'000	2019 Total Rs.'000
Assets								
Financial assets								
Cash and cash equivalents	452,180	58,182	1,753,085	-	-	-	2,263,447	2,178,946
Placements with banks & financial institutions	-	558,731	219,867	-	-	-	778,597	2,126,932
Financial investments at fair value through profit or loss	-	960,328	-	-	-	-	960,328	955,040
Loans & receivables at amortised cost	3,196,366	3,290,463	5,732,103	9,188,310	2,118,618	3,022,537	26,548,397	28,973,785
Financial investments at fair value through other comprehensive income	-	1,052,517	270,257	-	119,660	22,678	1,465,111	1,954,350
Financial investments at amortised cost	-	-	1,519	-	-	-	1,519	1,513
Financial other assets	-	58,446	-	-	-	-	58,446	47,993
Total financial assets as at 31 December 2020	3,648,546	5,978,666	7,976,831	9,188,310	2,238,278	3,045,215	32,075,845	
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
Non financial assets								
Real estate stock	-	-	328,824	-	-	-	328,824	297,075
Investment in associate company	-	-	-	-	-	95,106	95,106	76,026
Investment properties	-	-	-	-	-	114,370	114,370	117,276
Property, equipment and right-of-use assets	-	-	-	-	-	796,287	796,287	928,706
Intangible assets	-	-	-	-	-	148,909	148,909	187,460
Deferred tax Assets	-	-	13,081	126,475	(37,491)	-	102,065	264,901
Other assets	-	646,233	-	-	-	-	646,233	503,762
Total non-financial assets as at 31 December 2020	-	646,233	341,905	126,475	37,491	1,154,672	2,231,794	
Total non-financial assets as at 31 December 2019	-	503,762	310,156	126,475	125,345	1,309,468		2,375,206
Total assets as at 31 December 2020	3,648,546	6,624,899	8,318,736	9,314,785	2,200,787	4,199,887	34,307,639	
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

NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)
50.7.2 Group (Contd.)

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	2020 Total Rs.'000	2019 Total Rs.'000
Financial liabilities								
Due to banks	1,366,140	3,067,636	335,255	673,480	-	-	5,442,511	7,749,807
Due to customers at amortised cost	220,878	4,319,436	10,960,654	4,944,091	1,156,899	63,298	21,665,256	22,755,930
Debt issued and borrowed funds at amortised cost	-	-	213,226	2,355,603	-	-	2,568,829	2,466,268
Other financial liabilities	-	219,204	-	-	-	-	219,204	240,908
Total financial liabilities as at 31 December 2020	1,587,018	7,606,275	11,509,135	7,973,174	1,156,899	63,298	29,895,800	
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
Non financial liabilities								
Insurance contract liabilities-life	-	-	498,767	-	-	-	498,767	546,253
Insurance contract liabilities-non life	-	-	488,784	-	-	-	488,784	383,164
Current tax liabilities	-	-	14,831	-	-	-	14,831	14,851
Deferred tax liabilities	-	-	-	-	-	-	-	212,520
Lease liability	-	45,134	124,383	198,413	89,505	43,662	501,097	562,256
Other liabilities	-	421,128	-	-	-	-	421,128	344,625
Retirement benefits obligations	-	-	-	-	-	363,816	363,816	283,558
Total non-financial liabilities as at 31 December 2020	-	466,262	1,126,765	198,413	89,505	407,478	2,288,423	
Total non-financial liabilities as at 31 December 2019	-	385,746	1,062,653	254,869	109,294	534,665		2,347,227
Total liabilities as at 31 December 2020	1,587,018	8,072,537	12,635,900	8,171,587	1,246,404	470,776	32,184,223	
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

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	2020 Total Rs.'000	2019 Total Rs.'000
Equity								
Stated capital	-	-	-	-	-	2,124,457	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	(714,093)	(714,093)	105,125
OCI reserve	-	2,575	-	-	-	582	3,157	(9,099)
Statutory reserves	-	-	-	-	-	234,613	234,613	234,613
Non controlling interests	-	-	-	-	-	475,282	475,282	598,529
Total equity as at 31 December 2020	-	2,575	-	-	-	2,120,841	2,123,416	
Total equity as at 31 December 2019	-	(4,162)	-	-	-	3,057,787		3,053,625
Total liabilities and equity as at 31 December 2020	1,587,018	8,075,112	12,635,900	8,171,587	1,246,404	2,591,617	34,307,639	
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

50.8 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 2020.

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	2020 Total Rs.'000	2019 Total Rs.'000
Financial assets							
Cash and cash equivalents	470,773	281,992	-	-	-	752,765	358,943
Placements with banks & financial institutions	79,880	219,866	-	-	-	299,746	1,563,238
Financial investments at fair value through profit or loss	-	-	292,854	473,664	-	766,518	945,199
Loans & receivables at amortised cost	9,557,229	8,580,238	12,193,578	2,502,841	111,943	32,945,829	40,188,714
Financial investments at fair value through other comprehensive income	1,057,825	225,000	-	-	22,678	1,305,503	1,216,477
Financial investments at amortised cost	-	1,564	-	-	-	1,564	1,567
Financial other assets	58,446	-	-	-	-	58,446	47,993
Total financial assets as at 31 December 2020	11,224,153	9,308,660	12,486,432	2,976,505	134,621	36,130,371	
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

NOTES TO THE FINANCIAL STATEMENTS

50. RISK MANAGEMENT (CONTD.)

50.8 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities (Contd.)

