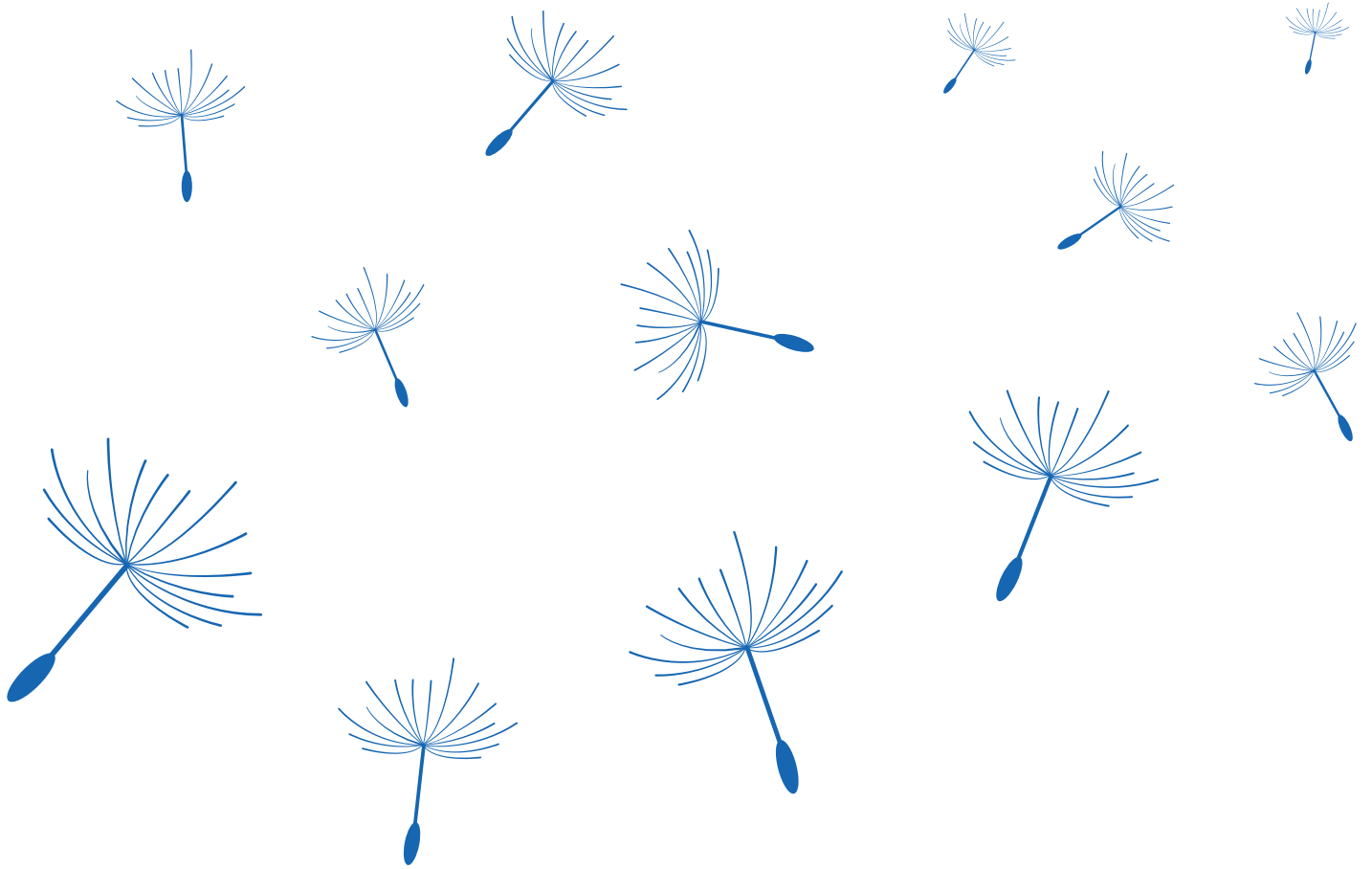


# New Beginnings



# Contents

About the Company	2
Vision, Mission & Values	3
Our Journey	4
Product Portfolio and Features	6
Board of Directors	10
Corporate Management	19
Regional Managers	26
Key Figures	27
Chairman's Statement	28
Chief Executive Officer's Report	32
Management Discussion and Analysis	36
Corporate Governance Report	42
Annual Report of the Board of Directors on the Affairs of the Company	65
Audit Committee Report	71
Related Party Transactions Review Committee Report	73
Integrated Risk Management Committee Report	74
Report of the Human Resources & Remuneration Committee	76
Risk Management Report	77
<b>Financial Reports</b>	
Financial Calendar	88
Directors' Responsibility Statement on Internal Control Over Financial Reporting	89
Directors Responsibility for Financial Reporting	91
Report of the Auditor General	92
Statement of Profit or Loss	96
Statement of Comprehensive Income	97
Statement of Financial Position	98
Statement of Changes in Equity	100
Statement of Cash Flows	101
Notes to the Financial Statements	103
Quarterly Analysis	224
Shareholder Information	226
Debenture Information	229
Decade at a Glance	230
Basis of Ratio & Glossary	234
Contact Information	242
Notice of Meeting	248
Form of Proxy	249
Administrative Details	251
Registration Form	253
Notes	255
Corporate Information	Inner Back Cover



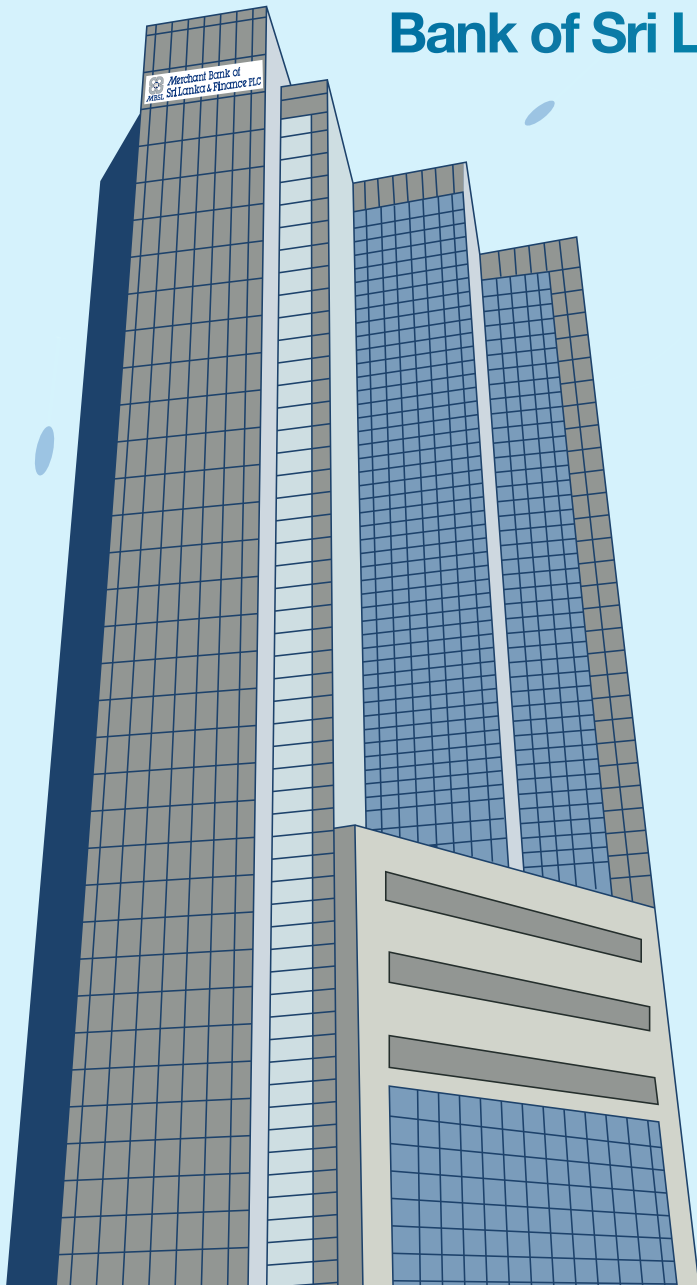
## **New Beginnings**

**Our growth story of around 40 years is a testament to our consistency and passion for redefining the banking arena, and this year we celebrate a milestone that sees a new and revitalised entity that is ready to take on new challenges and opportunities. With new leadership at the helm and a capital infusion that strengthens our core, we are proud to be a stable and reliable entity, with a continued passion for progress that has been imperative in helping us achieve excellence time and time again. So as we look ahead to new connections, ventures and accolades, we begin by celebrating the new beginnings that will see us through to the next phase of MBSL.**

## About the Company

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

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



# Vision, Mission & Values

**Merchant Bank of Sri Lanka & Finance PLC (MBSL) was incorporated in 1982 as Sri Lanka's first and only specialised merchant bank in the Country at the time. In 1991, the Company was listed on the Colombo Stock Exchange and in the year 2000 secured the license to operate as a Leasing Company. In 2014 the Company was renamed Merchant Bank of Sri Lanka & Finance PLC and in 2015 registered under the Finance Business Act as a licensed finance company authorised to carry out finance business activities. Today MBSL operates through a network of 48 branches across the island and company operates only within Sri Lanka.**

---

## Vision

To be the most innovative & respected financial solution provider among the "NBFI sector"

---

## Organizational Mission

- \* To offer solutions to realize our client's wealth aspirations
  - \* To enhance shareholder value while 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
- 

## Organizational 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
- \* Ensure good governance and transparency
- \* Delight our clientele through service excellence, differentiation, and innovation
- \* Unite and be courageous to face challenges

# Our Journey

## 2021

- \* Raised amount of Rs. 2.1 Bn of Capital through Rights Issue

## 2014

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

## 2019

- \* "Best Service Provider for SMEs" at South Asian Business Excellence Awards 2019
- \* "Best Service Provider for SMEs" at Asia Leadership Awards 2019
- \* Partnered with mCash

## 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

## 2018

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

## 2016

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

## 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

## 2012

- \* Celebrated the company's 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

## 2007

- \* Annual Report Award

## 2006

- \* Obtained ISO 9001 – 2000 & National Productivity Award

## 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)

## 2005

- \* Alliance with SBI Capital Markets Ltd – India

## 1989

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

## 1982

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

## 1980

- \* Operated as a management consultancy division of BOC

# Product Portfolio and Features

## LEASING

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

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



## LOANS

### Speed Personal loan

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



### 'Pravardana' Business loans

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



### Speed Draft

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



### Car loan

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



### Siyath saviya

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



### Home loans

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





## PAWNING / GOLD LOAN

### Ran Saviya

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

#### Key features

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



## CORPORATE ADVISORY & CAPITAL MARKET PRODUCTS

### Corporate Advisory & Capital Market Products

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

### Capital Markets

- \* Structuring & managing initial public offers, offer for sales & listing through introductions for equity and debt
- \* Private placement of equity and debt
- \* Mandatory offers
- \* Underwriting
- \* Listing of debentures/ bonds
- \* Asset securitisation

### Investments/Fund Management

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



**Corporate Advisory &  
Capital Markets**

## REAL ESTATE PRODUCTS

### MBSL Lands

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



### MBSL Real Estate Easy Payment Plan

A revolutionary loan scheme that is designed for those who have had enough of,

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

## SAVINGS PRODUCTS

### Normal Savings

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

### Bonus Savings

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



### Higher Saver

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



### Achara Senior Citizen's Savings

- \* Achara Senior Citizen's savings accounts cater to senior citizens who are 60 years and above with a relatively high yield and privileged services and other benefits



### Minor Savings

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

### Punchi Star Minor Savings

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



## FIXED DEPOSITS

### Non Senior Citizen Fixed Deposits

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

### Senior Citizen Fixed Deposits

Specialised deposit scheme which focuses on senior citizens who are 60 years and above with higher interest rate.

#### Key features

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

සමාජ ජනපත  
Fixed Deposits



# 01

## **Mr. Kanchana Ratwatte**

Chairman

*Non-Executive / Non Independent Director*

---

Mr. Kanchana Ratwatte was appointed as the Chairman of Merchant Bank of Sri Lanka & Finance PLC (MBSL) in September 2020. He joined the Bank of Ceylon group in January of the year 2020. On assumption of duties he was also appointed as the Chairman of MBSL, Property Development PLC and several subsidiaries under the management of the Bank of Ceylon Group.

Mr. Ratwatte brought in a wealth of experience which contributed towards the consolidation of the Bank's growth trajectory with qualitative changes being introduced under his stewardship despite the challenging times that the country and the globe faced with an acute socio-economic downturn caused by the COVID-19 pandemic.

Prior to his assignment in the Bank of Ceylon group he has had a successful legal career spanning over two decades where he has appeared for corporate as well as individual clients both in the fields of criminal and civil law. He also brought in extensive administrative experience having held the position of Chairman of many public sector institutions which included the fields of Shipping, Standards and Tele-communications and also a wealth of experience in private sector best practices by serving as a Director of several private sector institutions covering varied fields of business. Mr. Ratwatte is a lawyer by profession and has a LLB degree from the University of Colombo. He has had his primary and secondary education at Trinity College, Kandy.



## 02

### **Mr. A.M.A. Perera**

Senior Director  
*(Non-Executive/Independent)*

---

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

Mr. Perera serves as Chairman of the Audit Committee, Related Party Transactions Review Committee, Integrated Risk Management Committee, and Information and Communications Technology Committee of MBSL. He is also a member of the Human Resources and Remuneration Committee, and Nominations and Corporate Governance Committee of MBSL.

# 03

### **Mr. W.P. Russel Fonseka**

*Non-Executive/  
Non-Independent Director*



Mr. Fonseka was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) on 26 July 2016. Mr. Fonseka has been a member of corporate management of the Bank of Ceylon since 2012 and currently serves as the Additional General Manager / Chief Financial Officer of the Bank. He has also held the positions of Senior Deputy General Manager (Corporate & Offshore Banking), Deputy General Manager (International, Treasury and Investment), Deputy General Manager (Retail Banking), and Deputy General Manager (Finance & Planning) of the Bank.

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

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



# 04

## **Prof. N.S. Punchihewa**

*Non-Executive /  
Independent Director*

---

Prof. N.S. Punchihewa is a Senior Lecturer in Law, Faculty of Law - University of Colombo. He is also an Attorney-at-Law of the Supreme Court of Sri Lanka. He was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as a Non-Executive/Independent Director with effect from 16th July 2020. He serves as a member of the Audit Committee, Related Party Transactions Review Committee, Human Resources and Remuneration Committee, and Information and Communications Technology Committee of MBSL.

Prof. Punchihewa is a member of the Intellectual Property Advisory Commission constituted under the Intellectual Property Act of Sri Lanka. He served as the Director of the University Business Linkage (UBL), University of Colombo and the Coordinator MPhil/ PhD Programme of the Faculty of Law. He served as a National Legal Specialist in Intellectual Property Rights and Sri Lanka Law to the Food and Agricultural Organization (FAO) of the United Nations in 2021 and was a Consultant to the World Intellectual Property Organization (WIPO) on the project "Intellectual Property Rights in Tourism and Culture" from 2016 to 2019. He teaches both graduate and undergraduate courses including Intellectual Property (IP) Law at the Faculty of Law and is also a visiting lecturer in several postgraduate and undergraduate programs in leading academic institutions.

Prof. Punchihewa's research interests cover intellectual property rights with particular reference to patent, branding and trademarks, copyright, competition/antitrust law, human rights, and information technology law. He has authored the books titled "Promoting a Second-Tier Protection Regime for Innovation of Small and Medium Enterprises in South Asia: The Case of Sri Lanka" published by NOMOS, Baden-Baden, Germany and "Intellectual Property in Tourism and Culture in Sri Lanka" published by the WIPO. Prof. Punchihewa has presented papers at conferences (both local and international) and published peer-reviewed journal articles on intellectual property, technology transfer and competition law. In 2018, he was awarded the Senate Award for Research Excellent by the University of Colombo. Furthermore, he has served as the Managing Editor of the Colombo Law Review (2017-2018) and is currently a member of the Editorial Board of the Sri Lanka Journal of International Law.

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



# 05

### **Mr. M.P. Ruwan Kumara**

*Non-Executive /  
Non Independent Director*

---

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

Mr. Ruwan Kumara possess over 19 years of experience in Bank of Ceylon specializing in Financial Management, Strategic Planning, Investment Banking, Commercial Banking and Overseas Banking operations. He serves as a Director on the Board of BOC Property Development and Management (Private) Limited.

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





# 06

## **Mr. G.A. Jayashantha**

*Non-Executive/  
Non Independent Director*

---

Mr. G.A. Jayashantha, currently the Deputy General Manager - Chief Risk Officer of the Bank of Ceylon was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as a Non-Executive/Non Independent Director with effect from 20th April 2021. He is a member of the Integrated Risk Management Committee and the Nominations and Corporate Governance Committee of MBSL. He served as the Chairman of the Integrated Risk Management Committee of MBSL until February 2022.

Mr. Jayashantha counts over 24 years of service in the Bank of Ceylon. He has performed duties in the branch banking in the early part of his career and later he has specialized in various business segments such as Treasury, Dealing & Primary Dealer Unit (PDU), Assets & Liabilities Management Unit (ALM), Risk Management, Corporate Recovery, Offshore Banking and Branch Operations.

Mr. Jayashantha has held the positions of Assistant General Manager in various business units such as Corporate Recovery, Risk Management, Western Province - South & Offshore Banking Division. He was the Deputy General Manager - Retail Banking Range - II in the Bank of Ceylon prior to being appointed as the Chief Risk Officer.

Mr. Jayashantha serves as a Director of BoC Property Development & Management (Pvt.) Ltd, Ceybank Asset Management (Pvt.) Ltd and Pradeshiya Sanwardana Bank. He also serves as a member/an observer to various management committees and Board Sub Committees and shares experience in policy matters/strategic decisions at the Bank of Ceylon.

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



# 07

## **Mr. J.D.V.N. Jayasinghe**

*Non-Executive/  
Independent Director*

---

Mr. Jayasinghe was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as a Non-Executive/Independent Director with effect from 20th July 2021. Currently, he serves as Chairman of the Human Resources and Remuneration Committee, and Nominations and Corporate Governance Committee of MBSL. He is also a member of the Related Party Transactions Review Committee of MBSL.

Mr. Jayasinghe is an Attorney-at-Law of the Supreme Court of Sri Lanka. Presently he is a member of the Bar Association of Mount-Lavinia. Simultaneously he works at the Prime Minister's Office as a Coordinating Secretary to the Honorable Prime Minister.

He has more than Six (06) years working experience as an Executive Officer at Vacuum Processing Lanka Ltd, a subsidiary in the group of Global Transportation & Logistics (Pvt) Ltd.

During his schooling he actively participated in the extra-curricular activities. He was the cricket captain of the college under 19 cricket team in 1993/94 season and the Deputy Head Prefect of the college in 1993/94.



# 08

**Mr. H.P.K. Silva**

*Non-Executive/  
Non-Independent Director*

---

Mr. H.P.K. Silva was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as a Non-Executive/Non Independent Director with effect from 23rd December 2021 and is a member of the Information and Communications Technology Committee of MBSL. He currently serves as Deputy General Manager (Corporate & Offshore Banking) of the Bank of Ceylon.

Mr. Silva joined the Bank of Ceylon in 1997 as a Management Trainee and commenced his career in Branch banking and counts over 24 years of extensive experience in all aspects of commercial banking including Retail and International divisions by carrying out duties as a Credit Officer, Audit Officer, Branch Manager and Dealer of Dealing room and London Branch.

He played an impressive role as the Senior Manager of the Trade Promotion Unit and as the Chief Manager of International Division for more than five consecutive years. He held several key positions in the Bank of Ceylon and played a major role in the Marketing Division. He was a member of many executive management committees of the Bank of Ceylon including Reward and Recognition Committee, and Disciplinary Authority Committee.

Mr. Silva graduated from the University of Ruhuna with a Bachelor of Business Administration (Specialized in Marketing) Degree with a Second Class Upper division and has obtained a Master of Business Degree in Accountancy from the University of Kelaniya. He holds a Postgraduate Diploma in Business Administration and Postgraduate Diploma in Professional Marketing from the Chartered Institute of Marketing (UK). He is an Associate Member of the Institute of Bankers of Sri Lanka (IBSL).

Prior to being appointed as the Deputy General Manager (Corporate & Offshore Banking), he held a range of Corporate and Executive Management positions including Deputy General Manager (Sales & Channel Management), Deputy General Manager (Finance & Planning), and Chief Marketing Officer, Assistant General Manager (North Western Province), Assistant General Manager (Marketing) and Assistant General Manager (Western Province-North).



# 09

### **Mr. R.M.N. Jeewantha**

*Non-Executive/  
Non-Independent Director*

Mr. R.M.N. Jeewantha, currently the Deputy General Manager - International, Treasury & Investment of the Bank of Ceylon was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as a Non-Executive/Non Independent Director with effect from 23rd December 2021. He is a member of the Integrated Risk Management Committee of MBSL.

Mr. Jeewantha is a graduate of the University of Sri Jayewardenepura, and holds a BSc Degree in Accountancy (Special). Later on, he obtained his MBA from the Postgraduate Institute of Management (PIM) in 2008. He is also an Associate Member of the Institute of Bankers of Sri Lanka (AIB).

Mr. Jeewantha joined the Bank of Ceylon in 2002 as a Management Trainee and possesses vast experience in retail banking, credit management and financial management. However, his forte lies in Treasury Management and Investment Banking and he commenced his Treasury career at the Dealing Room in 2008 as a Trainee Dealer and successfully rose to the position of CEO of Bank of Ceylon Primary Dealer Unit. He was later appointed to the Executive Management of the Bank as the Assistant General Manager (Treasury). In addition, he has gained international banking exposure by working in Bank of Ceylon, London.

Apart from the functions of the Treasury Division, he has served as the Head of the Committee for the Investment in Government Securities (CIGS), Member of the Investment Committee and Secretary of Asset & Liability Management Committee (ALCO) of Bank of Ceylon.

Presently, Mr. Jeewantha holds the position of Director in Lanka Securities (Pvt.) Ltd and Ceybank Asset Management Ltd, Alternate Director at Transnational Lanka Records Solution (Private) Ltd and Member of the Governing Board of Institute of Bankers of Sri Lanka. He also functions as a Member of the Central Bank's Domestic Financial Market Infrastructure Development project. He is a Member of the Special Standing Cabinet Appointed Procurement Committee (SSCAPC) of Ministry of Energy for the procurement of Petroleum and petroleum related products representing Bank of Ceylon. He is also a Member of the Public Enterprises Project Evaluation Committee of Prospective Investors and Committee Member of specific selling committee for the sale of Mineral Products of Lanka Mineral Sands Limited appointed by the Ministry of Industries.

# Corporate Management



## **Mr. Dammika Hapuhinna**

*Chief Executive Officer*

Mr. Dammika Hapuhinna is a Leasing and Banking professional with over 31 years of progressive experience in leasing & banking industries. He started his banking career at Seylan Bank PLC. In 2005 he moved to non-banking financial sector in the Kingdom of Saudi Arabia where he joined Saudi ORIX Leasing Company, the first specialized leasing company in Saudi Arabia and the first non-bank financial institution in the Kingdom. He played a key role in promoting lease financing in the Kingdom of Saudi Arabia. He was also a pioneering member of the Nations Trust Banks In-Store Banking concept. He holds a Master of Business Administration from University of Wales and an Executive Diploma in Business Administration from University of Colombo.

He has held several leadership positions in leading finance companies in the Kingdom of Saudi Arabia. He was also the architect instrumental for setting up a new finance company from ground up as their Head of Operations.

With his experience in banking and finance companies, he has gained exposure and expertise in Retail banking, Credit, Lease financing, Consumer Finance, Real Estate Finance, Receivable management, Product development, Risk management & Consumer protection.



## **Mr. Jude Gamalath**

*DGM – Marketing & Product Development*

Mr. Gamalath has closer to 21 years of experience and served as Head of Several Divisions of the company such as Marketing & Product Development, In-Charge of Region 2, Real Estate, Fixed Deposits & Savings. Also, he carried out his duties as the Acting CEO from May 2018 to June 2021.

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

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



**Mr. K. Jayasundara**

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

---

Mr. Jayasundara has multi-faceted exposure in diverse areas in financial services and has previously held senior management positions in operations, credit and recoveries. He has over 23 years' experience in the industry. He holds a MBA in Banking & Finance offered from the Post Graduate Institute of Management (PIM) and a BSc (Hons) degree with a 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 member of the Institute. He holds a LLB (Hons) degree from Buckinghamshire New University UK and completed the stage II of CIMA- UK exams.



**Mr. S. Fernando**

*Compliance Officer*

---

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 22 years of experience in the field of Internal Auditing in local conglomerates, as well as multinational companies.



### **Mr. D. Gunawardhana**

*Assistant General Manager - Human Resources/ Support Services*

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

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

Mr. Gunawardhana holds an MBA in Business Administration from the University of Sri Jayewardenapura, a BSc Degree in Business Administration from the same University, BMS. Sp. Degree (Second Class Upper Honors) (Specialized in Human Resource Management) from the Open University of Sri Lanka and holds a LLB (Honors) Degree from Buckinghamshire University (UK). He holds a Diploma in Management from the Open University of Sri Lanka, Diplomas in Psychological counseling from the Institute of Psychological Studies & Department of Psychiatry, Faculty of Medical Sciences, University of Sri Jayewardenapura 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 21 years of experience in the fields of finance, auditing, and accounting. He is an Associate member of The Institute of the Chartered Accountants of Sri Lanka and The Institute of Certified Management Accountants of Sri Lanka. Mr. Kandanaarachchi also serves as a Non –Executive Director on the Boards of MBSL Insurance Company Limited, subsidiary of the Company and Mega Containers Limited, where the Company holds an equity stake.



### **Mr. Asela Liyanage**

*Assistant General Manager – Recoveries*

Mr. Liyanage counts over 21 years of extensive experience in the Finance industry, particularly in Recovery Operations. He holds a Banking Diploma from the Institute of Bankers of Sri Lanka and a Degree of Master of Business Administration from the University of Bedfordshire, U.K.

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



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

*Assistant General Manager - Central Credit*

Mr. Ranatunga currently holds the position Assistant General Manager and Head of Centralized Credit division in the Company and counts 26 years in MBSL.

He started his career as an Executive in the Finance Planning Division and served in key positions in several vital departments such as Finance and Planning, Trade Finance and in branch operations as the Manager - Head Office Branch. In 2015, he was promoted as Regional Manager taking regional responsibilities in Region 01.

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

He counts over 30 years of experience in the fields of finance, auditing, accounting, and branch operations.





### **Mr. K. Ramanayake**

*Asst. General Manager- Retail & Branch Operations (Range 01)*

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

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

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



### **Mr. S.P. Niroshan**

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

Mr. S.P. Niroshan counts over 21 years of banking & finance experience in diverse positions. He started his career as a marketing officer and then got developed his career as a Branch manager, Regional manager, Head of Credit. At present he holds the position of Assistant General Manager- Retail & Branch Operations –Range 02. He holds a BSc Marketing Management (Special) Degree from the University of Sri Jayawardenapura.



**Mrs. F. Ishar**

*Assistant General Manager - Legal*

Mrs. Ishar is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public counting over 26 years experience at the Bar. She has passed the Attorneys-at-Law Intermediate & Final Examinations with First Class Honours and has become First in order of Merit in both Examinations. She also holds a Masters Degree in Law (LLM in International Business and Commercial Law – Merit Pass) from the University of West London, United Kingdom. She is a Member of the Bar Association of Sri Lanka, Colombo Law Society and Association of Corporate Lawyers in Sri Lanka. Mrs. Ishar counts over 26 years of experience in MBSL and currently holds the position of Head of Legal Department of MBSL.



**Mr. Thishan Gonagala**

*Head of Information Technology*

Mr. Gonagala serves as the Head of IT. He holds a Masters in Information System Management (MSc) at Colombo University of Sri Lanka. He is a member of the British Computer Society. He counts over 25 years of diversified experience in the Banking and IT industry in technological innovations. He is an expert in launching technology programs that safeguard data, streamline operations and drive innovations with the collaboration of banking operations. Most of his technological initiatives are of a wide range of project orientations with reduced cost and a high return of investment (ROI).



**Mr. Kapila Jayasinghe**

*AGM – Internal Audit*

---

Mr. Jayasinghe is a Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and holds a Master's degree on Business Administration from Postgraduate Institute of Management, University of Sri Jayewardenepura. He has also been accredited with a Diploma on Information Systems Security, Control & Audit (DISSCA) conducted by CA Sri Lanka jointly with Institute of Chartered Accountants of India. He counts over 12 years of experience in the fields of Governance, Risk & Control.

# Regional Managers



**Mr. S. Munasinghe**  
*Region 01*



**Mr. N. Selvarajah**  
*Region 02*



**Mr. K. Ramanayake**  
*Region 03*



**Mr. S. Pathmadeera**  
*Region 04*



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

# Key Figures

	2021	2020	Change %
<b>Operating Performance (Rs. Mn)</b>			
Net interest income	2,850	1,418	101.0
Gross income	5,971	5,188	15.1
Operating profit before tax	1,123	(885)	226.8
Profit before tax	813	(1,343)	160.5
Taxation	(284)	235	220.9
Profit after tax	529	(1,108)	147.7
Retained profit	(428)	(894)	52.1
<b>Financial Position (Rs. Mn)</b>			
Total assets	34,277	32,406	5.8
Gross loans and advances	31,662	30,205	4.8
Total deposits	22,268	21,725	2.5
Shareholders' funds	4,169	1,468	184.0
<b>Operating Ratios (%)</b>			
Return on assets	1.58	(3.19)	149.5
Return on equity	18.70	(54.39)	134.4
Cost to income ratio	63.23	119.72	(47.2)
Net Non-performing loans ratio	6.01	7.42	(18.9)
Provision coverage	46.33	42.67	8.6
Loans to deposit ratio	142.19	139.03	2.3
Core capital ratio	10.75	4.41	143.8
Overall capital ratio	11.33	5.59	102.7
<b>Shareholder Ratios</b>			
Earnings per share (Rs.)	2.04	(6.68)	130.5
Net asset value per share (Rs.)	16.08	8.85	81.7
Price earnings ratio (Times)	2.89	(1.12)	357.5
Market price per share (Rs.)	5.90	7.50	(21.3)

## Profit Before Tax

2021 - 813  
2020 - (1,343) **▲ 160.5%**

## Net Asset Value Per Share

2021 - 16.08  
2020 - 8.85 **▲ 81.7%**

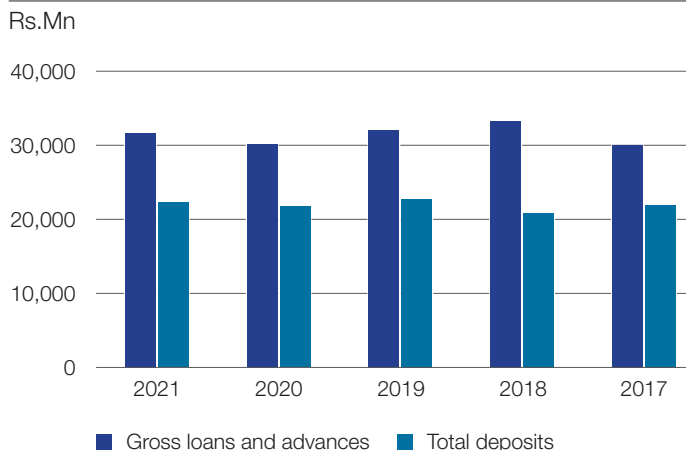
## Total Assets

2021 - 34,277  
2020 - 32,406 **▲ 5.8%**

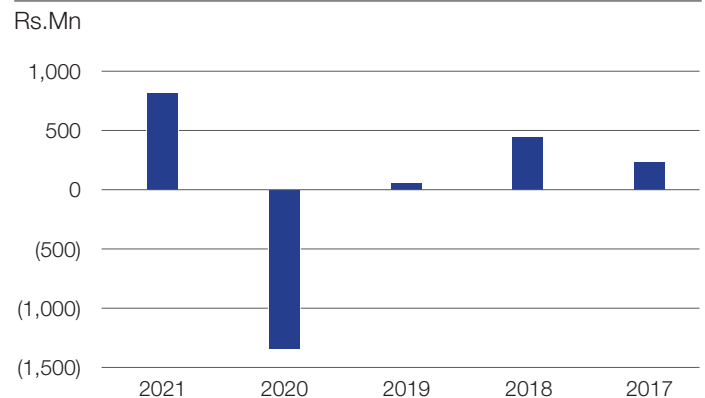
## Cost to Income Ratio

2021 - 63.23  
2020 - 119.72 **▼ 47.2%**

## Loans & Deposits



## Profit before Tax



# Chairman's Statement

Dear Stakeholders,

I'm pleased to state that your Company, The Merchant Bank of Sri Lanka (MBSL) recorded a turnaround performance during the review period of FY 2021. The Company embarked on an uphill journey at the beginning of the financial year under review, having endured a challenging FY 2020 and reporting a financial deficit as a result of negative impacts from external and internal challenges.

At the outset, MBSL was faced with the challenge of meeting the minimum capital adequacy requirements set by the regulator. I'm pleased to note that MBSL's rights issue conducted during the review year, aiming to raise the capital buffers mandated by the Central Bank of Sri Lanka (CBSL), received an overwhelming response and reaffirmed investor confidence in the Company while reshaping its strategic direction during the remainder of the year. MBSL raised Rs. 2.1 Bn through its rights issue in September 2021, with the principal stakeholder Bank of Ceylon infusing a major portion of the investment in a bid to propel the growth journey of MBSL through the power-packed association with the nation's leading commercial bank.

The positive turn of market conditions during the first half of the review year augured well for the financial performance of MBSL, as the Company was well positioned with necessary capital adequacy to capture the opportunities that emerged within the new normal. Despite challenges that continued to mar market possibilities, MBSL turned around its balance sheet deficits of the previous year to record a profit after tax of Rs. 529 Mn in FY 2021.

As a result of strategic realignments and prudent maneuvering of resources, the Company was able to reinstate regulator confidence, whereby the lending caps and other limitations to portfolio expansion that were enforced by the CBSL were thus eliminated. This was a significant achievement that allowed MBSL the impetus to compete more boldly in the industry while gearing towards accelerated growth during the remainder of the year.

The evolving stages of the pandemic and the resultant socio-economic challenges continued to affect the performance of the financial services industry as well as the Sri Lankan and global economy at large. The third wave of the pandemic had severe impacts on Sri Lanka's economic performance with intermittent lockdowns and movement restrictions further impeding economic growth and business activity. A mounting foreign exchange crisis, rising inflation and demand and supply related commercial deadlocks, all constituted a very challenging operating environment for Sri Lankan businesses. In addition, the Non-Bank Financial and Insurance Sector (NBFIs) was severely impacted by



**The interests of our stakeholders were placed at the forefront of our strategic direction, while we focused on optimizing the market opportunities**

the import restrictions that resulted in a contraction in the leasing industry, which is a major revenue contributor to the sector. The price inflation on used vehicles also posed major exposure risks to the sector, necessitating cautious portfolio expansion and reworked revenue models across the NBFi industry.

The turnaround financial performance of MBSL during the review year is a more significant feat therefore, owing to the above unprecedented challenges that called for prudent strategic formulae and agile execution approaches. I'm pleased to note that the Company was able to overcome these challenges successfully through the willful and deliberate strategic maneuvering at the hands of my very capable management team that saw MBSL through this very difficult year.



It is also my pride and pleasure to note that we were able to make a significant impact on the lives of our customers during the year under review. The interests of our stakeholders were placed at the forefront of our strategic direction, while we focused on optimizing the market opportunities such as the low interest rate regime and the lax monetary policy to continue to grow our portfolio more profitably while handing out much needed credit relief to our customers in a bid to help them navigate through the challenges. Product focus was shifted to high yield assets while personalized attention and management time was invested in managing portfolio quality and providing timely financial counsel to our valued customers to help them build and maintain more sustainable credit profiles. Focus on small and medium business

**“The Company was restructured to meet the evolving business requirements while optimizing the resources for better performance and efficiency during the year”**

**“We will also continue to be a compassionate financier towards our customers, a compliant organization to our regulators and a profitable entity for our shareholders”**

growth was intensified with more emphasis on select, strategic industries and segments, driving further portfolio growth and expansion for the Company. It is noteworthy that the strategic realignment of the growth focus brought significant fortunes for the MBSL, which recorded dynamic portfolio expansion and consolidation in contrast to some of its larger contenders that saw growth impediments during the year in review.

Navigating through the challenges of the review year called for operational excellence and tactful management of available resources. In this direction, the Company was restructured to meet the evolving business requirements while optimizing the resources for better performance and efficiency during the year. A people-first approach to build synergies within and a commitment to maintain the brand reputation were instrumental in ensuring the sustainable growth of the Company. The operational capabilities of the Company were further enhanced with investments in latest technology and systems to augment the customer experience while also simplifying the operational procedures for faster turnaround and data-driven decision making. MBSL is represented by its people that form the backbone of the Company, and the performance of staff well compensated with the job security and individual health and safety were assured even amidst the raging pandemic during the review year.

The backing of Sri Lanka's banking front-runner - Bank of Ceylon, continued to provide the growth impetus for the Company. The strong association with the BOC continued to augur well for amassing stakeholder confidence while the financial strength of the Bank which is the major shareholder of MBSL provided the much-needed support for expansion and growth despite the challenges of the operating environment.



Looking into the next financial year and beyond, it is evident that the economic stresses will continue to weigh on Sri Lanka's economy as well the financial services sector. We are cognizant of the fact that navigating through the new financial year and beyond will call for extreme and caution and careful planning of resources. During the next year and beyond, MBSL will focus on consolidating its growth and profitability by leaning on the strategic support and the solid capital foundation bestowed on the Company by its principal shareholder, BOC. We will play to our strengths and continue to grow the identified segments and products while emphasizing on portfolio quality and more proactive management of NPAs. We will also continue to be a compassionate financier towards our customers, a compliant organization to our regulators, a profitable entity for our shareholders while also operating as a responsible corporate citizen for the larger community that we serve.

#### **APPRECIATION**

I wish to take this opportunity to thank the Governor of the Central Bank of Sri Lanka and all the officials who have provided guidance, counsel and support to navigate through unprecedented challenges of the year under review.

I wish to also thank our principal shareholder Bank of Ceylon and all other shareholders for investing your confidence in the Company and strategic vision.

I'm also thankful to our loyal customers, partners and advocates that have continued to place their trust in us despite the challenging times and lackluster economic conditions.

My grateful thanks to the Board of Directors for their valuable advice and insights in maneuvering the strategic growth of the Company. Thank you to the very capable Chief Executive Officer and the senior management team that drive the strategic execution of MBSL with passion and dedication.

Thank you to the entire team and MBSL for their commitment, hard work and dedication that has made the success of the Company a possibility.

My thanks to all well-wishers and all other stakeholders for the continued support and encouragement through the review year.



**Mr. Kanchana Ratwatte**

*Chairman (Non-Executive/ Non-Independent Director)*

# Chief Executive Officer's Report

Dear Stakeholders,

In 2021, MBSL delivered encouraging results despite the challenging macro-economic impacts of the COVID-19 pandemic that lingered throughout the year. You would be pleased to note that MBSL's performance was managed prudently during a challenging year, while navigating through the pandemic to build on identified strategic business pillars. Identified key business pillars for revenue growth, ensuring the job security and health and safety of employees and enhancing technological prowess to meet the evolving demands of the market were some key highlights of the year that paved way for an improved financial performance during the year.

## PORTFOLIO GROWTH AND PROFITABILITY

With import restrictions and a swelling exchange crisis limiting the possibilities within the Leasing market, MBSL placed its focus on growing selected segments within the Leasing portfolio during the year in review. Leasing plays a key role in the Company's revenue growth and it was imperative for MBSL to seek out new markets and revenue growth opportunities within the asset product portfolio, to ensure sustainable portfolio expansion during the review year. Amidst the import restrictions and other economic challenges, the prices of pre-used vehicles were highly inflated due to demand-supply disparities. The Company approached this challenge with thorough cognizance of its strengths, and potential for growth. Growth objectives and efforts were placed on three key, strategically identified asset products whereby small ticket size leasing for three-wheelers, pawning and margin trading led portfolio growth of the Company during the year. The growth of three-wheeler leasing and pawning which are high yielding assets compensated for the unrealised revenue objectives from traditional leasing products while the margin trading business capitalised on the positive customer segments on the equity markets that prevailed during the year. While supporting micro and small businesses remained high on the agenda, lending portfolio of this segment was prudently managed in a bid to minimise defaults and non-payments amidst the tight monetary policy and other trickle-down impacts of the economic challenges that prevailed throughout. Lending to SMEs continued with more intent, while focusing chiefly on small ticket size working capital lending targeted to uplift the manufacturing sector of the country.

Amidst a low interest regime and an overall slow down in asset portfolio growth, the Company prioritised fee income as a key contributor to revenue growth. As a result of focused efforts in this direction, a fee income of Rs. 185.6 Mn was recorded during the year.



**The review year was also significant for MBSL, as the Company made its forays in to enhancing its technological prowess and digital capabilities in line with the rapid changes**

Backed by prudent portfolio management, focused revenue growth and judicious cost management during the year under review, I'm pleased to announce that your Company recorded a profit after tax of Rs. 529 Mn for the FY 2021 recording a significant turnaround performance for the Company.

The capital infusion to MBSL in the form of a rights issue in September 2021, eased out regulatory pressure for minimum capital requirements for the Company, providing it the much-needed muscle for deposit mobilisation during the remainder of the year. With the robust backing of our principal shareholder Bank of Ceylon, MBSL promoted the growth of its liability's portfolio, consisting largely of savings and fixed deposits.



The Company pursued an ambitious objective of Rs.1.3 Bn portfolio growth during the year and I'm pleased to note that MBSL successfully met this objective during the review year owing to its focused efforts. The Corporate lending unit was formed as a strategic business priority during the year in support of the ambitious growth while meeting evolving customer needs within the new normal.

Managing recoveries and non-performing asset portfolios were key management priorities within the year, given the challenging macro-environment. The Company rolled out the Central Bank recommended moratorium programmes on a priority basis, ensuring that the repayment relief schemes were granted immediately to the respite of our customers. In addition, MBSL

**“MBSL will continue to steer its operations with prudence and insightful strategic direction that will seek to build on the turnaround performance of the Company achieved during the year under review”**

**“Initiatives for digitalisation will be continued with focus on enhancing customer access points and convenience while delivering more efficient service levels to our customers during the coming year and beyond”**

monitored the portfolio quality on a prudent basis, providing timely and pragmatic repayment solutions to our customers with sound financial counsel, in a bid to support our customers navigate during the economic challenges of the year while ensuring the quality of our portfolio. As a result of this dedicated efforts for managing repayments, the Company improved its NPL ratio by end of the reporting period, while driving impairment provisions down to Rs. 74.4 Mn by end of the financial year in review. Focused cost optimisation efforts and enhanced operational efficiencies through strategic realignment of the organisation, afforded cost benefits to the Company during a challenging year, and I'm pleased to state that the cost to income ratio of the Company improved to 63% during the year in review.

### NAVIGATING THE NEW NORMAL

Although the FY 2021 kicked off with much optimism and hope for renewed growth, the planned trajectory was disrupted by a severe third outbreak of the COVID-19 pandemic that forced intermittent lockdowns during the year. Owing to limitations caused by lockdowns and movement restrictions to curb the spread of the virus, the Company continued with hybrid work arrangements allowing work-from-home and shift based working schedules to minimise the exposure of staff while maintaining undisrupted services to our customers. Despite challenges, MBSL maintained sound business continuity via its network of forty-eight (48) branches island wide, throughout the year.

Ensuring the health and safety of our staff took precedence amidst the rising risk of infections during the third wave of the pandemic. The Company made significant investments in enhancing the health and safety precautions at the head office and branch premises while also taking the onus to provide medical care to infected staff as part of our commitment as a responsible employer that places its staff at the heart of its operations. Despite the economic challenges and the financial stresses of the year, the Company ensured job safety and income security for all its staff and I'm pleased to state that the Company made no layoffs during the year under review. It was inspiring to note the continued commitment and dedication of the team at MBSL that worked tirelessly to meet the demands of the evolving landscape while adjusting to new normal and meeting customers needs efficiently and effectively during the review year.

The review year was also significant for MBSL, as the Company made its forays in to enhancing its technological prowess and digital capabilities in line with the rapid changes in the operational milieu that were mainly triggered by the effects of the COVID-19 pandemic. During the first year of the pandemic MBSL's business endured major challenges due to a lack of digital touchpoints and necessary communication potency to navigate the new normal. To overcome the challenges of the pandemic, and in preparation to take-on the new challenges of the post-COVID era, the Company initiated a digitalisation project during the year under review. The first step of the project will see MBSL's network of automated teller machines being integrated through the widely spread network of BOC ATMs, providing easy access to our customers through more than 800 ATMs island wide. Further developments of an e-wallet and a mobile app has been initiated during the year under review, with significant strategic investments allocated in this direction with a view to provide further digital conveniences to our customer during the new financial year and beyond.

#### **OUTLOOK FOR THE FUTURE**

The macro-economic conditions of the country seem largely erratic with many uncertainties looming ahead specially in the year 2022. MBSL will continue to steer its operations with prudence and insightful strategic direction that will seek to build on the turnaround performance of the Company achieved during the year under review. The tight monetary policy, volatilities in the economy and the exchange crisis will pose major challenges to the Company as well as the sector. In cognizance of the challenges, portfolio growth will be pursued with caution while continuing to acquire new business within the high-yield product segments to manage margins, while steering the operational costs with prudence for optimised financial performance. Initiatives for digitalisation will be continued with focus on enhancing customer access points and convenience while delivering more efficient service levels to our customers during the coming year and beyond.

#### **APPRECIATION**

Overcoming the challenges of the past year would not have been possible without the remarkable commitment and dedication of the team at MBSL. I am grateful for the staff members of the Company that enabled this success while battling their personal challenges during a difficult year.

My grateful thanks to our shareholders for continuing to place their trust in the Company and its growth prospects. The rights issue of the Company held during the year was a resounding success and this was a reaffirmation of investor confidence in our Company and we are thankful to our principal shareholder Bank of Ceylon for the continued strength and reputation bestowed on the Company.

I'm thankful to the astute counsel of the Chairman and the Board of Directors of MBSL which helped significantly to pave way for the Company's strategic growth and turnaround performance during the year under review.

My grateful thanks to our customers for the continued to faith and confidence placed in our Company to fulfil their financial requirements even amidst a challenging year.

Thank you to our regulators, The Governor of the Central Bank of Sri Lanka and other statutory bodies, well wishers and patrons for their continued support and guidance during the year.

Wishing you all the best in the new financial year!



**Mr. Dammika Hapuhinna**  
*Chief Executive Officer*

# Management Discussion and Analysis

The Merchant Bank of Sri Lanka (MBSL) remained resilient against the headwinds of the review year and despite the challenges of the operating environment, the Company recorded a turnaround performance in the year 2021. MBSL undertook strategic internal changes and key management decisions during the year which aided the successful maneuvering of the Company through a turbulent year. Prudent management of resources, strategic re-allocation of investments and restructuring of portfolios for better performance were key highlights of the year that supported the growth and stabilization of MBSL in 2021. The report herein provides details on the financial, operational and portfolio performance of the Company during the period under review.

## MACRO-ECONOMIC REVIEW

### Sri Lanka's Economic performance

Following two challenging bouts of the COVID-19 pandemic outbreaks in the year 2020 and 2021, the economic challenges in Sri Lanka intensified amidst limitations to business activity and individual movement that hindered economic performance throughout the years 2020 and 2021.

Although the year 2021 began with greater optimism and hope for recovery from the economic woes of 2020, the post-Avurudu wave of COVID-19 forced the country back into a lockdown which further deteriorated the economic performance and slowed down recovery from the financial strains caused by the previous pandemic year.

The broader economy and consumer demand were impacted by a sharp increase in USD/LKR rates which intensified towards the latter part of the year. Amidst attempts to manage the Balance of Payments challenges faced by the country due to the sharp drop in tourism and export related foreign exchange income, its economic performance was further affected by fiscal austerity measures and the resulting impacts of the chemical fertilizer ban followed by the ban of other selected imports including the importation of vehicles, tiles, and 17 crops that can be grown in Sri Lanka. With severe austerity measures being implemented to safeguard Sri Lanka from a possible economic crisis, the country's recovery from the impacts of COVID-19 was also further dented and prolonged. This was also impacted by supply issues stemming from the global economic situation, which contributed to the rising inflation that later heightened by March 2022.

While the overall GDP remained moderately high, larger sectors of the Sri Lankan economy continued to face growth challenges throughout the review year and challenges are expected to intensify in the year 2022 in the face of rising inflation and an exchange crisis. Real GDP of Sri Lanka is estimated to have expanded by 3.5 percent in 2021 owing to a strong 12.3 percent,

year-on-year (YoY) growth, reporting a rebound from a low base in the second quarter of the year. Significant contributions to GDP came from manufacturing, financial services, construction, transport, and real estate activity. Despite still low tourism receipts, exports expanded significantly, led by the textile industry. Higher imports of intermediate and capital goods increased imports. Year-on-year inflation accelerated to 17.5 percent in February 2022, mostly due to high food inflation at 24.7 percent, amid rising global commodity prices, adjustments to fuel prices, and partial monetization of the fiscal deficit. Since August 2021, the CBSL has increased policy rates and the statutory reserve ratio to mitigate the pressures and the latest interest rates hike saw an increase by 700 basis points in a bid to counter the effects of inflation. The trade deficit widened to USD 8.1 billion in 2021 from USD 6 billion in 2020 as a rising import bill offset the increase in export earnings, despite import restrictions on non-essential goods. Declines in remittances (22.7 percent) and tourism receipts (61.7 percent) are estimated to have further widened the current account deficit to USD 3.2 billion (or 3.8 percent of GDP) in 2021.

