

GATHERING MOMENTUM

MERCHANT BANK OF SRI LANKA & FINANCE PLC
ANNUAL REPORT 2018

GATHERING MOMENTUM

Every day the banking & financial industry makes leaps and strides in keeping up with the vast advancement of technology and innovation which makes financial responsibility an absolute breeze. In our efforts to cater to an upwardly mobile client base, we too have kept pace and introduced more ways in which financial transactions become easier. While our reach is expanding we are also looking inward to discover what more can be done to become stronger, more stable and more flexible in catering to new markets. We are gathering momentum and it's full steam ahead.

CONTENTS

INTRODUCTION TO THE REPORT

- About this Report / 4
- About the Company / 5
- Vision, Mission and Values / 5
- Our Journey / 6
- Organization Structure / 8
- Product Portfolio and Features / 10
- Awards and Accolades / 13
- Board of Directors / 14
- Corporate Management / 18
- Regional Managers / 22

THE YEAR AT A GLANCE

- Key figures / 24
- Non-financial highlights / 25

KEY MESSAGES

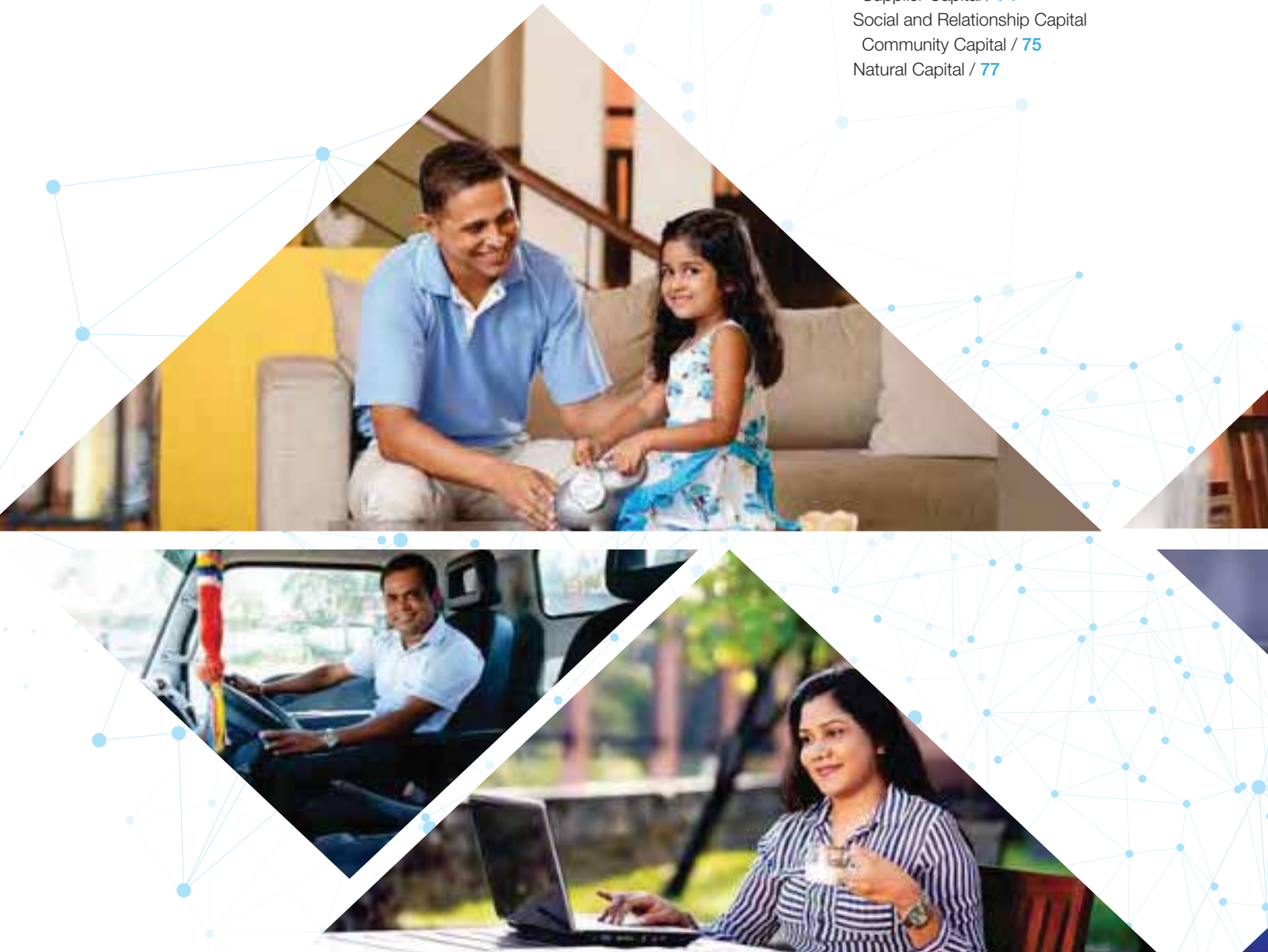
- Chairman's Statement / 28
- Chief Executive Officer's Report / 31

VALUE CREATION BLUEPRINT

- Chairman's Statement / 28
- Chief Executive Officer's Report / 31
- Business Model / 36
- Stakeholder Engagement / 38
- Risks and Opportunities / 40
- Materiality Analysis / 41
- Strategy and Resource Allocation / 42

MANAGEMENT DISCUSSION AND ANALYSIS

- Operating Environment / 48
- Leasing / 50
- Corporate and Retail Credit / 51
- Corporate Advisory / 52
- Deposits / 53
- Economic Value Added / 55
- Financial Capital / 56
- Manufactured Capital / 62
- Intellectual Capital / 64
- Human Capital / 68
- Social and Relationship Capital
 - Customer capital / 72
- Social and Relationship Capital
 - Supplier Capital / 74
- Social and Relationship Capital
 - Community Capital / 75
- Natural Capital / 77



GOVERNANCE AND RISK MANAGEMENT

Corporate Governance Report / [82](#)
Annual Report of the Board of Directors on the Affairs of the Company / [112](#)
Audit Committee Report / [118](#)
Remuneration Committee Report / [120](#)
Related Party Transactions Review Committee Report / [121](#)
Integrated Risk Management Committee Report / [122](#)
Risk Management Report / [124](#)

FINANCIAL INFORMATION

Financial Calendar / [131](#)
Directors' Responsibility Statement on Internal Control over Financial Reporting / [132](#)
Directors' Responsibility for Financial Reporting / [133](#)
Report of the Auditor General / [134](#)
Statement of Profit or Loss / [138](#)
Statement of Comprehensive Income / [139](#)
Statement of Financial Position / [140](#)
Statement of Financial Position / [141](#)
Statement of Changes in Equity / [142](#)
Statement of Cash Flows / [143](#)
Notes to the financial statements / [144](#)

SUPPLEMENTARY INFORMATION

Quarterly Analysis / [242](#)
Decade at a Glance / [244](#)
Independent Assurance Report / [248](#)
GRI Checklist / [250](#)
Basis of Ratio / [254](#)
Glossary / [256](#)
Contact Information / [260](#)
Corporate Information / [266](#)
Notice of Meeting / [267](#)
Notes / [268](#)
Form of Proxy / [271](#)



ABOUT THIS REPORT

GRI 102-46, 102-49, 102-50, 102-51, 102-52, 102-53, 102-54, 102-56

Scope and Boundary

This is the 5th integrated annual report prepared by MBSL. Prior to this, our most recent integrated report was prepared for the year ended 31 December 2017. The 2018 report presents the economic, social and environmental performance, as well as the financial results of the Company for the annual reporting cycle between 01 January 2018 to 31 December 2018. The report also contains an overview of the corporate governance and risk management frameworks in accordance with the Code of Best Practice on Corporate Governance issued jointly by the Institute of Chartered Accountants of Sri Lanka (CASL).

Reporting Frameworks

This integrated annual report remains the primary source of communication with stakeholders and its main objective is to show how we are working to improve every aspect of our business for the benefit of our stakeholders. As such the information contained herein has been structured in accordance with the IIRC's <IR> "Six Capitals" reporting framework to illustrate how we are investing in the different forms of capital in order to keep generating value outcomes for our stakeholders.

Where possible the report also makes reference to the Global Reporting Standards for the measurement of certain key sustainability indicators.

Material Issues

To determine the content to be included in this report, we have applied the principle of materiality. Accordingly the 23 material issues identified in page 41 provide the context for the areas discussed in this report.

There are a few changes to the material topics and topic boundaries between 2017 and 2018 as explained below;

2017 Topic	Change in the Topic Boundary for 2018
Credit quality	Has been considered under NPL management
Changing regulation	Has been considered under government regulation
Regulatory requirements such as customer relationship framework	Has been considered under compliance
Effluents and Waste	Has been considered under environmental Impact of the business
Climate action	Has been considered under environmental Impact of the business
Minimize the environmental impact	Has been considered under environmental impact of the business

Assurance

The information captured in the report has been obtained from various sources within the company. All content disclosed herein has been first verified for completeness, balance, comparability, accuracy, reliability, timeliness and clarity, in accordance with the company's general disclosure policies as well as the policies of the wider BOC Group. This is done using a combination of internal controls, management assurance and compliance and internal audit reviews

A further independent review of the financial statements have been provided by the Auditor General of Sri Lanka. Their review is shown in Pages 134 to 137.

Forward-Looking Statements

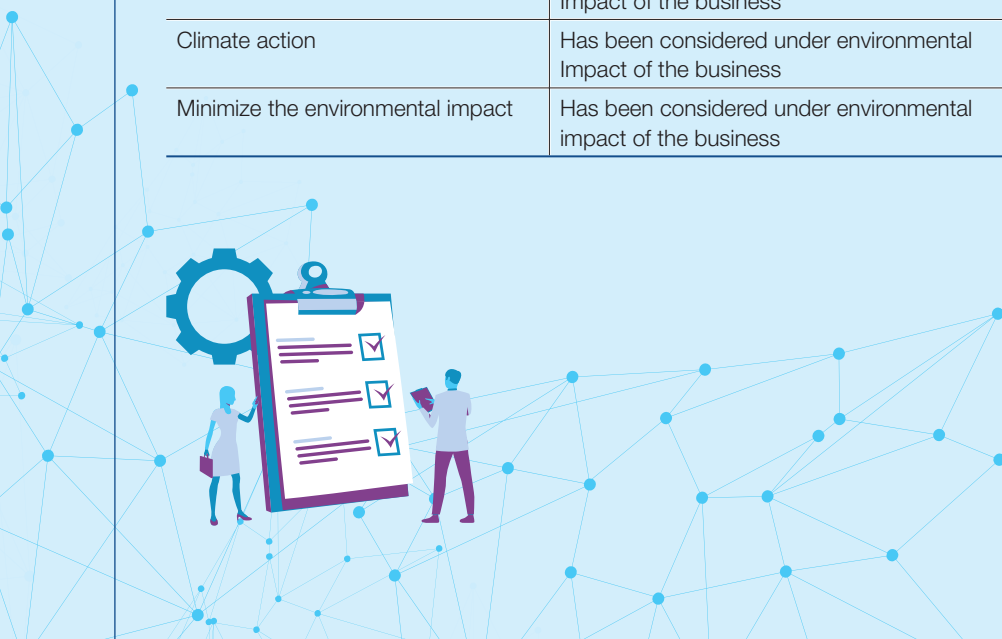
This Report includes forward-looking statements, which relate to the possible future financial position and results of MBSL's operations. These statements by their nature involve an element of risk and uncertainty, as they relate to events and depend on circumstances that may or may not occur in the future. However, we do not undertake to update or revise any of these forward-looking statements publicly, whether to reflect new information or future events or otherwise.

Feedback

Any feedback or comments regarding this report can be directed to;

Head of Finance

Merchant Bank of Sri Lanka & Finance PLC
 BOC Merchant Tower,
 No.28, St. Michael's Road,
 Colombo-3
 Tel: 0114711749
 purnak@mbslbank.com



ABOUT THE COMPANY

GRI 102-16

MBSL is a part of the Bank of Ceylon Group, the largest state-owned bank in the country. Incorporated in 1982, MBSL entered Sri Lanka's financial services sector as the first and only specialized merchant bank in the country at the time. Merchant Bank of Sri Lanka PLC has been re-registered in term of Companies Act No. 07 of 2007 in the year 2007. Merchant Bank of Sri Lanka & Finance PLC has received its License to carry on Finance Business on 01.01.2015 (Finance Business Act) and has since grown to become one of the leading non-bank financial services institutions in the country. MBSL's market capitalization value as at 31 December 2018 was Rs 1.59 Bn, easily one of the highest in the industry.

Since the inception, MBSL has been fully committed towards uplifting the socioeconomic well-being of the people of Sri Lanka and today operates through a network of 49 branches across the island. Over the years MBSL has built a solid base of over 178,570 customers by offering the full gamut of financial products and services to cater to every segment of the market.

VISION, MISSION AND VALUES

OUR VISION

To be the most innovative business solution provider to the nation

OUR MISSION

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

OUR VALUES

- Uphold the highest traditions of ethics, norms and best practices in all our endeavors
- 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

2014

- Name Changed to Merchant Bank of Sri Lanka & Finance PLC.
- GOLD AWARD for the annual report 2013 in the leasing sector.

2015

- Amalgamation of MBSL , MCSL & MSB and started operations as a RFC.
- GOLD AWARD for the annual report 2014 in the leasing sector.
- Islamic finance and pawning operations expanded in some branches.

2016

- Best Employer Brand Award in Sri Lanka.
- Emerging Financial Institute of the year award.

2012

- 30th Anniversary , opened up 16 new branches.

2009

- Took over MBSL Savings Bank and MBSL Insurance.
- Central Bank of Sri Lanka appointed MBSL as the managing agent of The Finance Company PLC.
- "Bronze Award" for Financial Institutions.

2008

- AA- Institutional Rating "Silver Award – Joint" for Financial Institution.

1980

- Operated as a management consultancy division of BOC.

1982

- Formed as a limited liability company , the first Merchant Bank in Sri Lanka.

1989

- Formed Lanka Securities (Pvt) Ltd, the first share brokering company in Sri Lanka.

2017

- Asia's " Best Employer Brand" Award.
- International Europe Award for Quality.
- Award for the "Best Service Provider" in HR.
- Award for the 100 Top Global HR Minds.
- The Company paved way for system change: Core Banking System.

2018

- National ICT Best Quality ICT Awards.
- Asia Pacific ICT Alliance Awards (APICTA Awards) Guangzhou.

2007

- Annual Report Award.

2006

- Obtained ISO 9001 – 2000 & National Productivity Award.

2005

- Alliance with SBI Capital Markets Ltd – India.

1991

- Listed in the Colombo Stock Exchange.

1992

- Took over Colombo Credit Ltd.

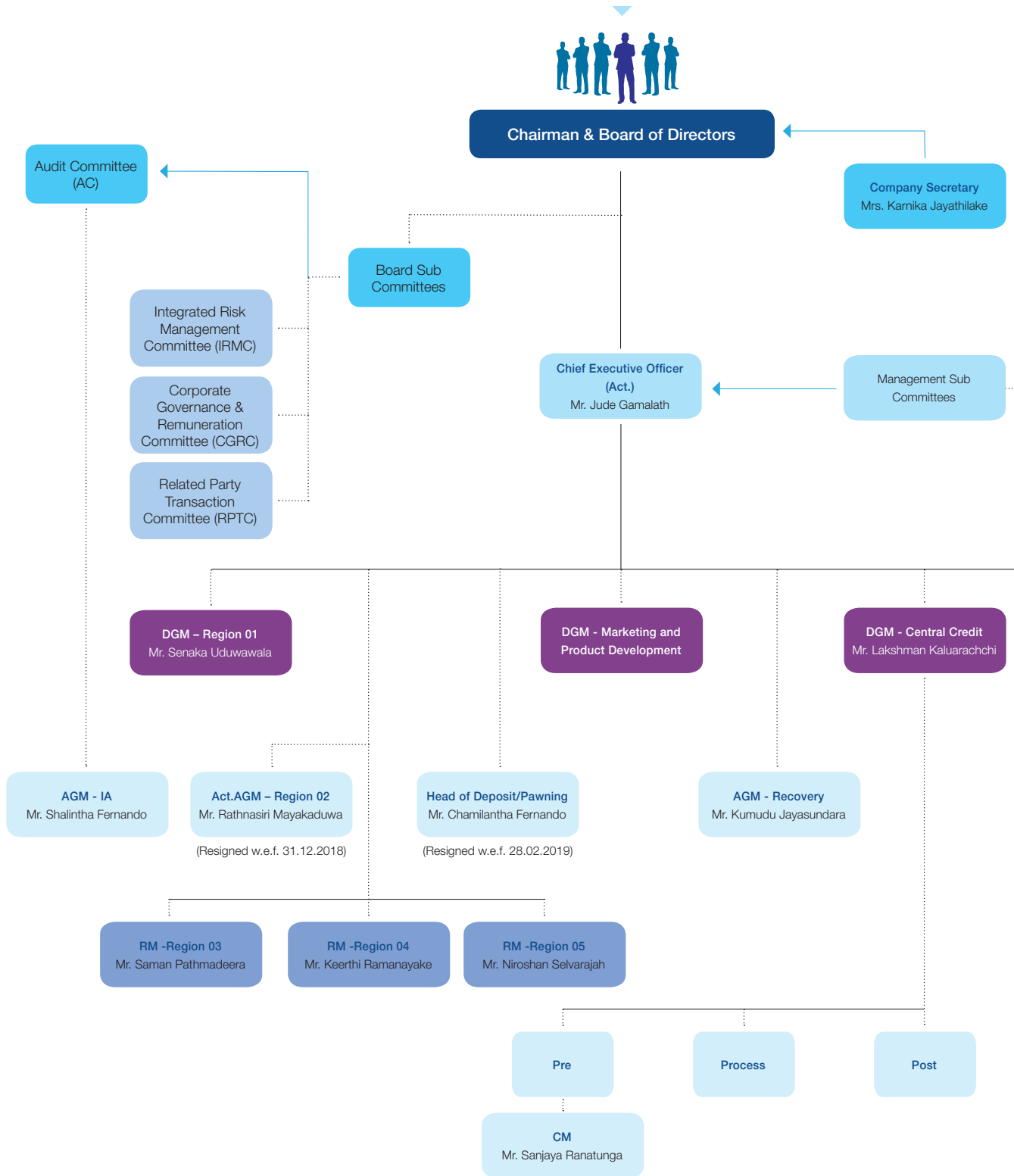
2000

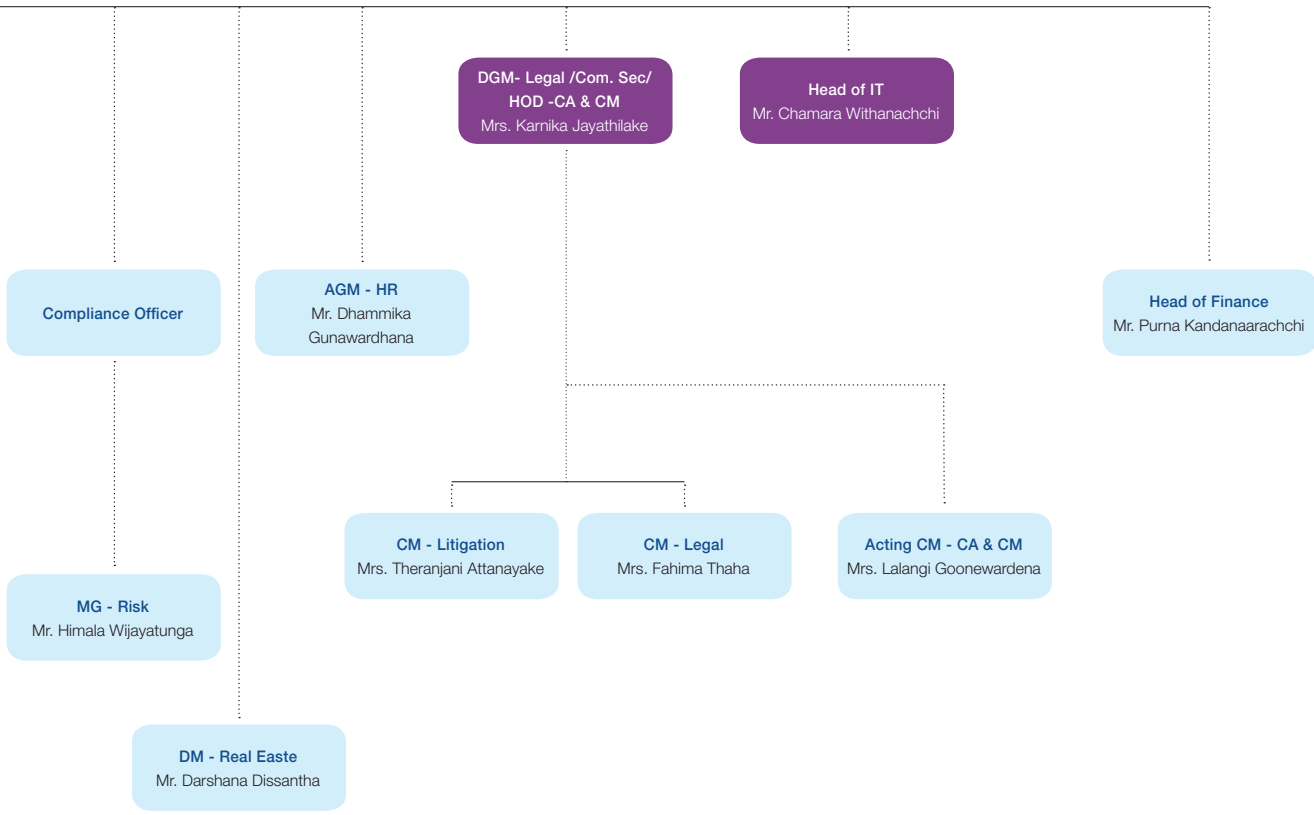
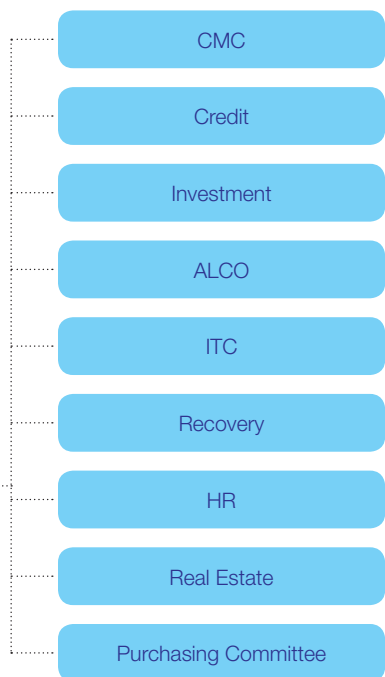
- Obtained license from CBSL to operate as a leasing company.
- Awarded Taiki Akimoto 5S (JASTECA).

ORGANIZATION STRUCTURE

GRI 102-18, 102-22

Corporate Management & Regional Structure - Merchant Bank of Sri Lanka & Finance PLC





PRODUCT PORTFOLIO AND FEATURES

GRI 102-2, 102-10

Lending Products

Leasing



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

MBSL leasing provide a tailor-made flexible finance plan to the customer to suit his/her income and lifestyle with hassle free leasing arrangement in minimum time period.

Loans



Term Loans

Term loans are given at fixed interest rates depending on the customer request, in a way of fixed property mortgage loans, that is secured against collateral.

Pravardhana Loans

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

Personal Loans

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

Car Loan

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

Speed Draft

MBSL Speed draft is one of the new product launched by MBSL in 2018. MBSL Speed draft mainly focused at providing speedy financial solutions to the Sri Lankan business community and professionals. The main feature of Speed draft facility is that it fulfils the short-term financing requirements of customers by providing them with the required amount as and when they need it.

Siyath Saviya - Micro Finance

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

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

Key features

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

Industries that have benefited from Siyath Saviya financial support:

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

Ran Saviya

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

Key features

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

Real Estate Products



MBSL Lands

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

MBSL Real Estate Easy Payment Plan

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

Corporate Advisory & Capital Market Products



Corporate Advisory Services

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

Capital Markets

- Structuring & managing initial public offers, offer for sales & listing through Introductions for equity and debt
- Private placement of equity and debt

- Mandatory offers
- Underwriting
- Listing of debentures/ bonds
- Asset securitization

Investments/Fund Management

- Portfolio management
- Business valuations
- Investments in commercial papers and Issue of commercial papers
- Investment plans for corporates and individuals

Product Portfolio and Features

Savings and Deposit Products



Normal Savings

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

Bonus Savings

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

Higher Saver

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

Achara Senior Citizen's Savings

Achara Senior Citizen's savings accounts cater to Senior Citizens who are in 55 years and above with a relatively high yield and privileged services and other benefits

Minor Savings

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

Punchi Star Minor Savings

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

Fixed Deposits

Non Senior Citizen Fixed Deposits

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

Senior Citizen Fixed Deposits

Specialized deposit scheme which focus on senior citizens who are in age 55 years and above with higher interest rate

Key features

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

AWARDS AND ACCOLADES



20th October 2018
National ICT Best Quality ICT Awards
BCS (British Computer Society) the
Chartered Institute for IT
Sri Lanka

13th October 2018
Certificate of Business Services (HC-BS)
for the Product "VELOCITY", Asia Pacific
ICT Alliance Awards (APICTA Awards)
Asia Pacific ICT Alliance (APICTA)
China

BOARD OF DIRECTORS



Left to Right

Mr. S P Arsakularatne | Mr. K B S Bandara | Mr. W P R P H Fonseka



Left to Right

Dr. S Lokuhewa | **Mr. R M D V Jayabahu** | **Mr. S N Dayaratne** | **Mr. D N L Fernando**

Board of Directors

GRI 102-22

DR. S. LOKUHEWA

Chairman

(Non Executive/Non Independent) GRI 102-23

Dr. Sujeewa Lokuhewa is currently the Chairman/Managing Director of Dhanaroso Holdings (Pvt) Ltd. and Universal Consultancy Services (Pvt) Ltd, positions he has held since 2009. He is engaged in the management of diverse businesses including real estate development, solar power products, Italian coffee shops, consultancy services. He counts over twenty years' experience in reputed Finance Companies at senior and middle level management positions and over ten years experience at Board level in the areas of Information Technology, real estate, jewellery trade, pharmaceuticals, Solar Power, air-conditioning plants and hospitality businesses. He was also the Group Director/CEO of the EAP Regent Group for a period of five years.

In 2011, Dr. Lokuhewa was the recipient of the UDC Master Class award for the best property development company presented by the former Prime Minister of Malaysia Dr. Mahathir Mohamed for the Company in which he was employed as Managing Director/CEO. During his career in the middle management he was also awarded the Best Senior Branch Manager for five consecutive years. Dr. Lokuhewa was appointed as Chairman of MBSL Insurance Company Limited (MBSLI) in November 2016. Dr. Lokuhewa holds an Honorary Doctorate in Philosophy (PhD.) in Business Administration awarded by the Open International University of Greece.

MR. S. N. DAYARATNE

Senior Director

(Non Executive/Independent)

Mr. S. N. Dayaratne, Attorney-at-Law was admitted to the Bar in 1979 and counts over forty years' experience as an active legal practitioner in labour, monetary and civil matters in Original Courts and Appellate courts. He graduated from the law faculty, University of Colombo in 1977. He has served as Chairman of Rent Board Kegalle for a period of six years and acted as the Company Secretary in three peopalised bus companies namely Mawanella, Kegalle and Rambukkana until they were amalgamated as Sabaragamuwa Bus Company. He is presently serving as the Company Secretary of Hotel Athgiri (Pvt) Ltd. and A M Aberathne & Sons (Pvt) Ltd.

MR. K. B. S. BANDARA

Non-Executive/Non Independent Director

Mr. Bandara is attached to Bank of Ceylon and presently holds the position of General Manager. Prior to that, he has gained wide experience serving in several key areas of banking including Sales & Channel Management, International Banking Operations, Treasury Management, Corporate Lending, Development Banking and Electronic Banking in senior capacities. He also served as the Chief Executive Officer of Bank of Ceylon (UK) Ltd, London during 2011-2012.

Prior to joining the Bank, he served as an Assistant Lecturer at the University of Kelaniya, Sri Lanka and served at Mahaweli Authority.

He has been a resource person at the Institute of Bankers of Sri Lanka in the field of credit and investment management too. He currently serves in the Governing Board of Institute of Bankers of Sri Lanka and is a director of Bank of Ceylon (UK) Ltd, BOC Travels (Pvt) Ltd, BOC Property Development & Management (Pvt) Ltd, Credit Information Bureau of Sri Lanka Ltd, Ceybank Asset Management Ltd, Hotels Colombo (1963) Ltd, Koladeniya Hydropower (Pvt) Ltd, Lanka Financial Services Bureau Ltd and Lanka Clear (Pvt) Ltd. He is the Chairman of BOC Management & Support Services (Pvt) Ltd and Ceybank Holiday Homes (Pvt) Ltd. He is also the Chairman of the Asia Pacific Rural and Agricultural Credit Association (APRACA) and the immediate past President of the Association of Professional Bankers (APB) of Sri Lanka.

Mr. Bandara is a Physical Science graduate of the University of Kelaniya and holds a MBA with Merit Pass from the Postgraduate Institute of Management, University of Sri Jayewardenepura. Also, he has successfully completed Advanced Management Program conducted by the Harvard Business School, USA. He is a Fellow member of Institute of Bankers of Sri Lanka and obtained a Postgraduate Diploma in Bank Management from the same institute.

MR. W. P. R. P. H. FONSEKA

Non-Executive/Non-Independent Director

Mr. Fonseka, currently the Chief Financial Officer/Deputy General Manager (Corporate & Offshore Banking) of Bank of Ceylon (BOC) was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) on 26th July 2016 and was appointed as the Chairman of Audit Committee of MBSL with effect from 10th August 2016.

Mr. Fonseka is a professional banker along with over 28 years of extensive experience in both local and international commercial banking operations, specializing in financial management, strategic planning, corporate planning and budgetary control systems of BOC. He has been holding key corporate management positions in the areas of finance & planning, retail banking, international, treasury and investments of BOC since 2012.

He serves as a Director on the Boards of Property Development PLC, Ceybank Asset Management Limited, Lanka Securities (Pvt) Ltd, Transnational Lanka Records Solutions (Pvt) Ltd, Transnational Lanka (Pvt) Ltd. and as an Alternate Director on the Board of LankaClear (Pvt) Ltd. Mr. Fonseka acts as the Chairman to the Audit Committees of Property Development PLC and LankaClear (Pvt) Ltd as well.

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

MR. S. P. ARSAKULARATNE*Non Executive/Independent Director*

Mr. Arsakularatne, is a Partner of K.D.P. Arsakularatne & Sons, dealer Ceylon Petroleum Corporation. He was also the Deputy Chairman of Seethawakapura Urban Council. Mr. Arsakularatne counts several years' banking experience in the areas of credit administration, international trade, foreign currency and operations.

MR. R. M. D. V. JAYABAHU*Non-Executive/Non-Independent Director*

Mr. Jayabahu, currently the Deputy General Manager (Finance & Planning) of Bank of Ceylon (BoC) was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) on 10 May 2018.

Being a professional banker, Mr Jayabahu counts more than 28 years of intensive experience in diversified banking operations specializing in retail banking, branch operations, financial management, corporate & strategic planning operations of BoC. He has been representing the Corporate Management of BoC since November 2016 and prior to that he held the position of Assistant General Manager (Budget, Strategic Planning & MIS) since August 2012.

He serves as the Chairman on the Board of Transnational Lanka Records Solutions (Pvt) Ltd and acts as an Alternate Director on the Boards of Koladeniya Hydropower (Pvt) Ltd and Transnational BPM Lanka (Pvt) Ltd.

Mr Jayabahu was graduated from the University of Kelaniya, Sri Lanka with a Bachelor of Commerce (Special Degree) and holds a Postgraduate Diploma in Business and Financial Administration from The Institute of Chartered Accountants of Sri Lanka. He has obtained Master's of Business Administration in Finance from the University of Southern Queensland, Australia and has successfully completed the Management Development Programme conducted by the Postgraduate Institute of Management, University of Sri Jayawardenepura, Sri Lanka.

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 / 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 was involved in branch banking in remote areas of Badulla, Kandy and Nuwara Eliya. Later he switched over to policy level at the Head Office, especially in Product and Development Banking as well as Recovery. Before he was promoted and entrusted the responsibilities of Chief Risk Officer in 2015, on his return from the Bank of Ceylon (UK) Ltd. as Chief Executive Officer, he was In-Charge of the Western Province South, the largest zone of the bank's branch network. Mr. Fernando has been a member of the Executive Management for seven years. He is also an associate of Institute of Bankers of Sri Lanka and a member of Professional Bankers Association. Now he holds the responsibilities of the Chief Risk Officer of the Bank of Ceylon since 2016.



CORPORATE MANAGEMENT



Left to Right

Mr. Lakshman Kaluarachchi | **Mrs. Karnika Jayatilake** | **Mr. Jude Gamalath** | **Mr. Chamara Withanachchi**



Left to Right

**Mr. Purna Kandanaarachchi | Mr. Kumudu Jayasundara | Mr. Dhammika Gunawardhana | Mr. Senaka Uduwawala
Mr. Shalintha Fernando**

Corporate Management

Mr. J. Gamalath

Chief Executive Officer (Act.)

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

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

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

Mr. L. Kaluarachchi

Deputy General Manager – Central Credit Division

With over 34 years 'experience in the financial sector, he brings with him a diverse array of skills in credit, leasing and credit risk management.

Making his entry into Merchant Banking in 1994, as the Manager Leasing, he subsequently progressed to hold the positions of DGM - Leasing, Acting CEO, DGM- Recoveries, DGM-SupportServices, DGM - Range III and presently holding the position of DGM – Central Credit Division. He holds a B.Com (Special) Degree from the University of Kelaniya.

Mr. S. Uduwawala

Deputy General Manager - Region 1 & 2 / Head of Post Credit Monitoring & Quality Assurance Unit

Mr. Uduwawala counts over 37 years of experience in the Banking industry, particularly in Credit and Branch Operations. He has extensive experience in three leading Private Commercial Banks in Sri Lanka and has worked for Nepal Sri Lanka Merchant Bank Ltd on secondment as its Manager - Credit on an overseas appointment.

At present he is the Deputy General Manager overseeing the recovery operations in Zone II. He is also in charge of the Post Credit Monitoring & Quality Assurance Unit, ensuring effective quality of the portfolio through monitoring the post credit cycle.

Mrs. K. Jayatilake

Deputy General Manager - Legal/ Company Secretary

Mrs. Jayatilake is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public counting over 28 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 ShortTerm Consultant with the World Bank.

Mr. C. Withanachchi

Deputy General Manager – Information Technology

Mr. Withanachchi counts over 19 years of diverse experience in Information Technology, including Software Developments, Design, System Administration and Delivery Management and exposure to Banking & Finance, ATM Implementations, Telecommunication and Manufacturing. He holds a BSc Degree in Information Technology and is currently reading for MSc in Information Security. He is certified from IBM Corporation as an iSeries Expert for IBM ILE RPG Programmer, From Indian Institute of Management, Bangalore for Innovation and IT Management and Certified ITIL v3 (Information Technology Infrastructure Library) from AXELOS.

Mr. K. Jayasundara

Assistant General Manager - Recoveries

Mr. Jayasundara has multi-faceted exposure in diverse areas in financial services who counts over 18 years of experience and has previously held senior management positions in operations and credit and recoveries. He holds a MBA in Banking & Finance offered from the Post Graduate Institute of Management (PIM) and a BSc (Hons) degree with a specialization in Agricultural Economics from University of Peradeniya. He also holds a Diploma in Credit Management from the Institute of Credit Management of Sri Lanka and is an Associate of the same Institute.

Mr. S. Fernando

Assistant General Manager – Internal Audit

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 19 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*

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

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

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

Mr. P. Kandanaarachchi*Head of Finance*

Mr. Kandanaarachchi serves as the Head of Finance. He counts over 19 years' of experience in the fields of finance, auditing and accounting. He is an Associate member of The Institute of the Chartered Accountants of Sri Lanka. Mr. Kandanaarachchi also serves as a Non-Executive Director on the Boards of MBSL Insurance Company Limited, subsidiary of the Company and Mega Containers Limited, where the company holds an equity stake.

Mr. C. Fernando*Head of Deposit*

A professional marketer with over 19 years' experience in Banking and Finance sector, handling Sales, Branch Operations, Investments, Treasury, Gold Loans, Marketing and Brand management, Credit Cards, Real Estate and Bancassurance.

Prior to joining MBSL he was attached to Softlogic Finance PLC, Standard Chartered Bank, Nations Trust Bank and HSBC.

Mr. Fernando Holds a Bachelor's Degree from The University of Western Sydney, Australia Majoring in Finance and Marketing and a Professional Postgraduate Diploma in Marketing (DipM) from the Chartered Institute of Marketing, UK. and a Member of Chartered Institute of Marketing. UK (MCIM).

He is a Practicing Marketer and a Member of Sri Lanka Institute of marketing (MSLIM) and an Associate Member of Institute of Bankers of Sri Lanka (AIB – SL)

He overlooked the Investment Portfolio and operational area (Fixed Deposits and Savings) and also overlooks the company Gold Loan Portfolio and the operational activities.
(Resigned w.e.f. 28.02.2019)



Introduction to the Report

REGIONAL MANAGERS



Left to Right

Mr. Nirosan Selvarajah | Mr. Saman Pathmadeera | Mr. Keerthi Ramanayake

GATHERING MOMENTUM AS WE PROGRESS THROUGH A YEAR UNDER REVIEW



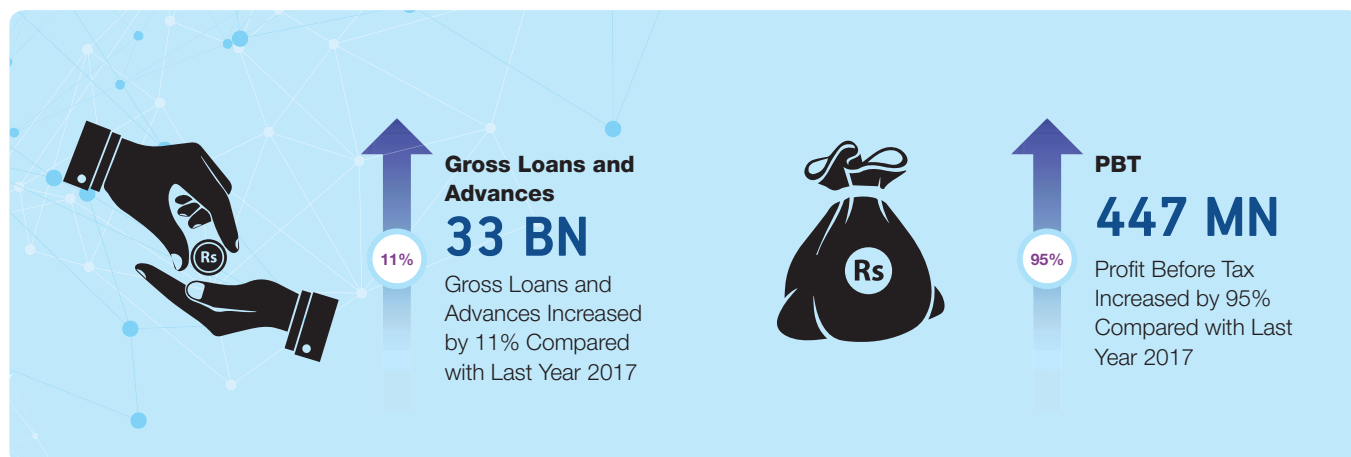
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KEY FIGURES

GRI 102-7

	2018	2017	Change (%)
Operating Performance (Rs. Mn)			
Net interest income	2,442	2,448	(0.23)
Gross income	6,550	6,403	2.29
Operating profit before tax	655	464	41.16
Profit before tax	447	229	95.20
Taxation	265	128	107.03
Profit after tax	181	101	79.21
Retained profit	193	925	(79.14)
Financial Position (Rs. Mn)			
Total assets	35,864	35,645	0.61
Gross loans and advances	33,296	30,064	10.75
Total deposits	20,831	21,919	(4.96)
Shareholders' funds	2,524	3,234	(21.95)
Operating Ratios (%)			
Return on average assets	0.51	0.30	0.21
Return on equity	7.18	3.18	4.00
Cost to income ratio	71.07	73.10	2.03
Non-performing loans ratio	11.46	10.10	(1.36)
Provision coverage	38.07	33.24	4.83
Loans to deposit ratio	147.00	131.18	15.82
Core capital ratio	5.42	10.21	(4.79)
Overall capital ratio	9.88	15.27	(5.39)
Shareholder Ratios			
Earnings per share (Rs.)	1.09	0.61	0.48
Net asset value per share (Rs.)	15.22	19.50	(4.28)
Price earnings ratio (Times)	8.78	22.20	(13.42)
Market price per share (Rs.)	9.60	13.50	(3.90)



NON-FINANCIAL HIGHLIGHTS

GRI 102-7

	2018	2017	Change (%)
Social and Relationship Capital			
No. of lending facilities	78,897	82,620	(4.51)
No. of deposits	175,264	159,488	9.89
Interest paid to customer (Rs. Mn)	2,584	2,398	7.76
Loans granted (Rs. Mn)	18,627	17,862	4.28
No. of Customers	178,570	164,866	8.31
Customer touch points	49	49	-
New products launched	1	4	-
Investment in CSR (Rs. Mn)	1.68	2.55	(34.12)
Volunteer hours	90	500	(82.00)
Human Capital			
No. of employees	1,023	968	5.68
Payments to employees (Rs. Mn)	1,050	1,015	3.45
Investment in training (Rs. Mn)	12	10	20.00
Total training hours	22,661	22,140	2.35
Revenue per employee (Rs. Mn)	6.40	6.61	(3.18)
Retention rate (%)	80	89	(9.00)
National Development			
Contribution to the Government (Rs. Mn)	286	272	5.15
Loans outside the Western Province (Rs. Mn)	19,335	17,726	9.08
Micro finance disbursements (Rs. Mn)	395	913	(56.74)
Natural Capital			
Energy consumption (Units)	1,198,500	1,369,892	(12.51)
Energy consumption per employee	1,172	1,416	(17.26)
Water consumption (Units)	13,130	15,350	(14.46)
Paper usage	810,846	768,515	5.51
Paper recycled	6,286	416	1,411.06
Carbon footprint	111,268	109,445	1.67






GAINING MOMENTUM AS WE SUPPORT THE THINKERS OF THE NATION

**SME AND CORPORATE CREDIT
(BILLS DISCOUNTING, TERM LOANS, PROJECT FINANCING)**

Our SME and Corporate Credit products are helping
to encourage new ideas and industries





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CHAIRMAN'S STATEMENT

GRI 102-14



Dr. S Lokuhewa

Dear Stakeholder

It gives me great pleasure to present to you the annual report and financial statements of your company for the year ended 31 December 2018. In retrospect, I must admit it was a challenging year. Nonetheless we at MBSL have worked diligently and with a clear strategic purpose to prioritize our corporate strategy, where we took steps to consolidate our activities and lay the foundation to scale up the business in the coming years.

Strategy and Focus

The overarching priority for the year was to strengthen the Company's core fundamentals, in order to improve our resilience against external forces. First we revisited our current lending model with the intention of enhancing our credit control and recovery management architecture, an area we felt needed to be streamlined especially in light of the challenging external environment that continued to bring pressure on our target market - the SME segment. Steps taken in this regard saw the credit control processes being centralized and brought under the purview of the newly established Central Credit Division (CCD). The tighter credit oversight procedures under the CCD are consistent with our efforts to grow our business through high quality lending activities.

Coupled with this, we also initiated a broad based productivity improvement program across the Company, with the first phase focusing on our field sales force. Taking a balance scorecard approach we sought to reorient our sales teams and encourage them to be more performance-driven while being customer-centric. I am indeed pleased to see how well our people have responded to this initiative, which has encouraged us to extend the effort across the Company in due course.

Meanwhile amidst weak trading activity in the local equities market and no credible opportunities in the capital market, our corporate Advisory arm redirected its expertise towards supporting SME's to list on the new "Empower Board" which was launched in July 2018 as a joint effort by the CSE and the SEC to fuel growth of the SME sector.

Financial Results

I am indeed heartened to note that swift strategic action on our part has helped MBSL to record solid financial results for 2018 as all key metrics reported strong growth. Our top line consisting mainly of Net Fee and Commission income grew by a phenomenal 74% from Rs. 120 Mn 2017 to Rs. 208 Mn in 2018, these results translated well for our bottom line too, with MBSL's pre-tax profits nearly doubling from Rs. 229 Mn in 2017 to Rs. 447 Mn in 2018.

New Developments

While we have always maintained a strong focus on improving the diversity of our business model, we did make some important decisions in the year under review, which I expect will change the course of our business in the years to come.

In what is perhaps the most significant development for the year, the operating license for MBSL Insurance Ltd was reinstated in April 2019, after the Insurance Regulatory Commission of Sri Lanka lifted their suspension following the recapitalization of the business through a total capital injection of Rs. 1.2 Bn, including Rs. 700 Mn from a strategic investor. Further I am pleased to announce that through successful negotiations with the Insurance Regulator, that approval

THE OVERARCHING PRIORITY FOR THE YEAR WAS TO STRENGTHEN THE COMPANY'S CORE FUNDAMENTALS, IN ORDER TO IMPROVE OUR RESILIENCE AGAINST EXTERNAL FORCES. FIRST WE REVISITED OUR CURRENT LENDING MODEL WITH THE INTENTION OF ENHANCING OUR CREDIT CONTROL AND RECOVERY MANAGEMENT ARCHITECTURE, AN AREA WE FELT NEEDED TO BE STREAMLINED ESPECIALLY IN LIGHT OF THE CHALLENGING EXTERNAL ENVIRONMENT THAT CONTINUED TO BRING PRESSURE ON OUR TARGET MARKET - THE SME SEGMENT.



Key Messages

Chairman's Statement

has been granted for MBSL Insurance Ltd to operate as a composite insurance Company for a period of 1 year, after which steps will be taken to expedite the segregation of life and general insurance businesses.

We also took action to revive our real estate business after a 2-year hiatus. Having witnessed strong growth potential in this domain, we undertook the development of a property in Thalawathugoda with work beginning in the latter part of 2018, the project remains in progress as at 31 December 2018.

The Road Ahead

Having performed commendably well, amidst testing circumstances in 2018, I am confident that MBSL is now ready to capture the promise of the future. Let me be more specific by saying that we have set ourselves ambitious goals in alignment with the Country's long term growth objectives for the SME sector. To catalyze these plans, we expect to go back to our core and tap into roots as a Merchant Bank. In doing so our aim is to project MBSL as the leading expert with the capacity to drive the SME sector as an engine of growth for the Sri Lankan economy in the year ahead.

Moreover having revived our Insurance business, we will look to break into the largely untapped insurance market across the country. Leveraging on our credibility and long standing brand reputation we expect to accelerate our growth plans to make inroads into both life and general insurance segments in the coming years.

Board

Mr. D M Gunasekara stepped down from his position as a Director on the MBSL Board, with effect from 27.04.2018. Also leaving the Board with effect from 27.04.2018 was Mr. D M L B Dassanayake who functioned as the Alternate Director to Mr. D M Gunasekara.

Two other directors also resigned from the MBSL Board during the year, they were - Mr. K G G R M Wijesinghe who resigned with effect from 30.08.2018 and Mr. N Perera, who resigned on 26.10.2018.

While thanking them for their valuable service to the Company, I take this opportunity to wish each of them well in all their future endeavours.

Appreciations

To conclude, I wish to express my gratitude to the Minister, Secretary and officials of the Ministry of Public Enterprises, the officials of the Treasury and non-bank supervision department of the Central Bank of Sri Lanka and the Board of Directors of Bank of Ceylon. I take this opportunity also to thank my colleagues on the Board for their steadfast support at all times. Finally, my sincere appreciation to the management and all employees of MBSL for their commitment and dedication and to all our customers and other stakeholders for their trust and confidence in the Company. I seek your continued support in the years ahead as well.

CHIEF EXECUTIVE OFFICER'S REPORT



G M J A R Gamalath

Chief Executive Officer's Report

REGARDLESS OF THE CHALLENGES IN THE IMMEDIATE OPERATING ENVIRONMENT, WE DID RETAIN THE FOCUS ON OUR TECHNOLOGY INVESTMENT PROGRAM, FOR WE BELIEVE THAT TECHNOLOGICAL SUPERIORITY WILL GIVE MBSL A CONSIDERABLE EDGE OVER PEERS. HAVING COMPLETED THE MIGRATION TO THE NEW CORE BANKING SYSTEM IN THE PREVIOUS YEAR, IN 2018 WE EMBARKED ON PHASE 1 OF THE TECHNOLOGY INTEGRATION PROGRAM TO INCREASE OUR PREPAREDNESS TO FACILITATE A MULTI-CHANNEL ENVIRONMENT IN DUE COURSE.

Characterized by some notable challenges that placed a heavy burden on the country's financial services sector, 2018 is best described as an uneasy year. In particular the economic slowdown and persistent bad weather which affected many key sectors of the economy brought pressure on all key players in the industry irrespective of size and MBSL was no exception.

In light of these macroeconomic developments, we at MBSL spent a considerable amount of time reorienting our business model and developing new strategies not only to respond to these challenges but also to build resilience for the future.

Mobilizing Retail Deposits

With MBSL's deposit portfolio traditionally skewed towards high cost bulk deposits, the focus for 2018 shifted towards mobilizing low cost retail deposits. This was part of a broader strategy aimed at minimizing the maturity mismatch and reducing the weighted average cost of funds. A broad ranging campaign combining both market development and market penetration activities was initiated in order to tap into the potential market for savings as well as term deposits. Among the highlights were the launch of several new savings products, including the bonus saver product and the "Achara" senior saver product.

Selective Lending

Taking a cue from the market we focused mainly on meeting the demand for short-term credit vis-a-vis our Speed Draft and Easy Draft products. We also actively pursued cross selling opportunities in order to promote long term lending where possible. Despite being vigilant regarding longer term lending opportunities we nonetheless remained firmly committed to our 2017 strategy to promote mainly secured lending products such as pawning and leasing to the retail sector, while consciously easing way from unsecured lending especially to the SME sector that appeared to be severely affected by the unfavorable macroeconomic environment.

At the same time, we also took stock of our existing credit administration procedures, and set up a new Central Credit Division with the aim of firming up our credit control framework to support our long term lending activities. I expect the Central Credit Division, which consists of three interconnected segments; pre credit, credit processing and post credit monitoring, will become the key pivot in ensuring MBSL continues to engage in high quality lending activities at all times.

Recovery Management

The overarching priority for the year was the recovery effort. In this regard the existing recovery model was completely revamped with a new management oversight structure put in place in order to maintain a sharper focus on branch-level recoveries, while branches were provided additional manpower to drive recoveries at the ground level. Several new investments were also made towards improving the MIS framework to enable proactive monitoring of recoveries.

Over the year I too steadily increased my personal involvement with MBSL's ground-level recovery teams, with the intention of reinforcing a proactive recovery culture across organization. And I am pleased to announce that these efforts have yielded good results and enabled your company to table a satisfactory performance for the year ended 31 December 2018.

Operating Results

Our efforts to pursue secured lending activities saw Leasing and Gold Loan volumes grow by 9% and 109% respectively in 2018. Meanwhile our impairment costs reduced by Rs. 109.7 Mn, of which, Rs. 74 Mn was received as reimbursement for the government sanctioned debt relief scheme, while the balance is attributed to the recovery mechanisms and prudent provisioning policy we have maintained over the years. A combination of these factors saw MBSL's pre-tax profits grow by 95% to touch Rs. 447 Mn from Rs. 229 Mn the year before.

Consolidating the Network

Stemming from our conservative management approach for 2018, it was felt that consolidating the branch network would be the most appropriate under the present circumstances. As such no new branches were commissioned in the year under review. However, looking to develop a cost effective branch blueprint that would improve MBSL's resilience in the years ahead, we did undertake a branch refresh initiative to revamp the infrastructure at selected branches to improve management efficiency and reduce costs.

Investment in Technology

Regardless of the challenges in the immediate operating environment, we did retain the focus on our technology investment program, for we believe that technological superiority will give MBSL a considerable edge over peers. Having completed the migration to the new core banking system in the previous year, in 2018 we embarked on phase 1 of the technology integration program to increase our preparedness to facilitate a multi-channel environment in due course.

In parallel, we took steps to upgrade our system controls, and directed our attention towards strengthening MBSL's data integrity frameworks and customer privacy protocols in line with internationally accepted benchmarks in these areas.

Developing our People

People development has always been a key priority of our strategic agenda. As in the past, in 2018 we continued to invest in competency development programs that would enhance the capacity of our people and enable them to execute our strategy in line with MBSL's mission. A total of Rs. 12 Mn was spent on training and development activities in 2018, 20% more than the previous year.

Promoting Financial Inclusion

Being a part of the BOC group, we are deeply connected to the people of Sri Lanka. Our commitment extends not only to our customers but on a broader scale to the underserved communities across the country led by our financial inclusion goals. As one of the pioneers in promoting financial inclusion in Sri Lanka, MBSL has continued to increase its outreach over the years, vis-a-vis the "Siyath Saviya" micro lending proposition which is designed specifically to assist the emerging micro entrepreneurs across the country. A total of Rs. 395 Mn of new loans were extended under the "Siyath Saviya" scheme in 2018.

Moving Ahead

While it is difficult to predict how the Sri Lanka economy will perform in the coming year, I must reiterate that MBSL's focus for the immediate future would remain much the same as 2018. This means we would further consolidate our strengths and build resilience. In this regard, we will look to leverage on our core competencies to seek out potential opportunities for growth especially in the retail segment. Nonetheless we expect to remain cautious in growing our lending book for the underlying aim is to strike a balance between improving NIM and sustaining the quality of our lending book in the long term.


Appreciations

I am immensely grateful to the Chairman and other members of the Board for their unfailing support and invaluable advice, which has made my task as the Chief Executive Officer (Act.) of MBSL a pleasant and rewarding one. I also take this opportunity to appreciate the unquestionable loyalty and dedication of the MBSL's management team and Staff who have worked tirelessly to see the company through a challenging year.

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

In conclusion, I wish to convey my sincere thanks to the shareholders, depositors, customers, bankers and other stakeholders of MBSL for the trust and confidence placed in the company. I look forward to your continued patronage in the years ahead as well.






GATHERING MOMENTUM IN ACCESSIBILITY

SHARED ATM NETWORK

A shared ATM network means that you can access your funds from anywhere in the country





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BUSINESS MODEL

GRI 102-9, 102-10



BUSINESS LINES

- Lending
- Corporate Advisory and Capital Market
- Deposits
- Real Estate

SUPPORT SERVICES

- Recoveries
- IT
- Finance and Strategic Planning
- Legal
- HR
- Central Credit
- FD and Savings
- Marketing
- Support Service

OUTPUTS ▶

Contributing towards strengthening Sri Lanka's financial service sector

Contribution to SDG's



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

Contribution to SDG's



Facilitating the financial needs of all Sri Lankans

Contribution to SDG's



Empowering the country's micro and SME sectors

Contribution to SDG's



Setting a new industry-benchmark as an employer of choice

Contribution to SDG's



Leadership in compliance

Contribution to SDG's



▶ OUTCOMES

SHAREHOLDERS

- ROE - 7.18
- EPS - 1.09

CUSTOMERS

- Rs. 18,627 Mn of new loans
- Enhancement of overall customer experience due to automation
- Improved credit evaluation procedures leading to a stronger credit culture

EMPLOYEES

- Promotions 03
- Gender balance
Male - 635
Female - 388
- Training hours 22,661

REGULATORS

- Taxes Paid Rs. 286 Mn
- Compliance with the Customer Protection Framework

COMMUNITIES

- Micro lending through the "Siyath Saviya" program Rs. 395 Mn

STAKEHOLDER ENGAGEMENT

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

We work on the premise that stakeholders are key partners in MBSL's strategic journey. Hence stakeholder engagement is undertaken with a far broader aim than merely communicating to various stakeholder groups. We remain committed to maintain open, honest and ongoing communication with all stakeholders with the aim of;

- Strengthening relationships with our stakeholders
- Identifying the opportunities and threats arising from stakeholders' material issues
- Collaborating with stakeholders to support sustainable decision making

We have established both formal and informal channels to facilitate the stakeholder process. The specificity of formal channels are determined by type and category of the stakeholder. Meanwhile various business units and divisions are required to be proactive in engaging with stakeholders in a transparent and ongoing manner, with all employees held accountable for managing relationships and meeting expectations of internal and external stakeholders within their areas of responsibility.