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	2020 Total Rs.'000	2019 Total Rs.'000
Financial liabilities							
Due to banks	3,436,987	368,613	816,992	-	-	4,622,592	8,379,506
Due to customers at amortised cost	5,111,564	10,608,937	5,134,133	1,047,740	442	21,902,816	25,101,403
Debt issued and borrowed funds at amortised cost	-	226,889	2,785,028	-	-	3,011,917	3,157,151
Other financial liabilities	219,204	-	-	-	-	219,204	240,908
Total financial liabilities as at 31 December 2020	8,767,755	11,204,439	8,736,153	1,047,740	442	29,756,529	
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	2020 Total Rs.'000	2019 Total Rs.'000
Financial assets							
Cash and cash equivalents	511,344	1,762,761	-	-	-	2,274,105	1,182,104
Placements with banks & financial institutions	79,880	698,718	-	-	-	778,598	2,213,068
Financial investments at fair value through profit or loss	691,539	-	292,854	473,664	-	1,458,057	955,040
Loans & receivables at amortised cost	9,561,066	8,339,281	12,193,578	2,502,841	111,943	32,708,709	39,934,284
Financial investments at fair value through other comprehensive income	1,057,825	225,000	-	-	22,678	1,305,503	1,216,477
Financial investments at amortised cost	-	1,564	-	-	-	1,564	1,567
Financial other assets	58,446	-	-	-	-	58,446	47,993
Total financial assets as at 31 December 2020	11,960,100	11,027,324	12,486,432	2,976,505	134,621	38,584,981	
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

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	2020 Total Rs.'000	2019 Total Rs.'000
Financial liabilities							
Due to banks	3,442,816	368,613	816,992	-	-	4,628,421	8,380,292
Due to customers at amortised cost	5,111,564	10,548,932	5,134,133	1,047,740	442	21,842,811	25,101,403
Debt issued and borrowed funds at amortised cost	-	226,889	2,785,028	-	-	3,011,917	3,157,151
Other financial liabilities	219,204	-	-	-	-	219,204	240,908
Total financial liabilities as at 31 December 2020	8,773,584	11,144,434	8,736,153	1,047,740	442	29,702,352	
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

50.9 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.

Company	2020							Total 2020 Rs.'000	Total 2019 Rs.'000
	On Demand Rs.'000	Less than 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	Over 5 years Rs.'000			
Financial guarantees & claims to the customers	10,000	4,200	48,600	45,000	-	-	107,800	121,337	
Total Commitments and Contingencies as at 31 December 2020	10,000	4,200	48,600	45,000	-	-	107,800		
Total Commitments and Contingencies as at 31 December 2019	3,300	13,800	104,237	-	-	-		121,337	

Group	2020							Total 2020 Rs.'000	Total 2019 Rs.'000
	On Demand Rs.'000	Less than 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	Over 5 years Rs.'000			
Financial guarantees & claims to the customers	10,000	4,200	48,600	45,000	-	-	107,800		
Total Commitments and Contingencies as at 31 December 2020	10,000	4,200	48,600	45,000	-	-	107,800		
Total Commitments and Contingencies as at 31 December 2019	3,300	13,800	104,237	-	-	-		121,337	

The Group expects that not all contingent liabilities and commitments will be drawn before expiry of commitments.

50.10 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.

NOTES TO THE FINANCIAL STATEMENTS

51. CAPITAL MANAGEMENT (CONTD.)**51.1 Capital Adequacy Ratio (CAR) (Contd.)**

Central Bank of Sri Lanka introduced Finance Business Act Direction No 03 of 2018 with effect from 1 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	
	31 December 2019	31 December 2020	31 December 2019	31 December 2020
Tier 1 Capital	6.5	6.5	5.6	4.4
Total Capital	10.5	10.5	8.6	5.6

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 Rs. 35 Bn on loan and advances (net of interest in suspense) and Rs. 23 Bn on deposits with effect from April 2019 and May 2019 respectively.

MBSL is taking proactive measures to raise capital to enable the Company to be capital compliant in consultation with its parent company the Bank of Ceylon and the approval of the regulators including CBSL. MBSL intends to make appropriate announcements to the market in terms of the Listing Rules of the Stock Exchange in this regard. Further, the parent (Bank of Ceylon) has agreed to provide funding needed to meet regulatory requirements in case the 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	2020	
	31 December	30 September
Net interest income	649,874	155,978
Net fee and commission income	20,734	31,797
Net trading income	10,273	(390)
Net gain/(loss) on financial instruments at fair value through profit or loss	4,463	37,381
Other operating income	12,880	24,220
Total operating income	698,224	248,986
Less : Impairment charges from loans and other losses	343,745	44,266
Net operating income	354,479	204,720
Less : Total operating expense	450,520	531,855
Profit/(loss) from operations	(96,041)	(327,135)
Less : Impairment charge/(Reversal) from investment in Group companies	536,122	(59,903)
Profit/(loss) from operations after impairment of group investments	(632,163)	(267,232)
Less : Taxes on financial services	(21,023)	4,812
Profit before income tax	(611,140)	(272,044)
Less : Income tax expense/(Reversal)	(234,600)	
Profit/(loss) for the period	(376,540)	(272,044)
Statement of Comprehensive Income		
Other comprehensive income for the period, net of tax	(31,632)	
Total comprehensive income for the period, net of tax	(408,172)	(272,044)

	2020		2019			
	30 June	31 March	31 December	30 September	30 June	31 March
	190,226	421,770	614,194	615,673	440,227	531,361
	17,430	24,861	57,501	53,184	37,346	35,050
	151	278	(3,098)	6,326	4,973	1,451
	103,214	(81,429)	35,778	24,529	(12,409)	(29,131)
	3,559	5,882	20,958	17,458	14,790	15,732
	314,580	371,362	725,333	717,170	484,927	554,463
	185,461	(10,041)	142,680	(18,727)	104,935	50,785
	129,119	381,403	582,653	735,897	379,991	503,678
	473,080	499,685	565,865	515,301	516,786	524,365
	(343,961)	(118,282)	16,788	220,596	(136,794)	(20,687)
	(38,666)	19,933	(100,022)	17,140	(182,752)	-
	(305,295)	(138,215)	116,810	203,456	45,958	(20,687)
	(4,132)	20,343	72,214	81,580	81,748	52,801
	(301,163)	(158,558)	44,596	121,876	(35,790)	(73,487)
	-	-	(45,391)	-	-	-
	(301,163)	(158,558)	89,986	121,876	(35,790)	(73,487)
	-	-	(23,759)	250	(4,934)	9,550
	(301,163)	(158,558)	66,227	122,126	(40,724)	(63,937)