External financing from bilateral partners has been mobilized to cover deficits for essential imports and boost foreign exchange liquidity. Official reserves still remain low relative to foreign currency debt service, estimated at USD 5.6 billion from April to December 2022. Net foreign assets of the banking system declined to USD 4.9 billion in December 2021, showing escalating foreign exchange liquidity shortages. After keeping the exchange rate broadly fixed around 203 LKR/US\$ for seven months, the CBSL floated the currency in March 2022, to stem reserve losses. By end of March, the currency had depreciated by 46 percent.

The fiscal deficit is estimated to have remained at 11.1 percent of GDP in 2021, and public and publicly guaranteed debt to have increased to 117 percent of GDP. The fiscal deficit was mostly financed by domestic resources, including the central bank. Fitch, S&P, and Moody's downgraded the sovereign rating deeper into the substantial risk investment category. Looking into 2022, severe and urgent policy intervention and debt restructuring measures will be mandatory for Sri Lanka to bounce back its economy in the face of mounting challenges as well as internal and external shocks.

### Licensed Financial Companies (LFC) sector performance and outlook

Despite the continuous headwinds of the year 2019, 2020 and 2021, the Non-Bank Financial and Insurance companies displayed improved performance and signs of recovery during the review year. The recovery was led by a moderation of impairment charges and a growth in profits compared to the previous years.

Impairment charges, which peaked in the 2nd quarter of 2020 for LFCs, recorded a QoQ reduction of approximately 60% by September 2021. This was led by higher provisioning charges undertaken in the second quarter of the year due to the impacts of the Delta COVID-19 wave. In terms of asset quality, the Gross NPL ratio of the LFC sector dropped to 12.7% (2Q21: 13.0%, 1Q21: 11.3%), while the CBSL issued a circular to re-extend concessions granted to businesses and individuals affected by COVID-19, including those within the transportation and tourism sectors. As a result of this, eligible borrowers could opt to either restructure their credit facilities, facilitate early settlement or reextend moratoriums till 31st March 2022.

The sector saw an average 268% increase in Profit After Tax (PAT) by September 2021, rebounding to profit levels similar to 1Q21. This expansion in PAT was backed by lower impairment charges and higher net income across the groups. On a YoY basis, larger LFCs (A1) recorded a profit expansion of 91.1%, with LFCs with asset bases less than LKR 50 Bn (A2) recording a profit expansion of 415.5%. Both Groups recorded an improvement in interest income, while concurrently recording a decline in interest expenses for the quarter ended 30th September 2021. Non-interest income grew by 23.2% on a QoQ basis for Group A1 firms, and by 59.6% for Group A2 firms, with both groups recording strong growth in other income. Despite the low interest rate environment maintained over the year, the LFC sector was able to grow its interest income relative to interest expenses steadily since June-20, further adding on to profitability in the sector.

Both Group A1 and Group A2 LFCs witnessed a rise in their ROA (3.9% for Group A1 firms and 1.9% for Group A2 firms) and ROE (18.0% for Group A1 firms and 12.9% for Group A2 firms) figures during the quarter (ended 30 September). Net Interest Margins of the LFC sector, which fell sharply in June-20 with the initial lowering of rates, have seen a steady up tick till Sep-21, despite subsequent rate reductions undertaken since Jun-20 by the CBSL.

Credit growth within the sector picked up on a QoQ basis, while private sector credit growth recorded double digit YoY growth since May-21. Overall, for Group A firms, QoQ growth in loans and receivables rose by 4.4%, backed by pawning loans as the Delta COVID-19 wave affected incomes of daily wage earners. However, the rate hikes in 2022 is likely to put downward pressure in credit growth in the current year. Deposits for the overall LFC sector contracted by 0.4%, and remained sluggish over the three quarters preceding September 2021. The hike in deposit rates in the year 2022, will likely augur well for term deposits growth, but will impact the cost of funds of the sector due to the sharp increase of rates within a short span, while the asset rates still remain low for fixed term loan contracts.

The financial services sector is set to face greater adversities in the face of the economic challenges of the year 2022 and the LFCs that cater to the more vulnerable customer segments including grass root level debtors and micro borrowers are expected to steer with prudence and caution with greater focus on portfolio quality and consolidation during the year 2022 and beyond.

## FINANCIAL REVIEW

Despite the limitations and the macro economic challenges of the review year, MBSL reported a turnaround financial performance during the year owing to prudent portfolio management and re arrangement of strategic priorities to suit the evolving market conditions.

### Revenue and Profitability

Despite the low interest regime that continued through most part of the year, MBSL recorded a Net Interest Income growth of 101% YoY, to report Rs. 2.85 Bn during the review year. The NII growth stemmed mostly from the focused efforts for continued repayment of existing credit portfolio while leveraging credit growth in selected segments such as three-wheeler leasing and corporate lending.

Focused efforts were deployed during the year to increase the fee and commission income of the Company, in order to recompense the lackluster credit growth and to counter the portfolio impacts of the lower interest rate margins. The net Fee and Commission income for the period under review rose Rs.147.01 Mn, recording an increase of 55% YoY. The Company's focused efforts on growing its Margin Trading portfolio and loan related fees were major contributors to this growth.

Net Trading income saw an impressive growth of 329% during the review year, prudent management of trading income of the Company. Total net operating income of the Company grew by 198% YoY, on the back of portfolio growth, decrease in NPA, decrease in interest expense, Increase in other operating Income.

Total operating expenses were managed prudently to optimize the balance sheet performance of the Company. Several Company-wide cost management strategies were implemented during the year under review while significant strategic investments were also deployed to better-equip the Company to meet the evolving needs of the new normal. The investments in personnel was continued to ensure job security and income assurance during a challenging year. As a result, operating expenses of the Company increased marginally by 5% to LKR 2.05 Bn in the financial year under review.

# Management Discussion and Analysis

While considerable provisions were made to safeguard against possible portfolio risks arising from Non-Performing Assets (NPA), the Impairment charge for the year reduced by 87% by end of the reporting period due to focused, strategic efforts executed for managing repayments and NPAs in the face of macro-economic challenges. Due to prudent management of repayments and a strategic collections drive conducted throughout the Company the Gross NPA ratio improved during the year under review, in comparison to the year 2020.

Profit before Tax for the period improved by 160.5% YoY to report LKR 812.73 Mn during the review, recording a turnaround year for the Company in 2021. The Company provided LKR 283.7 Mn as income taxes contributing to the national revenue. Profit after Tax of MBSL for the financial year 2021 was LKR 529.04 Mn and was an increase of 148% YoY. Accordingly Earning per Share of the Company improved to LKR 2.04 during the review year, in comparison to the loss of LKR 6.68 recorded last year.

## Balance sheet growth and consolidation

Total Assets of the Company grew by 6% YoY and ended up at LKR 34.27 Bn by 31st December 2021. Total Assets of the Group were LKR 36.27 Mn as at end of the review period, and recorded a YoY growth of 6%. Loans and receivables of the Company grew by contributed to the assets growth recording a 5% YoY portfolio expansion that results in a loans portfolio balance of LKR 28.18 Bn by end of the reporting period.

Total Liabilities of the Company contracted marginally during the review period and ended at LKR 30.11 Bn by the end of the reporting period. Total Liabilities of the Group stood at LKR 31.51 Bn by the end of the reporting period.

The Company underwent a significant capital infusion during the year to meet the statutory capital adequacy requirements set by the regulator. The Company raised LKR 2.15 Bn through a successful rights issue during the third quarter of the review year. Accordingly, the stated capital of MBSL ended at LKR 4.27 Bn as at end of the reporting period with Total Equity reporting a growth of 184% to LKR 4.17 Bn by year end. As a result, the Net assets value per share almost doubled by end of the period reporting LKR 16.08.

## MANAGING PRODUCTS AND PORTFOLIO MOVEMENT

At the outset of the year, the Company was faced with major challenges related to lending capacities due to regulator-imposed limitations in relation to minimum capital requirements not being met by the Company. Following a significant capital infusion in September 2021, these shackles and limitations were broken – however the main focus of the Company was to consolidate the portfolio performance while prudently pursuing growth amidst higher focus being placed on collections and recoveries.

In cognizance of the growing challenges in the macro-economic conditions, the Company made a strategic decision to prudently expand its assets base, while placing higher focus on higher margin products. Traditionally the asset base of the Company comprised mainly of Leasing, term loans and personal loans. The growth and performance of this portfolio was impacted by the negative impacts of the COVID-19 pandemic and the import restrictions that further limited the lending capacity for vehicle purposes. In a further move to manage portfolio risks, the Company shifted its leasing focus from commercial vehicles to the retail segment to capitalize on the growing segments, specially at the middle and bottom of pyramid. Accordingly Leasing portfolio growth for the year was led with three-wheeler and motorcycle financing facilities. The Company also tightened its valuation and credit evaluation processes to mitigate possible risks arising from the exponential rise in vehicle prices.

Owing to focused settlement, re-schedulement and collections efforts by the Company, the impairment charges on the Leasing portfolio reduced significantly while contributing to an income growth of LKR 523.48 Mn during the year under review. Following a similar trend Personal Loans, Micro lending, Term and Short-term loans growth was slowed down through conscious efforts during the year under review in order to manage portfolio health and quality.

Lending products in lower risk categories and with higher yields, including Pawning, Margin Trading, and Corporate lending were expanded with focused efforts that resembled the market sentiments and the growing customer interest for these product categories in the face of changing market dynamics. Accordingly, the Pawning portfolio growth of MBSL recorded an increase of 37.35% YoY while the margin trading portfolio expanded by 564.12% YoY.



Even subsequent to the capital infusion, the Company made prudent efforts on growing its deposit base, while placing higher focus on increasing the Savings base which would contribute to the low-cost funds base of the Company. The Fixed Deposits of the Company grew marginally by 2.5%, while the short-term FD based contracted during the review period.

## MANAGING RESOURCES AND TECHNOLOGY

### Information Technology

MBSL's key operations are conducted on its Signature core banking system (Fiserv) while several other systems such as the internally developed Velocity system for managing the front-end environment and SKALE system for credit appraisals aid the smooth and efficient operational processes. Internal communication within the organization are powered by the Outlook 365 e-mail system and the Company-wide intranet which has been also developed in-house, support staff engagement and swift sharing of information across the branch network.

Information Technology unit of MBSL is powered by highly skilled, specialised IT professionals that provide insights and management dashboards for data-backed management and strategic decision making in the Company. User training and helpdesks are maintained on a continuous basis to enhance the performance of the Company and support operational efficiency of the Company. Due to efficient management of technology and available resources, no downtimes were recorded during the year under review while the costs were managed prudently to enable a cost-effective operational process within the year in review.

In line with enhancing performance and efficiency of the Company, implementation of the 'Manage Engine' as a supportive environment that enhanced IT efficiency and helped the Company to become more sustainable through transformation into a paper-less office was a key highlight of the year.

Several technological enhancements were also implemented to enable the Company to withstand the challenges of the macro-economy and upgrade its efficiencies to meet the demands of the new normal. Some of the key highlights of the year included,

- \* Development of a more advanced KYC monitoring system in-house, to scan new customers against the UN sanctions list at the time of on-boarding

- \* Introduction of the transaction monitoring module to enable quick transaction updates and instant alerts through SMS to customers
- \* Development of the Fixed Assets Module in-house for efficient and real time monitoring and management of asset depreciation, asset transferring and reporting of asset damage etc. The module acts as a centralised monitoring tool useful for budget setting as well.
- \* Seven (7) days continuous Disaster Recovery drill was conducted to ensure that the systems are stable to operate by DR servers in a case of a Disaster and unavailability of primary servers at live environment.
- \* Network infrastructure security was further enhanced to guard against cyber-attacks and threats

### Operations Management

Maintaining smooth and seamless operations amidst the limitations and chaos of the year under review was a key challenge that the Company overcame successfully through strategic realignment of traditional operational structures to suit the demands of the new normal. The changes to the Company's operations were managed within a well-planned out 'Change Management Procedure' where the removal of older systems and implementation of newer process efficiencies were handled by a dedicated development team after conducting of a thorough gap analysis to identify specific areas that needed improvement.

In order to ensure Business Continuity amidst intermittent lockdowns and movement restrictions, during the year under review remote working capabilities were enhanced within the Company with concepts such as with the provision of secured channels and connectivity to those who opted to work from home. As part of its efforts to maintain seamless operations, the suppliers of the Company were also provided with online payment channel access through safe and secure environment.

The Company operated through its head quarters and branches even amidst the lockdowns to ensure that the customer needs were met in a timely and efficient manner. To this end, the Company ensured that strict health and safety measures were implemented across all its offices in order to safeguard the health of staff, customers and other stakeholders.

# Management Discussion and Analysis

## MANAGING STAKEHOLDER EXPECTATIONS

The key stakeholders of MBSL include its customers, shareholders, suppliers, business partners, financial service providers, rating agencies and regulatory bodies. The Company is a subsidiary of Bank of Ceylon and hence the Bank is the principal shareholder of MBSL. A rights issue conducted in 2021, gained much traction in the investor community, which the principle shareholder BOC, contributed to significantly further reinstating the trust and confidence in the Company. The Company had seen challenging times through the period of 2018 to 2020. In light of financial performance, 2021 was a turnaround year for the Company in which MBSL reported higher revenue and profits. The year 2022 will be a year for further consolidating these gains, despite the challenges. 2021 was also a year when most of the regulatory challenges for the Company were well managed, clearing the path for greater investor confidence while setting the pace for steady growth in the years to come.

In cognizance of the challenges faced by customers due to macro-economic volatilities, the Company made conscious and focused efforts to ease the burden of its customers by providing credit settlement plans and other concessions, especially for Leasing customers. The interest rate concessions introduced by the CBSL to ease customer burdens were passed on to customers swiftly while customer service teams of the Company maintained continuous dialogue with customers to understand their cash flows and provide sustainable restructuring solutions for their credit facilities; thus, cementing customer relationships and creating long term customer value.

The CBSL recommended moratorium and relief schemes were rolled out swiftly throughout the year providing customers some much-needed respite from the financial strains of the year. Customer requests for customized re-schedulement solutions were also accommodated, with the expert credit teams of the Company proposing better liquidity plans, especially for customers business loans, enabling them better flexibility of working capital to grow and sustain their businesses.

Customer communications were maintained via digital channels despite restrictions while increased advertising and brand presence in the online retail platforms. Trading platforms and car sales etc. supported the brand to maintain top of mind awareness amongst its existing and potential customers.

Given the intensity and increase in customer concerns due to the changes in the market, a dedicated customer complaint management unit was set up within the Company to proactively gather customer feedback and grievances and to find solutions to deliver an enhanced customer experience overall.

Stakeholder communications and brand awareness was shifted to digital channels, due to the limitations of the macro-economic environment. Despite challenges and revised investments on branding and communications, the Company maintained media presence and was listed on the LMD's top 100 brands. Stakeholder engagement was maintained with heightened focus on social media and digital communication channels.

## MANAGING HUMAN RESOURCES

Human capital is a key and significant resource at MBSL, and focused efforts were deployed to develop and empower staff of the Company within a challenging year. Providing opportunities for employees to develop their careers within the organization is a strategic objective of the Company which also envisions staff retention and long-term employee loyalty. The Human Capital of MBSL was enriched during the year by providing 207 career development (staff promotions) opportunities as stated below in line with Company Staff Promotion Policy.

Health and safety of staff was a key management priority within the Company during the year, and focused efforts and investments were made in ensuring the safety of staff against the COVID-19 pandemic. The safety measures initiated in line with COVID-19 guidelines imposed by the Government were continuously communicated to staff by way of circulars, meetings, e-flyers, and other internal communication methods. The Company also took measures to provide staff of all MBSL locations with sanitizers, masks, hand washing facilities, temperature checking apparatus etc. while office infrastructure and space was rearranged according to COVID-19 prevention safety guidelines for. Work from home and flexible roster basis work arrangements were implemented throughout the year to reduce staff exposure in the light of the raging pandemic that prevailed throughout the year.

The Company currently employees 982 staff out of which 63% are male and 37% are female. Maintaining job security and providing stable monthly wages for all the staff were a key strategic priority at MBSL during a challenging year.

Training & Development Plan for the year 2021 was ceased with effect from 01/04/2021 due to a strategic re-alignment of priorities due to the pandemic situation. However, providing continuous training and development opportunities for the employees within the health and safety standards remained a key priority and trainings were conducted (virtual & class room) as per the business requirements of the Company. We have conducted 22 number of training programs internally and externally.

## **OUTLOOK FOR THE FUTURE**

With the turnaround performance in 2021 setting the pace for future growth, MBSL will look for continued growth and consolidation during the ensuing years. The Company will pursue the growth of a quality portfolio through prudent credit growth with focus on strategically handpicked customer segments. In a backdrop where import restrictions and foreign exchange limitations would continue to impact leasing portfolio growth, MBSL will look to new markets with focus on new vehicle financing through strategic links with suppliers, financing of resale of registered vehicles, and the growth of the three-wheeler leasing base which is identified as a high-yield segments within the industry. In line with the national vision for economic revival, the Company would also develop a funding for SME lending to fuel the sector with more sustainable funding.

The rising interest rates, devaluation of the rupee against the dollar and the forex and fuel crises developing within the country is foreseen to impact the growth plans and additional efforts and focus will be placed on recoveries and collections at a time where repayments are likely to take downturn amidst accelerated rise in cost of living.

The Company continue to further its digital banking agenda and will look to develop more channels for customer interaction and engagements with a mobile wallet and e-banking platform being developed to be launched in the year 2022.

# Corporate Governance Report

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

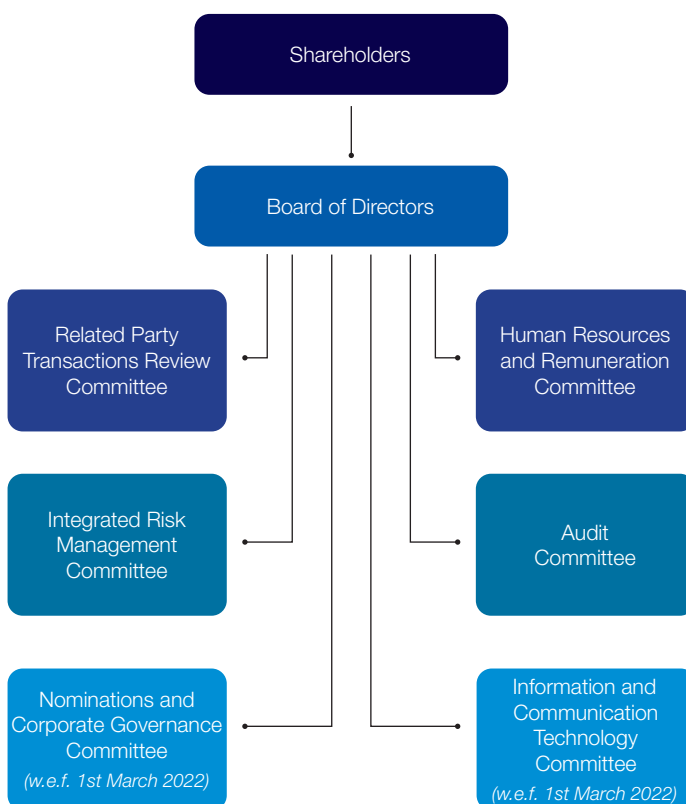
## GOVERNANCE FRAMEWORK

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

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

## THE BOARD OF DIRECTORS

The Board of Directors is the apex governing body and consisted of nine (09) Non-Executive Directors (including the Chairman) of whom three (03) are deemed independent as at 31 December 2021. There are no alternate directors appointed to the Board. 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.



The Board is also supported by fourteen (14) management committees; namely Corporate Management Committee, Credit Committee, Information Technology Steering Committee, Recovery Committee, Asset and Liability Committee, Procurement Committee, Vehicle Disposal Committee, Investment Committee, Real Estate Committee, Operational Risk Management Committee, Asset Disposal Committee, Marketing Committee, HR Committee, and Information Security Committee.

### **BOARD MEETINGS**

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

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

### **GUIDING STRATEGY**

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

### **RISK MANAGEMENT AND INTERNAL CONTROLS**

The Board holds apex responsibility for maintaining sound risk management and internal control frameworks. It is also responsible for determining the risk appetite the Company is willing to take in achieving its growth aspirations. The risk management framework and risk performance during the year are described in the Risk Management Report on pages 77 to 85 and the Report of the Integrated Risk Management Committee on pages 74 to 75. Directors are also responsible for formulating and implementing a comprehensive framework of internal controls which ensures that assets are safeguarded, and the integrity of financial reporting is preserved.

# 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 2021
7.6 (i)	Names of persons who during the financial year were directors of the Company.	Complied. Please refer to “Annual Report of the Board of Directors on the Affairs of the Company”. (page 67)
7.6 (ii)	Principal activities of the Company and its Subsidiaries during the year and any changes therein.	Complied. Please refer “Annual Report of the Board of Directors on the Affairs of the Company”. (page 66)
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.	Complied. Please refer “Shareholder Information” on pages 226 to 228 for the 20 largest holders of voting shares. The Company has not issued any non-voting shares.
7.6 (iv)	The public holding percentage.	Please refer “Shareholder Information” on pages 226 to 228.
7.6 (v)	Directors’ and Chief Executive Officer’s holding in shares of the Company at the beginning and end of the financial year.	Please refer “Shareholder Information” on pages 226 to 228.
7.6 (vi)	Information pertaining to material foreseeable risk factors.	Please refer “Risk Management Report” on pages 77 to 85.
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Please refer “Management Discussion and Analysis” on Pages 40 to 41.
7.6 (viii)	Extents, locations, valuations and the number of buildings of the land holdings and investment properties.	Please refer “Note 29 and 30” to the “Financial Statements”.
7.6 (ix)	Number of shares representing the stated capital.	Please refer “Note 41” to the “Financial Statements” on ‘Capital’.
7.6 (x)	A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.	Please refer “Shareholder Information” on pages 226 to 228.

## 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 2021
7.6 (xi)	<p>Ratios and market price information on:</p> <p><b>EQUITY</b></p> <ol style="list-style-type: none"> <li>1. Dividend per share.</li> <li>2. Dividend payout.</li> <li>3. Net asset value per share.</li> <li>4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year).</li> </ol> <p><b>DEBT</b></p> <ol style="list-style-type: none"> <li>1. Interest rate of comparable government security.</li> <li>2. Debt/equity ratio.</li> <li>3. Interest cover.</li> <li>4. Liquidity ratio.</li> <li>5. The market prices &amp; yield during the year.</li> <li>6. Changes in credit rating.</li> </ol>	<p>Not applicable.</p> <p>Not applicable.</p> <p>Please refer "Statement of Financial Position".</p> <p>Please refer "Shareholder Information" on pages 226 to 228.</p> <p>Please refer "Debenture Information".</p> <p>Please refer "Decade at a Glance".</p> <p>Please refer "Decade at a Glance".</p> <p>Please refer "Decade at a Glance".</p> <p>Please refer "Debenture Information".</p> <p>Please refer "Debenture Information".</p>
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Please refer "Note 30" to the "Financial Statements" on page 173.
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement.	Complied. The Company issued 358,665,096 shares by way of a Rights Issue during the year 2021. Please refer Note 41 on page 190.
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 Scheme or Employee Share Purchase Scheme at present.
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.	This report provides the disclosures referred to in Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	Complied. Please refer Note 43 to the "Financial Statements" on page 192.

# Corporate Governance Report

## SECTION II

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2021
7.10.1	<p><b>Non-Executive Directors</b></p> <p>a. The board shall include at least, two (2) non-executive directors; or such number of non-executive directors' equivalent to one third (1/3) of the total number of directors, whichever is higher.</p> <p>b. The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.</p> <p>c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.</p>	<p>Complied.</p> <p>All -nine (09) directors who comprise the Board are non-executive directors and have held office prior to and immediately preceding the Annual General Meeting.</p>
7.10.2	<p><b>Independent Directors</b></p> <p>a. Where the constitution of the board includes only two (2) non- executive directors in terms of Rule 7.10.1 above, both such non- executive directors shall be "independent" (as per the criteria set out in Rule 7.10.4 of the CSE Listing Rules). In all other instances two (2) or one third (1/3) of non-executive directors appointed to the board, whichever is higher, shall be "independent".</p> <p>b. The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.</p>	<p>Complied.</p> <p>Three (03) out of the nine (09) non-executive directors are independent.</p> <p>Complied.</p>
7.10.3	<p><b>Disclosure relating to Directors</b></p> <p>a. The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the Annual Report the names of directors determined to be "independent."</p> <p>b. In the event a director does not qualify as "independent" against any of the criteria set out below but if the board, taking into account all the circumstances, is of the opinion that the director is nevertheless "independent" the board shall specify the criteria not met and the basis for its determination in the Annual Report.</p> <p>c. In addition to disclosures relating to the independence of a director set out above, the board shall publish in its Annual Report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.</p> <p>d. Upon appointment of a new director to its board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.</p>	<p>Complied.</p> <p>Not applicable.</p> <p>Complied.</p> <p>Resume of each director is given on pages 10 to 18 of the Annual Report.</p> <p>Complied.</p> <p>The Company Secretary has provided the required information to the Exchange upon appointment of new directors.</p>



## 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 2021
7.10.5	<b>Remuneration Committee</b>	
	<p>a. Composition The Remuneration Committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its board); or of non-executive directors a majority of whom shall be independent, whichever is higher. One (1) non-executive director shall be appointed as Chairman of the committee by the board.</p>	<p>Complied. Human Resources and Remuneration Committee consists of three (03) independent non-executive directors.</p>
	<p>b. Functions The Remuneration Committee shall recommend the remuneration payable to the executive directors and Chief Executive Officer (“CEO”) of the company and/or equivalent position thereof, to the board of the company which will make the final determination upon consideration of such recommendations.</p>	<p>Complied. Please refer the “Report of The Human Resources and Remuneration Committee” and Remuneration Committee Report on page 76 of the Annual Report.</p>
	<p>c. Disclosure in the Annual Report The Annual Report should set out the names of directors (or persons in the parent company’s committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.</p>	<p>Complied. The names of the members of the Human Resources and Remuneration Committee together with the remuneration policy are given in the “Report of The Human Resources and Remuneration Committee” on page 76 of the Annual Report. Fees paid to directors are disclosed in the Note 15 to “Financial Statements” on page 126 of the Annual Report. There are no executive directors on the Board.</p>
7.10.6	<b>Audit Committee</b>	
	<p>a. Composition The Audit Committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where an entity has only two (2) directors on its board); or of non-executive directors, a majority of whom shall be independent, whichever shall be higher.</p>	<p>Complied.</p>
	<p>In a situation where both the parent company and the subsidiary are ‘listed Entities’, the Audit Committee of the parent company may function as the Audit Committee of the subsidiary</p>	<p>Not applicable.</p>
	<p>One (1) non-executive director shall be appointed as the Chairman of the Audit Committee by the Board.</p>	<p>Complied.</p>
	<p>Unless otherwise determined by the Audit Committee, the CEO and the Chief Financial Officer (“CFO”) of the company shall attend Audit Committee meetings.</p>	<p>Complied. CEO and Head of Finance attend the Audit Committee meetings by invitation.</p>
	<p>The Chairman or one (1) member of the Audit Committee should be a Member of a recognized professional accounting body.</p>	<p>Complied. Audit Committee Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka.</p>

# Corporate Governance Report

## SECTION II

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

CSE Rule No.	Governance Requirement	Extent of Compliance in 2021
7.10.6	<b>Audit Committee</b>	
	b. Functions The Audit Committee's functions shall include,	
	(i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards.	Complied. The functions of the Audit Committee and its report are given on pages 71 to 72.
	(ii) Overseeing of the company's compliance with financial reporting requirements, information requirements of the Companies Act No. 7 of 2007 and other relevant financial reporting related regulations and requirements.	Complied.
	(iii) Overseeing the processes to ensure that the company's internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards.	Complied.
	(iv) Assessment of the independence and performance of the company's external auditors.	Not applicable. Since the Auditor General is the external auditor of the Company where the independence is guaranteed under the Constitution of Sri Lanka and the Committee has no role to play in the engagement of the external auditor.
	(v) To make recommendations to the Board pertaining to appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.	Not applicable.
	c. Disclosure in the Annual Report The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the Audit Committee should be disclosed in the Annual Report.	Complied. The names of members of the Audit Committee and its report are given on page 72 of the Annual Report.
	The Audit Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.	Complied. Please refer Audit Committee Report on page 71 of the Annual Report.
	The Annual Report shall contain a report by the Audit Committee setting out the manner of compliance by the company in relation to the above, during the period to which the Annual Report relates.	Complied. Please refer the "Audit Committee Report" on page 71 of the Annual 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 2021
<b>2</b>	<b>The Responsibilities of the Board of Directors</b>	
2(1)	The Board of Directors (hereinafter referred to as the Board) shall strengthen the safety and soundness of the finance company by-	
	a) Approving and overseeing the finance company's strategic objectives and corporate values and ensuring that such objectives and values are communicated throughout the finance company;	a) Complied. The Strategic Plan for 2022-2024 is available. Vision, mission and corporate values have been communicated to the staff via intranet of the Company.
	b) Approving the overall business strategy of the finance company, including the overall risk policy and risk management procedures and mechanisms with measurable goals, for at least immediate next three (3) years;	b) Complied. Board has approved the Risk Policy which includes the risk management procedures.
	c) Identifying risks and ensuring implementation of appropriate systems to manage the risks prudently;	c) Complied. The implementation of the Risk Policy is being monitored by the Integrated Risk Management Committee (IRMC) and the Board through a well-structured risk reporting mechanism. IRMC minutes are submitted to the Board regularly as stipulated in the Terms of Reference of IRMC.
	d) Approving a policy of communication with all stakeholders, including depositors, creditors, shareholders and borrowers;	d) Complied. There is a Policy of Communication with all stakeholders approved by the Board.
	e) Reviewing the adequacy and the integrity of the finance company's internal control systems and management information systems;	e) Complied. Implementation of internal controls is looked into by the Internal Audit Department (IAD). Board monitors these through the IRMC and the Audit Committee. Internal control systems and management information systems are continuously reviewed to identify any gaps to further improve governance.
	f) Identifying and designating key management personnel, who are in a position to; (i) Significantly influence policy; (ii) Direct activities; and (iii) Exercise control over business activities, operations and risk management;	f) Complied. The Board has identified Key Management Personnel (KMP), as required by the Direction.
	g) Defining the areas of authority and key responsibilities for the Board and for the key management personnel;	g) Complied. Matters reserved for the Board are specifically identified and included in the approved Board Charter. Areas of authority and key responsibilities of the other KMP are included in the respective job descriptions.

# 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 2021
2(1)	h) Ensuring that there is appropriate oversight of the affairs of the finance company by key management personnel, that is consistent with the finance company's policy;	<p>h) Complied.</p> <ul style="list-style-type: none"> <li>- KMP make regular presentations to the Board on matters under their purview and are also called in by the Board to explain matters relating to their areas.</li> <li>- KMP responsible for internal controls and compliance attend every IRMC meeting.</li> <li>- Board has delegated the function of overseeing IAD to the Audit Committee.</li> <li>- Board exercise oversight of the affairs of the Company by KMP through the minutes of the meetings of the IRMC and Audit Committee tabled at Board meetings.</li> </ul>
	<p>i) Periodically assessing the effectiveness of its own governance practices, including;</p> <p>(i) The selection, nomination and election of directors and appointment of key management personnel;</p> <p>(ii) The management of conflicts of interests; and</p> <p>(iii) The determination of weaknesses and implementation of changes where necessary;</p>	<p>i) Complied.</p> <p>(i) In addition to the annual self- evaluation of the members of the Board of Directors, the policies and TORs of Board appointed committees are reviewed periodically to strengthen governance. Appointment of KMPs are first reviewed by the Human Resources and Remuneration Committee and then by the Board.</p> <p>(ii) Directors' interests are disclosed to the Board at the beginning of each meeting of the Board of Directors. If a Director has an interest in a particular matter, he/ she abstains from voting on that particular matter and he/she is not counted in the quorum. The Board has a formal self- evaluation process annually in order to identify and rectify the weaknesses. A summary of these evaluation forms is submitted to the Board by the Company Secretary for further recommendations.</p> <p>(iii) The identification of weaknesses and changes required due to changes in the economic and best governance practices are done during the review of TORs of Committees.</p>
	j) Ensuring that the finance company has an appropriate succession plan for key management personnel;	<p>j) Complied.</p> <p>Succession Plan for KMP has been approved by the Board .</p> <p>Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date.</p>

### SECTION III

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

Section	Governance Requirement	Extent of Compliance in 2021
2(1)	k) Meeting regularly with the key management personnel to review policies, establish lines of communication and monitor progress towards corporate objectives;	k) Complied. Board meets the KMP at the Board and Board Sub-Committee meetings on a regular basis.
	l) Understanding the regulatory environment;	l) Complied. Compliance with Statutory regulations is monitored regularly by the Board. The Compliance Officer of the Bank submits a monthly compliance report which covers all returns submitted to the regulators.
	m) Exercising due diligence in the hiring and oversight of external auditors.	m) Complied. The Auditor General is the external auditor of MBSL.
2(2)	The Board shall appoint the Chairman and the Chief Executive Officer (“CEO”) and define and approve the functions and responsibilities of the Chairman and the CEO in line with paragraph 7 of this Direction.	Complied. Functions and the responsibilities of the Chairman and the CEO have been defined and approved by the Board. Chairman’s functions and responsibilities are distinct from those of the CEO.
2(3)	There shall be a procedure determined by the Board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the finance company’s expense. The Board shall resolve to provide separate independent professional advice to directors to assist the relevant director(s) to discharge the duties to the finance company.	Complied. Approved Board Charter includes a provision to enable the Directors to seek independent professional advice at the Company’s expense.
2(4)	A director shall abstain from voting on any Board resolution in relation to matter to which he or any of his relatives or a concern, in which he has substantial interest, is interested and he shall not be counted in the quorum for the relevant agenda item at the Board meeting.	Complied. Approved Board Charter includes specific provisions to avoid conflicts of interest.
2(5)	The Board shall have a formal schedule of matters specifically reserved to it for decision to ensure that the direction and control of the finance company is firmly under its authority.	Complied. Matters reserved for Board are included in the approved Board Charter.
2(6)	The Board shall, if it considers that the finance company is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors, forthwith inform the Director of the Department of Supervision of Non-Bank Financial Institutions of the situation of the finance company prior to taking any decision or action.	Not applicable. No such circumstance arose during the financial year under review.
2(7)	The Board shall include in the finance company’s Annual Report, an annual corporate governance report setting out the compliance with this Direction.	Complied. The “Corporate Governance Report” is included in the Annual Report in pages 42 to 64.
2(8)	The Board shall adopt a scheme of self-assessment to be undertaken by each director annually, and maintain records of such assessments.	Complied. Board appraises its performance by using the Board evaluation form which is filled by each Director in relation to business strategy and contributions of Board members based on their field of expertise annually.  The records of these assessments are maintained with the Company Secretary.

# 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 2021
<b>3</b>	<b>Meetings of the Board</b>	
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.	18 meetings were held during the year. Please refer page 64 of the Annual Report for details of attendance.
3(2)	The Board shall ensure that arrangements are in place to enable all directors to include matters and proposals in the agenda for regular Board meetings where such matters and proposals relate to the promotion of business and the management of risks of the finance company.	Complied. All Directors are entitled to include such matters and proposals in the Agenda of a regular Board meeting and the Board Charter provides for the same. Also monthly meetings are scheduled and informed to the Board at the beginning of each year to facilitate this.
3(3)	A notice of at least seven (7) days shall be given of a regular Board meeting to provide all directors an opportunity to attend. For other Board meetings, reasonable notice shall be given.	Complied. The schedule of dates of meetings for the year is approved by the Board at, or before the first Board meeting of the year and such approved schedule is notified to every Director thereby giving more than 7 days notice. Any change to the schedule shall be notified to the Directors at least 7 days prior to the date of the meeting. Any meeting other than that contained in the schedule shall be given 7 days prior notice unless all the directors agree to meet at a shorter notice.
3(4)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of twelve (12) months immediately preceding or has not attended the immediately preceding three (3) consecutive meetings held, shall cease to be a director. Provided, that participation at the directors' meetings through an alternate director shall, however, be acceptable as attendance.	Complied. Details of the Directors' attendance is set out on page 64 of the Annual Report 2021 No Director has violated this requirement during the financial year 2021.
3(5)	The Board shall appoint a Company Secretary whose primary responsibilities shall be to handle the secretarial services to the Board and shareholder meetings and to carry out other functions specified in the statutes and other regulations.	Complied. JD of the Company Secretary includes the responsibility to handle the secretariat services to the Board and shareholder meetings and carry out other functions specified in the Statutes and other regulations.
3(6)	If the Chairman has delegated to the Company Secretary the function of preparing the agenda for a Board meeting, the Company Secretary shall be responsible for carrying out such function.	Complied.
3(7)	All directors shall have access to advice and services of the Company Secretary with a view to ensuring that Board procedures and all applicable laws, directions, rules and regulations are followed.	Complied. All Directors have access to the advice and services of the Company Secretary. Approved Board Charter provides for same.

### 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 2021
3(8)	The Company Secretary shall maintain the minutes of Board meetings and such minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied. Board minutes are maintained by the Company Secretary. The Directors have access to the Board papers and minutes through a secure electronic link.
3(9)	Minutes of Board meetings shall be recorded in sufficient detail so that it is possible to gather from the minutes, as to whether the Board acted with due care and prudence in performing its duties. The minutes of Board meeting shall clearly contain or refer to the following: (a) a summary of data and information used by the Board in its deliberations; (b) the matters considered by the Board; (c) the fact finding discussions and the issues of contention or dissent which may illustrate whether the Board was carrying out its duties with due care and prudence; (d) the explanations and confirmations of relevant executives which indicate compliance with the Board's strategies and policies and adherence to relevant laws and regulations; (e) the Board's knowledge and understanding of the risks to which the finance company is exposed and an overview of the risk management measures adopted; and (f) the decisions and Board resolutions.	Complied. Minutes of Board meetings are recorded in sufficient detail to enable a proper assessment to be made of the depth of deliberations at the meetings. Every paper submitted to the Board seeking approval of the Board contains recommendations from the executive management and also discloses a reasonable basis for making such recommendations.
<b>4</b>	<b>Composition of the Board</b>	
4(1)	The number of directors on the Board shall not be less than five (5) and not more than thirteen (13).	Complied. The Board including the Chairman always comprised of between 5 and 13 non-executive directors throughout the year 2021.
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 67 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.	The Company has not appointed any Alternate 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 10 to 18 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 64 of the Annual Report. All meetings of the Board held during the year have been attended by a majority of Non-Executive Directors.

# 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 2021
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 67 of the Annual Report.
4(9)	There shall be a formal, considered and transparent procedure for the appointment of new directors to the Board. There shall also be procedures in place for the orderly succession of appointments to the Board.	Complied.
4(10)	All directors appointed to fill a casual vacancy shall be subject to election by shareholders at the first general meeting after their appointment.	Complied.
4 (11)	If a director resigns or is removed from office, the Board shall announce to the shareholders and notify the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka, regarding the resignation of the director or removal and the reasons for such resignation or removal, including but not limited to information relating to the relevant director's disagreement with the Board, if any.	Complied.
<b>5</b>	<b>Criteria to assess the fitness and propriety of directors</b>	
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. None of the Directors of the Company holds Directorships in more than 20 companies.
<b>6</b>	<b>Delegation of Functions</b>	
6(1)	The Board shall not delegate any matters to a Board committee, CEO, executive directors or key management personnel, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied. Board Charter includes a provision for delegation of powers by the Board. Board has delegated matters pertaining to the affairs of the MBSL to the Board sub-committees within the scope of the respective Board approved Terms of Reference. All delegations have been done by the Board after due consideration.
6(2)	The Board shall review the delegation of processes in place on a periodic basis to ensure that they remain relevant to the needs of the finance company.	Complied.



### 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 2021
<b>7</b>	<b>The Chairman and the Chief Executive Officer</b>	
7(1)	The roles of the Chairman and the CEO shall be separate and shall not be performed by one and the same person.	Complied. Roles of the Chairman and the CEO are separated and held by two separate individuals. Chairman provides leadership to the Board while the CEO manages the day-to-day operations of the Bank giving effect to the strategies and policies approved by the Board.
7(2)	The Chairman shall be a non-executive director. In the case where the chairman is not an independent non-executive director, the Board shall designate an independent non-executive director as the Senior Director with suitably documented terms of reference to ensure a greater independent element. The designation of the Senior Director shall be disclosed in the finance company's Annual Report.	Complied. The company has appointed an independent non-executive director as the Senior Director. Please refer page 65 of the "Annual Report of the Board of Directors 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. There is no relationship to be disclosed between the Chairman and CEO. Six (06) Directors including the Chairman were nominated by the parent Company, the Bank of Ceylon.
7(4)	The Chairman shall : (a) Provide leadership to the Board; (b) Ensure that the Board works effectively and discharges its responsibilities; and (c) Ensure that all key issues are discussed by the Board in a timely manner.	Complied.
7(5)	The Chairman shall be primarily responsible for the preparation of the agenda for each Board meeting. The Chairman may delegate the function of preparing the agenda to the Company Secretary.	Complied.
7(6)	The Chairman shall ensure that all directors are informed adequately and in a timely manner of the issues arising at each Board meeting.	Complied.
7(7)	The Chairman shall encourage each director to make full and active contribution to the Board's affairs and take the lead to ensure that the Board acts in the best interests of the finance company.	Complied. There is active participation by all directors at the Board meetings as well as at Board sub-committee meetings as evidenced in the minutes.  The Board appraises its performance by using the Board evaluation form which is filled by each director in relation to business strategy and contributions of Board members based on their field of expertise.
7(8)	The Chairman shall facilitate the effective contribution of non-executive directors in particular and ensure constructive relationships between executive and non-executive directors.	Complied. There are no executive directors on the Board.
7(9)	The Chairman shall not engage in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied. Chairman is a Non-Executive Director and does not engage in day-to-day supervision of management or other executive duties.

# 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 2021
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.
<b>8</b>	<b>Board Appointed Committees</b>	
8(1)	Every finance company shall have at least the two (2) Board committees set out in paragraph 8(2) and 8(3) of these Directions. Each committee shall report directly to the Board. Each committee shall appoint a secretary to arrange its meetings, maintain minutes, records and carry out such other secretarial functions under the supervision of the chairman of the committee. The Board shall present a report on the performances, duties and functions of each Committee, at the Annual General Meeting of the finance company.	Complied. The Audit Committee, Human Resources & Remuneration Committee, Integrated Risk Management Committee, Related Party Transactions Review Committee, which are Board appointed sub committees, regularly report to the Board. Please refer pages 71 to 76 of the Annual Report. Nominations and Corporate Governance Committee, and Information and Communication Technology Committee were established on 1st March 2022 and meetings were not held as yet.
8(2)	Audit Committee	
	The following shall apply in relation to the Audit Committee:	
8(2) (a)	The chairman of the Audit Committee shall be a non-executive director who possesses qualifications and experience in accountancy and/or audit.	Complied.
8 (2) (b)	The Board members appointed to the Audit Committee shall be non-executive directors.	Complied. The Audit Committee consists of three (03) non- executive directors, two (2) of whom are independent.
8 (2) (c)	The Audit Committee shall make recommendations on matters in connection with:	
	(i) The appointment of the external auditor for audit services to be provided in compliance with the relevant statutes;	Not applicable. The Auditor General is the external auditor of MBSL.
	(ii) The implementation of the Central Bank guidelines issued to external auditors from time to time,	Not applicable.
	(iii) The application of the relevant accounting standards; and	Complied.
	(iv) The service period, audit fee and any resignation or dismissal of the auditor, provided that the engagement of an audit partner shall not exceed five (5) years, and that the particular audit partner is not re-engaged for the audit before the expiry of three (3) years from the date of the completion of the previous term.	Not applicable. Auditor General has been appointed in terms of subsection (1)(1) of Section 36 of the 19th amendment (amendment to the Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka.

### SECTION III

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

Section	Governance Requirement	Extent of Compliance in 2021
8 (2) (d)	The Audit Committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.	Not applicable. MBSL's auditor being the Auditor General, his independence and effectiveness is guaranteed under the Constitution of Sri Lanka.
8 (2) (e)	The Audit Committee shall develop and implement a policy with the approval of the Board on the engagement of an external auditor to provide non-audit services that are permitted under the relevant statutes, regulations, requirements and guidelines. In doing so, the Audit Committee shall ensure that the provision by an external auditor of non-audit services does not impair the external auditor's independence or objectivity. When assessing the external auditor's independence or objectivity in relation to the provision of non-audit services, the Audit Committee shall consider: <ul style="list-style-type: none"> <li>(i) Whether the skills and experience of the auditor make it a suitable provider of the non- audit services;</li> <li>(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</li> <li>(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.</li> </ul>	Not applicable. This does not arise since the Auditor General is the Auditor of MBSL.
8 (2) (f)	The Audit Committee shall, before the Audit Commences, discuss and finalize with the external auditors, the nature and scope of the audit, including: (i) an assessment of the finance company's compliance with the Directions issued under the Finance Companies Act No. 78 of 1988 (the "Act") and the management's internal controls over financial reporting; (ii) the preparation of financial statements in accordance with relevant accounting principles and reporting obligations; and (iii) the co-ordination between auditors where more than one (1) auditor is involved.	Complied. The scope and extent of audit have been determined by the Auditor General.
8 (2) (g)	The Audit Committee shall review the financial information of the finance company, in order to monitor the integrity of the financial statements of the finance company, its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the finance company's annual report and accounts and periodical reports before submission to the Board, the Audit Committee shall focus particularly on: (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) significant adjustments arising from the audit; (iv) the going concern assumption; and (v) the compliance with relevant accounting standards and other legal requirements.	Complied. The Audit Committee reviews the Company's financial statements including the quarterly unaudited financial statements and the audited financial statements prior to recommending same to the Board for approval.
8 (2) (h)	The Audit Committee shall discuss issues, problems and reservations arising from the interim and final audits, and any matters the auditor may wish to discuss including those matters that may need to be discussed in the absence of key management personnel, if necessary.	Complied. The Audit Committee discusses issues, problems and reservations arising from the final audit. The representatives of Ernst & Young, Chartered Accountants, who assisted the Auditor General in the year 2021 audit, met the Audit Committee without the presence of the management.
8 (2) (i)	The Audit Committee shall review the external auditor's management letter and the management's response thereto.	Complied.

# Corporate Governance Report

## SECTION III

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

Section	Governance Requirement	Extent of Compliance in 2021
8 (2) (j)	<p>The Audit Committee shall take the following steps with regard to the internal audit function of the finance company:</p> <ul style="list-style-type: none"> <li>(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;</li> <li>(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;</li> <li>(iii) Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department;</li> <li>(iv) Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function;</li> <li>(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;</li> <li>(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.</li> </ul>	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 71 of the Annual Report for details.
8 (2) (m)	The Audit Committee shall have: (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and (iv) authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied.
8 (2) (n)	The Audit Committee shall meet regularly, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.	Complied. The Audit Committee met 15 times during the year 2021.
8 (2) (o)	<p>The Board shall, in the Annual Report, disclose in an informative way,(i)</p> <ul style="list-style-type: none"> <li>(i) Details of the activities of the Audit Committee;</li> <li>(ii) The number of Audit Committee meetings held in the year; and</li> <li>(iii) Details of attendance of each individual member at such meetings.</li> </ul>	Complied. Please refer page 64 of the Annual Report for details of attendance of each individual member at Audit Committee meetings.
8 (2) (p)	The secretary to the Audit Committee (who may be the Company Secretary or the Head of the Internal Audit function) shall record and keep detailed minutes of the Audit Committee meetings.	Complied. Company Secretary acts as the Secretary of the Audit Committee.

### SECTION III

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

Section	Governance Requirement	Extent of Compliance in 2021
8 (2) (q)	The Audit Committee shall review arrangements by which employees of the finance company may, in confidence, raise concerns about possible improprieties in financial reporting, internal control or other matters. Accordingly, the Audit Committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters and for appropriate follow-up action and to act as the key representative body for overseeing the finance company's relations with the external auditor.	Complied. The Company has introduced a "Whistle Blowing Policy" to enable employees to report any irregularities of the Company. In the event of any improprieties being reported, the Internal Audit Department is authorized to carry out an immediate inquiry into the matter and report its observations to the Chairman and the Audit Committee.
8 (3)	<b>Integrated Risk Management Committee</b>	
	The following shall apply in relation to the Integrated Risk Management Committee ("IRMC"):	
	a) The IRMC shall consist of at least one (1) non-executive director, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks. The IRMC shall work with key management personnel closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the IRMC.	Complied. Please refer the Report on "Integrated Risk Management Committee" on pages 74 to 75 of the Annual Report for details.
	b) The IRMC shall assess all risks, i.e, credit, market, liquidity, operational and strategic risks to the company on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the company basis and group basis.	Complied.
	c) The IRMC shall review the adequacy and effectiveness of all management level committees such as the credit committee and the asset – liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the IRMC.	Complied.
	d) The IRMC shall take prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the IRMC on the basis of the company's policies and regulatory and supervisory requirements.	Complied.
	e) The IRMC shall meet at least quarterly to assess all aspects of risk management including updated business continuity plans.	Complied.
	f) The IRMC shall take appropriate actions against officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the IRMC, and/or as directed by the Director of the Department of Supervision of Non- Bank Financial Institutions of the Central Bank of Sri Lanka.	Complied.
	g) The IRMC shall submit a Risk Assessment Report within a week of each meeting to the Board, seeking the Board's views, concurrence and/or specific directions.	Complied.
	h) The IRMC shall establish a compliance function to assess the company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from key management personnel shall carry out the compliance function and report to the IRMC periodically.	Complied.