CUSTOMERS



More than 65,000 individuals, micro enterprises, SMEs and corporates as well as 156,000 + depositors

Engagement activity	Frequency
Face to face interactions at branches	Continuous
Routine marketing Campaigns	Ongoing
Customer workshops	Ongoing
Annual reports	Annual
Social media press releases	Continuous

Matters of Concern

- Security of deposits
- Competitive interest rates
- Product diversity
- Market reach
- Customer service and convenience
- Digitization

SHAREHOLDERS



With a 74.49% stake, BOC is our largest shareholder while the remaining 25.51% is distributed among 11,317 institutions and individuals

Engagement activity	Frequency
AGM and Annual report	Annual
Quarterly report	Quarterly
Media releases	Continuous
Press conferences	Continuous

Areas of Concern

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

EMPLOYEES



A total of 1023 employees across MBSL's head office and island-wide branch network

Engagement activity	Frequency
Annual performance Appraisal	Annual
Staff meetings	Weekly / Monthly
Union meetings	Continuous
Intranet	Continuous

Areas of Concern

- Remuneration and benefits
- Employment equity
- Training and development
- Career progression
- Compliance with laws
- Health and well-being



REGULATORS



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

Engagement activity	Frequency
Directives and circulars at branches	Regular
Social media	Ongoing
Official meetings	As required

Matters of Concern

- Contributions towards policy discussions and forums affecting the industry
- Responsible business practice
- Compliance to rules and regulations

SUPPLIERS



A total of 159 registered suppliers

Engagement activity	Frequency
Supplier registration	Ongoing
Special meetings	As required
Site visits	As required

Matters of Concern

- Ease of transactions
- Value addition and Supplier development
- Long term partnerships and quality of service

COMMUNITY



The wider community

Engagement activity	Frequency
CSR efforts	Ongoing
Press releases	As required

Matters of Concern

- Financial inclusion
- Community development

RISKS AND OPPORTUNITIES

GRI 102-15

Responding to Challenges, Opportunities and Trends

Developments in the macro environment as well as the social and technological evolution continues to have bearing on our strategy and resource allocation process, our risk management framework and governance and oversight procedures. Given below are a few key examples based on the 2018 context.

Economic



The spillover impact of adverse weather conditions in 2016 and 2017 had an impact on the performance of the country's agriculture sector, while the general economic slowdown impacted many other key sectors such as construction and transport. Being exposed to these sectors as a result of its lending activities, MBSL experienced a higher default rate that drove up NPL's and caused a deterioration in asset quality especially in the leasing portfolio. In response MBSL strengthened the recovery model (For more details please refer page 67 - Intellectual Capital)

Social



The growing demand for credit from all regions of the country especially from underserved communities who lack access to formal credit channels. This provides an opportunity for MBSL to develop new platforms to promote greater financial inclusion across Sri Lanka (For more details please refer page 75 - Social and Relationship Capital - Community)

Technological



The rapid evolution of technology is transforming the financial services sector by producing ever more convenient solutions that enhance the customer experience. Early adoption of new technology provides multiple benefits that gives MBSL a definite competitive advantage. (For more details please refer page 72 - Social and Relationship Capital - Customer)

Regulatory



The Debt relief scheme declared by government for women micro entrepreneurs in 12 drought affected districts led to a significant loss on interest income and penalty income. As per the guide lines issued by the ministry of finance and the MOU signed with them the full amount of selected loan which comprise of the capital, interest and penalty interest to be written off and only the capital part will be reimbursed on biannual basis in three years. (For more details please refer page 51 - Business Lines: Corporate and Retail Credit)

The revision of the LTV ratio for electric, hybrid and other unregistered vehicles and registered vehicles had a direct impact on the demand for vehicle leasing. (For more details please refer page 50 - Business Lines: Leasing)

MATERIALITY ANALYSIS

GRI 102-47

The determination of Materiality forms the basis of our short and medium term strategy. In determining what is material for our business, we conduct a thorough review of our operating environment, enterprise risk management framework, stakeholder engagement process as well as through regular board and subcommittee discussions.

On this basis, we have identified the following aspects to be the material matters relevant to our business in 2018, which are then mapped on a Materiality Matrix according to its relevance to the company as well as its significance to MBSL's stakeholders.

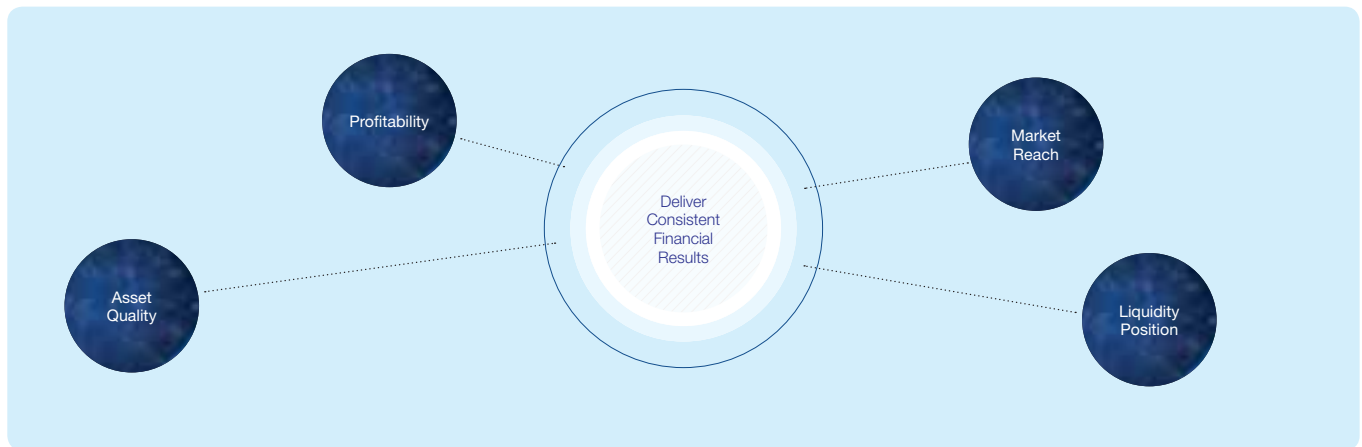
Factors	Degree of Materiality to the Company (Impact to the bank)	Degree of Materiality to the Stakeholder (Impact outside the bank)
Financial Performance	High	High
Market Reach	High	Medium
Process Efficiency	High	High
NPL Management	High	High
Government Policy	High	High
Diversification	High	High
Service Delivery	High	High
Customer Trust and Confidence	High	High
Customer Privacy	High	High
Competitive Pricing	High	High
Digitization	High	High
Responsible Lending	High	High
Training and Development	High	Medium
Industrial Relations	High	Medium
Corporate Culture	High	Medium
Diversity and Equal Opportunity	Medium	Medium
Employee Engagement	High	Medium
Occupational Health and Safety	High	High
Compliance	High	High
Risk Management	High	High
Governance and Stewardship	High	High
Environmental Impact of the Business	High	High
Community Engagement	High	Medium

STRATEGY AND RESOURCE ALLOCATION

Operating in an increasingly challenging and highly competitive environment, it is critical that our strategies continue to remain fluid and continuously evolving in tandem with the environment. We believe this approach provides significant benefits that will not only give MBSL a leading edge in the market but also create a scalable platform from which to grow.

Faced with challenging operating conditions in 2018, we took a closer look at our core purpose and determined that the five equally important pillars (shown below) that underpin the achievement of our corporate objectives in the short-to-medium term time horizon.

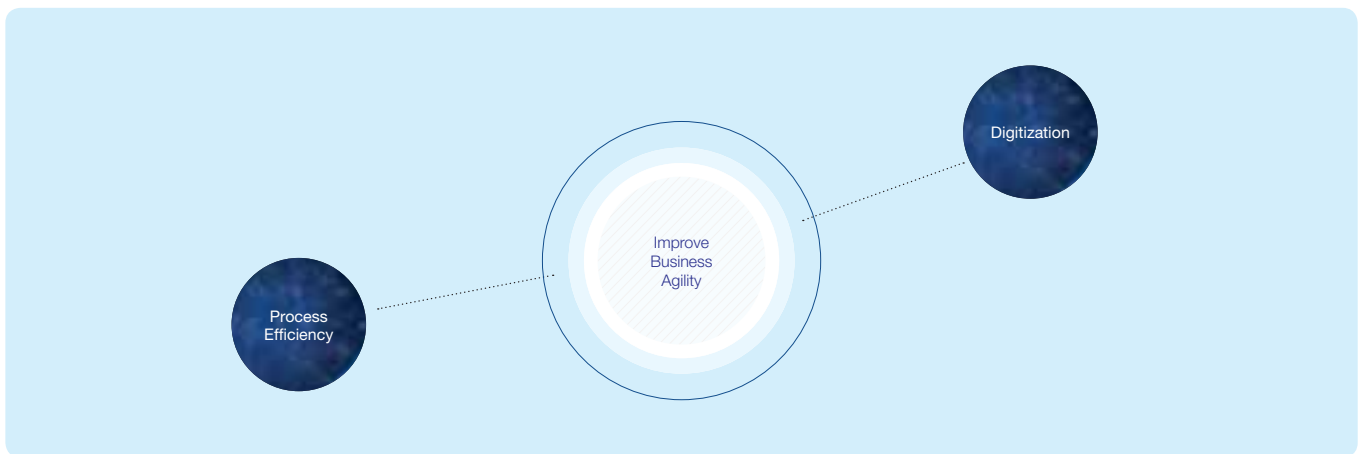
Material Topics



Pillar I

Allocation of Resources for 2018			
Strategic Imperatives	Value-adding Activities	Relevant Capital	Page Ref
Broad based lending strategy to tap into multiple customer segment	Investment in asset-backed lending activities such as Leasing and Gold Loans	Financial Capital	57
Operational cost management to reduce the Company's overall cost to income ratio	Implement lean management principles across day-to-day activities	Financial Capital	57
Proactive assessment of Capital Risk	Introduction of new measurement metrics in line with Basel III Capital Adequacy requirements	Risk Management Report	128
Strengthen operational policies to keep pace with the last developments in the operating environment	The existing recovery model was revamped and brought under the purview of the Centralised Recoveries Unit.	Intellectual Capital	67

Material Topics



Pillar II

Allocation of Resources for 2018

Strategic Imperatives	Value-adding Activities	Relevant Capital	Page Ref
Improve procedural frameworks to enhance internal efficiency	Setting up the Central Credit division to streamline the credit management process	Intellectual Capital	66
	Implementing a Quality Assurance Program to improve business intelligence capabilities	Intellectual Capital	67
Strengthen core competencies to enhance efficiency and increase market responsiveness	Giving relevant authorities the ability to remotely access to the core banking system based on their authority level, which in turn would minimize the disruption of workflow systems	Manufactured Capital	62

Strategy and Resource Allocation

Material Topics



Pillar III

Strategic Imperatives	Value-adding Activities	Relevant Capital	Page Ref
Consolidate the existing branch footprint and focus on strengthening branch infrastructure with a view to creating a distinctive branch proposition	Invested Rs. 35 Mn to enhance branch infrastructure for the benefit of the customer	Manufactured Capital	62
Strengthen operational policies to keep pace with the latest developments in the operating environment	Safeguarding the integrity of digital assets through the implementation of new IT policy framework	Intellectual Capital	64
Ongoing process improvements to enhance service delivery to the customer	Launch of the online loan origination system which to expedite the loan approval process	Social and Relationship (Customer) Capital	72
	Digitization of the FD documentary management system, enabling customers to add on / withdraw their FD's from any MBSL branch across the island	Social and Relationship (Customer) Capital	72
	Appointment of a social media agency to manage feedback received through social media platforms	Social and Relationship (Customer) Capital	73
Align with all applicable product / customer compliance requirements	Complying with the Financial Customer Protection Framework (FCPF) mandated for LFC's (License Finance Companies) under the Finance Business Act January 2018	Social and Relationship (Customer) Capital	72

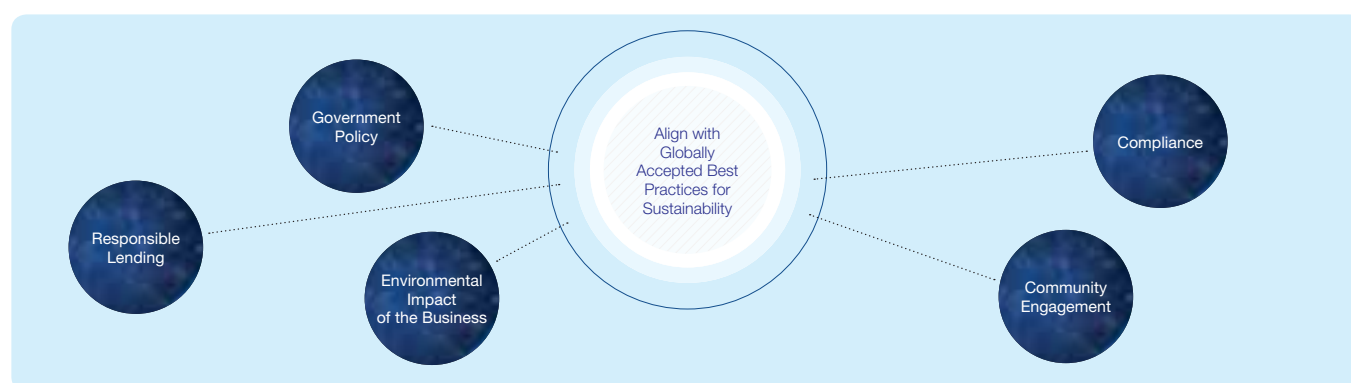
Material Topics



Pillar IV

Strategic Imperatives	Value-adding Activities	Relevant Capital	Page Ref
Cultivating a performance-driven and value-based culture	The performance of all front line employees was evaluated using the annual Performance Management System	Human Capital	69
Driving employee productivity	Invested 69% of the 2018 training budget on skills and competency development	Human Capital	70
Investing in the leadership pipeline	Over 23% of the 2018 training budget was spent on leadership development training	Human Capital	70
Ongoing people engagement	Throughout 2018, regular and ongoing dialogue was maintained with the trade union representing 46% of MBSL employees	Human Capital	70

Material Topics



Pillar V

Strategic Imperatives	Value-adding Activities	Relevant Capital	Page Ref
Reduce the company's carbon footprint	Tracking the company's carbon footprint on an ongoing basis	Natural Capital	78
Livelihood development	Micro finance through the Siyath Saviya lending programme	Social and Relationship (Community) Capital	75
Promoting financial inclusion	Conducting financial literacy programs for micro entrepreneurs	Social and Relationship (Community) Capital	75

GATHERING MOMENTUM IN CREATING NEW GENERATIONS OF FINANCIALLY SECURE SRI LANKANS

SAVINGS & FIXED DEPOSITS

Our Savings & Fixed Deposits accounts are creating financially prudent customers who are ready for any challenge



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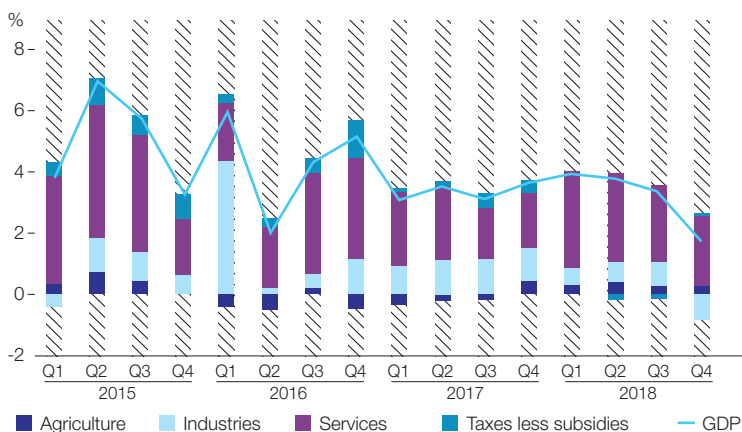
OPERATING ENVIRONMENT

Sri Lankan Economy

Sri Lankan economy continued to record a modest growth of 3.2% in 2018 notably lower than the 3.4% reported in 2017. Agriculture activities grew by 4.8% in 2018, pointing to a recovery from the effect of extreme weather conditions experienced in the previous year, while the growth momentum in industry activities lost steam amidst a notable contraction in the construction sector. On the other hand, the service sector reported strong growth in 2018. Within services activities, financial services continued to be the main contributor to economic expansion followed by wholesale and retail trade activities.

Economic activity was disrupted in October 2018 following a political upheaval that set in motion a series of events including the suspension of the IMF led three-year \$1.5 billion bailout which began in 2016. To add to this three of the leading credit agencies downgraded Sri Lanka's country rating, reflecting the drop in investor confidence.

Activity - wise contribution to GDP growth



Inflation

In spite of the sharp depreciation of the rupee in September 2018 and the introduction of the pricing formula for domestic petroleum price adjustments, headline and core inflation remained well anchored in low single digit levels during the year. Inflation decelerated significantly during the latter part of the year and reached levels even lower than the desired mid single digit levels, primarily due to low food prices.

On an annual average basis, the CCPI based headline inflation decelerated to 4.3% by end 2018 from 6.6% recorded at end 2017, while the NCPI based annual average inflation decelerated to 2.1% by end 2018 from 7.7% at end 2017.

Interest Rates

Signaling an end to the monetary tightening cycle, the CBSL reduced the Standing Lending Facility Rate (SLFR) by 25 basis points in April 2018. Thereafter, the Central Bank maintained a neutral monetary policy stance throughout the year, in view of the continued pressure on the external sector amidst the subpar performance in the domestic economy. Nevertheless, in light of the persistent liquidity deficit in the domestic money market, particularly since September 2018, the Central Bank was compelled to inject liquidity on a permanent basis in November 2018, with the SRR being further reduced. At the same time to neutralise the impact of the SRR reduction and maintain its neutral policy stance, the Central Bank increased the Standing Deposit Facility Rate (SDFR) by 75 basis points and SLFR by 50 basis points, further narrowing the policy rate corridor to 100 basis points. Accordingly, by end 2018, SDFR and SLFR stood at 8.00 per cent and 9.00 per cent, respectively.

Source: CBSL AR 2018

Outlook

According to the World Bank's January 2019 Global Economic Prospects Report, Sri Lanka's economic growth is expected to speed up slightly to 4% in 2019 with growth activity likely to be supported by robust domestic demand as consumption rebounds following natural disasters, and investment is boosted by infrastructure projects. However, the next steps and their outcomes are likely to be heavily dependent on the political environment surrounding the elections set for the latter part of 2019.

NBFI Sector

The NBFI recorded a moderate expansion, marked by a slowdown in credit growth, poor asset quality and lower profitability. The slowdown in credit growth was mainly attributed to the fiscal and macroprudential policy measures taken by authorities to curtail import of motor vehicles. Meanwhile weak economic conditions on top of the lag effects of the prolonged adverse weather conditions saw sector wide asset quality deteriorate as Non-Performing Loans (NPL) ratios continued to rise. Profitability of the sector during the period also slowed down with increased funding cost and loan loss provisions.

Asset Growth

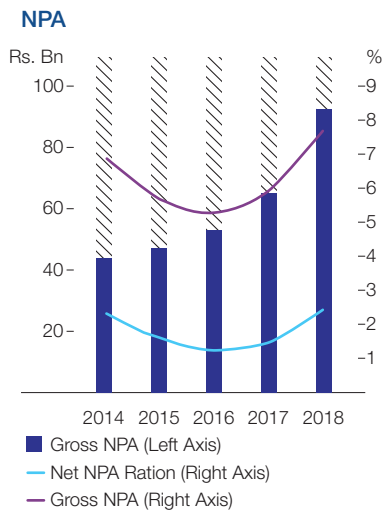
The expansion of total assets in the NBFI sector slowed to 5.6% in 2018 to reach Rs.1,431.3 billion in contrast to the robust the 11.8% reported in 2017.

This was the result of lower credit demand which saw the sector's credit expansion slow down to 7.6% from 9.8% in 2017. Finance leases remained the single largest contributor accounting for 84.5% of credit expansion for the year. The finance lease portfolio grew by 14.7% compared to growth of 13% recorded in year 2017.

Asset Quality

As a direct consequence of unfavourable weather conditions during 2016 and 2017 as well as the economic slowdown in 2018, many key sectors of the economy remained under pressure causing a spike in default rates. Cascading from this the NBFI sector's gross non-performing advances (NPAs) ratio rose from 5.9% reported in 2017 to 7.7% in

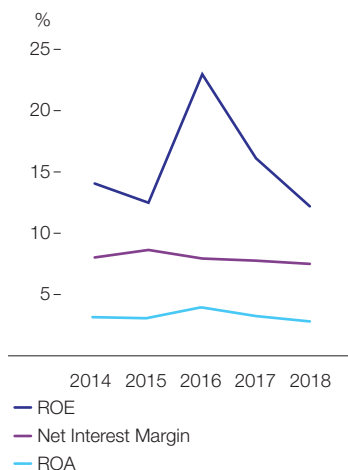
2018, reflecting a significant deterioration in asset quality. Incidentally the high NPA ratio of 7.7% is also the highest recorded since February 2015.



Funding and Liquidity

The liquidity levels of the NBFIs sector remained stable throughout the year, with the overall statutory liquid assets indicating a surplus of Rs.25.6 billion over and above the stipulated minimum requirement of Rs.88.2 billion. The surplus for 2018 was however, lower than the surplus liquid assets level of Rs. 35.5 billion reported in 2017. The liquid asset to deposits ratio also was well above the statutory minimum requirement of 10% for term deposits and borrowings, and 15% for savings deposits at end December 2018.

Profitability Indicators of the LFCs and SLCs Sector



Profitability

Net interest income, the main source of income for the NBFIs sector grew at a slower pace of 6% in 2018, causing the Net Interest Margin (NIM) to decline to 7.4% in 2018 from 7.7% in 2017. Meanwhile despite a 11.9% increase in non-interest income, the sector profitability for 2018 was adversely affected by an increase in non-interest expenses. However, the most notable change was the increase in loan loss provisions made against NPLs, which grew by Rs.12.4 billion during 2018. Consequently the sector posted a profit after tax of Rs. 21.4 billion, a decline of 17.2% over the figure reported in 2017. ROA and ROE also decreased reflecting the stress towards profitability of the sector.

Capital Adequacy

The total regulatory capital levels of the NBFIs sector improved by Rs. 15.5 billion in 2018 compared to the figures reported in 2017, mainly due to the enhancement of the minimum capital requirement by the Central Bank to Rs. 1 billion from 01 January 2018. This minimum requirement is further increased to Rs.1.5 billion by 01 January 2019.

However, the sectors' core capital and total risk weighted capital adequacy ratios decreased to 9.9% and 11.2% respectively in 2018, from 12.4% and 13.1% respectively in 2017 as the companies began reporting on risk weighted assets under new capital adequacy framework.

Regulatory Developments

Continuing with efforts to strengthen the supervisory framework and regulatory framework applicable to the NBFIs sector, the CBSL initiated several policy measures in 2018. Among them; The "Financial Customer Protection Framework" issued in January 2018 stating minimum standards for customer protection in the areas of disclosure and transparency, financial education and awareness, responsible business conduct, complaint handling and redress, equitable and fair treatment and protection of customer data and privacy.

Further, a new Capital Adequacy Framework was also implemented with effect from July 2018 in a bid to strengthen risk management and to encourage finance companies to conduct ongoing improvements their risk assessment capabilities.

In July 2018, the government announced a debt relief scheme declaring that Microfinance loans of up to a maximum of Rs. 100,000/- obtained by women entrepreneurs in 12 drought hit districts would be written off with immediate effect.

The LTV ratios applicable for credit facilities in respect of electric, hybrid and other unregistered vehicles and registered vehicles, was revised to 50% with effect from October 2018.

A new directive imposing a rate cap on micro finance loans came into effect from December 2018. This was done with the aim of protecting Microfinance customers from undue stress caused by excessive interest rates on Group loans. A circular was issued in March 2018, where LFCs were required to obtain a credit rating from a credit rating agency acceptable to the Central Bank and required to publish such rating with effect from 01 October 2018.

Source: CBSL AR 2018

Outlook

Recovering from the current predicament of low asset quality will remain the main priority for the NBFIs sector over the next 12 - 18 months. This means taking definite steps to ease off on the over dependence on the current vehicle financing model and spreading the risk by diversifying into other more sustainable sources of revenue generation.

Meanwhile the government's efforts to strengthen the NBFIs sector's regulatory framework will provide a firm foundation for the sector as a whole to move forward as a fundamentally stronger and more resilient force capable of supporting the country's growth trajectory.

LEASING

Operating Context

Several factors have affected the demand for leasing in 2018, it is notable among the other products; the CBSL's decision to maintain strict control over the LTV; and the sharp depreciation of the rupee. The three-wheeler segment in particular remains under pressure due to the stricter LTV rules, while the Rupee depreciation had a snowballing effect on the demand for unregistered four-wheel vehicle leases. Meanwhile a marked deterioration in credit quality was observed across the industry for the second consecutive year, as many key sectors of the economy continued to struggle amidst sub-par economic activity and unfavorable weather conditions for the third year running.

Strategy and Focus

As tough operating conditions continued to dampen the demand for vehicle leases in general, renewed emphasis was placed on consolidating MBSL's dominance in the four-wheel segment. The main effort in this regard was led by the MBSL Riya Pola, a special island-wide promotional campaign offering attractive leasing terms for both registered and unregistered four-wheel vehicles via the company's core leasing product. The Riya Pola campaign which first kicked off in 2017 and thereafter rolled out in Matara, Anuradhapura, Kotahena, Embilipitiya, Tissamaharamaya, Kandana, Ja-ela, Panadura, Deniyaya, Wennappuwa, Nittambuwa, Avissawella, Kadawatha, Kiribathgoda, Ratnapura and Horana in other locations across the island driven by the MBSL branch network along with the support of car dealers and agents in the respective areas. This was coupled with an aggressive BTL initiative to promote the MBSL Classic Car Leasing product, a special leasing facility for vehicles manufactured between 1980 - 1989.

Being a relative new entrant to the three-wheel and two-wheel leasing market, MBSL continued with its selective lending strategy towards increasing the exposure to these segments, especially given the segment's notably high NPL record.

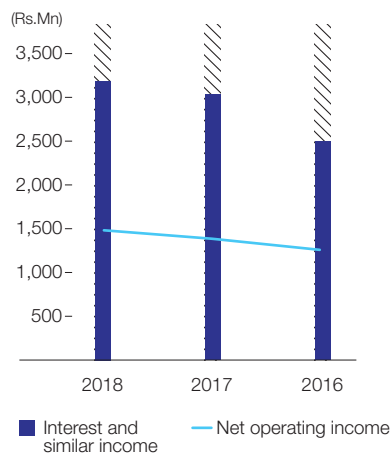
Meanwhile in order to address the deterioration of credit quality in the leasing

portfolio and contain any further escalation in impairment charges, a concerted effort was made to strengthen the company's recovery model. A new recovery management structure was introduced to streamline the collection process at branch level, with branch staff being incentivized based on the achievement of collection KPI's, including collection ratio, hit ratio etc. Moreover existing recovery monitoring protocols were revamped in May 2018 and the governance and reporting frameworks were further strengthened to ensure all stakeholders remain proactively engaged in the recovery effort. These measures were coupled with extensive training to improve employee capacity with regard to credit evaluation, credit risk management and recovery management.

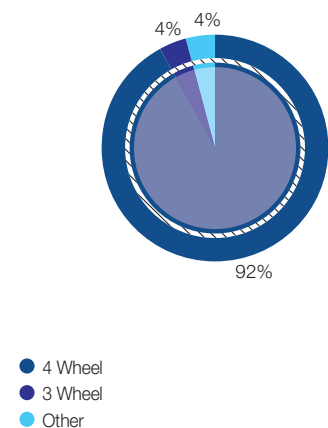
Performance against Strategy

	2018	2017	2016
Interest and similar income (Rs.Mn)	3,201	3,044	2,511
Net operating income (Rs.Mn)	1,490	1,385	1,249
Impairment charges (Rs.Mn)	180	114	24
Operating profit (Rs.Mn)	613	537	508
Assets (Rs.Mn)	16,478	15,661	14,992
Liabilities (Rs.Mn)	15,004	13,894	12,843

Leasing



Portfolio Composition



Strategic Imperatives for the Future

Going forward, the main strategic thrust would be to grow the leasing book through aggressive market development and product development activities that will allow MBSL to widen its reach across the island. The other key priority for the future would be to maintain credit quality of the portfolio, especially with economic conditions expected to remain challenging in the near term.

CORPORATE AND RETAIL CREDIT

Operating Context

With low economic activity and relatively high interest rates, market sentiments remained subdued for much of 2018 causing the general credit appetite to lose steam. Consequently the demand for credit stayed moderate and even that was largely skewed towards fulfilling short-term cash flow requirements rather than for long term business expansion purposes.

Strategy and Focus

Forced to contend with the challenges in the operating environment, MBSL took steps to consolidate its lending book in 2018. In parallel, specific strategies were deployed to drive certain lending categories in a bid to achieve targeted NIM.

Moving in tandem with market trends, the company's main focus for the year shifted towards matching the growing demand for short-term credit, spearheaded by the MBSL Speed Draft and Easy Draft. This also prompted the revamp of the Speed Draft products to include more flexible payment terms to offer some much needed relief to customers facing tough times.

Building on the 2017 strategy to promote secured lending to the retail sector, strong emphasis was placed on expanding the pawning portfolio in 2018. Steps taken in this regard saw an introductory ATL campaign being launched to create awareness regarding MBSL's Ran Saviya product, followed by an extensive BTL effort to make inroads into the island-wide pawning market. To further support the effort, 03 new gold loan centers were commissioned in 2018 at Embilipitiya, Panadura and Kekirawa.

An aggressive branch led campaign promoting bundled offers was also rolled as part of a focused effort to increase customer acquisitions to the Trade Loan portfolio. The campaign was run for months targeting SME's across a broad range of industries. At the same time, MBSL stayed focused on promoting the term finance products as well, led by targeted strategies to tap into identified high growth sectors of the economy.

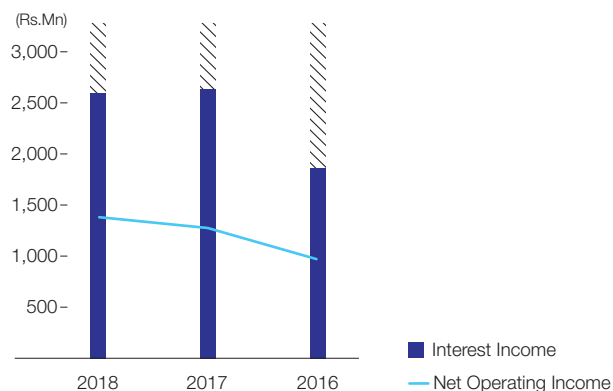
Meanwhile having witnessed higher NPL's in certain unsecured loan categories, a strategic decision was made to curtail the lending activities in these areas.

Another noteworthy development was the August 2018 directive by the Ministry of Finance to introduce a debt relief scheme for women micro entrepreneurs in drought-stricken areas. The decision which had a considerable impact MBSL's. Interest income and reversal provisioning, prompted the company to enter into a Memorandum of Understanding with the Ministry of Finance and Economic Affairs on 27 November 2018 to become eligible to recover amounts written off on account of micro finance loans extended to this particular segment. Accordingly, MBSL was able to claim a total of Rs. 74 million as at 31 December 2018, which enabled the reversal of impairment provisions made previously and ultimately leading to an increase in the company's profits for the year under review.

Performance against Strategy

	2018	2017	2016
Interest and similar income (Rs.Mn)	2,607	2,648	1,876
Net operating income (Rs.Mn)	1,386	1,278	964
Impairment charges (Rs.Mn)	46	186	0.40
Operating profit (Rs.Mn)	643	626	428
Assest (Rs.Mn)	14,086	13,130	12,156
Liabilities (Rs.Mn)	12,825	11,643	10,414

Interest Income & Net Operating Income



Strategic Imperatives for the Future

With the country's near term prospects likely to remain in uncertain territory, MBSL would look to further consolidate its lending activities in 2019. Continuing with its selective lending strategy in the year ahead, the company will focus three priorities; curb NPL's, lend more secured loans and ensure overall customer retention.

CORPORATE ADVISORY

The year 2018 was marked by sluggish stock market activity and weak economic conditions, which did not present any real trading opportunities for MBSL's equity portfolio. However, despite limited trading activities, keen action by the Corporate Advisory unit resulted in MBSL's equity portfolio recording negative growth of 4.75% for the year, outpacing the ASPI decrease of 4.98%.

In the meantime the Corporate Advisory unit began exploring other possible areas to increase the fee based income of the division. Consequently the unit handled a Rs. 600Mn securitization for an other finance company. The Company also began hosting networking seminars to bring together industry stakeholders to discuss global trends and other aspects pertinent to the country's Financial services sector. Two such forums were held in 2018, the first in September to discuss "Contemporary Issues in SME's in Sri Lanka" and the second in November covering "Currency Outlook and Forecast".

Meanwhile following the CSE's introduction of the new Empower Board to list SME sector companies, MBSL's Corporate Advisory unit began offering specialized advisory services to assist eligible clients to manage the listing process.

With a dramatic change in the economic conditions and stock market behavior not expected in the near future, the division will continue to focus aggressively on corporate lending in addition to pursuing other fee based products.

DEPOSITS

Operating Context

Characterized by relatively stable and consistently high market rates, the immediate operating environment in 2018 was more conducive towards deposit mobilization. However, a contraction in the demand for savings was observed for much of the year cascading from weak economic activity, while several other challenges too remained, most notably the negative sentiments regarding the country's NBFI sector.

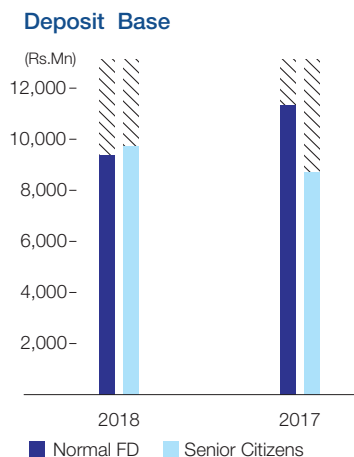
Strategy and Focus

For MBSL the year 2018 began with an excess liquidity situation, leading the deposit mobilization unit to focus on consolidating the fund base with all efforts centered on minimizing the maturity mismatch and reducing the weighted average cost of funds. Stemming from this, the main strategic thrust shifted towards mobilizing retail deposits, more or less new territory for MBSL which has traditionally focused on attracting large corporate deposits and loans to fund the lending business.

A widespread media campaign was rolled out in addition to the branch wise promotional campaigns to create customer awareness and reinforce the company's credentials as a retail deposit taking institution and coupled with extensive training activities to build a retail-driven culture among the sales staff and improve the branch service model. A new target driven incentive scheme was also put in place in order to reorient all staff towards retail deposit mobilization activities.

Specific market development and product development strategies were then initiated to leverage on the relative stability of the market interest rates. Focusing on mobilizing retail term deposits, special emphasis was placed on promoting long tenure FD's. Taking the first steps in this regard, a new 15 months term deposit product and an 18 months term deposit were rolled out. The move forms part of a broader strategy to increase the average deposit tenure and thereby minimize the maturity mismatch within the company's fund base. In parallel, several internal process improvements were made to streamline the customer service model. The documentary management systems were digitized and the FD system integration was completed enabling customers to add on / withdraw their FD's from any MBSL branch across the island and the customer security documents were available in scanned format so that the customers could be served on a timely manner.

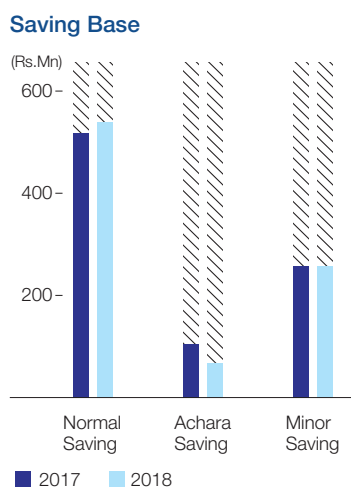
Deposit Base	2018 Rs. Mn	2017 Rs. Mn
Normal FD	9,440	11,399
Senior Citizens	9,765	8,747



Deposits

Meanwhile to drive the company's efforts to tap into the retail savings market, a series of new products were developed and launched to the market, key among them; the standard savings product, the bonus saver product and the "Achara" senior saver product. "Punchi" and "Punchi Star" minor savings accounts were also re-launched to inculcate the savings habit with the kids. Designed to reflect the current and future needs of the target market segments, each product includes a host of attractive benefits in addition to highly competitive interest rates.

Saving Base	2018 Rs. Mn	2017 Rs. Mn
Normal Savings	520	542
Achara Savings	106	68
Minor Savings	259	258



Performance against Strategy

Strategic Imperatives for the Future

The strategy going forward would be to continue the momentum in increasing the retail deposit portfolio and to focus on building the savings portfolio by expanding the reach to tap into a more customer segments. Equal emphasis will be placed on making further inroads into the term deposit space. In each case the branch network is expected to be the key lever in solidifying MBSL's position as a deposit taking institution for the retail market. To complement this effort the company is planning to launch an ATM card with the support of the parent BOC in the new financial year and then come up with attractive savings offers to capture the customers and to encourage them to save with MBSL with the island wide branch network of the bank.

ECONOMIC VALUE ADDED

GRI 201-1

MBSL has always used Economic Value Added (EVA) as a measure of its commitment to meet its obligations to shareholders, employees, regulators and other stakeholders after allocating a suitable portion of retained earnings to fuel the Company's future growth. In this context, EVA serves as benchmark to improve the Company's performance year on year and thus drives the commitment to maximize capital outputs in order to deliver on MBSL's vision.

The EVA statement below highlights the progress made in 2018;

Statement of Value Added

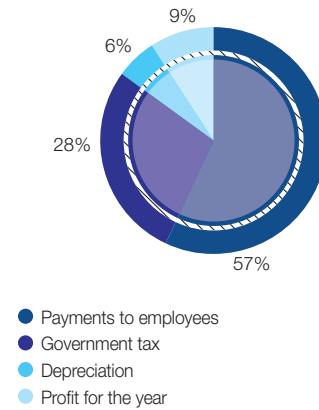
	2018 Rs. Mn	2017 Rs. Mn
Value Added		
Gross value added	6,550	6,403
Cost of borrowings & support services	(4,545)	(4,488)
Provision for bad debts & investments	(76)	(300)
	1,929	1,615
Value Allocated		
Payments to employees	1,096	1,074
Government tax	532	331
Depreciation	120	109
Profit for the year	181	101
	1,929	1,615

Sources & Utilization of Income

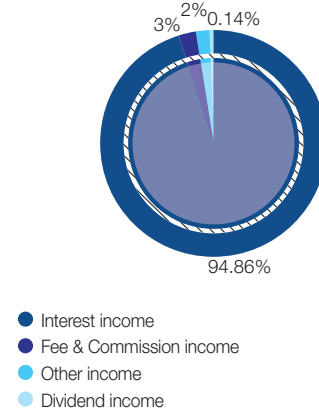
	2018 Rs. Mn	2017 Rs. Mn
Sources of Income		
Interest income	6,195	6,157
Fee & commission income	210	180
Dividend income	9	8
Other income	136	58
	6,550	6,403

	2018 Rs. Mn	2017 Rs. Mn
Utilization of Income		
Payment to lenders	3,752	3,709
Payments to employees	1,096	1,074
Support services	792	779
Profit for the year	181	101
Depreciation & amortization	120	109
Impairment charges for loans and other losses	135	244
Impairment/(impairment reversal) of investment in subsidiary	(58)	56
Government taxes	532	331
	6,550	6,403

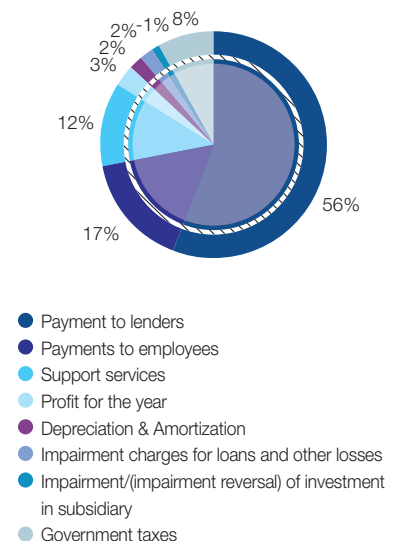
Value Allocation



Sources of Income



Utilization of Income



FINANCIAL CAPITAL



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

Profile

Our Financial Capital consists of the financial resources provided by equity investors as well as borrowings from the public and Banks.

	2018	2017
Shareholder Funds (Rs. Mn)	2,524	3,234
Customer Deposits (Rs. Mn)	20,831	21,919
Borrowings (Rs. Mn)	11,200	9,380

Management Philosophy

We endeavor to manage our Financial Capital, efficiently and effectively in order to achieve the following key objectives;

1. Ensure the Company continues to remain profitable in order to provide the expected shareholder returns
2. Maintain a strong capital position that would improve stability and build resilience for the long term

Strategic Imperatives

- Broad based lending strategy to tap into multiple customer segments
- Sourcing of low cost funding either from the public or through borrowings
- Proactive recovery management to reduce impairment provisions
- Operational cost management to reduce the Company's overall cost to income ratio
- Improve liquidity position by minimizing the maturity mismatch between assets and liabilities

Key Value Drivers

- Net Interest Income
- Impairment on Loans and Advances
- Cost Management
- Profitability
- Asset Base
- Funding and Liquidity Position

Governance and Oversight

- Board of Directors
- CEO
- Risk Management Committee
- Asset and Liability Committee
- Head of Finance
- Corporate Advisory Unit

Progress Update - 2018

Net Interest Income (NII)

NII, the Company's key source of income remained flat, as both Interest Income and Interest Expenses grew by 1% each, year on year. Interest income slowed as lending opportunities diminished on the back of sluggish credit demand from the market stemming from weak economic conditions.

Meanwhile the increase in Interest expenses was attributed to the high interest rate environment prevailing throughout the year which drove up the cost of funds mobilized from the public.

Amidst this backdrop, timely re-pricing of the lending portfolio enabled MBSL to maintain Net Interest Margin (NIM) at 7.83%, more or less on par with the previous year.

Other Income

The Company's Other Income, which comprises of Fee income, Income from Insurance Premium and Net Trading Income, declined significantly as Income from Insurance Premiums dropped sharply after the cessation of activities of MBSL insurance following the loss of the Insurance license in June 2017.

On a more positive note, Net Fee and Commission Income increased by 74% year on year from Rs. 120 Mn in 2017 to Rs. 208 Mn in 2018.

Impairment Provisions on Loans and Advances

Impairment charges on Loans and Advances decreased significantly during the year under review, from Rs. 244 Mn in 2017 to Rs. 135 Mn in 2018, a decline of 45%. While the Company's bad debt provision as per CBSL guideline for the year did increase due to higher NPL's caused by the economic downturn and weak activity in the agriculture sector, the reimbursement of Rs. 74 Mn as part of a Government sponsored debt relief scheme for women micro entrepreneurs in 12 drought-stricken areas, helped bring down the overall impairment costs for 2018. This reimbursement was made possible thanks to the Memorandum of Understanding between MBSL and the Ministry of Finance

and Economic Affairs signed on 28 November 2018 giving the Company the opportunity to claim amounts written off on account of micro finance loans extended to this particular segment.

Cost Management

Strong emphasis on cost management helped prevent any significant cost escalation, with MBSL's Operating Costs increasing only by 5% year on year. Personnel Costs increased marginally by 2%, while other Operating Expenses grew by 10% in year, mainly on account of increasing in promotion activities.

The improvement in cost structures had a positive impact on the Company's cost to income ratio, which declined significantly from 73.10% in 2017 to 71.07% in the year under review.

Profitability

MBSL reported a solid 95% increase in pre-tax profits from Rs. 229 Mn in 2017 to Rs. 447 Mn in 2018. With no material change in NII, profit growth for 2018 is attributed to the lower cost structures as well as the impact of the lower impairment provisions.

Bolstered by strong pre-tax results, the Company reported healthy post-tax profits even after accounting for the additional Debt Repayment Levy introduced by the Government in October 2018. Accordingly MBSL tabled post-tax profits of Rs. 181Mn in 2018, up nearly 80% from the Rs. 101 Mn reported for 2017.

Asset Base

MBSL's Total Assets base as at 31 December 2018 remained on par with the previous year, hovering in the range of Rs. 35.8 Bn. The Leasing and Hire Purchase portfolio increased its contribution to the Company's Asset Base, accounting for 46% of total assets as at end-December 2018, moving up from 44% at the end of 2017. This was mainly due to a 9% year on year improvement in the Leasing and Hire Purchase portfolio, which comes amidst an aggressive branch-led promotional campaign to promote vehicle Leasing.

Similarly the Term Loan portfolio too grew by a robust 21% year on year indicative of the timely strategies taken by the Company to leverage on the demand for short-term credit. Moreover the Pawning portfolio more than doubled from Rs. 700 Mn at the end of 2017 to Rs. 1,503 Mn as at 31 December 2018, again pointing to the success of MBSL's efforts to widen the product coverage across the country.

Further testifying to the Company's effort to reduce the exposure to Group loans, the Microfinance portfolio declined by over 31% year on year.

Funding and Liquidity Position

Deposit mobilized from the public remained the main source of funds for the company in 2018, accounting for 60% of the fund base (63% in 2017), 2% growth in the savings base is mainly attributed to the strong emphasis placed on sourcing retail deposits, which also led to a change in the cost of funds for the year.

Company has maintained liquidity ratio above the requirements specified by Central Bank of Sri Lanka (CBSL) throughout the year.

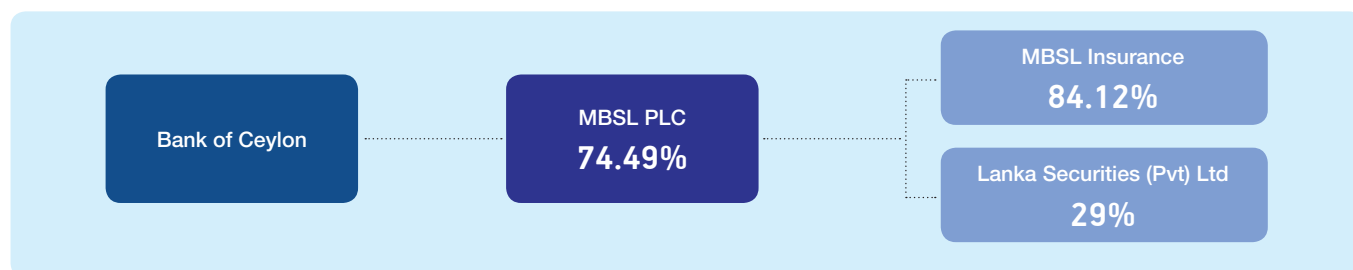
→ Priorities for the Future

1. Sharpen the lending strategy in tandem with demand to leverage on growth opportunities in high potential segments
2. Seek to access alternative low-cost funding source

Financial Capital

GRI 102-5, 102-45

The Shareholding Structure of MBSL



Shareholder Information

Public Holdings

	2018		2017	
	No. of shares	% of holding	No. of shares	% of holding
Shares held by the public	42,306,809	25.51%	42,307,029	25.51%
No. of public shareholders	11,312	99.95%	11,212	99.94%

Foreign shareholding continued to be minimal, with 99.30% of shares held by residents

Distribution of Ordinary Shares

	As at 31 December 2018				As at 31 December 2017			
	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	9214	81.40%	1,619,758	0.98%	9159	81.64%	1,626,774	0.98%
1,001 to 10,000	1649	14.57%	5,827,079	3.51%	1640	14.61%	5,769,648	3.48%
10,001 to 100,000	407	3.60%	11,486,006	6.93%	369	3.29%	10,809,941	6.52%
100,001 to 1,000,000	46	0.41%	11,467,136	6.91%	48	0.43%	12,213,580	7.36%
over 1,000,000	2	0.02%	135,474,562	81.67%	3	0.03%	135,454,598	81.66%
Total	11,318	100.00%	165,874,541	100.00%	11,219	100.00%	165,874,541	100.00%

Composition of Ordinary Shareholders

	As at 31 December 2018				As at 31 December 2017			
	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	10,329	91.26%	20,912,414	12.61%	10,224	91.13%	20,720,562	12.49%
- company	940	8.30%	143,794,921	86.69%	944	8.41%	143,131,142	86.29%
Non Resident - Individual	46	0.41%	717,107	0.43%	49	0.44%	905,039	0.55%
- company	3	0.03%	450,099	0.27%	2	0.02%	1,117,798	0.67%
Total	11,318	100.00%	165,874,541	100.00%	11,219	100.00%	165,874,541	100.00%

Directors' Shareholding

Names of Directors	No. of shares		As a % of total shares	
	31.12.2018	As a % of total shares	31.12.2017	As a % of total shares
Mr. D.N.L.Fernando	24	0.00001%	-	-

Market Share Information

	2018	Q4	Q3	Q2	Q1	2017
Share price (Rs.) - Highest	14.70	9.60	10.40	14.00	14.70	15.80
Lowest	7.40	7.40	7.70	9.50	12.60	10.60
Closing	9.60	9.60	8.10	10.00	13.00	13.50
No. of transactions	5,376	1,857	1,808	1,019	692	4,570
No. of shares traded (Mn)	9.28	2.75	3.36	1.54	1.63	15.73
Total number of shares issued (Mn)	165.9	165.9	165.9	165.9	165.9	165.9
Shares traded to total shares (%)	5.6	1.7	2.0	0.9	1.0	9.5
Turnover (Rs. Mn)	96	24	32	18	22	224
MBSL turnover to total market turnover (%)	0.05	0.04	0.10	0.05	0.03	0.10
No. of days traded	237	61	62	58	56	241
Average daily turnover-CSE (Rs. Mn)	838	969	510	661	1,214	915
Market Capitalisation - CSE (MC)(Rs. Bn)	2,839	2,839	2,753	2,894	3,033	2,899
Market Capitalisation - MBSL (MC)(Rs. Bn)	1.59	1.59	1.34	1.66	2.15	2.20
MBSL MC to CSE MC (%)	0.06	0.06	0.05	0.06	0.07	0.08
MBSL market capitalisation ranking	166	166	175	166	151	146

Twenty largest shareholders

Shareholder	As at 31 December 2018		As at 31 December 2017	
	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	11,912,295	7.18%	10,788,183	6.50%
People's Leasing & Finance PLC/Mr.D.M.P.Disanayake	632,485	0.38%	632,485	0.38%
J.B. Cocoshell (pvt) Ltd	537,530	0.32%	-	-
Merrill J Fernando & Sons (Pvt) Limited	526,165	0.32%	526,165	0.32%
Sandwave Limited	420,449	0.25%	1,104,148	0.67%
Seylan Bank PLC/Spice of Life (Pvt) Ltd	405,234	0.24%	405,234	0.24%
Mr. K.V.Hewavitarne	400,000	0.24%	400,000	0.24%
Hatton National Bank PLC/Dinesh Nagendra Sellamuttu	386,301	0.23%	386,301	0.23%
Mr.N. Balasingam	381,400	0.23%	381,400	0.23%
Richard Peiris Financial Services (Pvt) Ltd/M.A.A.Karim	380,000	0.23%	578,109	0.35%
Seylan Bank PLC/MS.Prime Lands (Pvt) Ltd	375,000	0.23%	375,000	0.23%
Mr. B.T.Prathapasinghe	345,000	0.21%	345,000	0.21%
Mr. A.Chelliah (deceased)	333,800	0.20%	333,800	0.20%
Mr. A.M. Weerasinghe	305,583	0.18%	305,583	0.18%
Mr. W.L.T. Anandawansa	300,100	0.18%	282,039	0.17%
People's Leasing & Finance PLC/Mr.L.P.Hapangama	300,000	0.18%	300,000	0.18%
Bartleet Produce Marketing (Pvt) Limited	300,000	0.18%	300,000	0.18%
Mr.M.F. Ozman	290,657	0.18%	-	-
Mr. R.E. Rambukwella	286,500	0.17%	-	-
Total of Largest shareholders	142,380,766	85.84%	-	-
Total of other shareholders	23,493,775	14.16%	-	-
Total of all shareholders	165,874,541	100.00%	-	-

Financial Capital

Debenture information

Debenture - Market Information

	2018					
Type	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	
Issue date	13-Nov-14	13-Nov-14	12-May-17	12-May-17	12-May-17	
Maturity date	12-Nov-19	12-Nov-19	03-May-22	03-May-22	03-May-22	
Interest rate	9.00%	8.75%	15.00%	14.50%	11.47%	
Coupon rate (%)	9.00%	8.75%	15.00%	14.50%	11.47%	
Effective annual yield (%)	9.00%	8.94%	15.00%	15.03%	12.86%	
Interest rate comparable government security (%)	11.56%	11.56%	11.56%	11.56%	11.56%	
Frequency of interest payable	Annually	Bi - annually	Annually	Bi - annually	Bi - annually	
Rating	A :ICRA Lanka Limited		A- :ICRA Lanka Limited			
Amount (Rs. Mn)	909.77	1,090.23	805.76	1,193.23	1.01	
ISIN No.	LK0186D22669	LK0186D22677	LK0186D23824	LK0186D23816	LK0186D23808	
Highest	Has Not Been Traded	Has Not Been Traded	Has Not Been Traded	Has Not Been Traded	Has Not Been Traded	
Lowest						
Closing						
Current yield (%)						
YTM (%)						

2017								
	Type A 13 March	Type C 13 March	Type D 13 March	Type A 14 Nov	Type B 14 Nov	Type A 17 MAY	Type B 17 MAY	Type C 17 MAY
	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years
	28-Mar-13	28-Mar-13	28-Mar-13	13-Nov-14	13-Nov-14	12-May-17	12-May-17	12-May-17
	27-Mar-18	27-Mar-18	27-Mar-18	12-Nov-19	12-Nov-19	03-May-22	03-May-22	03-May-22
	17.50%	16.70%	16.50%	9.00%	8.75%	15.00%	14.50%	12.11%
	17.50%	16.70%	16.50%	9.00%	8.75%	15.00%	14.50%	12.11%
	17.50%	17.77%	17.80%	9.00%	8.94%	15.00%	15.03%	12.48%
	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%	10.20%
	Annually	Quarterly	Monthly	Annually	Bi - annually	Annually	Bi - annually	Bi - annually
	A :ICRA Lanka Limited			A :ICRA Lanka Limited		A- :ICRA Lanka Limited		
	625.11	723.19	166.46	909.77	1,090.23	805.76	1,193.23	1.01
	LK0186D19194	LK0186D19210	LK0186D19228	LK0186D22669	LK0186D22677	LK0186D23824	LK0186D23816	LK0186D23808
	107.92	101.47	100.31	Has Not Been Traded	Has Not Been Traded	Has Not Been Traded	Has Not Been Traded	Has Not Been Traded
	101.73	101.47	100.30					
	101.73	101.47	100.30					
	17.20%	16.46%	16.45%					
	16.96%	16.25%	16.41%					

MANUFACTURED CAPITAL



As a key enabler in reaching out to and serving our customers, our manufactured capital base makes major contribution towards generating long-term value for the Company, and its stakeholders.

Profile GRI 203-1

Physical assets consisting of a network of 49 branches that marks MBSL's island-wide presence. All are fully service branches geared to offer the full gamut of MBSL's services, including leasing, retail and corporate credit and pawning facilities under one roof.

State of the art technology infrastructure including core hardware, integrated software system architecture and data centre.

	2018	2017
Physical Assets (Rs. Mn)	538,691	473,519
Technology Infrastructure (Rs. Mn)	716,159	704,696

Management Philosophy

Systematically invest in developing manufactured capital to enhance MBSL's competitive position and increase island-wide market share.

Strategic Imperatives

- Consolidate the existing branch footprint and focus on strengthening branch infrastructure with a view to creating a distinctive branch proposition
- Invest in digital infrastructure to improve efficiency, drive productivity and reduce costs.

Key Value Drivers

- Branch Relocation Program
- Branch Refresh Initiative
- Technology Integration Program

Governance and Oversight

- Board of Directors
- IT Steering Committee
- CEO
- Head of IT

Branch Relocation Programme

The company's branch relocation programme is a continuous and ongoing effort aimed at strategically repositioning branches in order to improve the branch service model as well as to enhance MBSL's market reach and visibility in a particular region. In 2018, the Maharagama, Galle, Malabe, Embilipitiya, Higurakgoda and Kurunagala branches were relocated to new more centrally located premises, at a total cost of Rs. 24,108,228 to allow for more convenient access. Meanwhile to support MBSL's commitment towards improving cost efficiency of the branch model, both contracts were negotiated as long leases for a minimum period of 5 years per contract.

Branch Refresh Initiative

As part of the ongoing upkeep and maintenance efforts, the existing branch set up was revisited in 2018. Marking the first phase of the branch refresh initiative, a total of Rs. 10,654,816 was spent in 2018 to revamp the infrastructure at Kuliypitiya, Panadura, Moratuwa and Nugegoda branches to make them not only more customer-centric, but also more efficient and cost effective at the same time.