QUARTERLY ANALYSIS

STATEMENT OF FINANCIAL POSITION

As at	2020	
	31 December Rs.'000	30 September Rs.'000
Total assets	32,359,209	33,973,994
Loans & receivables at amortised cost	26,785,517	27,814,564
Due to customers at amortised cost	21,725,261	22,717,608
Total equity	1,467,851	1,875,515

For the quarter ended	2020	
	31 December	30 September
Market price per share (LKR)		
Highest	8.40	8.60
Lowest	7.00	7.00
Closing	7.50	8.00

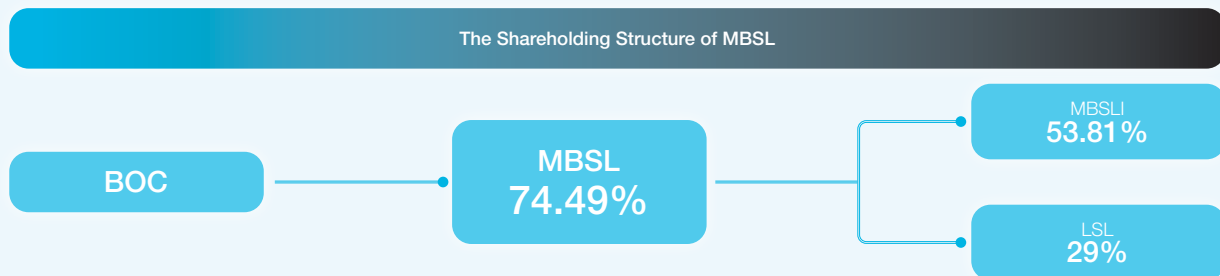
Regulatory Liquidity as at	2020	
	31 December Rs.'000	30 September Rs.'000
Required Minimum Amount of Liquid Assets	1,531,136	1,600,361
Available Total Liquid Assets	2,087,485	2,110,631
Statutory Liquid Asset Ratio	8.17	7.93

	2020			2019		
	30 June Rs.'000	31 March Rs.'000	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
	33,450,857	35,921,442	36,975,116	38,673,803	38,384,382	37,859,223
	27,363,610	27,946,814	29,261,351	30,750,428	30,742,525	31,244,252
	22,356,025	22,532,980	22,755,930	22,502,975	22,927,307	22,953,187
	2,148,074	2,449,237	2,607,788	2,541,569	2,419,443	2,247,484

	2020			2019		
	30 June	31 March	31 December	30 September	30 June	31 March
	8.50	9.60	10.30	10.50	10.70	10.90
	5.60	5.50	8.60	8.50	8.30	8.90
	8.00	5.60	9.60	8.60	8.50	10.40

	2020			2019		
	30 June Rs.'000	31 March Rs.'000	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
	1,566,836	1,642,334	2,870,890	3,129,186	3,085,616	3,066,782
	1,943,355	3,670,069	3,479,769	3,446,137	3,341,029	3,079,030
	7.44	13.27	12.30	11.17	10.99	10.19

SHAREHOLDER INFORMATION



PUBLIC HOLDINGS

	2020		2019	
	No. of shares	% of holding	No. of shares	% of holding
Shares held by the public	42,312,240	25.51%	42,312,240	25.51%
No. of public shareholders	11,040	99.96%	11,218	99.96%

	2020	
	No. of shares	% of holding
Residents	165,217,663	99.60%
Foreign	656,878	0.40%

DISTRIBUTION OF ORDINARY SHARES

	As at 31 December 2020				As at 31 December 2019			
	No. of shareholders	No. of shareholders %	No. of shares	No. of shares %	No. of shareholders	No. of shareholders %	No. of shares	No. of shares %
1 to 1,000	9096	82.36%	1,570,576	0.95%	9232	82.27%	1,613,499	0.97%
1,001 to 10,000	1531	13.86%	5,376,684	3.24%	1572	14.01%	5,525,485	3.33%
10,001 to 100,000	373	3.38%	10,523,602	6.34%	373	3.32%	10,478,726	6.32%
100,001 to 1,000,000	41	0.37%	11,563,205	6.97%	42	0.37%	11,418,126	6.88%
over 1,000,000	3	0.03%	136,840,474	82.50%	3	0.03%	136,838,705	82.50%
Total	11,044	100.00%	165,874,541	100.00%	11,222	100.00%	165,874,541	100.00%

COMPOSITION OF ORDINARY SHAREHOLDERS

		As at 31 December 2020				As at 31 December 2019			
		No. of shareholders	No. of shareholders %	No. of shares	No. of shares %	No. of shareholders	No. of shareholders %	No. of shares	No. of shares %
Resident	- Individual	10,102	91.47%	21,610,743	13.03%	10,248	91.32%	21,361,275	12.88%
	- company	895	8.10%	143,606,920	86.58%	926	8.25%	143,834,088	86.71%
Non Resident	- Individual	46	0.42%	643,228	0.39%	47	0.42%	665,528	0.40%
	- company	1	0.01%	13,650	0.01%	1	0.01%	13,650	0.01%
Total		11,044	100.00%	165,874,541	100.00%	11,222	100.00%	165,874,541	100.00%

DIRECTOS' SHAREHOLDING

Names of Directors	No. of shares 31.12.2020	As a % of total shares	No. of shares 31.12.2019	As a % of total shares
Mr. D N L Fernando	24	0.00001%	24	0.00001%