# Corporate Governance Report

## SECTION III

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

Section	Governance Requirement	Extent of Compliance in 2021
<b>9</b>	<b>Related Party Transactions</b>	
9(2)	<p>The Board shall take necessary steps to avoid any conflicts of interest that may arise from any transaction of the finance company with any person, and particularly with the following categories of persons who shall be considered as "Related Parties" for the purposes of this Direction:</p> <ul style="list-style-type: none"> <li>a) Parent company of the finance company;</li> <li>b) Subsidiary company of the finance company;</li> <li>c) Associate company of the finance company;</li> <li>d) Directors of the finance company;</li> <li>e) Key Management Personnel of the finance company;</li> <li>f) Directors of the Parent Company;</li> <li>g) Directors of the Subsidiary Company;</li> <li>h) Directors of the Associate Company;</li> <li>i) A relative of a director or a Key Management personnel of the finance company;</li> <li>j) A shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company;</li> <li>k) A concern in which a director of the finance company or a relative of a director or a shareholder who owns shares exceeding ten percent (10%) of the paid up capital of the finance company, has substantial interest.</li> </ul>	<p>Complied.</p> <p>Transactions with related parties have been carried out in the ordinary course of business and on an arms-length basis and relevant approvals have been obtained where necessary.</p>
9.3.2 (a)	Non-recurrent 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	There were no non-recurrent transactions exceeding 10% of the equity or 5% of the total assets.
9.3.2 (b)	Recurrent Related Party Transactions exceeding 10% of the gross revenue/ income as per Audited Financial Statements	The details of the recurrent transactions that exceeded the threshold during the Financial year 2021 are disclosed under "Note 43 Related Party Disclosure" of the Financial Statements.
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"> <li>a) Granting accommodation,</li> <li>b) Creating liabilities to the finance company in the form of deposits, borrowings and investments,</li> <li>c) Providing financial or non-financial services to the finance company or obtaining those services from the finance company,</li> <li>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.</li> </ul>	Complied.

### 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 2021
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"> <li>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.</li> <li>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.</li> <li>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;</li> <li>d) Providing or obtaining services to or from a related-party without a proper evaluation procedure;</li> <li>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.</li> </ul>	<p>Complied.</p> <p>Relevant approvals have been obtained where necessary.</p> <p>Please refer Note 43 under “Notes to the Financial Statements” on pages 192 to 193 of the Annual Report.</p> <p>The mechanism to identify and monitor the related parties is being strengthened covering all the areas.</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 2021
<b>10</b>	<b>Disclosures</b>	
10 (1)	The Board shall ensure that: (a) Annual Audited Financial Statements and Periodical Financial Statements are prepared and published in accordance with the formats prescribed by the regulatory and supervisory authorities and applicable accounting standards, and that (b) such statements are published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied.
10 (2)	The Board shall ensure that at least the following disclosures are made in the Annual Report:	
	a) A statement to the effect that the Annual Audited Financial Statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied. Please refer "Directors' Responsibility for Financial Reporting" on page 91 of the Annual Report.
	b) A report by the Board on the finance company's internal control mechanism that confirms that the financial reporting system has been designed to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements has been done in accordance with relevant accounting principles and regulatory requirements.	Complied. Please refer "Directors' Responsibility Statement On Internal Control Over Financial Reporting" on page 89 of the Annual Report.
	c) The external auditor's certification on the effectiveness of the internal control mechanism in respect of any statements prepared or published.	Complied. Please refer pages 89 to 90.
	d) Details of directors, including names, transactions with the finance company.	Complied. Please refer Note 43 under "Notes to the Financial Statements" on pages 192 to 193 of the Annual Report.
	e) Fees/remuneration paid by the finance company to the directors in aggregate.	Complied. Please refer page 68 of the Annual Report for details.
	f) Total net accommodation as defined in paragraph 9(4) of this Direction outstanding in respect of each category of related parties and the net accommodation outstanding in respect of each category of related parties as a percentage of the finance company's capital funds.	Complied. Please refer Note 43 under "Notes to the Financial Statements" on pages 192 to 193 of the Annual Report.
	g) The aggregate values of remuneration paid by the finance company to its key management personnel and the aggregate values of the transactions of the finance company with its key management personnel during the financial year, set out by broad categories such as remuneration paid, accommodation granted, and deposits or investments made in the finance company.	Complied. Please refer Note 43.c under "Notes to the Financial Statements" on page 192 of the Annual 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 2021
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' Responsibility Statement on Internal Control Over Financial Reporting" on pages 65 and 89 respectively of the Annual Report for details.
	i) A statement of the regulatory and supervisory concerns on lapses in the finance company's risk management, or noncompliance with the Act, and rules and directions that have been communicated by the Director of the Department of Supervision of Non-Bank Financial Institutions, if so directed by the Monetary Board to be disclosed to the public, together with the measures taken by the finance company to address such concerns.	Finance Companies (Corporate Governance) Direction No.03 of 2008 Section 2 (1) j, Section 8 (2)(e), Section 8 (2)(f), Section 8 (3) (a), Section 4.4, Section 7.2 Corrective actions have been taken for all matters
	j) The external auditor's certification of the compliance with the Act and rules and directions issued by the Monetary Board in the Annual Corporate Governance Reports.	The external auditors have adopted procedures set out in Sri Lanka Standards on Related Service 4750 issued by the Institute of Chartered Accountants of Sri Lanka (SLSRS 4750), to meet the compliance requirements of the Corporate Governance Directions. Their findings presented in their report addressed to the Board are consistent with the matters disclosed above and did not identify any material inconsistencies to those reported above by the Board.

# Corporate Governance Report

## ATTENDANCE AT THE MEETINGS OF THE BOARD & SUB-COMMITTEES HELD DURING THE FINANCIAL YEAR 2021

Name of the Director	Directorship Status	Board	Audit Committee	Integrated Risk Management Committee	Related Party Transactions Review Committee	Human Resources & Remuneration Committee
		Number of meetings held				
		18	15	4	4	5
1. Mr. K. Ratwatta - Chairman	Non-Independent/Non Executive Director	18	-	-	-	-
2. Mr. A.M.A. Perera - Senior Director	Independent/Non Executive Director	18	15	4	4	5
3. Mr. W.P.R.P.H. Fonseka	Non-Independent/Non Executive Director	17	14	-	4	-
4. Mr. D.N.L. Fernando	Non-Independent/Non Executive Director	15	-	3	-	-
5. Prof. N.S. Punchihewa	Independent/Non Executive Director	17	14	-	4	5
6. Mr. W.N.P. Surawimala	Non-Independent/Non Executive Director	14	-	3	-	4
7. Mr. M.P.R. Kumara	Non-Independent/Non Executive Director	13	-	3	-	-
8. Mr. G.A. Jayashantha	Non-Independent/Non Executive Director	13	-	3	-	-
9. Mr. J.D.V.N. Jayasinghe	Independent/Non Executive Director	6	-	-	2	3
10. Mr. R.M.N. Jeewantha	Non-Independent/Non Executive Director	1	-	-	-	-
11. Mr. H.P.K. Silva	Non-Independent/Non Executive Director	1	-	-	-	-

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

## GENERAL

The Board of Directors present this report to the shareholders as required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Directions issued thereunder, and the Listing Rules of the Colombo Stock Exchange. This Report was approved by the Board of Directors on 6th April 2022.

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

Section 168 of the Companies Act No. 07 of 2007, requires the following information to be published in the Annual Report and is disclosed hereunder, for the year ended 31.12.2021.

Information required to be disclosed as per the Companies Act No. 07 of 2007	Reference (section of the Companies Act No. 7 of 2007)	Extent of compliance with page references and other disclosures
i The nature of the business of the Group and the Company together with any change thereof during the accounting period and the classes of business in which the Company has an interest.	Section 168 (1) (a)	Refer on page 103
ii Signed Financial Statements of the Company and the Group for the accounting period completed.	Section 168 (1) (b)	Refer on page 99
iii Auditors' Report on the Financial Statements of the Company and of the Group.	Section 168 (1) (c)	Refer on pages 92 to 95
iv Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer on pages 103 to 221
v Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on page 68
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 68 and 192
vii Information on donations made by the Company during the accounting period.	Section 168 (1) (g)	Refer on page 69
viii Names of Directors of the Company as at the end of the accounting period and the names of persons who ceased to hold office as Directors during the accounting period.	Section 168 (1) (h)	Refer on pages 67 to 68
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 69
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 69
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 70

## VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission and values are given on page 3 of this Report.

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

## PRINCIPAL ACTIVITIES

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

The principal activities of the Company are Leasing and Hire Purchase, Corporate and Retail Credit, Corporate Advisory, Capital Market activities, Lending, Deposit 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 103.

## REVIEW OF OPERATIONS

A review of the operations of the Company during the financial year ended 31 December 2021 and results of those operations are contained in the Chairman's Review on pages 28 to 31, the Chief Executive Officer's Review on pages 32 to 35 and Management Discussion and Analysis on pages 36 to 41. These reports form an integral part of the Annual Report.

## FUTURE OUTLOOK

An overview of the future plans and developments of the Company is presented in the Chairman's review on pages 28 to 31 and in the Chief Executive Officer's Review on pages 32 to 35 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 2021 duly signed by the Head of Finance, the Chief Executive Officer and approved by the Board of Directors of the Company are given on pages 98 to 99 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 96 to 221 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 91 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 2021 is given on page 92 of this Annual Report.

## SIGNIFICANT ACCOUNTING POLICIES AND CHANGES DURING THE YEAR

During the year under review, there were no changes in the accounting policies that had been adopted by the Group and the Company and were consistent with those adopted in the previous financial year as required by the Sri Lanka Accounting Standards-LKAS 01 on 'Presentation of Financial Statements' and comply with Section 168 (1) (d) of the Companies Act No. 07 of 2007. The Significant Accounting Policies adopted in the preparation of the Financial Statements of the Group and the Company are given on pages 103 to 221 of the Annual Report.

## INCOME

The income of the Company for the year ended 31 December 2021 is given in Financial Statements on page 96.

## FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Company and the Group performance and appropriation of profit is given on page 96 and pages 96 to 102 respectively.

## RESERVES

Information on the movement of reserves are given in the Statement of Changes in Equity on page 100 and in Note 42 respectively to the Financial Statements on page 191.

## TAXATION

The Company is liable for income tax at the rate of 24% (2020-28%) and VAT on Financial Services at 15% (2020-15%).

## 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 Company and the Group amounted to Rs. 56.7 Mn and Rs. 83.9 Mn respectively. The details of property and equipment of the Company are given in Note 30 and 31 to the Financial Statements on pages 173 to 178.

## MARKET VALUE OF FREEHOLD PROPERTIES

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer. The Directors are of the opinion that the carrying amount is not in excess of the current market values of the property. The details of freehold property owned by the Company are given in Note 30 to Financial Statements on pages 173 to 176.

## ISSUE OF SHARES AND DEBENTURES

The Company issued and listed 358,665,096 Ordinary Voting Shares by way of a Rights Issue during the financial year.

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

## STATED CAPITAL AND DEBENTURES

The Company's Stated Capital as at 31 December 2021 was LKR 4,276.45 Mn., comprising of 524,539,637 ordinary voting shares. The details of the Stated Capital are given in Note 41 to the Financial Statements on page 190.

The details of debentures outstanding as at 31 December 2021 are given in Note 35.3 to the Financial Statements on page 182.

## CAPITAL ADEQUACY

Core capital and total risk weighted capital adequacy ratios of the Company stood at 10.8 percent and 11.3 percent respectively as at 31 December 2021.

## SHARE INFORMATION

Information relating to earnings, net assets and market value per share is given in 'Key Figures' on page 27 Information on the trading of the shares and movement in the number of shares represented by the Stated Capital of the Company is given under the information pertaining to 'Shareholder Information' on pages 226 to 228.

## SUBSTANTIAL SHAREHOLDINGS

### Information on Top Twenty Shareholders

Details of the top twenty shareholders, percentages of their respective holdings and percentage holding of the public are given in the section on 'Shareholder Information' on page 228.

## DIRECTORS

The names of the Directors who comprised the Board of Directors of the Company as at 31 December 2021 are given below and their attendance at the board meetings during the year is given on page 64 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent /Non-Independent Status
Mr. K. Ratwatte	Chairman Non-Executive Director	Non-Independent
Mr. A.M.A. Perera	Senior Director Non-Executive Director	Independent
Mr. W.P.R.P.H. Fonseka	Non-Executive Director	Non-Independent
Prof. N.S. PUNCHIHewa	Non-Executive Director	Independent
Mr. M.P.R. Kumara	Non-Executive Director	Non-Independent
Mr. G.A. Jayashantha	Non-Executive Director	Non Independent
Mr. J.D.V.N. Jayasinghe	Non-Executive Director	Independent
Mr. R.M.N. Jeewantha	Non-Executive Director	Non-Independent
Mr. H.P.K. Silva	Non-Executive Director	Non-Independent

## CHANGES TO THE DIRECTORATE

### Appointments During the Year under Review

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

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

Mr. J.D.V.N. Jayasinghe appointed to the Directorate of MBSL as a Non-Executive/Independent Director w.e.f. 20.07.2021.

Mr. R.M.N. Jeewantha was appointed to the Directorate of MBSL as a Non-Executive/Non-Independent Director w.e.f. 23.12.2021.

Mr. H.P.K. Silva appointed to the Directorate of MBSL as a Non-Executive/Non-Independent Director w.e.f. 23.12.2021.

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

## Resignations During the Year under Review

Mr. D.N.L. Fernando resigned from the Directorate of MBSL as a Non-Executive/ Non-Independent Director w.e.f. 28.10.2021.

Mr. W.N.P. Surawimala resigned from the Directorate of MBSL as a Non-Executive/ Non-Independent Director w.e.f. 21.10.2021.

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

## Appointments after 1st January 2022

None.

## Resignations after 1st January 2022

None.

## Recommendations for Election and Re-election

Prof. N.S. Punchihewa 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. Board of Directors have recommended his re-election.

Mr. J.D.V.N. Jayasinghe, Mr. R.M.N. Jeewantha and Mr. H.P.K. Silva retire in terms of Article 93 of the Articles of Association of the Company and being eligible for election have offered themselves for election at the forthcoming Annual General Meeting. Board of Directors have recommended their election.

## DIRECTORS' MEETINGS

Details of Directors' meetings which comprised Board meetings and Board Sub-Committee meetings namely Audit Committee, Integrated Risk Management Committee, Human Resources & Remuneration Committee and Related Party Transactions Review Committee and details of attendance at such meetings are presented on page 64. The Board of Directors established two new Board Sub-Committees namely, Nominations and Corporate Governance Committee and Information and Communication Technology Committee with effect from 1st March 2022. However, the said two Sub-Committees have not held meetings yet.

## 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 43 to the Financial Statements on pages 192 to 193 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	4.34	6.04

## DIRECTORS' INTEREST IN SHARES OF THE COMPANY

The Directors' shareholding and the relevant interests of Directors in the shares of the Company as at 31st December 2021 and 31st December 2020 are as follows:

	No. of shares held at 31.12.2021	No. of shares held at 31.12.2020
Mr. D.N.L. Fernando (Resigned w.e.f. 28.10.2021)	N/A	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 192 to 193.

## 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 43 to the Financial Statements on pages 192 to 193 which form an integral part of the Annual Report.

All Related Party Transactions have been placed before the Related Party Transactions Review Committee for its review and recommendations.

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

The Directors declare that the Company is in compliance with Section 09 of the Listing Rules of the Colombo Stock Exchange pertaining to Related Party Transactions during the financial year 2021.

## APPOINTMENT OF AUDITORS

The retiring Auditors, the Auditor General has expressed his willingness to continue in office for the financial year 2022.

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

## AUDITORS' REMUNERATION AND INTERESTS IN THE COMPANY / GROUP

The Auditor General as the Auditor of the Company was paid Rs. 1,744,200 for the year ended 31 December 2021 as audit fees by the Company. In addition, a sum of Rs.598,650 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 endeavors 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

No donations were made by the Company during the year under review.

## EVENTS AFTER THE REPORTING PERIOD

Details of events after the reporting period are reflected in Note 44 to the Financial Statements on page 194.

## OUTSTANDING LITIGATION

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company is disclosed in Note 48 to the Financial Statements on pages 202 to 205 will not have a material impact on the financial position of the Company or on its future operations.

## GOING CONCERN

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

## RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Company in managing risks are detailed in the Risk Management Report on pages 77 to 85.

## CORPORATE GOVERNANCE

### Directors' Declarations

The Board of Directors declare that-

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

The measures taken and the extent to which the Company has complied with the Securities and Exchange Commission of Sri Lanka, the Colombo Stock Exchange and the Central Bank of Sri Lanka are given in the Section on 'Corporate Governance' on pages 42 to 64.

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

## 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.

## ANNUAL GENERAL MEETING

The Fortieth (40th) Annual General Meeting of the Company will be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3 on 31 May 2022 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform without the physical presence of the Shareholders. The Notice convening the Fortieth (40th) Annual General Meeting is given on page 248.


## ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

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

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



K. Ratwatte  
Chairman



A.M.A. Perera  
Director



Amila Belpamulla  
Company Secretary

6 April 2022  
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 Charter is reviewed and updated regularly taking into consideration new developments and best practices relating to role of the committee.

## KEY RESPONSIBILITIES OF THE COMMITTEE

Audit Committee assists the Board in discharging its responsibilities in fulfilling its oversight function over financial reporting, internal controls, internal audit, and external audit. The following areas come under the purview of the Audit Committee.

### Financial Reporting

- \* Review of financial reporting system of the company in order to ensure effectiveness and integrity of the financial statements and information submitted to the Board, Management, and other stakeholders.
- \* Evaluating, reviewing, and monitoring the adequacy and effectiveness of the internal control systems to mitigate risks.
- \* Review significant accounting and reporting issues, including complex or unusual transactions, highly judgmental areas and understand their impact on the financial statements of the company.
- \* Review annual financial statements, consider whether they are complete and consistent with the information known to the committee members and reflect appropriate accounting standards and policies of the company.

### Internal Audit

- \* Review of the Internal Audit Charter, annual audit plan including IT system audit plan, activities, audit scope and reporting requirements and approve major changes to the audit plan of the Internal Audit Division.
- \* Review of findings and recommendations by the Head of Internal Audit, together with comments and actions taken by the Management to close the matters raised.
- \* Review of performance of the Internal Audit Function and performance review of the Head of Internal Audit.
- \* Ensure that the Internal Audit function has the required independence to carry out its activities impartially, proficiently, and professionally.

### Risk Management

- \* Review and assess the company's risk management process including the adequacy of the overall internal control environment and controls in areas of significant risk.
- \* Review and assess the company's system of internal controls, designed to detect accounting and financial errors and misappropriation of assets, legal violations and non-compliance.

### External Audit

- \* Review of External Audit Report on the financial statements and observations and recommendations in the Management Letter and the status of corrective action plans
- \* Review and confirm the independence of external auditor by obtaining statement confirming the independence of external auditor including non-audit services provided to the company.

### Compliance

- \* Ensuring appropriate accounting policies are in place, all applicable accounting standards are adopted and adherence to statutory and regulatory compliance requirements.
- \* Review and follow up with the Management on the management responses, any instances with non-compliance and action plans with regard to any findings from the audits carried out by internal and external auditors and regulatory agencies.
- \* Obtain regular updates from management and company legal counsel regarding compliance matters.
- \* Establishing processes to ensure compliance with Laws and Regulations relating to tax, customs, and other laws applicable to the company.

### Whistle Blowing, Frauds and Non Compliance with Laws and Regulations

- \* Assuring the confidentiality of employees and customers who opted to whistle blowing.
- \* Reviewing the company procedure for detecting and preventing frauds and bribery and reviewing reports on non-compliance.

# Audit Committee Report

## Composition of Audit Committee

The composition of the Audit committee during the year 2021 was as follows:

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

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

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

## Areas of Focus and Activities in 2021

The Committee held 15 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors. (Attendance given on page 64 of this Report)

## Reporting Financial Performance and Information

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

## Compliance:

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

## Whistle Blower Policy

All reported whistleblowing incidents are subject to a preliminary review by Head of Internal Audit and detail reviews are conducted as appropriate. Committee reviewed the special investigation review reports presented to Board Audit Committee and suggested improvements to the internal control system to mitigate such incidents.

## Internal Audits

Committee reviewed the Internal Audit Plan and assigned the Head of Internal Audit to conduct reviews of specific areas of the internal control procedures, accounting systems and operations procedures of the organization, reviewed the reports received from the Head of Internal Audit covering audits and investigations and discussed with the Management on the recommendations made and followed up on the implementation. Hundred and six (106) internal audit reports including forty-six (46) information system audit reports and eleven (11) special assignments and investigation reports were reviewed by the Committee.

## External Audit

The external audit is carried out by the Auditor General. The Auditor General was assisted by M/s Ernst & Young, Chartered Accountants during the year 2021. Prior to commencement of the Audit, the Committee met with the representatives of the Auditor General and M/s Ernst & Young to discuss the audit plan, scope, and audit methodology.

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



A.M.A. Perera  
*Chairman - Audit Committee*

6 April 2022  
Colombo

# Related Party Transactions Review Committee Report

## PURPOSE OF THE COMMITTEE

The Committee was established by the Board during the year 2016 in accordance with the Code of Best Practices on Related Party Transactions (RPT) issued by the Securities and Exchange Commission of Sri Lanka (SEC) to assist the Board in reviewing all related party transactions entered by the Company.

## SCOPE OF THE COMMITTEE

- \* Formulating a RPT policy in accordance with the SEC Code of Best Practices for adoption by the Board.
- \* Reviewing all proposed or executed 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.
- \* Advising the Board with regard to transactions that require immediate market disclosures and making required disclosures in the Annual Report as required by the applicable rules/regulation.

## COMPOSITION OF THE COMMITTEE

The composition of the Related Party Transactions Review Committee is given below.

Name of the Directors	Directorship Status	Membership Status
1. Mr. A.M. Anura Perera	Non-Executive Independent Director	Chairman
2. Mr. W.P.R.P.H. Fonseka	Non-Executive Non-Independent Director	Member
3. Prof. N. Sampath Punchihewa	Non-Executive Independent Director	Member
4. Mr. J.D.V.N. Jayasinghe (appointed on 11.08.2021)	Non-Executive Independent Director	Member

## ACTIVITIES IN 2021

During the year the composition of the Committee was further strengthened with the addition of another independent director. As part of the annual review process, the Committee recommended changes to the RPT policy to incorporate guidelines issued by the Central Bank and other best practices and the new policy was approved and adopted by the Board with effect from 12.10.2021.

The Committee held four meetings during the year under review. The attendance at the meetings are given below.

Name of the Director	Directorship Status	Attendance at the Meetings
1. Mr. A.M. Anura Perera	Independent/Non Executive Director	04
2. Mr. W.P.R.P.H. Fonseka	Independent/Non Executive Director	04
3. Prof. N. Sampath Punchihewa	Independent/Non Executive Director	04
4. Mr. J.D.V.N. Jayasinghe	Independent/Non Executive Director	02

Committee reviewed the mechanisms in place to track and monitor related party transactions including the information on Key management personnel.

Details of all transactions with the related parties during the year 2021 were reviewed by the Committee quarterly and made recommendations and communicated its observations to the Board.

The details of the recurrent and non-recurrent transactions during the financial year 2021 are disclosed under "Note 43 Related party Disclosure" of the Financial Statements.

## DECLARATION

The declaration by the Board of Directors that no related party transaction falling within the ambit of the Listing Rules was entered into by the Company during 2021, is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 68.



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

6 April 2022  
Colombo

# Integrated Risk Management Committee Report

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

## THE IRMC MEETINGS

The IRMC held four meetings during the year under review. The Risk Assessment Reports, Risk Management Policies & Procedures, Compliance Reports, Other Risk Related Reports & the adequacy and effectiveness of management level committees were reviewed at the IRMC meeting. The IRMC Risk Assessment Report is submitted to the Board of Directors seeking the Board's views, concurrence and/or specific directions as specified by the Corporate Governance directions issued by the Central Bank of Sri Lanka (CBSL).

## Composition of Integrated Risk Management Committee in 2021

Name	Designation
<b>Board Level Members</b>	
Mr. G.A. Jayashantha	Chairman of the IRMC Non-Executive Non-Independent Director
Mr. D.N.L. Fernando*	Non-Executive Non-Independent Director
Mr. A.M.A. Perera	Non-Executive / Independent Senior Director
Mr. W.N.P. Surawimala*	Non-Executive Non-Independent Director
Mr. M.P.R.Kumara	Non-Executive /Non-Independent Director
<b>Management Level Members</b>	
Mr.H.K.D.W.M.D.K.Hapuhinna **	Chief Executive Officer
Mr.G.M.J.A.Gamalath***	DGM Marketing & Product Development
Mrs. K.D.Jayatilake*	DGM Legal /Head of CA&CM
Mr. C.S.Withanachchi*	DGM IT
Mr. K.Jayasundera	AGM FD/Savings & Pawning
Mr. W.S.M.Fernando	AGM Compliance
Mr. T.D.D.K.Gunawardena	AGM HR & Support Services
Mr. P.I.Kandanaarachchi	AGM Finance & Strategic Planning
Mr. L.D.P.A.Liyanage	AGM Recoveries
Ms.F.F.Ishar**	AGM Legal
Mr.T.L.Gonagala**	AGM IT
Mr.K.H.S.Dilanga**	Manager-Risk

- \* Mr. W N P Surawimala resigned from the IRMC with effect from 21 October 2021
- \* Mr. D.N.L.Fernando resigned from the IRMC with effect from 28 October 2021
- \* Mrs. K.D.Jayatilake ceased to be a member of the IRMC with effect from 09 December 2021
- \* Mr. C.S.Withanachchi ceased to be a member of the IRMC with effect from 12 November 2021
- \*\* Mr.H.K.D.W.M.D.K.Hapuhinna was appointed to the IRMC with effect from 01 June 2021
- \*\* Mr.K.H.S.Dilanga was appointed to the IRMC with effect from 25 June 2021
- \*\* Ms.F.F.Ishar was appointed to the IRMC with effect from 17 December 2021
- \*\* Mr.T.L.Gonagala was appointed to the IRMC with effect from 17 December 2021
- \*\*\* Mr.G.M.J.A.Gamalath was re appointed to the IRMC with effect from 25 June 2021

The committee was reconstituted with effect from 01st March 2022 and present composition of IRMC is as follows

Name	Designation
<b>Board Level Members</b>	
Mr. A.M.A.Perera	Chairman of the IRMC Non-Executive / Independent Senior Director
Mr. G.A.Jayashantha	Non-Executive Non-Independent Director
Mr. M.P.R.Kumara	Non-Executive /Non-Independent Director
Mr. R M N Jeewantha	Non-Executive /Non-Independent Director

## KEY RESPONSIBILITIES OF THE COMMITTEE

The IRMC is a board appointed subcommittee, currently consist of four non-executive directors which the chairman of IRMC is an independent director. The Company Secretary of MBSL acts as the secretary to the committee.

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

- (I) Assessing all risks, i.e., credit, market, liquidity, operational, legal, reputational, compliance, strategic and other risks of MBSL on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on the finance company basis and group basis.
- (II) Reviewing the adequacy and effectiveness of all management level committees such as the credit committee and the asset-liability committee to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.
- (III) Taking prompt corrective action to mitigate the effects of specific risks in the case such risks are at levels beyond the prudent levels decided by the committee on the basis of the Company's policies and regulatory and supervisory requirements.
- (IV) Taking appropriate actions against the officers responsible for failure to identify specific risks and take prompt corrective actions as recommended by the committee, and/or as directed by the Director of the Department of Supervision of Non-Bank Financial Institutions of the Central Bank of Sri Lanka.
- (V) Establishing a compliance function to assess the Company's compliance with laws, regulations, directions, rules, regulatory guidelines, internal controls and approved policies on all areas of business operations. A dedicated compliance officer selected from Key Management Personnel shall carry out the compliance function and report to the committee periodically.
- (VI) Reviewing the risk appetite statements and its consistency and alignment with strategic, capital, and financial plans and compensation policies.
- (VII) Submitting a Risk Assessment Report within a week of each meeting to the Board seeking the Board's views, concurrence and/or specific directions.
- (VIII) Discussing the risk strategies on both an aggregated basis and by types of risk, and where appropriate makes recommendations about them to BOD.
- (IX) Determining the nature, scope, format, and frequency of the information which the Corporate Management Committee is required to submit on strategy and risks
- (X) Ensuring to provide infrastructure, resources and systems are in place for risk management.
- (XI) Reviewing managements periodic reports on risk exposure, risk portfolio composition, risk rating systems, risk appetite, stress testing and risk management activities from senior officials.
- (XII) Evaluating the annual performance of the Compliance Officer
- (XIII) Meeting at least quarterly to assess all aspects of risk management including updated business continuity plans.

## 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 all board level members & management level members for their valuable contribution to the committee during their tenure.



**A.M.A. Perera**  
*Chairman*  
*Integrated Risk Management Committee*

6 April 2022  
 Colombo

# Report of the Human Resources & Remuneration Committee

## TERMS OF REFERENCE OF THE COMMITTEE

- \* To assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the MBSL's remuneration framework, succession planning and remuneration of Key Management Personnel (KMP).
- \* To determine the remuneration framework for Chairman and the Board of Directors including Executive (if any) and Non-Executive Directors.
- \* To establish key performance parameters and appraisals for the evaluation of KMPs including Executive Directors (if any) and the Chief Executive Officer (CEO), to evaluate their performance against pre-set goals/targets and to recommend the compensation and benefits based on such evaluations, to the Board.
- \* To review and make recommendations to the Board with regard to the overall remuneration Philosophy, Strategy, Policies and Practices including Performance based Pay Plans.
- \* To review Succession Planning for KMP positions.
- \* To review and recommend the terms of employment contracts for the KMP.

## REMUNERATION POLICY

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

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

The total Directors' emoluments and remuneration paid to KMP's are disclosed in Note 43 on page 192 of the Financial Statement.

## COMPOSITION AND MEETINGS

The Committee was reconstituted w.e.f. 11.08.2021 with the following members.

- Mr. J.D.V.N. Jayasinghe - *Chairman - Independent/Non-Executive Director*
- Mr. A.M.A. Perera - *Member - Independent/Non-Executive Director*
- Prof. N.S. Punchihewa - *Member - Independent/Non-Executive Director*
- (Mr. W.N.P. Surawimala - *Ceased to be a member w.e.f. 21.10.2021*)

The Company Secretary functions as the Secretary of the Committee.

The Committee held five (05) meetings during the year under review. CEO was present at the meetings as an invitee except when matters relating to the CEO were being discussed.

## THE ATTENDANCE AT MEETINGS IS GIVEN BELOW

Director Name	05.05.2021	31.05.2021	06.09.2021	05.10.2021	08.11.2021
J.D.V.N. Jayasinghe	-	-	1	1	1
A.M.A. Perera	1	1	1	1	1
N.S. Punchihewa	1	1	1	1	1
W.N.P. Surawimala	1	1	1	1	-

## Activities in 2021

The name of the Committee was changed from 'Remuneration Committee' to "Human Resources & Remuneration Committee (HR & RC)" and the revised terms of reference were approved by the Board of Directors with effect from 11th August 2021. The Committee recommended to the Board the remuneration payable to the Chief Executive Officer and recommended the applicable policies and procedures with regard to remuneration, recruitment, selection, transfers, promotions etc. to the Board. The Committee also reviewed the changes made to the corporate management structure of the Company.



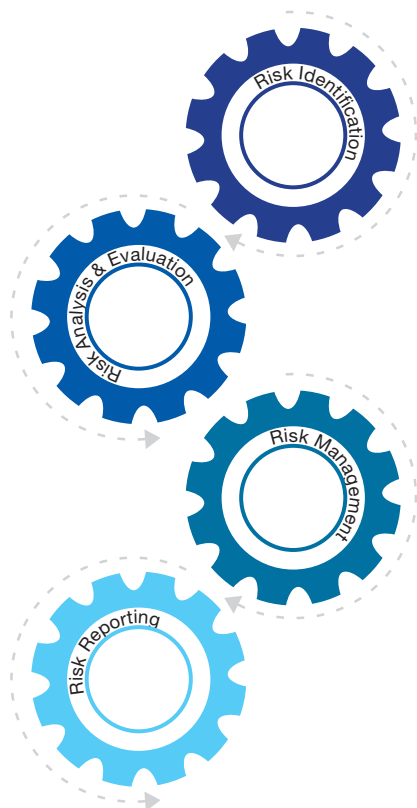
J.D.V.N. Jayasinghe  
*Chairman*  
*Human Resources & Remuneration Committee*

6 April 2022  
Colombo

# Risk Management Report

The Risk Management function of MBSL is a critical component in the execution of our business strategy. In the current dynamic operating environment, a strong Risk Management Framework is essential to safeguard the interests of all our stakeholders. The purpose of the Risk Management Framework is to ensure that an effective and efficient process is in place to manage company-wide risks, both internal and external, at all times.

MBSL's Risk Management process involves risk identification, analysis, evaluation and reporting to manage the overall impact of such risks to the business.



Risk Identification finds, recognizes and describes risks that affect MBSL's strategic financial goals and reputation and through Risk Analysis, the nature of these risks and their potential impact to MBSL is assessed and studied in detail. Risk Evaluation is

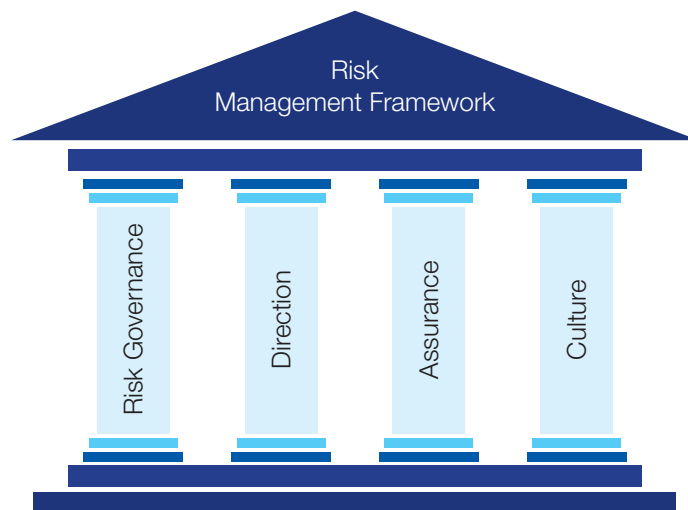
the process of identifying and measuring the risks and Risk Management consists of formulating and implementing strategies to reduce the identified risks in relation to the Company. Risk Reporting refers to the practice of keeping the Board of Directors (BOD) and Integrated Risk Management Committee (IRMC) informed and apprised of all key risks, strategies and their respective outcomes throughout the entire process of risk identification, analysis, evaluation and management.

As a financial services provider, MBSL is exposed to multiple, potential risks that are intrinsic to the financial services industry. Such potential risks may impact MBSL's business, employees, customers, reputation, environment as well as the regulatory and financial performance, and in turn affect the Company's ability to meet its strategic objectives.

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

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

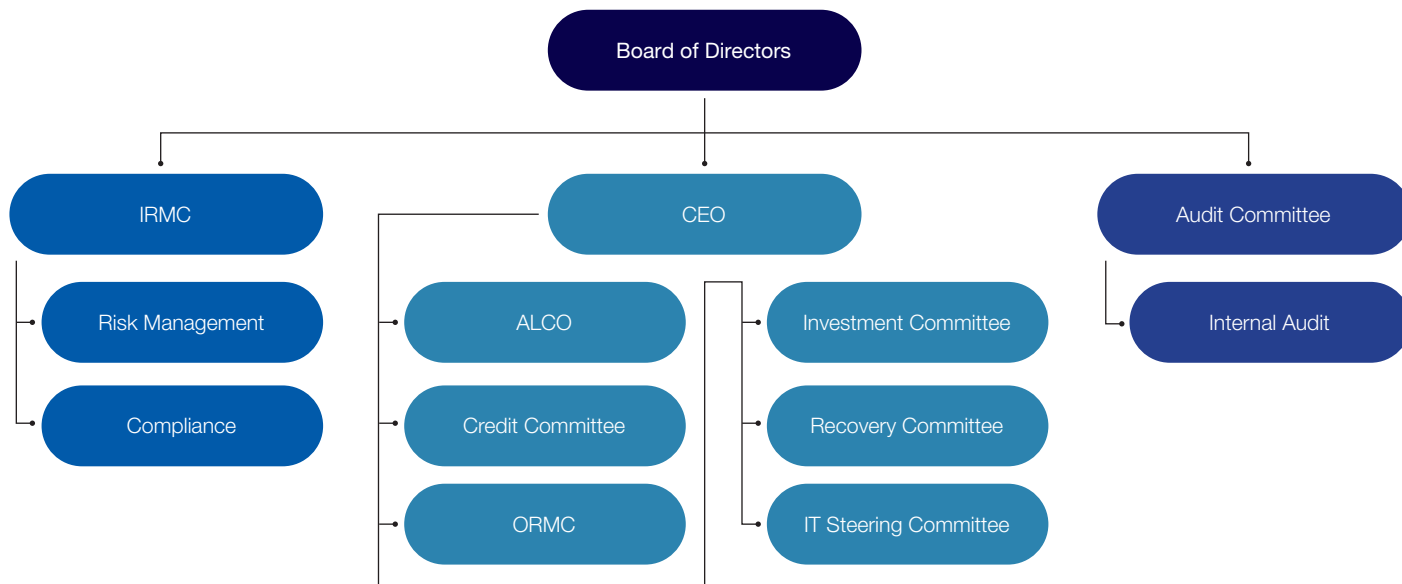
MBSL's Risk Management Framework is based on four key pillars;



# Risk Management Report

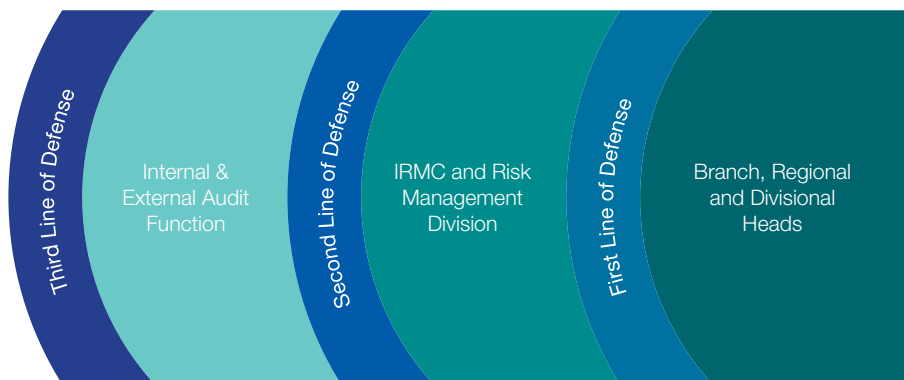
## 1. RISK GOVERNANCE

An effective risk management process will drive with a strong risk governance mechanism. MBSL has a well-established governance structure to provide oversight for managing current and potential risks. MBSL's Board of Directors are ultimately responsible for the implementation of effective risk management across the company. In this regard, the Board is also responsible for setting up and communicating both quantitative and qualitative risk appetite limits. The Board holds the responsibility to decide on risk management goals and to set the tone from the top towards building a company-wide risk management culture. In the performance of these duties, the Board is assisted by the Integrated Risk Management Committee (IRMC). The IRMC is responsible for the stewardship of risk across the business, including making recommendations to the Board regarding policy matters and risk threshold limits.



### Three lines of defense model

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



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



## 2. DIRECTION

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

### Risk Appetite Statement

Risk Appetite reflects the maximum tolerance level the Company is willing to accept in order to meet its strategic objectives. The Risk Appetite Statement defines risk limits the Company should maintain. The Board of Directors is responsible to establish MBSL's Risk Appetite after considering the optimal risk return trade-off for the Company. In formulating the Risk Appetite Statement, the Board prioritizes the most significant risks MBSL is exposed to and informs the approach towards managing these risks, inclusive of strategic plans and business plans developed accordingly. The Risk Appetite Statement is reviewed annually by the IRMC and approved by the Board to identify any changes to current risk profiles and to account for potential or emerging risks that may likely impact the Company in the short to medium term.

### Risk Management Policies

The Company's Risk Appetite underpins the process of formulating Risk Management Policies. In addition, industry best practices and regulatory requirements are also considered when formulating Risk Management Policies. Risk Management Policies are approved by the Board, based on the recommendations made by the IRMC. Main risk policies of the Company include the overall Risk Management Policy, Liquidity Risk Management Policy, Business Continuity Management Policy and the ICAAP document.

### Guidelines and Procedures

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

Procedures are in place in order to support achieving overall business objectives acting within the established policies of the Company. The Senior management is responsible for formulating procedures in order to inform specific action, and to ensure risk management activities are conducted in consistency with the Company's Risk Appetite.

## 3. ASSURANCE

Regular monitoring and assurance ensure that risk management activities are conducted in line with approved policies, guidelines and procedures. Key risk indicators are escalated to the IRMC on

a quarterly basis and any breach in these would immediately be reported to the Board for necessary action.

Risk management requires independent assurance in order to verify that the company has sound risk management practices. The Audit Committee appoints an internal auditor to perform a detailed risk assessment every year with the findings submitted to the Board while the Auditor General of Sri Lanka perform independent external audits as dictated by the Constitution of Sri Lanka.

## 4. CULTURE

A proactive Risk Culture is central to the execution of MBSL's Risk Management Framework. MBSL works with the understanding that building a company-wide Risk culture will foster appropriate values and behaviors that would guide the risk decisions of management and employees in line with the Company's risk management and strategic objectives. The MBSL's Board of Directors and Senior Management play a vital role in establishing a sound risk culture within the Company. Risk management responsibilities are clearly communicated across the Company and the responsibility of initiating action against employees who violate or fail to adhere to company policies and direction in risk aversions rests with the Board of Directors.

### Managing Key Risks

In line with CBSL directions & industry best practices, the Company manages the following risks prudently while achieving strategic objectives of the Company.

#### Credit Risk

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

#### Impact of COVID -19

The COVID-19 pandemic continued to impact the financial services sector and the economy of Sri Lanka throughout the review year. The quarantine curfew imposed in May-June 2021 and Aug-Sep2021 directly affected the loan recovery process while having an overall negative impact on the business activities of the country.

Due to limitations of the environment, MBSL's loan portfolio growth slowed down in relation to the expected levels, while the loan recovery process was interrupted intermittently due to the impact of COVID-19. However, with the successful roll-out of the inoculation programme and the relaxation of COVID-19 restrictions in the country, significant resuscitation of economic and business activity was witnessed during the latter part of the review year.

# Risk Management Report

During the review year, MBSL granted debt moratoria for impacted borrowers in line with the directives of the Central Bank of Sri Lanka (CBSL). During the year, CBSL introduced new debt moratorium schemes while issuing directions to further extend selected debt moratoria implemented in the previous year with focus on continuing to support affected individuals and businesses. Some of the debt moratoria were concluded on 31 March 2022 while debt restructuring and early settlements were facilitated some of them in line with CBSL directives.

COVID-19 had a severe impact of a few key products of MBSL such as leasing and SME lending. Hence, the Company shifted its lending focus to alternative credit products such as pawning and Margin Trading during the year. As a result of CBSL's debt restricting directives and the prudent lending strategy of MBSL, the loan portfolio of the Company grew marginally during the review year while the non-performing loans portfolio and the loan loss provisions were managed with strong recovery efforts.

## Default Risk

Default risk is the risk of potential losses arising due to loan repayment lapses or borrower's failure to repay loans on time.

While the Board of Directors of MBSL, sets the overarching direction for managing credit risk in both retail and corporate lending segments, the dimensions of credit risk and the scope of its application are defined in the credit policy.

The assessment of credit risk among retail customers, is conducted using credit score models, credit bureau records as well as internally and externally available customer behavior records to determine their alignment with MBSL's established Risk Acceptance Criteria (RAC) for specific asset classes such as leasing, pawning and other retail lending products.

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

Significant credit facilities which are proposed by the business units are independently assessed by the Risk Management Division. The Risk Management Division monitors credit exposures, portfolio performance and external environmental factors that have the potential to impact credit risk profiles. This is achieved by conducting a careful analysis of the total portfolio or at a sub-portfolio level, to assess the impact of changing economic conditions on asset quality, earnings performance,

capital adequacy and liquidity. In addition, credit trends which may include industry analysis, early warning alerts and non-performing loan indicators are submitted to the Integrated Risk Management Committee and the Board of Directors to enable key strategies and action plans to be formulated and evaluated.

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

## Default Risk Management Activities in 2021

1. **Review of Credit Policies and Procedures** - Credit policies and procedures were reviewed in 2021 in order to ensure that policies are updated and are well appointed to address the current operating conditions and to achieve the overall strategic objectives of MBSL.
2. **Introduce new Credit Risk Management Policies and Procedures** - Post credit Monitoring Procedure and Early Warning Signals Procedures were established in MBSL during the year 2021.
3. **Risk Based Pricing Mechanism** - Risk based pricing mechanism were initiated for leasing products during the year for retail & SME customers which will generate a risk premium for leasing product based on the borrower and facility risks.
4. **Risk Culture** - Monthly business meetings are conducted to raise awareness regarding the company's credit risk management protocols and encourage proactive approaches by branch staff towards the recovery process.
5. **Involvement by the Central Credit Division (CCD)** - CCD functions as a credit control division that consists of three distinct segments; pre-credit, credit processing and post-credit monitoring with a view to centralizing end-to-end credit engagement.
6. **Recovery Procedure** - The Board has approved to purchase a delinquency management system for enhancing the efficiency of recovery procedures. This will be fully implemented in 2022.
7. **Involvement by the Risk Management Division (RMD)** - Significant credit proposals are specifically assessed by the Risk Management Division. The risk report together with risk mitigation actions are recommended to the credit committee and/or Board. Monthly Branch Risk Dashboards are prepared by the RMD to provide key credit risk information to every branch in MBSL which helps the default risk management process of the branches. The RMD has initiated the development of Microsoft Power BI dashboards for monthly monitoring, which will be completed in 2022.
8. **Legal Action** - Expedited legal action is taken against willful defaulters, by the Company's in-house lawyers who are entrusted with the authority to take necessary legal action against such willful defaulters. The process has helped to manage the NPA portfolio significantly during the year.

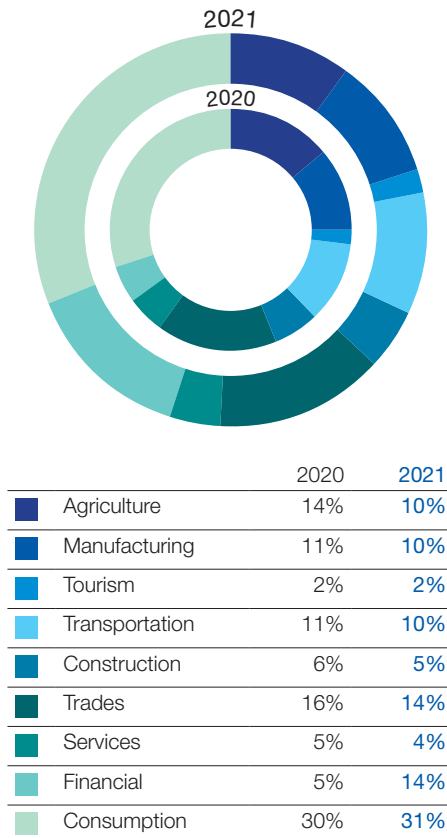
### Concentration Risk

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

#### Concentration Risk Management Activities in 2021

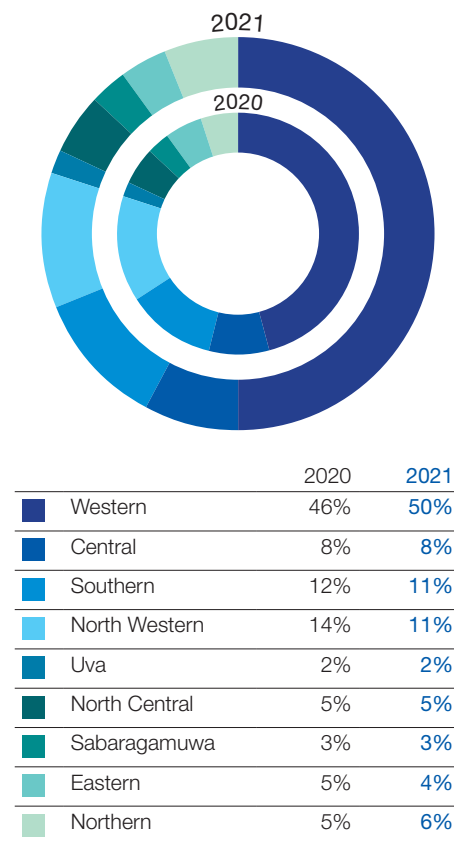
1. **Setting Limits** - Maximum threshold limits for customer, products, and sector to ensure concentration limits are manageable.
2. **Review Mechanism** - Review threshold limits based on the current market and other conditions in order to ensure that concentration risk are manageable in any situation.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

#### Industry wise concentration



In the year under review, the concentration on agriculture sector has reduced considerably compared to 2020 while the exposure to manufacturing sector and Trading sectors have slightly decreased in 2021. The concentration on tourism sector continued to be low which enabled MBSL to mitigate the overall default risks following the impacts of the Easter attacks in April 2019. The exposure to the financial services sector significantly increased during 2021 which poses a significant risk in the coming year due to the level of economic impact on the financial services sector from the macro economic volatilities.

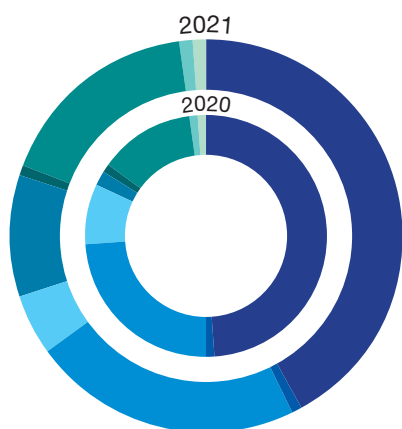
#### Geographical concentration



MBSL's loans and advances base is highly concentrated within the Western Province with 50.23% in 2021 which has grown from 46.28% in 2020. There were no significant changes in concentration in other provinces during 2021.