Technology Integration Programme

Following the completion of the core banking system migration fully in the early part of 2018, the technology integration program commenced soon thereafter. The first phase of the technology integration programme focused on streamlining the loan origination system and providing remote

access to all authorized personnel. Accordingly, the active directory was integrated to allow internal users to log into the system there by granting access to appropriate workflows based on their authority level. The loan origination system was further integrated with the back-end Core Banking system, thus ensuring the integrity of the information for the loan originator.

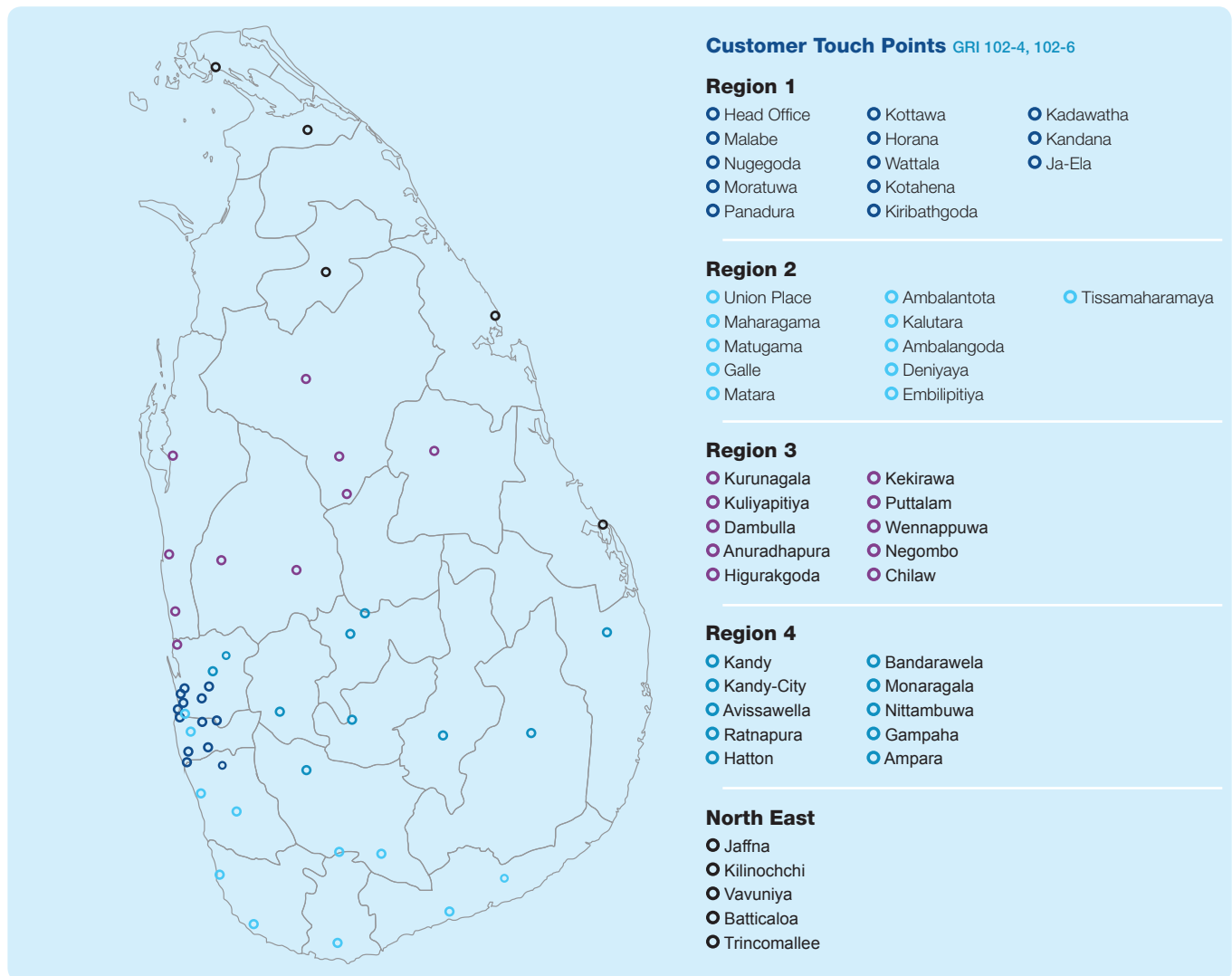
At the same time in-house developed Velocity platform was enhanced with new technology updates in both hardware and software level the platform is now with version 2 of the platform release. A number of other system improvements were also made to support financial reporting and MIS information.

Trade-off with Other Capitals

While the cost incurred in developing manufactured capital will lead to a negative impact on the company's financial capital in the short-term, in the long term these investments are likely to significantly enhance the company's revenue generation capacity, leading to improved profitability. Meanwhile investments in IT systems in particular go on to strengthen MBSL's intellectual capital as well as improve overall operational efficiency, thereby contributing towards improved customer outcomes in the future.

→ Priorities for the Future

1. Leverage on innovative technology-driven platforms to enable new product development and strengthen collection mechanisms
2. Invest in self service propositions such as ATMs, online and mobile banking
3. Expedite the technology integration program to further improve operational efficiency and minimize delays caused by manual intervention
4. Continuous and ongoing investments to sharpen the profile of the branch network



INTELLECTUAL CAPITAL



Our Intellectual Capital plays a vital role in defining our position as a leading financial institution in Sri Lanka.

Profile

The MBSL brand value as well as the tacit knowledge, including the experience of our people, the information assets, and knowledge-based systems and procedures that support the delivery of stakeholder expectations.

	2018	2017
LMD brand ranking	66	58
Brand value: (Rs. Mn)	784	774

Management Philosophy

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

Strategic Imperatives

- Increasing Brand coverage
- Reinforce management structures to enhance the governance and compliance
- Strengthen operational policies to keep pace with the latest developments in the operating environment
- Improve procedural frameworks to enhance internal efficiency

Key Value Drivers

- Brand Building
- IT Systems Policy Framework
- Management Structures and Operational Policy Framework

Governance and Oversight

- Board of Directors
- IT Steering Committee
- CEO
- Head of IT

Progress Update - 2018

Brand Building

Being a year of consolidation, aggressive brand building was not carried out in 2018. However, regular ATL and BTL campaigns continued in order to increase island-wide brand coverage and promote top of mind awareness regarding MBSL.

IT Systems Policy Framework

In 2018 we undertook the task of developing a comprehensive IT policy framework, as a first step in improving our readiness towards becoming a fully fledged digitalized financial institution by 2025. As a result of the work done during the year, the following policies were developed and rolled out;

Information Security Policy

It is the policy of Merchant Bank of Sri Lanka & Finance PLC (MBSL), that its information assets are provided comprehensive protection against the consequences of breaches of confidentiality, failures of integrity, and interruptions to their availability and/or repudiation of a transaction. The MBSL Information Security Policy (MBSL ISP) provides management direction and support to ensure protection of MBSL's information assets, and to allow access, use and disclosure of such information in accordance with appropriate standards, laws and regulations. This policy covers Scope of Information Security policy, Policy

Owner, Policy Objectives, Review and Evaluation Consequence Management for Non-Compliance and Exceptions.

Asset Management Policy

The Asset Management Policy specifies the importance of information assets including identification of the asset owner, asset classification and determining confidentiality, integrity and availability ratings of the assets. The policy establishes the requirement of controls that need to be implemented for protecting information assets. The policy includes controls of Asset Register, Responsibility of Asset Management, Information Classification, Temporary Asset Acquisition, Maintenance and Release Policy.

Human Resources Security Policy

The Human Resources Security Policy specifies the information security requirements that need to be integrated into the HR processes during recruitment, employment and termination.

Physical and Environmental Security Policy

The Physical and Environmental Security Policy provides direction for the development and implementation of appropriate security controls that are required to maintain the protection of information systems and processing facilities from physical and environmental threats.

Operations Security Management Policy

The Operations Security Management Policy establishes appropriate controls that need to be implemented to prevent unauthorised access, misuse or failure of the information systems and equipment and to ensure confidentiality, integrity and availability of information that is processed by or stored in the information systems/equipment covering Operational Procedures and Responsibilities, Third Party Service Delivery Management, System Planning and Acceptance, Protection against Malicious and Mobile Code as well as Backup.

Communications Security Management Policy

The Communications Security Management Policy establishes appropriate controls including Network Controls, Media Handling, Exchange of Information, Electronic and Mobile Commerce Services, Monitoring to ensure the protection of information in networks and its supporting information facilities and security of information transferred within an organisation and with any external entity.

Access Control Policy

The Access Control Policy defines the controls that need to be implemented and maintained to protect information assets against unauthorised access that possess substantial risk to the Bank. The policy intends to establish adequate controls for user access management, networks access, operating system security and mobile computing in MBSL as well as the Password Management.

Systems Acquisition, Development & Maintenance Policy

The systems Acquisition, Development & Maintenance Policy defines the security requirements that need to be identified and integrated during the development and maintenance of applications, software, products and/or services including Information Security Requirements in New Initiatives, Secure Application Development Process, Security of System Files and Security in Support Processes

Third Party Relationships Management Policy

Third Party Relationships Management Policy is applicable to all Third parties providing services to MBSL. In case of the Third Parties who are present onsite at MBSL, the MBSL ISP is also applicable in addition to the Third Party Relationships Management Policy.

Information Security Incident Management Policy

The Information Security Incident Management Policy provides direction to develop and implement the Information Security Incident Management Process for networks and computers, improving user

security awareness, early detection and mitigation of security incidents and defining the actions to be taken in order to reduce the impact due to security incidents.

E-mail Security Policy

The E-mail Security Policy provides the direction to ensure that the E-mail system is not vulnerable to interception, modification, interruption and/or misuse. The policy covers controls appropriately in the area of authorised Use of E-mail, Prohibited Use of E-mail, User Accountability, User Identity, Electronic Mail Encryption, Contents of Electronic Messages, Disclosure of Content, Attachments and Virus Protection, Public Representations, Archival Storage and User Backup, Contracts Confirmation and Disclaimer.

Policy on Information Security aspects of Business Continuity Management

MBSL recognizes the criticality and need of its business and understands the importance of availability of its key products, services, people supporting these products and services, supporting processes and information systems. The Policy on Information Security aspects of Business Continuity Management defines the intent of the management to establish a Business Continuity Plan (BCP) to counteract interruptions to business activities and to ensure the continuity of information security. The objectives include protecting the critical business products and services from the effects of business disruptions due to major failures, incidents or disasters, etc., and the timely resumption of these critical processes.

Bring Your Own Device Policy

In contrast to Information and Communications Technology (ICT) devices owned by the Bank authorised employees and Third Parties may wish to use their Personally Owned Devices (PODs) for work purposes, for example, access MBSL network making and receiving work phone calls and text messages on their own personal cellular phones; and using their own tablet computers to access, read and respond to work related E-mails.

Intellectual Capital

Internet and Social Media Policy

Internet should be used with responsibility so as not to endanger MBSL or any of its resources or its reputation. The scope applies to any Internet resource or facility including, but not limited to, web browsing, instant messaging, file transfer and any other services available on the Internet.

Compliance Policy

The Compliance Policy provides direction to design and implement appropriate controls to meet legal, regulatory and contractual requirements within the business divisions/departments of MBSL and also Compliance with ISP and Technical Compliance and Information Systems Audit Considerations.

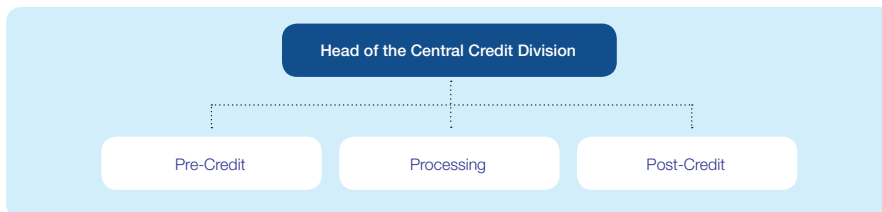
CCTV Policy

The purpose of this policy is to regulate the use of Closed Circuit Television and its associated technology in the monitoring of both the internal and external environs of the premises under the remit of MBSL. This policy relates directly to the location and use of CCTV and the monitoring, recording and subsequent use of such recorded material.

Management Structures And Operational Policy Framework

1. Setting up the Central Credit Division

The Central Credit Division was set up with a view to strengthening the credit management process and improving oversight and control structures. The Central Credit Division is a considerable step up from the credit administration division which was in existence before. Consisting of three distinct segments; pre-credit, credit processing and post-credit monitoring, is geared to support the end-to-end credit process, the Central Credit Unit is designed as an end-to-end credit management tool.



Process of Central Credit Division – Pre Credit Evaluation

There are various factors which have to be fulfilled by the lending institution to safeguard its interests. Every credit facility requires specific security documents and the procedures vary, depending on the nature of the Credit facility approved to the customer.

The evaluation process is the main objective of Central Credit Division to maintain quality lending portfolio in the Bank. Accordingly for smooth processing of Credit Facilities the division has been divided into two main sections.

1. Pre Evaluation Unit
 - a) Retail Credit Evaluation Unit
 - b) Corporate Credit Evaluation Unit
2. Personal Loan and Micro Verification unit

These units help to mitigate the Credit Risk through the evaluation process and operate as independent units.

Following areas will be covered by the each sections.

Name	Area Covered
Personal Loan & Micro Verification Unit	Verification/confirmation of information on <ul style="list-style-type: none"> ➤ Applicant details ➤ Employee details ➤ Guarantor and relative details ➤ Confirmation of DSCR
Retail Credit Evaluation Unit (up to Rs. 10Mn)	<ul style="list-style-type: none"> ➤ Verification of information and final evaluation of the credit appraisal submitted by the Branches through Regional Credit Officers along with the approval or recommendation of Regional Head. ➤ Inspection of the business and collateral if required.
Corporate Business Unit (Above Rs. 10Mn)	<ul style="list-style-type: none"> ➤ Comprehensive evaluation and analysis of Credit Facilities receiving from Branches, recommended by the Regional Heads. ➤ Produce Clear and Comprehensive report upon evaluation of the facilities. ➤ Modification and upgrading the Credit proposal according to the requirement of the approval authority. (Credit Committee, CEO or the Board Approval) ➤ Obtaining the Risk report for over Rs. 10 Mn facilities. ➤ Arranging and submission of proposals to the Credit Committee Meetings. ➤ Preparation of the Credit committee minutes.

CCD Processing Unit

Loan disbursement is the key function of processing unit of Central Credit Division. Basically our products are leasing, short-term loans, term loans, personal loans, and micro finance loans. Before disbursement of loan by processing unit is make sure to complete

of duly perfect documentation process and the custodian of securities and collaterals of such facilities. The processing unit creates the facility and confirms the disbursement by transferring the fund or advice to issue the cheque in favour of customer or suppliers account.

Post Credit Monitoring Unit

Ensure to maintain the quality of the credit portfolio of the company by monitoring the pre and post credit requirements in order to achieve the lending target of the company. Subsequently, take preventive actions to rectify errors and frauds to mitigate the credit risk of the company.

Name	Area Covered
Post Credit Monitoring Unit	Reduce NPA level of the company.
	Give contribution to reduce bad debt provision of the company.
	Closely monitor the 3 -6 category in order to reduce the risk lending category of the company.
	Mitigate the credit risk and default risk of the company.
	Monitoring of transferred to IIS.
	Build up a control process of credit process to maintain healthy credit portfolio.
	Minimize errors and frauds in credit process and take rectification action.
	Assurance of post credit requirements.
	Ensure whether compile with compliance requirements and credit procedure requirements.

2. Implementing the Quality Assurance Program

Introduced in order to complement the activities of the Central Credit Division, the Quality Assurance program serves as a data analytics function aimed at maintaining the quality of all lending activities. Under the Quality Assurance Program incorporates several key metrics that are analyzed and monitored on an ongoing basis, most notable among them are;

- Frequently, review the corporate facilities of the company to ensure that the loans were processed according to the established loan procedures.
- Periodic examination of the lending portfolio (Product wise trend analysis).
- Provide the analytical information to the corporate management to set quality standards to prevent future frauds, risk related activities and etc.
- Ensure that the implemented company policies are based on the quality standards.
- Conduct branch spot audit, whether to ensure that the branches have adhered the set company policies in branch operation.
- In addition to the above, business intelligence activities are carried out in order to make business decisions of the company.

Through this process we have been able identify lapses in the lending process, determine under performing products, market segments etc, with such information shared with relevant authorities for necessary action.

3. Strengthening the Recovery Management Process

With the recovery effort being the overarching focus for 2018, the existing recovery model was changed, with governance protocols being revamped and brought under the purview of the centralized Recoveries Unit. Under the new structure, the Central Recoveries unit was tasked with providing oversight for the recovery of past-due accounts. To facilitate necessary monitoring activities of the Central Recoveries Unit, the MIS reporting framework was comprehensively with a series of dashboards put in place to enable the head of Recoveries to proactively monitor arrears, movements in the interest in suspense account

etc. A new reporting mechanism was also incorporated to keep the Board and senior management apprised of developments in recoveries via a daily SMS alert.

Being a support function that assists regional units and branches in their follow up and recovery activities, the Central Recoveries unit also conducted extensive training to improve the capacity of branch staff in driving the recovery effort.

Aside from these activities several other initiatives were also deployed to improve the branch-level recovery model. To encourage branch staff to be proactive in their recovery efforts a new incentive scheme was introduced, with a series of recovery metrics being developed and incorporated as KPI's. This was coupled with the introduction of a new recovery dashboard to enable branch teams to access updated recovery information in real time. Additionally, a monthly business review meeting schedule was introduced, where the CEO meets with branch teams under each region to formally discuss the progress made on the recovery strategy.

Trade-off with Other Capitals

Developing MBSL's Intellectual Capital does have a strong positive impact on all other capitals. For instance investing in knowledge-based systems and procedures enhance the capacity of the company's Human Capital and strengthen its Social and Relationship Capital specifically contributing towards building customer trust and confidence in our brand. While the cost involved will negatively affect the Financial Capital in the short-term, the outcomes derived from investing in Intellectual Capital will ensure the company remains sustainable in the future, and thereby lead to a higher contribution to the company's Financial Capital in the long term.

→ Priorities for the Future

1. Further streamline the recovery management structure
2. Complete the roll out of the IT policy framework

HUMAN CAPITAL



Human Capital remains one of the key differentiating factors responsible for driving MBSL's competitive advantage in the market. Within the company, Human Capital serves as a strategic business partner in catalyzing positive outcomes from other capitals.

Profile GRI 102-8

Permanent	946
Contract	58
Trainee	19
	1,023
Corporate Management	10
Senior Management	24
Middle Management	187
Executive	278
Non Executive	518
Others	6
	1,023

Employee Statistics as at 31 December 2018

	2018	2017
Male	635	599
Female	388	369
	1,023	968

Management Philosophy

We invest in Human Capital essentially to build their capacity to support MBSL corporate goals, while achieving their own personal growth objectives. Our HR strategy focuses primarily on striking the right balance between the needs of the company and those of its employees, vis-a-vis the following commitments;

- Developing and implementing appropriate policies and procedures in compliance with employment laws and government regulations as well as the Human Rights principles set out under the UN Global compact, in order to support the creation of a diverse and highly inclusive workforce in a safe environment that is free of discrimination and harassment of any form.
- Hiring the most qualified employees by pre planning staffing needs, ensuring an effective internal interview process, increasing company visibility in the employment marketplace, identifying the best and most cost effective recruitment sources and conducting thorough reference check to verify the authenticity of employee information.
- Retaining our valued employees by providing competitive salaries and benefits; offering equal opportunities for interpersonal and career development interventions and coaching; enhancing two-way communication between employees and management and handling any grievances fairly and equitably.

Strategic Imperatives

- Cultivating a performance-driven and value-based culture
- Investing the leadership pipeline
- Driving employee productivity
- Ongoing people engagement

Key Value Drivers

- Talent Acquisition and Placement
- Human Capital Development
- Performance Management
- Salary Administration & Rewards Management
- Employee Relations
- Safety and Well-being

Governance and Oversight

- Board of Directors
- CEO
- HR Committee
- Head of HR

Progress Update - 2018

Talent Acquisition and Placement

Recruiting candidates who demonstrate the rightfit for MBSL is crucial in furthering our Human Capital development goals. Our recruitment and selection policy aims to ensure that we attract and appoint applicants with the right skills, knowledge, and experience to meet the needs of all our vacancies. The policy further stipulates that all appointments be made strictly on the basis of merit and without discrimination.

To keep pace with the requirements of our growing business, the Board granted approval in 2018 to revise the existing recruitment policy and broaden its scope to allow MBSL to access a wider talent pool from across the country. Consequently several new recruitment channels were introduced specifically to increase the marketing cadre. New local hiring guidelines were also implemented as part of a focused effort to meet the staffing needs of branches across all regions.

GRI 401-1

New Recruits for 2018	
Age	
20-30	220
30-40	52
40-50	11
50-60	3
> 60	3
	289
Gender	
Male	185
Female	104
	289
Region	
Head Office	74
Region 01	31
Region 02	40
Region 03	56
Region 04	47
Region 05	41
	289

Salary Administration and Rewards Management GRI 401-2

It is our policy to provide employees with salary and benefits comparable to industry standards. MBSL employees receive a fixed salary commensurate with their scope of work and responsibilities that come with their position along with relevant allowances and fringe benefits.

Salaries and benefits including the bonus entitlement are covered by the collective agreement with trade unions, with the only exception being the incentive scheme for MBSL's front line employees which is based on the achievement of individual performance targets. [GRI 102-41](#)

Performance Management GRI 404-3

Key Performance Indicators (KPIs) /performance goals are set at the beginning of the year for both front line and service center's staff based on the budgeted corporate/departmental goals.

This process is facilitated by a robust Management Information System (MIS) that links individual Key Performance Indicators (KPIs) to corporate strategy/business goals. All front line employees have access to the MIS which is used to measure individual performance, and to determine the employees' alignment with the company's Budgeted Targets. A continuous Performance Review is being done to enabling employees to stay on track towards achieving their year-end performance targets. Performance achievements of employees are integrated with People (Employees) and Career Development Opportunities.

Human Capital Development GRI 404-2

MBSL is committed to ensuring that all employees have access to learning and competency development opportunities which enable them to be suitably knowledgeable and skilled to carry out their role within the company, and to grow their career in tandem with the company's long-term strategic objectives. Hence, we invest in training and competency development activities with due consideration of the needs of the business as well as the staff member's individual training & development needs. In addition, we are keen on investing on technical & soft skills development of front line staff specially in the areas of Marketing & selling, Customer Relationship Management whilst grooming our managerial staff through Leadership and Management Development Training Interventions in order drive MBSL towards a sustainable growth through continuous learning.

Training Focus for 2018	No. of Programmes	No. of Employees	Training Hours	Total Cost (Rs.)
Internal & External Training				
Management /Leadership competency development	7	157	1,120	1,213,461
Marketing & Selling skills	4	116	1,136	687,025
Customer service excellence	8	308	3,264	2,274,025
Anti money laundering	1	12	36	30,000
Training programmes for credit administration	4	232	1,814	72,488
Training programmes for recovery management	2	68	544	375,690
Training on information communication technology	6	24	717	302,692
Training on legislative framework and legal matters	10	41	461	308,850
Training programmes for cashiers	4	210	2,232	431,370

Human Capital

Training Focus for 2018	No. of Programmes	No. of Employees	Training Hours	Total Cost (Rs.)
Training programmes on risk management	4	4	38	60,500
Technical training programmes	23	509	4,420	1,559,079
HR	4	10	78	138,906
Office management	3	21	129	176,914
Lending, investment and Deposit product	2	160	1,376	267,560
Staff motivational	6	616	5,208	2,787,054
Foreign Training				
Global HR Excellence Awards 2018	1	3	24	1,273,900
Training on information communication technology	2	3	64	164,538
Total Summary	91	2,488	22,661	12,124,052

Training Hours Based on Employee Category	
Category	Total Average Hours Trained
Corporate management	120
Managerial staff (Chief/ Senior/Managers / Branch Managers/Service Managers)	2,703
Second officers	1,136
Marketing officers	6,332
Recovery officers	1,376
Cashiers/Tellers	2,985
Gold loan officers	2,144
FD & Savings officers	506
Branch back office staff (Documentation/Credit/Clerical/etc)	1,813
Staff of centralized service centres (HO)	1,914
Management trainee	1,632
Total Hours	22,661
Training Hours per Employee GRI 404-1	23

Training Hours based on Employee Gender Analysis		
Gender	Training Hours	%
Male	14,509	64
Female	8,152	36
Total training hours	22,661	100

Return to Work and Retention Rates After Parental (Maternity) Leave.

GRI 401-3

A total of 182 female employees were entitled to Maternity Leave in 2018/19, from the 31 employees took maternity leave in the year under review, 21 have returned to work during the reporting period itself. Of those who returned to work after Maternity Leave, 14 have remained in employment 12 months after the date of returning.

Return to work and retention rates of employees that took maternity leave - 68% and 45% respectively.

Employee Relations GRI 406-1

We realize that direct, honest and open relationships with our employees is fundamental to building a strong Human Capital base. We maintain an open-door policy and encourage employees to regularly interact with their superiors to work out issues that may arise as part of their day-to-day work. They also have access to several other channels in order to raise any concerns regarding their work, work environment etc. among them is the new HR Helpdesk set up in 2018. Where employees inform requirement & concerns relating to their employment with the company, these will be dealt with in a timely and fair manner as per our grievance handling policy. A whistle blower policy offers complete anonymity and allows employees to come forward to report perceived fraudulent activities.

Meanwhile with over 46% of our employees unionized, most employee concerns are raised by union representative at their quarterly meetings with the MBSL management. Regular interactions of this nature have helped us to build a strong rapport with unions representatives and work together for the benefit of MBSL employees.

Safety and Well-being

Ensuring the safety and Well-being of our employees is a key component of our employee value proposition. This means ensuring all our premises are equipped with mandatory safety equipment and features in compliance with all national safety regulations. Accordingly, at all our branches we have installed fire extinguishers and CCTV cameras in common areas. Further we have appointed fire wardens for each floor at head office branch. In the year under review we invested in a security alarm system for our branches.

Trade-off with Other Capitals

With the cost of developing Human Capital rising in parallel to our business growth, the impact on our Financial Capital also continues to increase each year. However, we find that the benefits far outweigh the costs involved, as the investments in Human Capital have a cascading effect that adds value to our other capitals in the long term. For example the investments in training go on to improve the customer service levels and thereby strengthen our Social and Relationship (Customer) Capital leading to higher market share and improved Financial outcomes. Moreover, knowledgeable and dependable Human Capital gives the company a distinct advantage over peers, which contributes towards the MBSL brand value, ultimately enhancing our Intellectual Capital.

→ Priorities for the Future

1. Develop and roll out a performance-based rewards scheme for all MBSL employees
2. Invest in HRIS software to support efforts to build a performance-driven culture
3. Enrich People Engagement

SOCIAL AND RELATIONSHIP CAPITAL

-CUSTOMER CAPITAL



Management Philosophy

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

Strategic Imperatives

- Align with all applicable product / customer compliance requirements
- Strengthen core competencies to enhance efficiency and increase market responsiveness
- Ongoing process improvements to enhance service delivery to the customer

Key Value Drivers

- Customer Compliance Framework
- Customer Experience Management

Governance and Oversight

- Board of Directors
- CEO
- Process Development Committee
- Credit Committee

Progress Update - 2018

Customer Compliance Framework

Reinforcing the commitment to comply with all applicable customer legislature, we began working towards the adoption of the Financial Customer Protection Framework (FCPF) mandated for LFC's (License Finance Companies) under the Finance Business Act, January 2018. Several important steps were taken in this regard to streamline reporting and strengthen disclosure procedures with special emphasis on complying with the product disclosure guidelines stipulated under the FCPF. Taking the lead in the implementation process was the newly appointed Process Development Committee tasked with providing oversight and ensure full adoption by the target 3-month dead-line.

Customer Experience Management

1. Process Driven Efficiency Improvement

The scope of the Process Development Committee was expanded to focus on process driven efficiency improvements that would enhance customer service delivery. Based on the recommendations of the committee, a number of workflow systems were streamlined in 2018 consistent with our endeavor to ensure 360 degree customer convenience, most notably;

- The online loan origination system which has been responsible for expediting the loan approval process, in turn resulting in faster service to the customer
- The Central Credit Division (CCD) was introduced in 2018, with CCD staff being trained to liaise directly with the customer and offer support with documentation etc.
- Digitization of the FD documentary management system, enabling customers to add on / withdraw their FD's from any MBSL branch across the island

2. Expediting Customer Complaint Handling

The existing complaint handling mechanism was revamped in 2018, with a new central call center being set up, supported by investments in additional resources including a dedicated call center manager. Under the new structure, customer queries / feedback received via telephone, post and email are managed by the call center, while the task of managing feedback received on social media platforms, was outsourced to a dedicated social media management agency with effect from mid-2018.

Trade-off with Other Capitals

The inputs that go into developing our Customer Capital have a negative impact on our Financial Capital in the short-term, due to the cost involved, and to some extent on Natural Capital as well due to the use of resources such as energy, water etc. However, investing in Customer Capital brings significant benefits; it increases MBSL's market leverage enabling us to grow our business and thereby improve our Financial Capital in the long term. It also enhances MBSL's brand reputation which adds a considerable boost to our Intellectual Capital.

→ Priorities for the Future

1. Continuous and ongoing improvements to internal processes in order to benchmark best in-class service delivery
2. Invest in digital solutions to enhance day-to-day customer convenience

SOCIAL AND RELATIONSHIP CAPITAL

-SUPPLIER CAPITAL



Suppliers are an important part of our value chain. Their contribution is vital towards maintaining the continuity of our day-to-day business.

Management Philosophy

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

Strategic Imperatives

- Fair and equitable procurement as per the National Procurement Guidelines
- Centralized procurement procedure ensure alignment with MBSL's cost and quality parameters.

Key Value Drivers

- Supplier Registry
- Local Sourcing

Governance and Oversight

- CEO
- Purchasing Committee

Priorities for the Future

1. Invest in targeted supplier development initiatives
2. Implement social and environmental screening for all major suppliers

Progress Update - 2018 GRI 204-1

	2018	2017
Total number of suppliers on the supplier registry	159	134
Percentage of local suppliers	99%	98%
Total value distributed to suppliers (Rs.Mn)	184	372
Total value distributed to local suppliers (Rs.Mn)	180	183

SOCIAL AND RELATIONSHIP CAPITAL -COMMUNITY CAPITAL



As a responsible corporate citizen, we want to lead by example in building stronger, and more empowered communities by helping address the issues that matter to them

Management Philosophy

At MBSL we support the community in various ways and regularly engage in community capacity building and welfare initiatives to provide relief for some of the grass root level issues that are brought to our attention through the branch network. More recently we have moved beyond this traditional charity-based approach to take a broader contextual view in order to provide consistent long term support to ensure that communities continue to grow and prosper well into the future. We believe the most meaningful to do this is to drive our community assistance programs through our core business. Our main focus in this regard is to foster entrepreneurship.

Strategic Imperatives

- Livelihood development
- Promoting financial Inclusion
- Working towards the uplifting the quality of life for disadvantaged communities

→ Key Value Drivers

- Micro Finance Lending
- Financial Literacy Program Series
- Community Capacity Building

→ Governance and Oversight

- Board of Directors
- CEO

Progress Update - 2018

Micro Finance Lending

MBSL's "Siyath Saviya" micro lending proposition which is made available across all 49 branches is specifically aimed assisting the development of micro entrepreneurs across the country. Coupled with special concessionary rates and specialized advisory services, the MBSL micro lending scheme is structured to offer rural micro entrepreneurs and small business startups, access to much needed financial assistance. The "Siyath Saviya" program is structured to provide collateral free loans to individuals engaging in agriculture, small businesses and dairy production. The initiative has been designed to primarily benefit vulnerable groups, including women and entrepreneurs in the North Central and Eastern provinces of the country.

Financial Literacy Programme Series

Further complementing our micro lending scheme is the MBSL's special financial literacy program series that seeks to inculcate basic financial knowledge and business management skills among existing and potential micro entrepreneurs. The programmes are developed and conducted in partnership with the University of Jayawardenapura, with the broader aim of encouraging these micro entrepreneurs to migrate to the formal financial channels which would ultimately enable them to access the full range of financial services in the long term.

Community Capacity Building Corporate Social Responsibilities

GRI 413-1

Computers and Accessories Donation for a computer lab
(For the use of disabled war heroes)

Qty	20 computers
Date	24 January 2018
Venue	224 Brigade Headquarters in Muthur
Volunteering Hrs	28 Hrs
Investment	Rs. 330,000

Social and Relationship Capital

-Community Capital

Complete The Multi Purpose Community Building

Date	28 May 2018
Venue	Sri Jinegnarama Temple, Bambadeniya
Beneficiaries	400 sunday school students and 700 families
Investment	Rs. 500,000

Computers and Accessories Donation for a Computer Lab

QTY	10 computers
Date	15 February 2018
Venue	The Sri Lanka Military Academy – Diyathalawa
Volunteering Hrs	24 Hrs
Investment	Rs. 150,000

Computers and Accessories Donation for a Computer Lab

QTY	20 computers
Date	23 March 2018
Venue	Rahula College - Matara
Beneficiaries	More than 2500 students
Volunteering Hrs	14 Hrs
Investment	Rs. 300,000

Contribution to the Kahahena Boralugama Maha Vidyalaya

Item	Tables	28	Filling cabinets	01
	Stools	11	Cupboards	02
	Pantry cupboards	02	Television	01
	Chairs	08	Photocopier	01
	Chairs-L/room	04	Computers	06
	Computer chairs	18		
Date	23 September 2018			
Venue	Kahahena Boralugma Maha Vidyala			
Beneficiaries	More than 850 students			
Volunteering Hrs	24 Hrs			
Investment	Rs. 408,000			

Corporate Memberships and Associations GRI 102-13

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

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

→ Priorities for the Future

1. Aggressively promote micro lending



NATURAL CAPITAL

GRI 102-11



Being a financial services organization, our use of Natural Capital is limited compared to a manufacturing or industrial setting. As such our activities do not have a significant effect to the degeneration of the environment and its natural resources.

Profile

Given the nature of our business, we have very few environmental concerns; the natural resources required to produce the electricity we consume to power our buildings and office equipment, the water used by employees for utility purposes and the waste generated due to the consumption of stationery materials which are likely to reach landfills.

Management Philosophy

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

Strategic Imperatives

- Reduce the company's carbon footprint
- Provide solutions that promote a culture shift in favor of green ethics that will ultimately bring about broader systemic change across the country

Environmental Compliance GRI 307-1

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

➔ Key Value Drivers






- Environmental Compliance
- Environmental Best Practices
- Tracking Environmental Performance
- Green Lending

➔ Governance and Oversight

- Board of Directors
- CEO

Natural Capital

Environmental Best Practices

REDUCE	 <p>Electricity Consumption</p> <p>Electricity reduction targets for departments / branches ongoing investment to install energy efficient LED lighting Centrally controlled auto switch off of power by 5 pm at head office</p>	 <p>Water Consumption</p> <p>Raising awareness among employees</p>	 <p>Paper Usage</p> <p>Process digitization to minimize the use of paper and promote the use of the intranet for all internal communications</p>
	 <p>Paper</p> <p>Print only if necessary Double-side printing policy</p>	 <p>Paper Waste</p> <p>Contract with a registered paper recycler</p>	
	REUSE	RECYCLE	

Tracking Environmental Performance [GRI 301-1, 302-1, 302-4, 303-1](#)

Tracking our environmental performance is an important part of our efforts to prevent Natural Capital loss. By monitoring our performance enables us to determine the effectiveness of our systems and procedures and identify pain points for further improvement in order reorient our strategies to achieve the desired results. We track our all material environmental aspects, namely electricity, water and stationery consumption to help establish MBSL's carbon footprint.

	2018	2017	2016
Electricity consumption (units) GRI-302-1	1,198,500	1,369,892	1,269,818

	2018	2017	2016
Water consumption (units) GRI 303-1	13,130	15,350	17,616

Stationery consumption (units) GRI-301-1

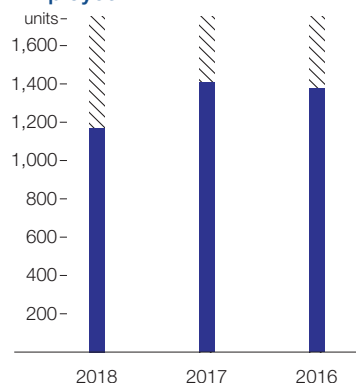
Items	2018	2017	2016
Paper (Kg)	29,990	18,157	14,960
Files	60,819	15,064	15,568
Tonnors	465	290	407
Ribbons	286	450	430
Other	84,145	44,431	7,794

	2018	2017	2016
Carbon footprint	111,268	109,445	69,878

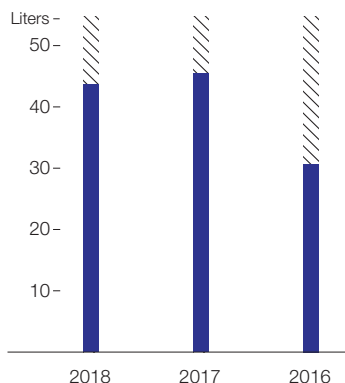
Electricity ,Water & Fuel Consumption per Employee

	2018	2017	2016
No of employees	1,023	968	917
Electricity consumption per employee (Units)	1,172	1,415	1,385
Water consumption per employee (Units)	13	16	19
Fuel consumption per employee (Liters)	44	46	31

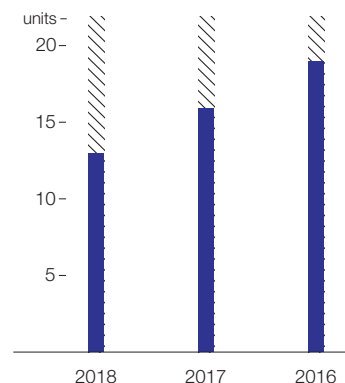
Electricity Consumption per Employee



Fuel Consumption per Employee



Water Consumption per Employee



Savings Owing to Recycling of Paper Waste

96 TREES
fully grown Trees p.a



149,893 LITERS
of Water p.a



17 CUBIC METERS
of Landfill p.a



22,630 KWH
of Electricity p.a



8,137 LITERS
of Oil p.a



Paper Recycled Certificate




Green Lending

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

→ Priorities for the Future


1. Develop a fully integrated environmental strategy to incorporate eco-friendly practices at every level of the day-to-day business activities
2. Reinforce green ethics among all stakeholders of the company



GATHERING MOMENTUM IN SERVING A DIVERSE CLIENTELE

LEASING

Our Leasing products are helping a diverse clientele to reach their goals in a trusted manner





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CORPORATE GOVERNANCE REPORT

GRI 102-12

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

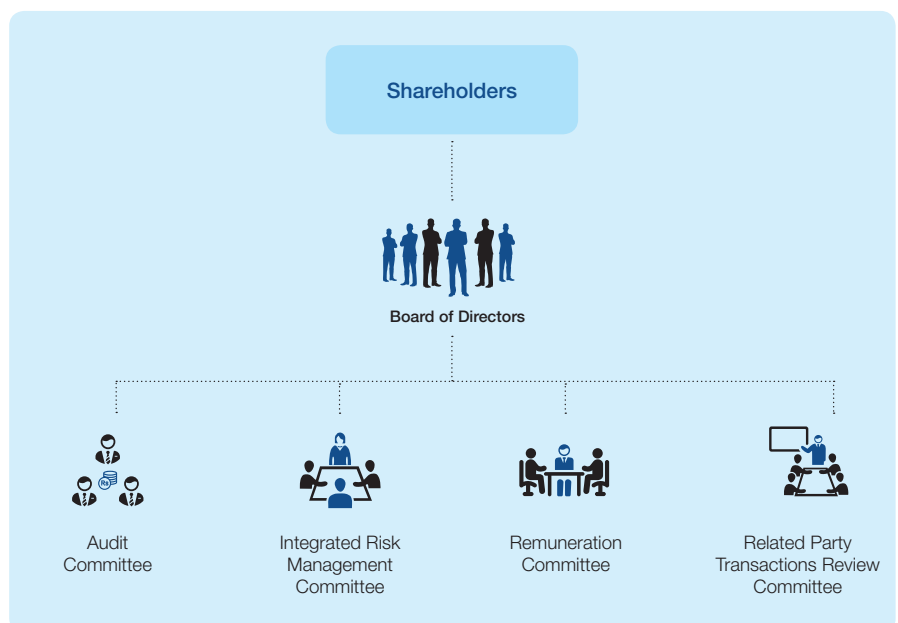
Governance Framework

MBSL's Corporate Governance framework has been developed to comply with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and other relevant laws and regulations. In addition, the Company has voluntarily adopted the GRI Standards for Sustainability Reporting issued by the Global Reporting Initiative and the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). In terms of subsection (1) (1) of Section 36 of the 19th Amendment (Amendment to Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka), the Auditor of the Company shall be the Auditor General of Sri Lanka.

Standards and Principles		Governance systems
Internal	External	
<ul style="list-style-type: none"> ➤ Vision, Mission and Values ➤ Articles of Association ➤ Director's Code of Ethics ➤ Group's Corporate Governance Framework and practices ➤ Terms of References for Board and Board sub-committees ➤ Comprehensive framework of policies, systems and procedures 	<ul style="list-style-type: none"> ➤ Companies Act No. 7 of 2007 ➤ Finance Companies (Corporate Governance) Direction No. 3 of 2006 ➤ Finance Leasing (Corporate Governance) Direction No. 4 of 2009 ➤ Listing Rules of the Colombo Stock Exchange ➤ Sri Lanka Accounting Standards ➤ Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) ➤ GRI Standards for Sustainability reporting issued by the Global Reporting Initiative 	<ul style="list-style-type: none"> ➤ Stakeholder engagement ➤ Strategic planning ➤ Risk management ➤ Compliance ➤ People management ➤ Internal and external audit ➤ Related Party Transactions

The Board of Directors

The Board of Directors is the apex governing body and consisted of 7 Non-Executive Directors (including the Chairman) and two alternate directors of whom 2 are deemed independent as at 31 December 2018. Directors combine a variety of perspectives and skills including professional, academic and entrepreneurial insights which enhance the depth and overall effectiveness of decisions. The Board's responsibilities include determining the Company's strategic direction, defining governance structures, setting the risk appetite and formulating policy frameworks. The Board is supported by several sub-committees which oversight responsibility for specific areas.



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

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 124 to 129 and the Report of the Integrated Risk Management Committee on pages 122 to 123. 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 eight management committees; namely Credit Committee, Information Technology Steering Committee, Recovery Committee, Asset and Liability Committee, Purchasing Committee, Vehicle Disposal Committee, Investment Committee and Real Estate Committee.

Board Meetings

The Board meets at least on a monthly basis with special meetings convened if and when the need arises. Board papers are circulated well in advance, providing adequate time for preparation. The Corporate Management is responsible for ensuring that timely and high quality information is provided to the Board, in sufficient time ahead of every meeting. Directors also receive regular briefings designed to update their skills and knowledge and also have the opportunity to participate in relevant external training sessions, such as those organized by the Sri Lanka Institute of Directors. The Board conducts a critical evaluation of its activities on an annual basis facilitated by the Company Secretary.

Guiding Strategy

The Board holds responsibility for formulating the Company's strategic agenda. Performance against the Strategic Plan is monitored based on a set of defined parameters covering earnings, financial position, credit quality and 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 2018
7.6 (i)	Names of persons who during the financial year were directors of the Company.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
7.6 (ii)	Principal activities of the Company and its Subsidiaries during the year and any changes therein.	Please refer "Annual Report of the Board of Directors on the Affairs of the Company".
7.6 (iii)	The names and the number of shares held by the 20 largest holders of voting and non-voting shares and the percentage of such shares held.	Please refer "Financial Capital" for the 20 largest holders of voting shares. The Company has not issued any non-voting shares.
7.6 (iv)	The public holding percentage.	Please refer "Financial Capital"
7.6 (v)	Directors' and Chief Executive Officer's holding in shares of the Company at the beginning and end of the financial year.	Please refer "Financial Capital".
7.6 (vi)	Information pertaining to material foreseeable risk factors.	Please refer "Risk Management Report".
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Please refer "Human Capital".
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties.	Please refer "Note 27 and 28" to the "Financial Statements".
7.6 (ix)	Number of shares representing the stated capital.	Please refer "Note 39" to the "Financial Statements" on 'Capital'.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Please refer "Financial Capital".
7.6 (xi)	Ratios and market price information on: EQUITY 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. Quick asset ratio. 5. The market prices & yield during the year. 6. Changes in credit rating.	Not applicable. Not applicable. Please refer "Statement of Financial Position". Please refer "Financial Capital". Please refer "Financial Capital". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Financial Capital". Please refer "Annual Report of the Board of Directors".
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Please refer "Note 28" 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 2018.
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.	The Company did not have any related party transactions exceeding this threshold during the year 2018.

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 2018
7.10.1	Non-Executive Directors	Complied. All seven (07) directors who comprise the Board are non-executive directors, and have held office prior to and immediately preceding the Annual General Meeting.
	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.	
	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	Complied. Two (02) out of the seven (07) non executive directors are independent.
	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".	
	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	Complied. Resume of each director is given on pages 16 to 17 of the Annual Report.
	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."	
	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.	
	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.	
	d. Upon appointment of a new director to its board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.	Complied. The Company Secretary has provided the required information to the Exchange upon appointment of new directors.

Corporate Governance Report

CSE Rule No.	Governance Requirement	Extent of Compliance in 2018
7.10.5	<p>Remuneration Committee</p> <p>a. Composition The remuneration committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its board);</p> <p>or</p> <p>of non-executive directors a majority of whom shall be independent, whichever is higher.</p> <p>One (1) non-executive director shall be appointed as Chairman of the committee by the board.</p>	Complied. Remuneration Committee consists of three (03) non-executive directors, two (02) of whom are independent.
	<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>	Complied. Please refer the "Remuneration Committee" Report on page 120 of the Annual Report.
	<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>	Complied. The names of the members of the Remuneration Committee together with the remuneration policy are given in the "Remuneration Committee Report" on page 120 of the Annual Report. Fees paid to directors are disclosed in the 'Note 14 to Financial Statements' on page 164 of the Annual Report. There are no executive directors on the Board.
7.10.6	<p>Audit Committee</p> <p>a. Composition The audit committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where an entity has only two (2) directors on its board);</p> <p>or</p> <p>of non-executive directors, a majority of whom shall be independent, whichever shall be higher.</p>	Not Complied. Two (02) directors out of the four are independent .
	<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>	Both MBSL and its Parent Company, the Bank of Ceylon (BOC) are listed companies and both have separate Audit committees.
	<p>One (1) non-executive director shall be appointed as the Chairman of the audit committee by the board.</p>	Complied
	<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>	Complied. CEO and CFO attends the Audit committee by invitation.
	<p>The Chairman or one (1) member of the audit committee should be a Member of a recognized professional accounting body.</p>	Complied. Audit Committee Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka

CSE Rule No.	Governance Requirement	Extent of Compliance in 2018
7.10.6	<p>b. Functions The audit committee's functions shall include,</p> <ul style="list-style-type: none"> (i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards. (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. (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. (iv) Assessment of the independence and performance of the company's external auditors. (v) To make recommendations to the board pertaining to appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors. 	<p>Complied. The functions of the audit committee and its report are given on pages 118 to 119</p> <p>Complied.</p> <p>Complied.</p> <p>Not applicable. Since the Auditor General is the external auditor of the Bank where the independence is guaranteed under the Constitution of Sri Lanka and the Committee has no role to play in the engagement of the external auditor.</p> <p>Not applicable.</p>
	<p>c. Disclosure in the Annual Report The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the Annual Report.</p> <p>The audit committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.</p> <p>The Annual Report shall contain a report by the audit committee setting out the manner of compliance by the company in relation to the above, during the period to which the Annual Report relates.</p>	<p>Complied. The names of members of the audit committee and its report are given on page 118 of the Annual Report.</p> <p>Not applicable. The Auditor General is the auditor and his independence has been determined by the constitution</p> <p>Complied.</p>

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 2018
2	The Responsibilities of the Board of Directors	
2(1)	<p>The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-</p> <ul style="list-style-type: none"> a) Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company; b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years; c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently; d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers; e) Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems; f) Identifying and designating key management personnel, who are in a position to: <ul style="list-style-type: none"> (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management; g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel; h) Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy; <ul style="list-style-type: none"> i) Periodically assessing the effectiveness of its own governance practices, including: <ul style="list-style-type: none"> (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests; and (iii) The determination of weaknesses and implementation of changes where necessary; j) Ensuring that the finance company has an appropriate succession plan for key management personnel; k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives; l) Understanding the regulatory environment; m) Exercising due diligence in the hiring and oversight of external auditors. 	<p>Complied.</p> <p>The Strategic Plan for 2017–2019 is available.</p>
2(2)	The Board shall appoint the Chairman and the Chief Executive Officer ("CEO") and define and approve the functions and responsibilities of the Chairman and the CEO in line with paragraph 7 of this Direction.	Complied.
2(3)	There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	<p>Complied.</p> <p>The directors have obtained independent professional advice when necessary.</p>
2(4)	A director shall abstain from voting on any Board resolution in relation to matter to which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied.

Section	Governance Requirement	Extent of Compliance in 2018
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 82 to 111
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied.
3	Meetings of the Board	
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.	Complied. Please refer page 111 of the Annual Report for details of attendance.
3(2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied.
3(3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied.
3(4)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
3(5)	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied.
3(6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied.
3(7)	All directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied.
3(8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied.

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
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.
4	Composition of the Board	Complied.
4(1)	The number of directors on the Board shall not be less than five (5) and not more than thirteen (13).	The Board including the Chairman comprises of seven (07) non – executive directors.
4(2)	Subject to the transitional provisions contained herein and subject to paragraph 5(1) of this Direction the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (09) years. The total period in office of a non executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
4(3)	An employee of a finance company may be appointed, elected or nominated as a director of the finance company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4(4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4) of the total number of directors.	Complied. Please refer page 115 of the Annual Report.
4(5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Two (02) alternate directors have been appointed for two non independent non executive directors.
4(6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors qualifications and experience are given in pages 16 to 17 of the Annual Report.
4(7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one half (1/2) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied. Please refer page 111 of the Annual Report.
4(8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the finance company. The finance company shall disclose the composition of the Board, by category of directors, including the names of the Chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer page 115 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.

Section	Governance Requirement	Extent of Compliance in 2018
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.
6	Delegation of Functions	
6(1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6(2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied.
7	The Chairman and the Chief Executive Officer	
7(1)	The roles of the Chairman and the CEO shall be separate and shall not be performed by one and the same person.	Complied.
7(2)	The Chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied. The company has appointed an independent non-executive director as the Senior Director . Please refer page 115 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

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
7(7)	The Chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied
7(8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied. There are no executive directors on the Board.
7(9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
7 (11)	The CEO shall function as the apex executive-in-charge of day-to-day management of the finance company's operations and business.	Complied.
8	Board Appointed Committees	Complied.
8(1)	<p>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.</p> <p>The Board shall present a report on the performances, duties and functions of each Committee, at the annual general meeting of the finance company.</p>	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 118 to 123 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 four (4) non- executive directors, two (2) of whom are independent.

Section	Governance Requirement	Extent of Compliance in 2018
8 (2) (c)	<p>The audit committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to external auditors from time to time, (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term. 	<p>Not applicable. The Auditor General is the external auditor of MBSL.</p> <p>Not Applicable.</p> <p>Complied.</p> <p>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.</p>
8 (2) (d)	<p>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.</p>	<p>Not applicable. MBSL's auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.</p>
8 (2) (e)	<p>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:</p> <ul style="list-style-type: none"> (i) Whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) Whether the nature of the non-audit services, the related fee levels 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. 	<p>Not Applicable. This does not arise since the Auditor General is the Auditor of MBSL.</p>
8 (2) (f)	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the 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.</p>	<p>Complied. The scope and extent of audit have been determined by the Auditor General.</p>

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
8 (2) (g)	The audit committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the audit committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied. The Audit Committee reviews the Company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.
8 (2) (h)	The audit committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied. The Audit Committee discusses issues, problems and reservations arising from the final audit. The representatives of BDO Partners, Chartered Accountants, who assisted the Auditor General in the year 2018 audit, met the Audit Committee.
8 (2) (i)	The audit committee shall review the external auditor's management letter and the management's response thereto.	Complied.
8 (2) (j)	The audit committee shall take the following steps with regard to the internal audit function of the finance company: (i) Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; (ii) Review the internal audit programme and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; (iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; (iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; (v) Ensure that the audit committee is apprised of resignations of senior staff members of the internal audit department including the Chief Internal Auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; (vi) Ensure that the internal audit function is independent of the activities it audits and that it is performed with impartiality, proficiency and due professional care.	Complied.
8 (2) (k)	The audit committee shall consider the major findings of internal investigations and management's responses thereto;	Complied. Significant findings of the internal audit are deliberated by the Audit Committee with the management and recommendations are referred to the Board.
8 (2) (l)	The CFO, the chief internal auditor and a representative of the external auditors may normally attend meetings. Other Board members and the CEO may also attend meetings upon the invitation of the audit committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors being present.	Complied Please refer the Audit Committee Report on page 118 of the Annual Report for details.

Section	Governance Requirement	Extent of Compliance in 2018
8 (2) (m)	The audit committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
8 (2) (n)	The audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied.
8 (2) (o)	The Board shall, in the Annual Report, disclose in an informative way, (i) Details of the activities of the audit committee; (ii) The number of audit committee meetings held in the year; and (iii) Details of attendance of each individual member at such meetings.	Complied. Please refer pages 118 to 111 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. The Head of Internal Audit acts as Secretary of the Audit Committee.
8 (2) (q)	The audit committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Department is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
8 (3)	<p>Integrated Risk Management Committee</p> <p>The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):</p> <p>a) The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the IRMC.</p> <p>b) The IRMC shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the company basis and group basis.</p> <p>c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset – liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the IRMC.</p> <p>d) The IRMC shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the company's policies and regulatory and supervisory requirements.</p> <p>e) The IRMC shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.</p> <p>f) The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central bank of Sri Lanka.</p> <p>g) The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.</p> <p>h) The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.</p>	<p>Complied.</p> <p>Please refer the Report on "Risk Management" pages 124 to 129 of the Annual Report for details.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Compliance Officer resigned from MBSL w.e.f. 17.06.2018. A dedicated Compliance Officer has been appointed w.e.f. 09.01.2019 with the approval of the Central Bank of Sri Lanka.</p>

Section	Governance Requirement	Extent of Compliance in 2018
9. 9(2)	<p>Related Party Transactions</p> <p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as “related parties” for the purposes of this Direction:</p> <ul style="list-style-type: none"> a) A subsidiary of the finance company; b) Any associate company of the finance company; c) A director of the finance company; d) A key management personnel of the finance company; e) A relative of a director or a key management personnel of the finance company ; f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company; g) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company, has substantial interest. 	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms-length basis.</p>
9(3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <ul style="list-style-type: none"> a) Granting accommodation, b) Creating liabilities to the finance company in the form of deposits, borrowings and investments, c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company, d) Creating or maintaining reporting lines and information flows between the finance company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party. 	<p>Complied</p>
9(4)	<p>The Board shall ensure that the finance company does not engage in transactions with a related party in a manner that would grant such party “more favourable treatment” than that is accorded to other similar constituents of the finance company. For the purpose of this paragraph “more favourable treatment” shall mean:</p> <ul style="list-style-type: none"> a) Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the finance company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the finance company’s share capital and debt instruments with a remaining maturity of five (5) years or more. b) Charging a rate of interest lower than the finance company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. c) Providing preferential treatment, such as favorable terms, covering trade losses and/ or waiving fees/commissions, that extends beyond the terms granted in the normal course of business with unrelated parties; d) Providing or obtaining services to or from a related-party without a proper evaluation procedure; e) Maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for performance of legitimate duties and functions. 	<p>Complied.</p> <p>Please refer Note 42 under "Notes to the Financial Statements" on pages 209 to 210 of the Annual Report.</p>

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
10	Disclosures	
10 (1)	The Board shall ensure that: (a) annual audited financial statements and periodical financial statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	Complied. Please refer "Directors' Responsibility for Financial Reporting" on page 133 of 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 page 132 of the Annual Report for the relevant report by the Board.
	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 132
	c) The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 209 of the Annual Report for details.
	d) Details of directors, including names, transactions with the finance company.	Complied. Please refer page 116 of the Annual Report for details.
	e) Fees/remuneration paid by the finance company to the directors in aggregate.	Complied. Please refer Note 42 under "Notes to the Financial Statements" on pages 209 to 210 of the Annual Report.
	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 42 under "Notes to the Financial Statements" on page 209 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.