TWENTY LARGEST SHAREHOLDERS

Shareholder	As at 31 December 2020		As at 31 December 2019	
	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	11,798,960	7.11%	11,797,191	7.11%
People's Leasing & Finance PLC/Mr.D.M.P.Disanayake	1,479,247	0.89%	1,479,247	0.89%
Mr. A.M. Weerasinghe	839,201	0.51%	305,583	0.18%
Hatton National Bank PLC/Ravindra Erle Rambukwelle	756,703	0.46%	-	-
Mr. W.A.S.P. De Saram	552,537	0.33%	-	-
Merrill J Fernando & Sons (Pvt) Ltd	526,165	0.32%	526,165	0.32%
Mrs. R Jothy	509,002	0.31%	-	-
Mr. T Loganathan	428,340	0.26%	-	-
Mr. W.L.T. Anandawansa	400,100	0.24%	300,100	0.18%
Seylan Bank PLC/Spice of Life (Pvt) Ltd	395,234	0.24%	405,234	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%
Prime Lands (Pvt) Ltd	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%
Citizens Development Business Finance PLC/ D. P. Tharindu Charuka Dissanayaka	308,212	0.19%	-	-
Mr. M. F. Ozman	304,146	0.18%	304,146	0.18%
Mr. D. S. Tennakoon	303,600	0.18%	303,600	0.18%
Mrs. S. Tennakoon	300,000	0.18%	300,000	0.18%

SHAREHOLDER INFORMATION

MARKET SHARE INFORMATION

	2020	Q4	Q3	Q2	Q1	2019
Share price (Rs.)						
Highest	9.60	8.40	8.60	8.50	9.60	10.90
lowest	5.50	7.00	7.00	5.60	5.50	8.30
Closing	7.50	7.50	8.00	8.00	5.60	9.60
No. of transactions (Mn)	7,323.94	2,606.24	3,232.89	1,034.27	450.55	7,149.00
No. of shares traded (Mn)	3.86	1.34	1.57	0.57	0.38	14.35
Total number of shares issued (Mn)	165.9	165.9	165.9	165.9	165.9	165.9
Shares traded to total shares (%)	2.33	0.81	0.95	0.34	0.23	8.65
Turnover- MBSL (Rs. Mn)	56.38	19.69	25.35	7.66	3.68	138.62
Total market turnover (Rs. Mn)	396,881.51	179,081.70	113,394.51	51,881.22	52,524.08	171,407.96
MBSL turnover to total market turnover (%)	0.01	0.01	0.03	0.01	0.01	0.08
No. of days traded - MBSL	203	61	63	35	44	241
Average daily turnover-CSE (Rs. Mn)	1,898.95	2,888.41	1,771.79	1,482.32	1,094.25	711.24
Market Capitalisation - CSE (Rs. Bn)	2,960.65	2,960.65	2,595.84	2,404.67	2,128.27	2,851.30
Market Capitalisation - MBSL (Rs. Bn)	1.24	1.24	1.33	1.33	0.93	1.59
MBSL MC to CSE MC (%)	0.04	0.04	0.05	0.06	0.04	0.06
MBSL market capitalisation ranking	204	204	194	177	186	174

DEBENTURE INFORMATION

Type	Debenture - Market Information								
	2020			2019					
	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	
Issue date	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	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	15.00%	14.50%	11.47%	9.00%	8.75%	15.00%	14.50%	11.47%	
Coupon rate (%)	15.00%	14.50%	11.47%	9.00%	8.75%	15.00%	14.50%	11.47%	
Effective annual yield (%)	15.00%	15.03%	12.86%	9.00%	8.94%	15.00%	15.03%	12.86%	
Interest rate of comparable government security (%)	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%	
Frequency of interest payable	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			
Amount (Rs. Mn)	805.76	1,193.23	1.01	909.77	1,090.23	805.76	1,193.23	1.01	
ISIN No.	LK0186D23824	LK0186D23816	LK0186D23808	LK0186D22669	LK0186D22677	LK0186D23824	LK0186D23816	LK0186D23808	
Highest	105.47	106.50				102.00	100.05		
Lowest	101.00	102.17				102.00	100.00		
Closing	100.00	106.50	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	HAS NOT BEEN TRADED	100.00	100.00	HAS NOT BEEN TRADED	
Current yield (%)	15.00%	14.50%				15.00%	14.50%		
YTM (%)	15.00%	14.50%				15.00%	14.50%		

DECADE AT A GLANCE

	SLFRS			
	2020	2019	2018	2017
Operating Results				
Income	5,188,013	6,839,015	6,549,905	6,402,825
Interest expenses	3,532,790	4,331,275	3,752,471	3,708,808
Net interest income	1,417,848	2,201,454	2,442,466	2,448,478
Operating expenses & provisions	2,518,571	2,401,990	2,140,150	2,465,367
Share of associate company	-	-	-	-
Profit/(loss) before income tax	(1,342,905)	57,194	446,676	228,650
Income tax on profit (Expense)/Reversal	234,600	45,390	265,391	127,799
Profit/(loss) for the year	(1,108,305)	102,584	181,285	100,851

	SLFRS			
	2020	2019	2018	2017
Statement of Financial Position Information				
Assets				
Cash & cash equivalents including placements	1,041,852	2,832,888	965,197	1,928,482
Reverse Repurchase Agreement	-	-	1,292,670	1,302,748
Financial assets designated at FVPL	2,242,628	2,161,677	1,448,104	2,046,445
Loans & receivable at amortised cost	26,787,036	29,262,864	30,781,975	29,233,023
Investment in associate & subsidiary companies	468,508	925,994	160,360	102,201
Property & equipment, intangible assets, investment properties and real estate stock	1,348,377	1,490,405	711,918	671,726
Other assets	470,808	301,288	504,202	360,582
Total assets	32,305,209	36,975,116	35,864,426	35,645,207
Liabilities				
Due to banks	5,436,682	7,749,021	5,869,317	123,849
Cash collateral on securities lent and repurchase agreements	-	-	-	437,672
Due to customers	21,725,261	22,755,930	20,831,021	21,918,869
Debt issued and borrowed funds	2,568,829	2,466,268	5,331,077	8,818,862
Other liabilities & deferred taxation	1,160,586	1,396,109	1,308,907	1,112,135
Total liabilities	30,891,358	34,367,328	33,340,322	32,411,387
Net assets	1,467,851	2,607,788	2,524,104	3,233,820
Capital Employed				
Stated capital	2,124,457	2,124,457	2,124,457	2,124,457
Retained earnings & reserves	(656,606)	483,331	399,647	1,109,363