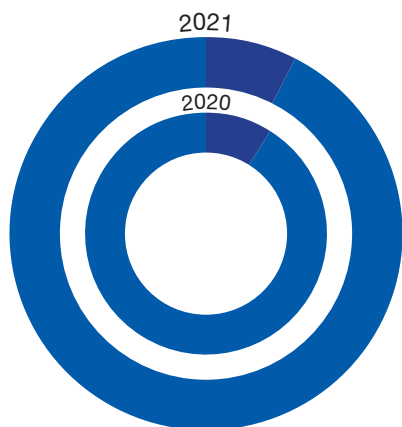
# Risk Management Report

## Product Concentration



	2020	2021
Finance Lease / Ijarah	49%	42%
Hire Purches / Murabaha	1%	1%
Term Loans	24%	22%
Personal Loans	8%	5%
Margin Trading	2%	10%
Micro Finance	1%	1%
Pawning	13%	17%
Loans Against Fixed Deposits	1%	1%
Bill Discounting	1%	1%

## Concentration top 20 customers

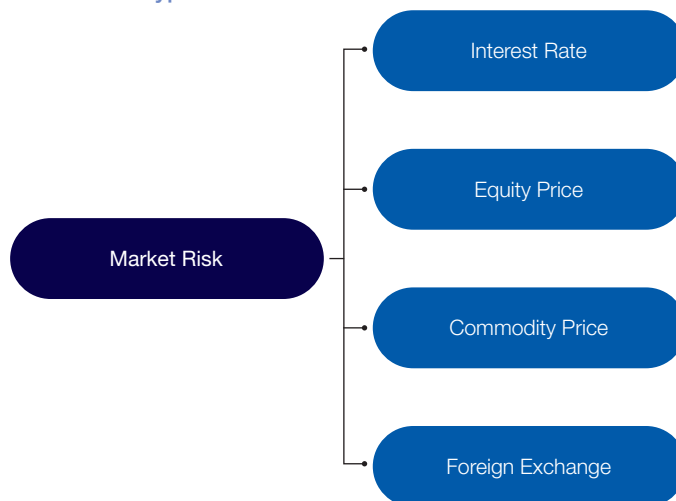


	2020	2021
Top 20 Customers	9.01%	7.58%
Other Customers	90.99%	92.42%

## MARKET RISK

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

### Market Risk Types



Interest rates, equity markets and commodity prices directly influence the possibility to achieve strategic goals of the Company, while exchange rates create an indirect impact on MBSL's performance. Market risk exposures are monitored and managed by using various risk models, stress testing frameworks and market forecasts. The Assets and Liabilities Committee (ALCO) and the Investment Committee play a vital role in managing MBSL's Market Risk.

### Interest Rate Risk

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

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

### Interest Rate Risk Review for 2021

According to the pricing strategy of the Company, the Maximum Interest Rates offered for deposits are directly linked to the Weighted Average Yield Rate (WAYR) of 364 days' Treasury Bills and the Standing Deposit Facility Rate as per the CBSL Interest Rate Direction for LFCs. The WAYR of 364 days TB started with 5.05% and ended with 8.24% in 2021 and reported a significant increase during the year. The upwards movement of interest rates commenced in August 2021 and the deposit interest rates were adjusted accordingly. The continued increase in interest rates resulted in an increase in cost of funds during the latter part of the year.

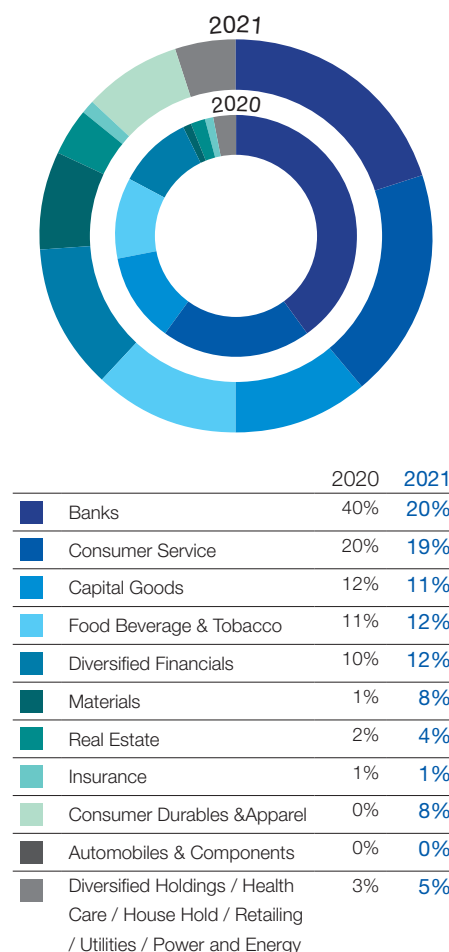
The interest rate hike had a negative impact on the Company due to an increase in cost of funds during the review year as the rate sensitive asset and liability gap turned negative in the short term, whereas the Company's assets were funded mainly through short term fixed deposits. In addition, the portfolio profitability was further affected by this interest rate hike, since a major portion of the liabilities portfolio was converted to the new, higher interest rates within a short span of time while a majority of loans and advances continued to be fixed at the existing (lower) interest rates for the long term.

### EQUITY RISK MANAGEMENT

Adverse movement in share prices create market risks for MBSL. The share price volatility influences value of the investment portfolio and thus has an impact on investment income. As such, MBSL has taken necessary measures to reduce the equity market risk. Equity management is handled by the Capital Market Division of the Company which is directly responsible to the Investment Committee.

The Investment Committee oversees the management of the company's share portfolio while the IRMC conducts a periodic review of the performance and concentration of the share portfolio in order to mitigate equity risk. The ASPI increased significantly during the year 2021 and reached to 12226 at the end of the year. This resulted in a capital gain from most of the invested stocks and a reduced the losses on some investment shares. MBSL focused more on trading stocks while disposing some investment shares in the portfolio during the year in order to captures capital gains from the growth trends in the market.

### Sector wise Equity portfolio risk



MBSL has taken a strategic decision for disposing investments in the banking sector during the year with the purpose of diversifying the portfolio and improving the capital adequacy ratio which resulted in the banking sector exposure reducing to 20% from 40% in the previous year.

# Risk Management Report

## COMMODITY RISK MANAGEMENT

Commodity risk is the risk of change in value of a portfolio of commodities held by the Company. Gold is the main commodity managed by MBSL which is connected with pawning advances. The Pawning Division is responsible to manage the commodity risk (gold stock) arising due to fluctuations in global gold prices. There were no significant price movements recorded in gold prices during the year 2021. However, the pawning portfolio was significantly increased during the year due to the MBSL strategy on diversifying product portfolio from Leasing to Other products. The risk appetite on pawning was reviewed and increased during the year based on the business strategy for MBSL. Monitoring the loan to value ratio for the gold loans portfolio has helped greatly in minimizing the impact due to the volatility of gold prices while pawning advances were focused for a shorter period.

## LIQUIDITY RISK

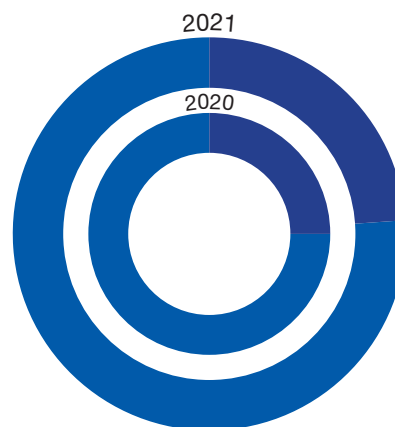
Liquidity risk arises when a financial institution is unable to maintain or generate sufficient cash resources to meet its payment obligations. At MBSL, the liquidity risk management falls under the purview of the ALCO. Under the supervision of the ALCO, AGM - Deposits, Pawning and Treasury divisions are expected to adhere to the Board approved Liquidity Risk Management Policy in order to ensure adequate liquidity levels and capital buffers are maintained at all times. The main aim is to ensure key ratios such as Tier 1 Capital Adequacy Ratio, total Capital Adequacy Ratio, minimum capital and the Liquid Asset Ratio are in line with regulatory minimum requirements. Timely reports are submitted to the Board of Directors and the IRMC in order to ensure necessary actions are taken to reduce MBSL's Liquidity Risk.

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

### Liquidity Risk Management Activities in 2021

1. Reviewing of the existing Risk Appetite on liquidity risk for MBSL
2. Ensuring that liquidity is strictly managed in line with MBSL's Risk Appetite
3. Strategies to maintain the fixed deposit renewal ratio at a higher level
4. Contingency fund arrangements with banks
5. Strict adherence to the liquidity requirements issued by the Central Bank of Sri Lanka.
6. Strategies to reduce concentration on corporate deposits and focus more on promoting retail deposits.
7. Strategies to grow the Company's savings base, specifically by promoting minor savings accounts.
8. Daily, weekly, monthly forecasted cash flow preparation and ongoing cash flow management by the treasury division

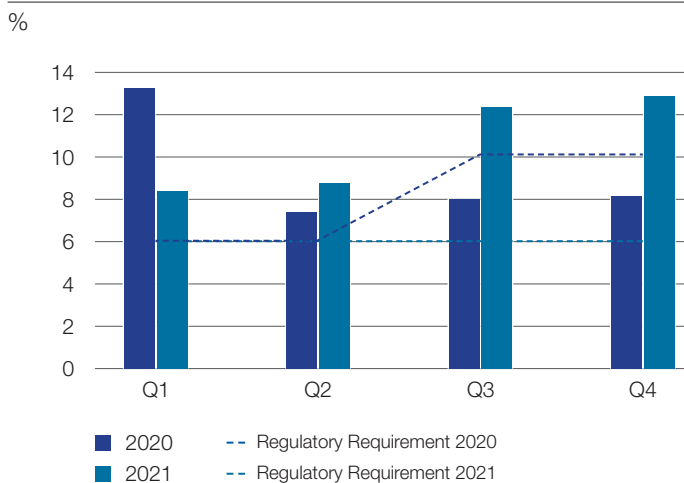
## Top 20 depositors



	2020	2021
Top 20 Customers	25%	24%
Other Customers	75%	76%

In 2021 dependency on top 20 depositors decreased by 1% which was a strategic decision taken by the MBSL

## Liquid Assets Ratio



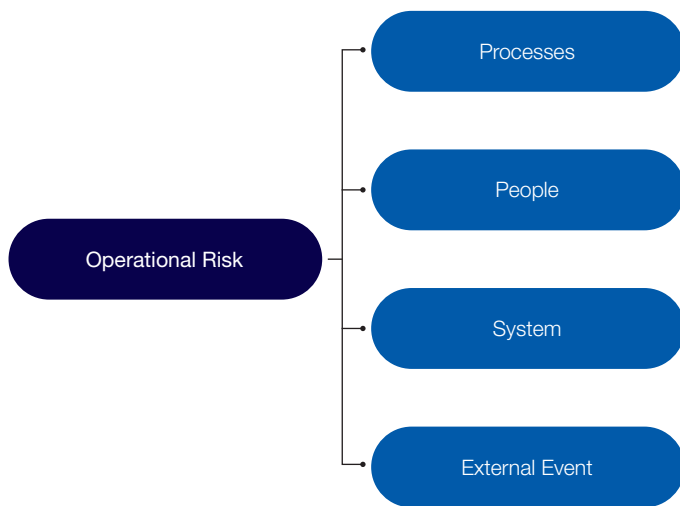
The CBSL temporarily reduced the regulatory liquid asset requirement for LFC's until 30th June 2021 and the liquidity requirement as per original direction No.04 of 2013 was effective thereafter. Even though the CBSL has revised the liquid assets ratio to original rates, the Company continued to maintain its liquidity ratios in compliance with the regulatory minimum requirements throughout 2021.

## CAPITAL ADEQUACY

The Central Bank of Sri Lanka (CBSL) revised Tier I and Tier II Capital Adequacy Requirements in 2018 with the expectation to reach a Tier I capital of 8.5% and a Total capital of 12.5% by 2021. However, considering the limitations and challenges caused by the COVID-19 pandemic, the deadline for same was extended to 2022 by the regulator. MBSL were not able to meet the capital requirement in 2020 due to the huge loss reported for the year. However, the Company successfully infused additional capital of LKR 2.15Bn through a rights issue during the year 2021, thus meeting the CAR requirement and the minimum capital requirement as specified by the CBSL in 2021. MBSL has conducted an Internal Capital Adequacy Assessment Process (ICAAP) during the year subsequent to which, the ICAAP document was approved by the Board in 2021.

## OPERATIONAL RISK

Operational risk is the risk of loss resulting from inadequate or failed internal processes, people and systems or due to external events.



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

### Operational Risk Management Activities in 2021

1. MBSL initiated the Business Continuity Testing (BCP) process in 2021, and this will be completed in the year 2022.
2. The Operational Risk Management Committee (ORMAC) at MBSL is a cross functional team chaired by the Compliance Officer. The ORMAC has authority to escalate their findings directly to the CMC and IRMC of MBSL. ORMAC continued

to propose enhancements to improve the Company's performance throughout the review year.

3. The Employee Performance Management Policy was reviewed in order to instill a performance-based culture at MBSL consistent with the strategic objectives of the Company.
4. A transaction monitoring system was developed internally by the IT division of the Company in order to fully comply with AML guidelines issued by the Financial Intelligence Unit (FIU) of CBSL
5. A Branch Expansion and Operation Policy was established in line with the three-year strategic plan of the Company.
6. Established a Guideline on Disposal of Acquired Properties in order to enhance the efficiency of property disposal processes.
7. Streamlined several processes in order to reduce risk of process failure and improve employee productivity under current conditions.

### Compliance Risk

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

### Compliance Risk Management Activities in 2021

1. A dedicated Compliance Officer performs duties as the head of MBSL's Compliance Unit. The Compliance Officer reports directly to the IRMC regarding any non-compliance issues.
2. MBSL's Anti-Money Laundering (AML) & Countering the Financing of Terrorism (CFT) Policy & Procedure was reviewed in order to ensure that the company is compliant with the regulations laid down by the Financial Intelligence Unit of CBSL.
3. An internally developed Transaction Monitoring System was implemented
4. The Compliance function was further strengthened by recruiting additional staff members to the compliance division while the former Compliance Officer of the Bank of Ceylon was appointed as a consultant to the Risk and Compliance functions.







# FINANCIAL REPORTS

# Financial Calendar

## FINANCIAL CALENDER 2021

Annual General Meetings	Date
40th Annual General Meeting	31-May-22

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

Interim Financial Statements	Date released to the CSE	Date published in Newspapers (in Sinhala, English & Tamil)
1st Quarter ended 31 March 2021	13-May-21	N/A
2nd Quarter ended 30 June 2021	13-Aug-21	31-Aug-21
3rd Quarter ended 30 September 2021	11-Nov-21	N/A
4th Quarter ended 31 December 2021	24-Feb-22	N/A
<b>Annual Financial Statements</b>		
Annual financial statements for 2021	30-Mar-22	31-Mar-22

## PROPOSED FINANCIAL CALENDER 2022

Annual General Meetings	Date
41st Annual General Meeting on or before	30-Jun-23

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

Interim Financial Statements	Date to be released to the CSE	Date to be published in Newspapers (in Sinhala, English & Tamil)
1st Quarter ended 31 March 2022	13-May-22	N/A
2nd Quarter ended 30 June 2022	12-Aug-22	31-Aug-22
3rd Quarter ended 30 September 2022	15-Nov-22	N/A
4th Quarter ended 31 December 2022	28-Feb-23	N/A
<b>Annual Financial Statements</b>		
Annual financial statements for 2022	31-Mar-23	31-Mar-23

# Directors' Responsibility Statement on Internal Control Over Financial Reporting

The Board of Directors presents the Directors' Statement on Internal Controls in line with the section 10(2) (b) of the Finance Companies Direction No. 03 of 2008 as amended by the section 16 (1) (ix) of Direction No. 05 of 2021 and principal D.1.5 of Code of Best Practice on Corporate Governance 2017 issued by CA Sri Lanka.

## RESPONSIBILITY

The Board of Directors ("Board") is responsible for the adequacy and effectiveness of Merchant Bank of Sri Lanka & Finance PLC's (MBSL) system of internal controls. However, such a system is designed to manage the MBSL's key areas of risk within an acceptable risk profile, rather than eliminating 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 misstatements of management and financial information and records or against financial losses or frauds.

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, technological developments, or regulatory guidelines.

The process is regularly reviewed by the Board. The Board is of the view that the system of internal controls in place is sound and adequate to provide a reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes 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 process of designing, operating, and monitoring of suitable internal controls to mitigate and control these risks.

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

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

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

# Directors' Responsibility Statement on Internal Control Over Financial Reporting

- \* In assessing the internal control system, all procedures and controls that are related to significant accounts and disclosures of the Financial Statements of company were collated by responsible officers of the Company. These in turn were observed and checked by the Internal Audit Department to verify the suitability of design and effectiveness of these procedures and controls on an ongoing basis.
- \* SLFRS 9 – “Financial Instruments”, became applicable for financial reporting periods beginning on or after 1 January 2018. SLFRS 9 poses a significant impact on impairment assessment of financial assets whereby the impairment assessment approach shifted from an “incurred credit loss model” applied based on LKAS 39 – “Financial Instruments – Recognition and Measurement” to an “expected credit loss model”. The Board will continuously take steps to strengthen the processes and controls around management information systems and information required for validation and compliance in line with SLFRS 9. The Financial statements for the year ended 31 December 2021 is compliant with all accounting standards currently in force.
- \* In 2021, the Company further strengthened its internal control processes to ensure that the impact of the COVID-19 debt moratorium on interest income and impairment provisions were accurately captured in the financial reporting. The Management also ensured that all critical reconciliations were performed without interruption during the lockdown periods.
- \* To ensure business continuity, protect workers and continue to serve customers during the COVID-19 pandemic, the Company had to move certain areas of its operations to online platforms. However, this was done with all required safeguards in place to protect the Company's and its customer's confidential information.

The Company has also recognized the need to introduce an automated financial reporting process in order to comply with the requirements of recognition, measurement, classification and disclosures of the financial instruments more effectively and efficiently.

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

## THE CONFIRMATION BY THE BOARD

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

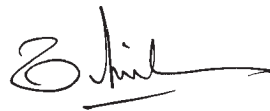
## REVIEW OF THE STATEMENT BY EXTERNAL AUDITORS

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

For and on behalf of the Board,



A.M.A. Perera  
Director



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

6 April 2022  
Colombo

# Directors' Responsibility for Financial Reporting

This Statement sets out the responsibilities of the Directors in relation to the financial statements of the Company and the Group. The responsibilities of the auditors in relation to the financial statements are set out in the 'Independent Auditor's Report' on page 92 of the Annual Report.

In terms of Sections 150 (1), 151, 152 and 153 (1) & (2) of the Companies Act No. 07 of 2007, the Directors of the Company are responsible for ensuring that the Company and the Group keep proper books of account of all the transactions and prepare Financial Statements that give a true and fair view of the financial position of the Company and the Group as at end of each financial year and of the financial performance of the Company and the Group for each financial year and place them before a general meeting. The Financial Statements comprise of the Statement of Financial Position as at 31 December 2021, 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 2021 have been prepared and presented based on the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting & Auditing Standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereto, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on Corporate Governance issued jointly by The Institute of Chartered Accountants of Sri Lanka and the Securities and Exchange Commission of Sri Lanka.

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 Directors have ensured that this Annual Report has been prepared and published as required by the Sections 166 (1) and 167 (1) of the Companies Act and ensured that a Printed copy of this Annual Report is sent to every shareholder of the Company, who have expressed desire to receive a hard copy. For the benefit of other shareholders and the many stakeholders of the Company, the digital version of the Annual Report has been uploaded to the Financial Information section of the Company's website (<https://www.mbslbank.com/financial-information/>). The digital version of the Company's Annual Report 2021 has also been uploaded to the CSE website within the stipulated period of time as required by the Section 7.5(a) and (b) on Continuing Listing requirements of the Listing Rules of the Colombo Stock Exchange.

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 expressed their opinion on the Financial Statements of the Company. The responsibilities of the Auditor in relation to the Financial Statements are set out in the Report of the Auditor General on page 92 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 of Sri Lanka, 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. This year too, the Directors considered the potential implications of the COVID-19 pandemic on the Group's business, operations and financial performance. The Directors are of the view that they have discharged their responsibilities as set out in this Statement.

By Order of the Board,



Amila Belpamulla  
Company Secretary

6 April 2022  
Colombo

# Report of the Auditor General



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல. }  
My No. }

BAN/B/BOC-S/MBSL/ FA/2021

ඔබේ අංකය  
உமது இல. }  
Your No. }

දිනය  
திகதி }  
Date }

29 March 2022

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 and its subsidiary for the year ended 31 December 2021 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

### 1. FINANCIAL STATEMENTS

#### 1.1 Opinion

The audit of the Financial Statements of the Merchant Bank of Sri Lanka and Finance PLC (the "Company") and the Consolidated Financial Statements of the Company and its subsidiary (the "Group") for the year ended 31 December 2021 comprising the statement of financial position as at 31 December 2021 and the statement of profit or loss, 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 give a true and fair view of the financial position of the Company and the Group as at 31 December 2021 and of their financial performance and their 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 Key Audit Matters

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

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

අංක 306/72, පොල්දූව පාර, බත්තරමුල්ල, ශ්‍රී ලංකාව

இல. 306/72, பொல்துவ வீதி, பத்தரமுல்லை, இலங்கை.

No. 306/72, Polduwa Road, Battaramulla, Sri Lanka.



+94 11 2 88 70 28 - 34



+94 11 2 88 72 23



ag@auditorgeneral.gov.lk



www.naosl.gov.lk



Key audit matter	How my audit addressed the key audit matter
<p><b>Allowance for Impairment Losses on Loans &amp; Receivables at amortised cost</b>            Allowance for impairment losses on loans &amp; receivable at amortised cost as stated in Note 12 &amp; 23 is determined by management in accordance with the accounting policies described in Note 3.5.</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> <li>* materiality of the reported allowance for impairment losses which involved complex calculations; and</li> <li>* degree of management judgement, significance of assumptions and level of estimation uncertainty associated with its measurement.</li> </ul>	<ul style="list-style-type: none"> <li>* I assessed the alignment of the Company's expected credit loss model computations and underlying methodology including consideration of COVID-19 impacts and related industry responses with its accounting policies based on the best available information up to the date of my report. My audit procedures included amongst others the following:</li> <li>* I evaluated the design, implementation and operating effectiveness of controls over estimation of impairment, which included assessing the level of oversight, review and approval of provision for impairment policies and procedures by the Board and management.</li> <li>* I checked the completeness and accuracy of the underlying data used in the impairment computation by agreeing details to relevant source documents and accounting records of the Company. I also checked the underlying calculations.</li> <li>* In addition to the above, the following procedures were performed:</li> </ul>
<p>Key areas of significant judgements, estimates and assumptions used by management in the assessment of the allowance for impairment losses included the following;</p> <ul style="list-style-type: none"> <li>* management overlays to incorporate the probable ongoing impacts of COVID-19 and related industry responses such as government stimulus packages and debt moratorium relief measures granted by the Company;</li> <li>* the incorporation of forward-looking information to reflect current and anticipated future external factors, including judgments related to the ongoing impact of COVID-19, both in the multiple economic scenarios and the probability weighting determined for each of these scenarios.</li> </ul>	<ul style="list-style-type: none"> <li>* <b>For loans &amp; receivables assessed on an individual basis for impairment:</b> <ul style="list-style-type: none"> <li>• I assessed the reasonableness and timeliness of Management's internal assessments of credit quality based on the borrower's particular circumstances.</li> <li>• I evaluated the reasonableness of key inputs used in the allowance for impairment made with particular focus on the ongoing impact of COVID-19. Such evaluations were carried out considering value and timing of cash flow forecasts, elevated risk industries, status of recovery action and collateral values.</li> </ul> </li> <li>* <b>For loans &amp; receivables assessed on a collective basis for impairment:</b> <ul style="list-style-type: none"> <li>• I tested the key calculations used in the allowance for impairment.</li> <li>• I assessed whether judgments, estimates and assumptions used by the Management in the underlying methodology and the management overlays were reasonable. My testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios.</li> <li>• I assessed the adequacy of the related financial statement disclosures as set out in Notes 3.5.11, 12, 23 and 49.2.</li> </ul> </li> </ul>
<p><b>IT systems and controls relevant to financial reporting</b></p> <p>A significant part of the Company's financial reporting process is primarily reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems that are compiled and formulated with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting was considered a key audit matter.</p>	<p>My audit procedures included the following,</p> <ul style="list-style-type: none"> <li>• I obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures.</li> <li>• I identified and test checked relevant controls of key IT systems related to the Company's financial reporting process.</li> <li>• I involved my internal specialized resources to evaluate the design and operating effectiveness of IT controls, including those related to user access and change management.</li> <li>• I also obtained an understanding, primarily through inquiry, of the cyber security risks affecting the Company and the actions taken to address these risks. Further, I checked changes if any have been made to security monitoring procedures, given the increase use of remote working access including the Company's monitoring on remote working activities</li> </ul>



## 1.4 Other information included in the Group's 2021 Annual Report

The other information comprises the information included in the Group's 2021 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information.

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

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated.

When I read the Company's 2021 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

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

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

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

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

## 1.6 Auditor's Responsibilities for the Audit of the Financial Statements

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

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

- \* Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- \* Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control.
- \* Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.



- \* Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- \* Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

## 2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and the section 12 (a) of National Audit Act, No. 19 of 2018.

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

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

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

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

2.2.1 to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of the section 12 (f) of the National Audit Act, No. 19 of 2018 except for non-compliances that are material are given below,

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

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



W.P.C. Wickramaratne  
 Auditor General

# Statement of Profit or Loss

For the year ended 31 December 2021	Note	Company			Group		
		2021 Rs.'000	2020 Rs.'000	Change %	2021 Rs.'000	2020 Rs.'000	Change %
Income	4	5,971,065	5,188,013	15.1	6,319,853	5,472,169	15.5
Interest and similar income		5,525,955	4,950,638	11.6	5,601,459	5,056,499	10.8
Interest and similar expenses		(2,675,588)	(3,532,790)	(24.3)	(2,682,522)	(3,532,144)	(24.1)
<b>Net interest income</b>	5	<b>2,850,367</b>	<b>1,417,848</b>	<b>101.0</b>	<b>2,918,937</b>	<b>1,524,355</b>	<b>91.5</b>
Fee and commission income		185,602	116,893	58.8	196,731	109,569	79.6
Fee and commission expenses		(38,587)	(22,071)	74.8	(21,359)	(6,102)	250.0
<b>Net fee and commission income</b>	6	<b>147,015</b>	<b>94,822</b>	<b>55.0</b>	<b>175,372</b>	<b>103,467</b>	<b>69.5</b>
Insurance premium income	7	-	-	-	288,998	178,408	62.0
Net claims and benefits	8	-	-	-	(137,982)	(101,585)	35.8
Net trading income	9	44,281	10,312	329.4	44,281	10,312	329.4
Net gain/(loss) on financial instruments at fair value through profit or loss	10	(23,435)	63,629	136.8	(20,085)	64,105	131.3
Other operating income	11	238,662	46,541	412.8	208,470	53,276	291.3
<b>Total operating income</b>		<b>3,256,890</b>	<b>1,633,152</b>	<b>99.4</b>	<b>3,477,991</b>	<b>1,832,338</b>	<b>89.8</b>
Impairment charges for loans and other assets	12	(74,450)	(563,431)	(86.8)	(74,450)	(563,431)	(86.8)
<b>Net operating income</b>		<b>3,182,440</b>	<b>1,069,721</b>	<b>197.5</b>	<b>3,403,541</b>	<b>1,268,907</b>	<b>168.2</b>
Personnel expenses	13	(1,200,450)	(1,091,985)	9.9	(1,360,993)	(1,236,582)	10.1
Depreciation and amortisation	14	(245,115)	(291,273)	(15.8)	(272,431)	(305,392)	(10.8)
Other operating expenses	15	(613,860)	(571,882)	7.3	(749,639)	(674,777)	11.1
<b>Total operating expenses</b>		<b>(2,059,425)</b>	<b>(1,955,140)</b>	<b>(5.3)</b>	<b>(2,383,063)</b>	<b>(2,216,751)</b>	<b>(7.5)</b>
<b>Operating profit/(loss) before VAT on financial services and impairment of investment in group companies</b>		<b>1,123,015</b>	<b>(885,419)</b>	<b>226.8</b>	<b>1,020,478</b>	<b>(947,844)</b>	<b>207.7</b>
Impairment reversal/(charge) of investment in subsidiary	28.1	(16,019)	(462,544)	(96.5)	-	-	-
Impairment reversal/(charge) of investment in associate	27	-	5,058	(100.0)	-	-	-
<b>Profit/(loss) from operations after impairment of investment in group companies</b>		<b>1,106,996</b>	<b>(1,342,905)</b>	<b>182.4</b>	<b>1,020,478</b>	<b>(947,844)</b>	<b>207.7</b>
Taxes on financial services	16.1	(294,268)	-	-	(294,268)	-	-
Share of associate company's profit/(loss) before tax	27.1	-	-	-	109,490	20,212	441.7
<b>Profit/(loss) before income tax</b>		<b>812,728</b>	<b>(1,342,905)</b>	<b>160.5</b>	<b>835,700</b>	<b>(927,632)</b>	<b>190.1</b>
Income tax (expense)/reversal	16.2	(283,684)	234,600	220.9	(358,399)	18,550	2,032.1
<b>Profit/(loss) for the year</b>		<b>529,044</b>	<b>(1,108,305)</b>	<b>147.7</b>	<b>477,301</b>	<b>(909,082)</b>	<b>152.5</b>
<b>Profit/(loss) for the year attributable to:</b>							
Equity holders of the parent		529,044	(1,108,305)	147.7	525,073	(780,666)	167.3
Non-controlling interests		-	-	-	(47,772)	(128,416)	62.8
<b>Profit/(loss) for the year</b>		<b>529,044</b>	<b>(1,108,305)</b>	<b>147.7</b>	<b>477,301</b>	<b>(909,082)</b>	<b>152.5</b>
<b>Earnings per share:</b>							
Basic/diluted earning per share (Rs.)	17	2.04	(6.68)	130.5	2.03	(4.71)	143.0

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 103 to 221 form an integral part of the Financial Statements.

# Statement of Comprehensive Income

For the year ended 31 December 2021	Note	Company			Group		
		2021 Rs.'000	2020 Rs.'000	Change %	2021 Rs.'000	2020 Rs.'000	Change %
Profit/(loss) for the year		529,044	(1,108,305)	147.7	477,301	(909,082)	152.5
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		(22,217)	6,737	429.8	(31,139)	16,994	283.2
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		(22,217)	6,737	429.8	(31,139)	16,994	283.2
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):							
Actuarial gains/(losses) on defined benefit plans	40	59,658	(53,290)	212.0	61,143	(52,356)	216.8
Share of associates company's other comprehensive income	27.1	-	-	-	632	(679)	193.1
Deferred tax effect relating to components of other comprehensive income	38.1	(16,449)	14,921	210.2	(17,261)	14,921	215.7
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		43,209	(38,369)	212.6	44,514	(38,114)	216.8
Other comprehensive income/(expenses) for the year, net of tax		20,992	(31,632)	166.4	13,376	(21,120)	163.3
Total comprehensive income/(expenses) for the year, net of tax		550,036	(1,139,937)	148.3	490,677	(930,202)	152.7
Total comprehensive income/(expenses) attributable to:							
Equity holders of the parent		550,036	(1,139,937)	148.3	490,677	(806,955)	160.8
Non controlling interests		-	-	-	-	(123,247)	(100.0)
Total comprehensive income/(expenses) for the year, net of tax		550,036	(1,139,937)	148.3	490,677	(930,202)	152.7

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 103 to 221 form an integral part of the Financial Statements.

# Statement of Financial Position

As at 31 December 2021	Note	Company			Group		
		2021 Rs.'000	2020 Rs.'000	Change %	2021 Rs.'000	2020 Rs.'000	Change %
<b>Assets</b>							
Cash and cash equivalents	20	1,191,374	683,924	74.2	1,436,435	2,205,265	(34.9)
Placements with banks & financial institutions	21	246,166	357,928	(31.2)	535,292	836,780	(36.0)
Financial investments at fair value through profit or loss	22	341,547	950,012	(64.0)	355,214	960,328	(63.0)
Loans & receivables at amortised cost	23	28,184,638	26,785,517	5.2	28,016,693	26,548,397	5.5
Financial investments at fair value through other comprehensive income	24	1,989,169	1,292,616	53.9	3,415,338	1,465,111	133.1
Financial investments at amortised cost	25	-	1,519	(100.0)	-	1,519	(100.0)
Real estate stock	26	175,816	330,188	(46.8)	175,816	330,188	(46.8)
Investment in associate company	27	81,084	81,084	-	131,399	95,106	38.2
Investment in subsidiary	28	371,404	387,424	(4.1)	-	-	-
Investment properties	29	107,703	114,370	(5.8)	107,703	114,370	(5.8)
Property, equipment and right-of-use assets	30	607,185	758,690	(20.0)	742,708	796,287	(6.7)
Intangible assets	31	128,578	146,493	(12.2)	128,578	148,909	(13.7)
Deferred tax Assets	38	-	52,760	(100.0)	4,111	102,065	(96.0)
Other assets	32	852,795	463,670	83.9	1,220,370	750,300	62.7
<b>Total assets</b>		<b>34,277,459</b>	<b>32,406,195</b>	<b>5.8</b>	<b>36,269,657</b>	<b>34,354,625</b>	<b>5.6</b>
<b>Liabilities</b>							
Due to banks	33	4,116,812	5,436,682	(24.3)	4,133,305	5,442,511	(24.1)
Due to customers at amortised cost	34	22,267,862	21,725,261	2.5	22,201,604	21,665,256	2.5
Debt issued and borrowed funds at amortised cost	35	2,381,579	2,568,828	(7.3)	2,381,579	2,568,828	(7.3)
Insurance contract liabilities-life	36.1	-	-	-	416,634	498,767	(16.5)
Insurance contract liabilities-non life	36.2	-	-	-	511,538	488,784	4.7
Current tax liabilities	37	178,898	14,831	1,106.2	178,898	14,831	1,106.2
Deferred tax liabilities	38	78,301	-	-	78,301	-	-
Other liabilities	39	764,118	840,836	(9.1)	1,269,913	1,188,416	6.9
Retirement benefits obligations	40	320,934	351,906	(8.8)	332,724	363,816	(8.5)
<b>Total liabilities</b>		<b>30,108,504</b>	<b>30,938,344</b>	<b>(2.7)</b>	<b>31,504,496</b>	<b>32,231,209</b>	<b>(2.3)</b>

As at 31 December 2021	Note	Company			Group		
		2021 Rs.'000	2020 Rs.'000	Change %	2021 Rs.'000	2020 Rs.'000	Change %
<b>Equity</b>							
Stated capital	41	4,276,448	2,124,457	101.3	4,276,448	2,124,457	101.3
Statutory reserves	42.1	339,996	234,613	44.9	339,996	234,613	44.9
Retained earnings	42.2	(427,847)	(893,794)	(52.1)	(251,498)	(714,093)	(64.8)
OCI reserve	42.3	(19,642)	2,575	862.9	(23,860)	3,157	855.7
Total equity attributable to equity holders of the parent		4,168,955	1,467,851	184.0	4,341,086	1,648,134	163.4
Non controlling interests		-	-	-	424,075	475,282	(10.8)
<b>Total equity</b>		<b>4,168,955</b>	<b>1,467,851</b>	<b>184.0</b>	<b>4,765,161</b>	<b>2,123,416</b>	<b>124.4</b>
<b>Total liabilities and equity</b>		<b>34,277,459</b>	<b>32,406,195</b>	<b>5.8</b>	<b>36,269,657</b>	<b>34,354,625</b>	<b>5.6</b>
Commitments and contingent liabilities	49	102,400	107,800	(5.0)	137,867	177,514	(22.3)
Net assets value per share (Rs.)		16.08	8.85	81.7	16.75	9.94	68.5

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



P I Kandanaarachchi  
Head of Finance



H K D W M D K Hapuhinna  
Chief Executive Officer

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



R M N Jeewantha  
Director



H P K Silva  
Director

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 103 to 221 form an integral part of the Financial Statements.

28 March 2022  
Colombo

# Statement of Changes in Equity

For the year ended 31 December 2021					
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 2020	2,124,457	234,613	(4,162)	252,880	2,607,788
Net profit/(loss) for the year	-	-	-	(1,108,305)	(1,108,305)
Other comprehensive income, net of tax	-	-	6,737	(38,369)	(31,632)
Transfers to statutory reserve fund	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>2,124,457</b>	<b>234,613</b>	<b>2,575</b>	<b>(893,794)</b>	<b>1,467,851</b>
Balance as at 01 January 2021	2,124,457	234,613	2,575	(893,794)	1,467,851
Net profit/(loss) for the year	-	-	-	529,044	529,044
Other comprehensive income, net of tax	-	-	(22,217)	43,209	20,992
Issue of ordinary shares through right issue	2,151,991	-	-	-	2,151,991
Transaction cost related to rights issue	-	-	-	(923)	(923)
Transfers to statutory reserve fund	-	105,383	-	(105,383)	-
<b>Balance as at 31 December 2021</b>	<b>4,276,448</b>	<b>339,996</b>	<b>(19,642)</b>	<b>(427,847)</b>	<b>4,168,955</b>

For the year ended 31 December 2021						
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 2020	2,124,457	234,613	(9,099)	105,118	598,529	3,053,618
Net profit/(loss) for the year	-	-	-	(780,666)	(128,416)	(909,082)
Other comprehensive income, net of tax	-	-	12,256	(38,545)	5,169	(21,120)
Transfers to statutory reserve fund	-	-	-	-	-	-
<b>Balance as at 31 December 2020</b>	<b>2,124,457</b>	<b>234,613</b>	<b>3,157</b>	<b>(714,093)</b>	<b>475,282</b>	<b>2,123,416</b>
Balance as at 01 January 2021	2,124,457	234,613	3,157	(714,093)	475,282	2,123,416
Net profit/(loss) for the year	-	-	-	525,073	(47,772)	477,301
Other comprehensive income, net of tax	-	-	(27,017)	43,828	(3,435)	13,376
Issue of ordinary shares through right issue	2,151,991	-	-	-	-	2,151,991
Transaction cost related to rights issue	-	-	-	(923)	-	(923)
Transfers to statutory reserve fund	-	105,383	-	(105,383)	-	-
<b>Balance as at 31 December 2021</b>	<b>4,276,448</b>	<b>339,996</b>	<b>(23,860)</b>	<b>(251,498)</b>	<b>424,075</b>	<b>4,765,161</b>

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 103 to 221 form an integral part of the Financial Statements.

# Statement of Cash Flows

## ACCOUNTING POLICY

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

For the year ended 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>Cash flows from operating activities</b>					
Profit/(loss) before income tax		812,728	(1,342,905)	835,700	(927,632)
<b>Adjustments for :</b>					
Net interest income	5	(2,850,367)	(1,417,848)	(2,918,937)	(1,524,355)
WHT movement for the year	37.1	(5,006)	-	(5,006)	-
Impairment charges for loans and other losses	12	74,450	563,431	74,450	563,431
Impairment (reversal)/charge of investment in subsidiary	28.1	16,019	462,544	-	-
Share of associate company's profit/(loss) before tax	27.1	-	-	(109,490)	(20,212)
Depreciation and amortisation	14	245,115	291,273	272,431	305,392
Provision of investment properties	29.1	3,761	-	3,761	-
Dividend income from associates		(43,496)	-	(43,496)	-
Dividend income from financial assets at FVTPL		(5,874)	(6,060)	(6,890)	(7,485)
Contribution to defined benefit plans	40	48,608	56,674	51,162	59,739
Fair value change of financial assets at FVTPL	10	23,435	(63,629)	20,085	(64,105)
		(1,680,627)	(1,456,520)	(1,826,230)	(1,615,227)
Interest paid to customers at amortised cost		(1,929,843)	(2,697,594)	(1,929,843)	(2,697,594)
Interest paid on other borrowings		(620,938)	(1,077,837)	(676,633)	(1,130,142)
Interest received on loans & receivables at amortised cost		5,751,076	4,350,018	5,751,076	4,350,018
Interest received on other investment		225,079	436,380	350,360	596,618
Gratuity paid	40	(19,922)	(29,758)	(21,111)	(31,838)
<b>Change in operating assets</b>					
Loans & receivables at amortised cost		(1,875,681)	2,193,393	(1,875,681)	2,193,393
Other operating assets		(434,640)	(242,375)	(487,491)	(276,885)

# Statement of Cash Flows

For the year ended 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>Change in operating liabilities</b>					
Due to customers at amortised cost		487,219	(846,681)	487,219	(846,681)
Payments made under operating leases		(182,821)	(172,550)	(204,097)	(177,100)
Insurance provision		-	-	(59,379)	58,135
Other liabilities		54,550	52,266	143,731	122,777
<b>Net cash generated from/(used in) operating activities before income tax</b>		<b>(226,548)</b>	<b>508,742</b>	<b>(348,079)</b>	<b>545,474</b>
Tax paid		-	-	-	-
<b>Net cash generated from/(used in) operating activities</b>		<b>(226,548)</b>	<b>508,742</b>	<b>(348,079)</b>	<b>545,474</b>
<b>Cash flows from investing activities</b>					
Net (increase)/decrease in financial investments at FVTOCI		(720,848)	(69,364)	(1,974,523)	496,013
Real estate stock		154,371	(33,113)	154,371	(33,113)
Net (increase)/decrease in placements with banks & financial institutions		84,165	1,002,265	267,637	1,113,237
Net (increase)/decrease in investment of government securities at FVTPL		570,716	2,874	570,716	2,874
Net (increase)/decrease in other financial investments at FVTPL		14,314	55,943	14,314	55,943
Purchase of property & equipment	30.1	(38,612)	(57,171)	(65,804)	(60,952)
Purchase of intangible assets	31.2	(18,151)	(1,321)	(18,151)	(1,321)
Proceeds from sale of property & equipment		12,598	267	12,598	406
Dividends received		49,370	6,060	50,386	7,485
<b>Net cash generated from/(used in) investing activities</b>		<b>107,923</b>	<b>906,440</b>	<b>(988,456)</b>	<b>1,580,572</b>
<b>Cash flows from financing activities</b>					
Net increase/(decrease) reverse repo and repo agreements		(578,952)	(268,311)	(578,952)	(268,311)
Net increase/(decrease) in other borrowings at amortised cost		(1,371,850)	(1,835,150)	(1,440,883)	(1,852,877)
Proceeds from rights issue of shares	41	2,151,991	-	2,151,991	-
Transaction cost related to rights issue		(923)	-	(923)	-
<b>Net cash generated from/(used in) financing activities</b>		<b>200,266</b>	<b>(2,103,461)</b>	<b>131,233</b>	<b>(2,121,188)</b>
<b>Net increase/(decrease) in cash and cash equivalents during the year</b>		<b>81,641</b>	<b>(688,278)</b>	<b>(1,205,302)</b>	<b>4,859</b>
Cash and cash equivalents at the beginning of year		334,522	1,022,800	1,850,034	1,845,175
<b>Cash and cash equivalents at the end of year</b>		<b>416,163</b>	<b>334,522</b>	<b>644,732</b>	<b>1,850,034</b>
<b>Analysis of cash and cash equivalents at the end of the year</b>					
Cash and short-term funds	20	1,191,374	683,924	1,436,435	2,205,265
Dues to banks	33.1	(775,211)	(349,402)	(791,703)	(355,231)
		416,163	334,522	644,732	1,850,034

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 103 to 221 form an integral part of the Financial Statements.



# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

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

### 1.1 Reporting Entity

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

### Number of Employees

The staff strength of the Company and the Group as at 31 December 2021 were 982 and 1192 respectively. (976 and 1,160 as at 31 December 2020)

### 1.2 Consolidated Financial Statements

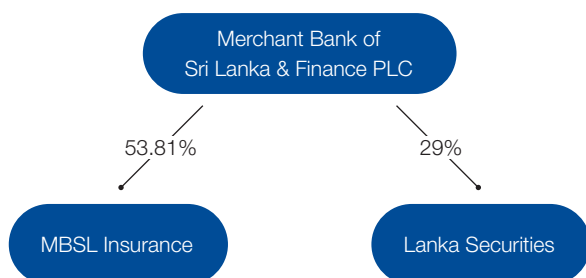
The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31 December 2021, comprise the Company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

### Parent Entity & Ultimate Parent Entity

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

### 1.3 Group Information

Ownership by the Company in its Subsidiary and Associate.



## Principal Activities and Nature of Operations

Entity	Principal business activities
<b>Company</b> Merchant Bank of Sri Lanka & Finance PLC	Leasing, hire purchase, corporate and retail credit, corporate advisory services, capital market operations, margin trading, micro financing, agricultural credit facilities, real estate, pawning operations and accepting of savings and fixed deposits.
<b>Subsidiary</b> MBSL Insurance Company Limited	Underwriting of all classes of life and general insurance.
<b>Associate</b> 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 2021 (including comparatives) were approved and authorized for issue on 28 March 2022 in accordance with the resolution of the Board of Directors on 28 March 2022.

## 2. BASIS OF PREPARATION

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

### 2.1 Basis of Preparation and Other Significant Accounting Policies

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

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

# Notes to the Financial Statements

## 2.2 Statement of Compliance

The consolidated Financial Statements of the Group and the Separate Financial Statements of the Company, as at 31 December 2021 and for the year ended, have been prepared and presented in accordance with Sri Lanka Financial Reporting Standards (SLFRS and LKAS), laid down by the Institute of Chartered Accountants of Sri Lanka and in compliance with the requirements of the Companies Act No. 07 of 2007, the Finance Business Act No.42 of 2011, Regulation of Insurance Industry Act No.43 of 2000 and the Listing Rules of the Colombo Stock Exchange.

These Financial Statements include the following components:

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

## 2.3 Responsibility for Financial Statements

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

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

## 2.4 Basis of Measurement

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

Item	Basis of measurement	Note no./s
Financial investments at fair value through profit or loss	Fair value	22
Loans & receivables at amortised cost / Financial Investments-at amortised cost	Amortised cost	23,25
Financial investments at fair value through other comprehensive income (Financial Investments-OCI)	Fair value	24
Retirement benefits obligations	Retirement benefits obligations are measured based on the present value of projected future benefit payments for all participants for services rendered to date.	40
Financial Liabilities at amortised cost	Amortised cost	34,35
Freehold land and buildings and buildings on leasehold lands are measured at	Cost less any subsequent accumulated depreciation and impairment losses.	29,30

## 2.5 Functional and Presentation Currency

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

## 2.6 Presentation of Financial Statements

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

## 2.7 Use of Materiality, Offsetting and Rounding

### Materiality & Aggregation

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

### Offsetting

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

### Rounding

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

## 2.8 Summary of Significant Accounting Judgments, Estimates and Assumptions

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

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

- \* Impairment losses on non-financial assets - Note No. 28,29,30,31
- \* Deferred tax liabilities - Note No. 38
- \* Provision for impairment of loans and advances - Note No. 23
- \* Retirement benefits obligation - Note No. 40
- \* Provision and contingent liabilities - Note No. 49.9

### 2.8.1 Going Concern

The Directors have made an assessment of the Group's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. With the COVID-19 pandemic continuing for the second consecutive year, it is likely that the uncertainties created by the pandemic will remain for a prolonged period of time. The Directors have considered the potential downsides that the COVID-19 pandemic could bring to the business operations of the Group, in making this assessment. Furthermore, the Board is not aware of any material uncertainties that may cast significant doubt upon the Group's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Group. Therefore,

the Financial Statements continue to be prepared on the going concern basis.

### 2.8.2 Events After the Reporting Period

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

## 2.9 Comparative information

Comparative information including quantitative, narrative and descriptive information is disclosed in respect of the previous period in the Financial Statements in order to enhance the understanding of the current period's Financial Statements and to enhance the inter period comparability. The presentation and classification of the Financial Statements of the previous year are amended, where relevant for better presentation and to be comparable with those of the current year.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### 3.1 Basis of Consolidation

The Consolidated Financial Statements for the year ended 31 December 2021 comprise the Financial Statements of the Company (Parent Company) and its subsidiary (together referred to as the 'Group') and the Company's interest in associate company as per the requirements of Sri Lanka Financial Reporting Standard - SLFRS 10 - 'Consolidated Financial Statements' and Sri Lanka Accounting Standard LKAS 27 - "Consolidated and Separate Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates as per the requirements of Sri Lanka Accounting Standard - LKAS 28 - 'Investment in Associates and Joint Ventures'. The Financial Statements of all companies in the Group have common financial year which ends on 31 December, and use consistent accounting policies.

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

### 3.2 Business Combination and Goodwill

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

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

# Notes to the Financial Statements

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

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

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

### 3.3 Common Control Business Combination

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

Accordingly,

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

#### 3.3.1 Loss of Control

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

#### 3.3.2 Transactions Eliminated on Consolidations

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

### 3.4 Foreign Currency

#### 3.4.1 Foreign Currency Transactions and Balances

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

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

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

### 3.5 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

#### 3.5.1 Date of Recognition

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

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

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

### 3.5.2 Effective Interest Method (EIR)

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

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

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

Details of “Financial investments at fair value through profit or loss (FVTPL)” are given in Note No. 22

### 3.5.4 Loans & Receivables at Amortised Cost

Details of “Loans & receivables at amortised cost” are given in Note No. 23

### 3.5.5 Financial Investments at Amortised Cost

Details of “Financial investments at amortised cost” are given in Note No. 25

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

Details of “Financial investments at fair value through other comprehensive income” are given in Note No. 24

### 3.5.7 Classification & Subsequent Measurement of Financial Liabilities

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

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

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

#### 3.5.7.1 Financial Liabilities Designated at Fair Value Through Profit or Loss

Financial liabilities classified in this category are those that have been designated by the management on initial recognition. Management may only designate an instrument at fair value

through profit or loss upon initial recognition and designation is determined on an instrument by instrument basis.

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

#### 3.5.7.2 Financial Liabilities at Amortised Cost

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

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

### 3.5.8 Initial Measurements of Financial Instruments

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

### 3.5.9 Business Model Assessment

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

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

The business model assessment is based on reasonably expected scenarios without taking ‘Worst Case’ or ‘Stress Case’ scenarios in to account. If cash flows after initial recognition are realized in away that is different from the Company’s and the Group’s original expectation, the Company and the Group do not change the

# Notes to the Financial Statements

classification of the remaining financial assets held in that business model, but incorporates such information when assessing newly originated or newly purchased financial assets.