Section	Governance Requirement	Extent of Compliance in 2018
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 133 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.

Corporate Governance Report

GRI 102-26

Section iv

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

Section	Governance Requirement	Extent of Compliance in 2018
2 2 (1)	<p>The Responsibilities of the Board of Directors</p> <p>The Board is responsible for strengthening the safety and soundness of the company by-</p> <ul style="list-style-type: none"> a) Approving and overseeing the company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the company; b) Approving the overall business strategy of the company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years; c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently; d) Approving policy of communication with all stakeholders of the company, including lenders, creditors, shareholders and borrowers; e) Reviewing the adequacy and the integrity of the company's internal control systems and management information systems; f) Identifying and designating key management personnel who are in a position to <ul style="list-style-type: none"> (i) significantly influence policy ; (ii) direct activities; and <ul style="list-style-type: none"> (iii) exercise control over business activities, operations and risk management; g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel; h) Ensuring that there is appropriate oversight of the affairs of the company by key management personnel, that is consistent with the company's policy; i) Periodically assessing the effectiveness of its own governance practices, including <ul style="list-style-type: none"> (i) The selection, nomination and election of directors and appointment of key management personnel; (ii) The management of conflicts of interests; and (iii) The identification of weaknesses and implementation of changes where necessary; j) Ensuring that the company has an appropriate succession plan for key management personnel; k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives; l) Understanding the regulatory environment; m) Exercising due diligence in the hiring and oversight of external auditors; 	<p>Complied.</p> <p>The Strategic Plan for 2017 –2019 is available.</p>
2(2)	The Board shall appoint the Chairman and Chief Executive Officer ("CEO") and define and approve their functions and responsibilities in line with paragraph 7 of this Direction.	Complied.
2 (3)	The Board shall determine a procedure to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the company's expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the company.	Complied. The directors have obtained independent professional advice when necessary.
2 (4)	A director shall abstain from voting on any Board resolution in relation to a matter in which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied.
2 (5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the company is firmly under its authority.	Complied.

Section	Governance Requirement	Extent of Compliance in 2018
2 (6)	The Board shall, if it considers that the company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to lenders and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review.
2 (7)	The Board shall include in the company's Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The "Corporate Governance Report" is included in the Annual Report in pages 82 to 111
2 (8)	The Board shall adopt a scheme of self – assessment to be undertaken by each director annually, and maintain records of such assessment.	Complied.
3	Meetings of the Board	
3 (1)	The Board shall meet at least twelve (12) times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of written or electronic resolution/papers shall be avoided as far as possible.	Complied. Please refer page 111 of the Annual Report for details of attendance.
3 (2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the company.	Complied.
3 (3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied.
3 (4)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the director's meetings through an alternate director shall, however, be acceptable as attendance.	Complied.
3 (5)	The Board shall appoint a company secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied.
3 (6)	If the chairman has delegated to the company secretary the function of preparing the agenda for a Board meeting, the company secretary shall be responsible for carrying out such function.	Complied.
3 (7)	All directors shall have access to advice and services of the company secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied.
3 (8)	The company secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied.

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
3 (9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied.
4	Composition of the Board	
4 (1)	The number of directors on the Board shall not be less than five (5) and not more than nine (9).	Complied. The Board including the Chairman comprises of seven (07) non-executive directors.
4 (2)	Subject to paragraph 5(1) of this Direction and the transitional provisions contained herein the total period of service of a director other than a director who holds position of CEO or executive director shall not exceed nine (9) years. The total period in office of a non-executive director shall be inclusive of the total period of service served by such director up to the date of this Direction.	Complied.
4 (3)	An employee of the company may be appointed, elected or nominated as a director of the company (hereinafter referred to as an "executive director") provided that the number of executive directors shall not exceed one-half (1/2) of the number of directors of the Board. In such an event, one of the executive directors shall be the CEO of the company.	Not applicable. The Company has not appointed any executive directors.
4 (4)	The number of independent non-executive directors of the Board (as per the criteria for determining independence set out in this Direction) shall be at least one fourth (1/4) of the total number of directors.	Complied. Please refer to page 115 of the Annual Report.
4 (5)	In the event an alternate director is appointed to represent an independent non-executive director, the person so appointed shall also meet the criteria that apply to the independent non-executive director.	Complied. Two (02) alternate directors have been appointed for two non independent non-executive directors .
4 (6)	Non-executive directors shall have necessary skills and experience to bring an objective judgment to bear on issues of strategy, performance and resources.	Complied. Directors' qualifications and experience are given in pages 16 to 17 of the Annual Report.
4 (7)	A meeting of the Board shall not be duly constituted, although the number of directors required to constitute the quorum at such meeting is present, unless at least one third (1/3) of the number of directors that constitute the quorum at such meeting are non-executive directors.	Complied. Please refer page 111 of the Annual Report.
4 (8)	The independent non-executive directors shall be expressly identified as such in all corporate communications that disclose the names of directors of the company. The company shall disclose the composition of the Board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance report which shall be an integral part of its Annual Report.	Complied. Please refer page 115 of the Annual Report.

Section	Governance Requirement	Extent of Compliance in 2018
4 (9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied.
4 (10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.
5	Criteria to assess the fitness and propriety of directors	
5 (1)	A person over the age of seventy (70) years shall not serve as a director of the company.	Complied.
5 (2)	A director of the company shall not hold office as a director or any other equivalent position in more than twenty (20) companies/societies/ bodies corporate, including associate companies and subsidiaries of the company. Provided that such director shall not hold office of a director or any other equivalent position in more than ten (10) companies that are classified as Specified Business Entities in terms of the Sri Lanka Accounting and Auditing Standards Act No. 15 of 1995.	Complied.
6	Management functions delegated to the Board	
6 (1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied.
6 (2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the company.	Complied.
7	The Chairman and the Chief Executive Officer	
7 (1)	The roles of the Chairman and the CEO shall be separated and shall not be performed by one and the same person.	Complied.
7 (2)	The Chairman shall be a non-executive director. In the case where the Chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the company's Annual Report.	Complied. The company has appointed an independent non-executive director as the Senior Director. Please refer page 115 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.

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
7 (5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the company secretary.	Complied.
7 (6)	The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied.
7 (7)	The Chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the company.	Complied.
7 (8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied. There are no executive directors on the Board.
7 (9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied.
7 (10)	The Chairman shall ensure that appropriate steps are taken to maintain effective communication with shareholders and that the views of the shareholders are communicated to the Board.	Complied. The Annual General Meeting ("AGM"), Annual Report and Interim Financial Statements of the Company are the principal means of communication with shareholders. The Board invites the shareholders to raise their concerns on the affairs of the Company at the AGM as a means of maintaining an appropriate dialogue with them. The external auditors and lawyers are also present at the AGM to answer any queries raised by shareholders.
7 (11)	The CEO shall function as the apex executive-in-charge of day-to-day management of the company's operations and business.	Complied.
8	Board appointed Committees	
8 (1)	Every company shall have at least two (2) Board committees set out in paragraph 8(2) and 8(3) of this Direction. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the Committee. The Board shall present a report on the performances, duties and functions of each Committee, at the AGM of the Company.	Complied. The Audit Committee, Remuneration Committee, Integrated Risk Management Committee and the Related Party Transactions Review Committee which are Board appointed sub committees, regularly report to the Board. Please refer pages 118 to 123 of the Annual Report.
8 (2)	Audit Committee The following shall apply in relation to the Audit Committee:	
8 (2) (a)	The chairman of the audit committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied.
8 (2) (b)	The majority of the Board members appointed to the audit committee shall be non-executive directors.	Complied.

Section	Governance Requirement	Extent of Compliance in 2018
8 (2) (c)	<p>The audit committee shall make recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) The implementation of the Central Bank guidelines issued to external auditors from time to time, (iii) The application of the relevant accounting standards; and (iv) The service period, audit fee and any resignation or dismissal of the external auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term. 	<p>Not applicable.</p> <p>The Auditor General is the external auditor of MBSL.</p> <p>Not applicable.</p> <p>Complied.</p> <p>Not applicable. The Auditor General has been appointed in terms of subsection (1) (1) of Section 36 of the 19th Amendment (Amendment to the Article 154(1)) of the Constitution of the Democratic Socialist Republic of Sri Lanka</p>
8 (2) (d)	<p>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.</p>	<p>Not Applicable.</p> <p>MBSL's auditor being the Auditor General his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.</p>
8 (2) (e)	<p>The audit committees shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the audit committee shall ensure that provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditors independence or objectivity in relation to the provision of non-audit services, the audit committee shall consider:</p> <ul style="list-style-type: none"> (i) Whether the skills and experience of the auditor make it a suitable provider of the non-audit services; (ii) Whether there are safeguards in place to ensure that there is no threat to the objectivity and/or independence in the conduct of the audit resulting from the provision of such services by the external auditor; and (iii) Whether the nature of the non-audit services, the related fee levels individually and in aggregate relative to the auditor, pose any threat to the objectivity and/or independence of the external auditor. 	<p>Not Applicable.</p> <p>This does not arise since the Auditor General is the Auditor of MBSL.</p>
8 (2) (f)	<p>The audit committee shall, before the audit commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the company's compliance with Directions issued under the Finance Leasing Act No. 56 of 2000 and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one (1) auditor is involved.</p>	<p>Complied.</p> <p>The scope and extent of audit have been determined by the Auditor General.</p>

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
8 (2) (g)	The audit committee shall review the financial information of the company, in order to monitor the integrity of the financial statements of the company, its Annual Report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the company's Annual Report and accounts and periodical reports before submission to the Board, the Audit Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	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 discussed issues, problems and reservations arising from the final audit. The representatives of BDO Partners, Chartered Accountants, who assisted the Auditor General in the year 2018 audit met the Audit Committee.
8 (2) (i)	The audit committee shall review the external auditor's management letter and the management's response thereto.	Complied.
8 (2) (j)	The audit committee shall take the following steps with regard to the internal audit function of the company: <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 audit committee meetings. Other Board members and the CEO may also attend meetings upon the invitation of the Audit Committee. However, at least once in six (6) months, the audit committee shall meet with the external auditors without the executive directors of the Company being present.	Complied. Please refer the Audit Committee Report on page 118 of the Annual Report for details.

Section	Governance Requirement	Extent of Compliance in 2018
8 (2) (m)	The audit committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
8 (2) (n)	The audit committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied.
8 (2) (o)	The Board shall, in the Annual Report, disclose in an informative way, (i) Details of the activities of the audit committee; (ii) The number of audit committee meetings held in the year; and (iii) Details of attendance of each individual member at such meetings.	Complied. Please refer pages 118 and 111 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. The Head of Internal Audit acts as Secretary of the Audit Committee.
8 (2) (q)	The audit committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the audit committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied. The Company has introduced a "whistle blowing policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Division is authorized to carry out an immediate inquiry into the matter and report its observations to the chairman and the Audit Committee.
8 (3)	<p>Integrated Risk Management Committee</p> <p>The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):</p> <p>a) The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the IRMC.</p> <p>b) The IRMC shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the company basis and group basis.</p> <p>c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset –liability committee to address specific risks and to manage those risks within quantitative risk limits as specified by the IRMC.</p>	<p>Complied.</p> <p>Please refer the Report of the Risk Management on pages 124 to 129 of the Annual Report for details.</p> <p>Complied.</p> <p>Complied.</p>

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
8 (3)	<p>d) The IRMC shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the company's policies and regulatory and supervisory requirements.</p> <p>e) The IRMC shall meet, at least quarterly, to assess all aspects of risk management including updated business continuity plans.</p> <p>f) The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.</p> <p>g) The IRMC shall submit a risk assessment report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.</p> <p>h) The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.</p>	<p>Complied.</p> <p>Not Complied. However, during the year four IRMC meetings were held.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied. Compliance Officer resigned from MBSL w.e.f. 17.06.2018. A dedicated Compliance Officer has been appointed w.e.f. 09.01.2019 with the approval of the Central Bank of Sri Lanka.</p>
9 9 (2)	<p>Related Party Transactions</p> <p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the company with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction:</p> <p>a) A subsidiary of the company;</p> <p>b) Any associate company of the company;</p> <p>c) A director of the company;</p> <p>d) A key management personnel of the company;</p> <p>e) A relative of a director or a key management personnel of the company ;</p> <p>f) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company;</p> <p>g) A concern in which a director of the company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the company, has substantial interest.</p>	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms length basis.</p>
9 (3)	<p>The transactions with a related party that are covered in this Direction shall be the following:</p> <p>(a) Granting accommodation,</p> <p>(b) Creating liabilities to the company in the form of borrowings or investments,</p> <p>(c) Providing financial or non-financial services to the company or obtaining those services from the company,</p> <p>(d) Creating or maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party.</p>	<p>Complied.</p>

Section	Governance Requirement	Extent of Compliance in 2018
9 (4)	<p>The Board shall ensure that the company does not engage in transactions with a related party in a manner that would grant such party “more favorable treatment” than that is accorded to an unrelated comparable counterparty of the company. For the purpose of this paragraph “more favorable treatment” shall mean:</p> <p>a) Granting of “total net accommodation” to a related party, exceeding a prudent percentage of the company’s regulatory capital, as determined by the Board. The “total net accommodation” shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related party in the company’s share capital and debt instrument with a remaining maturity of five (5) years.</p> <p>b) Charging a rate of interest lower than the company’s best lending rate or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty.</p> <p>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;</p> <p>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</p> <p>e) Maintaining reporting lines and information flows between the company and any related party which may lead to share proprietary, confidential or otherwise sensitive information that may give benefits to such related party, except as required for performance of legitimate duties and functions.</p>	<p>Complied.</p> <p>Please refer Financial Statements, Note 42 - “Related party Transactions” on pages 207 to 208 of the Annual Report.</p>
10	Disclosures	
10 (1)	The Board shall ensure that annual audited financial statements and periodical financial statements are prepared and published in accordance with the requirements of the regulatory and supervisory authorities and applicable accounting standards.	Complied.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
10 (2) (a)	A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Please refer “Directors’ Responsibility for Financial Reporting” on page 133 of the Annual Report.
10 (2) (b)	A report by the Board on the company’s internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer page 132 of the Annual Report for the relevant report by the Board.
10 (2) (c)	The external auditor’s certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer page 132
10 (2) (d)	Details of directors, including names, transactions with the company.	Complied. Please refer page 209 of the Annual report for details.
10 (2) (e)	Fees/remuneration paid by the company to the directors in aggregate.	Complied. Please refer page 116 of the Annual Report for details.

Corporate Governance Report

Section	Governance Requirement	Extent of Compliance in 2018
10 (2) (f)	Total net accommodation as defined in paragraph 9(4) of this Direction outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of capital funds of the company.	Complied. Please refer 'Note 42' under "Notes to the Financial Statements" on pages 209 to 210 of the Annual Report.
10 (2) (g)	The aggregate values of remuneration paid by the company to its key management personnel and the aggregate values of the transactions of the company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted and borrowing through debt instruments or investments made in the company.	Complied. Please refer 'Note 42' under "Notes to the Financial Statements" on page 209 of the Annual Report.
10 (2) (h)	A report setting out the details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliance.	Complied. Please refer the "Annual Report of the Board of Directors on the Affairs of the Company" and the Statement of "Directors' Responsibilities for Financial Reporting" on pages 116 and 133 respectively of the Annual Report for details.
10 (2) (i)	The external auditor's certification of the compliance with the Finance Leasing Act No. 56 of 2000 and directions issued by the Director of Department of Supervision of Non-Bank Financial Institutions in the annual corporate governance reports .	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

Attendance at the Meetings of the Board & Sub-Committees held during the financial year 2018 [GRI 102-22](#)

Name of the Director	Directorship Status	Board	Audit Committee	Remuneration Committee	Integrated Risk Management Committee	Related Party Transactions Review Committee
		No. of Meetings Held				
		24	07	-	04	04
Dr. S. Lokuhewa	Non Independent Non Executive Director	24	N/A	-	N/A	N/A
Mr. D. M. Gunasekara (Resigned w.e.f. 27.04.2018)	Non Independent Non Executive Director	02	N/A	-	N/A	N/A
Mr. D.M.L.B. Dassanayake (Alt. Director to Mr.D.M.Gunasekara) (Resigned w.e.f. 27.04.2018)	Non Independent Non Executive Director	00	N/A	-	N/A	N/A
Mr. W. P. R. P. H. Fonseka	Non Independent Non Executive Director	15	07	-	N/A	04
Mr. M. P. R. Kumara (Alt. Director to Mr.W.P.R.P.H.Fonseka)	Non Independent Non Executive Director	05	00	-	N/A	00
Mr. K. B. S. Bandara	Non Independent Non Executive Director	17	03	-	02	01
Mr. C.Amarasinghe (Alt. Director to Mr. K. B. S. Bandara)	Independent Non Executive Director	01	01	-	00	00
Mr. R. M. D. V. Jayabahu (Alt. Director to Mr. K. B. S. Bandara) (Resigned w.e.f. 27.04.2018)	Non Independent Non Executive Director	03	02	-	00	01
Mr. N. Perera (Resigned w.e.f. 26.10.2018)	Independent Non Executive Director	16	04	-	02	N/A
Mr. S. N. Dayaratne	Senior Independent Non Executive Director	23	07	-	04	04
Mr. S. P. Arsakularatne	Independent Non Executive Director	20	07	-	N/A	04
Mr. K. G. G. R. M. Wijesinghe (Resigned w.e.f. 30.08.2018)	Independent Non Executive Director	02	N/A	-	N/A	N/A
Mr. R. M. D. V. Jayabahu	Non Independent Non Executive Director	12	01	-	02	N/A
Mr. D.N.L.Fernando	Non Independent Non Executive Director	1	N/A	-	N/A	N/A

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

General

The Directors have the pleasure in presenting to the shareholders their Report together with the Audited Financial Statements for the year ended 31 December 2018 of Merchant Bank of Sri Lanka & Finance PLC.

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

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

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

This Report provides the information as required by the Companies Act No. 07 of 2007, the Listing Rules of the Colombo Stock Exchange and the recommended best practices on Corporate Governance. This Report was approved by the Board of Directors on 27 May 2019.

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report and is disclosed hereunder in respect of the year under review (i.e., for the year ended 31 December 2018)

Vision, Mission and Corporate Conduct

The Company's vision, mission and values are given on page 5 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

Information required to be disclosed as per the Companies Act No. 07 of 2007		Reference (section of the Companies Act No. 7 of 2007)	Extent of compliance by the Company
i	The nature of the business of the Group and the Company together with any change thereof during the accounting period and the classes of business in which the Company has an interest.	Section 168 (1) (a)	Refer on page 144
ii	Signed Financial Statements of the Company and the Group for the accounting period completed	Section 168 (1) (b)	Refer on page 141
iii	Auditors' Report on the Financial Statements of the Company and of the Group	Section 168 (1) (c)	Refer on pages 134 to 137
iv	Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer on pages 144 to 240
v	Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on pages 116 and 209 to 210
vi	Director's fee and other benefits paid to Directors of the Company and its subsidiaries during the accounting period	Section 168 (1) (f)	Refer on page 116
vii	Information on donations made by the Company during the accounting period	Section 168 (1) (g)	Refer on page 116
viii	Names of Directors of the Company as at the end of the accounting period and the names of persons who ceased to hold office as directors during the accounting period	Section 168 (1) (h)	Refer on page 115
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 116
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 116
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 117

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 (Pvt) Ltd respectively, which collectively constitute the Group.

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

The principal activities of the subsidiary and associate are given in Note 1.3 to the Financial Statements on page 144.

Review Of Operations

A review of the operations of the Company during the financial year ended 31 December 2018 and results of those operations are contained in the Chairman's Review on pages 28 to 30, the Acting Chief Executive Officer's Review on pages 31 to 33 and Management Discussion and Analysis on pages 50 to 79. 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 30 and Acting Chief Executive Officer's Review on page 33 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 2018 duly signed by the Head of Finance, the Chief Executive Officer (Act.) and approved by the Board of Directors of the Company are given on pages 138 to 240 and form an integral part of this Report of the Board.

Directors' Responsibility for Financial Reporting

The Board of Directors are responsible for the preparation of the Financial Statements of the Group and the Company, which reflects a true and fair view of the state of affairs of the Company and of the Group. The Directors are of the view that the Statement of Profit or Loss, Statement of Comprehensive Income, Statement of Financial Position, Statement of Changes in Equity, Statement of Cash Flows, Significant Accounting Policies and Notes thereto appearing on pages 138 to 240 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 133 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 2018 is given on pages 134 to 137 of this Annual Report.

Significant Accounting Policies and Changes During The Year

The Group and the Bank prepared their Financial Statements in accordance with Sri Lanka Accounting Standards (LKASs) and Sri Lanka Financial Reporting Standards (SLFRSs).

The significant accounting policies adopted in the preparation of Financial Statements are given on pages 144 to 240 as required by section 168(1) (d) of the companies' act.

Income

The income of the Company for the year ended 31 December 2018 was Rs.6,550 Mn (2017- Rs. 6,403). An analysis of the Income is given in Note 4 to the Financial Statements on page 156.

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

Financial Results and Appropriations

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

For the year ended 31 December	Company		Group	
	2018 Rs.Mn	2017 Rs.Mn	2018 Rs.Mn	2017 Rs.Mn
Profit before taxation	447	229	231	239
Taxation	(265)	(128)	241	(136)
Profit after taxation	181	101	472	103
Non-controlling interest	-	-	(57)	9
Profit for the year /profit attributable to the parent company	181	101	415	112
Profit brought forward from the previous year	925	846	948	860
Day 01 impact to impairment adjustment under SLFRS 09 net of differed tax	(892)	-	(892)	-
Profit available for appropriation	214	947	471	971
Appropriations				
Other comprehensive income	15	(2)	23	(3)
Transfer to reserves	(36)	(20)	(36)	(20)
Total appropriation	(21)	(22)	(14)	(23)
Un-appropriated profit carried forward	193	925	458	948

Reserves

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

For the year ended 31 December	Company		Group	
	2018 Rs. Mn	2017 Rs. Mn	2018 Rs. Mn	2017 Rs. Mn
Statutory Reserve	214	178	214	178
OCI Reserve	(74)	7	(19)	1
Retained Earnings	1934	925	458	948

Information on the movement of reserves are given in the Statement of Changes in Equity on page 142 and in Note 40 respectively to the Financial Statements on page 207.

Taxation

The Company is liable for income tax at the rate of 28% (2017-28%) and VAT on Financial Services at 15% (2017-15%).

Statutory Payments

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

Property and Equipment

The total capital expenditure incurred on the acquisition of property and equipment and intangible assets of the Group and the Company both amounted to Rs. 89Mn. The details of property, plant and equipment of the Company are given in Note 28 to the Financial Statements on pages 193 to 196.

Market Value of Freehold Properties

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer. The Directors are of the opinion that the carrying amount is not in excess of the current market values of the property. The details of freehold property owned by the Company are given in Note 28 to the Financial Statements on page 193.

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 2018 was Rs. 2,124 Mn, comprising of 165,874,541 ordinary voting shares. The details of the Stated Capital are given in Note 39 to the Financial Statements on page 207.

The details of debentures redeemed during the year ended 31 December 2018 and those outstanding as at 31 December 2018 are given in Note 33.3 to the Financial Statements on page 201.

Capital Adequacy

The Company is in the process of strengthening its core capital and supplementary capital, to mitigate the liquidity risk and safe guard the depositors, thus ensuring the sustainability of the Company and the industry as a whole. Core capital and total risk weighted capital adequacy ratios of the Company stood at 5.42 percent and 9.88 percent respectively as at 31 December 2018. The information on minimum capital requirement is given on page 240.

Share Information

Information relating to earnings, net assets and market value per share is given in 'Key Figures' on page 24. Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given under the information pertaining to 'Financial Capital' on page 60.

Substantial Shareholdings

Information on Top Twenty Shareholders

Details of the top twenty shareholders percentages of their respective holdings and percentage holding of the public are given in the section on 'Financial Capital' on page 59.

Directors

The names of the Directors who comprised the Board of Directors of the Company as at 31 December 2018 are given below and their attendance at the board meetings during the year is given on page 111 of the Annual Report.

Name of the Director	Executive / Non-Executive Status	Independent / Non-Independent Status
Dr. S Lokuhewa	Chairman Non Executive Director	Non-Independent
Mr. S N Dayaratne	Senior Director Non Executive Director	Independent
Mr. K B S Bandara	Non Executive Director	Non-Independent
Mr. W P R P H Fonseka	Non Executive Director	Non-Independent
Mr. S P Arakularatne	Non Executive Director	Independent
Mr. R M D V Jayabahu (resignation tendered, pending CBSL approval)	Non Executive Director	Non Independent
Mr. D N L Fernando	Non Executive Director	Non Independent
Mr. M P R Kumara	Alternate Director to Mr. W P R P H Fonseka	
Mr. C Amarasinghe	Alternate Director to Mr. K B S Bandara	

Changes to the Directorate

Appointments During the Year under Review

- Mr. M P R Kumara was appointed as Alternate Director to Mr. W P R P H Fonseka to the Directorate of MBSL w.e.f. 11.04.2018.
- Mr. K G G R M Wijesinghe was appointed to the Directorate of MBSL as a Non-Executive/Non Independent Director w.e.f. 10.05.2018.
- Mr. R M D V Jayabahu was appointed to the Directorate of MBSL as a Non-Executive/ Non Independent Director w.e.f. 10.05.2018.
- Mr. C Amarasinghe was appointed as Alternate Director to Mr. K B S Bandara to the Directorate of MBSL w.e.f. 03.10.2018
- Mr. D N L Fernando was appointed to the Directorate of MBSL as a Non-Executive/ Non Independent Director w.e.f. 29.11.2018

Resignations During the Year under Review

- Mr. D M Gunasekara resigned from the Directorate of MBSL with effect from 27.04.2018

- Mr. D M L B Dassanayake resigned as Alternate Director to Mr. D M Gunasekara from the Directorate of MBSL w.e.f. 27.04.2018
- Mr. R M D V Jayabahu resigned as Alternate Director to Mr. K B S Bandara from the Directorate of MBSL w.e.f. 27.04.2018
- Mr. K G G R M Wijesinghe resigned from the Directorate of MBSL with effect from 30.08.2018.
- Mr. N Perera resigned from the Directorate of MBSL with effect from 26.10.2018

Appointments after 1 January 2019

None.

Resignations after 1 January 2019

Mr. R M D V Jayabahu has tendered his resignation from the Directorate of MBSL, pending CBSL approval.

Recommendations for Re-election

Mr. K B S Bandara retires in terms of Article 86 read with Article 87 of the Articles of Association of the Company and being eligible for re-election has offered himself for re-election at the forthcoming Annual General Meeting and is recommended by the Board of Directors.

Mr. D N L Fernando retires in terms of Article 93 of the Articles of Association of the Company and being eligible for election has offered himself for election at the forthcoming Annual General Meeting and is recommended by the Board of Directors.

Directors' Meetings

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings namely Audit Committee, Integrated Risk Management Committee, Remuneration Committee and Related Party Transactions Review Committee are presented on page 111.

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

GRI 102-25

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 42 to the Financial Statements on page 209 to 210 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	7.95	7.95

Directors' Interest in shares of the Company

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31 December 2018 and 31 December 2017 are as follows:

	No. of shares held at 31.12.2018	No. of shares held at 31.12.2017
Mr. D.N.L. Fernando	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 209 to 210

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 42 to the Financial Statements on pages 209 to 210 which form an integral part of the Annual Report of the Board of Directors.

Appointment of Auditors

A resolution to re-appoint the Auditor General and to authorize the Directors to determine their 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 is to be paid Rs. 1,917,685 for the year ended 31 December 2018 as audit fees by the Company. In addition, a sum of Rs. 652,500 was paid by the Company for permitted non-audit-related services.

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

Compliance With Laws and Regulations

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

Environmental Protection

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

Corporate Donations

During the year under review, the Company has made donations amounting to Rs. 119,724 (2017 - Rs.38,130) in terms of the resolution passed at the last Annual General Meeting. This amount excludes contributions made towards the Company's Corporate Social Responsibility (CSR) initiatives. The CSR initiatives of the Company are presented in Social and Relationship Capital Report given on pages 72 to 76 of this Annual Report.

Events After The Reporting Period

Details of events after the reporting period are reflected in Note 44 to the Financial Statements on page 214.

Outstanding Litigation

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company disclosed in Note 48 to the Financial Statements on pages 220 to 227 will not have a material impact on the financial position of the Company or on its future operations.

Going Concern

The Board of Directors have a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future. For this reason, the Board of Directors continue to adopt the going concern basis in preparing Financial Statements as subsidiary, MBSL Insurance Company Ltd resumed the commercial operations after completion of capital infusion in April 2019 as discussed in note 45 to the Financial Statements on page 214.

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 are taken by the Company in managing risks are detailed in the Risk Management Report on pages 124 to 129.

Corporate Governance

Directors' Declarations

The Board of Directors declare that-

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

The measures taken and the extent to which the Company has complied with the Codes of Best Practices on Corporate Governance issued by The Institute of Chartered Accountants of Sri Lanka and 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 82 to 111.

Human Resources

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

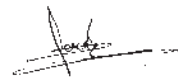
Annual General Meeting

The Thirty Seventh Annual General Meeting of the Company will be held at the Grand Ballroom, Galadari Hotel, No. 64, Lotus Road, Colombo 01 on 25 June 2019 at 10.00am. The Notice convening the Thirty Seventh Annual General Meeting is given on page 267.

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.

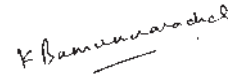
This Annual Report is signed for and on behalf of the Board of Directors by:



Dr. S Lokuhewa
Chairman



K B S Bandara
Director



K Jayatilake
Company Secretary

27 May 2019
Colombo

AUDIT COMMITTEE REPORT

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

Composition of Audit Committee

The composition of the Audit committee is as follows:

- Mr. W.P. Russel Fonseka – Chairman
Non Executive
Non Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. K.B.S Bandara - Member
Non Executive
Non Independent Director
(Appointed w.e.f 10/08/2016 and resigned w.e.f 23/12/2016 and reappointed on 24/01/2017 by the reconstitution of the Audit committee by the Board on its 513th Board Meeting held on 24/01/2017)
- Mr. S.N. Dayaratne - Member
Non Executive
Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. S. Arsakularatne - Member
Non Executive
Independent Director
(Appointed w.e.f 10/08/2016)
- Mr. Niroshana Perera – Member
Non Executive
Independent Director
(Appointed w.e.f 10/08/2016 and resigned w.e.f 26/10/2018)

The Committee Meetings

The Committee is expected to have 04 meetings during the year. The proceedings of the Audit Committee are reported regularly to the Board of Directors.

The Chief Executive Officer (Act.), Head of Finance, attend the meetings by invitation. The Heads of Divisions were invited to the meetings of the Committee at various times to get clarifications.

Assistant General Manager – Internal Audit is the Secretary to the Audit Committee.

Key Responsibilities of the Committee

Audit Committee of the MBSL which functions as a subcommittee of the Main Board, assists the Main Board in fulfilling its oversight responsibilities and provides an independent review of the financial reporting process. The following areas come under the purview of the Audit Committee;

Financial reporting

- a) Reviews the financial information of the company in order to ensure the integrity of the financial statements, its annual report, accounts etc.
- b) Evaluating, reviewing and monitoring the adequacy and effectiveness of the internal control systems to ensure integrity of the financial reporting.

Compliance

- a) Reviews the effectiveness of the systems and procedures adopted by the company and monitors compliance with applicable laws and regulations.
- b) Reviews the findings of the examinations carried out by regulatory agencies and/or any auditor on compliance with such laws and regulations.
- c) Follows-up of any instances of non-compliance with statutory and regulatory requirements.

Internal Audit

- a) Reviews of performance of the Internal Audit Function, audit reports and follow up on recommendations.
- b) Reviews the audit charter, audit plans, activities, audit scope, reporting requirements, etc. of the internal audit function of the company.
- c) Reviews findings and recommendations by the Internal Auditors, together with comments made by Management.
- d) Assesses the effectiveness of such findings and responses.

External Audit

- a) Coordination with Internal Audit.
- b) Reviews the External Audit Report on the financial statements and Management Letter outlining the findings, observations and recommendations and management responses and the status of any corrective action plans.
- c) The Committee meets the External Auditors separately to discuss any matters that the Committee or Auditors believe should be discussed privately.

Summary of the Activities carried out by the Committee during the year

During the year under review the Committee held 07 meetings and discharged its duties as follows;

Financial information

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

Compliance:

- a) Reviewed the effectiveness of the systems and procedures of the company to monitor compliance with applicable laws and regulation of the country.
- b) Reviewed the reports submitted by the Management on the state of compliance with the relevant laws, regulations and settlement of statutory payments was reviewed and discussed.

Internal Audits

- a) Assigned the Internal Auditor at regular intervals to review effectiveness of the internal control procedures, accounting systems and operations procedures of the organisation.
- b) Reviewed the reports received from the Internal Auditor covering audits and investigations and discussed with the Management on the recommendations made and followed up on the implementation.
- c) Reviewed the Internal Audit programmes to ensure that implementation of internal control is monitored and their adequacy is assessed on a continuous basis.
- d) Reviewed the Internal Audit reports and monitored the implementation of recommendations made therein.

External Audit

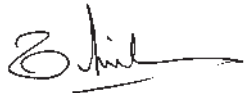
- a) The external audit is carried out by the Auditor General in terms of the Constitution of the Country. The Auditor General was assisted by the M/s BDO Partners, Chartered Accountants during the year 2018. Prior to commencement of the Audit, the Audit Committee met with the External Auditors, M/s BDO Partners to review and discuss the process and procedures.
- b) The Committee reviewed the Management Letter issued by the External Auditors and the Management response thereto.

- c) Reviewed and followed up upon final audit issues identified by the Auditors pertaining to the audit for the year 2018.

Conclusion

The Audit Committee is satisfied that internal controls which provide a reasonable assurance that the affairs of the company are managed in accordance with approved policies of the company and that the company's assets are properly accounted for and adequately safeguarded.

The Audit Committee confirms that the responsibilities of the Audit Committee in terms of the in terms of the Finance Leasing Corporate Governance Direction No.4 of 2009 on Corporate Governance issued by the Central Bank and the Listing Rules of the Colombo Stock Exchange have been complied with.



W P R P H Fonseka
Chairman - Audit Committee

27 May 2019
Colombo

REMUNERATION COMMITTEE REPORT

The Remuneration Committee is a sub-committee of the Board of Directors comprising of the following members.

Effective from 28.12.2017 the Remuneration Committee comprises as follows:

- Dr. Sujeewa Lokuhewa – Chairman/
Non Independent Non Executive
Director
- Mr. Dassanayake Mudiyansele
Gunasekara - Non Independent/Non
Executive Director (resigned w.e.f.
27.04.2018)
- Mr. Niroskana Perera –Independent/
Non Executive Director (resigned
w.e.f.26.10.2018)
- Mr. S N Dayaratne - Senior Director/
Independent Non Executive
- Mr. S P Arsakularatne – Independent/
Non Executive Director

The Chairman of the Remuneration Committee was also functioning as the Chairman of the Board of Directors.

The Remuneration Committee of Merchant Bank of Sri Lanka & Finance Plc is responsible to determine a broad remuneration framework for the Chairman and the Board of Directors including the Executive (if any) and Non-Executive Directors as well as the Chief Executive Officer.

The Remuneration Policy of the Company endeavours to attract, motivate and retain quality management in a competitive environment with the relevant expertise to achieve the desired objectives of the Company.

In addition to taking into account the long term interest of MBSL and its shareholders, the Remuneration Committee is required to comply with any circulars pertaining to Public Enterprises (Public Finance Enterprises Circulars), any Directions issued by the relevant line Ministry and the concurrence of the Bank

of Ceylon in determining the remuneration paid to the Directors.

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

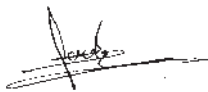
The remuneration of the Chairman shall be determined by taking into account his/her relevant experience, academic and competency levels, leadership qualities and having regard to competitive market rates paid by similar institutions.

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

The remuneration of the CEO may comprise of different components such as cash and non-cash benefits and will be linked to measurable standards of performance.

The Remuneration Committee makes its recommendations to the Board of Directors for final approval.

The total Directors' emoluments are disclosed in Note 14 on page 164 of the Financial Statement.



Dr. S Lokuhewa
Chairman
Remuneration Committee

27 May 2019
Colombo

RELATED PARTY TRANSACTIONS REVIEW COMMITTEE REPORT

Purpose of the Committee

The purpose of the Committee is to review in advance all proposed related party transactions other than those transactions explicitly exempted in the Code. Accordingly, except for transactions mentioned under Rule 27 of the Code, all other related party transactions are required to be reviewed by the Committee either prior to the transaction being entered into or, if the transaction is expressed to be conditional on such review, prior to the completion of the transaction.

Composition of the Committee

The Related Party Transactions Review Committee is appointed by the Board of Directors of the Company. As at 31 December 2018, it comprises of the following Directors:

	Name of the Directors	Directorship Status	Membership Status
1	Mr. S.N Dayaratne	Non Executive Independent Director	Chairman
2	Mr. W.P.R.P.H Fonseka	Non Executive Non Independent Director	Member
3	Mr. K.B.S Bandara	Non Executive Non Independent Director	Member
4	Mr. S. P Arsakularatne	Non-Executive Independent Director	Member

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 express purpose of providing information concerning the Related Party Transaction to the Committee
- Ensuring that immediate market disclosures and disclosures in the Annual Report as required by the applicable rules/regulation are made in a timely and detailed manner

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

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

Meetings of the Committee

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

Related Party Transactions for the Year 2018

Details of all transactions with the related parties during the year 2018 were reviewed by the Committee. There were no non-recurrent or recurrent related party transactions that exceeded the respective thresholds mentioned in the Listing rules of the Colombo stock exchange.

Details of the related party transactions are disclosed under Note 42 on pages 209 to 210 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 2018 is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 116.



S N Dayaratne
Chairman

Related Party Transactions Review
Committee

27 May 2019
Colombo

INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

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

The IRMC Meetings

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

Composition of Integrated Risk Management Committee

Name	Designation
Board Level Members	
Mr. V. Jayabahu*	Chairman of the IRMC Non-Executive Non Independent Director
Mr. S.N. Dayaratne	Non-Executive Independent Director
Mr. K. B. S. Bandara**	Previous Chairman of the IRMC Non-Executive Non Independent Director
Mr. N. Perera***	Non-Executive Independent Director
Management Level Members	
Mr. Jude Gamalath	Chief Executive Officer (Act.)
Mr. Senaka Uduwawela	DGM-Post Credit Monitoring & Quality Assurance
Mrs. Karnika Jayatilake	DGM-Legal / Company Secretary / In-Charge of CA & CM
Mr. Chamara Withanachchi	Head of IT
Mr. Kumudu Jayasundera	AGM-Recoveries
Mr. Purna Kandanaarachchi	Head of Finance
Mr. H. N. Wijayatunga	Manager Risk Management

* Appointed to the IRMC with effect from 11 October 2018

** Resigned from the IRMC with effect from 11 October 2018

*** Resigned from MBSL with effect from 26 October 2018

Key Responsibilities of the Committee

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

IRMC works with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee. In addition to that the committee is responsible for;

- (I) Assess all risks to the Company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.
- (II) Review the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- (III) Take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Company's policies and regulatory and supervisory requirements.
- (IV) Meet at least quarterly to assess all aspects of risk management including updated business continuity plans.
- (V) Take appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.

- (VI) Submit a risk assessment report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- (VII) Establish a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the committee periodically.

Conclusion

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

Gratitude

The Committee wishes to express its sincere gratitude to Mr. K. B. S. Bandara and Mr. N. Perera for their valuable contribution to the Committee during their tenure.



D N L Fernando

Chairman

Integrated Risk Management Committee
(Appointed w.e.f 17.05.2019)

27 May 2019
Colombo

RISK MANAGEMENT REPORT

Risk management remains a critical component in the execution of our strategy. In our dynamic operating environment, a strong Risk Management Framework is essential to safeguard the interests of our depositors, while ensuring our business continues to grow in order to meet the key deliverables of all stakeholders. Simply put, the purpose of our Risk Management Framework is to ensure an effective and efficient process is in place to manage company-wide risk at all times.

Our Risk Management Framework seeks to achieve the following specific objectives:

- Identify key risks applicable to MBSL
- Continuously review the Risk Appetite Statement consistent with changes to MBSL's overall Risk Profile and Capital Adequacy Commitments from time to time
- Ensure business growth plans are supported by adequate Risk measurement
- Maintain proper control over risk taking activities as part of the day-to-day business operations.

To achieve these objectives, our Risk Management Framework is based on four key pillars;

1. Oversight

Risk Governance

Effective Risk Management begins with effective Risk Governance. MBSL has a well-established Risk Governance Structure to provide oversight for managing current risks as well potential risks. At a strategic level, all decisions are centralized with the MBSL Board being the key custodian ultimately responsible of Risk Management. The Risk Management duties of the Board include; managing strategic risk, analyzing and prioritizing key risks applicable to the company, determining the company's risk appetite, and setting the tone from the top towards building a risk management culture across the company. Under the direction of the Board, the Integrated Risk Management Committee (IRMC), is responsible for the stewardship of Risk across the business, including making recommendations to the Board regarding on policy and limits.



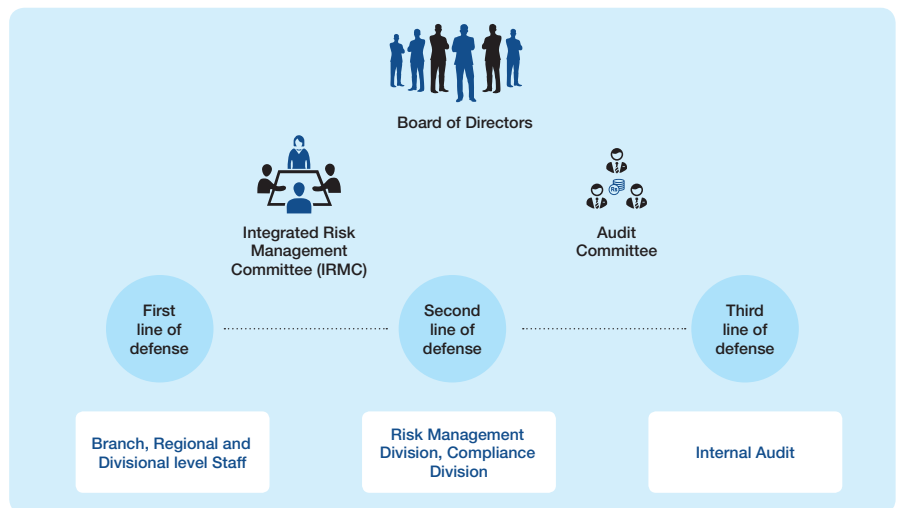
Three-Lines-of-Defense Model

The three-lines-of-defense model, which outlines Risk Management duties and responsibilities across the company.

The corporate management, respective business heads and branch management form the first line of defense by ensuring that all risk taking activities in the course of the business are conducted in line with the risk management principles established by the company.

The second line of defense consists of centralized Risk stewardship to ensure Risks are managed in line with the company's Risk Appetite and tolerance limits.

The third and final line of defense involves independently verifying the efficiency and effectiveness of the Risk Management Framework in supporting the achievement of business objectives.



2. Direction

Risk Appetite Statement

Risk Appetite refers to the maximum tolerable Risk the company is willing to take in order to meet its strategic objectives. In formulating the Risk Appetite Statement, the Board prioritizes the most significant risks to which MBSL is exposed to and informs the approach towards managing these risks, with all strategic plans and business plans for functional areas developed accordingly.

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

Policies and Limits

Policies and limits are approved by the Board for specific risk categories and are based on the recommendations made by the IRMC. Examples of risk policies include; the Risk Management policy, the Liquidity Risk Management policy, the Business Continuity Planning policy etc. The company's Risk Appetite underpins the process of formulating policies. In addition, industry best practices and regulatory requirements are also factored in.

Limits provide the basis for controlled risk-taking activities within Board-Approved tolerance levels. Limits also inform accountability for key tasks in the risk taking process and establish conditions under which specific activities may be undertaken or approved such as exposure limits per sector, exposure limits per customer 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 established by the Risk Management function in order to inform specific action to ensure Risk Management activities are conducted in conformity with the company's Risk Appetite.

3. Assurance

Regular monitoring ensures that Risk Management activities are conducted in line with approved guidelines, policies and procedures with all key risk indicators escalated to the IRMC on a monthly basis. Any detected breaches are reported to the Board every quarter for necessary action.

The Audit Committee appoints an internal auditor to perform a detailed risk assessment every year with the findings submitted to the Board. Moreover as dictated by the Constitution of Sri Lanka the Auditor General of Sri Lanka performs an independent external Audit annually.

4. Culture

A proactive Risk Culture is central to the execution of MBSL's Risk Management Framework. We work with the understanding that building a company-wide Risk culture will foster appropriate values and behaviors that shapes risk decisions of management and employees in line with the company's Risk Management objectives.

Managing Material Risks

Credit Risk

Being a financial services company, credit risk is one of MBSL's principle risks. The company's approach to Credit Risk Management is based on the following commitments:

1. Responsible lending as articulated in the Credit Risk Policies.
2. Identification, assessment and measurement of credit risk clearly and accurately from the level of individual facility up to the total portfolio.
3. Accepting and managing credit risk in line with the Board approved credit risk appetite framework.
4. Defining, implementing and continually re-evaluating the risk appetite under actual and stressed conditions to effectively align to changes in the market environment.
5. Ensuring that there is expert scrutiny and independent approval of the credit risk assessment models.
6. Ensuring there is independent review of credit risks and the mitigations put in place to minimize the credit risk.

Stewardship of Credit Risk	Key Responsibilities
IRMC	Recommending specific policies and procedures that require the attention of the BOD
CEO /Credit Committee	Overall responsibility for ensuring that the Company's credit risk exposures are managed within the Board approved risk appetite
Recovery Committee	Responsible for implementing the collections and recovery strategies to ensure NPL position is maintained within Board-defined parameters

For MBSL, Credit Risk consists of two components; Default Risk - representing the loss to the company owing to customer defaults and Credit Concentration Risk - risk arising due to over exposure to a particular customer segment / sector / product .

Default Risk Management Activities for 2018

Following a notable increased in NPL's in the first six months of 2018, strong emphasis was placed on improving the core credit management model and strengthening recovery protocols. Several important steps were taken in this regard to;

1. **Strengthen the Credit Management Process** - Restructured the Central Credit Division (CCD) consisting of three distinct segments; pre-credit, credit processing and post-credit monitoring with a view to centralizing end-to-end credit management. To facilitate this process, credit approval limits were also centralized with branches being allowed only limited approval authority. At the same time, customer vetting procedures were tightened with additional credit evaluation criteria being introduced in line with the company's decision to follow a collateral-based lending approach.
2. **Streamline the Recovery Procedure** - Introduction of a central Recoveries unit to expedite the follow-up of past-dues and impose stricter monitoring protocols to prevent customers from lapsing into the NPL category. The Recoveries unit is headed by a dedicated AGM Recoveries reporting directly to the CEO and the Recovery Committee.
3. **Reinforce the Risk Culture** – Introduction of monthly business meetings with CEO to raise awareness regarding the company's credit risk management protocols and encourage proactive participation of branch staff towards the recovery process.

Risk Management Report

- Improve the Customer Evaluation Process** - To gain a deeper insight of the customer and maintain credit quality of the Company.
- Set up a Credit Quality Assurance Unit**- To identify lapses in the lending process, track under performing products, market segments etc.

Outcome

Following the roll out of these initiatives, a notable improvement in NPL's was observed in the second half of the year, with stress testing based on 31 December figures predicting a progressive reduction in MBSL's vulnerability to Credit Risk over the next 12 - 18 month time frame.

Credit Concentration Risk Management Activities for 2018

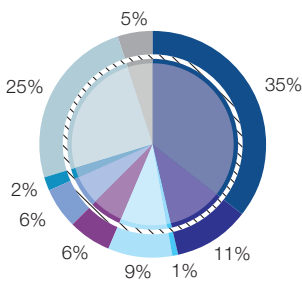
Our Credit Concentration Risk mitigation activities for 2018 were mainly focused on achieving a healthy product mix within the lending portfolio. Accordingly, a strategic decision was taken to curtail lending activities on unsecured loan products and maintain a selective lending approach to control the exposure to certain markets such as the three-wheel and two-wheel segment.

Meanwhile sector exposure limits were revised taking cognizance of the macroeconomic environment in 2018.

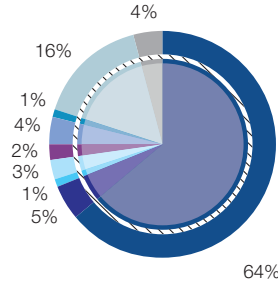
Outcome

Industry wise Concentration

Industry wise Portfolio 2018



Industry wise Portfolio 2017

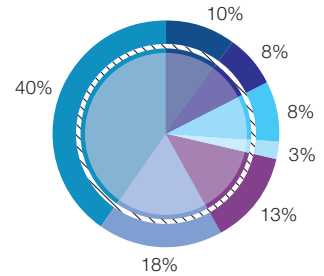


- Agriculture & Fishing
- Manufacturing
- Tourism
- Transport
- Construction
- Trades
- Financial and Business Services
- Other Services
- Other Customers

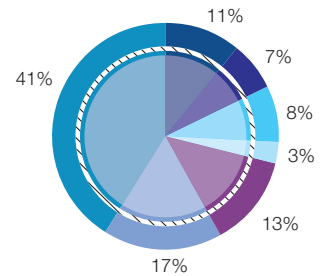
During the year concentration on agriculture and fishing sector has reduced remarkably compared to 2017 mainly due to the company reduced its lending to micro finance customers.

Geographical Concentration

Geographical Breakdown 2018



Geographical Breakdown 2017

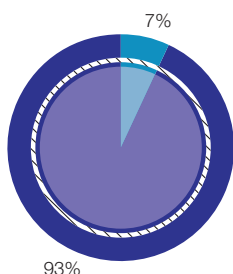


- Central
- Eastern & Uva
- North Central
- Northern
- North Western
- Southern & Sabaragamuwa
- Western

Geographical concentration has not changed significantly, and it remains almost same compared to 2017.

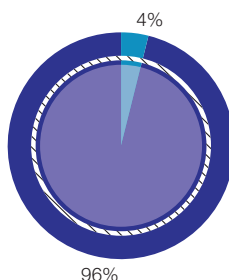
Concentration Top 20 Customers

Concentration Top 20 Customers 2018



● Top 20 Customers ● Other Customers

Concentration Top 20 Customers 2017



During the year concentrations to top 20 customer has increased to 7% from 4%. However, it is well below the risk appetite level of MBSL.

Market Risk

Market risk is the risk of loss incurred as a result of changes in interest rates, equity prices and foreign exchange rates, the correlations among them, and their levels of volatility. At MBSL we use a variety of metrics and models to measure and control market risk exposures taking into account best industry practices for risk measurement, monitoring and reporting.

A daily report of market risk exposures is submitted to the ALCO and a quarterly summary report is presented to the IRMC and the Board.

Stewardship of Market Risk	Key Responsibilities
CEO / IRMC	Provides oversight to ensure decisions made by the ALCO and the Investment Committee are in line with the Board approved Market Risk Framework
Asset and Liability Management Committee (ALCO)	Responsible for managing market risk, Interest rate risk and ensure maintaining target NIM of the Company
Investment Committee	Managing the Company's investment portfolio and making decisions pertaining to the purchase, hold and selling of investments

For MBSL, Market Risk mainly consists of three components; Interest Rate Risk - increase potential loss due to adverse volatility of interest rates and Equity Risk - being the potential loss to the company resulting from investments in the equities portfolio. Commodity risk-potential loss due to adverse movement in gold prices.

Interest Rate Risk Management Activities for 2018

The ALCO and head of Finance & Treasury are responsible to mitigate interest rate risk. Based on their guidance, interest rate risk management activities are handled by the Treasury department. Adverse movement of the interest rate during the year 2018 negatively impacted on the financial institutions. The Company practices stress testing and rate sensitive gaps to measure interest rate risk of the company.

The Company has implemented several risk mitigation strategies to reduce interest rate risk. During the year, the Company has introduced new deposit products to reduce rate sensitive gap. Further, the company has taken several steps to reduce maturity gap of the Company and relied upon long term liabilities than short-term.

Equity Risk Management Activities for 2018

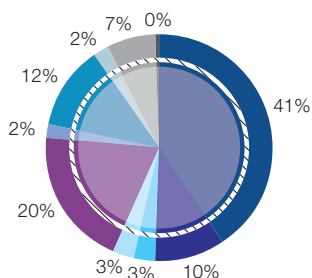
Equity risk management activities are handled by the Capital Market Division, with the Chief Manager Capital Market directly to the Investment committee. While traditionally MBSL has maintained a high equity investment portfolio, in recent years the exposure to the equities market has been scaled down considerably to minimize the drawdown caused by the weak performance of the local share market. In light of another poor performance in the local stock market in 2018, a strategic decision was taken to further curtail MBSL's equity portfolio in order to eliminate any potential risk to the portfolio in the medium term.

Risk Management Report

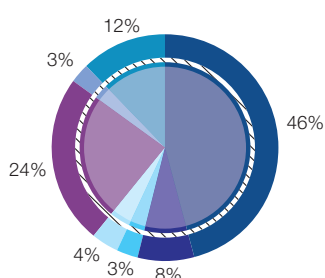
Outcome

Sector wise Portfolio Risk

Sector Portfolio 2018



Sector Portfolio 2017



- Banks /Finance & Insurance
- Beverage Food & Tobacco
- Construction & Engineering
- Diversified Holdings
- Hotels & Travels
- Investment Trust
- Manufacturing
- Footwear & Textile
- Power & Energy
- Telecom

During the year MBSL diversified the portfolio into different sector in order to reduce market risk.

Commodity Risk Management Activities for 2018

Gold is the main commodity manage by MBSL. Pawning division is responsible to manage commodity risk (gold stock) of the Company. During the year the Company has introduced maximum lending limits for individual customers to reduce commodity risk. Further, the Company strictly monitor loan to value ratio for gold loans which always maintain below 70% in order to face market volatility of gold. The company analyses and monitor gold market prices and proactive decisions are taken based on the findings.

Liquidity Risk Management

Liquidity Risk is the risk that the company will have insufficient reserves to cover its obligations. Liquidity Risk Management falls under the purview of the ALCO. ALCO and Head of Finance & Treasury are expected to adhere to Board-Approved liquidity policies in order to ensure adequate liquidity and maintain capital buffers. The main aim here is to ensure key ratios such as Tier 1 CAR, total Capital Ratio and the Liquid Asset Ratio. Timely reports are submitted to the Board and the IRMC in order to take necessary steps to reduce liquidity risk of the Company.

Stewardship of Market Risk	Key Responsibilities
CEO / IRMC	Provides oversight to ensure decisions made by the ALCO are in line with the Board approved Liquidity Risk Framework
Asset and Liability Management Committee (ALCO)	Responsible for the management of Liquidity Risk and the management of balance sheet structures including Capital.

Liquidity Risk Management Activities for 2018

The company has reviewed and approved liquidity risk management policy of the Company for 2018. 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 for the normal course of business to prevent a business disruption in stress situations.

The Central Bank of Sri Lanka (CBSL) has introduced Basel III guideline to financial institutions with effect from 1 July 2018. With implementation of new regulation MBSL Tier 1 and Tier II CAR ratios have deteriorated. The Company has already taken necessary steps to comply with CAR ratios as specified by CBSL.

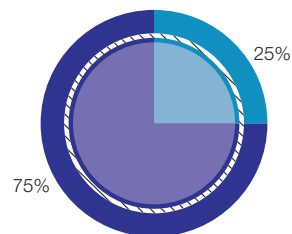
To further enhance its liquidity risk management efforts, in 2018 the Company undertook to implement additional monitoring metrics recommended as per the SLFRS 09 standard for reporting of financial instruments.

As part of liquidity risk management strategy, the Company has reduced the dependence on corporate and short-term deposits. Further, the company implemented a continuous monitoring mechanism to minimize the maturity mismatch between interest bearing assets and liabilities.