SLFRS					
2016	2015	2014	2013	2012	2011
4,888,155	4,216,991	4,734,641	2,355,366	1,869,714	1,393,526
2,709,604	2,133,325	2,579,431	1,371,937	1,035,739	541,370
2,028,170	1,939,834	1,805,198	893,899	779,559	782,407
1,945,654	2,119,094	2,101,923	807,547	590,572	483,141
-	-	-	-	-	60,248
232,897	(35,428)	53,287	175,882	243,403	429,263
154,247	42,878	83,957	58,942	42,156	92,992
78,650	(78,306)	(30,670)	116,940	201,247	336,271

SLFRS					
2016	2015	2014	2013	2012	2011
520,234	820,923	2,026,901	964,584	296,372	97,260
265,687	785,965	465,211	140,768	116,532	450,000
3,059,300	2,296,177	2,060,990	930,672	1,007,544	704,942
27,109,765	23,282,286	21,422,320	9,905,403	9,286,076	7,513,481
158,390	391,281	597,180	1,008,106	678,823	629,484
470,738	403,918	373,195	95,132	107,675	54,201
342,640	294,000	368,127	224,135	398,289	378,374
31,926,754	28,274,550	27,313,924	13,268,800	11,891,311	9,827,742

201,635	258,062	200,002	99,118	138,239	183,718
401,820	416,472	442,170	-	419,462	930,597
18,518,419	15,846,306	11,092,643	-	-	-
8,722,787	7,883,323	11,141,793	9,623,147	7,946,502	5,356,872
975,578	862,325	1,285,893	765,659	693,449	594,280
28,820,239	25,266,488	24,162,501	10,487,924	9,197,652	7,065,467
3,106,515	3,008,062	3,151,423	2,780,876	2,693,659	2,762,275
2,124,457	2,124,457	2,124,457	1,607,000	1,607,000	1,607,000
982,058	883,602	1,026,965	1,173,876	1,086,659	1,155,275

DECADE AT A GLANCE

	SLFRS			
	2020	2019	2018	2017
Investors Ratios				
Market value of a voting share - Rs.	7.50	9.60	9.60	13.50
Basic Earnings Per Share - Rs.	(6.68)	0.62	1.09	0.60
Net Assets Value Per Share - Rs.	8.85	15.72	19.33	19.50
Price Earnings Ratio - Times	(1.12)	15.52	8.78	22.20
Earning Yield - %	(89.09)	6.44	11.38	4.50
Operating Ratios				
Return on Net Assets - %	(54.39)	4.00	6.30	3.18
Net Profit - %	(21.32)	1.50	2.77	1.58
Return on Assets - %	(3.20)	0.28	0.51	0.30
Net Interest Margin - %	4.50	6.52	7.83	7.64
Cost to Income Ratio - %	119.72	85.51	70.70	73.10
Income Growth - %	(24.14)	4.41	2.30	30.99
Assets Growth - %	(12.48)	3.10	0.62	11.65
Net Assets Growth - %	(43.71)	3.32	(21.95)	4.10
Gearing Ratios				
Debt to Equity - Times	20.25	13.18	13.21	9.68
Interest Cover - Times	0.62	1.01	1.12	1.06
Liquidity Ratios				
Quick Ratio - Times	-	-	-	0.77
Liquidity Ratio	8.17	12.30	10.20	11.49

	SLFRS					
	2016	2015	2014	2013	2012	2011
	13.60	15.00	17.50	13.60	19.90	39.60
	0.50	(0.47)	(0.18)	0.87	1.49	2.49
	18.73	18.13	19.00	20.60	19.95	20.46
	28.68	(31.77)	(94.65)	15.70	13.35	15.90
	3.49	(3.15)	(1.06)	6.37	7.49	6.29
	2.57	(2.54)	(0.97)	4.21	7.47	12.17
	1.61	(1.86)	(0.65)	4.96	10.76	24.13
	0.26	(0.28)	(0.11)	0.88	1.69	3.42
	7.18	7.61	9.96	8.22	8.37	11.14
	71.89	66.89	62.05	65.71	55.03	34.19
	15.92	(10.93)	86.46	25.97	34.17	(8.50)
	12.92	3.52	75.91	11.58	21.00	37.62
	3.27	(4.55)	4.95	3.24	(2.48)	5.09
	8.96	8.11	3.88	3.50	3.16	2.34
	1.09	0.98	1.02	1.13	1.24	1.79
	0.66	0.76	0.88	0.69	0.75	1.15
	10.75	11.25	-	-	-	-

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 amortisation 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 Utilised 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/Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses in relation to total operating income.

$$\frac{\text{Total Operating Expenses}}{\text{Total Operating Income}} \times 100$$

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 maximise the current assets on its balance sheet to satisfy its current debt and other payables.

$$\frac{\text{Current Assets}}{\text{Current Liabilities}}$$

D

Debt Equity Ratio

Long-term borrowings divided by shareholder's equity

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 recognised financial asset or financial liability from an entity's Statement of Financial Position.

Dividend Per Share (DPS) (Rs:)

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

Profit /(Loss) Attributable to Ordinary Shareholders

Number of Ordinary Shares

Dividend Yield

Dividend per share as a percentage of its market value.

Dividend Per Ordinary Share
Market Price Per Share x100

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.