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

## 3.5.10 Contractual Cash Flow Characteristic Test

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

Payment of Principle & Interest (SPPI)

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

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

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

## 3.5.11 Impairment of Financial Assets

### 3.5.11.1 Overview of Expected Credit Loss Principle (ECL)

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

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

The Company has established a policy to perform an assessment, at the end of each reporting period of whether a financial instrument's credit risk has increased significantly since initial

recognition. Based on such process Company groups loans in to stage 1, stage 2, stage 3 as described below :

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

Since March 2020, The Group is focused on supporting customers who are experiencing financial difficulties because of the COVID-19 pandemic and has offered a range of industry-wide financial assistance measures including the debt moratorium initiated by the Central Bank of Sri Lanka.

In response to the ongoing COVID-19 pandemic and the Group's expectations of economic impacts, key assumptions used in the Group's calculation of ECL have been revised.

The economic scenarios and forward-looking macroeconomic assumptions underpinning the collective provision calculation are outlined in Note 3.5.11.6, while the impact on changing the weightages of different macro- economic scenarios during the year are given in Note 49.2.1.

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

The Group continued to extend the moratorium for eligible borrowers as directed by the Central Bank of Sri Lanka during the year 2021.

The facilities for which the Company has granted moratorium concession for a prolonged period of time have been classified under stage 3 on prudent basis when calculating the impairment provisions.

#### **3.5.11.2 Significant Increase in Credit Risk**

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

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

#### **3.5.11.3 Individually Significant Assessment and Not Impaired Individually**

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

Objective evidence of incurred losses (under Stage 3). Loans which are individually significant but not impaired will be assessed collectively for

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

#### **3.5.11.4 Grouping Financial Assets Measured on a Collective Basis**

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

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

- \* Product Type
- \* Type of Collateral
- \* Days Past Due

# Notes to the Financial Statements

### 3.5.11.5 The Calculation of ECL

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

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

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

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

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

### 3.5.11.6 Forward Looking Information

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

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

The COVID-19 pandemic has significantly impacted the local and global economies. The economic environment remains uncertain and future impairment charges may be impacted depending on the longevity of the pandemic and related containment measures.

The inputs and models used for calculating ECLs may not always capture all characteristics of the market as at the date of the financial statements. To reflect this, qualitative adjustments or overlays are occasionally made as temporary adjustments when such differences are significantly material in 2021, the Group changed the values of the key macro-economic variables in the impairment calculation model including the GDP growth rate, unemployment rate, interest rate, exchange rate etc. These values have been determined based on the most recent forecasts available as at the date of the calculation. To ensure completeness and accuracy, the Group obtains the above data primarily from the Central Bank of Sri Lanka (CBSL).

### 3.5.11.7 Relief Measures to Assist COVID-19 Affected Businesses and Individuals by CBSL

Central Bank of Sri Lanka provided financial assistance to disrupted industry sectors and the affected businesses/individuals in the form of a debt moratorium through licensed banks/financial institutions, since the inception of the pandemic. The Group actively involved in providing assistance to affected customers under these moratorium schemes.

Accordingly, moratorium was extended for the customers who continued to experience cash flow difficulties during the year 2021. In accordance with the CBSL recommendations in granting relief to Covid 19-(4th wave) affected individual & business entities, including the Tourism sector, MBSL granted moratorium relief by way of extending a grace period to repay/deferring the repayment of the capital & interest falling due during the months commencing from 1st October 2021 to 31st March 2022. A term loan was granted for the such differed rental & the repayment of such differed rental should commence repayment wef July 2022.

As per the CBSL guidelines, MBSL allowed the applicants to repay such deferred instalments in according to their cash flows with a minimum period of 12 months. Further, the finance companies were eligible to charge an interest rate for the converted loan, not exceeding the latest auction rate for 364-days Treasury Bills, available as at 1 April 2021, plus 1 percent per annum not exceeding 11.5 percent per annum.

The finance companies were also allowed to recover interest at the original EIR during the moratorium period and therefore did not recognize any modification loss on account of the second phase of the COVID moratorium.

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



### 3.5.11.8 Write-off of Financial Assets at Amortised Cost

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

## 3.5.12 De-recognition of Financial Assets and Financial Liabilities

### 3.5.12.1 Financial Assets

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

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

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

When the Company and the Group have transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, and has neither transferred nor retained substantially all of the risks and rewards of the asset nor transferred control of the asset, the asset is recognised to the extent of the Company's and the Group's continuing involvement in the asset. In that case, the Company and the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Company and the Group have retained.

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying

amount of the asset and the maximum amount of consideration that the Company and the Group could be required to repay.

### 3.5.12.2 Financial Liabilities

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

### 3.5.12.3 Derecognition of Financial Assets and Liabilities

Modifications to the original terms and conditions of the loans due to Covid-19 moratorium, did not result in a derecognition of the original loans as the Group concluded that the modifications were not substantial. Accordingly, a modification loss has been recognized as the "Day 1 loss" as of the beginning of the moratorium period during the year ended 31st December 2020 under interest income in Note 5, representing the difference between the original carrying value of the loan (before modification) and the discounted present value of the revised cash flows (at the Original EIR) at the date of the loan modification

## 3.5.13 Offsetting of Financial Instruments

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

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

## 3.5.14 Determination of Fair Value

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

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

# Notes to the Financial Statements

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

## 3.6 Impairment of Non-Financial Assets

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

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

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

## 3.7 Provisions

A provision is recognised in the Statement of Financial Position when the Group has a legal or constructive obligation as a result of a past event and it is probable that an outflow of economic benefits will be required to settle the obligation and the amount of the provision can be measured reliably in accordance with the Sri Lanka Accounting Standard - LKAS 37 - 'Provisions, Contingent Liabilities and Contingent Assets'. The amount recognised is the best estimate of the consideration required to settle the present

obligation at the Statement of Financial Position Date, taking into account the risks and uncertainties surrounding the obligation at that date. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is determined based on the present value of those cash flows.

## 3.8 Revenue from Contracts with Customers

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

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

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

### 3.9.1 Deferred Expenses

#### 3.9.1.1 Deferred Acquisition Costs (DAC)

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

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

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

#### 3.9.1.2 Deferred Expenses - Reinsurance Commissions

Commissions receivable on outwards reinsurance contracts are deferred and amortised.

### 3.9.2 Reinsurance

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

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

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

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.

# Notes to the Financial Statements

### 3.9.3.3 Investment Contract Liabilities

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

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

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

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

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

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

### 3.9.4 Discretionary Participation Features (DPF)

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

### 3.10 Company as a lessee

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

### Company as a lessor

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

### 3.11 SLFRS-16 Leases

The Company assesses at contract inception whether a contract is, or contains, a lease. That is, if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

#### 3.11.1 Company as a lessee

The Company applies a single recognition and measurement approach for all leases, except for short-term leases and leases of low-value assets. The Company recognises lease liabilities to make lease payments and right-of-use assets representing the right to use the underlying assets.

### Right-of-use assets

The Company recognises right-of-use assets at the commencement date of the lease (i.e., the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities. The cost of right-of-use assets includes the amount of lease liabilities recognised, initial direct costs incurred, and lease payments made at or before the commencement date less any lease incentives received. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The right-of-use assets are presented within Note 30 - property, equipment and right-of-use assets and are subject to impairment in line with the Company's policy as described in Note 3.6, Impairment of non-financial assets.

### Lease liabilities

At the commencement date of the lease, the Company recognises lease liabilities measured at the present value of lease payments to be made over the lease term. The lease payments include fixed payments (less any lease incentives receivable), variable lease payments that depend on an index or a rate, and amounts expected to be paid under residual value guarantees. The lease payments also include the exercise price of a purchase option reasonably certain to be exercised by the Company and payments of penalties for terminating the lease, if the lease term reflects exercising the option to terminate. Variable lease payments that do not depend on an index or a rate are recognised as expenses in the period in which the event or condition that triggers the payment occurs.

### 3.11.2 Company as a lessor

Leases in which the Company does not transfer substantially all the risks and rewards incidental to ownership of an asset are classified as operating leases. Rental income arising is accounted for on a straight-line basis over the lease terms and is included in revenue in the statement of profit or loss due to its operating nature. Initial direct costs incurred in negotiating and arranging an operating lease are added to the carrying amount of the leased asset and recognised over the lease term on the same basis as rental income. Contingent rents are recognised as revenue in the period in which they are earned.

### 3.12 New Accounting Standards Issued During the Year/ Changes to Already Existing Accounting Standards

The amendments to Sri Lanka Accounting Standard - SLFRS 16 (Leases): COVID-19 Related Rent Concessions, did not have a material impact on the Consolidated/Separate Financial Statements of the Company/Group.

Apart from the above there were no new accounting standards/ amendments to existing accounting standards that became effective during the year. The Group has applied all relevant accounting standards which have been issued up to 31 December 2021 in the preparation of the Financial Statements for the year ended 31 December 2021.

## Notes to the Financial Statements

Accounting Standards/CBSL Directives issued but not yet effective as at 31 December 2021.

### 3.12.1 Accounting Standards Issued by the Institute of Chartered Accountants of Sri Lanka

The following new Sri Lanka Accounting Standards/amendments which have been issued by the Institute of Chartered Accountants of Sri Lanka is effective for annual periods beginning on or after 1 January 2022 & 2023.

Accounting Standard	Description	Effective Date	Assessment of the Impact on the Group/Company
Sri Lanka Accounting Standard - SLFRS 17	SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace SLFRS 4 (Insurance Contracts).	1 January 2023	"No material impact on the Financial Statements of the Bank/ Group
SLFRS 3 – Business Combinations	The amendment intends to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.	1 January 2022	
LKAS 37 - Provisions, Contingent Liabilities and Contingent Assets	Amendment specifies the costs that an entity needs to include when assessing whether a contract is onerous or loss-making.	1 January 2022	
LKAS 16 - Property, Plant and Equipment	Amendment prohibits entities from deducting any proceeds from selling items produced, while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management, from the cost of an item of property, plant and equipment.	1 January 2022	

### 3.12.2 Banking Act Directions Issued by the Central Bank of Sri Lanka

The Central Bank of Sri Lanka issued the Finance Business Act Direction No. 1 of 2022 Technology risk management and resilience with intend to set minimum regulatory requirements on technology risk management and resilience of LFCs. This Directive is effective from 1st January 2022.

The Financial Statements of the Company do not have a material impact with the implementation of the above Directives with effect from 1st January 2022.

The Central Bank of Sri Lanka issued the Finance Business Act, No. 01 of 2020, the Classification and measurement of credit facilities in LFCs with the intention of harmonizing regulatory reporting framework with the Sri Lanka Accounting Standard - SLFRS 9 (Financial Instruments) issued by the Council of Chartered Accountants of Sri Lanka and prudential requirements of the Central Bank of Sri Lanka. These Directives are effective from 1st April 2022.

The Financial Statements of the Company do not have a material impact with the implementation of the above Directive.

## 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	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Interest and similar income	5,525,955	4,950,638	5,601,459	5,056,499
Fee and commission income	185,602	116,893	196,731	109,569
Insurance premium income	-	-	288,998	178,408
Net trading gain/(loss)	44,281	10,312	44,281	10,312
Net gain/(loss) on financial instruments at fair value through profit or loss	(23,435)	63,629	(20,085)	64,105
Other operating income	238,662	46,541	208,470	53,276
	5,971,065	5,188,013	6,319,853	5,472,169

### 5. NET INTEREST INCOME

#### Accounting Policy

Interest income and expense are recognised in the Statement of Profit or Loss using the effective interest rate (EIR) method.

The EIR is the Rate that exactly discounts estimated future cash receipts through the expected life of the financial instrument or when appropriate, shorter period to the net carrying amount of the financial asset.

As per SLFRS 9, the interest income and expense presented in the Statement of Profit or Loss include:

- \* Interest on financial assets measured at amortised cost calculated using EIR method;
- \* Interest on financial assets measured at fair value through other comprehensive income (FVTOCI) calculated using EIR method;
- \* Interest on financial assets measured at fair value through profit or loss (FVTPL) calculated using EIR method;
- \* Interest on financial liabilities measured at amortised cost calculated using EIR method.

When calculating the EIR for financial instruments other than credit-impaired assets, the Company estimates future cash flows considering all contractual terms of the financial instrument, but not expected credit losses (ECLs).

When a financial asset becomes credit-impaired (as set out in Note 12.1) and is, therefore, regarded as 'stage 3', the Company calculates interest income by applying the effective interest rate to the net amortised cost of the financial asset. If the financial assets cures are no longer credit-impaired, the Company reverts to calculating interest income on a gross basis.

Once the recorded value of a financial assets or a group of similar financial assets has been reduced due to an impairment loss, interest income continues to be recognised using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss.

# Notes to the Financial Statements

## 5. NET INTEREST INCOME (CONTD.)

### Overdue Interest

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

For the year ended 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>Interest and similar income</b>					
Loans & receivables at amortised cost	5.1	5,332,071	4,631,125	5,289,568	4,581,842
Financial investments at FVTOCI & amortised cost		175,028	271,309	197,627	294,200
Placements with banks & financial institutions		18,856	48,204	114,264	180,457
		<b>5,525,955</b>	<b>4,950,638</b>	<b>5,601,459</b>	<b>5,056,499</b>
<b>Interest and similar expenses</b>					
Due to banks		261,584	571,702	261,584	571,692
Due to customers at amortised cost	5.2	1,985,225	2,513,606	1,978,967	2,509,937
Interest expense on lease liabilities	39.1	51,553	64,081	51,553	64,081
Debt issued and borrowed funds at amortised cost		377,226	383,401	390,418	386,434
		<b>2,675,588</b>	<b>3,532,790</b>	<b>2,682,522</b>	<b>3,532,144</b>
<b>Net Interest Income</b>		<b>2,850,367</b>	<b>1,417,848</b>	<b>2,918,937</b>	<b>1,524,355</b>

### 5.1 Interest and similar income - Loans & receivables product wise

For the year ended 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Finance lease/ijarah	2,764,126	2,242,025	2,764,126	2,242,025
Hire purchase/murabaha	5,876	4,489	5,876	4,489
Term loans	806,200	841,911	763,696	792,628
Short term loans	251,003	204,680	251,003	204,680
Personal loans	330,835	458,768	330,835	458,768
Pawning	926,165	749,239	926,165	749,239
Micro finance	12,111	18,642	12,111	18,642
Loans against fixed deposits	48,082	63,035	48,082	63,035
Margin trading	187,674	48,336	187,674	48,336
	<b>5,332,071</b>	<b>4,631,125</b>	<b>5,289,568</b>	<b>4,581,842</b>



## 5.2 Interest and similar expenses - Due to customers product wise

For the year ended 31 December	Company		Group	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Savings deposits	28,419	34,825	28,419	34,825
Term deposits	1,956,806	2,478,781	1,950,548	2,475,112
	1,985,225	2,513,606	1,978,967	2,509,937

## 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	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Fee and commission income</b>				
Trade & other related activities	185,602	116,893	168,374	100,923
Reinsurance commission income	-	-	15,258	263
Others	-	-	13,099	8,383
	185,602	116,893	196,731	109,569
<b>Fee and commission expenses</b>				
Commission expenses	38,587	22,071	21,359	6,102
	38,587	22,071	21,359	6,102
<b>Net Fee and Commission Income</b>	<b>147,015</b>	<b>94,822</b>	<b>175,372</b>	<b>103,467</b>

# Notes to the Financial Statements

## 7. INSURANCE PREMIUM INCOME

### Accounting Policy

#### Gross Premiums

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

Gross general insurance written premiums comprise the total premiums receivable for the whole period of cover provided by contracts entered into during the accounting period and are recognized on the date on which the Policy commences.

Unearned premium reserve represents the portion of the premium written in the year but relating to the unexpired term of coverage. Unearned premiums are calculated on the 1/24th basis.

#### Reinsurance Premiums

Gross reinsurance premiums on life and investment contracts are recognized as an expense when the date on which the policy is effective.

Gross general reinsurance premiums written comprise the total premiums payable for the whole cover provided by contracts entered into the period and are recognized on the date on which the policy incepts. Premiums include any adjustments arising in the accounting period in respect of reinsurance contracts incepting in prior Accounting periods.

Unearned reinsurance premiums are those proportions of premiums written in a year that relate to periods of risk after the balance sheet date. Unearned reinsurance premiums are deferred over the term of the underlying direct insurance policies for risks-attaching contracts and over the term of the reinsurance contract for losses occurring contracts.

For the year ended 31 December	Group	
	2021 Rs.'000	2020 Rs.'000
Non-life insurance	416,770	290,688
Life insurance	40,370	40,996
<b>Total gross written premium</b>	<b>457,140</b>	<b>331,684</b>
Premium ceded to reinsurers	(136,414)	(85,436)
<b>Net premium income</b>	<b>320,726</b>	<b>246,248</b>
Change in unearned premium provisions-net	(31,728)	(67,840)
<b>Total net earned premium</b>	<b>288,998</b>	<b>178,408</b>

## 8. NET CLAIMS AND BENEFITS

### Accounting Policy

#### Gross benefits and claims

Gross benefits and claims for life insurance contracts and for investment contracts with DPF include the cost of all claims arising during the year including internal and external claims handling costs that are directly related to the processing and settlement of claims and policyholder bonuses declared on DPF contracts, as well as changes in the gross valuation of insurance and investment contract liabilities with DPF. Death claims and surrenders are recorded on the basis of notifications received. Maturities and annuity payments are recorded when due. Interim payments and surrenders are accounted at the time of settlement.

General insurance include all claims occurring during the year, whether reported or not, related internal and external claims handling costs that are directly related to the processing and settlement of claims, a reduction for the value of salvage and other recoveries, and any adjustments to claims outstanding from previous years.

Claims expenses and liabilities for outstanding claims are recognized in respect of direct and inward reinsurance business. The liability covers claims reported but not yet paid, Incurred But Not Reported claims (IBNR) and the anticipated direct and indirect costs of settling those claims. Claims outstanding are assessed by review of individual claim files and estimating changes in the ultimate cost of settling claims. The provision in respect of IBNR is actuarially valued on an annual basis to ensure a more realistic estimation of the future liability based on past experience and trends.

While the directors consider that the provision for claims is fairly stated on the basis of information currently available, the ultimate liability will vary as a result of subsequent information and events. This may result in adjustment to the amounts provided. Such amounts are reflected in the financial statements for that period. The methods used and the estimates made are reviewed regularly.

For the year ended 31 December	Group	
	2021 Rs.'000	2020 Rs.'000
<b>General Insurance</b>		
Claims paid	192,830	90,446
Claims outstanding	(8,974)	37,780
	<b>183,856</b>	<b>128,226</b>
Reinsurance on claims paid	41,755	8,323
Reinsurance on claims outstanding	(12,265)	751
Reinsurance recoveries	29,490	9,074
<b>General insurance net claim and benefits</b>	<b>154,366</b>	<b>119,152</b>
<b>Life Insurance</b>		
Claims paid	51,914	21,886
Change in life Insurance contract liabilities	(84,933)	(15,975)
	<b>(33,019)</b>	<b>5,911</b>
Claims outstanding	-	2,571
Gross claims - death, disability and hospitalisation	(33,019)	8,482
Reinsurance on claims paid	3,533	3,140
Reinsurance on claims outstanding	(84)	(653)
Reinsurance recoveries	3,449	2,487
Shareholder's profit	-	36,696
<b>Long term insurance net claim and benefits</b>	<b>(36,468)</b>	<b>(30,701)</b>
Underwriting and net acquisition costs	20,084	13,134
<b>Net claims and benefits</b>	<b>137,982</b>	<b>101,585</b>

# Notes to the Financial Statements

## 9. NET TRADING INCOME

### Accounting Policy

Results arising from trading activities include gain/(loss) on disposal of financial assets at FVTPL.

For the year ended 31 December	Company		Group	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Gain/(loss) on disposal of quoted shares	44,281	10,312	44,281	10,312
Net trading income	44,281	10,312	44,281	10,312

## 10. NET GAIN/(LOSS) ON FINANCIAL INSTRUMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

### Accounting Policy

Fair value gains and losses attributable to changes in the fair values of the equity and debt securities classified under financial assets at FVTPL is recognised in the Statement of Profit or Loss, when there is a change to the fair value of the asset.

For the year ended 31 December	Note	Company		Group	
		2021	2020	2021	2020
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Government securities	22	(71,242)	57,014	(71,242)	57,014
Quoted securities		47,807	6,615	51,157	7,091
		(23,435)	63,629	(20,085)	64,105

## 11. OTHER OPERATION INCOME

### Accounting Policy

Other operating income includes gains on disposal of property & equipment, dividend income, profit & losses from real estates, profit & losses from investment properties and write-off collection.

### Dividend Income

Dividend income shall be recognised when the Group's right to receive payment is established.

For the year ended 31 December	Note	Company		Group	
		2021	2020	2021	2020
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Profit on sale of real estate		48,818	18,664	48,818	18,664
Recovery of bad debts written off		47,476	11,371	47,476	11,371
Dividend income from financial assets at FVTPL		5,874	6,060	6,890	7,485
Dividend income from other investment		960	1,280	960	1,280
Dividend income from associates		43,496	-	-	-
Profit/(loss) on sale of Property, equipment and right-of-use assets including foreclosed properties		36,724	173	36,724	173
Other income	11.1	55,314	8,993	67,602	14,303
		238,662	46,541	208,470	53,276

11.1 Other income consists of write-back of assets worth Rs. 42.2 Mn and share issue management income fee of Rs. 4.3 Mn.

## 12. IMPAIRMENT CHARGES FOR LOANS AND OTHER ASSETS

### Accounting Policy

The Company and the Group recognised the changes in the impairment provisions for loans and receivables which are assessed as per Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments'. The methodology adopted by the Company and the Group is explained in Note 3.5 to the Financial Statements.

For the year ended 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>Loans and advances to customers</b>					
Impairment on individually significant loans	23.	(115,100)	322,200	(115,100)	322,200
Impairment on collective loans	23.	172,654	241,348	172,654	241,348
<b>Total impairment charges for loans and advances to customers</b>		<b>57,555</b>	<b>563,548</b>	<b>57,555</b>	<b>563,548</b>
Cash and cash equivalents	20.1.1	113	(113)	113	(113)
Placements with banks & financial institutions	21.1	(329)	(4)	(329)	(4)
Other assets		17,111	-	17,111	-
		<b>74,450</b>	<b>563,431</b>	<b>74,450</b>	<b>563,431</b>

### 12.1 Analysis of Impairment Charges

The below table shows the ECL charges on financial instruments for the year recorded in the Statement of Profit or Loss.

For the year ended 31 December	Company 2021		Group 2021	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
<b>Loans &amp; receivables at amortised cost</b>				
Stage 1	-	(15,366)	-	(15,366)
Stage 2	-	(52,430)	-	(52,430)
Stage 3	(115,100)	240,450	(115,100)	240,450
<b>Cash and cash equivalents</b>				
Stage 1	-	113	-	113
<b>Placements with banks &amp; financial institutions</b>				
Stage 1	-	(329)	-	(329)
<b>Other assets</b>				
Stage 3	17,111	-	17,111	-
<b>Total impairment charges/(reversal)</b>	<b>(97,988)</b>	<b>172,438</b>	<b>(97,988)</b>	<b>172,438</b>

# Notes to the Financial Statements

## 12. IMPAIRMENT CHARGES FOR LOANS AND OTHER ASSETS (CONTD.)

For the year ended 31 December	Company		Group	
	2020		2020	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
<b>Loans &amp; receivables at amortised cost</b>				
Stage 1	-	(68,253)	-	(68,253)
Stage 2	-	1,908	-	1,908
Stage 3	322,200	307,693	322,200	307,693
<b>Cash and cash equivalents</b>				
Stage 1	-	(113)	-	(113)
<b>Placements with banks &amp; financial institutions</b>				
Stage 1	-	(4)	-	(4)
<b>Total impairment charges</b>	<b>322,200</b>	<b>241,231</b>	<b>322,200</b>	<b>241,231</b>

## 13. PERSONNEL EXPENSES

### Accounting Policy

Personnel expenses include salaries, bonus, terminal benefit charges and other related expenses. The provision for bonus is recognised when it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made on the amount of obligation.

### Defined Contribution Plan – Employees' Provident Fund and Employees' Trust Fund (EPF & ETF)

Employees are eligible for Employees' Provident Fund contributions and Employees' Trust Fund contributions in line with respective statutes and regulations. The Group and employees contributes 12% and 8% of gross emoluments of employees to Employees' Provident Fund. The Group contributes 3% of gross emoluments of employees to the Employees' Trust Fund.

### Defined Benefit Plan – Gratuity

Retirement benefit obligation is recognised in the Statement of Profit or Loss based on an actuarial valuation carried out for the gratuity liability in accordance with Sri Lanka Accounting Standard - LKAS 19 - 'Employee Benefit' as explained in Note 40

For the year ended 31 December	Note	Company		Group	
		2021	2020	2021	2020
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Staff emoluments		1,034,360	925,527	1,174,136	1,051,240
Employees' Provident Fund		93,985	87,970	108,555	100,625
Employees' Trust Fund		23,497	21,993	27,140	25,157
Retirement benefit expenses	40.1	48,608	56,495	51,162	59,560
		<b>1,200,450</b>	<b>1,091,985</b>	<b>1,360,993</b>	<b>1,236,582</b>

## 14. DEPRECIATION AND AMORTISATION

### Accounting Policy

#### Depreciation

Depreciation is recognized 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 derecognized. Depreciation does not cease when the assets become idle or is retired from active unless the asset is fully depreciated.

Depreciation of right-of-use assets are presented together with property and equipment in the Statement of Profit or Loss, refer to the accounting policy in Note 3.11.1. Right-of-use assets are depreciated on a straight-line basis over the lease term.

The estimated useful lives for the current and comparative years are as follows:

Class of asset	Percentage per annum (%)	Period
Motor vehicles	12.5-20	5-8 Years
Computers & accessories	12.5-20	5-8 Years
Building	5	20 Years
Other assets	7.5-50	2-13 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	12.5-20	5-8 Years

All classes of property, equipment and intangible assets together with the reconciliation of carrying amounts and accumulated depreciation at the beginning and the end of the year are given in Note 30 and 31

For the year ended 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Depreciation of investment property	29	2,906	2,906	2,906	2,906
Depreciation of property, equipment and right-of-use assets	30	205,696	253,284	230,593	262,616
Amortisation of intangible assets	31	36,513	35,083	38,933	39,870
		245,115	291,273	272,432	305,392

# Notes to the Financial Statements

## 15. OTHER OPERATING EXPENSES

### Accounting Policy

Other operating expenses are recognised in the Statement of Profit or Loss on the basis of a direct association between the cost incurred and the earning of specific items of income. All expenditure incurred in the running of the business and in maintaining the property & equipment in a state of efficiency has been charged to the Statement of Profit or Loss in arriving at that profit for the year.

### Directors' Emoluments

Directors' emoluments include fees paid to non-executive directors

### Crop Insurance Levy

The Crop Insurance Levy (CIL) was introduced with effect from 1 April 2013, as per the provisions of the Section 14 of the Finance Act No. 12 of 2013 and is payable to the National Insurance Trust Fund. Currently, the CIL is payable at 1% of the profit after tax.

### Insurance premium for deposits

In compliance with the Finance Companies (Insurance of deposit liabilities) Direction No. 02 of 2010 all the eligible deposit liabilities have been insured with the Sri Lanka Deposit Insurance and Liquidity Support Scheme, as a safety net measure that will safeguard customer rights and condense, accordingly the Company paid a premium of 0.15% of the eligible deposits as deposit insurance premium, during the year ended 31 December 2021.

For the year ended 31 December	Company		Group	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Directors' emoluments	4,342	1,820	6,048	1,820
<b>Auditors' remuneration</b>				
Audit fees	1,744	2,127	2,929	5,077
Non audit fees	599	575	846	802
Professional & legal fees	29,088	34,603	30,117	36,186
Insurance premium for deposits paid to the central bank	30,764	30,999	30,764	30,999
Crop insurance levy	2,482	436	2,482	436
Advertising and business promotional expenses	96,212	71,112	96,212	71,112
Office administration & establishment expenses	448,629	430,210	580,241	528,345
	<b>613,860</b>	<b>571,882</b>	<b>749,639</b>	<b>674,777</b>

## 16. TAXES

### 16.1 Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The value base for the computation of value added tax on financial services is calculated by adjusting the economic depreciation computed on rates prescribed by the Department of Inland Revenue to the accounting profit before VAT on financial services and emoluments payable. Emoluments payable include cash benefits, non-cash benefits including terminal benefits.

VAT rate applied for the current financial year is 15% (2020 - 15%).

For the year ended 31 December	Company		Group	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Value Added Tax on financial services	294,268	-	294,268	-
	<b>294,268</b>	<b>-</b>	<b>294,268</b>	<b>-</b>



## 16.2 Income Tax Expense

### Accounting Policy

#### Current Tax

Current tax assets and liabilities for the current and prior years are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the Statement of Financial Position date.

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and amendments thereto Act No.10 of 2021 effect from 13th May, 2021. This Note also includes the effective tax rates and a reconciliation between the profit before tax and tax expense, as required by the Sri Lanka Accounting Standard - LKAS 12 - 'Income Taxes'.

#### Deferred Tax

Detailed disclosure of accounting policies and estimate of deferred tax are available in the Note 38 to the financial statements.

The Company and the Group is liable for income tax on profit from operations and deferred tax on taxable temporary differences is calculated at the rate of 24%.

For the year ended 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>Current tax expense</b>					
Current tax based on profit for the year		137,227	-	137,227	-
Other (reversal)/charge including settlements		31,846	15,757	31,846	15,757
Share of associate company's current tax		-	-	30,333	454
<b>Total current tax expense</b>		<b>169,073</b>	<b>15,757</b>	<b>199,406</b>	<b>16,211</b>
<b>Deferred tax expense/(reversal)</b>					
Due to rate reduction		8,321	-	15,246	-
Due to change in temporary differences		106,290	(250,357)	143,747	(34,761)
<b>Total deferred tax expense/(reversal )</b>		<b>114,611</b>	<b>(250,357)</b>	<b>158,993</b>	<b>(34,761)</b>
<b>Total income tax expense/(reversal)</b>		<b>283,684</b>	<b>(234,600)</b>	<b>358,399</b>	<b>(18,550)</b>
Effective tax rate		34.91%	17.47%	42.89%	2.00%

# Notes to the Financial Statements

## 16. TAXES (CONTD.)

### 16.3 Reconciliation of the Accounting Profit to Current Tax Expense

For the year ended 31 December	Company				Group			
	Rate %	2021 Rs.'000	Rate %	2020 Rs.'000	Rate %	2021 Rs.'000	Rate %	2020 Rs.'000
Profit as per the Statement of Profit or Loss		812,728		(1,342,905)		835,700		(927,632)
Tax effect on accounting profit before tax	24.0	195,055	(46.3)	(376,013)	24.0	172,822	(46.3)	(403,766)
<b>Tax effect on</b>								
Disallowable expenses	22.3	180,952	(20.0)	268,416	22.3	197,009	(20.0)	275,248
Lease capital recoverable	37.5	304,866	(89.1)	1,196,240	37.5	304,866	(89.1)	1,196,240
Tax deductible expenses	(43.1)	(350,549)	63.1	(846,903)	(43.1)	(358,034)	63.1	(849,935)
Exempt income	(3.7)	(29,916)	32.2	(432,117)	(3.7)	(46,738)	32.2	(455,757)
Income from other sources								
Elimination of profit liable for turnover based tax								
Tax losses/(set-off)	(20.1)	(163,180)	(14.2)	190,377	(20.1)	(203,975)	(14.2)	237,971
Current tax based on profit for the year	16.9	137,227	-	-	16.9	137,227	-	-
Over provision in respect of previous years								
Due to rate reduction								
Other (reversal)/charge including settlements	3.9	31,846	(1.2)	15,757	3.9	62,178	(1.2)	16,212
<b>Deferred tax expense/(reversal)</b>								
Due to rate reduction	1.0	8,321	-	-	1.0	15,246	-	-
Due to change in temporary differences	13.1	106,290	18.6	(250,357)	13.1	143,747	18.6	(34,762)
<b>Total income tax expense/(reversal)</b>	<b>34.9</b>	<b>283,684</b>	<b>17.5</b>	<b>(234,600)</b>	<b>(26.7)</b>	<b>358,399</b>	<b>1.4</b>	<b>(18,550)</b>

During that period, income generated from other sources was taxed at the normal corporate tax rate. However, with effect from 1st January 2021, the company became liable for income tax at normal tax rate (24%) on its taxable profit.

### 16.4 Change of the Income Tax Rate from 28% to 24% and Other Amendments

The Group applied the revised rate of 24% and other amendments in line with the Inland Revenue Amendment Act No. 10 of 2021 to calculate the income tax and deferred tax assets/liabilities as at 31 December 2021. Although these amendments were effective from 1 January 2020, both income tax and deferred tax assets/liabilities for the comparative period have been calculated at the rate of 28% and other amendments were not considered on the basis that they were not legally enacted in 2020.

### 16.5 Surcharge Tax

The Government of Sri Lanka in its Budget proposals 2022 has proposed a one-time tax, to be called as 'Surcharge Tax' at the rate of 25% to be imposed on companies earned a taxable income in excess of Rs 2,000 Mn for the Year of Assessment 2020/2021. If the aggregate taxable income of a group of companies exceeds Rs 2,000 Mn, each company of the group of companies will be liable for surcharge tax. The proposed tax shall be deemed to be an expenditure in the Financial Statements of 2020. The Bill introducing the proposed tax was published on 7 February 2022. Accordingly, the proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal.

## 16.6 Analysis of Tax Losses of the Subsidiary-MBSLI

As per the Inland Revenue Act No. 24 of 2017 and amendments thereto Act No.10 of 2021 effect from 13 May, 2021, MBSLI incurred a taxable loss. The act allows to deduct 100% of taxable income against the tax losses incurred whereas in the previous Inland Revenue Act No. 10 of 2006, it was limited to 35% of the Total Statutory Income. As at 31 December 2021, MBSLI had a cumulative tax loss of Rs. 1,849.37 Mn (2020 - Rs. 1,822.70 Mn) was incurred as per Section 92 Inland Revenue Act No. 10 of 2006. According to the transitional provisions of new act, brought forward tax losses can be claimed against taxable income for a period of 6 years with effect from 1 April 2018. MBSLI made an assessment of future taxable profits and identified that total tax losses can be claimed within the period specified in the transitional provisions. During the year MBSLI utilized a tax loss of Rs. 100.33 Mn against the taxable income generated for the year ended 31 December 2021. (2020 - Rs. 119.61 Mn). This was resulted Deferred tax asset amounting to Rs. 24.08 Mn has been charged to the Income Statement for the year ended 31 December 2021. Further, from the Deferred tax asset amounting to Rs.22.75 Mn has been written off to the Income Statement based on the future recoverability of the asset.

### 16.6.1 The break up of tax losses is as follows;

For the year ended 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01 January	679,919	-	1,822,704	1,772,501
Tax loss during the year	-	679,919	127,006	169,813
Tax loss utilized during the year	(679,919)	-	(100,334)	(119,610)
Balances as at 31 December	-	679,919	1,849,376	1,822,704

## 16.7 Taxes paid to the Government during the year

For the year ended 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>Direct Taxes</b>				
Value added tax on financial services	231,823	23,166	231,823	23,166
Crop insurance levy	1,026	1,950	1,026	1,950
Economic service charge	-	15,778	-	15,778
Debt repayment levy	-	3,620	-	3,620
<b>Total direct taxes</b>	<b>232,849</b>	<b>44,514</b>	<b>232,849</b>	<b>44,514</b>
<b>Indirect Taxes</b>				
Value added tax	-	494	-	514
Stamp duty	30,982	21,240	30,982	21,240
Withholding tax on interest	-	9,096	-	9,096
PAYE/APIIT tax	1,107	283	1,107	283
Any other category	2,627	4,655	2,627	4,655
<b>Total indirect taxes</b>	<b>34,716</b>	<b>35,768</b>	<b>34,716</b>	<b>35,788</b>

# Notes to the Financial Statements

## 17. EARNINGS/(DEFICIT) PER SHARE AND DIVIDEND PER SHARE

### Basic/Diluted Earnings Per Share

#### Accounting Policy

As per the Sri Lanka Accounting Standard - LKAS 33 - 'Earnings per Share', is calculated by dividing the profit or loss attributable to ordinary shareholders of the Group by the weighted average number of ordinary shares outstanding during the year.

Diluted EPS is determined by adjusting the profit or loss attributable to ordinary shareholders and the weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares. The Group does not have any potentially dilutive shares.

For the year ended 31 December	Company		Group	
	2021	2020	2021	2020
Profit attributable to ordinary shareholders (Rs.'000)	529,044	(1,108,305)	525,073	(780,666)
Weighted-average number of ordinary shares used as denominator ('000)	259,226	165,875	259,226	165,875
Basic earnings per ordinary share (Rs.)	2.04	(6.68)	2.03	(4.71)

### 17.1 Weighted average number of shares

For the year ended 31 December	Company		Group	
	2021	2020	2021	2020
Brought forward number of shares (Rs.'000)	165,875	165,875	165,875	165,875
Effect of rights issue (Rs.'000)	93,351	-	93,351	-
Weighted-average number of shares	259,226	165,875	259,226	165,875

### 17.2 Dividend per share

No dividend has been declared and paid by the Company and the Group during the year 2021 and 2020.

## 18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS

### Accounting Policy

Financial instruments are measured on an ongoing basis either at fair value or at amortised cost. The summary of significant accounting policies describes how each category of financial instruments is measured and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial instruments by category as defined in Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments' under heading of the Statement of Financial Position.

### 18.1 Company - 2021

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
<b>Assets</b>				
Cash and cash equivalents	-	-	1,191,374	1,191,374
Placements with banks & financial institutions	-	-	246,166	246,166
Financial investments at fair value through profit or loss	341,547	-	-	341,547
Loans & receivables at amortised cost	-	-	28,184,638	28,184,638
Financial investments at fair value through other comprehensive income	-	1,989,169	-	1,989,169
Other assets	-	-	92,332	92,332
<b>Total financial assets</b>	<b>341,547</b>	<b>1,989,169</b>	<b>29,714,510</b>	<b>32,045,226</b>

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
<b>Liabilities</b>		
Due to banks	4,116,812	4,116,812
Due to customers at amortised cost	22,267,862	22,267,862
Debt issued and borrowed funds at amortised cost	2,381,579	2,381,579
Other liabilities	180,225	180,225
<b>Total financial liabilities</b>	<b>28,946,478</b>	<b>28,946,478</b>

# Notes to the Financial Statements

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

### 18.2 Company - 2020

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
<b>Assets</b>				
Cash and cash equivalents	-	-	683,924	683,924
Placements with banks & financial institutions	-	-	357,928	357,928
Financial investments at fair value through profit or loss	950,012	-	-	950,012
Loans & receivables at amortised cost	-	-	26,785,517	26,785,517
Financial investments at fair value through other comprehensive income	-	1,292,616	-	1,292,616
Financial investments at amortised cost	-	-	1,519	1,519
Other assets	-	-	58,446	58,446
<b>Total financial assets</b>	<b>950,012</b>	<b>1,292,616</b>	<b>27,887,334</b>	<b>30,129,962</b>

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
<b>Liabilities</b>		
Due to banks	5,436,682	5,436,682
Due to customers at amortised cost	21,725,261	21,725,261
Debt issued and borrowed funds at amortised cost	2,568,828	2,568,828
Other liabilities	219,204	219,204
<b>Total financial liabilities</b>	<b>29,949,975</b>	<b>29,949,975</b>

### 18.3 Group - 2021

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
<b>Assets</b>				
Cash and cash equivalents	-	-	1,436,435	1,436,435
Placements with banks & financial institutions	-	-	535,292	535,292
Financial investments at fair value through profit or loss	355,214	-	-	355,214
Loans & receivables at amortised cost	-	-	28,016,693	28,016,693
Financial investments at fair value through other comprehensive income	-	3,415,338	-	3,415,338
Other assets	-	-	92,332	92,332
<b>Total financial assets</b>	<b>355,214</b>	<b>3,415,338</b>	<b>30,080,752</b>	<b>33,851,304</b>

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
<b>Liabilities</b>		
Due to banks	4,133,305	4,133,305
Due to customers at amortised cost	22,201,604	22,201,604
Debt issued and borrowed funds at amortised cost	2,381,579	2,381,579
Other liabilities	180,225	180,225
<b>Total financial liabilities</b>	<b>28,896,712</b>	<b>28,896,712</b>

# Notes to the Financial Statements

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

### 18.4 Group - 2020

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
<b>Assets</b>				
Cash and cash equivalents	-	-	2,205,265	2,205,265
Placements with banks & financial institutions	-	-	836,780	836,780
Financial investments at fair value through profit or loss	960,328	-	-	960,328
Loans & receivables at amortised cost	-	-	26,548,397	26,548,397
Financial investments at fair value through other comprehensive income	-	1,465,111	-	1,465,111
Financial investments at amortised cost	-	-	1,519	1,519
Other assets	-	-	58,446	58,446
<b>Total financial assets</b>	<b>960,328</b>	<b>1,465,111</b>	<b>29,650,407</b>	<b>32,075,846</b>

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
<b>Liabilities</b>		
Due to banks	5,442,511	5,442,511
Due to customers at amortised cost	21,665,256	21,665,256
Debt issued and borrowed funds at amortised cost	2,568,828	2,568,828
Other liabilities	219,204	219,204
<b>Total Financial liabilities</b>	<b>29,895,799</b>	<b>29,895,799</b>

## 19. FAIR VALUE OF FINANCIAL INSTRUMENTS

### Determination of Fair Value and Fair Value Hierarchy

#### Accounting Policy

#### Financial Instruments at Fair Value Through Profit or Loss

Financial instruments at FVTPL valued using valuation techniques or pricing models primarily consist of quoted investments. These quoted investments are valued using quoted market price in an active market of each securities.

#### Financial Assets and Liabilities Carried at Amortised Cost

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated based on the discounted cash flow approach. This approach employs the current market interest rates of similar financial instruments as a significant unobservable input in measuring the fair value and hence it is categorised under level 3 in the fair value hierarchy.

#### Valuation Model

For all financial instruments where fair values are determined by referring to externally quoted prices or observable pricing inputs to models, independent price determination or validation is obtained. In an active market, direct observation of a traded price may not be possible. In these circumstances, the Company/Group uses alternative market information to validate the financial instrument's fair value, with greater weight given to information that is considered to be more relevant and reliable.

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



### 19.1 Determination of fair value and fair value hierarchy

The Company and the Group use the following hierarchy for determining and disclosing the fair value of financial instruments by valuation techniques:

**Level 1** : Quoted (unadjusted) prices in active markets for identical assets or liabilities;

**Level 2** : Other techniques for which all inputs which have a significant effect on the recorded fair value are observable, either directly or indirectly;

**Level 3** : Techniques which use inputs which have a significant effect on the recorded fair value that are not based on observable market data.

The following table shows an analysis of financial instruments recorded at fair value by level of the fair value hierarchy:

#### 19.1.1 Company

As at 31 December		2021				2020			
		Note	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3
<b>Financial assets</b>									
<b>Financial investments at FVTPL</b>									
Government securities	22.1	103,722	-	-	103,722	745,679	-	-	745,679
	22.2,								
Investment securities - Quoted	22.5	237,825	-	-	237,825	202,583	-	-	202,583
	22.3,								
Other debt securities - Quoted	22.6	-	-	-	-	1,750	-	-	1,750
		341,547	-	-	341,547	950,012	-	-	950,012
<b>Financial investments at FVTOCI</b>									
Government securities	24.1	1,962,059	-	-	1,962,059	1,244,438	-	-	1,244,438
Equity securities - Quoted	24.3	26,250	-	-	26,250	25,500	-	-	25,500
Equity securities - Unquoted	24.4	-	-	860	860	-	-	22,678	22,678
		1,988,309	-	860	1,989,169	1,269,938	-	22,678	1,292,616
		2,329,856	-	860	2,330,716	2,219,950	-	22,678	2,242,628

# Notes to the Financial Statements

## 19. FAIR VALUE OF FINANCIAL INSTRUMENTS (CONTD.)

### 19.1.2 Group

As at 31 December		2021				2020			
		Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total	Rs.'000 Level 1	Rs.'000 Level 2	Rs.'000 Level 3	Rs.'000 Total
Financial assets									
Financial investments at FVTPL									
Government securities	22.1	103,722	-	-	103,722	745,679	-	-	745,679
Investment securities - Quoted	22.2, 22.5	251,492	-	-	251,492	212,899	-	-	212,899
Other debt securities - Quoted	22.3, 22.6	-	-	-	-	1,750	-	-	1,750
		355,214	-	-	355,214	960,328	-	-	960,328
Financial investments at FVTOCI									
Government securities	24.1	3,332,651	-	-	3,332,651	1,364,098	-	-	1,364,098
Equity securities - Quoted	24.3	26,250	-	-	26,250	25,500	-	-	25,500
Equity securities - Unquoted	24.4	-	-	860	860	-	-	22,678	22,678
Unit trust		-	55,577	-	55,577	-	52,835	-	52,835
		3,358,901	55,577	860	3,415,338	1,389,598	52,835	22,678	1,465,111
		3,714,115	55,577	860	3,770,552	2,349,926	52,835	22,678	2,425,439

### 19.2 Accounting Policy

#### Financial Instruments Recorded at Fair Value

The following is a description of how fair values are determined for financial instruments that are recorded at fair value using valuation techniques incorporating group's estimate of assumptions that a market participant would make when valuing the instruments.

#### Financial Instruments Carried at Fair Value

The fair value is the amount for which a financial asset could be exchanged between knowledgeable, willing parties. If an active market exists, the market price is applied. If an active market does not exist, which is the case for a number of financial assets and liabilities, a discounted cash flow or generally accepted estimation and valuation techniques based on market conditions at the reporting date are used to calculate an estimated value.

#### Financial Investments at Fair Value Through Other Comprehensive Income

FVTOCI financial assets valued using valuation techniques or pricing models primarily consist of government debt securities and unquoted equity securities.

These assets are valued using models that use both observable and unobservable data. The un-observable inputs to the models include assumptions regarding the future financial performance of the investee, its risk profile, and economic assumptions regarding the industry and geographical jurisdiction in which the investee operates.

#### Other Financial Assets Designated at Fair Value Through Profit or Loss

Other financial assets designated at FVTPL valued using the market price since an active market exists.

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			
	2021		2020		2021		2020	
	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000
<b>Financial assets</b>								
Placements with banks & financial institutions	246,166	246,166	357,928	357,928	535,292	535,292	836,780	836,780
Loans & receivables at amortised cost	28,184,638	29,938,837	26,785,517	28,381,702	28,016,693	29,760,439	26,548,397	28,381,702
Financial investments at amortised cost	-	-	1,519	1,542	-	-	1,519	1,542
Other assets	92,332	92,332	58,446	58,446	92,332	92,332	58,446	58,446
<b>Total</b>	<b>28,523,136</b>	<b>30,277,335</b>	<b>27,203,410</b>	<b>28,799,618</b>	<b>28,644,317</b>	<b>30,388,063</b>	<b>27,445,142</b>	<b>29,278,470</b>
<b>Financial liabilities</b>								
Due to customers at amortised cost	22,267,862	22,103,633	21,725,261	20,665,659	22,201,604	22,044,075	21,665,256	20,665,659
Debt issued and borrowed funds at amortised cost	2,381,579	2,381,579	2,568,828	2,568,828	2,381,579	2,381,579	2,568,828	2,568,828
Other liabilities	180,225	180,225	219,204	219,204	180,225	180,225	219,204	219,204
<b>Total</b>	<b>24,829,666</b>	<b>24,665,437</b>	<b>24,513,293</b>	<b>23,453,691</b>	<b>24,763,407</b>	<b>24,605,878</b>	<b>24,453,288</b>	<b>23,453,691</b>

#### Fair Value of Financial Assets and Liabilities not Carried at Fair Value

The following describes the methodologies and assumptions used to determine fair values for those financial instruments which are not already recorded at fair value in the Financial Statements:

##### Assets for which Fair Value Approximates Carrying Value

For financial assets and financial liabilities that have a short-term maturity it is assumed that the carrying amounts approximate to their fair value.

##### Fixed Rate Financial Instruments

The fair value of fixed rate financial assets and liabilities carried at amortised cost are estimated by comparing market interest rates when they were first recognised with current market rates for similar financial instruments.

# Notes to the Financial Statements

## 20. CASH AND CASH EQUIVALENTS

### Accounting Policy

Cash and cash equivalents include cash in hand, demand deposits and short-term highly liquid investments which are readily convertible to known amounts of cash and are subject to insignificant risk of changes in value. There were no cash and cash equivalent balances held by the Group companies that were not available for use by the Group. Cash & cash equivalents are carried at amortised cost.