Outcome

Top 20 Depositors

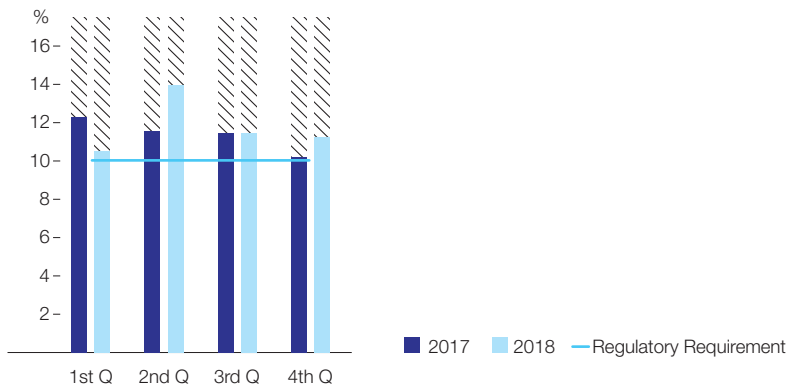
Deposit Customers 2018



- Top 20 Customers
- Other Customers

The Company has reduced the dependency on top 20 depositor and as at 31 Dec 2018, Top 20 depositors represents 25.2% from total deposit portfolio.

Liquid Assets Ratio



The Company has maintained regulatory liquidity requirement well above the required ratio.

Operational Risk

Operational risk of the Company can increase due to inadequate/ failure of internal processors, systems, people and external events.

MBSL's operational risk management has several objectives; implementing measures in order to ensure business continuity, ensuring the accuracy of information used internally and reported externally, developing competent and well-informed staff, and ensuring adequate safeguards to protect the physical and IT infrastructure of the company.

Stewardship of Operational Risk	Key Responsibilities
CEO	Provides oversight to minimize the occurrence of operational risk that could cause a potential business disruption now or any time in the future
IT Steering Committee	Ensuring that the company has access to necessary IT resources needed for business growth and safeguarding the integrity of such resources at all times
Corporate Management and Senior Management	Responsible for the proper implementation of procedures and controls at all levels of the business

Operational Risk Management Activities for 2018

The Company has conducted several training programs in the areas of anti-money laundering, cashiering, marketing, pawning and credit management in order to reduce people risk. Further, the Company has streamlined several processes in order to reduce risk of failure and improved productivity.

Following the 2017 investment in new state-of-the-art core IT infrastructure, all operational risk management activities for 2018 were centered ensuring the safety of the company's IT resources. Steps were taken to develop a new IT policy framework, which saw the following policies being introduced;

- Information Security Policy** - To ensure the disclosure of internal information is done in accordance with appropriate standards, laws and regulations.
- Asset Management Policy** - To introduce a framework of policies and procedures to keep track of the company's IT assets and prevent misuse.
- Access Control Policy** - To introduce a framework of controls to protect IT assets against unauthorized access and prevent a breach that could pose a substantial risk to the company.

- System Acquisition, Development and Maintenance Policy** - To ensure the proper maintenance and upgrade of IT infrastructure to minimize breakdowns.
- BCP Policy** - Implementation of process-level plans for recovery of critical technology platforms and communications infrastructure as well as to safeguard employees and assets of the Company, in line with the ISO 27001 Information Security Standard.

Compliance Risk

A dedicated Compliance officer monitors the company's compliance risk.

Compliance checks are conducted for all business units on a monthly basis with any incident of non-compliance reported directly to the IRMC for necessary action.

Stewardship of Compliance Risk	Key Responsibilities
CEO / IRMC	Responsible for ensuring the company remains fully compliant with all applicable regulations
Compliance Officer	In charge of maintaining the company's 100% compliance record at all levels of the business

It is also the responsibility of the Compliance Officer to conduct training as and when needed to reinforce the compliance culture among employees. In 2018 a total of 1,720 training hours was spent on Compliance training activities to build employee capacity regarding CBSL compliance requirements.

In 2018 compliance policy was reviewed and updated with a comprehensive compliance program to manage compliance risk of the Company.

FINANCIAL INFORMATION

Financial Calendar / **131**

Directors' Responsibility Statement on Internal Control over Financial Reporting / **132**

Directors' Responsibility for Financial Reporting / **133**

Report of the Auditor General / **134**

Statement of Profit or Loss / **138**

Statement of Comprehensive Income / **139**

Statement of Financial Position / **140**

Statement of Financial Position / **141**

Statement of Changes in Equity / **142**

Statement of Cash Flows / **143**

Notes to the financial statements / **144**

FINANCIAL CALENDAR

Financial Calendar 2018

Annual General Meetings	Date
36th Annual General Meeting	26-Jun-18
37th Annual General Meeting	25-Jun-19

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 and 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 and Tamil)
4th Quarter ended 31 December 2017	02-Mar-18	28-Jun-18
1st Quarter ended 31 March 2018	16-May-18	N/A
2nd Quarter ended 30 June 2018	15-Aug-18	24-Aug-18
3rd Quarter ended 30 September 2018	15-Nov-18	N/A
4th Quarter ended 31 December 2018	06-Mar-19	30-Mar-19

Annual Financial Statements		
Annual financial statements for 2017	27-Apr-18	28-Jun-18
Annual financial statements for 2018	31-May-19	31-May-19

Proposed Financial Calendar 2019

Annual General Meetings	Date
38th Annual General Meeting on or before	26-Jun-20

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

Interim Financial Statements	Date to be released to the CSE	Date published / to be published in Newspapers (in Sinhala, English and Tamil)
1st Quarter ended 31 March 2019	15-May-19	N/A
2nd Quarter ended 30 June 2019	15-Aug-19	30-Aug-19
3rd Quarter ended 30 September 2019	15-Nov-19	N/A
4th Quarter ended 31 December 2019	28-Feb-20	30-Mar-20

Annual Financial Statements		
Annual financial statements for 2019	27-Apr-20	31-Mar-20

DIRECTORS' RESPONSIBILITY STATEMENT ON INTERNAL CONTROL OVER FINANCIAL REPORTING

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

Responsibility

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

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

The process is regularly reviewed by the Board and accords with the guidance for directors of Banks on the Directors' Statement of Internal Control issued by the Institute of Chartered Accountants of Sri Lanka. As per the said guidance, significant processes affecting significant accounts of MBSL were assessed along with the key risk areas of MBSL.

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 established by the Board is to assist the Board to ensure that MBSL complies with policies and procedures, evaluate the effectiveness of the internal control system in place and highlights significant findings in respect of any non-compliance on an ongoing basis. Internal audits are carried out on all departments and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report on operational and management activities of these units and branches. The annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company, review internal control issues identified by the internal audit division, external auditors, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. Further it highlights the areas that need more internal controls while suggesting improvements to existing internal controls. The minutes of the Audit Committee meetings are tabled to the Board on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report in the Annual Report.
- Operational committees are established by the Board with appropriate empowerment to assist the Board in ensuring the effectiveness of the company's daily operations and that the company's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been

approved.

- In assessing the internal control system, identified officers of the Company collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of company. These in turn were observed and checked by the Internal Audit department to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.

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,



M P R Kumara
Director

(Alternate Director to Mr. W.P.R.P.H Fonseka)



S N Dayaratne
Director

27 May 2019
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 pages 134 to 137 of the Annual Report.

In terms of Sections 150 (1), 151, 152 and 153 (1) and (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 2018, 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 2018 have been prepared and presented based on the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting and Auditing standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereto, Listing Rules of the Colombo Stock Exchange, Code of

Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka (CASL) and the Securities and Exchange Commission of Sri Lanka (SEC).

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

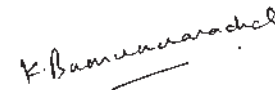
The Board of Directors also wishes to confirm that, as required by the Sections 166 (1) and 167 (1) of the Companies Act, they have prepared this Annual Report in time and ensured that a copy thereof is sent to every shareholder of the Company, who have expressed desire to receive a hard copy or to other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

Pursuant to provision of Article 154 (4) of the Constitution of the Democratic Socialist Republic of Sri Lanka, the Auditor General is the Auditor of the Company and issue the final opinion on the Financial Statements of the Company. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on pages 134 to 137 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,



K Jayatilake
Company Secretary

27 May 2019
Colombo

REPORT OF THE AUDITOR GENERAL



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මගේ අංකය
எனது இல. }
My No. }

BAF/B/BOC-S/MBSL/2018

ඔබේ අංකය
உமது இல. }
Your No. }

දිනය
திகதி }
Date }

25 May 2019

The Chairman
Merchant Bank of Sri Lanka and Finance
PLC

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

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Merchant Bank of Sri Lanka and Finance PLC ("Company") and the financial statements of the company and its subsidiary ("the Group") for the year ended 31 December 2018 comprising the statement of financial position at 31 December 2018 and the statement of comprehensive income, statement of changes in equity and 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 2018 and of their financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards

1.2 Basis for Opinion

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

1.3 Emphasis of Matters

I draw attention to the Note 15.4.1 and 50 of the financial statements, which disclose the following matters. My opinion is not modified in respect of these matters.

a) Minimum Capital Adequacy Requirements

Note 50 of the financial statements disclose the minimum capital adequacy ratio required for licensed finance companies and capital adequacy ratio maintained by the Company was below the minimum requirements.

b) Uncertainty Over Accounting Estimates

Note 15.4.1 of the financial statements discloses the basis of recognition of deferred tax assets by the Subsidiary – MBSL Insurance Company Limited amounting to Rs. 506 million with the assumption that brought forward tax losses can be recovered within six years

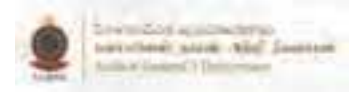
against the taxable income. For the assessment of future taxable income of the Subsidiary the management has projected its future cash flows by using highly judgemental estimates and assumption which are disclosed in Note 15.4.1 of the financial statements.

Further, I draw attention to the Note 26.2 of the financial statements which disclose the reversal of impairment provision made in previous year in respect of investment in the Subsidiary amounting to Rs. 58 million based on the future cash flow projections of the Subsidiary in the Note 15.4.1 of the financial statements.

1.4 Key Audit Matters

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

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.



Impairment of Loans and Receivables

My audit considered impairment allowance for loans and receivables as a key audit matter. The materiality of the reported amounts for loans and receivables (and impairment allowance thereof), the subjectivity associated with management's impairment estimation and transition to Sri Lanka Financial Reporting Standard 9: Financial Instruments (SLFRS 9) underpinned my basis considering it as a key audit matter.

As at 31 December, 2018, 81.7 per cent of Group's total assets consisted of loans and receivables amounting to Rs. 30,485 million (Note 22.1) net of impairment allowance of Rs. 2,575 million (Note 22.1). The impact on transition to SLFRS 9 on the Group's Financial Statements has been quantified and presented in Note 3.12 of the Financial Statements.

The estimation of impairment allowance for loans and receivables involved complex manual calculations. Significant estimates and assumptions used by the management in such calculations and the basis for impairment allowance are disclosed in Note 3.5.13.

Among other procedures, I have performed the following key audit procedures to address the above:

- I evaluated design, implementation and operative effectiveness of controls over estimation of impairment of loans and receivables, which included assessing the level of oversight, review and approval of impairment policies by the Board Audit Committee and management.
- I test-checked the underlying calculations and data.
- In addition to the above, following focused procedures were performed:

For loans and receivables individually assessed for impairment:

- I assessed the main criteria used by the management for determining whether an impairment event had occurred.
- Where impairment indicators existed, I assessed the reasonableness of management's estimated future recoveries including the expected future cash flows, discount rates and the valuation of collateral held. I also compared the actual recoveries against previously estimated amounts of future recoveries.

For loans and receivables collectively assessed for impairment:

- I assessed the completeness, relevant and accuracy of the underlying information in loans and advances used in the impairment calculations by agreeing details to the Group's source documents and information in IT systems and re-performing the calculations.
- I also considered reasonableness of macro-economic and other factors used by management in their judgemental overlays for various types of loan portfolios, by comparing them with publicly available data and information sources.
- I assessed the adequacy of the related financial statement disclosures as set out in Note 22 and Note 3.5.13.
- I also assessed the adequacy of the Group's disclosure on the impact of the initial adoption of SLFRS 9 as set out in Note 3.12. This included testing of the quantitative impact of the transition.

Impairment of Investment in Subsidiary

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-'Separate Financial Statements. Management performed assessment at the end of each reporting period whether there is any indication that the investments in subsidiary may be impaired. Should indication of impairment exists, an impairment assessment will be performed accordingly.

The recoverable amount of the investment in subsidiary was assessed by value in use calculations which are based on net asset based valuation and residual income method on a cash generating unit basis.

This area is significant to my audit because of the significant management judgement involved in determining the value in use. For investments in subsidiaries the judgement focuses on revenue growth rates, gross margins and discount rates. All these factors are with estimation uncertainties and may impact the results of the impairment assessment.

Among other procedures, I have performed the following key audit procedures to address the above:

- Evaluated the group's cash flow forecasts and the process by which they were developed, including considering the mathematical accuracy of the underlying calculations;
- Compared cash flow forecasts to the latest Board approved budgets and also ensured that the underlying cash flow forecasts, assumptions used and conclusions reached have been reviewed and approved by the Board;

Report of the Auditor General

- Reviewed the reasonableness of fair values of assets and liabilities of the subsidiary in arriving at the net assets of those related companies;
- Assessed the reasonableness of key assumptions including the discount rate, terminal growth rates and forecast growth assumptions.

The disclosures associated with investment in subsidiaries are set out in the Note 26.2 to the financial statements.

1.5 Other Information

Management is responsible for other information. The other information comprises the information included in the annual report but does not include the financial statements and our auditor's report thereon.

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

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

1.6 Responsibilities of 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 intend to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

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

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

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

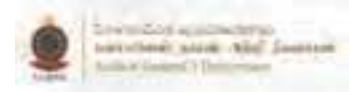
My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an Auditor's Report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that 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 internal control of the Company and the Group.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.





- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

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

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

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

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

Reference to Law/ Direction	Description
Rule 7.5(d.II.(1)) of the Colombo Stock Exchange (CSE) Listing Rules	Independent auditor's report contains an emphasis of matter on going concern of the subsidiary.
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 50.1 of the financial statements.

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

W.P.C. Wickramaratne
Auditor General

STATEMENT OF PROFIT OR LOSS

For the year ended 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Income	4	156	6,549,905	6,402,825	6,710,903	7,079,110
Interest and similar income			6,194,937	6,157,286	6,260,825	6,256,612
Interest and similar expenses			(3,752,471)	(3,708,808)	(3,766,881)	(3,708,625)
Net interest income	5	157	2,442,466	2,448,478	2,493,944	2,547,987
Fee and commission income			210,175	179,687	210,048	140,151
Fee and commission expenses			(2,033)	(59,964)	(7,637)	(77,707)
Net fee and commission income	6	158	208,142	119,723	202,411	62,444
Insurance premium income	7	158	-	-	69,960	562,170
Net claims and benefits			-	-	(76,602)	(348,999)
Net trading income	8	159	6,855	(16,018)	9,042	(13,769)
Net gain/(loss) on financial instruments at fair value through profit or loss	9	160	(29,999)	5,624	(29,394)	4,771
Other operating income	10	160	167,937	76,246	190,422	129,175
Total operating income			2,795,401	2,634,053	2,859,783	2,943,779
Impairment charges for loans and other losses	11	161	(134,531)	(244,231)	(135,630)	(245,206)
Net operating income			2,660,870	2,389,822	2,724,153	2,698,573
Personnel expenses	12	162	(1,096,230)	(1,073,526)	(1,180,570)	(1,229,523)
Depreciation and amortisation	13	163	(119,806)	(109,025)	(132,776)	(128,186)
Other operating expenses	14	164	(789,583)	(718,932)	(904,790)	(898,962)
Total operating expenses			(2,005,619)	(1,901,483)	(2,218,136)	(2,256,671)
Operating profit before VAT on financial services and impairment of investment in subsidiary			655,251	488,339	506,017	441,902
Impairment reversal/(Impairment) of investment in subsidiary	26.2	191	58,160	(56,189)	-	-
Profit from operations after impairment of investment in subsidiary			713,411	432,150	506,017	441,902
Taxes on financial services	15.1	164	(266,735)	(203,500)	(266,735)	(203,500)
Share of associate company's profit/(loss) before tax	25.1	189	-	-	(8,360)	1,059
Profit before income tax			446,676	228,650	230,922	239,461
Income tax expense	15.2	165	(265,391)	(127,799)	240,802	(136,112)
Profit for the year			181,285	100,851	471,725	103,349
Profit for the year attributable to:						
Equity holders of the parent			181,285	100,851	415,031	111,858
Non-controlling interests			-	-	56,694	(8,509)
Profit for the year			181,285	100,851	471,725	103,349
Earnings per share:						
Basic/diluted earnings per share (Rs.)	16	167	1.09	0.61	2.50	0.67

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from pages 144 to 240 form an integral part of the Financial Statements.

27 May 2019

Colombo, Sri Lanka

STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit for the year			181,285	100,851	471,725	103,349
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			(14,038)	28,379	(21,543)	39,216
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods			(14,038)	28,379	(21,543)	39,216
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):						
Actuarial gains/(losses) on defined benefit plans	38	206	27,670	(17,867)	36,329	(20,448)
Share of associates company's other comprehensive income	25.1	189	-	-	378	1,239
Deferred tax effect relating to components of other comprehensive income	15	165	(12,750)	15,942	(12,750)	15,942
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods			14,920	(1,925)	23,957	(3,267)
Other comprehensive income/(expenses) for the year, net of tax			882	26,454	2,414	35,949
Total comprehensive income/(expenses) for the year, net of tax			182,167	127,305	474,138	139,298
Total comprehensive income/(expenses) attributable to:						
Equity holders of the parent			182,167	127,305	417,261	146,496
Non controlling interests			-	-	56,877	(7,198)
Total comprehensive income/(expenses) for the year, net of tax			182,167	127,305	474,138	139,298

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from pages 144 to 240 form an integral part of the Financial Statements.

27 May 2019

Colombo, Sri Lanka

STATEMENT OF FINANCIAL POSITION

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Assets						
Cash and cash equivalents	18	171	294,622	418,885	391,886	466,139
Placements with banks and financial institutions	19	172	670,575	1,509,597	774,575	1,597,785
Securities purchased under resale agreements	20	173	1,292,670	1,302,748	1,440,819	1,651,927
Financial investments at fair value through profit or loss	21	173	267,106	231,264	274,700	238,252
Loans and receivables at amortised cost	22.1	183	30,721,147	28,760,494	30,485,412	28,755,317
Financial investments at fair value through other comprehensive income	23	186	1,180,998	1,815,181	1,850,320	2,191,842
Financial investments at amortised cost	24	188	60,828	479,362	60,828	479,362
Real estate stock			78,503	42,603	78,503	42,603
Investment in associate company	25	189	81,084	81,084	84,415	92,453
Investment in subsidiary	26	190	79,276	21,117	-	-
Investment properties	27	192	120,181	123,773	120,181	123,773
Property and equipment	28	194-195	320,113	321,660	334,493	347,393
Intangible assets	29.1	197	193,121	226,293	205,681	244,526
Deferred tax Assets	36.2	205	187,629	325,148	697,375	325,148
Other assets	30	198	316,573	311,146	514,778	685,594
Total assets			35,864,426	35,970,355	37,313,966	37,242,114
Liabilities						
Due to banks	31	198	5,869,317	1,616,979	5,872,471	1,623,007
Due to customers at amortised cost	32	199	20,831,021	21,918,869	20,821,606	21,910,383
Debt issued and borrowed funds at amortised cost	33	200	5,331,077	7,763,404	5,331,077	7,763,404
Insurance provision - life	34.1	202	-	-	574,399	547,026
Insurance provision - non life	34.4	203	-	-	336,825	430,093
Current tax liabilities	35	203	15,042	7,473	15,042	7,473
Deferred tax liabilities	36.2	205	528,073	698,859	531,570	698,859
Other liabilities	37	205	518,084	467,965	733,017	719,713
Retirement benefits obligations	38	206	247,708	262,986	256,644	283,000
Total liabilities			33,340,322	32,736,535	34,472,651	33,982,958


As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Equity						
Stated capital	39	207	2,124,457	2,124,457	2,124,457	2,124,457
Statutory reserves	40.1	207	214,096	177,839	214,096	177,839
Retained earnings	40.2	208	193,012	924,947	457,806	948,415
OCI reserve	40.3	208	(7,461)	6,577	(19,051)	1,300
Total equity attributable to equity holders of the parent			2,524,104	3,233,820	2,777,308	3,252,011
Non controlling interests			-	-	64,007	7,145
Total equity			2,524,104	3,233,820	2,841,315	3,259,156
Total liabilities and equity			35,864,426	35,970,355	37,313,966	37,242,114
Commitments and contingent liabilities	48	220	124,250	167,712	177,350	183,166
Net assets value per share (Rs.)			15.22	19.50	16.74	19.61

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from pages 144 to 240 form an integral part of the Financial Statements. These Financial Statements have been prepared in compliance with the requirements of the companies act no. 7 of 2007.

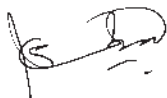


Purna Kandanaarachchi
Head of Finance

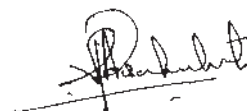


Jude Gamalath
Chief Executive Officer (Acting)

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



K B S Bandara
Director



S P Arsakularatne
Director

27 May 2019
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 2017	2,124,457	157,669	(21,802)	846,191	3,106,515
Net profit for the year	-	-	-	100,851	100,851
Other comprehensive income, net of tax	-	-	28,379	(1,925)	26,454
Transfers to statutory reserves	-	20,170	-	(20,170)	-
Balance as at 31 December 2017	2,124,457	177,839	6,577	924,947	3,233,820
Balance as at 01 January 2018	2,124,457	177,839	6,577	924,947	3,233,820
Impairment adjustment as per SLFRS 9	-	-	-	(1,093,454)	(1,093,454)
01 day impact to deferred tax under SLFRS 9	-	-	-	201,571	201,571
Balance as at 01 January 2018 after the restatement	2,124,457	177,839	6,577	33,064	2,341,937
Net profit for the year	-	-	-	181,285	181,285
Other comprehensive income, net of tax	-	-	(14,038)	14,920	882
Transfers to statutory reserves	-	36,257	-	(36,257)	-
Balance as at 31 December 2018	2,124,457	214,096	(7,461)	193,012	2,524,104

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 2017	2,124,457	157,669	(36,195)	859,584	14,343	3,119,858
Net profit for the year	-	-	-	111,858	(8,509)	103,349
Other comprehensive income, net of tax	-	-	37,495	(2,857)	1,311	35,949
Transfers to statutory reserve	-	20,170	-	(20,170)	-	-
Balance as at 31 December 2017	2,124,457	177,839	1,300	948,415	7,145	3,259,156
Balance as at 01 January 2018	2,124,457	177,839	1,300	948,415	7,145	3,259,156
Impairment adjustment as per SLFRS 9	-	-	-	(1,093,535)	(15)	(1,093,550)
01 day impact to deferred tax under SLFRS 9	-	-	-	201,571	-	201,571
Balance as at 01 January 2018 after the restatement	2,124,457	177,839	1,300	56,451	7,130	2,367,177
Net profit for the year	-	-	-	415,031	56,694	471,725
Other comprehensive income, net of tax	-	-	(20,351)	22,581	183	2,413
Transfers to statutory reserve fund	-	36,257	-	(36,257)	-	-
Balance as at 31 December 2018	2,124,457	214,096	(19,051)	457,806	64,007	2,841,315

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from pages 144 to 240 form an integral part of the Financial Statements.

27 May 2019

Colombo, Sri Lanka

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 18 on page 171.

For the year ended 31 December			Company		Group	
	Note	Page No.	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Cash flows from operating activities						
Profit before income tax			446,676	228,650	230,922	239,461
Adjustments for :						
Change in operating assets	41.1	208	(3,329,129)	(2,041,934)	(2,923,903)	(1,766,272)
Change in operating liabilities	41.2	208	(1,040,429)	3,464,241	(1,144,068)	3,041,470
Share of associate company's profit/(loss) before tax	25.1	189	-	-	8,360	(1,059)
Contribution to defined benefit plans	38.1	206	45,862	46,434	49,424	49,864
Other non-cash items included in profit before tax	41.3	208	89,393	382,542	162,541	345,191
Dividends received			(9,192)	(8,278)	(11,379)	(9,440)
			(3,796,819)	2,071,655	(3,628,103)	1,899,215
Gratuity paid	38	206	(33,471)	(14,703)	(39,451)	(18,775)
Net cash generated from/(used in) operating activities before income tax						
			(3,830,290)	2,056,952	(3,667,554)	1,880,440
Tax paid	35	203	-	(10,590)	-	(10,590)
Net cash generated from/(used in) operating activities						
			(3,830,290)	2,046,362	(3,667,554)	1,869,850
Cash flows from investing activities						
Purchase of financial assets designated at FVTPL			(218,384)	(66,490)	(218,385)	(66,400)
Proceeds from disposal of financial assets designated at FVTPL			150,206	140,209	150,206	141,296
Purchase of financial investments			(183,934)	(610,846)	(483,722)	(584,261)
Proceeds from sale and maturity of financial investments			1,278,534	1,180,014	1,278,534	1,180,014
Net increase/(decrease) in other investment			839,022	(1,390,664)	823,210	(1,335,466)
Purchase of property and equipment	28	195	(89,020)	(84,520)	(89,020)	(84,671)
Purchase of intangible assets	29	197	(4,469)	(226,617)	(4,469)	(229,377)
Proceeds from sale of property and equipment			95,193	4,778	97,725	8,704
Dividend received			9,192	8,278	11,379	9,440
Net cash used in investing activities						
			1,876,340	(1,045,858)	1,565,458	(960,721)
Cash flows from financing activities						
Net increase/(decrease) reverse repo and repo agreements			(260,700)	(1,001,209)	(59,670)	(885,302)
Net increase/(decrease) in other borrowings at amortised cost			3,364,722	1,466,798	3,364,722	1,466,798
Payments on redemption of debentures	33.3	201	(1,658,309)	(1,370,723)	(1,658,309)	(1,370,723)
Net cash used in financing activities						
			1,445,713	(905,134)	1,646,743	(789,227)
Net decrease in cash and cash equivalents during the year			(508,237)	95,370	(455,353)	119,902
Cash and cash equivalents at the beginning of year			295,036	199,666	336,262	216,360
Impairment charges of cash and cash equivalents			(402)	-	(402)	-
Cash and cash equivalents at the end of year						
			(213,603)	295,036	(119,493)	336,262
Analysis of cash and cash equivalents at the end of year						
Cash and short-term funds	18	171	294,622	418,885	391,886	466,139
Due to banks	31.1	199	(508,225)	(123,849)	(511,379)	(129,877)
			(213,603)	295,036	(119,493)	336,262

Figures in brackets indicate deductions.

The accounting policies and notes to the Financial Statements from pages 144 to 240 form an integral part of the Financial Statements.

NOTES TO THE FINANCIAL STATEMENTS

Section 01

Corporate Information

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

1.1 Reporting Entity

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

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31 December 2018, comprise the Company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

Parent Entity and Ultimate Parent Entity

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

Number of Employees

The staff strength of the Company and the Group as at 31 December 2018 were 1,023 and 1,152 respectively. (968 and 1,246 as at 31 December 2017)

1.3 Group Information GRI 102-45

Ownership by the Company in its Subsidiary and Associate.



Principal Activities and Nature of Operations

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

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

1.4 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended 31 December 2018 (including comparatives) were approved and authorized for issue on 27 May 2019 in accordance with the resolution of the Board of Directors on 27 May 2019.

Section 02

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 2018 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:

- The Statement of Profit or Loss and Statement of Comprehensive Income providing the information on the financial performance of the Company and the Group for the year under review (Refer pages 138 to 139);
- The Statement of Financial Position providing the information on the financial position of the Company and the Group as at year end (Refer pages 140 to 141);
- The Statement of Changes in Equity depicting all changes in shareholders' equity during the year under review of the Company and the Group (Refer page 142);
- The Statement of Cash Flows providing the information to the users, on the ability of the Company and the Group to generate cash and cash equivalents and the needs of entity to utilise those cash flows (Refer page 143); and
- Notes to the Financial Statements comprising accounting policies and other explanatory information (Refer pages 144 to 240)

2.3 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility in relation to the Financial Statements, as set out in the 'Statement of Directors' Responsibility for Financial Reporting, 'Annual Report of the Board of Directors on the Affairs of the Company' and in the certification on the Statement of Financial Position on pages 140 to 141.

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 No.
Financial investments at fair value through profit or loss	Fair value	21	173
Loans and receivables at amortised cost/Financial Investments-at amortised cost	Amortised cost	22,24	182,188
Financial investments at fair value through other comprehensive income (Financial Investments-OCI)	Fair value	23	186
Retirement benefits obligations	Liability for defined benefit obligations is recognised as the present value of the defined benefit obligation, plus unrecognised actuarial gains, less unrecognised past service cost and unrecognised actuarial losses.	38	206
Financial Liabilities at amortised cost	Amortised cost	32,33	199,200
Freehold land and buildings and buildings on leasehold lands are measured at	Cost less any subsequent accumulated depreciation and impairment losses.	27	192

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 and Aggregation

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

Notes to The 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 Standard 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.

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. 26,27,28,29
- Deferred tax liabilities - Note No. 36
- Provision for impairment of loans and advances - Note No. 22
- Retirement benefits obligation - Note No. 38
- Provision and contingent liabilities - Note No. 48

2.8.1 Going Concern

The management has made an assessment of the Group's ability to continue as a going concern and is satisfied that the Group has the resources to continue in business for the foreseeable future. Furthermore, management is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.

2.8.2 Events After the Reporting Period

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

In this regard, all material and important events that occurred after the reporting period have been considered and appropriate adjustments are made where necessary. Information on events after the reporting period are disclosed under Note No. 44 on page 214.

Section 03

3 Significant Accounting Policies

3.1 Basis of Consolidation

The Consolidated Financial Statements for the year ended 31 December 2018 comprise the Financial Statements of the Company (Parent Company) and its subsidiary (together referred to as the 'Group') and the Company' interest in associate company. 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 acquiree, less the net recognised amount of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognised immediately in the Statement of Profit or Loss.

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

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

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

3.3 Common Control Business Combination

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

Accordingly,

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

3.3.1 Loss of Control

Upon the loss of control, the Group derecognises the assets and liabilities of the subsidiary, any non-controlling interests and the other components of equity related to the subsidiary. Any surplus or deficit arising on the loss of control is recognised in the Statement of Profit or Loss. If the Group retains any interest in the previous subsidiary, then such interest is measured at fair value at the date that control is lost. Subsequently it is accounted for as equity accounted investee or in accordance with the Group's accounting policy for financial instruments depending on the level of influence retained.

3.3.2 Transactions Eliminated on Consolidations

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

3.4 Foreign Currency

3.4.1 Foreign Currency Transactions and Balances

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

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

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

3.5 Financial Instruments

SLFRS 9 - 'Financial Instruments'

SLFRS 9 issued in December 2014 replaced LKAS 39 and is applicable for annual reporting periods beginning on or after 01 January 2018. SLFRS 9 brought about significant changes to the classification and measurement of financial instruments and impairment assessment pertaining to such instruments. These changes are discussed in Notes 18,19,22,23 and 24 to the Financial Statements.

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 derecognised 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.

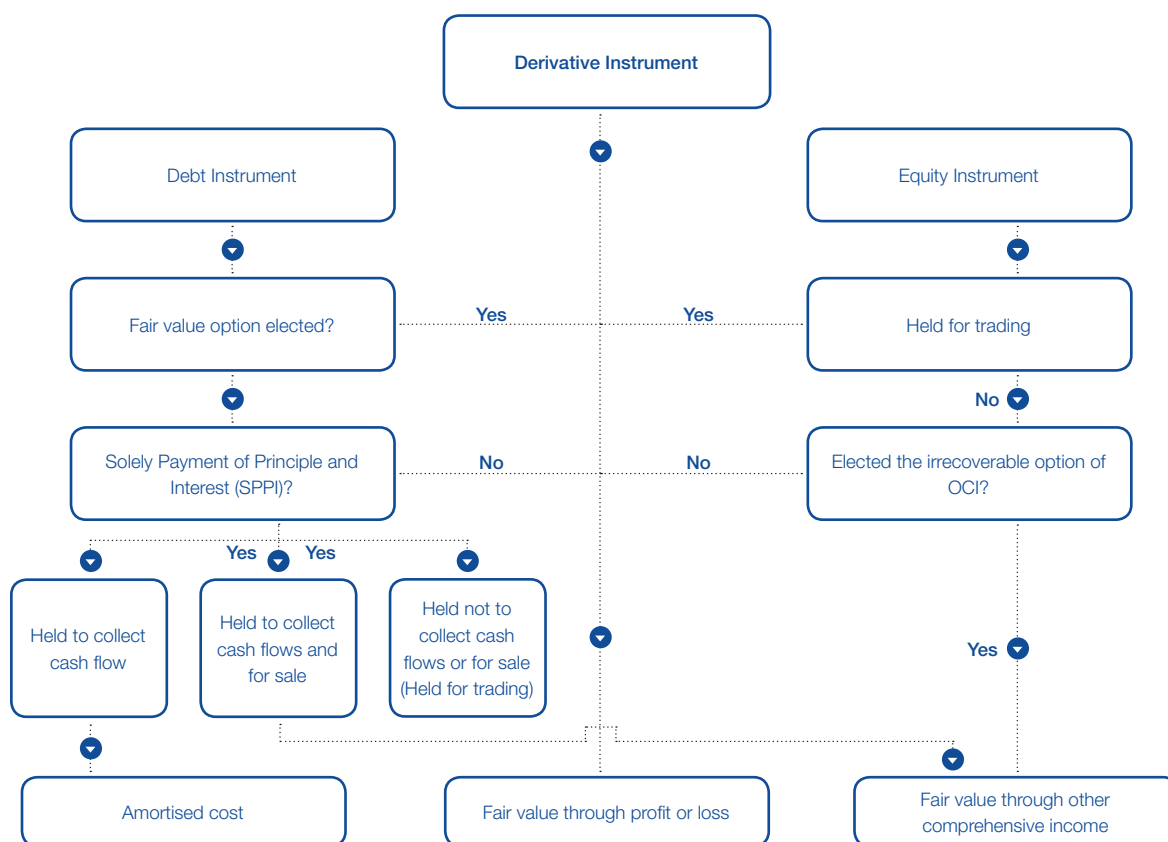
Classification of financial instruments between debt and equity depends on following characteristics of such instruments:

- 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

Notes to The Financial Statements

3.5.2 Changes to Classification and Measurement

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



3.5.3 Effective Interest Method (EIR)

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

Income is recognised on an effective interest basis for financial instruments other than those financial assets classified as FVTPL.

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

Details of "Financial investments at fair value through profit or loss (FVTPL)" are given in Note No. 21 on pages 173 to 181

3.5.5 Loans and Receivables at Amortised Cost

Details of 'Loans and receivables at amortised cost' are given in Note 22 on pages 182 to 185.

3.5.6 Financial Investments at Amortised Cost

Details of 'Financial investments at amortised cost' are given in Note 24 on page 188.

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

Details of 'Financial investments at fair value through other comprehensive income' are given in Note 23 on pages 186 to 187.

3.5.8 Classification and Subsequent Measurement of Financial Liabilities

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

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

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

3.5.8.1 Financial Liabilities Designated at Fair Value Through Profit or Loss

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

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

3.5.8.2 Financial Liabilities at Amortised Cost

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

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

3.5.9 Initial Measurements of Financial Instruments

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

3.5.10 Reclassification of Financial Assets and Liabilities.

From 1st January 2018, the Company does not reclassify its financial assets subsequent to their initial recognition, apart from the exceptional circumstances in which the Company acquires, disposes off or terminates a business line. Financial liabilities are never reclassified. The Company did not reclassify any of its financial assets or liabilities in 2017 and 2018.

3.5.11 Business Model Assessment

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

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

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

3.5.12 Contractual Cash Flow Characteristic Test

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

Notes to the Financial Statements

3.5.13 Impairment of Financial Assets

3.5.13.1 Overview of Expected Credit Loss Principle (ECL)

SLFRS 9 - 'Financial Instruments' will principally change the Company's loan loss provision method by replacing LKAS 39 - 'Financial Instrument Recognition and Measurement's' incurred loss approach with a forward looking ECL Approach.

ECL allowance will be 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 12 month 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 12 months.

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 2 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.

3.5.13.2 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.

3.5.13.3 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.

3.5.13.4 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 and 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

3.5.13.5 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.
- **EAD** : Exposure at Default is the estimate of the exposure at a future default date, taking in to account expected changes in the exposure after the reporting date, including repayments of the principle and interest, whether scheduled by contract to otherwise, expected draw downs on committed facilities.
- **LGD** : Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the lenders would expect to receive, including realisation of any collateral. It is usually expressed as a % of the EAD.

When estimating the ECL, the Company considers 3 scenarios (Base Case, Best Case and 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.

3.5.13.6 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	

3.5.14 De-recognition of Financial Assets and Financial Liabilities

3.5.14.1 Financial Assets

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

- The rights to receive cash flows from the asset have expired; or
- The Company and the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
 - The Company and the Group has transferred substantially all the risks and rewards of the asset; or
 - The Company and the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

When the Company and the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is

recognised to the extent of the Company's and the Group's continuing involvement in the asset. In that case, the Company and the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company and the Group has retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Company and the Group could be required to repay.

3.5.14.2 Financial Liabilities

A financial liability is derecognised 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.

3.5.15 Offsetting of Financial Instruments

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

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

Notes to the Financial Statements

3.5.16 Determination of Fair Value

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

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

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

3.6 Impairment of Non-Financial Assets

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

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

corroborated by valuation multiples or other available fair value indicators.

Impairment losses are recognised immediately in the Statement of Profit or Loss. For assets excluding goodwill, an assessment is made at each reporting date to determine as to whether there is any indication that previously recognised impairment losses may no longer exist or may have decreased. If such indication exists, the Group estimates the asset's or CGU's recoverable amount. Previously recognised impairment losses are reversed only if there has been a change in the assumptions used to determine the recoverable amount of the asset since the last impairment loss was recognised. The reversal is limited so that the carrying amount of the asset does not exceed its recoverable amount, nor exceeds the carrying amount that would have been determined net of depreciation, had no impairment loss been recognised for the asset in prior years. Such reversal is recognised in the Statement of Profit or Loss.

3.7 Provisions

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

3.8 SLFRS 15 - 'Revenue from Contracts with Customers'

SLFRS 15 became effective for financial periods beginning on or after 1 January

2018. The core principle of SLFRS 15 is that an entity has to recognize revenue to depict the transfer of promised goods or services to customers. This core principle is delivered in a five-step model framework as disclosed below.

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

Application of this guidance will depend on the facts and circumstances present in a contract with a customer and will require the exercise of judgment. The Group did not have any material impact on its fee and commission income with the adoption of SLFRS 15 for the year beginning 1 January 2018.

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

3.9.1 Deferred Expenses

3.9.1.1 Deferred Acquisition Costs (DAC)

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

Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the

asset are accounted for by changing the amortization period and are treated as a change in an accounting estimate.

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

3.9.1.2 *Deferred Expenses - Reinsurance Commissions*

Commissions receivable on outwards reinsurance contracts are deferred and amortised.

3.9.2 *Reinsurance*

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

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

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

companies. Amounts payable are estimated in a manner consistent with the related reinsurance contract.

Premiums and claims are presented on a gross basis for both ceded and assumed reinsurance.

Reinsurance assets or liabilities are derecognised when the contractual rights are extinguished or expire or when the contract is transferred to another party.

3.9.3 *Insurance Contract Liabilities*

3.9.3.1 *Life Insurance Contract Liabilities*

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

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

Liability Adequacy Test (LAT)

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

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

3.9.3.2 *Non-Life Insurance Contract Liabilities*

Non-life insurance contract liabilities are recognised when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on

the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognised. The liabilities are derecognised when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

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

3.9.3.3 *Investment Contract Liabilities*

Investment contracts are classified between contracts with and without Discretionary Participation Feature (DPF). The accounting policies for investment

Notes to The Financial Statements

contract liabilities with DPF are the same as those for life insurance contract liabilities.

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

Deposits and withdrawals are recorded directly as an adjustment to the liability in the Statement of Financial Position. Fair value adjustments are performed at each reporting date and are recognised in the Statement of Comprehensive Income. Fair value is determined through the use of prospective discounted cash flow techniques. For unitized contracts, fair value is calculated as the number of units allocated to the policy holder in each unit-linked fund multiplied by the unit-price of those funds at the reporting date. The fund assets and fund liabilities used to determine the unit-prices at the reporting date are valued on a basis consistent with their measurement basis in the Statement of Financial Position adjusted to take account of the effect on the liabilities of the deferred tax on unrealised gains on assets in the fund.

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

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

When contracts contain both a financial risk component and a significant insurance risk component and the cash Flows from the two components are distinct and

can be measured reliably, the underlying amounts are unbundled. Any premiums relating to the insurance risk component are accounted for on the same bases as insurance.

3.9.4 Discretionary Participation Features (DPF)

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

3.10 SLFRS 7 (Revised) - 'Financial Instruments'

Disclosures

The Group adopted SLFRS 7 together with SLFRS 9, effective from 1 January 2018 to reflect the differences between SLFRS 9 and LKAS 39. Changes including transition disclosures as shown in Note 3.12 together with detailed qualitative and quantitative information about the ECL calculations such as the assumptions and inputs used are disclosed as per the requirements of the Standards in Note 3.5.13 Movements during the year in the ECL allowances are presented in Note 22.2.1

3.11 New Accounting Standards Issued but not yet Effective

The following new accounting standards and amendments/improvements to existing standards which have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL) are not effective as at 31 December 2018. None of these have been early adopted by the Company and the Group.

SLFRS 16 - Leases

SLFRS 16 replaces LKAS 17 - 'Leases', IFRIC 4-Determining whether an arrangement contains a Lease, SIC 15-Operating leases incentives and SIC 27-Evaluating the substance of transactions involving the legal form of a Lease. SLFRS 16 sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to account for all leases under a single on-balance sheet model similar to the accounting for finance leases under LKAS 17. At the commencement date of a lease, a lessee will recognize a liability to make lease payments and an asset representing the right to use the underlying asset during the lease term. Lessees will be required to separately recognize the interest expense on the lease liability and the depreciation expense on the right-of-use asset.

Lessees will be also required to re-measure the lease liability upon the occurrence of certain events (for example, a change in the lease term, a change in future lease payments resulting from a change in an index or rate used to determine those payments). The lessee will generally recognize the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset.

Lessor accounting under SLFRS 16 is substantially unchanged from today's accounting under LKAS 17. Lessors will continue to classify all leases using the same classification principle as in LKAS 17 and distinguish between two types of leases : operating and finance leases.

SLFRS 16 also requires lessees and lessors to make more extensive disclosures than under LKAS 17. SLFRS 16 is effective for annual periods beginning on or after 1 January 2019.

In 2019, the Company is and the Group will continue to assess the potential effect of SLFRS 16 in its Financial Statements.

3.12 Transition Disclosure GRI 102-48

When adopting the SLFRS 09 the Company has applied modified retrospective method in preparing the Annual Financial Statements for the year ended 31 December 2018. Accordingly, comparative information for the year 2017 has not been restated for financial instruments within the scope of SLFRS 09. The comparative information for 2017 is reported under LKAS 39 for the relevant balances.

The impact of adopting SLFRS 09 at transition date, i.e. 01 January 2018 has been adjusted to the opening retained earnings for the year 2018 and the below note presents the impact having on the financial position as at 01 January 2018.

Group	Note	LKAS 39 31 December 2017 Category	Re- classification		Re-measurement		SLFRS 9 1 January 2018	Category
			Rs.'000	Rs.'000	ECL Rs.'000	Other Rs.'000	Rs.'000	
Financial Assets								
Cash and cash equivalents		L&R	466,139	-	(498)	-	465,641	AC
Placements with banks and financial institutions		L&R	1,597,785	-	-	-	1,597,785	AC
Securities purchased under resale agreements		L&R	1,651,927	-	-	-	1,651,927	AC
Financial investments at fair value through profit or loss		FVTPL	238,252	-	-	-	238,252	FVTPL
Loans and receivables to customers		L&R	28,755,317	-	-	-	-	
From : L and R	A*		-	(28,755,317)	-	-	-	
To : Loans and receivables at amortised cost			-	28,755,317	(1,093,052)	-	27,662,265	AC
Financial investments at Available for Sales		AFS	2,191,842	-	-	-	-	
From : Financial investments at AFS	B*		-	(2,191,842)	-	-	-	
To : Financial investments at FVTOCI			-	2,191,842	-	-	2,191,842	FVOCI
Financial Investments - held to maturity		HTM	479,362	-	-	-	-	
From : Financial Investments - held to maturity	A*		-	(479,362)	-	-	-	
To : Financial investments at amortised cost			-	479,362	-	-	479,362	AC
Non Financial Assets								
Real estate stock		N/A	42,603	-	-	-	42,603	N/A
Investment in associate company		N/A	92,453	-	-	-	92,453	N/A
Investment properties		N/A	123,773	-	-	-	123,773	N/A
Property and equipment		N/A	347,393	-	-	-	347,393	N/A
Intangible assets		N/A	244,526	-	-	-	244,526	N/A
Deferred tax Assets		N/A	325,148	-	-	-	325,148	N/A
Other assets		N/A	685,594	-	-	-	685,594	N/A
Total Assets			37,242,114	-	(1,093,550)	-	36,148,564	
Financial Liabilities								
Due to banks		AC	1,623,007	-	-	-	1,623,007	AC
Due to customers at amortised cost		AC	21,910,383	-	-	-	21,910,383	AC
Debt issued and borrowed funds at amortised cost		AC	7,763,404	-	-	-	7,763,404	AC
Insurance provision - life		N/A	547,026	-	-	-	547,026	N/A
Insurance provision - non life		N/A	430,093	-	-	-	430,093	N/A
Current tax liabilities		N/A	7,473	-	-	-	7,473	N/A
Deferred tax liabilities		N/A	698,859	-	-	-	698,859	N/A
Other liabilities		N/A	719,713	-	-	-	719,713	N/A
Retirement benefits obligations		N/A	283,000	-	-	-	283,000	N/A
Total Liabilities			33,982,958	-	-	-	33,982,958	

Notes to The Financial Statements

3.12 Transition Disclosure - Contd.

Group	Note	LKAS 39		Re-		SLFRS 9		
		Category	31 December 2017	classification	Re-measurement	1 January 2018	Category	
		Rs.'000	Rs.'000	ECL	Other	Rs.'000		
				Rs.'000	Rs.'000			
Equity								
Stated capital		N/A	2,124,457	-	-	-	2,124,457	N/A
Statutory reserves		N/A	177,839	-	-	-	177,839	N/A
Retained earnings		N/A	948,415	-	(1,093,535)	-	(145,120)	N/A
Available-for-sale reserve		N/A	1,300	-	-	-	-	N/A
From : Available-for-sale reserve	B*	N/A	-	(1,300)	-	-	-	N/A
To : OCI reserve		N/A	-	1,300	-	-	1,300	N/A
Total equity attributable to equity holders of the parent			3,252,011	-	(1,093,535)	-	2,158,476	
Non controlling interests		N/A	7,145	-	(15)	-	7,130	N/A
Total Equity			3,259,156	-	(1,093,550)	-	2,165,606	
Total Liabilities and Equity			37,242,114	-	(1,093,550)	-	36,148,564	

L&R - Loans and Receivables, AFS - Available for Sale, HTM - Held to Maturity, AC - Amortised cost, FVTPL - Fair value through Profit or Loss, FVTOCI - Fair Value through Other Comprehensive Income, N/A - Not Applicable.

- A*. Financial assets previously classified as financial investments - loans and receivables and financial investments - held to maturity have been reclassified as debt instruments at amortised cost. These instruments met the "Solely Payments of Principal and Interest" (SPPI) criterion and they were held with the intention to collect contractual cash flows and without the intention to sell.
- B*. Financial assets Government securities, quoted and unquoted equities previously classified under available for sale category have been reclassified as financial assets at fair value through other comprehensive income (FVOCI). Accordingly, mark to market gain recognised under AFS reserve was transferred to OCI reserve

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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Interest and similar income	6,194,937	6,157,286	6,260,825	6,256,612
Fee and commission income	210,175	179,687	210,048	140,151
Insurance premium income	-	-	69,960	562,170
Net trading gain/(loss)	6,855	(16,018)	9,042	(13,769)
Net gain/(loss) on financial instruments at fair value through profit or loss	(29,999)	5,624	(29,394)	4,771
Other operating income	167,937	76,246	190,422	129,175
	6,549,905	6,402,825	6,710,903	7,079,110

5 Net Interest Income

Accounting Policy

Interest income and expense are recognised in the Income Statement using the effective interest rate (EIR) method.

As per SLFRS 9, the interest income and expense presented in the Income Statement 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 (FVOCI) 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.

As per LKAS 39, the interest income and expense recognised in the Income Statement included:

- Interest on held for trading financial instruments calculated using EIR method;
- Interest on loans and receivables calculated using EIR method;
- Interest on available-for-sale investments calculated using EIR method;
- Interest on held-to-maturity investments calculated using EIR method;
- Interest on financial liabilities measured at amortised cost calculated using EIR method.

When calculating the EIR for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs).

When a financial asset becomes credit-impaired (as set out in Note 11.1) 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 asset or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

Overdue Interest

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

For the year ended 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Interest and Similar Income				
Loans and receivables at amortised cost	5,832,841	5,713,336	5,814,021	5,710,885
Financial investments at FVTOCI and amortised cost	326,125	352,096	376,222	388,390
Placements with banks and financial institutions	35,971	91,854	70,582	157,337
	6,194,937	6,157,286	6,260,825	6,256,612
Interest and Similar Expenses				
Due to banks	2,410	3,592	36,086	6,142
Due to customers at amortised cost	2,584,026	2,556,010	2,583,033	2,555,021
Debt issued and borrowed funds at amortised cost	1,165,838	1,148,767	1,147,018	1,146,316
Others	197	439	744	1,146
	3,752,471	3,708,808	3,766,881	3,708,625
Net Interest Income	2,442,466	2,448,478	2,493,944	2,547,987

Notes to The Financial Statements

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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Fee and Commission Income				
Trade and other related activities	210,175	179,687	210,175	173,620
Reinsurance commission income	-	-	(126)	(37,051)
Others	-	-	(1)	3,582
	210,175	179,687	210,048	140,151
Fee and Commission Expenses				
Fees	2,033	59,964	7,637	77,707
	2,033	59,964	7,637	77,707
Net Fee and Commission Income	208,142	119,723	202,411	62,444

7 Insurance Premium Income

Accounting Policy

Gross Premiums

Gross recurring premiums on life and investment contracts with Discretionary Participation Features (DPF) are recognised as revenue when receivable from the policy holder. 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 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 from 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 in to the period and are recognised on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the reporting 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.

Benefits, Claims and Expenses Recognition

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 includes 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.

Reinsurance Claims

Reinsurance claims are recognised when the related gross insurance claim is recognised according to the terms of the relevant contract.

For the year ended 31 December	Group	
	2018 Rs.'000	2017 Rs.'000
Non-life insurance	(512)	243,964
Life insurance	65,839	123,732
Total gross written premium	65,327	367,696
Change in unearned premium provisions	31,647	292,198
Gross premium income	96,974	659,894
Less: Premium ceded to reinsurers	27,014	97,724
Net premium income	69,960	562,170

8 Net Trading Income

Accounting Policy

Results arising from trading activities include dividends from financial assets and gain/(loss) on disposal of financial assets at FVTPL.

For the year ended 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Dividend income	9,192	8,278	11,379	9,440
Gain/(loss) on disposal of quoted shares	(2,337)	(24,296)	(2,337)	(23,209)
Net trading income	6,855	(16,018)	9,042	(13,769)

Notes to The Financial Statements

9 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	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Financial Investment at FVTPL	(29,999)	5,624	(29,394)	4,771
	(29,999)	5,624	(29,394)	4,771

10 Other Operating Income

Accounting Policy

Other operating income includes gains on disposal of property and equipment, dividend income, profit and losses from real estates, profit and loss from investment properties and writeoff 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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit/(loss) on sale of property and equipment including foreclosed properties	83,199	3,654	81,675	4,718
Other income	84,738	72,592	108,747	124,457
	167,937	76,246	190,422	129,175

11 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', where as the prior period amounts have not been restated and the amounts for the year ended 31 December 2017 have been prepared in accordance with Sri Lanka Accounting Standard - LKAS 39 - 'Financial Instruments: Recognition and Measurement'. The methodology adopted by the Company and the Group is explained in Note 3.5.13 in page 150 to these Financial Statements.

For the year ended 31 December	Page No.	Company		Group	
		2018* Rs.'000	2017 Rs.'000	2018* Rs.'000	2017 Rs.'000
Loans and Advances to Customers					
Impairment on individually significant loans	22 183-185	654,888	44,829	654,888	44,829
Impairment on collective loans	22 183-185	(483,844)	199,402	(483,844)	199,402
Total Impairment Charges for					
Loans and Advances to Customers		171,044	244,231	171,044	244,231
Cash and cash equivalents	18.1.1 171	(4)	-	(4)	-
Placements with banks and financial institutions	19.1 172	1,922	-	1,922	-
Insurance receivables		-	-	1,099	975
Above 90 days seized interest receivables*		(38,431)	-	(38,431)	-
		134,531	244,231	135,630	245,206

11.1 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.

	Company 2018		Group 2018	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
Loans and Receivables at Amortised Cost				
Stage 1	-	(140,567)	-	(140,567)
Stage 2	-	(82,428)	-	(82,428)
Stage 3	654,888	(260,849)	654,888	(260,849)
Cash and Cash Equivalents				
Stage 1	-	(4)	-	(4)
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Placements with Banks and Financial Institutions				
Stage 1	-	1,922	-	1,922
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Insurance Receivables				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	-	-	1,099
Above 90 days Seized Interest Receivables				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	-	(38,431)	-	(38,431)
Total Impairment Charges	654,888	(520,357)	654,888	(519,258)

Notes to The Financial Statements

11 Impairment Charges for Loans and Other Losses - Contd.

The below table shows the impairment charges recorded in the Statement of Profit or Loss under LKAS 39 during 2017.

	Company		
	Specific Rs.'000	Collective Rs.'000	Total Rs.'000
Individual Significant Loans	44,829	-	44,829
Homogeneous Loans	-	199,402	199,402
Total on balance sheet items	44,829	199,402	244,231

	Group		
	Specific Rs.'000	Collective Rs.'000	Total Rs.'000
Individual Significant Loans	44,829	-	44,829
Homogeneous Loans	-	199,402	199,402
Other investments	-	975	975
Total on balance sheet items	44,829	200,377	245,206

12 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 and ETF)

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Group and employees contribute 12% and 8% of gross emoluments of employees to Employees' Provident Fund. The Group contribute 3% of gross emoluments of employees to the Employees' Trust Fund.

For the year ended 31 December	Page No.	Company		Group	
		2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Staff emoluments		949,489	936,533	1,020,077	1,070,476
Employers' contribution to defined contribution and benefit plans					
Employees' Provident Fund		80,697	71,956	88,850	86,860
Employees' Trust Fund		20,182	18,603	22,219	22,323
Retirement benefit expenses	38.1 206	45,862	46,434	49,424	49,864
		1,096,230	1,073,526	1,180,570	1,229,523

13 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.

The estimated useful lives for the current and comparative years are as follows:

Class of asset	Percentage per annum (%)	Period
Motor vehicles	20-25	04 - 05 years
Computers and accessories	20-25	04 - 05 years
Building	5	20 years
Other assets	10-50	02 - 10 years

Amortisation of Intangible Assets

Intangible assets with finite lives are amortised over the useful economic life. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each reporting date. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are accounted for by changing the amortisation period or method, as appropriate, and they are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in the Statement of Profit or Loss in the expense category consistent with the function of the intangible asset.

Class of asset	Percentage per annum (%)	Period
Computer software	12.5-25	4-8 Years

For the year ended 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Depreciation of investment property	27	192	2,906	2,906	2,906	2,906
Depreciation of property and equipment	28	194-195	79,259	79,238	86,556	92,549
Amortisation of intangible assets	29	197	37,641	26,881	43,314	32,731
			119,806	109,025	132,776	128,186

Notes to The Financial Statements

14 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 and equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at that profit for the year.

For the year ended 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Directors' emoluments	7,953	6,301	7,953	6,699
Auditors' remuneration				
Audit fees	1,918	1,881	2,828	2,686
Non audit fees	653	653	653	653
Professional and legal fees	42,655	28,449	63,063	44,749
Donations	120	38	120	3,038
Advertising and business promotional expenses	76,253	52,097	76,253	52,097
Office administration and establishment expenses	660,031	629,513	753,920	789,040
	789,583	718,932	904,790	898,962

15 Taxes

15.1 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.