Earning Per Share
Market Price Per Share x100

Earnings per Ordinary share (EPS)

Profit attributable to ordinary shareholders divided by the number of ordinary shares in issue.

Profit /(Loss) Attributable to ordinary shareholders

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 organisation over a period as a percentage of average employees during the period.

Number of attritions during the year
Average number of employees during the year x100

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

G

Gearing

Long term borrowings divided by the total funds available for shareholders.

Global Reporting Initiative (GRI)

GRI is a leading organisation in the sustainability field. GRI promotes the use of sustainability reporting as a way for organisations 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.

Profit Before Interest & Tax

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.

Liquid Assets Ratio

Liquid assets expressed as a percentage of total liabilities other than shareholders' funds.

Liquidity Risk

The risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities.

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 an 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.

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.

BASIS OF RATIO & GLOSSARY

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

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
REGION 01					
BOC Merchant Tower, No.28, St.Michael's Road, Colombo 03	011-4711736	011-4711768	Mr. Sulochana Munasinghe Regional Manager - Region 01	076-9956527	sulochanam@mbslbank.com
Corporate Business Unit					
BOC Merchant Tower, No.28, St.Michael's Road, Colombo 03	011-4711711	-	Mr. Daya Sagar Vijayan Manager	076-9716907	dayasv@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					
No. 390 A, Kaduwela Rd, Malabe	011-4498505	011-4498502	Mr. Chandrasekaran Sanjeev Branch Manager	077-3240053	sanjeevc@mbslbank.com
Nugegoda Branch					
No. 196, High Level Road, Nugegoda	011-504966/7	011-2815535	Mr. Thusara Muramudali Branch Manager	077-6720479	thusaram@mbslbank.com
Moratuwa Branch					
No. 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. Ranga Peiris Branch Manager	070-2478164	navodav@mbslbank.com
Kottawa Branch					
No. 262/2A, High Level Road, Kottawa	011-4504962	011-2783389	Mr. Sampath Gunasekera Branch Manager	077-6721537	sampathg@mbslbank.com
Horana Branch					
No. 212, Panadura Road, Horana	034-4200101 034-4200102	034-2262973	Mr. Chanaka Piyumal Assistant Manager	077-0678511	piyumalc@mbslbank.com
Wattala Branch					
No. 500/B/C, Negombo Road, Wattala	011-4504671	011-4504672	Mr. Pradeep Kumarage Branch Manager	077-6722479	pradeepk@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	011-4504678 011-4504679 011-4324180 011-4324182	-	Mr. Nadeesha Saparamadu Manager	077-6721708	nadeeshap@mbslbank.com

CONTACT INFORMATION

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
Kadawatha Branch					
No. 1246/A, Kandy Road, Kadawatha	011-4504920	011-2920335	Mr.Udesh Manjula Branch Manager	077-3240873	udeshm@mbslbank.com
Kandana Branch					
No. 310, Colombo Road, Kandana	011 -4344073 011-4344072	-	Mr. Lasantha Segera 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. Dilip Niroshan Branch Manager	077-4550970	dilipn@mbslbank.com
REGION 02					
Level 09, Bank of Ceylon Merchant Tower, No. 28, St Michel's Road, Colombo 03	011-4711711	-	Mr. Niroshan Selvarajah Assistant General Manager	077-7514795	niroshans@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.Pathum Dassanayake Manager	077 6720861	pathumd@mbslbank.com
Galle Branch					
No. 37, New Street, Gnanobhashatha Mawatha, Galle	091- 4 711711 091-4 711700	091-2234750	Mr. Shayaman Karunanayaka Manager	077-5506573	shyamank@mbslbank.com
Matara Branch					
No. 344/F, Anagarika Dharmapala Mawatha, Nupe, Matara	041 4 650 400 0414650420	041-2233886	Mr.Manjula Prasad Krasinghe Arachchige Manager	077-9286365	manjulak@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					
No. 426, Galle Road, Kalutara South	034 4200105	034-2229482	Mr.Prasanna Buddika Gunarathne Manager	077-7360320	prasannabg@mbslbank.com
Ambalangoda Branch					
No. 45, Station Road, Ambalangoda	091-4943759 091-4943765	091-2256675	Mr.Dharmendra Niwantha Branch Manager	077-3240887	dharmendraa@mbslbank.com
Deniyaya Branch					
No. 1/153, Hospitle Road, Deniyaya	041-4935173 041-4935174	041-2273731	Mr. Ranuka Sanjeewa Branch Manager	077-3434143	ranukas@mbslbank.com
Embilipitiya Branch					
No. 79/A, New Town Road, Embilipitiya	047-7711711 047-7711700	047-2261735	Mr. Kishan Keerthi Branch Manager	077-3240572	keerthid@mbslbank.com

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
Tissamaharama Branch					
No. 117, Halambagaswala Road, Palliyawatta Junction, Tissamaharama	047-2238716	047-2238717	Mr. Ruchira Sameera Manager	076-7348744	ruchiras@mbslbank.com
REGION 03					
Kurunegala Branch					
No. 55, Kings Groove, Rajapihilla Road, Kurunegala	037-4711700	037-2224215	Mr. Keerthi Ramanayake Assistant General Manager	077-3219578	keerthir@mbslbank.com
No. 55, Kings Groove, Rajapihilla Road, Kurunegala	037-4711711	037-2224570	Mr. Indika Pushpakumara Manager	077-3792957	indikap@mbslbank.com
Kuliyapitiya Branch					
No. 413/1/1, Madampe Road, Kuliyapitiya	037-2281730 037-4941147 037-4200130 037-4200131	037-2281731	Mr. Lakmal Jayathunga Branch Manager	077-3240896	lakmalj@mbslbank.com
Dambulla Branch					
No. 343/B, Matale Road, Dambulla	066-4200105 066-2284204/5	066-2284204	Mr. Nishantha Dhahanaka Branch Manager	077-3661977	nishanthad@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. Amila W. Mawathawewa Manager	077-2519083	amilaw@mbslbank.com
Kekirawa Branch					
No. 24, Yakalla Road, Kekirawa	025-4928951 025-4928952	025-2264799	Mr. Chaminda Batagoda Branch Manager	077-3240274	kumarab@mbslbank.com;
Puttalam Branch					
No. 126/B, Kurunagala Road, Puttalam	032-2267285 032-4928795 032-4928796	032-2267776	Mr. Sugath Jayamanna Officer in Charge	077-3240631	sugathj@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. Nuwan Prasanga Manager	077-3973424 077-6643542	nuwanp@mbslbank.com
Chilaw Branch					
No. 6, Ebert Silva Estate, Colombo Road, Chilaw	032-4928790 032-4928791	032-2224033	Mr. Chinthana Jayasekera Manager	077-7151216	chinthanap@mbslbank.com