### Securities Purchased Under Resale Agreements

Securities purchased under agreements to resell at a specified future date are recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash and cash equivalents', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Cash in hand		170,356	152,170	170,708	152,477
Cash at bank	20.1	385,124	259,439	425,753	299,704
Repurchase agreements		635,894	272,315	839,974	1,753,084
		1,191,374	683,924	1,436,435	2,205,265

### 20.1 Analysis of cash at banks

Cash at bank		385,132	259,334	425,761	299,599
Less : Allowance for impairment losses					
Collective impairment	20.1.1	8	(105)	8	(105)
		385,124	259,439	425,753	299,704

#### 20.1.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Collective</b>				
Balance as at 01 January 2020	(9)	-	-	(9)
Charge during the year	114	-	-	114
Balance as at 31 December 2020	105	-	-	105
Reversals during the year	(113)	-	-	(113)
Balance as at 31 December 2021	(8)	-	-	(8)

#### 20.1.1 Movement of impairment during the year - Group

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Collective</b>				
Balance as at 01 January 2020	(16)	-	-	(16)
Charge during the year	121	-	-	121
Balance as at 31 December 2020	105	-	-	105
Reversals during the year	(113)	-	-	(113)
Balance as at 31 December 2021	(8)	-	-	(8)

## 20.1.2 Cash and cash equivalents allocated for the liquidity requirement

As at 31 December	Company	
	2021 Rs.'000	2020 Rs.'000
Cash in hand	167,292	146,028
Balances in current accounts free from lien	302,258	247,499
Government securities, maturing within one year, free from any lien or charge	635,895	272,315
	<b>1,105,445</b>	<b>665,842</b>

## 21. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS

### Accounting Policy

Balances with banks & financial institutions includes fixed deposits and other deposits in local currency. Balances with banks & financial institution are carried at amortised cost in the Statement of Financial Position.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Fixed deposits and other deposits		246,234	358,325	535,360	837,177
Less : Allowance for impairment losses					
Collective impairment	21.1	68	397	68	397
		<b>246,166</b>	<b>357,928</b>	<b>535,292</b>	<b>836,780</b>

### 21.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Collective</b>				
Balance as at 01 January 2020	(400)	-	-	(400)
Charge during the year	3	-	-	3
Balance as at 31 December 2020	(397)	-	-	(397)
Charge during the year	329	-	-	329
Balance as at 31 December 2021	<b>(68)</b>	<b>-</b>	<b>-</b>	<b>(68)</b>

### 21.2 Movement of impairment during the year - Group

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Collective</b>				
Balance as at 01 January 2020	(478)	-	-	(478)
Charge during the year	81	-	-	81
Balance as at 31 December 2020	(397)	-	-	(397)
Charge during the year	329	-	-	329
Balance as at 31 December 2021	<b>(68)</b>	<b>-</b>	<b>-</b>	<b>(68)</b>

# Notes to the Financial Statements

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

### 21.3 Placements with banks allocated for the liquidity requirement

As at 31 December	Company	
	2021 Rs.'000	2020 Rs.'000
Deposits in Commercial Banks free from lien	184,017	176,455
	184,017	176,455

## 22. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH PROFIT OR LOSS

### Accounting Policy

Financial investments are classified as FVTPL if they are acquired principally for the purpose of selling or repurchasing in the near term or holds as a part of a portfolio that is managed together for short-term profit or position taking. Financial assets at FVTPL are recorded in the Statement of Financial Position at fair value. Changes in fair value are recognised in 'Net gain/(loss) on financial instruments at fair value through profit or loss'. Interest and dividend income or expenses is record in 'Net trading income' and 'Other operating income' according to the terms of the contract, or when the right to receive the payment has been established.

Financial investments at FVTPL include debt securities and equities that have been acquired principally for the purpose of selling or repurchasing in the near term.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Government securities	22.1	103,722	745,679	103,722	745,679
Investment securities - Quoted	22.2, 22.5	237,825	202,583	251,492	212,899
Other debt securities - Quoted	22.3, 22.6	-	1,750	-	1,750
		341,547	950,012	355,214	960,328
<b>22.1 Government securities</b>					
Treasury bonds		103,722	745,679	103,722	745,679
		103,722	745,679	103,722	745,679

## 22.2 Quoted Equities and Unit Trusts

As at 31 December	Company					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Banks</b>						
Commercial Bank Of Ceylon PLC	-	-	-	15,597	1,759	1,262
Commercial Bank Of Ceylon PLC-Non Voting	-	-	-	55,597	5,410	3,897
DFCC Bank PLC	-	-	-	120,713	24,535	7,883
Hatton National Bank PLC-Non Voting	-	-	-	10,457	1,820	1,052
National Development Bank PLC	20,000	3,504	1,378	109,918	19,255	8,585
Nations Trust Bank PLC	209,949	19,546	11,547	209,949	19,546	12,597
Pan Asia Banking Corporation PLC	-	-	-	80,000	1,341	1,040
Sanasa Development Bank PLC	98,770	9,029	4,247	101,270	9,258	5,884
Seylan Bank PLC	443,912	30,620	19,532	207,144	16,528	9,529
Seylan Bank PLC-Non Voting	205	8	7	512,299	20,949	17,418
Union Bank Of Colombo PLC	-	-	-	500,000	6,756	5,850
		62,707	36,711		127,157	74,996
<b>Capital Goods</b>						
Access Engineering PLC	25,000	863	798	25,000	627	614
Aitken Spence PLC	-	-	-	110,000	11,111	6,358
Brown & Company PLC	-	-	-	30,000	2,231	3,156
E B Creasy & Company PLC	5,000	285	133	-	-	-
Hemas Holdings PLC	50,000	5,178	3,345	-	-	-
John Keells Holdings PLC	85,000	12,688	12,750	10,000	1,605	1,496
Kelani Cabels PLC	-	-	-	15,000	1,776	1,748
Mackwoods Energy PLC	1,200,000	3,849	3,480	-	-	-
MTD Walkers PLC	165,000	6,751	2,442	165,000	6,751	2,442
Renuka Holdings PLC	100,000	1,324	1,310	-	-	-
Royal Ceramics Lanka PLC	-	-	-	25,000	3,022	4,428
Serendib Engineering	164,900	1,137	1,154	-	-	-
Softlogic Holdings PLC	-	-	-	525,000	7,751	6,510
The Colombo Fort Land & Building PLC	-	-	-	140,500	2,546	1,812
Unisyst Engineering PLC	-	-	-	117,500	2,796	1,986
		32,073	25,411		40,215	30,550
<b>Consumer Durables &amp; Apparel</b>						
Blue Diamonds Jewellery Worldwide PLC	250,000	125	125	-	-	-
Dankotuwa Porcelain PLC	1,000,000	15,395	14,600	-	-	-
Hayleys Fibre PLC	34,741	2,768	2,824	-	-	-
Teejay Lanka PLC	150,000	6,431	6,660	-	-	-
		24,718	24,209		-	-

# Notes to the Financial Statements

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

### 22.2 Quoted Equities and Unit Trusts (Contd.)

As at 31 December	Company					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Consumer Services</b>						
Aitken Spence Hotel Holdings PLC	-	-	-	63,219	5,779	2,042
Amaya Leisure PLC	42,866	1,113	964	16,433	898	690
Anilana Hotels & Properties PLC	1,000,000	1,475	1,400	-	-	-
Citrus Leisure PLC	36,296	390	323	-	-	-
Dolphin Hotels PLC	15,000	630	558	15,000	443	396
Eden Hotel Lanka PLC	127,743	3,677	4,254	127,743	3,677	1,469
Palm Garden Hotels PLC	28,000	2,052	3,402	147,472	10,890	3,982
Tangerine Beach Hotels PLC	2,500	200	165	-	-	-
The Kandy Hotels Company (1938) PLC	175,000	1,617	1,470	-	-	-
The Kingsbury PLC	3,875,454	41,834	36,817	1,937,727	41,834	23,059
Waskaduwa Beach Resort PLC	1,500,000	6,340	5,550	500,000	2,270	1,950
		59,328	54,903		65,791	33,588
<b>Diversified Financials</b>						
Alliance Finance Company PLC	-	-	-	5,000	280	268
Asia Asset Finance PLC	399,999	4,253	3,360	349,999	3,803	3,185
Asia Capital PLC	-	-	-	50,443	393	338
Asiya Siyaka PLC	750,000	2,528	2,400	-	-	-
Central Finance Company PLC	48,205	5,722	4,483	52,199	6,291	4,333
Ceylon Investment PLC	66,974	6,411	3,590	66,974	6,411	4,976
Citizens Development Business Finance PLC-Non Voting	-	-	-	9,543	824	620
Commercial Credit And Finance PLC	-	-	-	22,500	1,498	562
Commercial Leasing & Finance PLC	59,835	2,323	1,789	-	-	-
HNB Finance PLC	25,000	259	240	-	-	-
Lanka Credit & Business Finance PLC	500,000	2,260	1,950	-	-	-
LOLC Development Finance PLC	2,000	960	651	-	-	-
LOLC Finance PLC	200,000	5,168	4,000	285,000	1,083	1,026
LOLC Holdings PLC	-	-	-	7,500	1,043	1,012
Orient Finance PLC	30,000	378	480	275,000	3,467	3,245
People's Leasing & Finance PLC	211,538	3,000	2,263	-	-	-
People's Merchant Finance PLC	50,000	375	340	-	-	-
Sinhaputhra Finance PLC	-	-	-	242,000	1,692	1,162
Softlogic Finance PLC	67,215	3,532	874	67,215	3,532	786
The Finance Company PLC-Non Voting	-	-	-	200,000	973	-
		37,168	26,420		31,291	21,513
<b>Diversified Holdings</b>						
Richard Pieris & Company PLC	-	-	-	100,000	1,600	1,490
		-	-		1,600	1,490
<b>Energy</b>						
Laugfs Gas PLC-Non Voting	97,500	1,731	1,706	32,500	671	650
		1,731	1,706		671	650



As at 31 December	Company					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Food Beverage &amp; Tobacco</b>						
Bairaha Farms PLC	-	-	-	32,500	4,862	4,566
Browns Investments PLC	-	-	-	2,250,000	8,638	9,675
Ceylon Cold Stores PLC	17,500	11,653	9,275	-	-	-
Distilleries Company Of Sri Lanka PLC	75,000	1,512	1,275	-	-	-
HVA Foods PLC	150,000	1,302	1,005	-	-	-
Keells Food Products PLC	-	-	-	39,058	6,240	5,468
Kotmale Holdings PLC	633	253	281	-	-	-
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,514,546	14,958	2,766
Malwatte Valley Plantations PLC-Non Voting	25,000	700	700	-	-	-
Melstacorp PLC	125,000	7,150	7,013	-	-	-
Renuka Agri Foods PLC	-	-	-	100,000	510	470
Sunshine Holdings PLC	211	6	10	-	-	-
		37,533	22,324		35,208	22,945
<b>Health Care Equipment &amp; Services</b>						
Singhe Hospitals PLC	300,000	900	900	-	-	-
		900	900		-	-
<b>Insurance</b>						
Janashakthi Insurance Company PLC	82,500	2,683	2,533	82,500	2,683	2,475
Softlogic Capital PLC	-	-	-	325,000	1,664	1,268
		2,683	2,533		4,347	3,743
<b>Materials</b>						
Chevron Lubricants Lanka PLC	-	-	-	72	7	8
Dipped Products PLC	150,000	10,175	7,605	2,500	875	868
Haycarb PLC	55,000	5,333	4,224	-	-	-
Industrial Asphalts (Ceylon) PLC	-	-	-	5,000,000	1,500	1,500
Pelwatte Sugar Industries PLC	41,600	1,799	-	41,600	1,799	-
Tokyo Cement Company (Lanka) PLC	125,000	6,606	6,213	-	-	-
		23,913	18,042		4,181	2,376
<b>Power and Energy</b>						
Vallibel Power Erathna PLC	100,000	870	860	-	-	-
		870	860		-	-

# Notes to the Financial Statements

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

### 22.2 Quoted Equities and Unit Trusts (Contd.)

As at 31 December	Company					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Real Estate</b>						
City Housing & Real Estate Company PLC	38,435	190	138	38,435	190	138
Colombo Land & Development Company PLC	74,939	2,660	2,578	-	-	-
East West Properties PLC	350,000	4,243	3,640	-	-	-
Lee Hedges PLC	-	-	-	14,000	1,110	1,126
Millennium Housing Developers PLC	500,000	3,524	3,100	200,000	1,536	1,380
Overseas Realty (Ceylon) PLC	50,000	1,050	960	-	-	-
Property Development PLC	8,547	1,057	1,141	8,547	1,058	1,109
Seylan Developments PLC	-	-	-	100,000	1,424	1,440
		12,725	11,557		5,318	5,193
<b>Retailing</b>						
C.W.Mackie & Co. PLC	-	-	-	18,980	949	911
Eastern Merchants PLC	325,000	3,013	2,925	-	-	-
R I L Properties PLC	-	-	-	250,000	2,484	2,150
United Motors Lanka PLC	-	-	-	17,500	1,398	1,383
		3,013	2,925		4,831	4,444
<b>Telecommunication Services</b>						
Sri Lanka Telecom PLC	10,000	400	388	-	-	-
		400	388		-	-
<b>Utilities</b>						
Laugfs Power PLC - NV	100,000	917	850	-	-	-
Lotus Hydro Power PLC	-	-	-	75,000	819	795
Panasian Power PLC	150,000	870	825	-	-	-
Vallibel One PLC	100,000	6,491	7,260	-	-	-
Vidullanka PLC	-	-	-	50,000	299	300
		8,278	8,935		1,118	1,095
<b>Total value of quoted equities and unit trusts</b>		<b>308,041</b>	<b>237,825</b>		<b>321,729</b>	<b>202,583</b>

### 22.3 Other Debt Securities

#### Bank, Finance and Insurance

Hatton National Bank PLC	-	-	-	17,500	1,600	1,750
<b>Total value of listed debentures</b>	-	-	-		1,600	1,750
<b>Total value of financial assets at FVTPL</b>		<b>308,041</b>	<b>237,825</b>		<b>323,329</b>	<b>204,333</b>
Marked to market valuation loss		(70,216)			(118,996)	
<b>Fair value of financial assets designated at FVTPL</b>		<b>237,825</b>			<b>204,333</b>	

## 22.4 GICS analysis of equity securities

As at 31 December	Company			
	2021		2020	
	Total Cost Rs.'000	Fair Value Rs.'000	Total Cost Rs.'000	Fair Value Rs.'000
Banks	62,707	36,711	128,757	76,746
Capital Goods	32,073	25,411	40,216	30,550
Consumer Durables & Apparel	24,718	24,209	-	-
Consumer Services	59,328	54,903	65,791	33,588
Diversified Financials	37,168	26,420	31,291	21,513
Diversified Holdings	-	-	1,600	1,490
Energy	1,731	1,706	671	650
Food Beverage & Tobacco	37,533	22,324	35,207	22,945
Health Care Equipment & Services	900	900	-	-
Insurance	2,683	2,533	4,347	3,743
Materials	23,913	18,042	4,181	2,376
Power and Energy	870	860	-	-
Real Estate	12,725	11,557	5,318	5,193
Retailing	3,013	2,925	4,832	4,444
Telecommunication Services	400	388	-	-
Utilities	8,278	8,935	1,118	1,095
<b>Total value of financial assets at FVTPL</b>	<b>308,041</b>	<b>237,825</b>	<b>323,329</b>	<b>204,333</b>
Marked to market valuation loss	(70,216)		(118,996)	
<b>Fair value of financial assets designated at FVTPL</b>	<b>237,825</b>		<b>204,333</b>	

## 22.5 Quoted Equities and Unit Trusts

As at 31 December	Group					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Banks</b>						
Commercial Bank Of Ceylon PLC	-	-	-	15,597	1,759	1,262
Commercial Bank Of Ceylon PLC-Non Voting	-	-	-	55,597	5,410	3,897
DFCC Bank PLC	-	-	-	120,713	24,535	7,882
Hatton National Bank PLC-Non Voting	-	-	-	10,457	1,820	1,052
National Development Bank PLC	20,000	3,504	1,378	109,918	19,255	8,585
Nations Trust Bank PLC	209,949	19,546	11,547	209,949	19,546	12,597
Pan Asia Banking Corporation PLC	-	-	-	80,000	1,341	1,040
Sanasa Development Bank PLC	98,770	9,029	4,247	101,270	9,258	5,884
Seylan Bank PLC	443,912	30,620	19,532	207,144	16,528	9,529
Seylan Bank PLC-Non Voting	205	8	7	512,299	20,949	17,418
Union Bank Of Colombo PLC	-	-	-	500,000	6,756	5,850
		<b>62,707</b>	<b>36,711</b>		<b>127,157</b>	<b>74,996</b>

# Notes to the Financial Statements

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

### 22.5 Quoted Equities and Unit Trusts (Contd.)

As at 31 December	Group					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Capital Goods</b>						
Access Engineering PLC	25,000	863	798	25,000	628	614
Aitken Spence PLC	-	-	-	110,000	11,111	6,358
Brown & Company PLC	-	-	-	30,000	2,231	3,156
E B Creasy & Company PLC	5,000	285	133	-	-	-
Hemas Holdings PLC	50,000	5,178	3,345	-	-	-
John Keells Holdings PLC	106,371	16,032	15,956	31,371	4,950	4,692
Kelani Cabels PLC	-	-	-	15,000	1,776	1,748
Mackwoods Energy PLC	1,200,000	3,849	3,480	-	-	-
MTD Walkers PLC	165,000	6,751	2,442	165,000	6,751	2,442
Renuka Holdings PLC	100,000	1,324	1,310	-	-	-
Royal Ceramics Lanka PLC	-	-	-	25,000	3,022	4,428
Serendib Engineering	164,900	1,137	1,154	-	-	-
Softlogic Holdings PLC	-	-	-	525,000	7,751	6,510
The Colombo Fort Land & Building PLC	-	-	-	140,500	2,546	1,812
Unisyst Engineering PLC	-	-	-	117,500	2,796	1,986
		35,417	28,617		43,562	33,746
<b>Consumer Durables &amp; Apparel</b>						
Blue Diamonds Jewellery Worldwide PLC	250,000	125	125	-	-	-
Dankotuwa Porcelain PLC	1,000,000	15,395	14,600	-	-	-
Hayleys Fibre PLC	34,741	2,768	2,824	-	-	-
Teejay Lanka PLC	150,000	6,431	6,660	-	-	-
		24,718	24,209		-	-
<b>Consumer Services</b>						
Aitken Spence Hotel Holdings PLC	-	-	-	63,219	5,779	2,042
Amaya Leisure PLC	42,866	1,113	964	16,433	898	690
Anilana Hotels & Properties PLC	1,000,000	1,475	1,400	-	-	-
Citrus Leisure PLC	36,296	390	323	-	-	-
Dolphin Hotels PLC	15,000	630	558	15,000	442	396
Eden Hotel Lanka PLC	127,743	3,677	4,254	127,743	3,677	1,469
Palm Garden Hotels PLC	28,000	2,052	3,402	147,472	10,890	3,982
Tangerine Beach Hotels PLC	2,500	200	165	-	-	-
The Kandy Hotels Company (1938) PLC	175,000	1,617	1,470	-	-	-
The Kingsbury PLC	3,875,454	41,834	36,817	1,937,727	41,834	23,059
Waskaduwa Beach Resort PLC	1,500,000	6,340	5,550	500,000	2,270	1,950
		59,328	54,903		65,790	33,588

As at 31 December	Group					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Diversified Financials</b>						
Alliance Finance Company PLC	-	-	-	5,000	280	268
Asia Asset Finance PLC	399,999	4,253	3,360	349,999	3,803	3,185
Asia Capital PLC	-	-	-	50,443	393	338
Asiya Siyaka PLC	750,000	2,528	2,400	-	-	-
Central Finance Company PLC	48,205	5,722	4,483	52,199	6,291	4,333
Ceylon Investment PLC	66,974	6,411	3,590	66,974	6,411	4,976
Citizens Development Business Finance PLC-Non Voting	-	-	-	9,543	824	620
Commercial Credit And Finance PLC	-	-	-	22,500	1,498	562
Commercial Leasing & Finance PLC	59,835	2,323	1,789	-	-	-
Guardian Capital Partners PLC	18,472	1,006	632	18,472	1,007	646
HNB Finance PLC	25,000	259	240	-	-	-
Lanka Credit & Business Finance PLC	500,000	2,260	1,950	-	-	-
LOLC Development Finance PLC	2,000	960	651	-	-	-
LOLC Finance PLC	200,000	5,168	4,000	285,000	1,083	1,026
LOLC Holdings PLC	-	-	-	7,500	1,043	1,013
Orient Finance PLC	30,000	378	480	275,000	3,467	3,245
People's Leasing & Finance PLC	211,538	3,000	2,263	-	-	-
People's Merchant Finance PLC	50,000	375	340	-	-	-
Renuka Capital PLC	13,500	172	174	13,500	172	95
Sinhaputhra Finance PLC	-	-	-	242,000	1,692	1,162
Softlogic Finance PLC	67,215	3,532	874	67,215	3,532	786
The Finance Company PLC-Non Voting	-	-	-	200,000	973	-
		38,347	27,226		32,469	22,255
<b>Diversified Holdings</b>						
Richard Pieris & Company PLC	-	-	-	100,000	1,600	1,490
		-	-		1,600	1,490
<b>Energy</b>						
Laugfs Gas PLC-Non Voting	97,500	1,731	1,706	32,500	671	650
		1,731	1,706		671	650

# Notes to the Financial Statements

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

### 22.5 Quoted Equities and Unit Trusts (Contd.)

As at 31 December	Group					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Food Beverage &amp; Tobacco</b>						
Bairaha Farms PLC	-	-	-	32,500	4,862	4,566
Browns Investments PLC	-	-	-	2,250,000	8,638	9,675
Ceylon Cold Stores PLC	17,500	11,653	9,275	-	-	-
Distilleries Company Of Sri Lanka PLC	75,000	1,512	1,275	-	-	-
HVA Foods PLC	150,000	1,302	1,005	-	-	-
Keells Food Products PLC	-	-	-	39,058	6,240	5,468
Kotmale Holdings PLC	633	253	281	-	-	-
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	2,766	2,514,546	14,958	2,766
Malwatte Valley Plantations PLC-Non Voting	25,000	700	700	-	-	-
Melstacorp PLC	125,000	7,150	7,013	-	-	-
Renuka Agri Foods PLC	-	-	-	100,000	510	470
Sunshine Holdings PLC	211	6	10	-	-	-
		37,533	22,324		35,208	22,945
<b>Health Care Equipment &amp; Services</b>						
Singhe Hospitals PLC	300,000	900	900	-	-	-
		900	900		-	-
<b>Insurance</b>						
Janashakthi Insurance Company PLC	82,500	2,683	2,533	82,500	2,683	2,475
Softlogic Capital PLC	-	-	-	325,000	1,664	1,268
		2,683	2,533		4,347	3,743
<b>Materials</b>						
Chevron Lubricants Lanka PLC	-	-	-	72	7	8
Dipped Products PLC	150,000	10,175	7,605	2,500	875	868
Haycarb PLC	55,000	5,333	4,224	-	-	-
Industrial Asphalts (Ceylon) PLC	-	-	-	5,000,000	1,500	1,500
Pelwatte Sugar Industries PLC	68,400	2,924	-	68,400	2,924	-
Tokyo Cement Company (Lanka) PLC	125,000	6,606	6,213	-	-	-
		25,039	18,042		5,306	2,376
<b>Power and Energy</b>						
Vallibel Power Erathna PLC	100,000	870	860	-	-	-
		870	860		-	-

As at 31 December	Group					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Real Estate</b>						
City Housing & Real Estate Company PLC	38,435	190	138	38,435	190	138
Colombo Land & Development Company PLC	77,639	2,756	2,671	2,700	96	66
East West Properties PLC	350,000	4,243	3,640	-	-	-
Lee Hedges PLC	-	-	-	14,000	1,110	1,126
Millennium Housing Developers PLC	500,000	3,524	3,100	200,000	1,536	1,380
Overseas Realty (Ceylon) PLC	50,000	1,050	960	-	-	-
Property Development PLC	8,547	1,057	1,141	8,547	1,057	1,109
Seylan Developments PLC	-	-	-	100,000	1,424	1,440
		12,822	11,650		5,413	5,259
<b>Retailing</b>						
C.W.Mackie & Co. PLC	-	-	-	18,980	949	911
Eastern Merchants PLC	325,000	3,013	2,925	-	-	-
R I L Properties PLC	-	-	-	250,000	2,484	2,150
United Motors Lanka PLC	-	-	-	17,500	1,398	1,383
		3,013	2,925		4,831	4,444
<b>Telecommunication Services</b>						
Sri Lanka Telecom PLC	10,000	400	388	-	-	-
		400	388		-	-
<b>Utilities</b>						
Laugfs Power PLC - NV	100,000	917	850	-	-	-
Lotus Hydro Power PLC	-	-	-	75,000	819	795
Panasian Power PLC	150,000	870	825	-	-	-
Resus Energy PLC	223,381	3,407	9,563	223,381	3,408	6,312
Vallibel One PLC	100,000	6,491	7,260	-	-	-
Vidullanka PLC	-	-	-	50,000	299	300
		11,686	18,498		4,526	7,407
<b>Total value of quoted equities and unit trusts</b>		<b>317,193</b>	<b>251,492</b>		<b>330,880</b>	<b>212,899</b>

# Notes to the Financial Statements

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

As at 31 December	Group					
	2021			2020		
	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No. of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>22.6 Other Debt Securities</b>						
<b>Banks</b>						
Hatton National Bank PLC	-	-	-	17,500	1,600	1,750
<b>Total value of listed debentures</b>		-	-		1,600	1,750
<b>Total value of financial assets at FVTPL</b>		<b>317,193</b>	<b>251,492</b>		<b>332,480</b>	<b>214,649</b>
Marked to market valuation loss		(65,701)			(117,831)	
<b>Fair value of financial assets designated at FVTPL</b>		<b>251,492</b>			<b>214,649</b>	

## 22.7 GICS analysis of equity securities

As at 31 December	Group			
	2021		2020	
	Total Cost Rs.'000	Fair Value Rs.'000	Total Cost Rs.'000	Fair Value Rs.'000
<b>Automobiles &amp; Components</b>				
Banks	62,707	36,711	128,757	76,746
Capital Goods	35,417	28,617	43,560	33,747
Consumer Durables & Apparel	24,718	24,209	-	-
Consumer Services	59,328	54,903	65,791	33,588
Diversified Financials	38,347	27,226	32,470	22,254
Diversified Holdings	-	-	1,600	1,490
Energy	1,731	1,706	671	650
Food Beverage & Tobacco	37,533	22,324	35,207	22,945
Health Care Equipment & Services	900	900	-	-
Insurance	2,683	2,533	4,347	3,743
Materials	25,039	18,042	5,307	2,376
Power and Energy	870	860	-	-
Real Estate	12,822	11,650	5,413	5,258
Retailing	3,013	2,925	4,832	4,444
Telecommunication Services	400	388	-	-
Utilities	11,686	18,498	4,525	7,408
<b>Total value of financial assets at FVTPL</b>	<b>317,193</b>	<b>251,492</b>	<b>332,480</b>	<b>214,649</b>
Marked to market valuation loss	(65,701)		(117,831)	
<b>Fair value of financial assets designated at FVTPL</b>	<b>251,492</b>		<b>214,649</b>	



## 23. LOANS AND RECEIVABLES AT AMORTISED COST

### Accounting Policy

As per SLFRS 9, Loans and receivables to the Companies are assets that are held within a business model whose objective is to hold the assets in order to collect contractual cash flows and the contractual terms of the assets give rise on specific dates to cash flows that are solely payment of principal and interest on the principal outstanding.

As per LKAS 39 “Loans and advances to the Companies” comprised non-derivative financial assets with fixed or determinable payments that are not quoted in an active market, other than:

After initial measurement, loans and receivables are subsequently measured at amortised cost using EIR, less allowances for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in ‘Interest income’ in the Statement of Profit or Loss. The losses arising from impairment are recognised in the Statement of Profit or Loss ‘Impairment charges for loans and receivables and other losses’.

### Lease and Hire Purchase Receivables

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

### ‘Day 1’ Profit or Loss

Staff loans granted at below market interest rates are recognised at fair value. The difference between the fair value and the amount disbursed were treated as ‘day 1’ difference and amortised as staff cost over the loan period by using effective interest rate (EIR). The staff loans subsequently measured at amortised costs.

### Write-off of Loans and Receivables

Loans and receivables (and the related impairment allowance accounts) are normally written off, either partially or in fully, when there is no realistic prospect of recovery. Where loans and receivables are secured, this is generally after receipt of any proceeds from the realisation of security.

### Re-negotiated Loans and Receivables

Where possible, the Group/Company seeks to re-structure loans and receivables rather than to take possession of collateral. This may involve extending the payment arrangements and the agreements of new loan conditions. Once the terms have been renegotiated, any impairment is measured using the original EIR as calculated before the modification of terms and the loan is no longer considered past due. The management continuously reviews the re-negotiated loans and receivables to ensure that all criteria are met and that future payments are likely to occur. The loans and receivables continue to be subject to any criteria are met and that future payments are likely to occur. The loans and receivables continue to be subjected to an individual or collective impairment assessment calculated using the original EIR.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Bills receivable	23.2	246,566	308,569	246,566	308,569
Loans and advances to customers	23.3	17,718,898	14,767,545	17,550,953	14,530,425
Lease and hire purchase receivable	23.4	13,696,511	15,129,187	13,696,511	15,129,187
Gross loans and receivables		31,661,975	30,205,301	31,494,031	29,968,181
Less : Allowance for impairment losses					
Bills receivable	23.2	154,405	172,462	154,405	172,462
Loans and advances to customers	23.3	1,521,850	1,426,077	1,521,850	1,426,077
Lease and hire purchase receivable	23.4.3	1,801,082	1,821,245	1,801,082	1,821,245
		3,477,337	3,419,783	3,477,337	3,419,784
Net loans and receivables		28,184,638	26,785,517	28,016,693	26,548,397

## Notes to the Financial Statements

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

#### 23.1 Analysis of loans and receivables

##### 23.1.1 Product wise analysis of loans and receivables

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Finance lease/ijarah		13,428,663	14,847,294	13,428,663	14,847,294
Hire purchase/murabaha		267,848	281,893	267,848	281,893
Term loans		6,874,253	7,340,432	6,706,309	7,103,312
Personal loans		1,603,032	2,339,062	1,603,032	2,339,062
Margin trading		3,336,346	502,368	3,336,346	502,368
Micro finance		265,569	318,594	265,569	318,594
Pawning		5,254,583	3,825,661	5,254,583	3,825,661
Loans against fixed deposits		385,115	441,428	385,115	441,428
Bill Discounting		246,566	308,569	246,566	308,569
<b>Gross loans and receivables</b>		<b>31,661,975</b>	<b>30,205,301</b>	<b>31,494,031</b>	<b>29,968,181</b>

##### 23.1.2 Sector/Industry wise analysis of loans and receivables

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Agriculture		3,197,561	4,239,083	3,197,561	4,239,083
Manufacturing		3,002,920	3,223,841	3,002,920	3,223,841
Tourism		607,194	717,481	607,194	717,481
Transportation		3,280,715	3,383,137	3,280,715	3,383,137
Construction		1,707,752	1,791,277	1,707,752	1,791,277
Trade		4,344,593	4,657,691	4,344,593	4,657,691
Services		1,397,955	1,586,164	1,230,010	1,349,044
Financials		4,412,060	1,517,846	4,412,060	1,517,846
Consumption		9,711,225	9,088,781	9,711,226	9,088,781
<b>Gross loans and receivables</b>		<b>31,661,975</b>	<b>30,205,301</b>	<b>31,494,031</b>	<b>29,968,181</b>

Not all customers in the tourism sector have applied for the 4th phase of the COVID-19 moratorium.

### 23.1.3 Contractual maturity analysis of loans and receivables - 2021

	Company/Group			Total Rs.'000
	Within one Year	1 - 5 Years	Over 5 Years	
	Rs.'000	Rs.'000	Rs.'000	
Agriculture	2,085,210	1,107,683	4,669	3,197,562
Manufacturing	1,535,196	1,389,419	77,682	3,002,297
Tourism	256,182	348,838	2,174	607,194
Transportation	1,617,292	1,657,489	5,933	3,280,714
Construction	843,271	864,889	215	1,708,375
Trade	1,974,401	2,362,566	7,626	4,344,593
Services	570,242	826,403	1,310	1,397,955
Financials	3,923,142	485,190	5,237	4,413,569
Consumption	7,581,268	2,027,436	101,012	9,709,716
<b>Gross loans and receivables</b>	<b>20,386,204</b>	<b>11,069,913</b>	<b>205,858</b>	<b>31,661,975</b>

### 23.1.4 Contractual maturity analysis loans and receivables - 2020

	Company/Group			Total Rs.'000
	Within one Year	1 - 5 Years	Over 5 Years	
	Rs.'000	Rs.'000	Rs.'000	
Agriculture	1,516,991	949,733	1,772,359	4,239,083
Manufacturing	769,560	490,995	1,963,287	3,223,842
Tourism	57,364	199,028	461,089	717,481
Transportation	450,809	668,963	2,263,365	3,383,137
Construction	477,538	283,467	1,030,273	1,791,278
Trade	400,745	878,928	3,378,018	4,657,691
Services	118,711	1,483	1,228,850	1,349,044
Financials	339,730	360,602	817,514	1,517,846
Consumption	5,983,732	1,039,836	2,065,211	9,088,779
<b>Gross loans and receivables</b>	<b>10,115,180</b>	<b>4,873,035</b>	<b>14,979,966</b>	<b>29,968,181</b>

# Notes to the Financial Statements

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

### 23.2 Bills receivable

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Bills discounted		246,566	308,569	246,566	308,569
Less : Allowance for impairment losses					
Individual impairment	23.2.2	135,183	158,393	135,183	158,393
Collective impairment	23.2.2	19,222	14,068	19,222	14,068
<b>Net bills receivables</b>		<b>92,161</b>	<b>136,108</b>	<b>92,161</b>	<b>136,108</b>

#### 23.2.1 Analysis of bill discounting on maximum exposure to credit risk as at 31st December 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	7,341	1,505	237,720	246,566
Individual impairment	-	-	(135,183)	(135,183)
Collective impairment	(1,881)	(476)	(16,865)	(19,222)
<b>As at 31 December</b>	<b>5,460</b>	<b>1,029</b>	<b>85,672</b>	<b>92,161</b>

#### 23.2.2 Movement of impairment during the year 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Individual</b>				
As at 01 January	-	-	158,393	158,393
Charge during the year	-	-	(23,210)	(23,210)
<b>As at 31 December</b>	<b>-</b>	<b>-</b>	<b>135,183</b>	<b>135,183</b>
<b>Collective</b>				
As at 01 January	1,062	1,840	11,166	14,068
Charge during the year	819	(1,364)	5,699	5,154
<b>As at 31 December</b>	<b>1,881</b>	<b>476</b>	<b>16,865</b>	<b>19,222</b>

#### 23.2.3 Analysis of bill discounting on maximum exposure to credit risk as at 31st December 2020

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	5,351	6,484	296,734	308,569
Individual impairment	-	-	(158,393)	(158,393)
Collective impairment	(1,062)	(1,840)	(11,166)	(14,068)
<b>As at 31 December</b>	<b>4,289</b>	<b>4,644</b>	<b>127,175</b>	<b>136,108</b>

### 23.2.4 Movement of impairment during the year 2020

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

### 23.3 Loans and advances to customers

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Term loans and receivables		17,718,898	14,767,545	17,550,953	14,530,425
Less : Allowance for impairment losses					
Individual impairment	23.3.2	673,531	780,624	673,531	780,624
Collective impairment	23.3.2	848,319	645,453	848,319	645,453
<b>Net loans and advances receivables</b>		<b>16,197,048</b>	<b>13,341,468</b>	<b>16,029,103</b>	<b>13,104,348</b>

#### 23.3.1 Analysis of term loans receivables on maximum exposure to credit risk as at 31st December 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	9,879,757	1,349,088	6,490,054	17,718,898
Individual impairment	-	-	(673,531)	(673,531)
Collective impairment	(53,253)	(32,738)	(762,329)	(848,319)
As at 31 December	9,826,504	1,316,350	5,054,194	16,197,048

## Notes to the Financial Statements

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

#### 23.3 Loans and advances to customers (Contd.)

##### 23.3.2 Movement of impairment during the year 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Individual</b>				
As at 01 January	-	-	780,624	780,624
Charge during the year	-	-	(107,093)	(107,093)
As at 31 December	-	-	673,531	673,531
<b>Collective</b>				
As at 01 January	64,479	49,980	530,995	645,453
Charge during the year	(11,226)	(17,242)	231,334	202,866
As at 31 December	53,253	32,738	762,328	848,319

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

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	7,775,150	1,426,219	5,566,176	14,767,545
Individual impairment	-	-	(780,624)	(780,624)
Collective impairment	(64,479)	(49,979)	(530,995)	(645,453)
As at 31 December	7,710,671	1,376,240	4,254,557	13,341,468

##### 23.3.4 Movement of impairment during the year 2020

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

## 23.4 Lease and hire purchase receivable

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>23.4.1 Finance lease/Hire purchase receivable within one year from the reporting date</b>					
Total lease and hire purchase rental receivable		16,909,231	18,767,288	16,909,231	18,767,288
Less : lease and hire purchase rental receivable after one year		11,312,847	12,280,798	11,312,847	12,280,798
Rental receivable within one year from the reporting date		5,596,384	6,486,490	5,596,384	6,486,490
Less : Unearned lease and hire purchase income		1,645,698	1,928,855	1,645,698	1,928,855
		3,950,686	4,557,635	3,950,686	4,557,635
<b>23.4.2 Finance lease/hire purchase receivable after one year from the reporting date</b>					
Rental receivable after one year from the reporting date		11,312,847	12,280,798	11,312,847	12,280,798
Less : Unearned lease and hire purchase income		1,567,022	1,709,246	1,567,022	1,709,246
		9,745,825	10,571,552	9,745,825	10,571,552
<b>Gross investment in leases and hire purchase</b>		<b>13,696,511</b>	<b>15,129,187</b>	<b>13,696,511</b>	<b>15,129,187</b>
<b>23.4.3 Lease and hire purchase receivable</b>					
Gross investment in leases and hire purchase		13,696,511	15,129,187	13,696,511	15,129,187
Less : Allowance for impairment losses					
Individual impairment	23.4.5	1,093,515	1,078,312	1,093,515	1,078,312
Collective impairment	23.4.5	707,567	742,933	707,567	742,933
<b>Net investment in leases and hire purchase</b>		<b>11,895,430</b>	<b>13,307,942</b>	<b>11,895,430</b>	<b>13,307,942</b>

## 23.4.4 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31st December 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	5,689,399	2,663,970	5,343,142	13,696,511
Individual impairment	-	-	(1,093,515)	(1,093,515)
Collective impairment	(97,631)	(104,501)	(505,435)	(707,567)
<b>As at 31 December</b>	<b>5,591,768</b>	<b>2,559,469</b>	<b>3,744,192</b>	<b>11,895,429</b>

## Notes to the Financial Statements

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

#### 23.4 Lease and hire purchase receivable (Contd.)

##### 23.4.5 Movement of impairment during the year 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
<b>Individual</b>				
As at 01 January	-	-	1,078,312	1,078,312
Charge during the year	-	-	15,203	15,203
As at 31 December	-	-	1,093,515	1,093,515
<b>Collective</b>				
As at 01 January	102,591	138,325	502,017	742,933
Charge during the year	(4,960)	(33,824)	3,418	(35,366)
As at 31 December	97,631	104,501	505,435	707,567

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

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	6,001,587	3,523,353	5,604,247	15,129,187
Individual impairment	-	-	(1,078,312)	(1,078,312)
Collective impairment	(102,591)	(138,325)	(502,017)	(742,933)
As at 31 December	5,898,996	3,385,028	4,023,918	13,307,942

##### 23.4.7 Movement of impairment during the year 2020

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



### 23.4.8 Credit exposure and expected credit loss (impairment provision) movement - Stage wise

	Stage 1		Stage 2		Stage 3		Total	
	Gross		Gross		Gross		Gross	
	Carrying Amount	Impairment (ECL)	Carrying Amount	Impairment (ECL)	Carrying Amount	Impairment (ECL)	Carrying Amount	Impairment (ECL)
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial Assets measured at Amortised cost								
Loans and advances								
As at 01 January	13,787,533	168,132	4,956,057	190,144	11,456,019	3,054,993	30,199,608	3,413,270
Transfer to Stage 1	(2,648,755)	(57,153)	1,221,936	24,126	1,426,819	33,027	-	-
Transfer to Stage 2	547,287	22,667	(2,261,255)	(99,467)	1,713,968	76,800	-	-
Transfer to Stage 3	286,178	25,609	344,987	46,038	(631,165)	(71,647)	-	-
New Assets originated or purchased	34,984,368	32,781	1,530,479	26,884	806,409	464,561	37,321,256	524,226
Financial assets derecognized or repaid	(31,380,119)	(39,271)	(1,777,642)	(50,011)	(2,701,133)	(370,877)	(35,858,895)	(460,158)
<b>As at 31 December</b>	<b>15,576,492</b>	<b>152,765</b>	<b>4,014,562</b>	<b>137,714</b>	<b>12,070,917</b>	<b>3,186,857</b>	<b>31,661,969</b>	<b>3,477,338</b>

## 24. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

### Accounting Policy

As per SLFRS 9, this comprises debt instruments measured at FVTOCI and equity instruments designated at FVTOCI.

### Debt instruments at FVTOCI

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated at FVTPL:

- ✳ The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- ✳ The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

These instruments comprise Government Securities that had previously been classified as available for sale classified and Loans and receivables under LKAS 39.

# Notes to the Financial Statements

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

### 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	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Government securities	24.1	1,962,059	1,244,438	3,332,651	1,364,098
Equity securities - Quoted	24.3	26,250	25,500	26,250	25,500
Equity securities - Unquoted	24.4	860	22,678	860	22,678
Unit trust		-	-	55,577	52,835
<b>Net financial investments at FVTOCI</b>		<b>1,989,169</b>	<b>1,292,616</b>	<b>3,415,338</b>	<b>1,465,111</b>

### 24.1 Government Securities

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Treasury bills	1,702,755	1,244,438	2,963,479	1,244,438
Treasury bonds	259,304	-	369,172	119,660
	<b>1,962,059</b>	<b>1,244,438</b>	<b>3,332,651</b>	<b>1,364,098</b>

## 24.2 Government securities allocated for the liquidity requirement

As at 31 December	Company	
	2021	2020
	Rs.'000	Rs.'000
Government securities, maturing within one year, free from any lien or charge	1,962,059	1,245,188
	1,962,059	1,245,188

## 24.3 Equity Securities - Quoted

As at 31 December	2021			2020		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
<b>Company</b>						
<b>Power and Energy</b>						
LVL Energy Fund PLC	2,550	20,000	26,250	2,550	20,000	25,500
		20,000	26,250		20,000	25,500
<b>Group</b>						
<b>Power and Energy</b>						
LVL Energy Fund PLC	2,550	20,000	26,250	2,550	20,000	25,500
		20,000	26,250		20,000	25,500

# Notes to the Financial Statements

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

### 24.4 Equity Securities - Unquoted

As at 31 December	Company						
	Holding %	2021			2020		
		No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Mega Containers Limited	6.21	1,000,000	10,000	-	1,000,000	10,000	21,786
Ceylinco Investment Company Limited	46.35	500,000	5,000	-	500,000	5,000	-
Credit Information Bureau of Sri Lanka Limited	0.22	540	54	54	540	54	54
Ranwan Industries (Private) Limited	5.00	165,790	3,600	-	165,790	3,600	-
Finance & Guarantee Company Limited	0.15	2,506,562	17,546	806	2,506,562	17,546	838
San Michele Limited		-	-	-	50,000	500	-
		36,200	860		36,700	22,678	
Adjustment for fair value changes		-				11,786	
Adjustment due to impairment		(35,340)				(25,808)	
<b>Total unquoted investments</b>		<b>860</b>				<b>22,678</b>	

As at 31 December	Group						
	Holding %	2021			2020		
		No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Mega Containers Limited	6.21	1,000,000	10,000	-	1,000,000	10,000	21,786
Ceylinco Investment Company Limited	46.35	500,000	5,000	-	500,000	5,000	-
Credit Information Bureau of Sri Lanka Limited	0.22	540	54	54	540	54	54
Ranwan Industries (Private) Limited	5.00	165,790	3,600	-	165,790	3,600	-
Finance & Guarantee Company Limited	0.15	2,506,562	17,546	806	2,506,562	17,546	838
San Michele Limited		-	-	-	50,000	500	-
		36,200	860		36,700	22,678	
Adjustment for fair value changes			-			11,786	
Adjustment due to impairment			(35,340)			(25,808)	
<b>Total unquoted investments</b>			<b>860</b>			<b>22,678</b>	

**24.4.1** Although the Company has acquired 46.35% equity capital of Ceylinco Investment Company Limited, the investment has not been classified as an associate company due to pending court decision on the ownership structure of the Company.

## 25. FINANCIAL INVESTMENTS AT AMORTISED COST

### Accounting Policy

As per SLFRS 9, 'Financial investments' are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

- \* The asset is held within a business model whose objective is to hold assets to collect contractual cash flows; and
- \* The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

After initial measurement, these are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' while the losses arising from impairment are recognised in 'impairment charges for loans and other losses' in the Statement of Profit or Loss.

As per previously classified under LKAS 39, this included financial investments held-to-maturity

Held-to-maturity financial investments were non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group had the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. After initial measurement, held-to-maturity financial investments were subsequently measured at amortised cost using the EIR, less provision for impairment. EIR is calculated by taking into account any discount or premium on acquisition and fees. The amortisation is included in 'Interest Income' while the losses arising from impairment of such investments are recognised in 'Impairment charges and other losses' in the Statement of Profit or Loss.

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Debt securities - Treasury bonds	-	1,519	-	1,519
	-	1,519	-	1,519

## 26. REAL ESTATE STOCK

### Accounting Policy

Property acquired or being constructed for sale in the ordinary course of the business. They are measured at the lower of cost or net realisable value. The cost comprises all costs of purchase, costs of conversion and the costs incurred in bringing them to their present location and condition. Net realisable value is the estimated selling price in the ordinary course of the business less the estimated costs of completion necessary to make the sale.

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Real estate stock	175,816	330,188	175,816	330,188
	175,816	330,188	175,816	330,188

# Notes to the Financial Statements

## 27. INVESTMENT IN ASSOCIATE COMPANY

### Accounting Policy

Investment in associate is accounted for at cost, net of any impairment losses which are charged to the Statement of Profit or Loss and it is in accordance with the Sri Lanka Accounting Standard - LKAS 28 - 'Investment in Associates and Joint Ventures' in the Company's Financial Statements and cost less impairment if any in the Consolidated Financial Statements.

Under the equity method, the investment in associate is initially accounted for at cost and the carrying amount is adjusted for post-acquisition changes in the Company's share of net assets of the associate, less any impairment in the Company's net investment in associate.

Associate is an entity in which the Company has significant influence, but no control over the financial and operating policies.

Goodwill relating to an associate is included in the carrying amount of the investment and is not amortised but it subjected to impairment test. The Company's investments include goodwill identified on acquisition, net of any accumulated impairment losses.

The Consolidated Financial Statements include the Company's share of the income and expenses and equity movements of the associate, after adjustments being made to align the accounting policies with those of the Group from the date that significant influence effectively commences until the date that significant influence effectively ceases.

When the Company's share of losses exceeds its interest in the associate, the carrying amount of that interest is reduced to nil and the recognition of further losses is discontinued except to the extent that the Company has an obligation or made payments on behalf of the associate. If the associate subsequently reports profits, the Company resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

Profit and losses resulting from transactions between the Company and the associate are eliminated to the extent of the interest in the associate. The Company discontinues the use of the equity method from the date that it ceases to have significant influence over an associate and accounts for the investment cost in accordance with the Sri Lanka Accounting Standard - SLFRS 9 - 'Financial Instruments'.

As at 31 December	Company							
	Country of Incorporation	Principal Activity	No. of Shares	Holding %	2021		2020	
					Cost Rs.'000	Fair Value Rs.'000	Cost Rs.'000	Fair Value Rs.'000
<b>Unquoted</b>								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,212,543	29.00%	81,084	81,084	76,026	81,084
Less : Impairment provision/ (reversal)						-	(5,058)	
Balance as at 31 December						81,084	81,084	

## 27.1 Carrying Value on Equity Basis

As at 31 December	Group	
	Lanka Securities (Pvt) Ltd	
	2021	2020
	Rs.'000	Rs.'000
Net assets at the beginning of the year	95,106	76,026
Add : Profit/(loss) before tax accruing to the group	109,490	20,212
Less : Income tax	(30,333)	(454)
Add : Other comprehensive income for the year, net of Income Tax	632	(679)
Less : Dividend received	(43,496)	-
<b>Net assets at the end of the year</b>	<b>131,399</b>	<b>95,106</b>

## 27.2 Summarized Financial Information of Associate

For the year ended 31 December	Lanka Securities (Pvt) Ltd	
	2021	2020
	Rs.'000	Rs.'000
Income	746,751	228,941
Less : Expenses	369,198	159,245
Profit/(loss) before taxation	377,553	69,696
Less : Income tax expense/(reversal)	104,598	1,564
<b>Profit/(loss) for the period</b>	<b>272,954</b>	<b>68,132</b>
Defined benefit plan actuarial gains/(losses)	2,182	(3,252)
Tax impact on actuarial gains/(losses)	-	911
<b>Total comprehensive income/(expense) for the period</b>	<b>275,136</b>	<b>65,791</b>
As at 31 December	2021	2020
	Rs.'000	Rs.'000
Total assets	1,406,346	1,136,231
Total liabilities	959,418	808,284

# Notes to the Financial Statements

## 28. INVESTMENT IN SUBSIDIARIES

### Accounting Policy

Investment in subsidiaries are stated at cost, net of any impairment losses which are charged to the Statement of Profit or Loss and it is in accordance with the Sri Lanka Accounting Standards - LKAS 27 - 'Consolidated and Separate Financial Statements'.

Subsidiaries are entities that are controlled by the Company. Subsidiaries are consolidated from the date on which control is transferred to the Company and continue to be consolidated until the date when such control ceases. The Company is presumed to control an investee when it is exposed, or has right, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee.

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

Non-controlling interests represent the portion of profit or loss and net assets of subsidiaries not owned, directly or indirectly, by the Company.

Non-controlling interests are presented separately in the Consolidated Statement of Profit or Loss and within equity in the Consolidated Statement of Financial Position but separate from parent shareholder's equity. Any losses applicable to the non-controlling interests are allocated against the interests of the non-controlling interest even if this result in a deficit balance. Acquisition of non-controlling interests are accounted for using the parent entity extension method, whereby the difference between the consideration and the fair value of the share of the net assets acquired is recognised as equity.

Subsidiaries are not quoted in the Colombo Stock Exchange (CSE) and the Directors' valuation of investment in subsidiaries has been carried out on fair value basis.