Nation Building Tax (NBT) on Financial Services

NBT on financial services is calculated in accordance with Nation Building Tax (NBT) Act No 9 of 2009 and subsequent amendments thereto with effect from 01 January 2014. NBT on financial services is calculated as 2% of the value addition used for the purpose of Value Added Tax (VAT) on financial services.

Debt Repayment Levy

In accordance with Section 36 of Finance Act No. 35 of 2018, Debt Repayment Levy is charged and levied for every month commencing from October 2018 till December 2021 from every financial institution at the rate of 7% on the value addition attributable to the supply of financial services.

For the year ended 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'0000
Value Added Tax	210,874	179,403	210,874	179,403
Nation Building Tax	28,461	24,097	28,461	24,097
Debt Repayment Levy	27,400	-	27,400	-
	266,735	203,500	266,735	203,500

15.2 Income Tax Expense

Accounting Policy

Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 10 of 2006 and amendments (up to March 31, 2018) thereto, and the Inland Revenue Act No. 24 of 2017, effective from April 1, 2018. This Note also includes the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard – LKAS 12 - 'Income Taxes'. The Company is liable for income tax on profit from operations is calculated at the rate of 28%.

For the year ended 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Current Tax						
Current income tax			109,838	(54,966)	109,894	(46,653)
Deferred Tax						
Relating to origination and reversal of temporary differences						
Statement of Profit or Loss			155,553	182,765	(350,696)	182,765
Statement of Other Comprehensive Income			12,750	(15,942)	12,750	(15,942)
			278,141	111,857	(228,052)	120,170
Tax charged to the Statement of Profit or Loss	15.3	165	265,391	127,799	(240,802)	136,112
Tax charged/(reversed) to the Statement of Other Comprehensive Income			12,750	(15,942)	12,750	(15,942)
			278,141	111,857	(228,052)	120,170
Effective tax rate (excluding deferred tax) %			24.59%	(24.04%)	47.59%	(19.48%)
Effective tax rate %			59.41%	55.89%	(104.28%)	56.84%

15.3 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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Profit as per the Statement of Profit or Loss	446,676	228,650	230,922	239,461
Add : Disallowable expenses	758,616	525,760	1,115,677	525,760
Add : Lease capital recoverable	9,241,947	9,475,875	9,241,947	9,475,875
Less : Allowable expenses	6,748,975	7,184,700	6,748,975	7,184,700
Less : Exempted/allowable income	2,427,697	2,669,150	2,589,013	2,669,150
Less : Business loss from non-leasing	(77,290)	-	(77,290)	-
Statutory income	1,347,857	376,435	1,327,848	387,246
Less : Tax loss set off	955,579	250,393	1,002,089	250,393
Assessable income	392,278	126,042	325,759	136,853
Taxable income	392,278	126,042	392,278	151,551
At the effective income tax rate	109,838	35,292	109,838	42,435
(Over)/under provision - previous year	-	(90,258)	-	(90,258)
Current tax on profits for the year	109,838	(54,966)	109,838	(47,823)
Deferred tax charge/(reversal) for the year	155,553	182,765	(350,696)	182,765
Share of associate company's current tax	-	-	56	1,170
Tax expense for the year	265,391	127,799	(240,802)	136,112
Deferred tax charge/(reversal) to Statement of Other Comprehensive Income	12,750	(15,942)	12,750	(15,942)
Total income tax expense	278,141	111,857	(228,052)	120,170

Notes to The Financial Statements

15 Taxes - Contd.

15.4 Analysis of Tax Losses of the Subsidiary - MBSLI

MBSL Insurance Company Limited is liable to income tax at 28% in terms of Inland Revenue Act No. 24 of 2017 and amendments thereto. Current year income tax 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.

As per the Inland Revenue Act No 24 of 2017 which is affected from 1 April 2018, 100% of taxable income is allowed to be deducted against the tax losses incurred whereas under the previous Act, deduction was limited only to 35% of total statutory Income. According to the transition provisions of the new Act, the brought forward, tax losses can be claimed against Taxable Income for a period of six years, commencing from year of assessment 2018/2019.

The Board of directors carefully analyzed the availability of future taxable profits against which the unused tax losses can be utilized after lifting the suspension of the license imposed by the IRCSL and infusion of the new share capital as explained in the Note 44 and 45. For this purpose an Assessment of future taxable profits has been done as explained in the Note No. 15.4.1

The tax losses carried forward as at 31 December, 2018 is Rs.1,812 Mn (2017 is Rs.1,674 Mn) as detailed in the Note No. 15.4.2. The Subsidiary-MBSLI has recognised Rs. 506.2 Mn as the Deferred Tax Assets consequent to the changes in the Inland Revenue Act No. 24 of 2017 as explained in the Note No. 15.4.2. The reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is given in the Note No. 15.4.3.

15.4.1 Analysis of Tax Losses and Future Taxable Profits

An assessment of future taxable profits for next five years has been carried out by the Board of Directors and an internal budget and a plan has been prepared as per the under mentioned forecasts and assumptions for future growth of the company.

	2019 Rs.'Mn	2020 Rs.'Mn	2021 Rs.'Mn	2022 Rs.'Mn	2023 Rs.'Mn
GWP	1,229	2,640	3,348	4,238	4,972
Profit before tax	50	396	513	603	710
Profit after tax	(3)	264	336	387	446

Assumption for the projections

- Current reinsurance arrangements will remain unchanged
- Investment income will be increased due to new capital infusion
- Claims ratio to be maintained at the industry average
- Product mix - Motor 70% Miscellaneous 11% Fire 14% Marine 5%

In this assessment the Directors noted the composition of carried forward deferred tax losses as given in Note No. 15.4.2 and the deferred tax assets recognised in the Note No. 15.4.2. Deferred Tax is an estimate computed based on the assumptions on available information as at the reporting date. Hence, these estimates are subject to change if there are further developments to any information which the assumptions are based at the time of assumptions. Such changes to the estimates will be adjusted during the period, the change occurs.

15.4.2 The breakup of Tax Losses

	General	Life	2018 Rs.'000	2017 Rs.'000
Balance as at 01 January	993,247	681,619	1,674,866	1,537,983
Tax loss during the year	175,009	8,219	183,228	149,831
Tax loss utilized during the year	(46,509)	-	(46,509)	(13,736)
Balances as at 31 December			1,811,585	1,674,078
Analysis of during the year tax losses				
Loss for the year			(149,232)	(53,579)
Income tax expenses			-	(7,143)
Loss before income tax			(149,232)	(46,436)
Income from other sources and exempt from Tax			(31,613)	(50,894)
Aggregate allowable expenses			(10,944)	(17,426)
Aggregate disallowed expenses			16,780	26,295
Tax loss from non-life insurance			(175,009)	(88,461)
Tax loss from life insurance			(8,219)	(61,369)
Total tax loss for the year			(183,228)	(149,831)

15.4.3 Income tax expenses

Reconciliation between tax expense and the product of accounting profit multiplied by the statutory tax rate is as follows:

	2018 Rs.'000	2017 Rs.'000
Taxable Interest Income	46,509	39,245
Loss claimed for the year	(46,509)	(13,736)
Taxable income	-	25,509
At the statutory income tax rate of 28%	-	7,143
Deferred tax assets recognised	(506,249)	-
Income tax reversal/(expense)	506,249	(71,430)

16 Earnings Per Share and Dividend Per Share

16.1 Basic Earnings Per Share

Accounting Policy

Basic EPS 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.

For the year ended 31 December	Company		Group	
	2018	2017	2018	2017
Profit attributable to ordinary shareholders (Rs.'000)	181,285	100,851	415,031	111,858
Number of ordinary shares used as denominator ('000)	165,875	165,875	165,875	165,875
Basic earnings per ordinary share (Rs.)	1.09	0.61	2.50	0.67

16.2 Dividend Per Share

No dividend has been declared and paid by the Company and the Group during the year 2018 and 2017.

17 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.

17.1 Company - 2018

	Rs.'000				
	Financial Investment at FVTPL	Financial Investment at FVTOCI	Loans and Receivables at Amortised Cost	Financial Investment at Amortised Cost	Total
Assets					
Cash and cash equivalents	-	-	294,622	-	294,622
Placements with banks and financial institutions	-	-	670,575	-	670,575
Securities purchased under resale agreements	-	-	1,292,670	-	1,292,670
Financial investments at fair value through profit or loss	267,106	-	-	-	267,106
Loans and receivables at amortised cost	-	-	30,721,147	-	30,721,147
Financial investments at fair value through other comprehensive income	-	1,180,998	-	-	1,180,998
Financial investments at amortised cost	-	-	-	60,828	60,828
Other assets	-	-	43,721	-	43,721
Total financial assets	267,106	1,180,998	33,022,735	60,828	34,531,667

	Financial Liabilities at Amortised Cost		Total
Liabilities			
Due to banks	-	5,869,317	5,869,317
Due to customers at amortised cost	-	20,831,021	20,831,021
Debt issued and borrowed funds at amortised cost	-	5,331,077	5,331,077
Other liabilities	-	316,345	316,345
Total financial liabilities	-	32,347,760	32,347,760

17.2 Company - 2017

	Rs.'000				
	Financial Investment at FVTPL	Financial Investment at FVTOCI	Loans and Receivables at Amortised Cost	Financial Investment at Amortised Cost	Total
Assets					
Cash and cash equivalents	-	-	418,885	-	418,885
Placements with banks and financial institutions	-	-	1,509,597	-	1,509,597
Securities purchased under resale agreements	-	-	1,302,748	-	1,302,748
Financial investments at fair value through profit or loss	231,264	-	-	-	231,264
Loans and receivables at amortised cost	-	-	28,760,494	-	28,760,494
Financial investments at fair value through other comprehensive income	-	1,815,181	-	-	1,815,181
Financial investments at amortised cost	-	-	-	479,362	479,362
Other assets	-	-	46,865	-	46,865
Total financial assets	231,264	1,815,181	32,038,589	479,362	34,564,396

	Financial Liabilities at Amortised Cost	Total
Liabilities		
Due to banks	1,616,979	1,616,979
Due to customers at amortised cost	21,918,869	21,918,869
Debt issued and borrowed funds at amortised cost	7,763,404	7,763,404
Other liabilities	338,072	338,072
Total financial liabilities	31,637,324	31,637,324

17.3 Group - 2018

	Rs.'000				
	Financial Investment at FVTPL	Financial Investment at FVTOCI	Loans and Receivables at Amortised Cost	Financial Investment at Amortised Cost	Total
Assets					
Cash and cash equivalents	-	-	391,886	-	391,886
Placements with banks and financial institutions	-	-	774,575	-	774,575
Securities purchased under resale agreements	-	-	1,440,819	-	1,440,819
Financial investments at fair value through profit or loss	274,700	-	-	-	274,700
Loans and receivables at amortised cost	-	-	30,485,412	-	30,485,412
Financial investments at fair value through other comprehensive income	-	1,850,320	-	-	1,850,320
Financial investments at amortised cost	-	-	-	60,828	60,828
Other assets	-	-	43,721	-	43,721
Total financial assets	274,700	1,850,320	33,136,413	60,828	35,322,261

	Financial Liabilities at Amortised Cost	Total
Liabilities		
Due to banks	5,872,471	5,872,471
Due to customers at amortised cost	20,821,606	20,821,606
Debt issued and borrowed funds at amortised cost	5,331,077	5,331,077
Other liabilities	316,345	316,345
Total financial liabilities	32,341,499	32,341,499

Notes to The Financial Statements

17 Analysis of Financial Instruments by Measurement Basis - Contd.**17.4 Group - 2017**

					Rs.'000
	Financial Investment at FVTPL	Financial Investment at FVTOCI	Loans and Receivables at Amortised Cost	Financial Investment at Amortised Cost	Total
Assets					
Cash and cash equivalents	-	-	466,139	-	466,139
Placements with banks and financial institutions	-	-	1,597,785	-	1,597,785
Securities purchased under resale agreements	-	-	1,651,927	-	1,651,927
Financial investments at fair value through profit or loss	238,252	-	-	-	238,252
Loans and receivables at amortised cost	-	-	28,755,317	-	28,755,317
Financial investments at fair value through other comprehensive income	-	2,191,842	-	-	2,191,842
Financial investments at amortised cost	-	-	-	479,362	479,362
Other assets	-	-	46,865	-	46,865
Total financial assets	238,252	2,191,842	32,518,033	479,362	35,427,489
Liabilities					
				Financial Liabilities at Amortised Cost	Total
Due to banks				1,623,007	1,623,007
Due to customers at amortised cost				21,910,383	21,910,383
Debt issued and borrowed funds at amortised cost				7,763,404	7,763,404
Other liabilities				338,072	338,072
Total Financial liabilities				31,634,866	31,634,866

18 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 and cash equivalents are carried at amortised cost.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Cash in hand			172,431	188,113	172,680	188,531
Cash at bank			122,191	230,772	219,206	277,608
			294,622	418,885	391,886	466,139
18.1 Analysis of Cash at Banks						
Cash at bank			122,199	230,772	219,220	277,608
Less : Allowance for impairment losses						
Individual impairment			-	-	-	-
Collective impairment	18.1.1	171	8	-	14	-
			122,191	230,772	219,206	277,608

18.1.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	-	-
Charge during the year	-	-	-	-
As at 31 December	-	-	-	-
Collective				
As at 01 January	(12)	-	-	(12)
Charge during the year	4	-	-	4
As at 31 December	(8)	-	-	(8)

Notes to The Financial Statements

18 Cash and Cash Equivalents - Contd.**Movement of impairment during the year - Group**

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	-	-
Charge during the year	-	-	-	-
As at 31 December	-	-	-	-
Collective				
As at 01 January	(18)	-	-	(18)
Reversals during the year	4	-	-	4
As at 31 December	(14)	-	-	(14)

19 Placements with Banks and Financial Institutions**Accounting Policy**

Balances with banks and financial institutions includes fixed deposits and other deposits in local currency. Balances with banks and financial institution are carried at amortised cost in the Statement of Financial Position.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Fixed deposits			672,886	1,509,597	776,964	1,597,785
Less : Allowance for impairment losses						
Individual impairment			-	-	-	-
Collective impairment	19.1	172	2,311	-	2,389	-
			670,575	1,509,597	774,575	1,597,785

19.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	-	-
Charge during the year	-	-	-	-
As at 31 December	-	-	-	-
Collective				
As at 01 January	(389)	-	-	(389)
Charge during the year	(1,922)	-	-	(1,922)
As at 31 December	(2,311)	-	-	(2,311)

Movement of impairment during the year - Group

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	-	-
Charge during the year	-	-	-	-
As at 31 December	-	-	-	-
Collective				
As at 01 January	(473)	-	-	(473)
Charge during the year	(1,916)	-	-	(1,916)
As at 31 December	(2,389)	-	-	(2,389)

20 Securities Purchased Under Resale Agreements

Accounting Policy

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 'Securities purchased under resale agreements', 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.

	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
As at 31 December				
Repurchase agreements	1,292,670	1,302,748	1,440,819	1,651,927
	1,292,670	1,302,748	1,440,819	1,651,927

21 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 recorded in 'Net trading 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.

	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
As at 31 December						
Quoted equities and unit trusts	21.1, 21.3	174-178	265,391	226,651	272,985	233,639
Other debt securities	21.2, 21.4	177-181	1,715	4,613	1,715	4,613
			267,106	231,264	274,700	238,252

Notes to The Financial Statements

21 Financial Investments at Fair Value Through Profit or Loss - Contd.

21.1 Quoted Equities and Unit Trusts

Company	2018			2017		
	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						
Amana Takaful PLC	-	-	-	500,000	450	400
Arpico Insurance PLC	8,900	165	163	-	-	-
Asia Asset Finance PLC	1,139,289	1,623	1,025	639,289	1,023	895
Central Finance Company PLC	51,014	6,291	4,525	46,331	5,842	4,276
Citizens Development Business Finance PLC-Non Voting	9,233	824	646	44,733	3,992	2,505
Commercial Bank Of Ceylon PLC	15,000	1,759	1,725	-	-	-
Commercial Bank Of Ceylon PLC-Non Voting	53,179	5,410	5,052	40,000	4,202	4,200
Commercial Credit And Finance PLC	22,500	1,498	641	22,500	1,498	968
DFCC Bank PLC	120,000	24,535	11,160	120,000	24,993	14,736
First Capital Holdings PLC	25,000	775	720	-	-	-
Hatton National Bank PLC-Non Voting	10,000	1,820	1,685	-	-	-
Janashakthi Insurance Company PLC	35,000	1,043	1,050	669,893	12,975	10,517
L B Finance PLC	12,500	1,645	1,538	12,500	1,645	1,526
Lanka Orix Leasing Company PLC	32,500	3,431	2,922	-	-	-
LOLC Finance PLC	200,000	775	680	-	-	-
Multi Finance PLC	20,000	280	278	-	-	-
National Development Bank PLC	99,374	19,255	10,613	74,286	16,253	10,133
Nations Trust Bank PLC	205,492	19,546	18,330	210,032	20,648	16,382
Orient Finance PLC	80,000	1,191	1,240	-	-	-
Pan Asia Banking Corporation PLC	80,000	1,341	1,184	30,000	516	471
People's Merchant Finance PLC	2,500	27	29	-	-	-
Sanasa Development Bank PLC	93,368	9,258	7,003	18,152	1,828	1,849
Seylan Bank PLC	141,233	13,846	11,016	137,789	13,846	12,015
Seylan Bank PLC-Non Voting	354,984	17,834	15,797	341,439	17,845	19,121
Sinhaputhra Finance PLC	5,000	45	44	-	-	-
Softlogic Finance PLC	67,215	3,532	1,788	60,515	3,340	2,203
The Finance Company PLC-Non Voting	200,000	973	220	200,000	973	440
Union Bank Of Colombo PLC	662,828	8,977	7,291	-	-	-
		147,699	108,365		131,869	102,637
Beverage, Food and Tobacco						
Bairaha Farms PLC	25,000	3,962	3,118	25,000	3,962	3,683
Cargills (Ceylon) PLC	11,659	2,302	2,332	-	-	-
Distilleries Company Of Sri Lanka PLC	55,000	1,048	886	-	-	-
HVA Foods PLC	16,850	83	74	25,000	155	153
Keells Food Products PLC	39,058	6,240	5,234	27,672	4,746	3,874
Lion Brewery Ceylon PLC	7,999	4,574	4,559	672	370	363
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,657,487	15,808	5,049
Renuka Agri Foods PLC	1,697,738	5,266	3,565	752,274	3,091	1,956
Renuka Foods PLC	29,535	488	411	-	-	-
		38,921	22,945		28,132	15,078
Chemical and Pharmaceuticals						
CIC Holdings PLC	28,000	1,530	1,109	2,000	144	124
CIC Holdings PLC-Non Voting	50,164	2,483	1,505	25,164	1,483	1,193
		4,013	2,614		1,627	1,317

Company	2018			2017		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'00	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Construction and Engineering						
Access Engineering PLC	35,000	586	494	-	-	-
Colombo Dockyard PLC	5,000	300	278	-	-	-
Lankem Developments PLC	275,000	1,900	1,128	-	-	-
MTD Walkers PLC	165,000	6,751	1,815	130,000	7,745	3,003
		9,537	3,715		7,745	3,003
Diversified						
Dunamis Capital PLC	-	-	-	27,500	719	644
Taprobane Holdings PLC	250,000	1,283	1,000	30,000	180	165
		1,283	1,000		899	809
Diversified Holdings						
Aitken Spence PLC	110,000	11,111	5,258	110,000	11,110	6,006
Browns Investments PLC	1,300,000	4,005	2,470	750,000	2,475	1,950
Expolanka Holdings PLC	725,000	3,548	2,900	-	-	-
Hayleys PLC	-	-	-	500	142	121
Hemas Holdings PLC	12,500	1,176	1,110	-	-	-
John Keells Holdings PLC	10,000	1,535	1,597	15,000	2,175	2,228
Melstacorp PLC	7,756	465	390	5,000	305	298
Richard Pieris and Company PLC	30,000	313	315	-	-	-
Softlogic Holdings PLC	50,000	1,030	1,075	-	-	-
Sunshine Holdings PLC	60,712	3,531	3,266	35,211	2,119	2,007
The Colombo Fort Land and Building PLC	44,799	1,224	672	44,799	1,224	851
Vallibel One PLC	39,485	725	671	50,000	950	885
		28,663	19,724		20,500	14,346
Footwear and Textiles						
Ceylon Leather Products PLC	-	-	-	8,000	615	483
Hayleys Fabric PLC	680,408	9,144	6,191	100,000	1,700	1,350
		9,144	6,191		2,315	1,833
Health Care						
Ceylon Hospitals PLC (Durdans)	5,000	500	356	5,000	500	415
		500	356		500	415
Hotels and Travels						
Aitken Spence Hotel Holdings PLC	63,219	5,779	1,707	63,219	5,779	1,865
Asian Hotels and Properties PLC	50,000	425	345	-	-	-
Beruwala Resorts PLC	200,000	180	140	100,000	100	80
Eden Hotel Lanka PLC	127,743	3,677	1,558	127,743	3,676	1,813
John Keells Hotels PLC	200,000	2,335	1,560	75,000	1,175	660
Palm Garden Hotels PLC	147,472	10,890	3,156	147,472	10,890	3,849
The Kingsbury PLC	1,937,727	41,833	29,453	1,937,727	41,834	26,159
Waskaduwa Beach Resort PLC	110,000	463	275	50,000	245	190
		65,582	38,194		63,699	34,616

Notes to The Financial Statements

21 Financial Investments at Fair Value Through Profit or Loss - Contd.**21.1 Quoted Equities and Unit Trusts Contd.**

Company	2018			2017		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Information and Technology						
E-Channelling PLC	-	-	-	15,000	120	89
				-	120	89
Investment Trust						
Ceylon Investment PLC	65,727	6,411	2,563	65,727	6,411	2,938
Lanka Century Investments PLC	700,000	9,361	7,770	500,000	6,891	6,050
Lanka Realty Investments PLC	10,000	250	206	-	-	-
		16,022	10,539		13,302	8,988
Land and Property						
Cargo Boat Development Company PLC	9,984	899	729	9,984	899	839
City Housing and Real Estate Company PLC	35,935	178	176	-	-	-
Commercial Development Company PLC	4,649	451	326	4,649	451	325
East West Properties PLC	45,000	768	585	8,000	120	90
Kelsey Developments PLC	2,000	70	61	-	-	-
Property Development PLC	8,547	1,057	1,019	-	-	-
R I L Property PLC	-	-	-	25,000	200	180
Seylan Developments PLC	100,000	1,480	1,100	75,000	1,125	1,020
		4,903	3,996		2,795	2,454
Manufacturing						
Abans Electricals PLC	6,417	642	370	5,000	521	422
ACL Cables PLC	60,000	3,175	2,220	50,000	2,755	2,120
Alufab PLC	60,000	1,660	990	60,000	1,660	1,380
Alumex PLC	80,000	1,386	1,080	-	-	-
Ceylon Grain Elevators PLC	60,000	4,079	3,570	60,000	4,186	3,966
Chevron Lubricants Lanka PLC	37,428	3,830	2,724	35,000	4,656	4,165
Dankotuwa Porcelain PLC	9,100	64	59	-	-	-
Kelani Tyres PLC	115,000	9,022	4,128	115,000	9,023	5,106
Pelwatte Sugar Industries PLC	41,600	1,799	-	41,600	1,799	978
Richard Pieris Exports PLC	2,000	470	430	2,000	470	354
Royal Ceramics Lanka PLC	87,000	10,557	6,490	68,323	8,740	7,823
Sierra Cables PLC	1,390,000	5,656	2,919	1,390,000	6,157	3,475
Swisstek (Ceylon) PLC	14,745	641	605	-	-	-
Teejay Lanka PLC	250,000	8,343	8,125	75,000	2,775	2,550
Tokyo Cement Company (Lanka) PLC- Non Voting	75,833	2,235	1,744	-	-	-
		53,559	35,454		42,742	32,339
Motors						
United Motors Lanka PLC	-	-	-	25,000	2,025	1,950
					2,025	1,950
Plantations						
Elpitiya Plantations PLC	50,000	1,496	990	50,000	1,497	1,410
Malwatte Valley Plantations PLC	64,429	353	264	-	-	-
Watawala Plantations PLC	19,498	577	372	-	-	-
		2,426	1,626		1,497	1,410

Company	2018			2017		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Power and Energy						
Laugfs Gas PLC	71,444	1,568	1,336	75,000	1,963	1,762
Laugfs Gas PLC-Non Voting	25,000	569	385	25,000	966	500
Panasian Power PLC	500,000	1,550	1,500	-	-	-
Resus Energy PLC	-	-	-	300	6	5
Vallibel Power Erathna PLC	250,000	1,913	1,600	125,000	975	937
		5,600	4,821		3,910	3,204
Service						
Ceylon Tea Brokers PLC	114,778	554	321	114,778	557	494
Renuka Capital PLC	100,000	528	380	50,000	288	225
		1,082	701		845	719
Telecommunication						
Dialog Axiata PLC	75,000	750	758	-	-	-
		750	758		-	-
Trading						
Brown and Company PLC	72,009	5,337	4,392	19,061	1,610	1,344
Tess Agro PLC-Non Voting	-	-	-	100,000	130	100
		5,337	4,392		1,740	1,444
Total value of quoted equities and unit trusts		395,021	265,391		326,262	226,651
21.2 Other Debt Securities						
Commercial Credit and Finance PLC	-	-	-	20,000	2,141	2,325
Hatton National Bank PLC	17,500	1,600	1,715	26,000	2,377	2,288
Total value of listed debentures		1,600	1,715		4,518	4,613
Total value of financial assets at FVTPL		396,621	267,106		330,780	231,264
Marked to market valuation loss		(129,515)			(99,516)	
Fair value of financial assets designated at FVTPL		267,106			231,264	

Notes to The Financial Statements

21 Financial Investments at Fair Value Through Profit or Loss - Contd.

21.3 Quoted Equities and Unit Trusts

Group	2018			2017		
	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						
Amana Takaful PLC	-	-	-	500,000	450	400
Arpico Insurance PLC	8,900	165	163	-	-	-
Asia Asset Finance PLC	1,139,289	1,623	1,025	639,289	1,023	895
Central Finance Company PLC	51,014	6,291	4,525	46,331	5,842	4,276
Citizens Development Business						
Finance PLC-Non Voting	9,233	824	646	44,733	3,992	2,505
Commercial Bank of Ceylon PLC	15,000	1,759	1,725	-	-	-
Commercial Bank of Ceylon PLC-Non Voting	53,179	5,410	5,052	40,000	4,202	4,200
Commercial Credit and Finance PLC	22,500	1,498	641	22,500	1,498	968
DFCC Bank PLC	120,000	24,535	11,160	120,000	24,993	14,736
First Capital Holdings PLC	25,000	775	720	-	-	-
Hatton National Bank PLC-Non Voting	10,000	1,820	1,685	-	-	-
Janashakthi Insurance Company PLC	35,000	1,043	1,050	669,893	12,975	10,517
L B Finance PLC	12,500	1,645	1,538	12,500	1,645	1,526
Lanka Orix Leasing Company PLC	32,500	3,431	2,922	-	-	-
LOLC Finance PLC	200,000	775	680	-	-	-
Multi Finance PLC	20,000	280	278	-	-	-
National Development Bank PLC	99,374	19,255	10,613	74,286	16,253	10,133
Nations Trust Bank PLC	205,492	19,546	18,330	210,032	20,648	16,382
Orient Finance PLC	80,000	1,191	1,240	-	-	-
Pan Asia Banking Corporation PLC	80,000	1,341	1,184	30,000	516	471
People's Merchant Finance PLC	2,500	27	29	-	-	-
Sanasa Development Bank PLC	93,368	9,258	7,003	18,152	1,828	1,849
Seylan Bank PLC	141,233	13,846	11,016	137,789	13,846	12,015
Seylan Bank PLC-Non Voting	354,984	17,834	15,797	341,439	17,845	19,121
Sinhaputhra Finance PLC	5,000	45	44	-	-	-
Softlogic Finance PLC	67,215	3,532	1,788	60,515	3,340	2,203
The Finance Company PLC-Non Voting	200,000	973	220	200,000	973	440
Union Bank of Colombo PLC	662,828	8,977	7,291	-	-	-
		147,699	108,365		131,869	102,637
Beverages, Food and Tobacco						
Bairaha Farms PLC	25,000	3,962	3,118	25,000	3,962	3,683
Cargills (Ceylon) PLC	11,659	2,302	2,332	-	-	-
Distilleries Company Of Sri Lanka PLC	55,000	1,048	886	-	-	-
HVA Foods PLC	16,850	83	74	25,000	155	153
Keells Food Products PLC	39,058	6,240	5,234	27,672	4,746	3,874
Lion Brewery Ceylon PLC	7,999	4,574	4,559	672	370	363
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,657,487	15,808	5,049
Renuka Agri Foods PLC	1,697,738	5,266	3,565	752,274	3,091	1,956
Renuka Foods PLC	29,535	488	411	-	-	-
		38,921	22,945		28,132	15,078
Chemical and Pharmaceuticals						
CIC Holdings PLC	28,000	1,530	1,109	2,000	144	124
CIC Holdings PLC-Non Voting	50,164	2,483	1,505	25,164	1,483	1,193
		4,013	2,614		1,627	1,317

Group	2018			2017		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Construction and Engineering						
Access Engineering PLC	35,000	586	494	-	-	-
Colombo Dockyard PLC	5,000	300	278	-	-	-
Lankem Developments PLC	275,000	1,900	1,128	-	-	-
MTD Walkers PLC	165,000	6,751	1,815	130,000	7,745	3,003
		9,537	3,715		7,745	3,003
Diversified						
Dunamis Capital PLC	-	-	-	27,500	719	644
Taprobane Holdings PLC	250,000	1,283	1,000	30,000	180	165
		1,283	1,000		899	809
Diversified Holdings						
Aitken Spence PLC	110,000	11,111	5,258	110,000	11,110	6,006
Browns Investments PLC	1,300,000	4,005	2,470	750,000	2,475	1,950
Expolanka Holdings PLC	725,000	3,548	2,900	-	-	-
Hayleys PLC	-	-	-	500	142	121
Hemas Holdings PLC	12,500	1,176	1,110	-	-	-
John Keells Holdings PLC	31,371	4,879	5,010	36,371	5,519	5,402
Melstacorp PLC	7,756	465	390	5,000	305	298
Richard Pieris and Company PLC	30,000	313	315	-	-	-
Softlogic Holdings PLC	60,712	3,531	3,266	35,211	2,119	2,007
Sunshine Holdings PLC	50,000	1,030	1,075	-	-	-
The Colombo Fort Land and Building PLC	44,799	1,224	672	44,799	1,224	851
Vallibel One PLC	39,485	725	671	50,000	950	885
		32,007	23,137		23,844	17,520
Footwear and Textiles						
Ceylon Leather Products PLC	-	-	-	8,000	615	483
Hayleys Fabric PLC	680,408	9,144	6,191	100,000	1,700	1,350
		9,144	6,191		2,315	1,833
Health Care						
Ceylon Hospitals PLC (Durdans)	5,000	500	356	5,000	500	415
		500	356		500	415
Hotels and Travel						
Aitken Spence Hotel Holdings PLC	63,219	5,779	1,707	63,219	5,779	1,865
Asian Hotels and Properties PLC	50,000	425	345	-	-	-
Beruwala Resorts PLC	200,000	180	140	100,000	100	80
Eden Hotel Lanka PLC	127,743	3,677	1,558	127,743	3,676	1,813
Galadari Hotels (Lanka) PLC	-	-	-	-	-	-
John Keells Hotels PLC	200,000	2,335	1,560	75,000	1,175	660
Palm Garden Hotels PLC	147,472	10,890	3,156	147,472	10,890	3,849
The Kingsbury PLC	1,937,727	41,833	29,453	1,937,727	41,834	26,159
Waskaduwa Beach Resort PLC	110,000	463	275	50,000	245	190
		65,582	38,194		63,699	34,616

Notes to The Financial Statements

21 Financial Investments at Fair Value Through Profit or Loss - Contd.**21.3 Quoted Equities and Unit Trusts Contd.**

Group	2018			2017		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Information and Technology						
E-Channelling PLC	-	-	-	15,000	120	89
					120	89
Investment Trust						
Ceylon Investment PLC	65,727	6,411	2,563	65,727	6,411	2,938
Guardian Capital Partners PLC	18,472	1,006	444	18,472	1,006	556
Lanka Century Investments PLC	700,000	9,361	7,770	500,000	6,891	6,050
Lanka Realty Investments PLC	10,000	250	206	-	-	-
		17,028	10,983		14,308	9,544
Land and Property						
Cargo Boat Development Company PLC	9,984	899	729	9,984	899	839
City Housing and Real Estate Company PLC	35,935	178	176	-	-	-
Colombo Land & Development Company PLC	2,700	96	41	2,700	96	53
Commercial Development Company PLC	4,649	451	326	4,649	451	325
East West Properties PLC	45,000	768	585	8,000	120	90
Kelsey Developments PLC	2,000	70	61	-	-	-
Property Development PLC	8,547	1,057	1,019	-	-	-
R I L Property PLC	-	-	-	25,000	200	180
Seylan Developments PLC	100,000	1,480	1,100	75,000	1,125	1,020
		4,999	4,037		2,891	2,507
Manufacturing						
Abans Electricals PLC	6,417	642	370	5,000	521	422
ACL Cables PLC	60,000	3,175	2,220	50,000	2,755	2,120
Alufab PLC	60,000	1,660	990	60,000	1,660	1,380
Alumex PLC	80,000	1,386	1,080	-	-	-
Ceylon Grain Elevators PLC	60,000	4,079	3,570	60,000	4,186	3,966
Chevron Lubricants Lanka PLC	37,428	3,830	2,724	35,000	4,656	4,165
Dankotuwa Porcelain PLC	9,100	64	59	-	-	-
Kelani Tyres PLC	115,000	9,022	4,128	115,000	9,023	5,106
Pelwatte Sugar Industries PLC	68,400	2,925	-	68,400	2,925	978
Richard Pieris Exports PLC	2,000	470	430	2,000	470	354
Royal Ceramics Lanka PLC	87,000	10,557	6,490	68,323	8,740	7,823
Swisstek (Ceylon) PLC	14,745	641	605	-	-	-
Sierra Cables PLC	1,390,000	5,656	2,919	1,390,000	6,157	3,475
Teejay Lanka PLC	250,000	8,343	8,125	75,000	2,775	2,550
Tokyo Cement Company (Lanka) PLC-Non Voting	75,833	2,235	1,744	-	-	-
		54,685	35,454		43,868	32,339
Motors						
United Motors Lanka PLC	-	-	-	25,000	2,025	1,950
					2,025	1,950

Group	2018			2017		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Plantation						
Elpitiya Plantations PLC	50,000	1,496	990	50,000	1,497	1,410
Malwatte Valley Plantations PLC	64,429	353	264	-	-	-
Watawala Plantations PLC	19,498	577	372	-	-	-
		2,426	1,626		1,497	1,410
Power and Energy						
Laugfs Gas PLC	71,444	1,568	1,336	75,000	1,963	1,762
Laugfs Gas PLC-Non Voting	25,000	569	385	25,000	966	500
Panasian Power PLC	500,000	1,550	1,500	-	-	-
Resus Energy PLC	172,737	3,407	3,645	173,037	3,414	3,149
Vallibel Power Erathna PLC	250,000	1,913	1,600	125,000	975	937
		9,007	8,466		7,318	6,348
Service						
Ceylon Tea Brokers PLC	114,778	554	321	114,778	557	494
Renuka Capital PLC	113,500	700	431	63,500	460	286
		1,254	752		1,017	780
Telecommunication						
Dialog Axiata PLC	75,000	750	758	-	-	-
		750	758		-	-
Trading						
Brown and Company PLC	72,009	5,337	4,392	19,061	1,610	1,344
Tess Agro PLC-Non Voting	-	-	-	100,000	130	100
		5,337	4,392		1,740	1,444
Total value of quoted equities and unit trusts		404,172	272,985		335,414	233,639
21.4 Other Debt Securities						
Commercial Credit and Finance PLC	-	-	-	20,000	2,141	2,325
Hatton National Bank PLC	17,500	1,600	1,715	-	2,377	2,288
Total value of listed debentures		1,600	1,715		4,518	4,613
Total value of financial assets at FVTPL		405,772	274,700		339,932	238,252
Marked to market valuation loss		(131,072)			(101,680)	
Fair value of financial assets designated at FVTPL		274,700			238,252	

Notes to The Financial Statements

22 Loans and Receivables at Amortised Cost

Accounting Policy

As per SLFRS 9, Loans and advances to the Company 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 Company' comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

- Those that the Company and the Group intends to sell immediately or in the near term, and those that upon initial recognition designates as at FVTPL.
- Those that the Company and the Group upon initial recognition designates at FVTOCI.
- Those for which the Company and the Group may not recover substantially all of its initial investment because of credit deterioration.
- Even though the classification definition varies with SLFRS 9, the measurement criteria remains the same under both standards.

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.

Group/Company as a Lessor

Leases, where the Group/Company does not transfer substantially all of the risk and benefits of ownership of assets are classified as operating leases. Initial direct cost incurred in negotiating operating leases are added to the carrying amount of the leased assets 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.

Group as a Lessee

Leases that do not transfer to the Group/Company substantially all the risk and benefits incidental to ownership of the leased items are operating leases. Operating lease payments are recognised as an expense in the Statement of Profit or Loss on a straight-line basis over the lease term. Contingent rental payable is recognised as an expense in the period in which they are incurred.

'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.

22.1 Analysis of Loans and Receivables

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Bills receivable	22.2	183	597,332	628,505	597,332	628,505
Loans and advances to customers	22.3	184	15,083,935	13,346,805	14,848,200	13,341,628
Lease and hire purchase receivable	22.4	185	17,614,533	16,095,740	17,614,533	16,095,740
Less : Allowance for impairment losses						
Bills Receivable	22.2	183	163,341	134,409	163,341	134,409
Loans and Advances to customers	22.3	184	1,275,119	748,672	1,275,119	748,672
Lease and Hire Purchase Receivable	22.4.3	185	1,136,193	427,475	1,136,193	427,475
Net loans and Receivables			30,721,147	28,760,494	30,485,412	28,755,317

22.2 Bills Receivable

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Bills discounted		597,332	628,505	597,332
Less : Allowance for impairment losses				
Individual impairment	22.2.1	183	143,940	122,666
Collective impairment	22.2.1	183	19,401	11,743
Net bills receivables		433,991	494,096	433,991

22.2.1 Movement of impairment during the year

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	122,666	122,666
Charge during the year	-	-	21,274	21,274
As at 31 December	-	-	143,940	143,940
Collective				
As at 01 January	3,978	5,598	2,167	11,743
Impairment adjustment as per SLFRS 9	9,397	13,224	5,118	27,739
As at 01 January after the restatement	13,375	18,823	7,284	39,482
Charge during the year	(8,616)	(14,324)	2,858	(20,082)
As at 31 December	4,760	4,499	10,142	19,401

Notes to The Financial Statements

22 Loans and Receivables at Amortised Cost - Contd.**22.3 Loans and Advances to Customers**

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Term loans			7,079,768	5,420,809	6,837,739	5,343,358
Personal loans			4,724,585	5,322,838	4,724,585	5,322,838
Cheque discounting			25,831	29,149	25,831	29,149
Staff loans			273,093	261,188	273,093	261,188
Margin trading			170,502	123,112	170,502	123,112
Micro finance			683,328	1,040,888	683,328	1,040,888
Commercial papers and other placements			-	-	-	67,077
Pawning			1,476,110	699,634	1,476,110	699,634
Real estate loans			68,353	30,778	68,353	30,778
Loans to life policy holders			-	-	6,294	5,197
Loans against fixed deposits			582,365	418,409	582,365	418,409
Gross loans and advances to customers			15,083,935	13,346,805	14,848,200	13,341,628
Less : Allowance for impairment losses						
Individual impairment	22.3.1	184	548,938	386,701	548,938	386,701
Collective impairment	22.3.1	184	726,181	361,971	726,181	361,971
Net loans and advances receivables			13,808,816	12,598,133	13,573,081	12,592,956

22.3.1 Movement of impairment during the year

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	386,701	386,701
Charge during the year	-	-	162,236	162,236
As at 31 December	-	-	548,937	548,937
Collective				
As at 01 January	104,783	50,272	206,916	361,971
Impairment adjustment as per SLFRS 9	166,300	79,786	328,393	574,479
As at 01 January after the restatement	271,082	130,058	535,310	936,450
Charge during the year	(95,398)	(36,371)	(78,499)	(210,268)
As at 31 December	175,684	93,687	456,811	726,182

22.4 Lease and Hire Purchase Receivable**22.4.1 Finance Lease/Hire Purchase Receivable Within One Year from the Reporting Date**

As at 31 December	Page No.	Company		Group	
		2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Total lease and hire purchase rental receivable		22,459,160	20,542,470	22,459,160	20,542,470
Less : lease and hire purchase rental receivable after one year		15,826,687	11,916,638	15,826,687	11,916,638
Rental receivable within one year from the reporting date		6,632,473	8,625,832	6,632,473	8,625,832
Less : Unearned lease and hire purchase income		2,350,419	2,135,846	2,350,419	2,135,846
		4,282,054	6,489,986	4,282,054	6,489,986

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

Rental receivable after one year from the reporting date		15,826,687	11,916,638	15,826,687	11,916,638
Less : Unearned lease and hire purchase income		2,494,208	2,310,884	2,494,208	2,310,884
		13,332,479	9,605,754	13,332,479	9,605,754

Gross investment in leases and hire purchase		17,614,533	16,095,740	17,614,533	16,095,740
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22.4.3 Lease and Hire Purchase Receivable

Gross investment in leases and hire purchase		17,614,533	16,095,740	17,614,533	16,095,740
Less : Allowance for impairment losses					
Individual impairment	22.4.4	185	681,277	209,900	681,277
Collective impairment	22.4.4	185	454,916	217,575	454,916
Net investment in leases and hire purchase		16,478,340	15,668,265	16,478,340	15,668,265

22.4.4 Movement of impairment during the year

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	209,900	209,900
Charge during the year	-	-	471,377	471,377
As at 31 December	-	-	681,277	681,277
Collective				
As at 01 January	35,913	38,728	142,934	217,575
Impairment adjustment as per SLFRS 9	81,017	87,368	322,449	490,834
As at 01 January after the restatement	116,930	126,096	465,384	708,409
Charge during the year	(36,553)	(31,733)	(185,207)	(253,493)
As at 31 December	80,376	94,363	280,177	454,916

Notes to The Financial Statements

23 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 as 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.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Government securities	23.1	186	1,135,633	640,791	1,761,657	978,638
Equity securities - Quoted	23.2	187	21,420	-	21,420	-
Equity securities - Unquoted	23.3	187	23,945	51,554	23,945	51,554
Unit trust			-	1,122,836	43,298	1,161,650
Net financial investments at FVTOCI			1,180,998	1,815,181	1,850,320	2,191,842
23.1 Government Securities						
Treasury bills			843,407	191,820	1,168,056	191,820
Treasury bonds			292,226	448,971	593,601	786,818
			1,135,633	640,791	1,761,657	978,638

23.2 Equity Securities - Quoted

As at 31 December	2018			2017		
	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	20,521	21,420	-	-	-
		20,521	21,420		-	-
Group						
Power and Energy						
LVL Energy Fund PLC	2,550	20,521	21,420	-	-	-
		20,521	21,420		-	-

23.3 Equity Securities - Unquoted

As at 31 December	Note	Page No.	Holding %	2018			2017		
				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	22,601	1,000,000	10,000	23,794
Ceylinco Investment Company Limited	23.3.1		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	-
LVL Energy Fund Limited			0.43	-	-	-	2,500,000	20,000	26,500
Finance and Guarantee Company Limited			0.15	2,506,562	17,546	1,290	2,506,562	17,546	1,206
San Michele Limited			-	50,000	500	-	50,000	500	-
				36,700	23,945	-	-	56,700	51,554
Adjustment for fair value changes					12,601			16,500	
Adjustment due to impairment					(25,356)			(21,646)	
Total unquoted investments					23,945			51,554	

As at 31 December	Note	Page No.	Holding %	2018			2017		
				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	22,601	1,000,000	10,000	23,794
Ceylinco Investment Company Limited	23.3.1		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	-
LVL Energy Fund Limited			0.43	-	-	-	2,500,000	20,000	26,500
Finance and Guarantee Company Limited			0.15	2,506,562	17,546	1,290	2,506,562	17,546	1,206
San Michele Limited			-	50,000	500	-	50,000	500	-
Equity One Limited			-	26,664	-	-	26,664	-	-
				36,700	23,945			56,700	51,554
Adjustment for fair value changes					12,601			16,500	
Adjustment due to impairment					(25,356)			(21,646)	
Total unquoted investments					23,945			51,554	

23.3.1 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

24 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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Debt securities - Treasury bonds	60,828	479,362	60,828	479,362
	60,828	479,362	60,828	479,362

25 Investment in Associate Company

Accounting Policy

Investment in associate is accounted for at cost in terms of the Sri Lanka Accounting Standard - LKAS 28 - 'Investment in Associates and Joint Ventures' in the Company's Financial Statements and under the equity method 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	Company							
	Country of Incorporation	Principal Activity	No. of Shares	Holding %	2018		2017	
					Cost Rs.'000	Directors' Valuation Rs.'000	Cost Rs.'000	Directors' Valuation Rs.'000
Unquoted								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,212,543	29.00%	81,084	81,084	81,084	81,084
Balance as at 31 December					81,084	81,084	81,084	81,08

25.1 Carrying Value on Equity Basis

As at 31 December	Group Lanka Securities (Pvt) Ltd	
	2018 Rs.'000	2017 Rs.'000
Net assets at the beginning of the year	92,453	91,325
Add : Profit/(loss) before tax accruing to the group	(8,360)	1,059
Less : Income tax	(56)	(1,170)
Add : Other comprehensive income for the year	378	1,239
Net assets at the end of the year	84,415	92,453

25.2 Summarized Financial Information of Associate

For the year ended 31 December	Lanka Securities (Pvt) Ltd	
	2018 Rs.'000	2017 Rs.'000
Income	84,530	121,063
Less : Expenses	113,357	117,412
Profit/(loss) before taxation	(28,827)	3,651
Less : Income tax expense/(reversal)	192	4,035
Profit/(loss) for the year	(29,019)	(384)
Other comprehensive income/(expenses)	1,302	4,274
Total comprehensive income/(expense) for the year	(27,717)	3,890

As at 31 December	2018 Rs.'000	2017 Rs.'000
Total assets	354,660	615,546
Total liabilities	63,574	296,743

Notes to The Financial Statements

26 Investment in Subsidiary

Accounting Policy

Investment in subsidiaries are stated at cost, net of any impairment losses which are charged to the Statement of Profit or Loss and it is in accordance with the Sri Lanka Accounting Standards - LKAS 27 - '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 defect 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.

As at 31 December	Note	Page No.	Country of Incorporation	Principal Activity	2018		2018		2017	
					No. of Shares	Holding %	Cost Rs.'000	Directors' Valuation Rs.'000	Cost Rs.'000	Directors' Valuation Rs.'000
Unquoted										
MBSL Insurance Company Ltd	26.1	190	Sri Lanka	Insurance	475,697,403	84.12	516,096	79,276	516,096	21,117
					475,697,403		516,096	79,276	516,096	21,117
Less : Impairment provision	26.2	191					(436,820)		(494,979)	
Balance as at 31 December							79,276		21,117	

26.1 Summarized Financial Information of MBSL Insurance Company Limited

For the year ended 31 December	2018 Rs.'000	2017 Rs.'000
Net operating income	63,283	308,752
Less : Operating expenses	212,517	355,188
Profit/(loss) before income tax	(149,234)	(46,436)
Less : Income tax expense/(reversal)	(506,249)	7,143
Profit/(loss) for the year	357,015	(53,579)
Other comprehensive income/(expenses)	1,154	8,256
Total comprehensive income/(expenses) for the year, net of tax	358,169	(45,323)

As at 31 December	2018 Rs.'000	2017 Rs.'000
Loans and receivables	261,565	512,930
Reinsurance assets-insurance contracts	165,903	283,083
Insurance receivables	3,604	12,254
Property and equipment and intangible assets	26,940	43,966
Deferred Tax Asset	506,249	-
Other assets	799,225	505,264
Total assets	1,763,487	1,357,498
Due to banks	3,154	6,028
Insurance contract liabilities	911,223	977,119
Insurance payables	11,333	50,390
Other liabilities	454,567	298,822
Total liabilities	1,380,277	1,332,359
Total equity	383,212	25,139
Total liabilities and equity	1,763,487	1,357,498

26.2 Impairment Provision

Impairment of Investment in Subsidiary :

At the end of the reporting period, the Company assessed the recoverable amount of the investment in subsidiary and the recoverable amount of investment in subsidiary as at 31 December 2018 was determined as Rs.79.3 Mn. Accordingly impairment reversal of Rs.58.1 Mn (2017 impaired : Rs.56.1 Mn) was recorded during the year 2018 in the Company's Financial Statements.

In view of the above, the recoverable amount of the investment in subsidiary was assessed by value in use calculations which are based on net asset based valuation a cash generating unit basis, as disclosed in to Note No. 15.4 to the Financial Statements.

The reversal of impairment has been separately presented in the Statement of Profit or Loss.

Notes to The Financial Statements

27 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.

The Group revalues investment property at least once in five years for disclosure purpose.

Derecognition

Investment Properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Statement of Profit or Loss in the period of derecognition.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Cost as at 01 January			149,094	150,085	149,094	150,085
Less: Disposals			686	991	686	991
Cost as at 31 December	27.1	193	148,408	149,094	148,408	149,094
Accumulated depreciation as at 31 December			28,227	25,321	28,227	25,321
Net book value as at 31 December			120,181	123,773	120,181	123,773
Accumulated depreciation						
Balance as at 01 January			25,321	22,415	25,321	22,415
Charge for the year			2,906	2,906	2,906	2,906
Balance as at 31 December			28,227	25,321	28,227	25,321
Rental income derived from investment property			Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that generated rental income during the year			Nil	Nil	Nil	Nil
Direct operating expenses arising from investment property that did not generate rental income during the year			931	915	931	915

27.1 Investment Properties Held by the Company / Group

As at 31 December

2018

Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	Cost / Carrying amount			Fair Value		
					Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
No. 64 and 66, Nonagama Road, Pallegama, Embilipitiya.			16.61P	Level 3	1,750	-	1,750	30,000	N/A	30,000
No 385/1, Kotte Road, Pitakotte.	1	2,896	19.01P	Level 3	2,958	1,730	4,688	3,343	1,955	5,298
No 116/4,116/7,116/26, 116/27,116/29 1st Cross Street, Colombo 11.			12.35P	Level 3	1,249	-	1,249	5,000	N/A	5,000
No 102 and 104, Dam Street, Colombo 12. (Note.27.1.a)	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	188,000	-	188,000
Kumbuthukuliya 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 and country Club, no.50/21, Old Kesbewa Road, Boralessgamuwa	1		12A-1R-4.35P	Level 3	65,604	44,396	110,000	200,191	119,809	320,000
					90,293	58,115	148,408	483,534	121,764	605,298

27.1.a The fair value of the investment properties as at 31 December 2018 was based on market valuations carried out in the year 2017 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 2018 and concluded that there was no impairment.

27.1.b The Company has entered into an agreement with 71 tenants to sell the lease hold rights of the property at No. 102 and 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.

28 Property and Equipment

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 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.

28.b Group

	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment and Furniture	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost							
Balance as at 01 January 2017	9,961	2,943	83,935	4,585	374,974	423,135	899,533
Additions during the year	14,000	-	7,777	-	35,580	27,314	84,671
Disposals during the year	-	-	(8,979)	-	(105)	(2,562)	(11,646)
Balance as at 31 December 2017	23,961	2,943	82,733	4,585	410,449	447,887	972,558
Additions during the year	-	-	7,583	-	9,251	72,186	89,020
Disposals during the year	(9,961)	(2,943)	-	-	(2,258)	(14,599)	(29,761)
Balance as at 31 December 2018	14,000	-	90,316	4,585	417,442	505,474	1,031,817
Accumulated Depreciation							
Balance as at 01 January 2017	-	1,606	56,372	2,573	233,896	246,820	541,267
Charge for the year	-	147	10,074	917	40,111	41,300	92,549
On disposals	-	-	(8,952)	-	(63)	(2,396)	(11,411)
Transfers / Impairment for the year	-	-	93	-	-	2,667	2,760
Balance as at 31 December 2017	-	1,753	57,587	3,490	273,944	288,391	625,165
Charge for the year	-	98	8,521	306	38,990	38,641	86,556
On disposals	-	(1,851)	-	-	(2,257)	(10,289)	(14,397)
Balance as at 31 December 2018	-	-	66,108	3,796	310,677	316,743	697,324
Net book value							
As at 31 December 2017							347,393
As at 31 December 2018							334,493

Information on the Freehold Land and Buildings of the Company

Location	Extent (Perches)	Revalued Amounts Land Rs.'000	Net Book Value Land Rs.'000	As a % of Total NBV
Kurunduwatta, Ekala	1A-1R-27.93	95,000	14,000	679%
		95,000	14,000	

The market value of the land at Kurunduwatta, Ekala was Rs. 95,000,000 as per the valuation carried out in August 2017 by Mr. D N Dhammika Baranage RICS (UK), DIV AIS (SL). The Directors have reviewed the values of the land as at 31 December 2018 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 signing-off 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.

Notes to The Financial Statements

28 Property and Equipment - Contd.

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 Statement Financial Position date are as follows:

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Motor vehicles	52,694	36,721	52,694	36,721
Computer equipments	171,952	147,813	222,594	189,665
Equipment, furniture and fittings	112,596	87,379	144,007	113,983
Total	337,242	271,913	419,295	340,369

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.

29 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 derecognised 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 derecognised.

29.1 Company

	Computer Software Rs.'000	Total Rs.'000
Cost		
Balance as at 01 January 2017	128,893	128,893
Additions and improvements during the year	226,617	226,617
Balance as at 31 December 2017	355,510	355,510
Additions and improvements during the year	4,469	4,469
Balance as at 31 December 2018	359,979	359,979
Accumulated amortisation		
Balance as at 01 January 2017	102,336	102,336
Amortisation for the year	26,881	26,881
Balance as at 31 December 2017	129,217	129,217
Amortisation for the year	37,641	37,641
Balance as at 31 December 2018	166,858	166,858
Net book value		
As at 31 December 2017		226,293
As at 31 December 2018		193,121

29.2 Group

	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
Cost			
Balance as at 01 January 2017	174,325	18,193	192,518
Additions and improvements during the year	226,617	-	226,617
Transfers during the year	2,760	-	2,760
Balance as at 31 December 2017	403,702	18,193	421,895
Additions and improvements during the year	4,469	-	4,469
Balance as at 31 December 2018	408,171	18,193	426,364
Accumulated amortisation and impairment			
Balance as at 01 January 2017	126,445	18,193	144,638
Amortisation for the year	32,731	-	32,731
Balance as at 31 December 2017	159,176	18,193	177,369
Amortisation for the year	43,314	-	43,314
Balance as at 31 December 2018	202,490	18,193	220,683
Net book value			
As at 31 December 2017			244,526
As at 31 December 2018			205,681

Notes to The Financial Statements

29 Intangible Assets - Contd.

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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Computer Software	103,995	84,052	112,771	90,076

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.

30 Other Assets

Accounting Policy

The Company and the Group classify all their other assets as mainly comprise of advance payments, commercial paper and sundry receivables.

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Claims and commission receivables	15,241	14,148	15,241	14,148
Receivables	15,697	52,062	23,761	85,877
Advances and pre payments	85,860	114,936	96,562	147,164
Other accounts	199,775	134,141	209,707	147,209
Reinsurance assets-Insurance contracts	-	-	165,903	283,083
Insurance receivables	-	-	3,604	12,254
Commercial paper	434,967	445,643	434,967	445,643
	751,540	760,930	949,745	1,135,378
Less : Allowance for impairment losses	434,967	449,784	434,967	449,784
	316,573	311,146	514,778	685,594

31 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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Bank overdraft	508,225	123,849	511,379	129,877
Reverse repurchase agreements	166,894	437,672	166,894	437,672
Bank borrowings - Short-term loans	4,186,801	1,055,458	4,186,801	1,055,458
Bank borrowings - Long-term loans	1,007,397	-	1,007,397	-
	5,869,317	1,616,979	5,872,471	1,623,007

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

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Dues to banks	508,225	123,849	511,379	129,877
	508,225	123,849	511,379	129,877

31.2 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2018

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Reverse repurchase agreements	166,894	-	-	166,894
Bank borrowings - Short-term loans	4,186,801	-	-	4,186,801
Bank borrowings - Long-term loans	-	1,007,397	-	1,007,397
	4,353,695	1,007,397	-	5,361,092

31.3 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2017

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Reverse repurchase agreements	437,672	-	-	437,672
Bank borrowings - Short-term loans	1,055,458	-	-	1,055,458
	1,493,130	-	-	1,493,130

32 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 derecognised as well as through the EIR amortisation process.