CONTACT INFORMATION

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
REGION 04					
No. 284, Katugasthota Road, Kandy	081-4481702 081-2224820 081-2202213	081-2213880	Mr.Saman Pathmadeera Regional Manager	077-3219579	samanp@mbslbank.com
Kandy Branch					
No. 284, Katugasthota Road, Kandy	081-2224818/9 081-4951786/7	081-2213880	Mr.Chaminda Amarasinghe Manager	077-3047775	chamindaa@mbslbank.com
Kandy Branch - City Office					
No. 88, "Ceybank House" Dalada Veediya, Kandy	081-2237378 081-2237380 081-2237379	081-2237378	Mr.Krishantha Bandara Branch Manager	077-3241027	krishanthab@mbslbank.com
Avissawella Branch					
No. 89 /1/1, Ratnapura Road, Avissawella	036-4928208 036-4928209	036-2232030	Mr.Chinthaka Athukorala Manager	077-3241089	chinthakaa@mbslbank.com
Ratnapura Branch					
No. 231, Main Street, Rathnapura	045-4928089 045-4928093	045-2232524	Mr. Amal Geekiyanage Branch Manager	077-3240384	amals@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
Bandarawela Branch					
No. 11, Thanthiriya, Badulla Road, Bandarawela	057-4926910 057-4926911	057-2233807	Mr. Chandana Rohan 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	Ms.Dinusha Wijethilake Assistant Manager	077-6573879	dinushaw@mbslbank.com
Gampaha Branch					
No. 390, Colombo Road, Gampaha	033-4200110 033-4200109	033-2234227	Mr. Gayan Wijesinghe Branch Manager	077-2970205	Gayanpw@mbslbank.com
Ampara Branch					
No. 6, D S Senanayake Veediya, Ampara	063-4923540 063-4923541	063-2224260	Mr.Chaminda Kadigamuwa Manager	077-3240817	sanjeewac@mbslbank.com

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
North East Region					
Region office					
No. 104/1, Station Road, Vavuniya	024-4711709 024-4711714		Mr.Rengasamy Saravanan Acting Regional Manager	077-6519372	saravananr@mbslbank.com
Jaffna Branch					
No. 317,Clock Tower Road, Jaffna	021-4200141		Mr.Sanmugavel Harishangar Manager	077-5147548	harishangars@mbslbank.com
Kilinochchi Branch					
No. 30, A9 Road, Karadippokku, Kilinochchi	021-2280078	021-2280079	Mr.Satchithanathan Uganthan Branch Manager	077-6664465	Uganthans@Mbslbank.Com
Vavuniya Branch					
No. 104/1, Station Road, Vavuniya	024-4711711		Mr. Kanesalingam Thusijanthan Branch Manager	077-3241007	thusijanthank@mbslbank.com
Batticaloa Branch					
No. 28, Bar Road, Batticaloa	065-4926787 065-4926799	065-2228575	Mr.Panchadcharam Nivaraj Manager	077-3240721	nivarajp@mbslbank.com
Trincomalee Branch					
No. 133,Main Street, Trincomalee	026-4924788		Mr. Sahayanathan Uniton Junior Executive	076-5462793	unitons@mbslbank.com

NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Thirty Ninth (39th) Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3 on Tuesday 29th June 2021 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform without the physical presence of the Shareholders, due to the prevailing COVID-19 pandemic in the country 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 2020 together with the Report of the Auditors thereon.
2. To re-elect as Director Mr. D N L Fernando who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To re-elect as Director Mr. A M A Perera who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
4. To elect as a Director Mr. M P R Kumara 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. G A Jayashantha 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 and to determine the Audit Fees in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.
7. To authorise the Directors to determine donations for the financial year ending 31.12.2021.

By Order of the Board of

MERCHANT BANK OF SRI LANKA & FINANCE PLC



Amila Belpamulla
Company Secretary

31 May 2021
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 authorised 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. K Ratwatte/ Mr. A M A Perera/ 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/
 Mr. G A Jayashantha) 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 Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael’s Road,
 Colombo 3 on Tuesday 29th June 2021 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform and at any adjournment thereof and at every poll
 which may be taken in consequence thereof. *I/We the undersigned hereby authorise my/our Proxy to vote on *my/our behalf in accordance with the
 preference indicated below:

No.		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 2020 together with the Report of the Auditors thereon.		
02	To re-elect as Director Mr. D N L Fernando who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.		
03	To re-elect as Director Mr. A M A Perera who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.		
04	To elect as a Director Mr. M P R Kumara 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. G A Jayashantha 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 and to determine the Audit Fees in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.		
07	To authorise the Directors to determine donations for the financial year ending 31/12/2021.		

Signed this day ofTwo Thousand and Twenty One.

.....
 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

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 authorised in writing, or if such appointor is a corporation under its Common Seal or under the hand of its Attorney or duly authorised 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 ANNUAL GENERAL MEETING (AGM) TO BE HELD VIA MS TEAMS ONLINE MEETING PLATFORM

Tuesday 29th June 2021 at 10.00 a.m

Dear Shareholder,

We wish to inform you that the Thirty Ninth (39th) 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 Meetings.