### 28.1 The consolidated financial statements of the Group include:

As at 31 December				2021			2020		
	Principal Note	activity	Country of incorporation	Equity interest %	Cost Rs.'000	Fair Value Rs.'000	Equity interest %	Cost Rs.'000	Fair Value Rs.'000
MBSL Insurance Company Ltd	28.2	Insurance	Sri Lanka	53.81	1,016,096	371,404	53.81	1,016,096	387,424
Less : Impairment provision	28.2				644,692			628,672	
Balance as at 31 December					371,404			387,424	



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

	MBSL Insurance Rs.'000
<b>Cost</b>	
Balance as at 01 January 2020	1,016,096
Investment made during the year	-
Balance as at 31 December 2020	1,016,096
Investment made during the year	-
Balance as at 31 December 2021	1,016,096
<b>Impairment provision</b>	
Balance as at 01 January 2020	(166,128)
Impairment reversal/(charge)	(462,544)
Balance as at 31 December 2020	(628,672)
Impairment reversal/(charge)	(16,019)
Balance as at 31 December 2021	(644,692)
As at 31 December 2020	387,424
As at 31 December 2021	371,404

The following table summaries the information relating to the subsidiary and proportion of equity interest held by non-controlling interests. This information is based on amounts before inter company eliminations.

## Notes to the Financial Statements

### 28. INVESTMENT IN SUBSIDIARIES (CONTD.)

#### 28.3 Summarized Financial Information of MBSL Insurance Company Ltd

	2021 Total Rs.'000	2020 Total Rs.'000
Non-controlling interest (NCI) percentage (%)	46.19%	46.19%
Net operating income	264,598	199,188
Operating expenses	(323,639)	(261,611)
<b>Profit before income tax</b>	<b>(59,041)</b>	<b>(62,423)</b>
Income tax (expense)/reversal	(44,383)	(215,596)
<b>Profit/(loss) for the year</b>	<b>(103,424)</b>	<b>(278,019)</b>
Profit allocated to non-controlling interest (NCI)	(47,772)	(128,416)
Other comprehensive income allocated to non-controlling interest (NCI)	(3,435)	5,169

#### 28.4

As at 31 December	2021 Rs.'000	2020 Rs.'000
Cash and cash equivalents	245,061	1,521,340
Placements with banks & financial institutions	355,384	538,857
Financial investments at fair value through profit or loss	13,668	10,317
Loans & receivables at amortised cost	3,979	3,837
Financial investments at fair value through other comprehensive income	1,426,169	172,494
Property, equipment and right-of-use assets	135,523	40,015
Deferred tax Assets	4,110	49,305
Other assets	367,577	286,634
<b>Total assets</b>	<b>2,551,471</b>	<b>2,622,799</b>
Due to banks	16,492	5,829
Insurance contract liabilities-life	416,634	498,767
Insurance contract liabilities-non life	511,538	488,784
Other liabilities	677,717	588,537
Retirement benefits obligations	11,789	11,910
<b>Total liabilities</b>	<b>1,634,171</b>	<b>1,593,827</b>
<b>Net assets value</b>	<b>917,300</b>	<b>1,028,972</b>
Carrying amount of non-controlling interest (NCI)	423,701	475,282

## 28.5 Valuation assumptions and the Sensitivity 2021

The sensitivity on the total value of the Subsidiary MBSLI was based on the sensitivity of Non-life fund + fixed value of Life fund

### Key valuation assumptions used in Non-life business

Risk free rate	10.7%
Equity return premium	6.8%
Company risk premium	1.0%
<b>Cost of equity</b>	<b>18.24%</b>
Terminal growth	5.0%

		Sensitivity Table (Total Equity value -Non Life of MBSLI company)				
		Cost of Equity [valuation of Non-life & Life business] in Rupees				
		17.74%	17.99%	18.24%	18.49%	18.74%
Terminal value growth [valuation of Non-life business]	5.0%	212,472,419	199,823,132	<b>187,603,069</b>	175,762,720	164,317,042

The Subsidiary MBSLI valuation of life segment based on Net Asset valued where as same Value approach in the previous year.

## 28.6 Valuation assumptions and the Sensitivity 2020

### Key valuation assumptions used in Non-life business

Risk free rate	6.6%
Equity return premium	6.5%
Company risk premium	1.0%
<b>Cost of equity</b>	<b>14.09%</b>
Terminal growth	5.0%

		Sensitivity Table (Total Equity value -Non Life of MBSLI company)				
		Cost of Equity [valuation of Non-life & Life business] in Rupees				
		13.59%	13.84%	14.09%	14.34%	14.59%
Terminal value growth [valuation of Non-life business]	5.0%	405,998,093	396,517,862	<b>378,694,365</b>	370,311,083	387,423,526

## 28.7 Impairment Provision/Reversal

### Impairment of Investment in Subsidiary :

Recoverable amount of the investment in subsidiary at the end of the financial position date as Rs. 371. Accordingly impairment charge of Rs.16 Mn (2020 impairment charge : Rs. 463 Mn) was recorded during the year 2021 in the Company's Financial Statements.

# Notes to the Financial Statements

## 29. INVESTMENT PROPERTIES

### Accounting Policy

Investment properties are properties held either to earn rental income or for capital appreciation or for both. But not for sale in the ordinary course of business, used in the production or supply of goods or service or for administrative purpose.

### Basis of Measurement

An investment property is measured initially at its cost. The cost of a purchased investment property comprises of its purchase price and any directly attributable expenditure. The carrying amount includes the cost of replacing part of an existing Investment Property at the time that cost is incurred if the recognition criteria are met and excludes the cost of day-to-day servicing of an Investment Property.

The Group adopts the cost model for subsequent measurement of investment properties in accordance with Sri Lanka Accounting Standard - LKAS 40 - 'Investment Property'. Accordingly, land classified as investment property is stated at cost, and buildings classified as investment property are stated at cost less any accumulated depreciation and any accumulated impairment losses. Provision for depreciation is made over the period of 20 years at the rate of 5% per annum using the straight-line method for buildings classified as investment property. Land is not depreciated.

### Derecognition

Investment Properties are derecognised when either they have been disposed of or when the investment property is permanently withdrawn from use and no future economic benefit is expected from its disposal. The difference between the net disposal proceeds and the carrying amount of the asset is recognised in the Statement of Profit or Loss in the period of derecognition.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Cost as at 01 January		148,408	148,408	148,408	148,408
Less: Disposals		-	-	-	-
Provision		3,761	-	3,761	-
Cost as at 31 December	29.1	144,647	148,408	144,647	148,408
Accumulated depreciation as at 31 December		36,944	34,038	36,944	34,038
Net book value as at 31 December		107,703	114,370	107,703	114,370
Accumulated depreciation					
Balance as at 01 January		34,038	31,132	34,038	31,132
Charge for the year		2,906	2,906	2,906	2,906
Balance as at 31 December		36,944	34,038	36,944	34,038
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		Nil	Nil	Nil	Nil

## 29.1 Investment Properties Held by the Company/Group

As at 31 December

Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	2021					
					Cost/Carrying amount			Fair Value		
					Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.			16.61P	Level 3	1,750	-	1,750	-	N/A	-
No 385/1, Kotte Road, Pitakotte. (Note.29.1.a)	1	2,896	19.01P	Level 3	2,958	1,730	4,688	53,000	-	53,000
No 116/4,116/7,116/26, 116/27,116/29 1st Cross Street, Colombo 11.			12.35P	Level 3	1,249	-	1,249	-	N/A	-
No 102 & 104, Dam Street, Colombo 12. (Note.29.1.a)	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	188,000	-	188,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.			2.0A	Level 3	600	-	600	-	N/A	-
Mirissawelawatta hena; Thekkawatta, Dambadeniya			1A-0R-28.00P	Level 3	162	-	162	-	N/A	-
Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralesgamuwa (Note.29.1.a)	1		2A-1R-4.35P	Level 3	65,604	44,396	110,000	200,191	119,809	320,000
					90,293	58,115	148,408	441,191	119,809	561,000
Less : Provision					3,761	-	3,761			
<b>Total value of investment property</b>					<b>86,532</b>	<b>58,115</b>	<b>144,647</b>			

# Notes to the Financial Statements

## 29. INVESTMENT PROPERTIES (CONTD.)

### 29.1 Investment Properties Held by the Company/Group (Contd.)

Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	2020					
					Cost/Carrying amount			Fair Value		
					Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.			16.61P	Level 3	1,750	-	1,750	30,000	N/A	30,000
No 385/1, Kotte Road, Pitakotte. (Note.29.1.a)	1	2,896	19.01P	Level 3	2,958	1,730	4,688	53,000	-	53,000
No 116/4,116/7,116/26, 116/27,116/29, 1st Cross Street, Colombo 11.			12.35P	Level 3	1,249	-	1,249	5,000	N/A	5,000
No 102 & 104, Dam Street, Colombo 12. (Note.29.1.a)	1	20,368	1R-10.7P	Level 3	17,970	11,989	29,959	188,000	-	188,000
Kumbuththukuliya watte, Bangadeniya Road, Puttalam.			2.0A	Level 3	600	-	600	55,000	N/A	55,000
Mirissawelawatta hena; Thekkawatta, Dambadeniya			1A-0R-28.00P	Level 3	162	-	162	2,000	N/A	2,000
Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralesgamuwa (Note.29.1.a)	1		2A-1R-4.35P	Level 3	65,604	44,396	110,000	200,191	119,809	320,000
					<b>90,293</b>	<b>58,115</b>	<b>148,408</b>	<b>533,191</b>	<b>119,809</b>	<b>653,000</b>

#### 29.1.a

Name of the Professional Valuer	Location	Method of Valuation and Significant Unobservable Inputs	Range of Estimates for Unobservable Inputs
Mr. S. A. M. A. Perera F.I.V (Sri Lanka), Chartered valuer (MRICS UK)	No 385/1, Kotte Road, Pallegama, Embilipitiya.	Market Comparable Method	
		Price per perch	LKR.3,000,000/- P.P.
	No 102 & 104, Dam Street, Colombo 12.	Market Comparable Method	
		Price Per Square Foot	LKR.100/-
		Depreciation Rate	25%
	Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralesgamuwa	Capitalizing Rate	7%
		Market Comparable Method	
		Price Per Square Foot	LKR.160/-
		Depreciation Rate	40%
		Capitalizing Rate	8%

### Valuation techniques and sensitivity of the fair value measurement of the investment properties of the Group

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

Valuation Technique	Significant unobservable valuation inputs ( ranges of each property are given in the table above)	Sensitivity of the fair value measurements to inputs
This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value.	<ul style="list-style-type: none"> <li>* Price per perch for land</li> <li>* Price per square foot for building</li> <li>* Depreciation rate for building</li> </ul>	<p>Estimated fair value would increase/ (decrease) if;</p> <ul style="list-style-type: none"> <li>* Price per perch of land would (increase/ decrease)</li> <li>* Price per square foot for building would increase/(decrease)</li> <li>* Depreciation rate for building would increase/(decrease)</li> </ul>

29.1.b The Company has entered into an agreement with 71 tenants to sell the lease hold rights of the property at No. 102 & 104, Dam Street, Colombo 12 subject to the approval of Urban Development Authority (UDA). The date of the completion of this sale and the execution of the deed of transfer in favor of the purchaser in respect of lease hold rights of the premises shall be fixed subsequent to the registration of the said premises as a condominium unit and upon a condominium deed of declaration being executed and obtaining all necessary approvals from the UDA for such registration. However, the Company has not obtained the condominium status and other necessary approval from UDA to proceed selling the lease hold right agreement till the reporting date. MBSL shall expeditiously affect the transfer deeds contemplated by the agreement after having obtained the registration of the condominium plan and the condominium declaration and any other statutory approval from UDA and upon the balance payment of the purchase consideration settled in full.

## 30. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

### Accounting Policy

#### Basis of Recognition

Property and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

#### Basis of Measurement

An item of property and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property & equipment.

The Company and the Group apply the cost model to property & equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

# Notes to the Financial Statements

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

### Subsequent Cost

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property and equipment are charged to the Statement of Profit or Loss as incurred.

### Repairs and Maintenance

Repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

### Derecognition

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other operating income' in the Statement of Profit or Loss in the year the asset is de-recognised.

### Borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property & equipment during the year.

### 30.1 Company

	Freehold Land Rs.'000	Freehold Buildings Rs.'000	Motor Vehicles Rs.'000	Leasehold Vehicles Rs.'000	Computer Equipment Rs.'000	Office Equipment & Furniture Rs.'000	Right -of -use Assets Rs.'000	Total Rs.'000
<b>Cost</b>								
Balance as at 01 January 2020	14,000	-	125,553	4,585	394,700	475,392	670,171	1,684,401
Additions during the year	-	-	-	-	30,237	26,934	59,098	116,269
Disposals during the year	-	-	-	-	-	(280)	(8,488)	(8,768)
<b>Balance as at 31 December 2020</b>	<b>14,000</b>	<b>-</b>	<b>125,553</b>	<b>4,585</b>	<b>424,937</b>	<b>502,046</b>	<b>720,781</b>	<b>1,791,902</b>
Additions during the year	-	-	-	-	9,288	29,323	118,472	157,084
Disposals during the year	-	-	(5,208)	(4,585)	-	(1,198)	(161,312)	(172,304)
Adjustment due to verification	-	-	(1,395)	-	(129,078)	(147,935)	-	(278,407)
<b>Balance as at 31 December 2021</b>	<b>14,000</b>	<b>-</b>	<b>118,950</b>	<b>-</b>	<b>305,147</b>	<b>382,237</b>	<b>677,941</b>	<b>1,498,275</b>
<b>Accumulated Depreciation</b>								
Balance as at 01 January 2020	-	-	70,595	4,585	288,627	282,029	142,766	788,602
Charge for the year	-	-	16,711	-	46,074	37,235	153,264	253,284
On disposals	-	-	-	-	-	(186)	(8,488)	(8,674)
<b>Balance as at 31 December 2020</b>	<b>-</b>	<b>-</b>	<b>87,306</b>	<b>4,585</b>	<b>334,701</b>	<b>319,078</b>	<b>287,542</b>	<b>1,033,212</b>
Charge for the year	-	-	12,607	-	28,534	35,650	128,905	205,696
On disposals	-	-	(5,209)	(4,585)	-	(1,146)	(58,917)	(69,857)
Adjustment due to verification	-	-	(1,395)	-	(128,632)	(147,934)	-	(277,961)
<b>Balance as at 31 December 2021</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>93,310</b>	<b>234,603</b>	<b>205,648</b>	<b>357,530</b>	<b>891,090</b>
<b>Net book value</b>								
As at 31 December 2020								<b>758,690</b>
As at 31 December 2021								<b>607,185</b>



## 30.2 Group

	Freehold Land Rs.'000	Freehold Buildings Rs.'000	Motor Vehicles Rs.'000	Leasehold Vehicles Rs.'000	Computer Equipment Rs.'000	Office Equipment & Furniture Rs.'000	Right -of -use Assets Rs.'000	Total Rs.'000
<b>Cost</b>								
Balance as at 01 January 2020	14,000	-	125,791	4,585	453,498	551,684	698,372	1,847,930
Additions during the year	-	-	-	-	31,958	28,994	70,011	130,963
Disposals during the year	-	-	-	-	-	(419)	(9,021)	(9,440)
Balance as at 31 December 2020	14,000	-	125,791	4,585	485,456	580,259	759,362	1,969,453
Additions during the year	-	-	-	-	14,817	50,987	214,103	279,907
Disposals during the year	-	-	(5,208)	(4,585)	-	(1,198)	(161,312)	(172,304)
Adjustment due to verification	-	-	(1,395)	-	(129,078)	(147,935)	-	(278,407)
Balance as at 31 December 2021	14,000	-	119,188	-	371,195	482,112	812,154	1,798,649
<b>Accumulated Depreciation</b>								
Balance as at 01 January 2020	-	-	70,833	4,585	345,903	349,395	148,508	919,224
Charge for the year	-	-	16,712	-	47,167	40,394	158,343	262,616
On disposals	-	-	-	-	-	(186)	(8,488)	(8,674)
Balance as at 31 December 2020	-	-	87,545	4,585	393,070	389,603	298,363	1,173,166
Charge for the year	-	-	12,607	-	29,803	41,539	146,644	230,593
On disposals	-	-	(5,209)	(4,585)	-	(1,146)	(58,917)	(69,857)
Adjustment due to verification	-	-	(1,395)	-	(128,632)	(147,934)	-	(277,961)
Balance as at 31 December 2021	-	-	93,549	-	294,242	282,061	386,090	1,055,941
<b>Net book value</b>								
As at 31 December 2020								796,287
As at 31 December 2021								742,708

### Information on the Freehold Land and Buildings of the Company

Location	Name of the Professional Valuer	Method of Valuation	Date of Valuation*	Extent (Perches)	Revalued Amounts Land Rs.'000	Net Book Value Land Rs.'000	As a % of Total NBV
Kurunduwatta, Ekala	Mr. S. A. M. A. Perera F.I.V (Sri Lanka), Chartered valuer (MRICSuk)	Market Comparable Method	9 May 2019	1A-1R-27.93	125,000	14,000	893%

\* The Group has not revalued its freehold land during this year for consolidated accounting purposes, on the basis that changes in land prices were not significant compared to the last revaluation date

### Title Restriction on Property and Equipment

There were no restrictions existed on the title of the property and equipment of the Group as at the date of the Statement of Financial Position.

# Notes to the Financial Statements

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

### Property and Equipment Pledged as Security for Liabilities

There were no items of property and equipment pledged as securities for liabilities except for lease hold assets.

### Compensation from Third Parties for Items of Property and Equipment

There were no compensation received/receivable from third parties for items of property and equipment that were impaired, lost or given up.

### Fully Depreciated Property and Equipment

The cost of fully depreciated property and equipment of the Company and the Group which are still in use as at the date of the Statement of Financial Position as follows:

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Motor vehicles	58,735	46,475	58,735	46,475
Computer equipments	175,173	197,279	233,376	197,335
Equipment, furniture & fittings	54,861	180,432	111,117	180,484
<b>Total</b>	<b>288,769</b>	<b>424,186</b>	<b>403,228</b>	<b>424,294</b>

### Temporarily Idle Property and Equipment

There were no property and equipment of the Company and the Group that were temporarily idle as at the date of the Statement of Financial Position.

### Property and Equipment Retired from Active Use

There were no property and equipment of the Company and the Group were retired from active use as at the date of the Statement of Financial Position.

## 31. INTANGIBLE ASSETS

### Accounting Policy

#### Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Company and to the Group in accordance with the Sri Lanka Accounting Standard - LKAS 38 - 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are stated in the Statement of Financial Position at cost less any accumulated amortisation and any accumulated impairment losses if any.

#### Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

#### Useful Economic Lives

The useful economic lives of intangible assets are assessed to be either finite or indefinite.

#### Derecognition

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the assets is recognised in the Statement of Profit or Loss in the year the assets is de-recognised.

### 31.1 Company

	Computer Software Rs.'000	Total Rs.'000
<b>Cost</b>		
Balance as at 01 January 2020	325,336	325,336
Additions and improvements during the year	1,321	1,321
<b>Balance as at 31 December 2020</b>	<b>326,657</b>	<b>326,657</b>
Additions and improvements during the year	18,151	18,151
Adjustment due to verification	(43,364)	(43,364)
<b>Balance as at 31 December 2021</b>	<b>301,444</b>	<b>301,444</b>
<b>Accumulated amortisation</b>		
Balance as at 01 January 2020	145,081	145,081
Amortisation for the year	35,083	35,083
<b>Balance as at 31 December 2020</b>	<b>180,164</b>	<b>180,164</b>
Amortisation for the year	36,513	36,513
Adjustment due to verification	(43,811)	(43,811)
<b>Balance as at 31 December 2021</b>	<b>172,866</b>	<b>172,866</b>
<b>Net book value</b>		
As at 31 December 2020		146,493
<b>As at 31 December 2021</b>		<b>128,578</b>

### 31.2 Group

	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
<b>Cost</b>			
Balance as at 01 January 2020	373,527	18,193	391,720
Additions and improvements during the year	1,321	-	1,321
<b>Balance as at 31 December 2020</b>	<b>374,848</b>	<b>18,193</b>	<b>393,041</b>
Additions and improvements during the year	18,151	-	18,151
Adjustment due to verification	(43,364)	-	(43,364)
<b>Balance as at 31 December 2021</b>	<b>349,635</b>	<b>18,193</b>	<b>367,828</b>
<b>Accumulated amortisation and impairment</b>			
Balance as at 01 January 2020	186,067	18,193	204,260
Amortisation for the year	39,870	-	39,870
Disposals during the year	2	-	2
<b>Balance as at 31 December 2020</b>	<b>225,939</b>	<b>18,193</b>	<b>244,132</b>
Amortisation for the year	38,933	-	38,933
Adjustment due to verification	(43,814)	-	(43,814)
<b>Balance as at 31 December 2021</b>	<b>221,058</b>	<b>18,193</b>	<b>239,251</b>
<b>Net book value</b>			
As at 31 December 2020			148,909
<b>As at 31 December 2021</b>			<b>128,578</b>

# Notes to the Financial Statements

## 31. INTANGIBLE ASSETS (CONTD.)

### 31.2 Group (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	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Computer Software	26,947	96,856	37,343	96,866

There were no restrictions existed on the title of the intangible assets of the Company and the Group as at the Statement of Financial Position date. Further, there were no items pledged as securities for liabilities.

## 32. OTHER ASSETS

### Accounting Policy

The Company and the Group classify all their other assets as mainly comprise of advance payments, commercial paper and other receivables.

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Claims and commission receivables	-	14,148	-	14,148
Other receivables	95,743	70,872	141,291	108,920
Advances and pre payments	107,098	135,318	137,979	147,070
Other accounts	687,410	263,677	712,126	280,528
Reinsurance assets-insurance contracts	-	-	143,483	132,783
Insurance receivables	-	-	122,947	87,197
Commercial paper	-	107,700	-	107,700
	890,251	591,715	1,257,826	878,345
Less : Allowance for impairment losses	37,456	128,045	37,456	128,045
	852,795	463,670	1,220,370	750,300

### 33. DUE TO BANKS

#### Accounting Policy

Due to banks include bank overdrafts and long term and short-term loans obtained by the Company and the Group from banks. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method.

#### Securities Sold Under Repurchase Agreements

Securities sold under agreements to repurchase at a specified future date are recognised from the Statement of Financial Position as the Group retains substantially all the risks and rewards of ownership. The corresponding cash received is recognised in the Consolidated Statement of Financial Position as a liability with a corresponding obligation to return it, including accrued interest as a liability within 'Securities sold under repurchase agreements', reflecting the transaction's economic substance as a loan to the Group. The difference between the sale and repurchase prices is treated as interest expense and is accrued over the life of agreement using the EIR.

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Bank overdraft	775,211	349,402	791,703	355,231
Reverse repurchase agreements	86,018	664,952	86,018	664,952
Bank borrowings - Short-term loans	2,863,606	3,413,592	2,863,607	3,413,592
Bank borrowings - Long-term loans	391,977	1,008,736	391,977	1,008,736
	<b>4,116,812</b>	<b>5,436,682</b>	<b>4,133,305</b>	<b>5,442,511</b>

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

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Dues to banks	775,211	349,402	791,703	355,231
	<b>775,211</b>	<b>349,402</b>	<b>791,703</b>	<b>355,231</b>

#### 33.2 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2021

	Company/Group			
	Within one Year Rs.'000	1 - 5 Years Rs.'000	Over 5 Years Rs.'000	Total Rs.'000
Reverse repurchase agreements	86,018	-	-	86,018
Bank borrowings - Short-term loans	2,863,607	-	-	2,863,607
Bank borrowings - Long-term loans	-	391,977	-	391,977
	<b>2,949,625</b>	<b>391,977</b>	<b>-</b>	<b>3,341,602</b>

# Notes to the Financial Statements

## 33. DUE TO BANKS (CONTD.)

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

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

## 34. DUE TO CUSTOMERS AT AMORTISED COST

### Accounting Policy

Due to customers at amortised cost include fixed deposits and saving deposits. Subsequent to initial recognition, these are measured at their amortised cost using the Effective Interest Rate (EIR) method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are de-recognised as well as through the EIR amortisation process.

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
	Savings deposits	911,864	901,624	911,864
Time deposits	21,355,998	20,823,637	21,289,740	20,763,632
	<b>22,267,862</b>	<b>21,725,261</b>	<b>22,201,604</b>	<b>21,665,256</b>

### 34.1 Contractual Maturity Analysis of Customer Deposits

	2021			
	Within one Year Rs.'000	1 - 5 Years Rs.'000	Over 5 Years Rs.'000	Total Rs.'000
	<b>Company</b>			
Savings deposits	911,864	-	-	911,864
Time deposits	16,182,670	5,109,395	63,933	21,355,998
	<b>17,094,534</b>	<b>5,109,395</b>	<b>63,933</b>	<b>22,267,862</b>
<b>Group</b>				
Savings deposits	911,864	-	-	911,864
Time deposits	16,182,670	5,043,137	63,933	21,289,740
	<b>17,094,534</b>	<b>5,043,137</b>	<b>63,933</b>	<b>22,201,604</b>

### 34.2 Contractual Maturity Analysis of Customer Deposits

	2020			
	Within one	1 - 5	Over 5	Total
	Year	Years	Years	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Company</b>				
Savings deposits	689,555	112,803	99,266	901,624
Time deposits	14,659,348	6,100,991	63,298	20,823,637
	15,348,903	6,213,794	162,564	21,725,261
<b>Group</b>				
Savings deposits	689,555	112,803	99,266	901,624
Time deposits	14,659,348	6,040,986	63,298	20,763,632
	15,348,903	6,153,789	162,564	21,665,256

### 35. DEBT ISSUED AND BORROWED FUNDS AT AMORTISED COST

#### Accounting Policy

Debt issued represent the funds borrowed by the Company and the Group for long term and short term liquidity fund requirements. Subsequent to initial recognition, these are measured at their amortised cost using the EIR method. Amortised cost is calculated by taking into account any discount or premium on the issue and costs that are an integral part of the EIR. The EIR amortisation is included in 'interest expenses' in the Statement of Profit or Loss. Gains and losses are recognised in the Statement of Profit or Loss when the liabilities are de-recognised as well as through the EIR amortisation process.

As at 31 December	Note	Company		Group	
		2021	2020	2021	2020
		Rs.'000	Rs.'000	Rs.'000	Rs.'000
Debentures	35.3	2,107,182	2,107,492	2,107,182	2,107,492
Long term Loan - Securitization		274,397	461,336	274,397	461,336
<b>Total debt issued and borrowed funds</b>	35.1/35.2	<b>2,381,579</b>	<b>2,568,828</b>	<b>2,381,579</b>	<b>2,568,828</b>

#### 35.1 Contractual Maturity Analysis of Long Term Securitization - 2021

	Company/Group			
	Within one	1 - 5	Over 5	Total
	Year	Years	Years	
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Long term Loan - Securitization	274,397	-	-	274,397

#### 35.2 Contractual Maturity Analysis of Long Term Securitization - 2020

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

# Notes to the Financial Statements

## 35. DEBT ISSUED AND BORROWED FUNDS AT AMORTISED COST (CONTD.)

### 35.3 Debentures

ISIN No.	Face Value Rs.'000	Interest Rate	Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Company/Group Value as at	
								2021 Rs.'000	2020 Rs.'000
Fixed Rate Debentures									
LK0186D23824	805,760	15.00%	listed	Nil	Annually	03-May-17	02-May-22	884,668	884,981
LK0186D23816	1,193,230	14.50%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,221,480	1,220,256
LK0186D23808	1,010	10.00%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,033	2,255
<b>Total Debentures</b>	<b>2,000,000</b>							<b>2,107,182</b>	<b>2,107,492</b>

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

	2021				2020			
	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	2,107,182	-	-	2,107,182	-	2,107,492	-	2,107,492

Outstanding number of debentures as at 31 December 2021 consisted of 20,000,000 unsecured redeemable debentures of Rs. 100/- each issued by the Company.

The Company has not repurchased any of its own debt during the year. (2020: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2021 and 2020.

Debenture issue proceeds utilization as at 31st December 2021

No.	Objective as per the prospectus	Amount allocated as per prospectus LKR	Date of Utilization	Amount allocated from proceeds LKR (A)	% of Total Proceeds	Amount Utilized in LKR (B)	% of Utilization (B/A)	Clarification if not fully utilized
Issue of listed, unsecured, subordinated redeemable Debentures amounting LKR 2.0 Bn during the year 2017								
1.	The funds raised through this Debenture Issue utilized to increase the medium term fund base to match the medium to long term lending portfolio, to minimize the interest rate risk and the gap exposure in the Companies assets/liability portfolio, to provide investors an opportunity to earn a regular fixed income.	2,000,000,000	03-Mar-17	2,000,000,000	100%	2,000,000,000	100%	N/A
2.	To enhance Tier II Capital base of the Company. Tier II ratio of the Company as at 31st December 2016 stood at 10.69% and subsequent to this Debenture issue the Tier II ratio is expected to increase to 16.22%.					400,000,000	20%	Approved unsecured subordinated term debt are limited to 50% of Total Tier 1 Capital of the Company.



## 36. INSURANCE CONTRACT LIABILITIES

### Accounting Policy

#### 36.1 Valuation of life insurance fund

The valuation of life Insurance fund as at 31st December 2021 was made by Ms.Teja Ranade Gadhoke a qualified professional actuary who also determined and certified GPV basis the surplus of Rs 81.17 Mn before allocation of reversionary bonus to policies with contractual participation in profits, provision for contingencies, provision for solvency margin and any transfer to shareholders.

#### Liability adequacy test (LAT)

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.

#### 36.1.1 Insurance Contract Liabilities-Life

As at 31 December	Note	Group	
		2021 Rs.'000	2020 Rs.'000
Life fund balance as at 31st December	36.1.2	393,865	449,807
Unclaimed benefits		22,769	48,960
<b>Balance as at 31 December</b>		<b>416,634</b>	<b>498,767</b>

#### 36.1.2 Life insurance fund

The movement of Life insurance fund is as follows;

Balance as at 1st January	449,807	499,863
Increase/(Decrease) in life fund	(59,144)	(52,909)
	390,663	446,954
Movement of AFS reserve transferred to life fund	2,800	2,614
Actuarial gain on defined benefit plan	402	239
	393,865	449,807

#### 36.2 Accounting Policy

#### Liability adequacy test (LAT)

A Liability Adequacy Test ("LAT") for non life contract liability was carried out by Mr. J.S.A. Plugge for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31st December 2021 as required by SLFRS 4 -Insurance Contracts.

The IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at a 50th percentile of confidence, to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2021, in many but not all scenarios of future experience. The UPR provision of LKR 168,770,572 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of MBSL Insurance Co Ltd as at 31 December 2021, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

# Notes to the Financial Statements

## 36. INSURANCE CONTRACT LIABILITIES (CONTD.)

### 36.2 Accounting Policy (Contd.)

#### Insurance Contract Liabilities-Non Life

As at 31 December	Group	
	2021 Rs.'000	2020 Rs.'000
Provision for reported claims by policy holders	312,934	332,937
Provision for claims IBNR	29,834	18,804
<b>Outstanding Claims provision</b>	<b>342,768</b>	<b>351,742</b>
Provision for Unearned Premiums	168,771	137,043
<b>Total Non life insurance contract liabilities</b>	<b>511,538</b>	<b>488,784</b>

## 37. CURRENT TAX LIABILITIES

### Accounting Policy

The Group and the Company are subject to income taxes. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of laws, at the time of the preparation of these Financial Statements.

Current tax assets are recognised at historical values less impairment. Income tax liabilities are recorded at the amounts expected to be paid.

### 37.1 Current tax liabilities/(receivables)

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Current tax liabilities	178,898	14,831	178,898	14,831
Current tax receivables	-	-	-	-
<b>Balance at 01 January</b>	<b>14,831</b>	<b>14,851</b>	<b>14,831</b>	<b>14,851</b>
Current tax based on profit for the year	137,227	-	-	137,227
Other (reversal)/charge including settlements	31,846	15,757	31,846	15,757
ESC movement for the year	-	(15,777)	-	(15,777)
WHT movement for the year	(5,006)	-	(5,006)	-
Payment of tax	-	-	-	-
<b>Balance as at 31 December</b>	<b>178,898</b>	<b>14,831</b>	<b>178,898</b>	<b>14,831</b>

## 38. DEFERRED TAX LIABILITIES

### Accounting Policy

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

Net deferred tax (assets)/liabilities of one entity cannot be set-off against another entity's liabilities/(assets) since there is no legally enforceable right to set-off. Therefore, net deferred tax assets and liabilities of different entities are separately recognised in the Statement of Financial Position.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Net deferred tax asset	38.1	-	(52,760)	(4,111)	(102,065)
Net deferred tax liability	38.1	78,301	-	78,301	-
		78,301	(52,760)	74,190	(102,065)

### 38.1 Deferred Tax Movement - Company

	Accelerated Depreciation for Tax Purposes		Provision for Loan Losses Rs.'000	Retirement Benefit Obligation Rs.'000	Tax Losses on Operation Rs.'000	Right of Use Assets Rs.'000	T-Bond & Bills Rs.'000	Total Rs.'000
	Property, Plant & Equipment Rs.'000	Leased Assets Rs.'000						
<b>Company</b>								
Balance as at 01 January 2020	69,322	317,111	(87,234)	(76,077)	-	(10,604)	-	212,518
Profit or loss	3,021	(36,282)	(11,745)	(7,537)	(190,377)	(7,437)	-	(250,357)
Other comprehensive income	-	-	-	(14,921)	-	-	-	(14,921)
Balance as at 31 December 2020	72,343	280,829	(98,979)	(98,535)	(190,377)	(18,041)	-	(52,760)
Balance as at 01 January 2021	72,343	280,829	(98,979)	(98,535)	(190,377)	(18,041)	-	(52,760)
Due to rate reduction	(10,397)	(37,141)	14,140	11,945	27,197	2,577	-	8,321
Due to change in temporary differences	(7,209)	(98,402)	48,337	(6,885)	163,180	7,268	-	106,290
<b>Other comprehensive income</b>								
Due to rate reduction	-	-	-	2,132	-	-	-	2,132
Due to change in temporary differences	-	-	-	14,318	-	-	-	14,318
Balance as at 31 December 2021	54,737	145,286	(36,502)	(77,025)	-	(8,196)	-	78,301

## Notes to the Financial Statements

### 38. DEFERRED TAX LIABILITIES (CONTD.)

#### 38.1 Deferred Tax Movement - Group

	Accelerated Depreciation for Tax Purposes		Provision for Loan Losses Rs.'000	Retirement Benefit Obligation Rs.'000	Tax Losses on Operation Rs.'000	Right of Use Assets Rs.'000	T-Bond & Bills Rs.'000	Total Rs.'000
	Property, Plant & Equipment Rs.'000	Leased Assets Rs.'000						
<b>Group</b>								
Balance as at 01 January 2020	71,235	317,111	(87,234)	(79,037)	(264,121)	(10,135)	(202)	(52,383)
Profit or loss	2,345	(36,282)	(11,745)	(7,619)	26,911	(7,743)	-	(34,133)
Other comprehensive income	-	-	-	(14,921)	-	-	(628)	(15,549)
<b>Balance as at 31 December 2020</b>	<b>73,580</b>	<b>280,829</b>	<b>(98,979)</b>	<b>(101,577)</b>	<b>(237,210)</b>	<b>(17,878)</b>	<b>(830)</b>	<b>(102,065)</b>
Balance as at 01 January 2021	73,580	280,829	(98,979)	(101,577)	(237,210)	(17,878)	(830)	(102,065)
Due to rate reduction	(10,573)	(37,141)	14,140	12,379	33,887	2,554	-	15,246
Due to change in temporary differences	(7,604)	(98,402)	48,337	(6,912)	203,323	5,006	-	143,747
<b>Other comprehensive income</b>								
Due to rate reduction	-	-	-	2,132	-	-	119	2,250
Due to change in temporary differences	-	-	-	14,318	-	-	693	15,011
<b>Balance as at 31 December 2021</b>	<b>55,402</b>	<b>145,287</b>	<b>(36,502)</b>	<b>(79,660)</b>	<b>-</b>	<b>(10,318)</b>	<b>(18)</b>	<b>74,190</b>

### 39. OTHER LIABILITIES

#### Accounting Policy

Other liabilities include accrued expenses and other provisions. These liabilities are recorded at amounts expected to be payable as at the reporting date.

As at 31 December	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Accrued expenses		65,586	58,209	67,957	59,135
Lease liability	39.1	334,980	476,033	450,324	505,158
Payable to employees & suppliers		158,923	197,868	258,160	270,123
Insurance payable		-	-	100,352	71,202
Margin accounts		-	6,065	-	6,065
Other liabilities		204,629	102,661	393,119	276,733
		<b>764,118</b>	<b>840,836</b>	<b>1,269,913</b>	<b>1,188,416</b>

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

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Operating Lease				
Balance as at 01 January	476,033	541,470	505,158	562,256
Additions/(disposals)	(9,785)	43,032	85,646	45,867
Accretion of interest	51,553	64,081	62,772	72,191
Payments	(182,821)	(172,550)	(204,097)	(177,100)
Finance Lease				
Within 12 months	-	-	845	1,944
As at 31 December	334,980	476,033	450,324	505,158

The maturity analysis of lease liabilities are disclosed in Note 49.8

#### Sensitivity of right-of-used assets/lease liability to key assumptions

##### Sensitivity discount rates

1% increase/(decrease) in discount rate as at 31 December 2021 would have (decreased)/increased the lease liability by approximately Rs. -15.3 Mn with a similar (decrease)/increase in the right-of-used asset (2020 it was Rs. 14.617 Mn). Had the Company (decreased)/increased the discount rate by 1% , The Company's profit before tax for the year would have increased/(decreased) by approximately LKR Rs. 1.009 (2020 it Was 1.41 Mn).

The Group had total cash outflows for leases of Rs 203.3 Mn (2020: Rs 177 Mn).

## 40. RETIREMENT BENEFITS OBLIGATIONS

### Accounting Policy

The Group measures the present value of the promised retirement benefits for gratuity, which is a defined benefit plan with the advice of an independent professional actuary using the Projected Unit Credit (PUC) method as required by the Sri Lanka Accounting Standards - LKAS 19 - 'Employee Benefits'.

### Gratuity

In compliance with the Payment of Gratuity Act No.12 of 1983 provision is made in the accounts from the first year of service for gratuity payable to employees.

### Recognition of Actuarial Gains and Losses

The Group recognises the total actuarial gains and losses that arise in calculating the Group's obligation in respect of the plan in other comprehensive income during the period in which it occurs.

### Funding Arrangements

The gratuity liability is not externally funded.

# Notes to the Financial Statements

## 40. RETIREMENT BENEFITS OBLIGATIONS (CONTD.)

### Accounting Estimates

The actuarial valuation involves making demographic & financial assumptions as mentioned in Note 40.2

The mortality rates represent the probabilities of “death” occurring within one year of any given age based on publicly available A 67/70 mortality table issued by Institute of Actuaries, London.

In determining the appropriate long term rate of discount management considers market rates of interest on long term Corporate Bonds/ Government Bonds and the anticipated long term rate of inflation.

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01 January	351,906	271,700	363,816	283,558
Expense recognised during the year	48,608	56,674	51,162	59,739
Payment made during the year	(19,922)	(29,758)	(21,111)	(31,837)
Actuarial gains/(losses) recognised in the Statement of Other Comprehensive Income	(59,658)	53,290	(61,143)	52,356
<b>Balance as at 31 December</b>	<b>320,934</b>	<b>351,906</b>	<b>332,724</b>	<b>363,816</b>

### 40.1 Expense Recognised in the Statement of Profit or Loss

Current service cost	24,326	28,961	26,047	30,841
Interest cost	24,282	27,713	25,115	28,898
<b>Expense recognised during the year</b>	<b>48,608</b>	<b>56,674</b>	<b>51,162</b>	<b>59,739</b>
Gratuity payable and forfeited the payment in 2020	-	(179)	-	(179)
<b>Expense recognised in the Statement of Profit or Loss</b>	<b>48,608</b>	<b>56,495</b>	<b>51,162</b>	<b>59,560</b>

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2020 by Messrs Actuarial & Management Consultants (Pvt) Ltd, a firm of professional actuaries. The valuation method used by the actuary to value the liability is the ‘Projected Unit Credit, the method recognised by the Sri Lanka Accounting Standard - LKAS 19 - ‘Employee Benefits’.

### 40.2 Actuarial Assumptions

	Company	
	2021	2020
<b>Financial Assumptions</b>		
Discount rate	11.50%	10.20%
<b>Demographic Assumptions</b>		
Mortality	A 1967/70 Mortality Table	A 1967/70 Mortality Table
Disability	10% of the Mortality Table	10% of the Mortality Table
Retirement age	refer note 40.3 below	55 and 60 years

40.3 The Retirement Benefit Plan of the Company was amended due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 of 2021.

As on 17 Nov 2021, employees who have attained the age of	Retirement age
Less than 52 years	60 years
53 years	59 years
54 years	58 years
55 years	57 years

The resulting change in the present value of defined benefit obligation was recognised in profit or loss as a past service income of LK Rs. 37.2 Mn (2020: nil)

Expected average working life of the active participants is 5.71 years as of 31 December 2021 (6.94 years as of 31 December 2020)

#### 40.4 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and Statement of Financial Position is the effect of the assumed changes in discount rate on the profit or loss and employment benefit obligation for the year.

Increase/(Decrease) in Discount Rate	2021		2020	
	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year Rs.'000	Sensitivity Effect on Employment Benefit Obligation Increase / (Decrease) in the Liability Rs.'000	Sensitivity Effect on the Statement of Profit or Loss Increase/(Reduction) in Results for the Year Rs.'000	Sensitivity Effect on Employment Benefit Obligation Increase/(Decrease) in the Liability Rs.'000
1%	(15.75)	(15.75)	(20.66)	(20.66)
(1%)	17.46	17.46	23.15	23.15

#### Maturity Profile of the Defined benefit Obligation

	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Within the next 12 months	47,707	62,431	47,777	62,431
Between 1-2 years	96,166	46,106	96,166	46,593
Between 2-5 years	56,235	88,587	67,143	100,010
Between 5-10 years	73,747	78,102	74,202	78,102
Beyond 10 years	47,080	76,680	47,436	76,680
<b>Total</b>	<b>320,935</b>	<b>351,906</b>	<b>332,724</b>	<b>363,816</b>

# Notes to the Financial Statements

## 41. STATED CAPITAL

As at 31 December	Company		Group	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Issued and fully paid ordinary shares	2,124,457	2,124,457	2,124,457	2,124,457
Issue of ordinary shares through right issue	2,151,991	-	2,151,991	-
<b>Balance as at 31 December</b>	<b>4,276,448</b>	<b>2,124,457</b>	<b>4,276,448</b>	<b>2,124,457</b>

As at 31 December	Company		Group	
	2021	2020	2021	2020
	No. of Shares	No. of Shares	No. of Shares	No. of Shares
No. of shares in issue	165,874,541	165,874,541	165,874,541	165,874,541
Rights issue-shares	358,665,096	-	358,665,096	-
<b>Balance as at 31 December</b>	<b>524,539,637</b>	<b>165,874,541</b>	<b>524,539,637</b>	<b>165,874,541</b>

### Rights issue of shares

On 27 September 2021 the Company raised capital of LKR 2,151,990,576/- through a rights issue by issuing 358,665,096 shares at an exercise price of LKR 6/- per share.

### Rights issue proceeds utilization as at 31st December 2021

No.	Objective as per the prospectus	Amount allocated as per prospectus LKR	Date of Utilization	Amount allocated from proceeds LKR (A)	% of Total Proceeds	Amount Utilized in LKR (B)	% of Utilization (B/A)	Clarification if not fully utilized
Issue of rights issue amounting LKR 2,151,990,642 during the year 2021								
1.	The funds raised through this Rights Issue utilized to increase the long term fund base to match the medium to long term lending portfolio, to minimize the interest rate risk and the gap exposure in the Companies assets/liability portfolio.	2,239,306,302	27/9/2022	2,151,990,576	96%	2,151,990,576	100%	N/A
2.	To enhance Tier I Capital base of the Company. Tier I ratio of the Company as at 31st December 2020 stood at 4.41% and subsequent to this Rights issue the Tier I ratio of the Company as at 30th September 2021, increased to 11.56%.					2,151,990,576	100%	100% of the capital is taken for Tier I.



## 42. RESERVES

### 42.1 Statutory Reserves

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01 January	234,613	234,613	234,613	234,613
Add: Transfers during the year	105,383	-	105,383	-
<b>Balance as at 31 December</b>	<b>339,996</b>	<b>234,613</b>	<b>339,996</b>	<b>234,613</b>

Statutory reserve represents the reserve fund of the Company created in terms of the Finance Companies (Capital Funds) Direction No. 01 of 2003 issued by the Central Bank of Sri Lanka.

### 42.2 Retained Earnings

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01 January	(893,794)	252,880	(714,093)	105,118
Add: Profit for the year	529,044	(1,108,305)	525,073	(780,666)
Transfers to statutory reserves	(105,383)	-	(105,383)	-
Other comprehensive income	43,209	(38,369)	43,828	(38,545)
Transaction cost related to rights issue	(923)	-	(923)	-
<b>Balance as at 31 December</b>	<b>(427,847)</b>	<b>(893,794)</b>	<b>(251,497)</b>	<b>(714,093)</b>

### 42.3 OCI Reserve

As at 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01 January	2,575	(4,162)	3,157	(9,099)
Add: Gains/(losses) on remeasuring financial investments at FVTOCI	(22,217)	6,737	(27,017)	12,256
<b>Balance as at 31 December</b>	<b>(19,642)</b>	<b>2,575</b>	<b>(23,860)</b>	<b>3,157</b>

### Other Financial Disclosures

This section provides information on related party disclosures and other disclosures required by the Sri Lanka Accounting Standards.

# Notes to the Financial Statements

## 43. 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'.

### 43.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 and the Directors of the parent company (including executive and non-executive directors), chief executive officer and corporate management committee have been classified as KMP of the Company and the Group.

### 43.b Directors Interest in Contracts/ Transactions with Related Parties

Mr. K. Ratwatte, Mr. A. M. A. Perera, Mr. N. S. Punchihewa, Mr. W. P. R. P. H. Fonseka, Mr. M. P. R. Kumara, Mr. G. A. Jayashantha, Mr. J. D. V. N. Jayasinghe, Mr. R. M. N. Jeewantha and Mr. H.P.K. Silva were directors of the Company as at 31 December 2021.

### 43.c Transactions with Key Management Personnel and their Close Family Members

#### Remuneration to Key Management Personnel

For the year ended 31 December	Company		Group	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>(a) Remuneration to Board of Directors</b>				
Short term employees benefits	4,342	1,616	4,342	11,766
	4,342	1,616	4,342	11,766
<b>(b) Remuneration to Corporate Management</b>				
Short term employees benefits	76,623	41,296	76,623	73,823
Post employment benefits	3,875	-	3,875	-
	80,498	41,296	80,498	73,823

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

	Board of Directors		Corporate Management	
	2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
<b>(a) Items in the Statement of Financial Position</b>				
Assets - Loan and receivables	-	-	8,411	16,921
Liabilities - Due to customers	4,354	10,453	2,585	1,631
<b>(b) Items in the Statement of Profit or Loss</b>				
Interest income	-	-	672	92
Interest expense	26	74	80	15

In addition to the above, the Company has also provided company maintained vehicles to the Chairman, Chief Executive officer and three members in Corporate Management team of the Company in line with the approved employment terms of the Company.

#### Share Transactions With Key Management Personnel

As at 31 December	Company	
	2021	2020
No. of ordinary shares held	-	24

43.d Details of significant related party transactions that have been carried out in the ordinary course of business in an arms length basis with entities are disclosed below.

Company	Nature of Transactions	Income/(Expenses) Recognised During the Year		Assets/(Liabilities) as at 31 December		Net Accomodation as a % of capital funds as at 31.12.2021
		2021	2020	2021	2020	
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	
<b>Transactions with parent company</b>						
Bank of Ceylon	Money market loan	(58,813)	(117,356)	-	(700,000)	-
	Debenture	(56,414)	(120,972)	(771,780)	(771,780)	-
	Current accounts	(1,395)	(1,239)	66,152	78,047	-
	Investments in Repo	3,707	21	-	-	-
	Term loan obtained	(45,603)	(88,083)	(391,977)	(673,481)	-
<b>Transactions with subsidiary</b>						
MBSL Insurance Company Limited	Loans granted	42,503	49,283	171,924	240,957	8%
	Impairment on loans granted	(3,127)	(1,639)	(4,497)	(7,624)	-
	Fixed Deposits and savings	(6,258)	(3,669)	(66,258)	(60,005)	-
	Insurance agency commission	17,229	15,970	-	-	-
	Insurance expenses	(20,466)	(21,627)	-	-	-
	Loans granted to Key management personnel of MBSL Insurance Company Limited	11,444	1,511	76,836	67,132	3%
<b>Transactions with associate</b>						
Lanka Securities (Pvt) Ltd	Loans granted	72	57	154	439	0.007%
	Dividend received	43,496	-	-	-	-
<b>Transactions with other companies</b>						
BOC Property Development and Management Company Limited	Rent paid	(96,740)	(83,498)	-	-	-
	Electricity, water, office maintenance	(10,380)	(10,984)	-	-	-

Transactions exceeding 10% of the gross income of the Company

Name of the related party	Relationship	Nature of the transaction	Transaction value		Transaction value as a % of gross income		Terms and conditions	
			2021 Rs.'000	2020 Rs.'000	2021 %	2020 %	2021	2020
Bank of Ceylon	Parent Company	Money market loans obtained	8,905,000	8,886,000	149%	171%	Normal terms	Normal terms
		Investments in Repo	16,728,365	120,000	280%	2%	Normal terms	Normal terms

# Notes to the Financial Statements

## 44. EVENTS AFTER THE REPORTING PERIOD

### Surcharge Tax

The Government of Sri Lanka in its Budget proposals 2022 has proposed a one-time tax, to be called as 'Surcharge Tax' at the rate of 25% to be imposed on companies earned a taxable income in excess of Rs 2,000 Mn for the Year of Assessment 2020/2021. If the aggregate taxable income of a group of companies exceeds Rs 2,000 Mn, each company of the group of companies will be liable for surcharge tax.