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Savings deposits	884,653	868,026	884,654	868,026
Time deposits	19,946,368	21,050,843	19,936,952	21,042,357
	20,831,021	21,918,869	20,821,606	21,910,383

Notes to The Financial Statements

32 Due to Customers at Amortised Cost - Contd.**32.1 Contractual Maturity Analysis of Customer Deposits**

	2018			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Company				
Savings deposits	884,653	-	-	884,653
Time deposits	11,689,030	8,193,908	63,430	19,946,368
	12,573,683	8,193,908	63,430	20,831,021
Group				
Savings deposits	884,653	-	-	884,653
Time deposits	11,689,030	8,184,493	63,430	19,936,953
	12,573,683	8,184,493	63,430	20,821,606

32.2 Contractual Maturity Analysis of Customer Deposits

	2017			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Company				
Savings deposits	868,026	-	-	868,026
Time deposits	16,634,434	4,416,409	-	21,050,843
	17,502,460	4,416,409	-	21,918,869
Group				
Savings deposits	868,026	-	-	868,026
Time deposits	16,634,434	4,407,923	-	21,042,357
	17,502,460	4,407,923	-	21,910,383

33 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 derecognised as well as through the EIR amortisation process.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Debentures	33.3	201	4,229,470	5,889,089	4,229,470	5,889,089
Short term borrowing			-	-	-	-
Long term Loan - Securitization			1,101,607	1,874,315	1,101,607	1,874,315
Total debt issued and borrowed funds	33.1-33.2	201	5,331,077	7,763,404	5,331,077	7,763,404

33.1 Contractual Maturity Analysis of Long Term Securitization - 2018

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Long term Loan - Securitization	788,035	313,573	-	1,101,607

33.2 Contractual Maturity Analysis of Long Term Securitization - 2017

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Long term Loan - Securitization	914,535	959,780	-	1,874,315

33.3 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	
								2018 Rs.'000	2017 Rs.'000
Fixed Rate Debentures									
LK0186D22669	909,770	9.00%	listed	Nil	Annually	13-Nov-14	12-Nov-19	991,901	991,500
LK0186D22677	1,090,230	8.75%	listed	Nil	Bi Annually	13-Nov-14	12-Nov-19	1,131,011	1,132,445
LK0186D23824	805,760	15.00%	listed	Nil	Annually	03-May-17	02-May-22	884,964	884,335
LK0186D23816	1,193,230	14.50%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,220,562	1,221,467
LK0186D23808	1,010	13.89%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,032	1,033
Debenture Redeemed During the Year									
Fixed Rate									
LK0186D19194	625,110	17.50%	listed	Nil	Annually	28-Mar-13	27-Mar-18	-	735,857
LK0186D19210	723,190	16.70%	listed	Nil	Quarterly	28-Mar-13	27-Mar-18	-	753,659
LK0186D19228	166,460	16.50%	listed	Nil	Monthly	28-Mar-13	27-Mar-18	-	168,793
Total Debentures	4,000,000							4,229,470	5,889,089

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

	2018				2017			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Unsecured debentures	2,122,912	2,106,558	-	4,229,470	1,658,309	4,230,780	-	5,889,089

Outstanding number of debentures as at 31 December 2018 consisted of 40,000,000 unsecured redeemable debentures of Rs. 100/- each issued by the Company.

The Company has not repurchased any of its own debt during the year. (2017: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2018 and 2017.

Notes to The Financial Statements

34 Insurance Provision

Accounting Policy

Life Insurance Contracts Liabilities (Including Investment Contract Liabilities with DPF)

The liability for life insurance contracts and investment contract with DPF is either based on current assumptions or on assumptions established at inception of the contract, reflecting the best estimate at the time increased with a margin for risk and adverse deviation. All contracts are subject to a liability adequacy test, which reflect management's best current estimate of future cash flows.

The main assumptions used relate to mortality, morbidity, longevity, investment return, expenses, lapse and surrender rates and discount rate. MBSLI-the Subsidiary bases mortality, morbidity on standard of the industry. Mortality tables which reflect historical experience, adjusted when appropriate to reflect MBSLI-the Subsidiary unique risk exposure, product characteristics, target markets and own claims severity and frequency experience. For these contracts that insure risk related to longevity, prudent allowance is allowable is made for expected future mortality improvements as well as wide ranging changes to life style, could insignificant changes to the expected future mortality exposure. Estimates are also made as to future investment income arising from the assets backing life insurance contracts. These estimates are based on current market returns as well as expectations about future economic and financial developments.

Assumptions on future expenses are based on current expenses levels, adjusted for expected expenses inflation is appropriate.

Laps and surrender rates are based on the Subsidiary's historical experience of laps and surrenders.

Discount rates are based on current market risk rates, adjusted for the Subsidiary's own risk exposure.

Non-Life Insurance Contracts Liabilities

For non-life insurance contract estimates have to be made both for the expected ultimate cost of claims reported at the reporting date and for the expected ultimate cost of claims incurred but not yet reported at the reporting date (IBNR). It can take a significant period of the time before the ultimate claims cost can be established with certainty and for some type of policies, IBNR claims form the majority of the liability in the Statement of Financial Position.

The ultimate cost of outstanding claims is estimated by using MBSLI-the Subsidiary past claims experience. Large claims are usually separately addressed, either by being reserved at the face value of loss adjuster estimates or separately projected in order to reflect their future development.

34.1 Insurance Contract Liabilities - Life

As at 31 December	Group	
	2018 Rs.'000	2017 Rs.'000
Life fund balance as at 31st December	527,349	509,815
Unclaimed benefits	47,050	37,211
Balance as at 31 December	574,399	547,026

34.2 Surplus/Deficit

As at 31 December	Group	
	2018 Rs.'000	2017 Rs.'000
Balance as at 1 January	508,530	495,171
Prior year adjustment	-	(2,070)
Increase in life fund	17,040	15,429
	525,570	508,530
Fair value reserve	1,779	1,285
Life fund balance as at 31 December	527,349	509,815
Insurance contract liabilities (life) - Gross premium valuation method	-	419,524
Surplus/(deficit) as at 31 December	527,349	90,291
	527,349	509,815

34.3 Surplus Created Due to Change in Valuation Method from NPV to GPV - 2015

Surplus created due to change in valuation method from NPV to GPV - Participating Policies (Rs. '000)	3,082
Surplus created due to change in valuation method from NPV to GPV Non-participating policies (Rs. '000)	32,429

Valuation of Life Insurance Fund

The valuation of life Insurance fund as at 31st December 2018 was made by Ms.Teja Ranade Gadhoke a qualified professional actuary who also determined and certified the surplus created due to change in valuation method from NPV to GPV.As per the report,policy liabilities based on the gross premium valuation method amount to Rs. 364 Mn.

Liability Adequacy Test

In the opinion of the consultant actuary Ms Teja Ranade Gadhoke, the liability value is sufficient to meet future benefits and expenses. Hence, no provision was made for premium deficiency.

34.4 Insurance Contract Liabilities - Non Life

As at 31 December	Group	
	2018 Rs.'000	2017 Rs.'000
Provision for reported claims by policy holders	332,156	356,018
Provision for claims IBNR	4,497	42,256
Outstanding claims provision	336,653	398,274
Provision for unearned premiums	172	31,819
Total non life insurance provision	336,825	430,093

Liability Adequacy Test

A Liability Adequacy Test ('LAT') for non life contract liability was carried out by Mr. Choong Hern Ooi for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31st December 2018 as required by SLFRS 4 - Insurance Contracts.

The Reserve for Claim Liability held by the Company, net of reinsurance together with the provision for IBNR is adequate to meet future liabilities on incurred claims of the company while the Unearned Premium Reserve (UPR) of Rs 172,487 is inadequate in view of the unexpired Risk remain outstanding as of 31 December 2018 and therefore, the Actuary has recommended to maintain an Unexpired Risk Reserve (URR) of Rs.311,607. However, no such provision for URR has been made, since suspension of the license of the Company has been lifted.

35 Current Tax Liabilities

Accounting Policy

The Group and the Company are subject to income taxes. Significant judgement 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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Balance at 01 January	7,473	151,128	7,473	141,180
Add: Provision for taxation	109,838	35,292	109,838	43,605
(Over)/under provision of taxes in respect of prior years	-	(90,258)	-	(90,258)
Less : Paid during the year	-	10,590	-	10,590
Less : Set off during the year	99,569	78,099	99,569	76,464
Less: ESC and ACT receivable balance	2,700	-	2,700	-
Balance as at 31 December	15,042	7,473	15,042	7,473

Notes to The Financial Statements

36 Deferred tax liabilities

Accounting Policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Deferred tax assets	36.2	205	(187,629)	(325,148)	(697,375)	(325,148)
Deferred tax liability	36.2	205	528,073	698,859	531,570	698,859
Net deferred tax liabilities			340,444	373,711	(165,805)	373,711
36.1 Deferred Tax Movement						
Balance as at 01st January			373,711	206,888	373,711	206,888
01 day impact to deferred tax under SLFRS 9			201,571	-	201,571	-
Balance as at 01 January 2018 after the restatement			172,140	206,888	172,140	206,888
Charge for the year			155,553	182,765	(350,696)	182,765
Deferred tax charge relating to components of the Statements of Comprehensive Income			12,750	(15,942)	12,750	(15,942)
Balance as at 31 December			340,444	373,711	(165,805)	373,711

36.2 Reconciliation of Deferred Tax Liability

Deferred tax assets and liabilities are attributable to the following:

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Deferred Tax Assets				
Carry forward tax losses	-	(251,511)	(507,244)	(251,511)
Retirement benefit obligation	(77,106)	(68,634)	(79,607)	(68,634)
Actuarial gains/(losses) recognised in the Statement of Comprehensive Income	7,748	(5,003)	7,748	(5,003)
Impairment	(118,272)	-	(118,272)	-
	(187,630)	(325,148)	(697,375)	(325,148)
Deferred Tax Liability				
Accelerated depreciation allowance for tax purpose (Rentals receivable)	470,624	652,803	470,625	652,803
Accelerated depreciation allowance for tax purpose (Property and equipment)	57,445	46,056	60,945	46,056
	528,073	698,859	531,570	698,859
Net Deferred Tax (Assets)/Liabilities	340,444	373,711	(165,805)	373,711

37 Other Liabilities

Accounting Policy

Other liabilities include accrued expenses and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Accrued expenses	34,827	15,898	34,827	1,016
Payable to employees and suppliers	226,502	193,206	266,935	225,786
Insurance payable	-	-	11,333	50,390
Margin accounts	20,703	31,719	20,703	31,719
Lease creditors				
Within 12 months	-	-	4,509	4,526
Later than 12 months	-	-	7,851	7,851
Other liabilities	236,052	227,142	386,858	398,425
	518,084	467,965	733,016	719,713

Notes to The Financial Statements

38 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 and financial assumptions specified below.

- Demographic assumptions: mortality rates, staff turnover, disability, retirement age
- Financial assumptions: rate of discount, salary increase.
- 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 short-term Corporate Bonds/Government Bonds and the anticipated long term rate of inflation.

As at 31 December	Note	Page No.	Company		Group	
			2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Balance as at 01 January			262,987	213,388	283,000	231,463
Expense recognised in the Statement of Profit or Loss	38.1	206	45,862	46,434	49,424	49,864
Payment made during the year			(33,471)	(14,703)	(39,451)	(18,775)
Actuarial (gains)/losses recognised in the Statement of Other Comprehensive Income			(27,670)	17,867	(36,329)	20,448
Balance as at 31 December			247,708	262,986	256,644	283,000
38.1 Expense Recognised in the Statement of Profit or Loss						
Current service cost			18,511	25,841	20,151	27,708
Interest cost			27,351	20,593	29,273	22,156
Total			45,862	46,434	49,424	49,864

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2018 by Messrs. Actuarial and 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'.

38.2 Actuarial Assumptions

	2018	2017
Discount rate	12.2%	10.40%

Retirement Age

Expected average working life of the active participants is 8 - 9 years for the year ended 31 December 2018 .

38.3 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 and salary increment rate on the profit or loss and employment benefit obligation for the year.

Increase/ (Decrease) in Discount Rate	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%	(11.774)	(11.774)
(1%)	13.077	13.077

* Discount rate is fixed at; 2018 - 12.20%

39 Stated Capital

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Value of shares in issue	2,124,457	2,124,457	2,124,457	2,124,457

No. of shares in issue	Company		Group	
	2018 No. of Shares	2017 No. of Shares	2018 No. of Shares	2017 No. of Shares
No. of shares in issue	165,874,541	165,874,541	165,874,541	165,874,541

40 Reserves

40.1 Statutory Reserves

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Balance as at 01 January	177,839	157,669	177,839	157,669
Add: Transfers during the year	36,257	20,170	36,257	20,170
Balance as at 31 December	214,096	177,839	214,096	177,839

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.

Notes to The Financial Statements

40 Reserves - Contd.**40.2 Retained Earnings**

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Balance as at 01 January	924,947	846,191	948,415	859,584
01 day impact to deferred tax under SLFRS 9	201,571	-	201,571	-
Impairment adjustment as per SLFRS 9	(1,093,454)	-	(1,093,535)	-
Balance as at 01 January 2018 after the restatement	33,064	846,191	56,451	859,584
Add: Profit for the year	181,285	100,851	415,031	111,858
Transfers to statutory reserves	(36,257)	(20,170)	(36,257)	(20,170)
Other comprehensive income	14,920	(1,925)	22,581	(2,857)
Balance as at 31 December	193,012	924,947	457,806	948,415

40.3 OCI Reserve

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Balance as at 01 January	6,577	(21,802)	1,300	(36,195)
Gains/(losses) on remeasuring financial investments at fair value through other comprehensive income	(14,038)	28,379	(20,351)	37,495
Balance as at 31 December	(7,461)	6,577	(19,051)	1,300

41 Additional Cash Flow Information

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
41.1 Change in Operating Assets				
Loans and advances given to customers	(1,960,653)	(1,708,495)	(1,730,095)	(1,631,672)
Other operating assets	(1,233,945)	(89,208)	(1,058,178)	110,606
Adjustment for impairment	(134,531)	(244,231)	(135,630)	(245,206)
	(3,329,129)	(2,041,934)	(2,923,903)	(1,766,272)
41.2 Change in Operating Liabilities				
Due to customers	(1,087,848)	3,400,450	(1,088,777)	3,391,964
Other operating liabilities	47,419	63,791	10,604	(32,321)
Insurance provision	-	-	(65,895)	(318,173)
	(1,040,429)	3,464,241	(1,144,068)	3,041,470
41.3 Other Non-Cash Items Included in Profit Before Tax				
Loss on disposal of quoted shares	2,337	24,296	2,337	23,209
Interest accrued on Government securities	(55,921)	(41,921)	(55,921)	(41,921)
Gain on sale of property and equipment	(83,199)	(3,654)	(81,675)	(4,718)
Net (gain)/loss on financial instruments at FVTPL	29,999	(5,624)	29,394	(4,771)
Impairment charges for loans and other losses	134,531	244,231	135,630	245,206
Charged/(Reversal) of impairment of investment in subsidiary	(58,160)	56,189	-	-
Depreciation and amortisation	119,806	109,025	132,776	128,186
	89,393	382,542	162,541	345,191

Other Financial Disclosures

This section provides information on related party disclosures and other disclosures required by the Sri Lanka Accounting Standards.

42 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'.

42. a Transactions with Key Management Personal (KMP)

According to Sri Lanka Accounting Standard - LKAS 24 - 'Key Management Personnel' are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the directors of the Company / Group (including executive and non-executive directors), chief executive officer, chief operating officer and corporate management committee have been classified as KMP of the Company and the Group.

42. b Directors Interest in Contracts/ Transactions with Related Parties

Dr. S. Lokuhewa, Mr. W. P. R. P. H. Fonseka, Mr. K. B. S. Bandara, Mr. S. N. Dayaratne, Mr. S. P. Arsakularatne, Mr. R. M. D. V. Jayabahu, Mr. D. N. L. Fernando, Mr. M. P. R. Kumara (Alternate Director to Mr. W. P. R. P. H. Fonseka), Mr. C. Amarasinghe (Alternate Director to Mr. K. B. S. Bandara) were directors of the Company as at 31 December 2018.

42. c Transactions with Key Management Personnel

Remuneration to key Management

For the year ended 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
(a) Remuneration to Board of Directors				
Short term employees benefits	7,953	6,301	7,953	6,301
	7,953	6,301	7,953	6,301
(b) Remuneration to Corporate Management				
Short term employees benefits	68,420	78,091	68,420	78,091
Post employment benefits	23,911	-	23,911	-
	92,331	78,091	92,331	78,091

Transactions, arrangements and agreements with key management personnel

	Board of Directors		Corporate Management	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
(a) Items in the Statement of Financial Position				
Assets - Loan and receivables	-	-	29,125	23,062
Liabilities - Due to customers	28	27	339	20,073
(b) Items in the Statement of Profit or Loss				
Interest Income	-	-	1,084	690
Interest expense	1	1	1	1,295

In addition to the above, the Company has also provided company maintained vehicles to the Chairman and the Chief Executive Officer in line with the approved employment terms of the Company.

Share Transactions With Key Management Personnel

For the year ended 31 December	Company	
	2018	2017
No. of ordinary shares held	24	21

Notes to The Financial Statements

42 Related Party Disclosure - Contd.**42. d Terms and Conditions of Transactions with Related Parties**

Transactions mentioned in note 42.c arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates. Outstanding balances at the year end are unsecured except Rs. 250,000,000 OD facility obtained from BOC. Such OD facility is secured by Leasing facilities. There have been no guarantees provided or received for any related party receivables or payables. For the year ended 31 December 2018, the Company has made Rs. 4,697,917 as impairment under impairment of Loans and Advances for the loans obtained by MBSLI.

42. e Details of significant related party transactions that have been carried out in the ordinary course of business in an arms length basis with entities are disclosed below.

	Nature of Transactions	Income/ (Expenses) Recognised During the Year		Assets / (Liabilities) as at 31 December	
		2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Company					
Transactions with parent company					
Bank of Ceylon	Money market loan	(122,577)	(81,951)	(1,500,000)	(310,000)
	Debenture	(232,770)	(210,691)	(2,596,525)	(2,322,440)
	Bank fee and charges	(1,589)	(1,734)	-	-
	Interest received-REPO	9,245	30,841	-	200,000
	Interest paid-REPO	(505)	-	-	-
	Fixed deposit	1,471	344	-	262,000
Transactions with subsidiary					
MBSL Insurance Company Limited	Insurance agency commission	-	6,066	-	-
	Insurance expenses	-	(16,836)	-	-
	Travel insurance	-	(6)	-	-
	Fixed deposits and savings	(993)	(989)	(9,416)	(8,486)
	Loans and advances at amortised cost	18,820	2,451	242,029	77,451
	Impairment of loans and advances at amortised cost	(4,698)	-	(4,698)	-
Transactions with other companies					
BOC Property Development and Management Company Limited	Rent paid	(71,210)	(70,690)	-	-
	Electricity, water, office maintenance, rates	(14,450)	(15,457)	-	-
	Fixed deposits and savings	(8,925)	(4,013)	(35,000)	(70,000)
Grand Oriental Hotel	Staff training	(287)	(188)	-	-
Credit Information Bureau of Sri Lanka	Dividend received	960	720	-	-
	CRIB charges	(9,824)	(11,929)	-	-
Ceybank Asset Management Limited	Fixed deposit and savings	(2,567)	(4,723)	(15,143)	-
Lanka Clear (Pvt) Ltd	Slips processing charges	(249)	(271)	-	-
	Fixed deposits and Savings	(42,692)	(27,184)	(190,106)	-
	Annual membership fee	(327)	(327)	-	-
Group					
Subsidiary - MBSL Insurance Company Limited					
Bank of Ceylon	Gross written premium	-	6,854	-	-
	Premium receivable	-	-	-	(155)
	Claim incurred	-	3,724	-	-

43 Fair Value of Financial Instruments

Determination of Fair Value and Fair Value Hierarchy

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. These incorporate the Company's/Group's estimate assumptions that a market participant would make when valuing instruments.

Financial Assets at Fair Value Through Profit or Loss

Financial assets at FVTPL valued using valuation techniques primarily consist of quoted investments. These quoted assets 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.

A. 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:

As at 31 December	Company							
	2018				2017			
	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 fair value through profit or loss	267,106	-	-	267,106	231,264	-	-	231,264
	267,106	-	-	267,106	231,264	-	-	231,264

Notes to The Financial Statements

43 Fair Value of Financial Instruments - Contd.

As at 31 December	Company							
	2018				2017			
	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 investments at fair value through other comprehensive income								
Government securities	1,135,633	-	-	1,135,633	640,791	-	-	640,791
Equity Securities - Quoted	21,420	-	-	21,420	-	-	-	-
Equity Securities - Unquoted	-	-	23,945	23,945	-	-	51,554	51,554
Unit trust	-	-	-	-	-	1,122,836	-	1,122,836
	1,157,053	-	23,945	1,180,998	640,791	1,122,836	51,554	1,815,181
	1,424,159	-	23,945	1,448,104	872,055	1,122,836	51,554	2,046,445

As at 31 December	Group							
	2018				2017			
	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 fair value through profit or loss	274,700	-	-	274,700	238,252	-	-	238,252
	274,700	-	-	274,700	238,252	-	-	238,252
Financial investments at fair value through other comprehensive income								
Government securities	1,761,657	-	-	1,761,657	978,638	-	-	978,638
Equity securities - Quoted	21,420	-	-	21,420	-	-	-	-
Equity securities - Unquoted	-	-	23,945	23,945	-	-	51,554	51,554
Unit trust	-	43,298	-	43,298	-	1,161,650	-	1,161,650
	1,783,077	43,298	23,945	1,850,320	978,638	1,161,650	51,554	2,191,842
	2,057,777	43,298	23,945	2,125,020	1,216,890	1,161,650	51,554	2,430,094

Accounting Policy

Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques incorporating group's estimate of assumptions that a market participant would make when valuing the instruments.

Financial Instruments Carried at Fair Value

The fair value is the amount for which a financial asset could be exchanged between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, which is the case for a number of financial assets and liabilities, a discounted cash flow or generally accepted estimation and valuation techniques based on market conditions at the reporting date are used to calculate an estimated value.

Financial Investments at Fair Value Through Other Comprehensive Income

FVTOCI financial assets valued using valuation techniques or pricing models primarily consist of government debt securities and unquoted equity securities.

These assets are valued using models that use both observable and unobservable data. The un-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

Other Financial Assets Designated at Fair Value Through Profit or Loss

Other financial assets designated at FVTPL valued using the market price since an active market exists.

Day 1 Profit

When the transaction price differs from the fair value of other observable current market transactions in the same instrument, the Group amortise the difference between the transaction price and fair value (i.e. Day 1 Profit or Loss) over time on an applicable basis in interest income. The table below shows the movement in the aggregate profit not recognised when financial instruments were initially recognised ('Day 1 Profit').

As at 31 December	Company		Group	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Balance as at 1 January	76,229	40,297	76,229	40,297
Reduction due to passage of time	(31,206)	(20,585)	(31,206)	(20,585)
Deferral of profit on new transactions	52,348	75,898	52,348	75,898
Derecognition of the instruments	(6,815)	(19,381)	(6,815)	(19,381)
Balance as at 31 December	90,556	76,229	90,556	76,229

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			
	2018		2017		2018		2017	
	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 Carrying Amount	Rs.'000 Fair Value
Financial assets								
Placements with banks and financial institutions	670,575	670,575	1,509,597	1,509,597	774,575	774,575	1,597,785	1,597,785
Loans and receivables at amortised cost	30,721,147	30,721,147	28,760,494	28,760,494	30,485,412	30,485,412	28,755,317	28,755,317
Financial investments at amortised cost	60,828	353,375	479,362	484,934	60,828	353,375	479,362	484,934
Other assets	43,721	43,721	46,865	46,865	43,721	43,721	46,865	46,865
Total	31,496,271	31,788,818	30,796,318	30,801,890	31,364,536	31,657,084	30,879,329	30,884,901
Financial liabilities								
Due to customers at amortised cost	20,831,021	20,831,021	21,918,869	21,918,869	20,821,606	20,821,606	21,910,383	21,910,383
Debt issued and borrowed funds at amortised cost	5,331,077	5,331,077	7,763,404	7,763,404	5,331,077	5,331,077	7,763,404	7,763,404
Other liabilities	316,345	316,345	338,072	338,072	316,345	316,345	338,072	338,072
Total	26,478,443	26,478,443	30,020,345	30,020,345	26,469,028	26,469,028	30,011,859	30,011,859

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:

Notes to The Financial Statements

43 Fair Value of Financial Instruments - Contd.

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.

44 Events after the Reporting Period

In order to comply with regulatory requirements of the subsidiary-MBSLI, LKR 1.20 Bn has been infused to the capital of the MBSLI and allotted 1,411,764,706 ordinary voting shares. Accordingly, the required Capital infusion has been completed and the Insurance Regulatory Commission of Sri Lanka (IRCSL) has lifted the suspension of the license effective from 3 April 2019.

MBSLI has increased the number of fully paid Ordinary Voting Shares of the Company from 565,524,062 to 1,977,288,768 and the paid up Capital from LKR 1,080,021,914 to LKR 2,280,021,914 on 4 April 2019.

As the major shareholder of the MBSLI, the Compay-MBSL has invested Rs. 500 Mn out of 1.2 Bn on 31 January 2019 and allotted 112,537,891 ordinary shares on 4 April 2019, representing 53.81% of the share holdings.

45 Going Concern of the Subsidiary

Going Concern of MBSL Insurance Company Limited (MBSLI)

"The Subsidiary-MBSLI has recorded a profit of Rs. 357 Mn for the year ended 31 December, 2018 which includes recognition of deferred tax assets amounting to Rs. 506 Mn (2017 loss: Rs. 53 Mn) and accumulated loss of Rs. 683 Mn (Accumulated loss 2017: Rs. 1,048 Mn) as at 31 December, 2018.

The non-life business does not fulfill the minimum capital required thresholds set for Capital Adequacy Ratio and Total Available Capital by the Regulation of Insurance Industry Act, No.43 of 2000, "the Solvency Margin (Risk Based Capital) Rules 2015" while the life business does not fulfill the minimum required threshold set for total available capital.

The Subsidiary-MBSLI has also not segregated the long-term insurance business and the general insurance business being carried on by it into two separate companies in accordance with Section 53 of Regulation of Insurance Industry (amendment) Act No. 03 of 2011."

In view of the above, the IRCSL has suspended the license issued to the Subsidiary-MBSLI for carrying out long term and general insurance business with effective from 28 June 2017 until an infusion of Rs. 1.2 Bn to the share capital of the Company.

In order to provide a solution to the non-compliance with the regulatory requirements, the major shareholder, the Merchant Bank of Sri Lanka & Finance PLC-(MBSL) has selected a prospective investor who has an ability to infuse Rs. 700 Mn of required capital for a significant minority stake of the Subsidiary-MBSLI with the additional investment of Rs. 500 Mn made by the MBSL to re-commence the business with the concurrence of the IRCSL.

In the process of divestment of a significant minority stake, the selected investor and the major shareholder has completed their investment of Rs. 1.2 Bn in March 2019 and the IRCSL has lifted the suspension of the License on 3 April, 2019.

The process of capital infusion has now been completed and resumed the daily operation ensuring the Subsidiary-MBSLI continues as a going concern. Therefore, The Financial Statements of the Subsidiary have been prepared with the assumption that the Subsidiary is able to continue as going concern.

46 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 2017.

	Notes	Company			Group			
		Page No.	Current	As Reported	Impact	Current	As Reported	Impact
			Presentation 2017 Rs.'000	Previously 2017 Rs.'000		Presentation 2017 Rs.'000	Previously 2017 Rs.'000	
Statement of Profit or Loss								
Operating Expenses								
Personnel expenses	1	216	(1,073,526)	(1,027,092)	46,434	(1,229,523)	(1,179,659)	49,864
Retirement benefit expenses	1	216	-	(46,434)	(46,434)	-	(49,864)	(49,864)
Depreciation of property, equipment and investment properties	2	216	-	(82,144)	(82,144)	-	(95,455)	(95,455)
Amortisation of intangible assets	2	216	-	(26,881)	(26,881)	-	(32,731)	(32,731)
Depreciation and amortisation	2	216	(109,025)	-	109,025	(128,186)	-	128,186
Other operating expenses	3	216	(718,932)	(743,029)	(24,097)	(898,962)	(923,059)	(24,097)
Taxes on financial services	3	216	(203,500)	(179,403)	24,097	(203,500)	(179,403)	24,097
Statement of Financial Position								
Assets								
Bills receivable	4	216	-	494,096	494,096	-	494,096	494,096
Loans and advances to customers	4	216	-	12,598,133	12,598,133	-	12,592,956	12,592,956
Lease and hire purchase receivable	4	216	-	15,661,432	15,661,432	-	15,661,432	15,661,432
Other assets	5	216	311,146	317,979	6,833	685,594	692,427	6,833
Loans and receivables at amortised cos	4,5	216	28,760,494	-	(28,760,494)	28,755,317	-	(28,755,317)
Liabilities								
Due to banks	6,7	216	1,616,979	123,849	(1,493,130)	1,623,007	129,877	(1,493,130)
Securities sold under repurchase agreements	6	216	-	437,672	437,672	-	437,672	437,672
Debt issued and borrowed funds at amortised cost	7	216	7,763,404	8,818,862	1,055,458	7,763,404	8,818,862	1,055,458

Notes to The Financial Statements

46 Classification Changes in Comparatives - Contd.

Comparative figures have been changed due to following classification changes for the year 2017.

1. Retirement benefit expense which was categorized as separate line item in the Statement of Profit or Loss, has been reclassified under personal expenses.
2. Amortisation of intangible assets was categorized as separate line item in the Statement of Profit or Loss, has been reclassified under depreciation and amortisation.
3. Nation Building Tax (NBT) on financial services was categorized under other operating expenses in the Statement of Profit or Loss, has been reclassified under taxes on financial services.
4. Bills receivables, loans and advances to customers, lease and hire purchases receivables were categorized as separate line item in the Statement of Financial Position, has been reclassified under Loans and receivables at amortised cost.
5. Prepaid introducer commission on leasing was categorized under other assets in the Statement of Financial Position, has been reclassified under loans and receivables at amortised cost.
6. Securities sold under repurchase agreements was categorized as separate line item in the Statement of Financial Position, has been reclassified under due to banks.
7. Loans obtained from banks was categorized under Debt issued and borrowed funds at amortised cost in the Statement of Financial Position, has been reclassified under due to banks.

47 Financial Reporting by Segment

Accounting Policy

The Group's segmental reporting is based on the business segment.

A segment is a distinguishable component of the Group that is engaged in providing products and services. (Business segments, which is subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group.

Inter -segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

As per the provision of Sri Lanka Financial Reporting Standards (SLFRS 8), the operating segment of the Group has been identified based on the products and services offered by the Group of which level of risks and rewards are significantly differ from one another.

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.

Corporate and Retail Credit

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.

Notes to The Financial Statements

47 Financial Reporting by Segment - Contd.

Group	Leasing		Corporate and Retail Credit	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
For the year ended 31 December				
Revenue from external customers				
Interest and similar income	3,201,421	3,044,385	2,606,984	2,648,437
Interest and similar expenses	1,640,465	1,611,244	1,388,813	1,329,109
Net interest income	1,560,956	1,433,141	1,218,171	1,319,328
Other income	109,362	66,052	122,559	144,348
Inter-segment transactions	-	-	-	-
Total operating income	1,670,318	1,499,193	1,340,730	1,463,676
Impairment charges for loans and other losses	(180,113)	(114,431)	45,581	(185,989)
Net operating income	1,490,205	1,384,762	1,386,311	1,277,687
Depreciation and amortisation	52,375	47,364	44,341	39,071
Segment result	612,522	536,591	643,267	626,458

Profit/(loss) from operations after impairment from subsidiary investments

Taxes on financial services

Share of associate company's profit/(loss) before tax

Profit before income tax

Income tax expense

Profit for the year**Assets****Capital expenditures**

Property and equipment	39,817	35,757	34,696	30,154
Intangible assets	1,996	95,873	1,739	80,849
Total assets	16,478,340	15,661,432	14,085,575	13,129,655
Total liabilities	15,003,941	13,894,010	12,825,268	11,642,869

Corporate Advisory and Capital Markets		Insurance		Eliminations / Unallocated		Total	
2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
24,436	20,514	65,888	99,326	362,096	443,950	6,260,825	6,256,612
30,075	32,124	20,014	17,560	687,514	718,588	3,766,881	3,708,625
(5,639)	(11,610)	45,874	81,766	(325,418)	(274,638)	2,493,944	2,547,987
16,571	(10,549)	17,903	228,814	99,444	(32,873)	365,839	395,792
-	-	-	-	-	-	-	-
10,932	(22,159)	63,777	310,580	(225,974)	(307,511)	2,859,783	2,943,779
(29,999)	-	(1,099)	(975)	30,000	56,189	(135,630)	(245,206)
(19,067)	(22,159)	62,678	309,605	(195,974)	(251,322)	2,724,153	2,698,573
960	944	12,970	19,161	22,130	21,646	132,776	128,186
(65,156)	(32,043)	(149,234)	(43,355)	(535,382)	(645,749)	506,017	441,902
						506,017	441,902
						(266,735)	(203,500)
						(8,360)	1,059
						230,922	239,461
						240,802	(136,112)
						471,725	103,349
724	544	-	151	13,783	18,065	89,020	84,671
36	1,458	-	-	698	48,437	4,469	226,617
299,543	238,252	79,276	21,117	6,371,232	8,191,658	37,313,966	37,242,114
272,741	256,989	874,028	1,332,359	5,496,674	6,856,731	34,472,652	33,982,958

Notes to The Financial Statements

48 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	
	2018 Rs.'000	2017 Rs.'000	2018 Rs.'000	2017 Rs.'000
Financial guarantees and claims to the customers	124,250	167,712	177,350	183,166
Total commitments and contingencies	124,250	167,712	177,350	183,166

In the normal course of business, the Company makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and therefore form part of the overall risk of the Company. No material losses are anticipated as a result of these transactions.

Pending Litigations

In the normal course of business, the Company incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
1	43156/MR DC - Colombo	This action has been filed against MBSL for releasing the leased article to the third party who was authorized in writing by the lessee to receive the certificate of registration etc. from MBSL. Following the full settlement of the lease facility by the third party, MBSL released the vehicle and the lessee thereafter filed this action against MBSL claiming damages thus disputing the signature on his own letter of authority.	Plaintiff's action dismissed on 15/07/2016. appeal No. WP/HCCA/LA/ 33/2016(f) is fixed for Argument on 17/09/2019.
2	421/05 DC - Kandy (HCCP/CA/LA 38/2015)	This action has been filed challenging the repossession of the leased article by MBSL. During the trial on a certain legal issue an appeal was filed by MBSL in the Civil Appellate Court in Kandy and in the judgment delivered by the Civil Appellate Court the entire action of the plaintiff dismissed with cost in December 2017. No appeal was filed by the plaintiff.	DC action dismissed.
3	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.	Answer on 29/05/2019.
4	23840/M DC - Anuradhapura	The lessee/plaintiff filed this action claiming damages for wrongful re-possession of the vehicle seeking a declaration to the effect that MBSL has violated the provisions of the lease agreement.	Trial on 28/05/2019.
5	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 29/08/2019.
6	13436/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the plaintiff's wife 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.	Terms of Settlement to be filed on 09/07/2019.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
7	13434/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the plaintiff's wife 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.	Terms of Settlement to be filed on 09/07/2019.
8	13435/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing serious injuries to the plaintiffs 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.	Terms of Settlement to be filed on 09/07/2019.
9	13437/M DC - Kurunegala	This action has been filed by an accident victim against the registered owner, the driver, the Insurer and MBSL seeking damages for causing the death of the plaintiff's father 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.	Terms of Settlement to be filed on 09/07/2019.
10	Appeal No.134/2009 (F) Civil Appellate Court Gampaha	This is an appeal instituted against the order of DC Gamapaha in favour of MBSL in case No.426/L filed by a Mortgagor seeking to nullify the Mortgage bond executed by her to secure a financial leasing facility obtained in 1998. Against the dismissal of that action she filed this appeal and the hearing has been concluded.	Judgement reserved for delivery and the date of delivery of judgment will be notified soon.
11	DMR/000578/13 - DC Kandy	The plaintiff has filed this action against the registered owner of the vehicle and MBSL seeking damages for injuries caused to the plaintiff in an accident involving the leased vehicle. As the MBSL is the absolute owner the MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However, as per the terms and conditions incorporated in the hire purchase agreement the liability falls entirely on the registered owner and the insurer.	Case was laid by due to non-availability of instructions from the plaintiff.
12	LT application No.13/305/02	This is an application filed by an ex. Employee of MBSL in the Labour Tribunal seeking re-instatement and the payment of back wages. This employee's service was terminated due to a financial fraud committed by him when functioning as the cashier. On a complaint made by MBSL the Colombo Fraud Bureau through the Attorney General's Department filed criminal action bearing No.HC/1676/2004 in the Criminal High Court of Colombo. Trial is being heard at present and the MBSL witnesses have finished their evidence. In the event that this criminal action is decided against this employee the question of re-instatement and payment of back wages are unlikely to arise.	The hearing of the LT application kept in abeyance pending the final determination of the High Court Action. Further trial on 14/06/2019.
13	CL/146/2015 (HC/ Civil/MR/529/08) DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008. Civil appeal No. EP/HCCA/TCO/FA/247/19.	Order delivered in favour of petitioner and appeal is pending
14	CL/147/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008.	Claim upheld by court.
15	CL/148/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008.	Claim upheld by court.

Notes to The Financial Statements

48 Contingent Liabilities and Commitments - Contd.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
16	CL/149/2015 DC - Kantale	This action was instituted by a claimant claiming the articles seized by MBSL through Fiscal in the execution of writ in case No. HC/Civil/529/MR/2008.	Claim upheld by court.
17	SC/HC/LA/43/2015 (HC/CIVIL496/09/MR)	This appeal was submitted by the Respondent/lessee in HC/Civil case No. 496/2009 the order of which was delivered in favour of MBSL by the High court.	Leave to appeal dismissed and matter is transferred to high court.
18	2963/L DC - Gampaha	Plaintiff filed this action seeking a declaration that the Mortgage Bond taken as security by MBSL be declared a nullity.	Pre-trial for 2nd defendant on 28/05/2019.
19	Claim -2 HC Galle (now HC(Civil) 03/18/Claim)	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010.	Case was withdrawn by the Claimants on 25/03/2019.
20	Claim -3 HC Galle (now HC(Civil) 05/18/Claim)	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010.	Case was withdrawn by the Claimants on 25/03/2019.
21	Claim -4 HC Galle (now HC(Civil) 04/18/Claim)	This is a claim action arising from the execution of writ by MBSL in case No.HC/ARB/2193/2010.	Case was withdrawn by the Claimants on 25/03/2019.
22	DC Colombo 19426/L	Seeking to set aside the mortgage bond on the grounds that the owner of the property denies the signature in the Mortgage Bond.	Case is laid by until identification of the heirs of the plaintiff.
23	DC Negombo 7300/L	Declaration of title sought by the plaintiff. Judgment dated 04/11/2015 in favour of MBSL. The plaintiff has appealed against the said judgment.(Case No. WP/HCCA/GA/53/2015/F)	Appeal dismissed and the judgment pronounced on 13/12/2018.
24	Mt. Lavinia 2357/07/L (L/18/08) DC Nugegoda 8/08 Connected to DC Col 17451/MB	Third party seeks a declaration of title on the property that was mortgaged to MBSL by the borrower where judgment has been entered in favour of MBSL.	This case is laid by till the steps taken by the plaintiff.
25	DC Chilaw 4145/L	A third party seeks a declaration of title on the property that was mortgaged to MBSL and owned by MBSL through court auction.	Further trial on 10/06/2019.
26	DC Kalutara 145/PRO	Testamentary action connected to DC Colombo Case No.17513/MB (MBSL Vs D B Silva and M S M Fernando).	Laid by until the substitution of the petitioner. (Facility is fully settled)
27	DC Galle L/ 16855	Third party seeks a declaration of title in respect of the property mortgaged to MBSL and owned by MBSL through court auction.	Further trial on 09/09/2019.
28	HC/CIVIL/06/2013/MR	The plaintiff is seeking, inter alia, the refund of the advance payment of Rs. LKR 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.	Further trial on 21/05/2019.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
29	CHC/695/15/MR	The plaintiff being a member of the consortium of investors who entered into a share transfer agreement with MBSL in March 2012 with regard to the sale and purchase of MBSL's shareholding in MBSL Savings Bank Limited has instituted this action against MBSL, seeking the refund of the advance payment of LKR 19,842,233.06 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 LKR 37,617,567 as at 27/10/2015.	Further trial on 11/09/2019.
30	CA 198/07 HC(CIVIL) 145/98/1	A Restitution in integrum action to set aside the judgment of Commercial High Court dated 01.09.2003 which was in favour of MBSL and to set aside the Auction held on 17/01/2005.	Judgement delivered on 15/03/2019 dismissing the petitioner's Application.
31	DSP/62/2015 DC - Colombo	The customer who has obtained a term loan facility from MBSL has filed this action seeking inter alia a declaration that they have to pay only another LKR 3,321,489/- to settle the facility in full. Interim injunction sought by the customer was refused.	Further trial on 02/07/2019.
32	DC Embilipitiya 9473/L	Plaintiff seeks a Declaration of Title on the property that was mortgaged to MBSL and owned by MBSL through court auction.	Case laid by till the final determination of the case No. 12941/SPL filed against the petitioner by a 3rd party.
33	826/L -DC Attanagalla	This action has been filed against MCSL Financial Services Limited (5th defendant), seeking for an order declaring Mortgage Bond No1505 dated 16/11/2011 attested by J.C Ponnaiah, Notary Public and Deed of Transfer null and void.	Further trial on 12/09/2019.
34	1520/MR/14 - DC Kaduwela	This action has been filed against MCSL Financial Services Limited (1st defendant) and two others by a Customer of MCSL Financial Services Limited who has obtained a lease facility and defaulted. MCSL Financial Services Limited has been made a party to this action only for the notice purpose.	Trial 17/06/2019.
35	DMR/8867/09 - DC Colombo	This action has been filed by the defendant against MCSL Financial Services Limited seeking an order for damages caused to the plaintiff by wrongful conduct of the defendant (MCSL) - appeal filed by the plaintiff.	On 01/04/2015, Order delivered in favour of MBSL- Civil Appellate case will be called on 11/07/2019 for argument
36	8147/L - DC Kurunegala	Plaintiff has filed action against a customer- (2nd defendant) and MCSL Financial Services Limited (1st defendant) seeking interim and permanent injunction orders restraining 1st defendant from enforcing the mortgage bond No. 1825 dated 26/03/2011 attested by M.K.T.U Senevirathne, Notary Public.	Trial on 21/06/2019.
37	DSP 98/10 - DC Colombo (WP/ HCCA/COL 125/2016 (F))	The plaintiff has filed action against MCSL Financial Services Limited (1st defendant) and another person (2nd defendant- Customer of lease Facility) seeking a declaration that plaintiff is the owner of the land which has been mortgaged to MCSL Financial Services Limited.	On 25/04/2016 Judgment Delivered in favour of MBSL. appeal filed by the plaintiff. Mention on 29/07/2019.
38	DMR 608/12-DC Colombo	The plaintiff has filed action against MCSL Financial Services Limited claiming damages for Malicious prosecution.	Plaintiff's action dismissed on 05/04/2019.

Notes to The Financial Statements

48 Contingent Liabilities and Commitments - Contd.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
39	4977/SPL - DC Colombo	The plaintiff is seeking an order declaring Mortgage Bond No 77 dated 02-10-1995 attested by Mihirun Nisha Nachchiya Abdeen, Notary Public null and void. This case has been filed against MCSL Financial Services Limited and 3 others in 1997.	Further trial on 07/06/2019 and 12/07/2019.
40	3114/L - DC Gampaha	This action has been filed against MCSL Financial Services Ltd (2nd defendant) seeking declaration of title for the land which has been Mortgaged to MCSL Financial Services Ltd by the 1st defendant. (Notice Only)	Written submission on 25/07/2019.
41	00007/2016/DCL	This action was instituted by a claimant , claiming the articles seized by MBSL through fiscal in the execution of writ against 2nd defendant in the case No. 1043/12/MR. In consequences of the execution of the writ claim case has been filed by the petitioner in DC Colombo.	Inquiry on 23/05/2019.
42	DC/Matara/SPL/ 868	This action has been filed challenging the repossession of a vehicle regarding a hire purchase facility granted by MCSL Financial Services Limited.	Trial on 13/06/2019.
43	DSP 115/2016 DC - Colombo	This action has been instituted by the Customer seeking a restitution in 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.	Trial on 18/06/2019.
44	CHC/215/2015/ MR (Commercial High Court)	Plaintiffs are the Shareholders of the company and they have filed an action in District Court of Colombo (Case No. DMR/785/13) claiming Rs.3,841,000/- for the shares they have invested for amounting to Rs.2,400,000/-. This case has been transferred to the Commercial High Court by the District Court order dated 20.11.2015 considering the value of the case.	Trial on 10/06/2019.
45	LT/02/627/2016	The applicant has filed this action in the Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or as an alternative reasonable compensation against termination of his employment.	Trial on 28/05/2019.
46	LT/2/676/2016	The applicant has filed this action in the Labour Tribunal of Colombo seeking an order for the reinstatement of his employment with back wages or as an alternative reasonable compensation against termination of his employment.	Further Inquiry on 28/05/2019.
47	353/16/SPL	Plaintiff has filed this action against the MBSL and two others seeking nullity of several deeds in the title chain including the Mortgage Bond executed in favour of the MBSL and also claiming that the property alienated to the MBSL by way of fiscal conveyance is subject to a constructive trust.	Trial on 24/06/2019.
48	322/SPL DC -Attanagalla	This action has been filed seeking the release of the property mortgaged to MCSL following the settlement of all dues. The cancelled bond given to the customer has been lost/misplaced and MCSL has refused to execute a Deed of Release. No other relief sought.	Trial on 17/06/2019.
49	DLA 8014/2017 - DC Negombo	This action has been filed by the plaintiff against the MBSL and another in the District Court of Negombo seeking interim injunction preventing the MBSL auctioning the mortgaged property . Further the plaintiff has sought to nullify the mortgage bond executed in favour of the MBSL.	Answer on 05/09/2019.
50	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.	Written submission on 03/06/2019.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
51	DMR/00295/17 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 the death of the husband of 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 lease agreement the liability falls entirely on the registered owner and the insurer.	Discharged MBSL from this case on 22/03/2019.
52	DC-Kandy DSP/00079/2016	This an action filed by the registered owner/lessee on the alleged failure of MBSL to handover the original of the certificate of registration to the registered owner and seeking a restraining order against the possible repossession of the vehicle by MBSL. However, the position of MBSL is that the facility is not yet fully settled.	Written submission on 21/05/2019.
53	DMR/1515/2017 DC Colombo	This is an action instituted to secure a restraining order to prevent MBSL taking steps to repossess the lease article and also to recover from MBSL the original of the certificate of registration thereto. However, the MBSL has taken up the jurisdiction issue since this matter has to be heard at the arbitration and thereafter referred to the Commercial High Court of Colombo.	Pre-trial on 11/06/2019.
54	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 20/08/2019.
55	DC-Gampaha 3385/L	This is an action instituted by the plaintiff seeking to have the mortgage bond executed in favour of MBSL as security for the facility declared a nullity, on the basis of a constructive trust.	Pre-trial on 07/10/2019.
56	2093/L DC - Marawila	This is an action instituted by the plaintiff seeking to have the mortgage bond executed in favour of MBSL as security for the facility declared a nullity on the basis that the plaintiff was not in a mentally fit and sound state at the time of execution of the mortgage bond.	Replication on 22/08/2019.
57	SC Appeal 26/2014	This is a special leave to appeal sought by the UB Finance Company Ltd (formerly known as The Finance and Guarantee Ltd) against the Court of Appeal judgment dismissing its application for writ of Certiorari and Mandamus restraining the Commissioner of Labour effecting their decision that the UB Finance should deposit money amounting to a sum of LKR 567,318/- In favour of a former employee of The Finance and Guarantee Ltd. MBSL had been named as a necessary party as MBSL was the managing agent of The Finance and Guarantee Ltd at that time.	Argument on 26/06/2019.
58	SC FR 207/17	FR application filed by a depositor of The Finance and Guarantee Company Limited whose deposit is converted to non-voting shares with his consent in accordance with Central Bank Directions. The petitioner seeks a repayment plan for his deposits/return for his shares. There is no claim against MBSL. MBSL has been made a party since MBSL had been managing the said entity during the period of the conversion to shares.	Granting leave was refused on 03/08/2018.
59	DC Gampaha 988/T	Testamentary case filed with regard to the intestate estate of the owner of a property mortgaged to MBSL for a financial facility.	Inquiry on 09/08/2019.
60	CHC/381/17/MR	The plaintiff is seeking inter alia, damages from MBSL amounting to a sum of Rs. 9,000,000/- or such other sum to be determined by the court for cancellation of the purchase order dated 26/04/2016 in respect of the e-Financial Suit (Core Leasing Software Solution).	Trial on 29/05/2019

Notes to The Financial Statements

48 Contingent Liabilities and Commitments - Contd.

No.	Action / Case No.	Purpose / Cause of Action	Current Status
61	8691/Land - Kegalle	This action is filed by a third party against MBSL and a customer of MBSL who has executed the mortgage bond in favour of MBSL, based on constructive trust seeking inter alia cancellation of the said mortgage bond.	Call on 04/09/2019.
62	8707/Land Kegalle DC	This action is filed by a third party against MBSL and a customer of MBSL who has executed the mortgage bond in favour of MBSL, based on constructive trust, seeking inter-alia cancellation of the said mortgage bond.	Answer of the first defendant due on 28/08/2019
63	000337/17/CL	This action was filed by a claimant, claiming the articles seized by MBSL through fiscal in the execution of writ against 2D in the case No. 1675/12/MR.	Inquiry on 03/07/2019.
64	3379/Land/ Gampaha	The plaintiff had been the previous owner of a property which had been mortgaged to the MBSL. This action has been filed on the basis that the alienation of the said property to the mortgagor is a forgery. Therefore the plaintiff has sought a declaration nullifying the deed of gift executed in favour of the Mortgagor. In this matter the MBSL has been named as the 3rd defendant being the Mortgagee of the said property.	Trial on 24/07/2019.
65	28394/Land Avissawella	The subject property has been mortgaged to the MBSL by the 1st defendant to this action. Upon default the MBSL has already filed a MB action bearing case No.309/2014. The plaintiff to this action alleged that the transfer executed in favour of the Mortgagor in respect of the subject property is a forgery. Therefore the plaintiff has sought a nullity on both deed of transfer executed in the name of the 1st defendant and the mortgage bond executed in favour of the MBSL.	Pre-trial on 11/07/2019.
66	WP/HCCA/ COL/33/2016 (F) DC Colombo No. 43156 MR	The plaintiff - Appellant filed this action against the MBSL (defendant Respondent) in the Civil Appellate High court of Colombo to set aside the judgment dated 15/07/2016 which was delivered against the plaintiff in the District court of Colombo.	Argument on 17/09/2019.
67	DMR/925/2017	This action involves a vehicle which belongs to a leasing customer of MBSL. The plaintiff has purchased the said vehicle through a financial facility from U B Finance Company Limited. However, due to a certain offence purported to have been committed by the previous owner i.e. the lessee of MBSL, the Magistrate court of Matale has issued a confiscation order on the said vehicle soon after the vehicle was released to the plaintiff by MBSL. Thereafter the plaintiff has filed this action against U B Finance Company Limited which in turn made MBSL an added party to this action and MBSL has already filed its objections.	Amended captioned to be filed on 05/11/2019.
68	M/1818	This action has been filed by the wife of an accident victim who was killed by a road accident. However, MBSL Insurance Limited failed to pay the Sum of LKR 100,000/- being the value of the life insurance Policy despite its obligation to do so. MBSL too has been made a party to this action since the deceased has obtained the vehicle involved in the accident through a lease facility from MBSL.	Answer on 22/07/2019.
69	115/2015	This action has been filed by an accident victim against the driver, registered owner, and MBSL seeking damages for causing serious injuries to him in an accident involving the leased vehicle. As the MBSL is the absolute owner of the vehicle MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However, as per the terms and conditions incorporated in the lease agreement the liability falls entirely on the registered owner and the insurer.	Answer on 08/08/2019

No.	Action / Case No.	Purpose / Cause of Action	Current Status
70	L/270 DC-Dambulla	This action has been filed against MBSL (3rd defendant) by a defaulted customer of MBSL and another. MBSL has been made a party to this action only for the notice purpose.	Answer on 13/06/2019
71	DSP 65/18, District Court of Colombo	Plaint dated 17/05/2018 was filed seeking inter alia a Judgement and Decree that the letter dated 14/05/2018 issued by the defendant (MBSL) interdicting the plaintiff from the services is illegal, null and void and has no force or avail in law and an enjoining order and interim injunction to that effect. The said enjoining order sought was refused by the order dated 23/05/2018. The interim injunction sought by the plaintiff was also refused on 11/01/2019. A further application regarding contempt of court was filed by the plaintiff by the petition dated 02nd November 2018, seeking inter alia a judgement and decree against the directors of the defendant company as at the date of the said petition.	The case was called on 2nd May 2019 for pre-trial. The matter is fixed for written submissions on 04th June 2019 court delivered its order dated 30th April 2019 refusing issuing notices to the defendant with regard to the contempt of court application made by the plaintiff.
72	WP/HCCA/LA/ COL/82/2018 Civil Appellate High Court	Leave to Appeal Application filed by the plaintiff aforesaid, against the order dated 23/05/2018 made by the District Court of Colombo refusing the enjoining order pleaded in the Plaint.	The Leave to Appeal Application was dismissed by the court by its order dated 16th November 2018.
73	SC FR 193/2018 Supreme Court of Sri Lanka	Fundamental rights application made by the petitioner 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. Subsequently, a further application dated 06/08/2018 was filed by the petitioner seeking inter alia an interim order staying proceedings of the domestic inquiry until determination of this application.	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. The matter is reserved for the order.
74	L.T. 08/223/2018	Applicant seeks reinstatement with back wages.	Further Inquiry on 22/05/2019
75	L.T. 01/75/2018	Applicant seeks reinstatement with back wages or in the alternative a reasonable compensation.	Further Inquiry on 31/07/2019
76	L.T. 13/04/2019	Applicant seeks reinstatement with back wages or in the alternative a reasonable compensation.	Further Inquiry on 26/06/2019

Notes to The Financial Statements

48 Contingent Liabilities and Commitments - Contd.

48.1 Group

Contingencies and commitments of MBSL Insurance Company Limited.

48.1.1 Contingent assets

The litigation initiated by the Subsidiary - MBSLI which is currently in favour to the subsidiary 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.

48.1.2 Financial commitments

The commitment of the Subsidiary-MBSLI under Bond Guarantees has become zero as at 31 December 2018 due to expiration of the cover periods (Rs. 54 Mn in 2017) and therefore, no exposure to Bonds as of 31 December 2018.

48.1.3 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	
	2018 Rs.'000	2017 Rs.'000
Bond claims	40,000	47,599
Insurance claims	13,100	13,100
Third party claims	809,471	728,413
	862,571	789,112

No provision has been made in the Financial Statements for a performance bond insurance claim amounting to Rs. 294 Mn 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 as it was cancelled by MBSL Insurance Company Limited for the non-settlement of premium and this was informed to the claimant several months before the claimant made the claim.

49 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.

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.

Market Risk

Market risk is the risk of losses in on and off-balance sheet positions arising from movements in market prices. Market risk can arise due to variations in interest rates, exchange rates, equity prices and commodity market prices. Interest rate risk and equity price risk mainly effect on Merchant Bank of Sri Lanka & Finance PLC business activities. Merchant Bank of Sri Lanka & Finance PLC uses sensitivity analysis, discounted cash flows and maturity gap analysis to calculate the market risk.

Notes to The Financial Statements

49 Risk Management - Contd.**Liquidity Risk**

Liquidity risk is the possibility of losses arising from fluctuations in the Group's ability to sell or dispose the assets and settle the liabilities.

Groups believes that effective management of liquidity risk is vital for continuing the 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.

Company**Industry Analysis Risk Concentration**

The Company's concentrations of risk are managed by industry sector.