The AGM is scheduled to be held on Tuesday 29th June 2021 at 10.00 a.m at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3.

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 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 not less than 48 hours prior to the time appointed for the holding of the AGM.
- (iii) 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 authorised only for the use by the shareholders/ proxy holders.

Instructions to register for the online platform are given in a separate document enclosed with these Guidelines (Annexure II).

- (iv) All individuals participating at the meeting remotely through online platform are required to identify themselves when communicating online at the AGM.
- (v) 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.
- (vi) The shareholders who wish to submit their proxies, can duly complete the proxies as per the instructions given therein and send to the following e-mail address:

dinushar@mbslbank.com or fax to No. 0114711742 or post to the address given in the Registration Form not less than 48 hours prior to the time appointed for the holding of the AGM.
- (vii) The shareholders who are unable to participate in the AGM via Online Meeting Platform 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 30 working days from the date of the AGM.
- (viii) MBSL will be proceeding to hold the AGM as set out herein irrespective of whether the date of the AGM is declared as a holiday or curfew is imposed since the aforesaid measures will enable the required participation at the meeting.

Note:

- For any queries regarding these Guidelines, please contact Ms. Dinusha Rajapaksha on 0114711711 (Ext. 1667) OR 0114711777 OR Ms. Shaheela Shibly, Sr. Asst. Company Secretary on 0114711743 during normal working hours (8.30 a.m. to 5.00 p.m.)

REGISTRATION FORM

ANNEXURE I

REGISTRATION FORM

ANNUAL GENERAL MEETING
 Tuesday 29th June 2021 at 10.00 a.m
 At the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC,
 BOC Merchant Tower, No.28 St. Michael’s Road, Colombo 03

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:	
Willingness to participate via online	YES <input type="checkbox"/> NO <input type="checkbox"/>
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.

REGISTRATION PROCESS FOR THE AGM TO BE HELD VIA ONLINE MEETING PLATFORM

ANNEXURE II

The 39th Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3 on Tuesday 29th June 2021 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform without the physical presence of the Shareholders, due to the prevailing COVID-19 pandemic in the Country.

METHOD OF HOLDING THE AGM

Only the key officials who are essential for the administration of the formalities of the meeting will be physically present at the meeting. All others, including shareholders, will participate via an online meeting hosted on the TEAMS platform. These measures are being adopted to observe "social distancing" requirements as stipulated by the Government.

PARTICIPATION VIA AN ONLINE MEETING PLATFORM

The login information will be authorised only for the use by individual Shareholders, Proxy holders and authorised representatives in case of Institutional Shareholders and the Company will not be responsible or liable for any misuse. Where the Proxy holders are concerned, please note that the login information will only be shared with those in whose favour a valid proxy has been submitted by the Shareholder. Please follow the following instructions for participation online:

1. Shareholders are required to join the virtual AGM by clicking on the **meeting link** and user credentials sent by the Company via email.
2. The Shareholders whose online participation request has been accepted will receive a separate email containing the **meeting link** and user credentials from the Company, twenty four (24) hours prior to the commencement of the AGM.
3. If a Shareholder/Proxy holder intends to join the Virtual AGM via a smart phone, it is necessary for him/her to download the "**Teams Mobile App**" onto his /her smart phone. Similarly if a Shareholder/Proxy holder wishes to attend the Virtual AGM via a desktop computer, the link can be opened by downloading the "**Teams Desktop App**" to the respective desktop computer (Compatible web browser: **Google Chrome**).
4. The Shareholders/Proxy holders are requested to use the web link which will be forwarded by the Company and click on "**Virtual AGM Registration**" in order to log into the meeting.
5. Upon clicking on the link forwarded by the Company, Shareholders/Proxy holders will be redirected to an interface where they will be requested to enter their **first name, last name, email address, re- enter email address and National Identity Card** Number. (The participants are required to enter the correct details as mentioned in the registration form forwarded to us where any mismatch will be considered as an unsuccessful log in)
6. Participants are required to click on "**Join the Virtual AGM of MBSL**".
7. It is recommended to join the meeting at least ten (10) minutes before the start of the AGM. The Online Meeting Platform will be active twenty (20) minutes before the start of the AGM.
8. Once the credentials are inserted, he/she will be directed to the Virtual AGM Teams Platform.
9. When declaring the position of a resolution, Chairman will take in to account the voting of the Shareholders/ Proxy holders participating virtually.
10. It is advised to check the online AGM access at least 3 hours prior and also ensure that your devices have an audible sound system so that you could be a part of the AGM comfortably.

CORPORATE INFORMATION

NAME OF COMPANY

Merchant Bank of Sri Lanka & Finance PLC
(Formerly known as 'Merchant Bank of Sri Lanka PLC')

COMPANY REGISTRATION NO

PQ10

LEGAL FORM

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

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

CENTRAL BANK REGISTRATION NO.

050

FINANCIAL YEAR END

31 December

WEBSITE

www.mbslbank.com

BOARD OF DIRECTORS

Mr. K Ratwatte (Chairman)
Mr. A M A Perera (Senior Director)
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
Mr. G A Jayashantha

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. 519, T B Jayah Mawatha, Colombo - 10.
Tel : 2 304500
Fax: 2 300499
E-mail : info@mbslinsurance.lk
Web : www.mbslinsurance.lk

ASSOCIATE COMPANY

Lanka Securities (Pvt.) Ltd
No. 228/1, Galle Road Colombo 04.
Tel: 4706757
Fax: 4706767
E-mail : lankasec@sltnet.lk
Web : www.lsl.lk

AUDITORS

The Auditor General

LAWYERS

Julius & Creasy
Attorneys-at-Law, Solicitors & Notaries Public
No. 371, R A De Mel Mawatha, Colombo 03.

PRINCIPAL BANKER

Bank of Ceylon