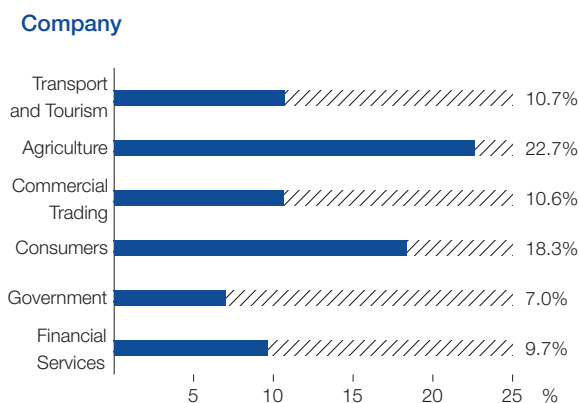
Rs. '000

As at 31 December	Financial Services	Government	Consumers	Commercial Trading ¹	Agriculture	Diversified & Construction ²	Transport & Tourism	Services ³	Total
Financial assets									
Cash and cash equivalents	294,622	-	-	-	-	-	-	-	294,622
Placements with banks and financial institutions	670,575	-	-	-	-	-	-	-	670,575
Securities purchased under resale agreements	-	1,292,670	-	-	-	-	-	-	1,292,670
Financial investments at fair value									
through profit or loss	120,619	-	29,136	9,213	1,626	63,889	38,194	4,429	267,106
Loans and receivables at amortised cost	2,146,984	-	6,300,115	3,643,192	7,830,989	5,110,998	3,658,336	2,030,534	30,721,147
Financial investments at fair value through other comprehensive income									
Government securities	-	1,135,633	-	-	-	-	-	-	1,135,633
Equity securities - Quoted	-	-	-	21,420	-	-	-	-	21,420
Equity securities - Unquoted	1,344	-	-	-	-	22,601	-	-	23,945
Unit trust	-	-	-	-	-	-	-	-	-
Financial investments at amortised cost	60,828	-	-	-	-	-	-	-	60,828
Other assets	43,721	-	-	-	-	-	-	-	43,721
Total financial assets	3,338,693	2,428,303	6,329,251	3,673,825	7,832,615	5,197,488	3,696,530	2,034,963	34,531,667

1 Commercial trading includes industry, trade, import and export, power, retail and wholesale and margin trading

2 Diversified and construction includes diversified holdings, manufacturing and property development

3 Services include IT, health care, telecommunication and others



Group**Industry Analysis Risk Concentration**

The Company's concentrations of risk are managed by industry sector.

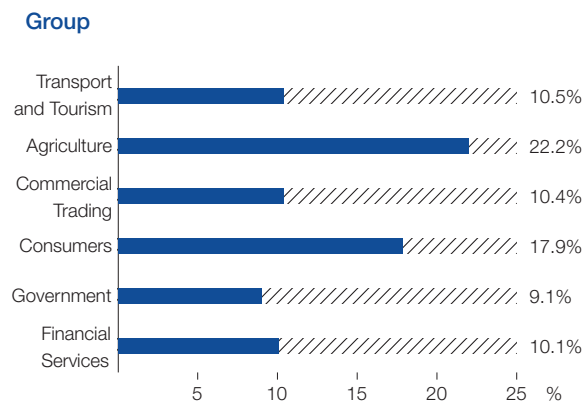
Rs. '000

As at 31 December	Financial Services	Government	Consumers	Commercial Trading ¹	Agriculture	Diversified & Construction ²	Transport & Tourism	Services ³	Total
Financial assets									
Cash and cash equivalents	391,886	-	-	-	-	-	-	-	391,886
Placements with banks and financial institutions	774,575	-	-	-	-	-	-	-	774,575
Securities purchased under resale agreements	-	1,440,819	-	-	-	-	-	-	1,440,819
Financial investments at fair value									
through profit or loss	121,063	-	29,136	12,858	1,626	67,343	38,194	4,480	274,700
Loans and receivables at amortised cost	2,146,984	-	6,300,115	3,649,486	7,830,989	5,110,998	3,658,336	1,788,504	30,485,412
Financial investments at fair value through other comprehensive income									
Government securities	-	1,761,657	-	-	-	-	-	-	1,761,657
Equity securities - Quoted	-	-	-	21,420	-	-	-	-	21,420
Equity securities - Unquoted	1,344	-	-	-	-	22,601	-	-	23,945
Unit trust	43,298	-	-	-	-	-	-	-	43,298
Financial investments at amortised cost	60,828	-	-	-	-	-	-	-	60,828
Other assets	43,721	-	-	-	-	-	-	-	43,721
Total financial assets	3,583,699	3,202,476	6,329,251	3,683,764	7,832,615	5,200,942	3,696,530	1,792,984	35,322,261

1 Commercial trading includes industry, trade, import and export, power, retail and wholesale and margin trading

2 Diversified and construction includes diversified holdings, manufacturing and property development

3 Services include IT, health care, telecommunication and others



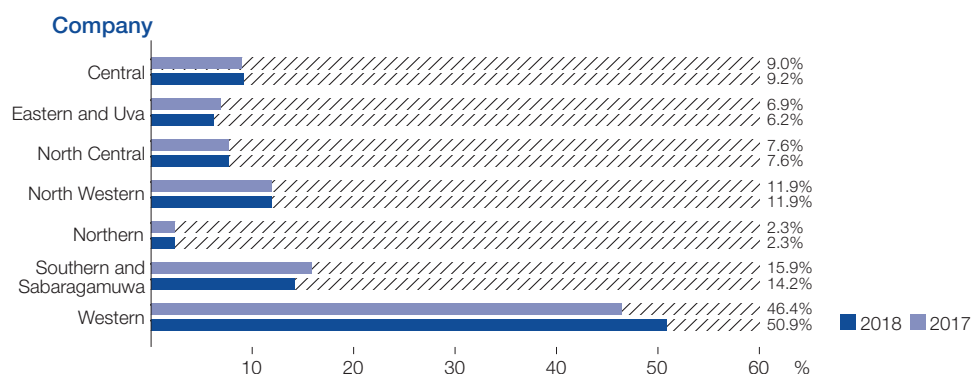
Notes to The Financial Statements

49 Risk Management - Contd.

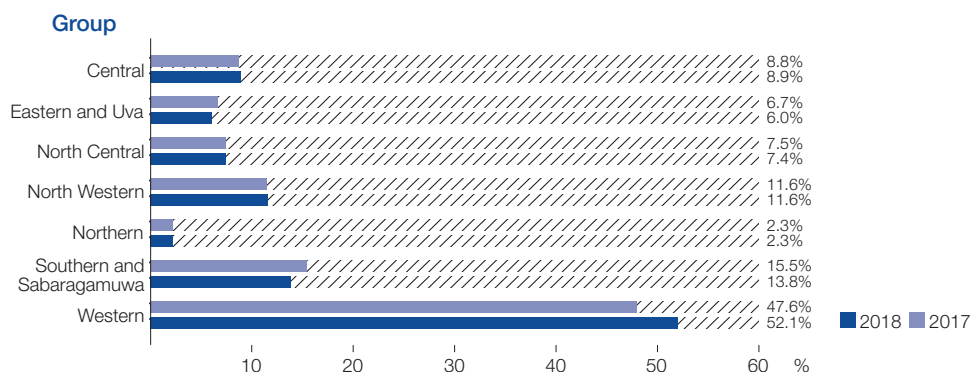
Geographical Analysis

The following table presents the distribution of financial assets of the Company and Group by geographical segment, allocated based on the location in which the financial assets and liabilities are recorded for the year ended 31 December 2018 together with comparative figures for the year ended 31 December 2017.

As at 31 December	Western		Southern and Sabaragamuwa		Northern	
	2018	2017	2018	2017	2018	2017
Company						
Financial assets						
Cash and cash equivalents	194,522	320,513	28,500	28,211	4,465	5,143
Placements with banks and financial institutions	670,575	1,509,597	-	-	-	-
Securities purchased under resale agreements	1,292,670	1,302,748	-	-	-	-
Financial investments at fair value through profit or loss	267,106	231,264	-	-	-	-
Loans & receivables at amortised cost	12,326,896	11,880,285	5,454,341	4,876,594	796,225	688,434
Financial investments at fair value through other comprehensive income						
Government securities	1,135,633	640,791	-	-	-	-
Equity Securities - Quoted	21,420	-	-	-	-	-
Equity Securities - Unquoted	23,945	51,554	-	-	-	-
Unit trust	-	1,122,836	-	-	-	-
Financial investments at amortised cost	60,828	479,362	-	-	-	-
Other assets	43,721	46,865	-	-	-	-
Total financial assets	16,037,317	17,585,815	5,482,840	4,904,805	800,690	693,577
Group						
Financial assets						
Cash and cash equivalents	291,785	367,768	28,500	28,211	4,465	5,143
Placements with banks and financial institutions	774,575	1,597,785	-	-	-	-
Securities purchased under resale agreements	1,440,819	1,651,927	-	-	-	-
Financial investments at fair value through profit or loss	274,700	238,252	-	-	-	-
Loans & receivables at amortised cost	12,091,162	11,875,107	5,454,341	4,876,594	796,225	688,434
Financial investments at fair value through other comprehensive income						
Government securities	1,761,657	978,638	-	-	-	-
Equity Securities - Quoted	21,420	-	-	-	-	-
Equity Securities - Unquoted	23,945	51,554	-	-	-	-
Unit trust	43,298	1,161,650	-	-	-	-
Financial investments at amortised cost	60,828	479,362	-	-	-	-
Other assets	43,721	46,865	-	-	-	-
Total financial assets	16,827,908	18,448,911	5,482,840	4,904,805	800,690	693,577



North Western		North Central		Eastern and Uva		Central		Total	
2018	2017	2018	2017	2018	2017	2018	2017	2018	2017
21,113	23,722	14,729	8,993	13,077	12,792	18,216	19,509	294,622	418,885
-	-	-	-	-	-	-	-	670,575	1,509,597
-	-	-	-	-	-	-	-	1,292,670	1,302,748
-	-	-	-	-	-	-	-	267,106	231,264
4,083,860	3,653,480	2,617,614	2,386,347	2,366,869	2,118,690	3,075,342	3,149,833	30,721,147	28,753,662
-	-	-	-	-	-	-	-	1,135,633	640,791
-	-	-	-	-	-	-	-	21,420	-
-	-	-	-	-	-	-	-	23,945	51,554
-	-	-	-	-	-	-	-	-	1,122,836
-	-	-	-	-	-	-	-	60,828	479,362
-	-	-	-	-	-	-	-	43,721	46,865
4,104,973	3,677,202	2,632,344	2,395,340	2,379,945	2,131,482	3,093,558	3,169,343	34,531,667	34,557,564
21,113	23,722	14,729	8,993	13,077	12,792	18,216	19,509	391,886	466,139
-	-	-	-	-	-	-	-	774,575	1,597,785
-	-	-	-	-	-	-	-	1,440,819	1,651,927
-	-	-	-	-	-	-	-	274,700	238,252
4,083,860	3,653,480	2,617,614	2,386,347	2,366,869	2,118,690	3,075,342	3,149,833	30,485,412	28,748,484
-	-	-	-	-	-	-	-	1,761,657	978,638
-	-	-	-	-	-	-	-	21,420	-
-	-	-	-	-	-	-	-	23,945	51,554
-	-	-	-	-	-	-	-	43,298	1,161,650
-	-	-	-	-	-	-	-	60,828	479,362
-	-	-	-	-	-	-	-	43,721	46,865
4,104,973	3,677,202	2,632,344	2,395,340	2,379,945	2,131,482	3,093,558	3,169,343	35,322,261	35,420,666



Notes to The Financial Statements

49 Risk Management - Contd.

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 2018.

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.

Maturity analysis

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	Total Rs.'000
Assets							
Financial assets							
Cash and cash equivalents	294,622	-	-	-	-	-	294,622
Placements with banks and financial institutions	-	-	325,959	344,616	-	-	670,575
Securities purchased under resale agreements	512,373	-	780,297	-	-	-	1,292,670
Financial investments at fair value							
through profit or loss	-	267,106	-	-	-	-	267,106
Bills receivable at amortised cost	138,118	259,633	-	-	36,240	-	433,991
Loans and advances to customers							
at amortised cost	1,395,364	1,511,642	1,841,718	603,594	563,344	7,893,154	13,808,816
Lease and hire purchase receivable							
at amortised cost	1,114,773	1,124,264	1,693,103	826,459	831,586	10,888,155	16,478,340
Financial investments at fair value							
through other comprehensive income	-	-	451,943	391,464	190,971	45,365	1,079,743
Financial investments at amortised cost	-	-	160,576	1,507	-	-	162,083
Financial other assets	-	43,721	-	-	-	-	43,721
Total financial assets	3,455,250	3,206,366	5,253,596	2,167,640	1,622,141	18,826,674	34,531,667
Non financial assets							
Real estate stock	-	-	78,503	-	-	-	78,503
Investment in associate company	-	-	-	-	-	81,084	81,084
Investment in subsidiary	-	-	-	-	-	79,276	79,276
Investment properties	-	-	-	-	-	120,181	120,181
Property and equipment	-	-	-	-	-	320,113	320,113
Intangible assets	-	-	-	-	-	193,121	193,121
Deferred tax Assets	-	-	-	-	-	187,629	187,629
Other assets	-	272,852	-	-	-	-	272,852
Total non-financial assets	-	272,852	78,503	-	-	981,404	1,332,759
Total assets	3,455,250	3,479,218	5,332,099	2,167,640	1,622,141	19,808,078	35,864,426
Financial liabilities							
Due to banks	1,550,325	3,311,595	-	1,007,397	-	-	5,869,317
Due to customers at amortised cost	467,661	1,987,802	10,118,220	4,372,637	3,821,271	63,430	20,831,021
Debt issued and borrowed funds at amortised cost	-	51,258	2,862,258	311,004	2,106,557	-	5,331,077
Other financial liabilities	-	316,345	-	-	-	-	316,345
Total financial liabilities	2,017,986	5,667,000	12,980,478	5,691,038	5,927,828	63,430	32,347,760

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	Total Rs.'000
Non financial liabilities							
Current tax liabilities	-	-	15,042	-	-	-	15,042
Deferred tax liabilities	-	-	-	-	-	528,073	528,073
Other liabilities	-	201,739	-	-	-	-	201,739
Retirement benefits obligations	-	-	-	-	-	247,708	247,708
Total Non financial liabilities	-	201,739	15,042	-	-	775,781	992,562
Total liabilities	2,017,986	5,868,739	12,995,520	5,691,038	5,927,828	839,211	33,340,322
Equity							
Stated capital	-	-	-	-	-	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	193,012	193,012
OCI reserve	-	(7,461)	-	-	-	-	(7,461)
Statutory reserves	-	-	-	-	-	214,096	214,096
Total equity	-	(7,461)	-	-	-	2,531,565	2,524,104
Total liabilities and equity	2,017,986	5,861,278	12,995,520	5,691,038	5,927,828	3,370,776	35,864,426
Maturity Analysis							
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	Total Rs.'000
Assets							
Financial assets							
Cash and cash equivalents	391,886	-	-	-	-	-	391,886
Placements with banks and financial institutions	-	-	429,959	344,616	-	-	774,575
Securities purchased under resale agreements	512,373	-	928,446	-	-	-	1,440,819
Financial investments at fair value through profit or loss	-	274,700	-	-	-	-	274,700
Bills receivable at amortised cost	138,118	259,633	-	-	36,240	-	433,991
Loans and advances to customers at amortised cost	1,395,364	1,511,866	1,600,793	605,902	565,097	7,894,059	13,573,081
Lease and hire purchase receivable at amortised cost	1,114,773	1,124,264	1,693,103	826,459	831,586	10,888,155	16,478,340
Financial investments at fair value through other comprehensive income	-	307,734	487,613	598,673	309,680	45,365	1,749,065
Financial investments at amortised cost	-	-	160,576	1,507	-	-	162,083
Financial other assets	-	43,721	-	-	-	-	43,721
Total financial assets	3,552,514	3,521,919	5,300,491	2,377,157	1,742,603	18,827,579	35,322,261
Non financial assets							
Real estate stock	-	-	78,503	-	-	-	78,503
Investment in associate company	-	-	-	-	-	84,415	84,415
Investment properties	-	-	-	-	-	120,181	120,181
Property and equipment	-	-	-	-	-	334,493	334,493
Intangible assets	-	-	-	-	-	205,681	205,681
Deferred tax Assets	-	-	-	-	-	697,375	697,375
Other assets	-	471,057	-	-	-	-	471,057
Total non-financial assets	-	471,057	78,503	-	-	1,442,145	1,991,705
Total assets	3,552,514	3,992,976	5,378,994	2,377,157	1,742,603	20,269,724	37,313,966

Notes to The Financial Statements

49 Risk Management - 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	Total Rs.'000
Financial liabilities							
Due to banks	1,550,325	3,314,749	-	1,007,397	-	-	5,872,471
Due to customers at amortised cost	467,661	1,987,802	10,108,805	4,372,637	3,821,271	63,430	20,821,606
Debt issued and borrowed funds at amortised cost	-	51,258	2,862,258	311,004	2,106,557	-	5,331,077
Other financial liabilities	-	316,345	-	-	-	-	316,345
Total financial liabilities	2,017,986	5,670,154	12,971,063	5,691,038	5,927,828	63,430	32,341,499
Non financial liabilities							
Insurance provision - life	-	-	574,399	-	-	-	574,399
Insurance provision - non life	-	-	336,825	-	-	-	336,825
Current tax liabilities	-	-	15,042	-	-	-	15,042
Deferred tax liabilities	-	-	-	-	-	531,570	531,570
Other liabilities	-	416,672	-	-	-	-	416,672
Retirement benefits obligations	-	-	-	-	-	256,644	256,644
Total non-financial liabilities	-	416,672	926,265	-	-	788,214	2,131,152
Total liabilities	2,017,986	6,086,826	13,897,328	5,691,038	5,927,828	851,644	34,472,651
Equity							
Stated capital	-	-	-	-	-	2,124,457	2,124,457
Retained earnings	-	-	-	-	-	457,806	457,806
OCI reserve	-	(7,461)	-	-	-	(11,590)	(19,051)
Statutory reserves	-	-	-	-	-	214,096	214,096
Non controlling interests	-	-	-	-	-	64,007	64,007
Total equity	-	(7,461)	-	-	-	2,848,776	2,841,315
Total liabilities and equity	2,017,986	6,079,366	13,897,328	5,691,038	5,927,828	3,700,421	37,313,966

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	Rs.'000						
	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years	Total as at 31-12-2018
Financial guarantees and claims to the customers	500	10,500	113,250	-	-	-	124,250
Total commitments and contingencies	500	10,500	113,250	-	-	-	124,250

Group	Rs.'000						
	On Demand	Less than 3 Months	3 - 12 Months	1-3 Years	3-5 Years	Over 5 Years	Total as at 31-12-2018
Financial guarantees and claims to the customers	500	10,500	113,250	-	-	-	124,250
Total commitments and contingencies	500	10,500	113,250	-	-	-	124,250

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

According to the SLFRS 9, the incurred losses, as well as the expected credit losses need to be taken into consideration when providing for credit risk.

Calculation of Expected Credit Losses

Expected credit loss (ECL) represents the default events over an expected life time of the financial assets. Expected Credit Losses (ECLs) are calculated using three main components, i.e. a Probability of Default (PD), a Loss Given Default (LGD) and Exposure at Default (EAD). These parameters are generally derived from internally developed statistical models combined with historical, current and forward-looking customer and macro-economic data.

SLFRS 9 introduces a three stage model for impairment of financial assets that are performing at the stage of origination or purchase. Three stage model for impairment is based on the changes in the credit quality since initial recognition. At initial recognition, financial assets which are not credit impaired are reflected in stage 1. If there is a significant increase in the credit risk, such financial assets are transferred to stage 2. Significant increase in the credit risk is defined using pre-determined credit risk indicators which are stated in the bank's impairment policy. In case of a default, financial assets are classified as stage 3.

Incorporation of Forward-looking Information

The Company has established an expert panel who considers a range of relevant forward-looking macro-economic assumptions for the determination of unbiased general industry adjustments and any related specific industry adjustments, that support the calculation of ECLs.

Notes to The Financial Statements

49 Risk Management - Contd.

Credit Quality by Class of Financial Assets

Based on the credit quality, the financial assets can be classified mainly into three categories i.e. neither past due nor impaired, past due but not individually impaired and individually impaired.

The table below shows the credit quality by class of assets for all financial assets exposed to credit risk.

Company	2018				2017			
	Neither past due nor impaired Rs.'000	Past due but not impaired Rs.'000	Individually impaired Rs.'000	Total Rs.'000	Neither past due nor impaired Rs.'000	Past due but not impaired Rs.'000	Individually impaired Rs.'000	Total Rs.'000
Financial assets								
Cash and cash equivalents	294,622	-	-	294,622	418,885	-	-	418,885
Placements with banks and financial institutions	670,575	-	-	670,575	1,509,597	-	-	1,509,597
Securities purchased under resale agreements	1,292,670	-	-	1,292,670	1,302,748	-	-	1,302,748
Financial investments at fair value through profit or loss	267,106	-	-	267,106	231,264	-	-	231,264
Loans and receivables at amortised cost	13,979,914	15,461,490	1,279,743	30,721,147	14,479,797	12,175,576	2,105,121	28,760,494
Financial investments at fair value through other comprehensive income	1,180,998	-	-	1,180,998	1,815,181	-	-	1,815,181
Financial investments at amortised cost	60,828	-	-	60,828	479,362	-	-	479,362
Other assets	43,721	-	-	43,721	46,865	-	-	46,865
Total	17,790,435	15,461,490	1,279,743	34,531,667	20,283,699	12,175,576	2,105,121	34,564,396

Aging analysis of past due (i.e. Facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets

	2018				2017			
	Less than 31 Days Rs.'000	31 to 90 Days Rs.'000	More than 90 Days Rs.'000	Total Rs.'000	Less than 31 Days Rs.'000	31 to 90 Days Rs.'000	More than 90 Days Rs.'000	Total Rs.'000
Loans and receivables (gross)	1,700,341	1,880,218	2,135,045	5,715,604	1,479,854	739,927	4,117,704	6,337,485
Lease and hire purchase receivable (gross)	3,417,716	4,813,620	2,583,517	10,814,853	2,671,055	1,335,527	3,099,737	7,106,319
	5,118,057	6,693,838	4,718,562	16,530,457	4,150,909	2,075,454	7,217,441	13,443,804
% from Total	0.3	0.4	0.3		0.3	0.2	0.5	

Group	2018				2017			
	Neither past due nor impaired Rs.'000	Past due but not impaired Rs.'000	Individually impaired Rs.'000	Total Rs.'000	Neither past due nor impaired Rs.'000	Past due but not impaired Rs.'000	Individually impaired Rs.'000	Total Rs.'000
Financial assets								
Cash and cash equivalents	391,886	-	-	391,886	466,139	-	-	466,139
Placements with banks and financial institutions	774,575	-	-	774,575	1,597,785	-	-	1,597,785
Securities purchased under resale agreements	1,440,819	-	-	1,440,819	1,651,927	-	-	1,651,927
Financial investments at fair value through profit or loss	274,700	-	-	274,700	238,252	-	-	238,252
Loans and receivables at amortised cost	13,979,914	15,463,086	1,042,412	30,485,412	14,479,797	12,170,399	2,105,121	28,755,317
Financial investments at fair value through other comprehensive income	1,850,320	-	-	1,850,320	2,191,842	-	-	2,191,842
Financial investments at amortised cost	60,828	-	-	60,828	479,362	-	-	479,362
Other assets	43,721	-	-	43,721	46,865	-	-	46,865
Total	18,816,763	15,463,086	1,042,412	35,322,261	21,151,969	12,170,399	2,105,121	35,427,489

Aging analysis of past due (i.e. Facilities in arrears of 1 day and above) but not impaired loans, by class of financial assets

	2018				2017			
	Less than 31 Days Rs.'000	31 to 90 Days Rs.'000	More than 90 Days Rs.'000	Total Rs.'000	Less than 31 Days Rs.'000	31 to 90 Days Rs.'000	More than 90 Days Rs.'000	Total Rs.'000
Loans and receivables (gross)	1,700,341	1,880,218	2,135,045	5,715,604	1,479,854	739,927	4,117,704	6,337,485
Lease and hire purchase receivable (gross)	3,417,716	4,813,620	2,583,517	10,814,853	2,671,055	1,335,527	3,099,737	7,106,319
	5,118,057	6,693,838	4,718,562	16,530,457	4,150,909	2,075,454	7,217,441	13,443,804
% from Total	0.3	0.4	0.3		0.3	0.2	0.5	

Notes to The Financial Statements

49 Risk Management - Contd.

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.

50 Capital

The Company maintains an actively managed capital base to cover risks inherent in the business. The adequacy of the Company's capital is monitored using, among other measures, the rules and ratios established by the Central Bank of Sri Lanka.

During the year, the company had complied in full with all its externally imposed capital requirements up to 30th June 2018. However, with the introduction of the new direction on the Capital Adequacy Requirements No. 03 of 2018 with effect from 01st July, 2018 by Central Bank, the company was unable to maintain the minimum requirement as disclosed in the note 50.1 below. However, the Company is in the process of strengthening the Company's capital management policy in order to meet the minimum required capital adequacy ratios in future.

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.

Capital Adequacy Ratio (CAR)

Licensed Finance Companies in Sri Lanka need to maintain a minimum Total Capital Ratio (CAR) of 10% as at 01 July 2018 to 30 June 2019 and it shall be increased periodically up to 12.5% by 01 July 2021. Required minimum capital adequacy ratios as per the directions issued by the Central Bank of Sri Lanka and the actual ratios maintained during the year 2018 and 2017 by the Company are disclosed below:

Month	Tier 1 Capital Ratio (%)				Total Capital Ratio (%)			
	2018		2017		2018		2017	
	Required minimum ratio as per direction issued by CBSL	Actual Ratio Reported to CBSL	Required minimum ratio as per direction issued by CBSL	Actual Ratio	Required minimum ratio as per direction issued by CBSL	Actual Ratio Reported to CBSL	Required minimum ratio as per direction issued by CBSL	Actual Ratio
31-Mar	5	10.51	5	10.33	10	15.70	10	10.38
30-Jun	5	10.20	5	10.49	10	13.87	10	15.7
30-Sep	6	5.14*	5	10.48	10	9.48*	10	15.68
31-Dec	6	4.70*	5	10.21	10	8.98*	10	15.27

*From 1 July 2018 onward capital adequacy requirement Direction No 03 of 2018 is applicable.

SUPPLEMENTARY INFORMATION

Quarterly Analysis / 242
Decade at a Glance / 244
Independent Assurance Report / 248
GRI Checklist / 250
Basis of Ratio / 254
Glossary / 256
Contact Information / 260
Corporate Information / 266
Notice of Meeting / 267
Notes / 268
Form of Proxy / 271

QUARTERLY ANALYSIS

Statement of Profit or Loss For the quarter ended	2018				2017			
	31st Dec	30th Sept	30th June	31st March	31st Dec	30th Sept	30th June	31st March
Net interest income	596,773	665,647	577,482	602,565	662,547	632,979	636,636	516,316
Net fee and commission income	46,605	59,061	52,589	49,887	39,862	18,778	27,658	33,425
Net trading income	(471)	648	3,936	2,742	630	1,324	(14,321)	(3,651)
Net gain/(loss) on financial instruments at fair value through profit or loss	11,712	(21,525)	(26,474)	6,289	(8,922)	(17,074)	49,929	(18,309)
Other operating income	81,493	47,720	20,080	18,644	14,346	30,902	11,800	19,199
Total operating income	736,111	751,551	627,613	680,127	708,463	666,909	711,702	546,980
Less : Impairment charges from loans and other losses	(391,486)	109,542	181,512	234,964	45,959	182,313	27,407	(11,448)
Net operating income	1,127,597	642,009	446,101	445,163	662,504	484,597	684,295	558,428
Less : Total operating expense	490,582	547,783	523,971	499,144	422,411	515,760	507,812	455,502
Profit/(loss) from operations	637,015	94,226	(77,870)	(53,981)	240,093	(31,163)	176,483	102,926
Less : Impairment from investment in Group companies	(79,277)	-	21,117	-	56,189	-	-	-
Profit/(loss) from operations after impairment from subsidiary investments	716,292	94,226	(98,987)	(53,981)	183,904	(31,163)	176,483	102,926
Less : Value added tax (VAT) on financial services	108,271	43,913	29,506	29,184	73,191	45,226	44,414	40,669
Profit before income tax	608,021	50,314	(128,493)	(83,165)	110,712	(76,389)	132,069	62,257
Less : Income tax expense/(Reversal)	242,589	22,802	-	-	103,343	(17,462)	29,523	12,394
Profit/(loss) for the period	365,432	27,512	(128,493)	(83,165)	7,369	(58,927)	102,546	49,863
Statement of Comprehensive Income								
Other comprehensive income for the period, net of tax	10,393	(5,963)	(2,847)	(702)	9,962	13,373	8,691	(5,572)
Total comprehensive income for the period, net of tax	375,825	21,549	(131,340)	(83,867)	17,331	(45,554)	111,237	44,291

Statement of Financial Position	2018				2017			
	31st	30th	30th	31st	31st	30th	30th	31st
	Dec	Sept	June	March	Dec	Sept	June	March
As at	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Total assets	35,864,426	36,397,150	35,192,948	33,965,257	35,970,355	36,160,535	35,767,819	33,157,634
Loans and receivables at amortised cost	30,721,147	31,016,844	29,860,060	28,857,757	28,760,494	29,219,769	29,760,457	28,307,588
Due to customers at amortised cost	20,831,021	22,111,764	21,234,288	20,401,513	21,918,869	22,757,385	21,027,326	19,060,077
Total equity	2,524,104	3,043,912	3,018,613	3,149,953	3,233,820	3,223,452	3,269,017	3,157,780

For the quarter ended	2018				2017			
	31st	30th	30th	31st	31st	30th	30th	31st
	Dec	Sept	June	March	Dec	Sept	June	March
Market price per share (LKR)								
Highest	9.60	10.40	14.00	14.70	15.80	15.40	15.40	14.00
Lowest	7.40	7.70	9.50	12.60	12.70	13.40	11.00	10.60
Closing	9.60	8.10	10.00	13.00	13.50	15.10	14.90	10.80

Regulatory Liquidity as at	2018				2017			
	31st	30th	30th	31st	31st	30th	30th	31st
	Dec	Sept	June	March	Dec	Sept	June	March
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Required Minimum Amount of Liquid Assets	2,859,480	2,868,070	2,737,754	2,518,181	2,930,127	2,976,514	3,005,096	2,857,492
Available Total Liquid Assets	2,872,282	3,235,251	3,120,111	3,046,459	3,316,778	3,367,574	4,158,016	2,975,444
Statutory Liquid Asset Ratio	11.37%	11.47%	11.59%	12.32%	11.49%	11.47%	14.01%	10.55%

DECADE AT A GLANCE

	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000
Operating Results			
Income	6,549,905	6,402,825	4,888,155
Interest expenses	3,752,471	3,708,808	2,709,604
Net interest income	2,442,466	2,448,478	2,028,170
Operating expenses and provisions	2,140,150	2,465,367	1,945,654
Share of associate company	-	-	-
Profit before income tax	446,676	228,650	232,897
Income tax on profit	265,391	127,799	154,247
Profit for the year	181,285	100,851	78,650

Statement of Financial Position Information	2018 Rs. '000	2017 Rs. '000	2016 Rs. '000
Assets			
Cash and cash equivalents including placements	965,197	1,928,482	520,234
Reverse Repurchase Agreement	1,292,670	1,302,748	265,687
Financial assets designated at FVPL	1,448,104	2,046,445	3,059,300
Loans and receivable at amortised cost	30,781,975	29,233,023	27,109,765
Investment in associate and subsidiary companies	160,360	102,201	158,390
Property and equipment, intangible assets and investment properties	711,918	671,726	470,738
Other assets	504,202	360,582	342,640
Total assets	35,864,626	35,645,207	31,926,754
Liabilities			
Due to banks	5,869,317	123,849	201,635
Cash collateral on securities lent and repurchase agreements	166,894	437,672	401,820
Due to customers	20,831,021	21,918,869	18,518,419
Debt issued and borrowed funds	5,331,077	8,818,862	8,722,787
Other liabilities and deferred taxation	1,308,907	1,112,135	975,578
Total Liabilities	33,340,322	32,411,387	28,820,239
Net assets	2,524,104	3,233,820	3,106,515
Capital Employed			
Stated capital	2,124,457	2,124,457	2,124,457
Retained earnings and reserves	399,647	1,109,363	982,058

SLFRS					SLAS	
2015	2014	2013	2012	2011	2010	2009
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
4,216,991	4,734,641	2,355,366	1,869,714	1,393,526	1,522,980	1,155,731
2,133,325	2,579,431	1,371,937	1,035,739	541,370	419,041	584,247
1,939,834	1,805,198	893,899	779,559	782,407	688,080	398,298
2,119,094	2,101,923	807,547	590,572	483,141	535,870	345,720
-	-	-	-	60,248	82,639	28,500
(35,428)	53,287	175,882	243,403	429,263	650,708	254,264
42,878	83,957	58,942	42,156	92,992	201,037	53,286
(78,306)	(30,670)	116,940	201,247	336,271	449,671	200,978

SLFRS					SLAS	
2015	2014	2013	2012	2011	2010	2009
Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000	Rs. '000
820,923	2,026,901	964,584	296,372	97,260	71,097	39,511
785,965	465,211	140,768	116,532	450,000	10,000	10,024
2,296,177	2,060,990	930,672	1,007,544	704,942	704,113	605,276
23,282,286	21,422,320	9,905,403	9,286,076	7,513,481	5,528,347	4,386,121
391,281	597,180	1,008,106	678,823	629,484	568,327	354,546
403,918	373,195	95,132	107,675	54,201	47,144	39,267
294,000	368,127	224,135	398,289	378,374	212,189	144,180
28,274,550	27,313,924	13,268,800	11,891,311	9,827,742	7,141,217	5,578,925
258,062	200,002	99,118	138,239	183,718	64,780	-
416,472	442,170	-	419,462	930,597	150,031	-
15,846,306	11,092,643	-	-	-	-	-
7,883,323	11,141,793	9,623,147	7,946,502	5,356,872	3,776,027	2,733,145
862,325	1,285,893	765,659	693,449	594,280	521,946	515,008
25,266,488	24,162,501	10,487,924	9,197,652	7,065,467	4,512,784	3,248,153
3,008,062	3,151,423	2,780,876	2,693,659	2,762,275	2,628,433	2,330,772
2,124,457	2,124,457	1,607,000	1,607,000	1,607,000	1,607,000	1,607,000
883,602	1,026,965	1,173,876	1,086,659	1,155,275	1,072,193	723,772

Supplementary Information

Decade at a Glance

	2018	2017	2016
Investors Ratios			
Market value of a voting share - Rs.	9.60	13.50	13.60
Basic Earnings Per Share - Rs.	1.09	0.60	0.50
Net Assets Value Per Share - Rs.	15.22	19.50	18.73
Price Earnings Ratio - Times	8.78	22.20	28.68
Earning Yield - %	11.38	4.50	3.49
Operating Ratios			
Return on Net Assets - %	7.18	3.18	2.57
Net Profit - %	2.77	1.58	1.61
Return on Assets - %	0.51	0.30	0.26
Net Interest Margin - %	7.83	7.64	7.18
Cost to Income Ratio - %	71.07	73.10	71.89
Income Growth - %	2.30	30.99	15.92
Assets Growth - %	0.02	11.65	12.92
Net Assets Growth - %	(21.95)	4.10	3.27
Gearing Ratios			
Debt to Equity - Times	13.21	9.68	8.96
Interest Cover - Times	1.12	1.06	1.09
Liquidity Ratios			
Quick Ratio - Times	-	-	-
Liquidity Ratio	10.20	11.49	10.75

	2015	2014	2013	2012	2011	2010	2009
	15.00	17.50	13.60	19.90	39.60	45.80	19.50
	(0.47)	(0.18)	0.87	1.49	2.49	3.33	1.49
	18.13	19.00	20.60	19.95	20.46	19.85	17.26
	(31.77)	(94.65)	15.70	13.35	15.90	13.75	13.09
	(3.15)	(1.06)	6.37	7.49	6.29	7.27	7.64
	(2.54)	(0.97)	4.21	7.47	12.17	16.78	8.62
	(1.86)	(0.65)	4.96	10.76	24.13	29.53	17.39
	(0.28)	(0.11)	0.88	1.69	3.42	6.30	3.60
	7.61	9.96	8.22	8.37	11.14		
	66.89	62.05	65.71	55.03	34.19	42.58	54.95
	(10.93)	86.46	25.97	34.17	(8.50)	31.78	11.64
	3.52	75.91	11.58	21.00	37.62	28.75	17.00
	(4.55)	4.95	3.24	(2.48)	5.09	14.95	38.75
	8.11	3.88	3.50	3.16	2.34	1.45	1.17
	0.98	1.02	1.13	1.24	1.79	2.55	1.44
	-	0.88	0.69	0.75	1.15	0.93	1.04
	11.25	-	-	-	-	-	-

INDEPENDENT ASSURANCE REPORT

GRI 102-56



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INDEPENDENT ASSURANCE REPORT TO THE BOARD OF DIRECTORS OF MERCHANT BANK OF SRI LANKA & FINANCE PLC ON THE SUSTAINABILITY REPORT – 2018

Introduction and Scope of the Engagement

The management of Merchant Bank of Sri Lanka & Finance PLC ("the Company") engaged us to provide an independent assurance on the following elements of the Sustainability Report 2018 ("the Report").

- Reasonable assurance on the information on financial performance as specified on page 55 of the Report.
- Limited assurance on key performance indicators and other information presented in the Report prepared in accordance with Global Reporting Initiative Standards (GRI Standards).

Responsibility of the Management on the Report

The Management of the Company is responsible for the preparation and presentation of the Report in accordance with the Company's sustainability practices and policies which are derived from GRI Standards. These responsibilities include among other things, identification of stakeholders and material issues, determining the sustainable performance criteria for reporting and establishing appropriate processes and internal control systems to measure and report the sustainability performance criteria.

Our Responsibility

Our responsibility is to perform a reasonable and limited assurance engagement and express conclusions based on the work performed in

accordance with Sri Lanka Standard on Assurance Engagements (SLSAE 3000): 'Assurance Engagements other than Audits or Reviews of Historical Financial Information', issued by the Institute of Chartered Accountants of Sri Lanka ('CA Sri Lanka').

Reasonable assurance is a high level of assurance. However, reasonable assurance is not an absolute level of assurance because there are inherent limitations of assurance engagement.

A limited assurance engagement is substantially less in scope than a reasonable assurance engagement and consequently does not enable to obtain assurance that we would become aware of all significant matters that might be identified in a reasonable assurance engagement.

This Report is made solely to the Company in accordance with our engagement letter dated 20th April, 2019. We disclaim any assumption of responsibility for any reliance on this Report to any person other than the Company or for any purpose other than that for which it was prepared. In conducting our engagement, we have complied with the independence requirements of the Code of Ethics for professional Accountants issued by the CA Sri Lanka.

Assurance Procedures Carried Out Financial Information

We reconciled the information on financial performance as reported on page 55 of the Report with the audited financial statements of the Company for the years ended 31st December, 2017 and 2018.

Key Performance Indicators

We reviewed the reliability of the data/information on Key Performance Indicator for the year ended 31st December, 2018 based on reviews of:

- the systems used to generate, aggregate and report these information;
- the information reported by the relevant business units to corporate level;
- the information validation processes at corporate and business level;
- the information trends in discussions with management and ;
- the calculation performed by the Company on a sample basis through recalculation.

Other Information

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

- Inquiring relevant Company's personnel to understand the process for collection, analysis, aggregation and presentation of information in the Report.
- Reviewing the system used to generate, aggregate and report the information in the Report.
- Interviewing the senior management and relevant staff at corporate level and selected business unit level and obtained the evidence concerning sustainability strategy and policies for material issues and implementation of those across operation of the Company.

BDO Partners, a Sri Lankan Partnership, is a member of BDO International Limited, a UK company limited by guarantee, and forms part of the international BDO network of independent member firms.

Partners: Supriya Rajagopal FCA, FCMA, MBA, Ashani J.W. Jayasinghe FCA, FCMA (UK), MBA, H. Sasanka Rathnayake FCA, ACMA, R. Vasanthakumar Bsc (Acc), ACA, F. Sarah E. Aker ACA, ACMA (UK), CGMA, (ICS) (UK), M.N. Mohamed-Hussein ACA

- Reviewing and validating the information contained in the Report.
- Reading the information presented in the Report to determine whether that information is in line with our overall knowledge of, and experience with, sustainability performance of the Company.
- Comparison of the content of the report against the requirement of GRI Standards.

Conclusion

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

- The information on financial performance as specified on page 55 of the Report is properly derived from the audited financial statements of the Company for the years ended 31st December, 2017 and 2018.
- Nothing has come to our attention that causes us to believe that key performance indicators and other information presented in the Report are not presented, in all material respects, in accordance with the company's sustainability practices and policies which are derived from GRI Standards

BDO Partners.

CHARTERED ACCOUNTANTS

Colombo

27 May 2019

MN/cc

GRI CHECKLIST

GRI 102-55

GENERAL DISCLOSURES		Page number(s)
GRI 102: ORGANIZATIONAL PROFILE		
102-1	Name of the organization	266
102-2	Activities, brands, products and services	10
102-3	Location of headquarters	266
102-4	Location of operations	63, 260-265
102-5	Ownership and legal form	58,266
102-6	Markets served	63,260-265
102-7	Scale of the organization	24-25
102-8	Information on employees and other workers	68
102-9	Supply chain	36-37
102-10	Significant changes to the organization and its supply chain	10,36-37
102-11	Precautionary Principle or approach	77
102-12	External initiatives	82
102-13	Membership of associations	76
GRI 102: STRATEGY		
102-14	Statement from senior decision-maker	28-30
102-15	Key impacts risks, and opportunities	40
GRI 102: ETHICS AND INTEGRITY		
102-16	Values, principles, standards, and norms of behavior	5
GRI 102: GOVERNANCE		
102-18	Governance structure	8,9
102-22	Composition of the highest governance body and its committees	8-9, 16-17, 111
102-23	Chair of the highest governance body	16
102-25	Conflicts of interest	116
102-26	Role of highest governance body in setting purpose, values, and strategy	100

GENERAL DISCLOSURES		Page number(s)
GRI 102: STAKEHOLDER ENGAGEMENT		
102-40	List of stakeholder groups	38-39
102-41	Collective bargaining agreements	69
102-42	Identifying and selecting stakeholders	38-39
102-43	Approach to stakeholder engagement	38-39
102-44	Key topics and concerns raised	38-39
GRI 102: REPORTING PRACTICE		
102-45	Entities included in the consolidated financial statements	58,144
102-46	Defining report content and topic Boundaries	4
102-47	List of material topics	41
102-48	Restatements of information	155
102-49	Changes in reporting	4
102-50	Reporting period	4
102-51	Date of most recent report	4
102-52	Reporting cycle	4
102-53	Contact point for questions regarding the report	4
102-54	Claims of reporting in accordance with the GRI Standards	4
102-55	GRI content index	250-253
102-56	External assurance	4, 248

GRI Checklist

SPECIFIC DISCLOSURES		Page number(s)
GRI 201: ECONOMIC PERFORMANCE		
103-1	Explanation of the material topic and its Boundary	55
103-2	The management approach and its components	55
103-3	Evaluation of the management approach	55
201-1	Direct economic value generated and distributed	55
GRI 203: INDIRECT ECONOMIC IMPACTS		
103-1	Explanation of the material topic and its Boundary	62
103-2	The management approach and its components	62
103-3	Evaluation of the management approach	62
203-1	Infrastructure investments and services supported	62
GRI 204: PROCUREMENT PRACTICES		
103-1	Explanation of the material topic and its Boundary	74
103-2	The management approach and its components	74
103-3	Evaluation of the management approach	74
204-1	Proportion of spending on local suppliers	74
GRI 301: MATERIALS		
103-1	Explanation of the material topic and its Boundary	77
103-2	The management approach and its components	77
103-3	Evaluation of the management approach	77
301-1	Materials used by weight or volume	78
GRI 302: ENERGY		
103-1	Explanation of the material topic and its Boundary	77
103-2	The management approach and its components	77
103-3	Evaluation of the management approach	77
302-1	Energy consumption within the organization	78
302-4	Reduction of energy consumption	78

SPECIFIC DISCLOSURES		Page number(s)
GRI 303: WATER		
103-1	Explanation of the material topic and its Boundary	77
103-2	The management approach and its components	77
103-3	Evaluation of the management approach	77
303-1	Water withdrawal by source	78
GRI 307: ENVIRONMENTAL COMPLIANCE		
103-1	Explanation of the material topic and its Boundary	77
103-2	The management approach and its components	77
103-3	Evaluation of the management approach	77
307-1	Non-compliance with environmental laws and regulations	77
GRI 401: EMPLOYMENT		
401-1	New employee hires and employee turnover	69
401-2	Benefits provided to full-time employees that are not provided to temporary or part-time employees	69
401-3	Parental leave	70
GRI 404: TRAINING AND EDUCATION		
103-1	Explanation of the material topic and its Boundary	69
103-2	The management approach and its components	69
103-3	Evaluation of the management approach	69
404-1	Average hours of training per year per employee	70
404-2	Programs for upgrading employee skills and transition assistance programs	69-70
404-3	Percentage of employees receiving regular performance and career development reviews	69
GRI 413: LOCAL COMMUNITIES		
103-1	Explanation of the material topic and its Boundary	75
103-2	The management approach and its components	75
103-3	Evaluation of the management approach	75
413-1	Operations with local community engagement, impact assessments, and development programs	75-76

BASIS OF RATIO

Return on Equity (ROE) (%)	=	$\frac{\text{Profit / loss attributable to ordinary share}}{\text{Average shareholder's equity}} \times 100$
Return on Capital Employed (ROCE) (%)	=	$\frac{\text{Profit before interest and tax}}{\text{Borrowings+Deposits+Equity}} \times 100$
Cost to Income Ratio (%)	=	$\frac{\text{Total operating cost without VAT and NBT on financial services}}{\text{Net Operating Income}} \times 100$
Debt to Equity (Times)	=	$\frac{\text{Total borrowings}}{\text{Total shareholders' equity}}$
Debt to Total Assets (Times)	=	$\frac{\text{Borrowings}}{\text{Total Assets}}$
Earning Per Share (EPS - Rs:)	=	$\frac{\text{Profit / Loss attributable to ordinary shareholders}}{\text{Average Number of Share}}$
Price Earning (PE) (Times)	=	$\frac{\text{Market price per share}}{\text{Earning per ordinary share}}$
Dividend Per Share (Rs:)	=	$\frac{\text{Profit / loss attributable to ordinary Shareholders}}{\text{Number of ordinary share}}$
Dividend Yield (%)	=	$\frac{\text{Dividend per ordinary share}}{\text{Market price per share}} \times 100$
Market Capitalization (Rs)	=	Market price per share x Number of ordinary shares
Return on Assets (ROA) (%)	=	$\frac{\text{Profit before tax}}{\text{Average total assets}} \times 100$
Operating Profit Margin (%)	=	$\frac{\text{Operating profit before VAT and NBT on financial services}}{\text{Interest income}} \times 100$

Interest Cover (Times)	=	$\frac{\text{Profit before interest and tax}}{\text{Interest expenses}}$
Current Ratio (Times)	=	$\frac{\text{Current assets}}{\text{Current liabilities}}$
Net Assets Value Per Share (Rs.)	=	$\frac{\text{Total shareholders' equity}}{\text{Number of ordinary share}}$
Earning Yield (EY)	=	$\frac{\text{Earnings per share}}{\text{Market price per share}} \times 100$
Dividend Cover (Times)	=	$\frac{\text{Profit / loss attributable to ordinary shareholders}}{\text{Total dividend paid to ordinary shareholders}}$
Dividend Pay Out (%)	=	$\frac{\text{Total dividend paid to shareholders}}{\text{Profit / loss attributable to ordinary shareholders}} \times 100$
Price to Book Value (PBV - Times)	=	$\frac{\text{Market price per share}}{\text{Net assets per share}}$
Net Interest Margin (NIM - %)	=	$\frac{\text{Net interest income}}{\text{Average Interest Earnings Assets}} \times 100$
Employee Turnover (%)	=	$\frac{\text{Number of attritions during the year}}{\text{Average number of employees during the year}} \times 100$
Total Impairment Provision to Gross Portfolio (%)	=	$\frac{\text{Total impairment provisions}}{\text{Gross loans and receivables}} \times 100$
Non-Performing ratio (%)	=	$\frac{\text{Gross non- performing portfolio}}{\text{Gross loans and receivables}} \times 100$

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.

Associate company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

C

Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

Commercial Paper

An unsecured short-term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

Consolidated Financial Statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

Contingencies

A condition or situation existing on the statement of financial position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

Cost / Income Ratio

A ratio expressing Company's cost effectiveness which sets operating expenses including Financial Value Added Tax and excluding Loan Loss Provision in relation to operating income.

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.

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.

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.

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.

D

Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

Dividend Cover

Profit attributable to shareholders divided by gross dividends. This ratio measures the number of times dividend is covered by current year's attributable profits.

Dividend Yield

Dividend per share as a percentage of its market value.

E**Earnings per Ordinary share (EPS)**

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

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.

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.

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)

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 Liability

A contractual obligation to deliver cash or another financial asset to another entity.

Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

G**Gearing**

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

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**Impairment**

This occurs when recoverable amount of an asset is less than its carrying amount.

Impaired Loans

Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

Glossary

Impairment Allowances

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

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.

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.

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

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.

Loan to Value Ratio (LTV)

LTV ratio is a computation that expresses the amount of a first disbursement as a percentage of the total appraised value of assets kept as security.

Liquidity Risk

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

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 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.

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.

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.

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.

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**

A Parent is an entity which has one or more subsidiaries.

Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

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.

Return on Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

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.

Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price.

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.

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.

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**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 to Maturity**

Discount rate at which the present value of future cash flows would equal the security's current price.

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Supplementary Information

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Mr.Ratnavadivel Arulvel Branch Manager	021-2280078	077-2991810	No.30, A9 Road, Karadippokku, Kilinochchi.	021-2280079	arulvelr@mbslbank.com
Vavuniya Branch					
Mr. K. Thusijanathan Officer-In-Charge	024-4711700 024-4711704	077-3241007	No: 99, station Road, Vavuniya	024-2226108	thusijanthank@mbslbank.com
Batticaloa Branch					
Mr. P Nivaraj Manager	065-4926799 065-4926787	077-3240721	No:28, Bar Road, Batticaloa	065-2228575	nivarajp@mbslbank.com
Trincomalee Branch					
Mr. Rajith Senevirathna Officer-In-Charge	026-4928888 026-4595151	076-5476554	No: 133,Main Street, Trincomalee	026-2226784	rajithm@mbslbank.com

Supplementary Information

CORPORATE INFORMATION

Name of Company GRI 102-1

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

Company Registration No

PQ10

Legal Form GRI 102-5

A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 on 4th May 2007 and quoted on the Colombo Stock Exchange.

A Registered Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

A Registered Finance Company licensed under the Finance Business Act No. 42 of 2011.

Stock Exchange Listing

25th April 1991

Registered Office GRI 102-3

Bank of Ceylon Merchant Tower,
No. 28, St. Michael's Road,
Colombo 03
Tel. 011 4711711
Fax. 011 4711742
web. www.mbslbank.com

Tax Payer Identification No.

124011426

VAT Registration No.

124011426 7000

Central Bank registration No.

050

Financial Year End

31st December

Board of Directors

Dr. S Lokuhewa (Chairman)
Mr. W P R P H Fonseka
Mr. K B S Bandara
Mr. S N Dayaratne (Senior Director)
Mr. S P Arsakularatne
Mr. R M D V Jayabahu
(Resignation tendered, pending CBSL approval)
Mr. D N L Fernando
Mr. M P R Kumara (Alternate Director to Mr. W P R P H Fonseka)
Mr. C Amarasinghe (Alternate Director to Mr. K B S Bandara)

Chief Executive Officer (Acting)

Mr. G M J A R Gamalath
Tel: 011 4711700
Fax: 011 4711704
E-mail : judeg@mbslbank.com

Deputy General Manager - Legal/Company Secretary/ Head of Corporate Advisory and Capital Markets

Ms. Karnika Jayatilake
Tel: 011 4711766
E-mail : karnikaj@mbslbank.com

Subsidiary Company

MBSL Insurance Company Limited
No. 122, Kew Road
Colombo 02
Tel : 2 304500
Fax: 2 300499
E-mail : info@mbslinsurance.lk
Web : www.mbslinsurance.lk

Associate Company

Lanka Securities (Pvt.) Ltd
228/1, Galle Road
Colombo 04
Tel : 4706757
Fax: 4706767
E-mail : lankasec@sltnet.lk
Web : www.lsl.lk

Auditors

The Auditor General of the
Democratic Socialist Republic of Sri Lanka

Lawyers

Julius and Creasy
Attorneys-at-Law, Solicitors and Notaries Public
No. 41, Janadhipathi Mawatha
Colombo 01

Principal Banker

Bank of Ceylon

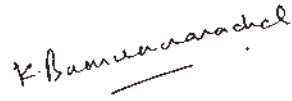
NOTICE OF MEETING

NOTICE IS HEREBY GIVEN that the Thirty Seventh Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Grand Ballroom, Galadari Hotel, No.64, Lotus Road, Colombo 01 on 25th June 2019 at 10.00 a.m. for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 December 2018 together with the Report of the Auditors thereon.
2. To re-elect as a Director Mr. K B S Bandara who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To elect as a Director Mr. D N L Fernando who has been appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company
4. To re-appoint the Auditor General as the auditor of the Company in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the financial year ending 31.12.2019. The Audit Fees shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.
5. To authorize the Directors to determine donations for the financial year ending 31.12.2019.

By Order of the Board of

Merchant Bank of Sri Lanka & Finance PLC



K Jayathilake
Company Secretary
31 May 2019
Colombo

NOTES:

1. A Form of Proxy is attached hereto, for use if necessary, in which event, it should be completed and returned to the Registered Office of the Company – Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a Shareholder of the Company.
3. The instrument appointing a Proxy may be in writing under the hand of the appointor or of his/her Attorney, or if such appointor is a corporation under its Common Seal or under the hand of its Attorney or duly authorized person.

FORM OF PROXY

I/We ofbeing a shareholder/ shareholders of the Merchant Bank of Sri Lanka & Finance PLC, hereby appoint of whom failing whom failing (Dr. S Lokuhewa /Mr. K B S Bandara/ Mr. W P R P H Fonseka/ Mr. S N Dayaratne/ Mr. S P Arsakularatne / Mr. D N L Fernando) as *my/our Proxy, to represent * me/us, and*..... to vote on *my/our behalf at the Annual General Meeting of the Company to be held at the Grand Ballroom, Galadari Hotel, No.64, Lotus Road, Colombo 01 on 25th June 2019 at 10.00 a.m. and at any adjournment thereof and at every poll which may be taken in consequence thereof. *I/We the undersigned hereby authorize my/our Proxy to vote on *my/our behalf in accordance with the preference indicated below:

	For	Against
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 2018 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
2. To re-elect as a Director Mr. K B S Bandara who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
3. To elect as a Director Mr. D N L Fernando 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	<input type="checkbox"/>	<input type="checkbox"/>
4. To re-appoint the Auditor General as the auditor of the Company in terms of Article 154 (1) of the Constitution of the Democratic Socialist Republic of Sri Lanka for the financial year ending 31.12.2019. The Audit Fees shall be determined in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.	<input type="checkbox"/>	<input type="checkbox"/>
5. To authorize the Directors to determine donations for the financial year ending 31.12.2019.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this..... day of.....Two Thousand and Nineteen.

.....
Signature

Notes:

- Please delete the words which are not applicable.
- 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.
- 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.
- 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.
- Instructions as to completion of the Form of Proxy is given on the reverse hereof.

Instructions as to the Completion of the Form Of Proxy

1. To be valid, this form of proxy must be deposited at the Registered Office of the Company Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. Kindly perfect the form of proxy after filling legibly your full name and address by signing in the space provided and filling in the date of signature.
3. Please indicate your preference with "X" in the appropriate cages provided in the form of proxy, as to how your proxy is to vote on the resolutions. If no indication is given the proxy in his / her discretion may vote as he / she thinks fit.
4. The instrument appointing a proxy may be in writing under the hand of the appointor or of his/her Attorney, duly authorized in writing, or if such appointor is a corporation under its Common Seal or under the hand of its Attorney or duly authorized person. If the form of proxy is signed by an Attorney, the relevant Power of Attorney should also accompany the completed form of proxy, if it has not already been registered with the Company.



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