The proposed tax shall be deemed to be an expenditure in the Financial Statements of 2020. The Bill introducing the proposed tax was published on 7th February 2022. Accordingly, the proposed tax has not been substantively enacted by the end of the reporting period. Therefore, the Financial Statements have not been adjusted to reflect the consequences of this proposal. No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements of the Bank/Group, other than those disclosed above.

## 45. GOING CONCERN OF SUBSIDIARY

### Going Concern of MBSL Insurance Company Limited (MBSLI)

The Management has made an assessment of the company's ability to continue as a going concern and is satisfied that the MBSLI has the resources to continue in business for the foreseeable future. Furthermore, Management is not aware of any material uncertainties except for Serious Loss of Capital that may cast significant doubt upon the MBSLI ability to continue as a going concern. The Company expects to generate profits within the MBSLI to increase the net assets position of the company. In this regard, the MBSLI has made the following plans to improve the capital adequacy and the profitability. Therefore, the Financial Statements continue to be prepared on a going concern basis.

- \* Discontinue the new businesses of Life insurance operation and continue only the General insurance operations of the company. This will reduce new capital requirements for the business and strengthen the business expansion strategies of General Insurance Business.
- \* Introduce new innovative products to targeted business segments.
- \* Develop business generated through captive business of the Group.
- \* Strengthen agency channel and relationship with business intermediaries.
- \* Improve the effectiveness and efficiency of the claims management processes.
- \* Revamp the operational activities to provide a superior service to customers.
- \* Expand the branch network to reach the customers island wide and provide a convenient service for them.

## 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, 2021.

	Reference	Company			Group		
		Current Presentation	As Reported Previously 2021	Impact 2020	Current Presentation	As Reported Previously 2021	Impact 2020
		Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
<b>Statement of Financial Position</b>							
<b>Assets</b>							
Cash and cash equivalents	1	683,924	742,106	58,182	2,205,265	2,263,447	58,182
Placements with banks & financial institutions	1	357,928	299,746	(58,182)	836,780	778,598	(58,182)
Real estate stock	2	330,188	328,824	(1,364)	330,188	328,824	(1,364)
Other assets	3	463,670	418,048	(45,622)	750,300	704,678	(45,622)
<b>Liabilities</b>							
Other liabilities	2,3	840,836	793,849	46,987	1,188,416	1,141,429	46,987

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

1. Debenture repo investment which was categorized under cash & cash equivalent, has been reclassified under placements with banks & financial institutions.
2. Real estate loan disbursement which was categorized under the real estate stock, has been reclassified under other liabilities.
3. Real estate advanced received which was categorized under other assets, has been reclassified under other liabilities.

#### **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 are subject to risks and rewards that are different from those of other segments).

Segment results, assets and liabilities include items directly attributable to a segment as well as those that can be allocated on a reasonable basis.

The accounting policies adopted for segment reporting are those accounting policies adopted for preparing the Financial Statements of the Group.

Inter -segment transfers are accounted for at competitive fair market prices charged to intercompany counterparts for similar services. Such services are eliminated on consolidation.

As per the provision of Sri Lanka Financial Reporting Standards (SLFRS 8), the operating segment of the Group has been identified based on the products and services offered by the Group of which level of risks and rewards are significantly differ from one another.

Top management of the Group considers the operating results and condition of its business segment in their decision making process and performance evaluation. Types of products and services from which each operating segment derives its revenues describes as follows:

##### **Lease and Hire-Purchase**

This segment includes lease and hire purchase products offered to the customers.

##### **Loans and Receivables**

This segment includes loan products offered to the customers.

##### **Corporate Advisory and Capital Markets**

This segment includes capital market and corporate advisory services.

##### **Insurance**

Insurance business segment includes life and general insurance.

##### **Eliminations/Other**

This segment includes all other business activities other than the above segments

# Notes to the Financial Statements

## 47. FINANCIAL REPORTING BY SEGMENT (CONTD.)

Group

As at 31 December	Leasing		Loans and Receivables	
	2021 Rs. '000	2020 Rs. '000	2021 Rs. '000	2020 Rs. '000
<b>Revenue from external customers</b>				
Interest and similar income	2,770,002	2,246,514	2,374,395	2,336,275
Interest and similar expenses	1,021,909	1,387,838	1,055,386	1,423,469
<b>Net interest income</b>	<b>1,748,093</b>	<b>858,676</b>	<b>1,319,009</b>	<b>912,806</b>
Net fee and commission income	101,139	35,755	31,494	4,858
Real estate profit	-	-	48,818	18,664
Other income	40,008	9,685	7,468	1,686
<b>Total operating income</b>	<b>1,889,240</b>	<b>904,116</b>	<b>1,406,789</b>	<b>938,014</b>
Impairment (charges)/reversal for loans and other losses	20,163	(290,811)	(77,501)	(272,620)
<b>Net operating income</b>	<b>1,909,402</b>	<b>613,305</b>	<b>1,329,288</b>	<b>665,393</b>
Personnel expenses	458,498	428,691	473,517	439,719
Depreciation and amortisation	93,619	114,348	96,685	117,289
Other operating expenses	234,457	224,509	242,137	230,284
<b>Segment result</b>	<b>1,122,830</b>	<b>(154,243)</b>	<b>516,948</b>	<b>(121,899)</b>
<b>Profit/(loss) before VAT on financial services</b>				
Taxes on financial services				
Share of associate company's profit/(loss) before tax				
<b>Profit/(Loss) before income tax</b>				
Income tax expense/(reversal)				
<b>Profit/(Loss) for the year</b>				
<b>Assets</b>				
Capital expenditures				
Property, equipment and right-of-use assets	12,908	53,546	14,064	52,582
Intangible assets	6,068	540	6,612	531
<b>Total segment assets</b>	<b>11,895,429</b>	<b>13,307,943</b>	<b>12,960,735</b>	<b>13,068,275</b>
<b>Total segment liabilities</b>	<b>10,494,638</b>	<b>11,984,579</b>	<b>11,434,494</b>	<b>11,768,744</b>

Corporate Advisory & Capital Markets		Insurance		Eliminations/ Other		Total	
2021	2020	2021	2020	2021	2020	2021	2020
Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
187,674	48,336	75,504	105,861	193,885	319,512	5,601,459	5,056,499
175,816	64,880	6,933	(646)	422,477	656,603	2,682,522	3,532,144
11,858	(16,544)	68,570	106,507	(228,593)	(337,090)	2,918,937	1,524,355
511	627	28,357	8,646	13,871	53,581	175,372	103,467
-	-	-	-	-	-	48,818	18,664
93,495	86,399	124,174	84,035	69,718	4,047	334,863	185,852
105,864	70,483	221,102	199,188	(145,003)	(279,462)	3,477,991	1,832,338
47,807	6,614	-	-	(64,918)	(6,614)	(74,450)	(563,431)
153,670	77,097	221,102	199,188	(209,922)	(286,077)	3,403,541	1,268,907
14,337	14,655	160,544	144,596	254,098	208,921	1,360,994	1,236,582
275	272	27,317	14,119	54,535	59,363	272,431	305,392
40,338	10,332	135,779	102,895	96,929	106,757	749,639	674,777
98,721	51,839	(102,538)	(62,422)	(615,484)	(661,118)	1,020,477	(947,844)
						1,020,477	(947,844)
						(294,268)	-
						109,490	20,212
						835,700	(927,632)
						(358,399)	18,550
						477,301	(909,082)
3,908	2,957	27,192	10,913	7,731	10,964	65,804	130,963
1,837	30	-	-	3,634	221	18,151	1,321
3,601,281	734,879	687,587	1,806,216	7,124,625	5,437,312	36,269,657	34,354,625
3,177,199	661,801	1,634,171	1,593,827	4,763,994	6,222,258	31,504,496	32,231,209

# Notes to the Financial Statements

## 47. FINANCIAL REPORTING BY SEGMENT (CONTD.)

Group

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000
<b>Revenue from external customers</b>			
Interest and similar income	2,508,198	457,241	650,905
Interest and similar expenses	2,299,661	125,563	42,339
<b>Net interest income</b>	<b>208,537</b>	<b>331,678</b>	<b>608,566</b>
Net fee and commission income	74,595	16,663	19,163
Real estate profit	48,818	-	-
Other income	324,038	3,222	1,499
<b>Total operating income</b>	<b>655,988</b>	<b>351,563</b>	<b>629,228</b>
Impairment (charges)/reversal for loans and other losses	96,921	(23,028)	(64,133)
<b>Net operating income</b>	<b>752,909</b>	<b>328,535</b>	<b>565,095</b>
Personnel expenses	1,018,182	57,656	88,638
Depreciation and amortisation	239,773	4,104	7,851
Other operating expenses	556,642	30,994	43,627
<b>Segment result</b>	<b>(1,061,689)</b>	<b>235,781</b>	<b>424,978</b>
<b>Profit/(loss) before VAT on financial services</b>			
Taxes on financial services			
Share of associate company's profit/(loss) before tax			
<b>Profit/(Loss) before income tax</b>			
Income tax expense/(reversal)			
<b>Profit/(Loss) for the year</b>			
<b>Assets</b>			
<b>Capital expenditures</b>			
Property, equipment and right-of-use assets	43,394	4,970	1,919
Intangible assets	18,151	-	-
<b>Total segment assets</b>	<b>21,818,704</b>	<b>2,311,769</b>	<b>2,980,940</b>
<b>Total segment liabilities</b>	<b>27,232,173</b>	<b>1,454,187</b>	<b>345,665</b>



North Western Rs.'000	Uva Rs.'000	North Central Rs.'000	Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2021 Rs.'000
750,349	151,066	271,571	211,288	266,790	334,051	5,601,459
165,034	2,448	9,238	8,787	7,645	21,806	2,682,522
585,315	148,617	262,333	202,501	259,145	312,245	2,918,937
28,940	4,695	12,932	6,308	8,810	3,266	175,372
-	-	-	-	-	-	48,818
2,580	598	758	59	586	1,524	334,864
616,835	153,910	276,023	208,868	268,541	317,035	3,477,991
(43,390)	(3,951)	(20,908)	(4,349)	(7,741)	(3,871)	(74,450)
573,445	149,959	255,115	204,519	260,800	313,164	3,403,541
67,687	16,459	31,229	23,773	31,891	25,476	1,360,993
7,352	2,034	2,942	2,460	3,025	2,889	272,431
48,921	8,197	14,809	10,957	13,555	21,937	749,639
449,484	123,270	206,135	167,329	212,328	262,863	1,020,478
						1,020,478
						(294,268)
						109,490
						835,700
						(358,399)
						477,301
1,900	1,754	5,957	226	46	5,639	65,804
-	-	-	-	-	-	18,151
3,277,431	692,515	1,260,436	976,399	1,233,564	1,717,899	36,269,657
1,740,863	40,731	152,217	98,300	121,362	318,997	31,504,496

# Notes to the Financial Statements

## 47. TOTAL OPERATING INCOME (CONTD.)

### Group

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000
<b>Revenue from external customers</b>			
Interest and similar income	2,323,956	411,328	615,571
Interest and similar expenses	3,044,942	156,641	38,048
<b>Net interest income</b>	<b>(720,986)</b>	<b>254,687</b>	<b>577,523</b>
Net fee and commission income	39,758	10,840	12,333
Real estate profit	18,664	-	-
Other income	182,121	1,113	1,202
<b>Total operating income</b>	<b>(480,443)</b>	<b>266,639</b>	<b>591,058</b>
Impairment (charges)/reversal for loans and other losses	(263,263)	(27,822)	(76,186)
<b>Net operating income</b>	<b>(743,706)</b>	<b>238,818</b>	<b>514,872</b>
Personnel expenses	924,843	51,622	78,626
Depreciation and amortisation	270,948	4,249	7,952
Other operating expenses	494,364	29,858	43,677
<b>Segment result</b>	<b>(2,433,862)</b>	<b>153,089</b>	<b>384,617</b>
Impairment reversal/(Impairment) of investment in subsidiary			
<b>Profit/(loss) before VAT on financial services</b>			
Taxes on financial services			
Share of associate company's profit/(loss) before tax			
<b>Profit/(Loss) before income tax</b>			
Income tax expense/(reversal)			
<b>Profit/(Loss) for the year</b>			
<b>Assets</b>			
<b>Capital expenditures</b>			
Property, equipment and right-of-use assets	96,942	385	2,046
Intangible assets	312,588	2,650	2,240
<b>Total segment assets</b>	<b>19,251,560</b>	<b>2,238,683</b>	<b>3,285,304</b>
<b>Total segment liabilities</b>	<b>27,383,151</b>	<b>1,549,890</b>	<b>331,349</b>

North Western Rs.'000	Uva Rs.'000	North Central Rs.'000	Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2020 Rs.'000
710,010	123,321	221,881	151,090	254,854	244,489	5,056,499
232,599	4,020	11,471	12,959	8,002	23,461	3,532,144
477,411	119,301	210,410	138,131	246,852	221,028	1,524,355
17,042	4,371	5,755	4,155	6,603	2,611	103,467
-	-	-	-	-	-	18,664
1,184	10	53	-	109	59	185,852
495,637	123,681	216,218	142,285	253,564	223,698	1,832,338
(97,870)	(6,879)	(43,383)	(9,545)	(21,301)	(17,181)	(563,431)
397,767	116,802	172,834	132,741	232,263	206,517	1,268,907
60,207	14,746	31,573	19,390	30,100	25,475	1,236,582
8,734	1,948	2,715	2,402	3,403	3,039	305,390
40,951	7,943	13,797	10,587	13,904	19,697	674,779
287,874	92,165	124,749	100,362	184,855	158,306	(947,844)
						-
						(947,844)
						-
						20,212
						(927,632)
						18,550
						(909,082)
1,876	514	793	875	1,842	2,229	107,502
2,724	548	1,147	548	991	568	324,003
3,844,022	678,516	1,336,962	1,002,964	1,308,935	1,407,679	34,354,625
2,277,395	48,347	155,902	118,272	93,605	273,299	32,231,210

# 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	
	2021	2020	2021	2020
	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Financial guarantees & claims to the customers	102,400	107,800	137,867	177,514
<b>Total Commitments and Contingencies</b>	<b>102,400</b>	<b>107,800</b>	<b>137,867</b>	<b>177,514</b>

In the normal course of business, the Company makes various irrevocable commitments and incurs certain contingent liabilities with legal recourse to its customers. Even though these obligations may not be recognised on the Statement of Financial Position, they do contain credit risk and therefore form part of the overall risk of the Company. No material losses are anticipated as a result of these transactions.

### Pending Litigations

In the normal course of business, the Company incurs certain contingent liabilities with legal recourse to its customers and would be party to litigation due to its operations. Accordingly, set out below are the unresolved legal claims against the Company as at December 31, 2020 for which, adjustments to the Financial Statements have not been made due to the uncertainty of its outcome. In addition, there are cases filed against the Company that has not been listed here on the basis of non-materiality and significance to operations.

No.	Action / Case No.	Purpose / Cause of Action	Current status	Claim amount
1	4124/M DC - Gampaha	The Lessee/ Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle. However the injunction sought by the lessee/ plaintiff preventing MBSL from disposing the vehicle in issue was disallowed.	Facility has been fully Settled and Case withdrawn by the plaintiff on 23/02/2022	LKR 1,000,000
2	23840/M DC – Anuradhapura	The Lessee/ Plaintiff filed this action claiming damages for wrongful re-possession of the vehicle and seeking a declaration to the effect that MBSL has violated the provisions of the Lease Agreement.	Further Trial on 25/04/2022	Damages for wrongful re-possession (Case Value LKR 7.5 Mn)
3	DMR/3675/11 DC - Colombo	This action has been filed against MBSL to recover Rs.2,500,000/- as damages for refusal to grant a Hire Purchase facility.	Further Trial on 08/04/2022	LKR 2,500,000
4	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 29/03/2022	LKR 50,761,866.10 together with interest at the rate of 14% per annum on the said sum from 27/07/2021 until the Decree and legal interest from the date of the Decree until payment in full

No.	Action / Case No.	Purpose / Cause of Action	Current status	Claim amount
5	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.	Trial on 09/06/2022	LKR 37,617,567 together with legal interest from 29/12/2015 till the Decree and interest at the rate of 25% on the same from the date of the decree until payment in full
6	DMR/8867/09 - DC Colombo (WP/HCCA/Col/302/15)	This action has been filed by the defendant against MCSL Financial Services Limited seeking an order for damages caused to the plaintiff by wrongful conduct of the defendant (MCSL).	Appeal made by the plaintiff against the judgement delivered in favour of MBSL & the appeal was allowed on 12/06/2020. Matter refixed for trial on 04/05/2022 in District Court Colombo	LKR 11,000,000
7	4977/SPL - DC Colombo	This case has been filed against MCSL Financial Services Limited and 3 others in 1997. Plaintiff is seeking an order declaring Mortgage Bond No 77 dated 02-10-1995 attested by Mihirun Nisha Nachchiya Abdeen, Notary Public null and void.	Further Trial on 08/07/2022	Sum of Rs. 5,000,000 as damages together with interest at the rate of 24% per annum from 02/10/1995
8	DSP 115/2016 DC - Colombo	This action has been instituted by the Customer seeking a Restitution integrum order with regard to the Leased vehicle and an interim injunction restraining MBSL from disposing the vehicle from the District Court of Colombo.	Ex-Parte Judgment given in favour of MBSL on 27/08/2019. Decree has been filed	LKR 2,534,814
9	CHC/215/2015/ MR (COMMERCIAL HIGH COURT) (DMR785/2013)	Plaintiffs are the Shareholders of MBSL (formally MBSL Savings Bank Ltd) and they have instituted an action in the District Court of Colombo (Case No. DMR/785/13) claiming Rs.3,841,000/- for the shares they have invested amounting to Rs.2,400,000/-. This case has been subsequently transferred to Commercial High Court.	Trial on 31/05/2022	LKR 3,841,600

## Notes to the Financial Statements

### 48. CONTINGENT LIABILITIES AND COMMITMENTS (CONTD.)

No.	Action / Case No.	Purpose / Cause of Action	Current status	Claim amount
10	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 MBSL is the absolute owner, MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However, as per the terms and conditions incorporated in the Hire Purchase Agreement the liability falls entirely on the registered owner and the Insurer.	Further Trial on 05/04/2022	LKR 35,050,000
11	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.	Trial on 19/05/2022 & 28/06/2022	LKR 9,000,000
12	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 30/03/2022	LKR 9,000,000 together with the legal interest there on from 23rd Aug. 2017 up to the Decree and the legal interest thereof up to the date of payment in full
13	115/2015 - DC Hingurakgoda	This action has been filed by an accident victim against the the Driver, Registered Owner, and MBSL seeking damages for causing serious injuries to him in an accident involving the leased vehicle. As MBSL is the absolute owner of the vehicle MBSL has been made a party to this action in accordance with the relevant legal provisions pertaining to the concept of vicarious liability. However as per the terms and conditions incorporated in the Lease Agreement the liability falls entirely on the registered owner and the Insurer.	Further Trial on 24/03/2022	LKR 2,000,000
14	DLM/151/19 DC Colombo	This action is filed against MBSL by the previous owner of the property based on constructive trust. The subject property had been transferred to MCSL prior to the merger by the previous owner in settlement of the dues of facilities granted by MCSL to the customer with a subsequent Buy Back Agreement and upon entering into lease agreement with the previous owner.	Further pre-Trial 02/06/2022	LKR 1,000,000,000 and interest on the same from September 2019 and interest on the Decreed amount until payment in full

No.	Action / Case No.	Purpose / Cause of Action	Current status	Claim amount
15	DMR 2793/2020 DC - Colombo	The Plaintiff has instituted this action against MBSL for wrongful termination of a HP Facility.	Pre - Trial on 25/04/2022	LKR 10,000,000
16	HC/ ALT/102/19 (LT Application No. LT/02/676/2016)	This is an Appeal seeking to set aside the order given by the Labour Tribunal of Colombo against MBSL in respect of the LT Application made by an ex-employee of MBSL (Former MCSL Financial Services Ltd).	Judgement on 24/05/2022	"MBSL has duly made payment in a sum of Rs. 6,178,253/- (being the total sum specified as back wages/compensation in terms of the Order made at the labour tribunal) to the credit of the Labour Tribunal Case in satisfaction of the pre-requisite for the filing of an appeal in the Provincial High Court of Holden in Colombo under appeal bearing No. HCALT 102/19 filed on 24th December 2019 praying Orders as follows; a) Setting aside the labour tribunal order dated 26/11/2019; b) Dismissing the application made by the applicant (Mr. Bakmeewewa) before the Labour tribunal ; c) For cost & such other further relief as the court shall seem meet"
17	CA/TAX/43/2019 Court of Appeal	An appeal against the determination dated 2nd September 2019 delivered by the Tax Appeals Commission holding that the reversal of provision made for related party receivable should not be made liable for VAT on Financial Services.	Written submission to be filed on 27/05/2022 in the registry and Argument on 29/07/2022	VAT on LKR 95,000,000
18	3849/SPL DC- Matara	Third party has instituted this action against the registered owner and MBSL. Dispute is in respect of the release of the Certificate of Registration of the leased vehicle. The third party has sought an order from courts for the release of the Certificate of Registration.	Answer on 18/05/2022	LKR 1,834,336.64

# 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 company which is currently in favor to the company in the normal course of business are as follows:

- \* A litigation has been initiated by the company against the Cricket Board of Sri Lanka to recover an unpaid premium of US \$ 619,158.

#### 48.1.2 Contingent Liabilities

Litigation which is currently against the company in the normal course of business will be categorised as follows.

As at 31 December	Group	
	2021 Rs.'000	2020 Rs.'000
Bond claims	28,068	51,185
Insurance claims	7,399	18,529
Third party claims	507,650	604,065
	543,117	673,779

No provision has been made in the financial statements for a performance bond insurance claim amounting to Rs. 293,932,500 intimated in the year 2016. The performance bond was issued on behalf of a contractor, for a period of three years (from 1st November 2013 to 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.

#### 49.1 Credit Risk

Credit risk is the potential that a company, borrower or counterparty will fail to meet its obligations in accordance with agreed terms. Financial Institutions need to manage the credit risk inherent in the entire portfolio as well as the risks associated with individual credits or transactions. Merchant Bank of Sri Lanka & Finance PLC has established a Credit committee to ensure the credit quality of the Company. Credit committee makes necessary amendments to collateral requirement, interest rates and exposure limits by analyzing credit worthiness of the counterparties. At present Merchant Bank of Sri Lanka & Finance PLC is in the process of developing a credit rating system to analyze the clientele. Exposure, Repayment capacity, Collateral value and purpose are used as criteria of credit ratings. Merchant Bank of Sri Lanka & Finance PLC analyzes the concentration to loan portfolio to mitigate the credit risk. Concentration is measured based on industry sector and geographical spread.

#### Concentration Risk

Concentration risk can arise from uneven distribution of exposures to its borrowers. Concentration risk can create in several ways:

- (a). Individual counterparties
- (b). Groups of individual counterparties or related entities
- (c). Counterparties in specific geographical locations
- (d). Industry sectors
- (e). Specific products

Sector wise concentration and geographical concentration is considered to assess the concentration risk of the Company. Merchant Bank of Sri Lanka & Finance PLC focuses to maintain a diversified portfolio to reduce the concentration risk.

The methodology used in the determination of expected credit losses is explained in Note 3.5.11.1 to financial statements.

# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.2 Movement of the total allowance for expected credit losses during the period

For the year ended 31 December 2021	Note	Company		Group	
		2021 Rs.'000	2020 Rs.'000	2021 Rs.'000	2020 Rs.'000
Balance as at 01st January		3,477,337	2,574,653	3,477,337	2,574,653
Net charge for the year	12	57,555	563,548	57,555	563,548
<b>Balance as at 31st December</b>		<b>3,534,892</b>	<b>3,138,201</b>	<b>3,534,892</b>	<b>3,138,201</b>

#### 49.2.1 Sensitive Analysis

Impact of the measurement of the Company's allowance for expected credit losses.

As at 31 December	Sensitivity effect on Statement of Financial Position [Increase/(Decrease) in impairment provision]				Sensitivity effect on income Statement Rs.000
	Stage 1 Rs.000	Stage 2 Rs.000	Stage 3 Rs.000	Total Rs.000	
<b>Change in Probability of Default (PD)</b>					
Increase existing PD by 10% across all age buckets	108,979	42,565	(21)	151,523	151,523
Decrease existing PD by 10% across all age buckets	(108,998)	(42,574)	(21)	(151,593)	(151,593)
<b>Change in Loss Given Default (LGD)</b>					
1% increase	10,847	10,191	68,487	89,525	89,525
1% decrease	(10,866)	(10,200)	(68,530)	(89,596)	(89,596)
<b>Change in Economic Factor Adjustment (EFA)</b>					
Worse case 5% increase, best case					
5% decrease, base case constant	737	643	21	1,401	1,401
Worse case 5% decrease, best case					
5% increase, base case constant	(844)	(545)	21	(1,368)	(1,368)

#### 49.2.2 Overview of rescheduled/restructured loans and advances

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

It is raised Rs. 58 Mn as impairment charge as at 31st December 2020. This does not include individually significant impaired loans and advances for which ECLs have been derived by discounting future cash flows of such loans.

#### 49.2.3 Maximum Exposure to Credit Risk

##### Collateral and Other Credit Enhancements

The Company obtains different types of collaterals from the counterparties as a credit risk mitigates. The amount and the types of the collateral required depend on credit risk assessment of the counterparty. The acceptability of the collateral and valuation is determined based on the guidelines issued by the regulator and the bank's policy.

The main types of collaterals obtained are as follows

- \* For commercial lending- charges over movable and immovable properties
- \* For retail lending- mortgages over movable and immovable properties, cash and cash equivalents and gold articles

The Company monitors the market value of collaterals and will request additional collaterals if needed, in accordance with the underlying agreement. It is the Company's policy, to dispose of repossessed assets in an orderly manner. The proceeds are used to reduce or repay the outstanding claim. In general, the Company does not use/occupy repossessed assets for its business use.

The following table shows the maximum exposure to credit risk, total fair value of collaterals, any surplus over collaterals and the net exposure to credit risk.

	2021	
	Maximum exposure to Credit Risk Rs.'000	Net Exposure Rs.'000
<b>Financial Assets</b>		
Cash and cash equivalents	1,191,374	385,124
Placements with banks & financial institutions	246,234	246,234
Financial investments at fair value through profit or loss	341,547	237,825
Loans & receivables at amortised cost	31,661,975	3,292,885
Financial investments at fair value through other comprehensive income	1,989,169	27,110
Other Assets	60,000	5,000
	<b>35,490,299</b>	<b>4,194,178</b>

#### 49.3 Market Risk

Market risk is the risk of losses in on and off balance sheet positions arising from movements in market prices. Market risk can arise due to variations in interest rates, exchange rates, equity prices and commodity market prices. Interest rate risk and equity price risk mainly effect on Merchant Bank of Sri Lanka & Finance PLC business activities. Merchant Bank of Sri Lanka & Finance PLC uses sensitivity analysis, discounted cash flows and maturity gap analysis to calculate the market risk.

#### 49.4 Responding to COVID-19 pandemic risks

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

In this back drop, the Company took additional measures to ensure that the risks caused by the pandemic are adequately managed.

Continuous reviews of the limits, policies and performance were carried out during the period. Some of these include;

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

# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.5 Industry Analysis Risk Concentration

#### 49.5.1 The Company's concentrations of risk are managed by industry sector.

As at 31 December

	Financials Rs.'000	Agriculture Rs.'000	Manufacturing Rs.'000
<b>Financial assets</b>			
Cash and cash equivalents	1,191,374	-	-
Placements with banks & financial institutions	246,166	-	-
Financial investments at fair value through profit or loss	180,831	28,978	6,391
Loans & receivables at amortised cost	4,412,060	3,197,561	3,002,920
<b>Financial investments at fair value through other comprehensive income</b>			
Government securities	1,962,059	-	-
Equity securities - Quoted	-	-	-
Equity securities - Unquoted	860	-	-
Financial investments at amortised cost	-	-	-
Other assets	92,332	-	-
<b>Total financial assets as at 31 December 2021</b>	<b>8,085,682</b>	<b>3,226,539</b>	<b>3,009,311</b>
<b>Total financial assets as at 31 December 2020</b>	<b>4,711,818</b>	<b>4,261,333</b>	<b>3,224,546</b>

#### 49.5.2 The Group's concentrations of risk are managed by industry sector.

As at 31 December

	Financials Rs.'000	Agriculture Rs.'000	Manufacturing Rs.'000
<b>Financial assets</b>			
Cash and cash equivalents	1,436,435	-	-
Placements with banks & financial institutions	535,292	-	-
Financial investments at fair value through profit or loss	183,844	29,759	9,265
Loans & receivables at amortised cost	4,412,060	3,197,561	3,002,920
<b>Financial investments at fair value through other comprehensive income</b>			
Government securities	3,332,651	-	-
Equity securities - Quoted	-	-	-
Equity securities - Unquoted	860	-	-
Unit trust	-	-	-
Financial investments at amortised cost	-	-	-
Other assets	-	-	-
<b>Total financial assets as at 31 December 2021</b>	<b>9,901,143</b>	<b>3,227,320</b>	<b>3,012,185</b>
<b>Total financial assets as at 31 December 2020</b>	<b>7,622,991</b>	<b>4,284,062</b>	<b>3,227,468</b>

Tourism Rs.'000	Transportation Rs.'000	Construction Rs.'000	Trade Rs.'000	Services Rs.'000	Consumption Rs.'000	2021	2020
						Total Rs.'000	Total Rs.'000
-	-	-	-	-	-	1,191,374	742,106
-	-	-	-	-	-	246,166	299,746
-	-	53,049	21,410	48,880	2,008	341,547	950,012
607,194	3,280,715	1,707,752	4,344,593	1,397,955	9,711,225	31,661,975	30,205,301
-	-	-	-	-	-	1,962,059	1,244,438
-	-	26,250	-	-	-	26,250	25,500
-	-	-	-	-	-	860	22,678
-	-	-	-	-	-	-	1,519
-	-	-	-	-	-	92,332	58,446
607,194	3,280,715	1,787,051	4,366,003	1,446,835	9,713,233	35,522,563	
717,481	3,383,138	1,848,195	4,683,542	1,630,488	9,089,205		33,549,746

Tourism Rs.'000	Transportation Rs.'000	Construction Rs.'000	Trade Rs.'000	Services Rs.'000	Consumption Rs.'000	2021	2020
						Total Rs.'000	Total Rs.'000
-	-	-	-	-	-	1,436,435	2,263,446
-	-	-	-	-	-	535,292	778,598
-	-	58,099	21,987	50,197	2,062	355,214	960,328
607,194	3,280,715	1,707,752	4,344,593	1,230,010	9,711,225	31,494,031	29,968,181
-	-	-	-	-	-	3,332,651	1,364,099
-	-	26,250	-	-	-	26,250	25,500
-	-	-	-	-	-	860	22,678
55,577	-	-	-	-	-	55,577	52,835
-	-	-	-	-	-	-	1,519
92,332	-	-	-	-	-	92,332	58,446
755,102	3,280,715	1,792,101	4,366,580	1,280,208	9,713,287	37,328,641	
828,762	3,383,137	1,883,238	4,687,694	1,438,650	8,139,628		35,495,630

# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.6 Geographical Analysis

The following table presents the distribution of financial assets of the Company & Group by geographical segment, allocated based on the location in which the financial assets and liabilities are recorded for the year ended 31 December 2021 together with comparative figures for the year ended 31 December 2020.

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

As at 31 December

	Western Rs.'000	Central Rs.'000	Southern Rs.'000	North Western Rs.'000	Uva Rs.'000	North Central Rs.'000
<b>Financial assets</b>						
Cash and cash equivalents	1,092,919	14,172	24,653	16,521	6,966	7,467
Placements with banks & financial institutions	246,166	-	-	-	-	-
Financial investments at fair value through profit or loss	341,547	-	-	-	-	-
Loans & receivables at amortised cost	15,905,049	2,537,935	3,348,540	3,623,975	726,911	1,421,263
<b>Financial investments at fair value through other comprehensive income</b>						
Government securities	1,962,059	-	-	-	-	-
Equity securities - Quoted	26,250	-	-	-	-	-
Equity securities - Unquoted	860	-	-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	-
Other assets	92,332	-	-	-	-	-
<b>Total financial assets as at 31 December 2021</b>	<b>19,667,181</b>	<b>2,552,107</b>	<b>3,373,193</b>	<b>3,640,496</b>	<b>733,877</b>	<b>1,428,730</b>
<b>Total financial assets as at 31 December 2020</b>	<b>17,234,900</b>	<b>2,454,880</b>	<b>3,605,992</b>	<b>4,160,036</b>	<b>715,704</b>	<b>1,486,774</b>

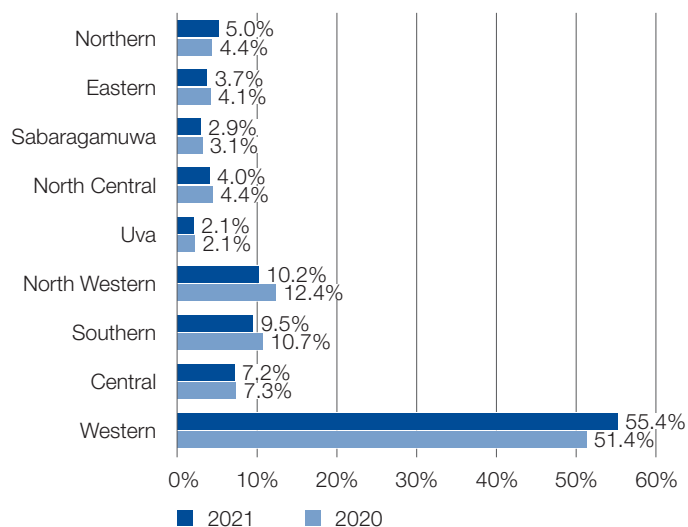
#### 49.6.2 The Group's concentrations of risk are managed by geographical segment.

As at 31 December

	Western Rs.'000	Central Rs.'000	Southern Rs.'000	North Western Rs.'000	Uva Rs.'000	North Central Rs.'000
<b>Financial assets</b>						
Cash and cash equivalents	1,337,980	14,172	24,653	16,521	6,966	7,467
Placements with banks & financial institutions	535,292	-	-	-	-	-
Financial investments at fair value through profit or loss	355,214	-	-	-	-	-
Loans & receivables at amortised cost	15,737,104	2,537,935	3,348,540	3,623,975	726,911	1,421,263
<b>Financial investments at fair value through other comprehensive income</b>						
Government securities	3,332,651	-	-	-	-	-
Equity securities - Quoted	26,250	-	-	-	-	-
Equity securities - Unquoted	860	-	-	-	-	-
Unit trust	55,577	-	-	-	-	-
Financial investments at amortised cost	-	-	-	-	-	-
Other assets	92,332	-	-	-	-	-
<b>Total financial assets as at 31 December 2021</b>	<b>21,473,260</b>	<b>2,552,107</b>	<b>3,373,193</b>	<b>3,640,496</b>	<b>733,877</b>	<b>1,428,730</b>
<b>Total financial assets as at 31 December 2020</b>	<b>19,180,783</b>	<b>2,454,880</b>	<b>3,605,992</b>	<b>4,160,036</b>	<b>715,704</b>	<b>1,486,774</b>

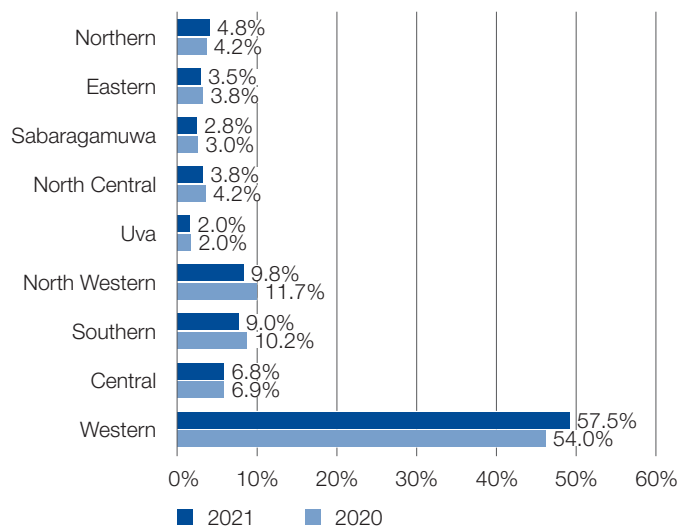
				2021	2020
Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	Total Rs.'000	Total Rs.'000	
7,087	10,680	10,910	1,191,374	742,106	
-	-	-	246,166	299,746	
-	-	-	341,547	950,012	
1,028,170	1,297,546	1,772,586	31,661,975	30,205,301	
-	-	-	1,962,059	1,244,438	
-	-	-	26,250	25,500	
-	-	-	860	22,678	
-	-	-	-	1,519	
-	-	-	92,332	58,446	
1,035,257	1,308,226	1,783,496	35,522,563		
1,055,140	1,363,042	1,473,278		33,549,746	

## Company



				2021	2020
Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	Total Rs.'000	Total Rs.'000	
7,087	10,680	10,910	1,436,435	2,263,446	
-	-	-	535,292	778,598	
-	-	-	355,214	960,328	
1,028,170	1,297,546	1,772,586	31,494,030	29,968,181	
-	-	-	3,332,651	1,364,099	
-	-	-	26,250	25,500	
-	-	-	860	22,678	
-	-	-	55,577	52,835	
-	-	-	-	1,519	
-	-	-	92,332	58,446	
1,035,257	1,308,226	1,783,496	37,328,641		
1,055,140	1,363,042	1,473,279		35,495,630	

## Group



# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.7 Liquidity Risk

Liquidity risk is the possibility of losses arising from fluctuations in Group's ability to sell or dispose the assets and settle the liabilities. Group believes that effective management of liquidity risk is vital for continuing Group's operations successful. Accordingly, Merchant Bank of Sri Lanka & Finance PLC has implemented the Board Approved Liquidity Risk Management Policy and established an Assets and Liability Committee (ALCO). Merchant Bank of Sri Lanka & Finance PLC uses ratios and maturity gap analysis to identify the liquidity risk of the Group.

#### Maturity Analysis

The table below summarises the maturity portfolio of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December 2021.

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.

#### 49.7.1 Company

	On Demand Rs.'000	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2021 Total Rs.'000	2020 Total Rs.'000
<b>Assets</b>								
<b>Financial assets</b>								
Cash and cash equivalents	1,017,765	173,609	-	-	-	-	1,191,374	742,106
Placements with banks & financial institutions	-	246,166	-	-	-	-	246,166	299,746
Financial investments at fair value through profit or loss	-	341,547	-	-	-	-	341,547	950,012
Loans & receivables at amortised cost	4,008,740	3,222,802	5,239,910	8,178,788	2,345,688	5,188,711	28,184,638	26,785,517
Financial investments at fair value through other comprehensive income	474,390	788,654	725,265	-	-	860	1,989,169	1,292,616
Financial investments at amortised cost	-	-	-	-	-	-	-	1,519
Financial other assets	55,971	11,041	13,254	-	-	12,066	92,332	58,446
<b>Total financial assets as at 31 December 2021</b>	<b>5,556,866</b>	<b>4,783,818</b>	<b>5,978,429</b>	<b>8,178,788</b>	<b>2,345,688</b>	<b>5,201,637</b>	<b>32,045,226</b>	
<b>Total financial assets as at 31 December 2020</b>	<b>3,607,975</b>	<b>4,739,981</b>	<b>6,684,183</b>	<b>9,471,001</b>	<b>2,581,606</b>	<b>3,045,215</b>		<b>30,129,962</b>
<b>Non financial assets</b>								
Real estate stock	-	-	175,816	-	-	-	175,816	328,824
Investment in associate company	-	-	-	-	-	81,084	81,084	81,084
Investment in subsidiary	-	-	-	-	-	371,404	371,404	387,424
Investment properties	-	-	-	-	-	107,703	107,703	114,370
Property, equipment and right-of-use assets	-	-	-	-	-	607,185	607,185	758,690
Intangible assets	-	-	-	-	-	128,578	128,578	146,493
Deferred tax Assets	-	-	-	-	-	-	-	52,760
Other assets	590,252	20,105	150,105	-	-	-	760,462	359,602
<b>Total non-financial assets as at 31 December 2021</b>	<b>590,252</b>	<b>20,105</b>	<b>325,921</b>	<b>-</b>	<b>-</b>	<b>1,295,954</b>	<b>2,232,233</b>	
<b>Total non-financial assets as at 31 December 2020</b>	<b>-</b>	<b>359,602</b>	<b>328,824</b>	<b>-</b>	<b>-</b>	<b>1,540,821</b>		<b>2,229,247</b>
<b>Total assets as at 31 December 2021</b>	<b>6,147,118</b>	<b>4,803,923</b>	<b>6,304,350</b>	<b>8,178,788</b>	<b>2,345,688</b>	<b>6,497,591</b>	<b>34,277,459</b>	
<b>Total assets as at 31 December 2020</b>	<b>3,607,975</b>	<b>5,099,583</b>	<b>7,013,007</b>	<b>9,471,001</b>	<b>2,581,606</b>	<b>4,586,036</b>		<b>32,359,209</b>



	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	2021 Total Rs.'000	2020 Total Rs.'000
<b>Financial liabilities</b>								
Due to banks	1,112,923	2,611,914	181,746	210,231	-	-	4,116,814	5,436,682
Due to customers at amortised cost	1,358,402	4,260,497	11,475,634	4,653,292	456,102	63,933	22,267,862	21,725,261
Debt issued and borrowed funds at amortised cost	31,510	64,966	2,285,102	-	-	-	2,381,578	2,568,829
Other financial liabilities	-	180,225	-	-	-	-	180,225	219,204
<b>Total financial liabilities as at 31 December 2021</b>	<b>2,502,836</b>	<b>7,117,602</b>	<b>13,942,482</b>	<b>4,863,523</b>	<b>456,102</b>	<b>63,933</b>	<b>28,946,479</b>	
<b>Total financial liabilities as at 31 December 2020</b>	<b>1,587,018</b>	<b>7,600,446</b>	<b>11,569,141</b>	<b>7,973,174</b>	<b>1,156,899</b>	<b>63,298</b>		<b>29,949,976</b>
<b>Non financial liabilities</b>								
Current tax liabilities	-	-	178,898	-	-	-	178,898	14,831
Deferred tax liabilities	-	-	-	-	-	78,301	78,301	-
Lease liability	-	44,680	121,281	51,122	71,515	46,382	334,980	476,033
Other liabilities	-	248,913	-	-	-	-	248,913	98,612
Retirement benefits obligations	-	-	-	-	-	320,934	320,934	351,906
<b>Total non-financial liabilities as at 31 December 2021</b>	<b>-</b>	<b>293,593</b>	<b>300,179</b>	<b>51,122</b>	<b>71,515</b>	<b>445,616</b>	<b>1,162,025</b>	
<b>Total non-financial liabilities as at 31 December 2020</b>	<b>-</b>	<b>142,499</b>	<b>136,246</b>	<b>189,214</b>	<b>77,855</b>	<b>395,568</b>		<b>941,382</b>
<b>Total liabilities as at 31 December 2021</b>	<b>2,502,836</b>	<b>7,411,195</b>	<b>14,242,661</b>	<b>4,914,646</b>	<b>527,618</b>	<b>509,549</b>	<b>30,108,504</b>	
<b>Total liabilities as at 31 December 2020</b>	<b>1,587,018</b>	<b>7,742,945</b>	<b>11,705,387</b>	<b>8,162,388</b>	<b>1,234,754</b>	<b>458,866</b>		<b>30,891,358</b>
<b>Equity</b>								
Stated capital	-	-	-	-	-	4,276,448	4,276,448	2,124,457
Retained earnings	-	-	-	-	-	(427,847)	(427,847)	(893,794)
OCI reserve	-	(19,642)	-	-	-	-	(19,642)	2,575
Statutory reserves	-	-	-	-	-	339,996	339,996	234,613
<b>Total equity as at 31 December 2021</b>	<b>-</b>	<b>(19,642)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,188,597</b>	<b>4,168,955</b>	
<b>Total equity as at 31 December 2020</b>	<b>-</b>	<b>2,575</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,465,276</b>		<b>1,467,851</b>
<b>Total liabilities and equity as at 31 December 2021</b>	<b>2,502,836</b>	<b>7,391,553</b>	<b>14,242,661</b>	<b>4,914,646</b>	<b>527,618</b>	<b>4,698,146</b>	<b>34,277,459</b>	
<b>Total liabilities and equity as at 31 December 2020</b>	<b>1,587,018</b>	<b>7,745,520</b>	<b>11,705,387</b>	<b>8,162,388</b>	<b>1,234,754</b>	<b>1,924,142</b>		<b>32,359,209</b>

# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.7 Liquidity Risk (Contd.)

#### 49.7.2 Group

	On Demand Rs.'000	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2021 Total Rs.'000	2020 Total Rs.'000
<b>Assets</b>								
<b>Financial assets</b>								
Cash and cash equivalents	1,058,746	173,609	204,079	-	-	-	1,436,435	2,263,447
Placements with banks & financial institutions	-	535,292	-	-	-	-	535,292	778,597
Financial investments at fair value through profit or loss	-	355,214	-	-	-	-	355,214	960,328
Loans & receivables at amortised cost	4,008,740	3,226,781	5,067,986	8,178,788	2,345,688	5,188,711	28,016,693	26,548,397
Financial investments at fair value through other comprehensive income	474,390	2,049,378	780,842	-	109,868	860	3,415,338	1,465,111
Financial investments at amortised cost	-	-	-	-	-	-	-	1,519
Financial other assets	55,971	11,041	13,254	-	-	12,066	92,332	58,446
<b>Total financial assets as at 31 December 2021</b>	<b>5,597,848</b>	<b>6,351,315</b>	<b>6,066,161</b>	<b>8,178,788</b>	<b>2,455,556</b>	<b>5,201,637</b>	<b>33,851,304</b>	
<b>Total financial assets as at 31 December 2020</b>	<b>3,648,546</b>	<b>5,978,666</b>	<b>7,976,831</b>	<b>9,188,310</b>	<b>2,238,278</b>	<b>3,045,215</b>		<b>32,075,845</b>
<b>Non financial assets</b>								
Real estate stock	-	-	175,816	-	-	-	175,816	328,824
Investment in associate company	-	-	-	-	-	131,399	131,399	95,106
Investment properties	-	-	-	-	-	107,703	107,703	114,370
Property, equipment and right-of-use assets	-	-	-	-	-	742,708	742,708	796,287
Intangible assets	-	-	-	-	-	128,578	128,578	148,909
Deferred tax Assets	-	-	-	-	-	4,111	4,111	102,065
Other assets	590,252	387,680	150,105	-	-	-	1,128,038	646,233
<b>Total non-financial assets as at 31 December 2021</b>	<b>590,252</b>	<b>387,680</b>	<b>325,921</b>	<b>-</b>	<b>-</b>	<b>1,114,498</b>	<b>2,418,353</b>	
<b>Total non-financial assets as at 31 December 2020</b>	<b>-</b>	<b>646,233</b>	<b>341,905</b>	<b>88,984</b>	<b>-</b>	<b>1,154,672</b>		<b>2,231,794</b>
<b>Total assets as at 31 December 2021</b>	<b>6,188,100</b>	<b>6,738,995</b>	<b>6,392,082</b>	<b>8,178,788</b>	<b>2,455,556</b>	<b>6,316,135</b>	<b>36,269,657</b>	
<b>Total assets as at 31 December 2020</b>	<b>3,648,546</b>	<b>6,624,899</b>	<b>8,318,736</b>	<b>9,277,294</b>	<b>2,238,278</b>	<b>4,199,887</b>		<b>34,307,639</b>

	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	2021 Total Rs.'000	2020 Total Rs.'000
<b>Financial liabilities</b>								
Due to banks	1,112,923	2,628,406	181,746	210,231	-	-	4,133,306	5,442,511
Due to customers at amortised cost	1,358,402	4,260,497	11,409,376	4,653,292	456,102	63,933	22,201,604	21,665,256
Debt issued and borrowed funds at amortised cost	31,510	64,966	2,285,102	-	-	-	2,381,578	2,568,829
Other financial liabilities	-	180,225	-	-	-	-	180,225	219,204
<b>Total financial liabilities as at 31 December 2021</b>	<b>2,502,836</b>	<b>7,134,094</b>	<b>13,876,224</b>	<b>4,863,523</b>	<b>456,102</b>	<b>63,933</b>	<b>28,896,713</b>	
<b>Total financial liabilities as at 31 December 2020</b>	<b>1,587,018</b>	<b>7,606,275</b>	<b>11,509,135</b>	<b>7,973,174</b>	<b>1,156,899</b>	<b>63,298</b>		<b>29,895,800</b>
<b>Non financial liabilities</b>								
Insurance contract liabilities-life	-	-	416,634	-	-	-	416,634	498,767
Insurance contract liabilities-non life	-	-	511,538	-	-	-	511,538	488,784
Current tax liabilities	-	-	178,898	-	-	-	178,898	14,831
Deferred tax liabilities	-	-	-	-	-	78,301	78,301	-
Lease liability	-	44,680	137,450	150,297	71,515	46,382	450,324	501,097
Other liabilities	-	639,364	-	-	-	-	639,364	421,128
Retirement benefits obligations	-	-	-	-	-	332,724	332,724	363,816
<b>Total non-financial liabilities as at 31 December 2021</b>	<b>-</b>	<b>684,044</b>	<b>1,244,520</b>	<b>150,297</b>	<b>71,515</b>	<b>457,406</b>	<b>2,607,783</b>	
<b>Total non-financial liabilities as at 31 December 2020</b>	<b>-</b>	<b>466,262</b>	<b>1,126,765</b>	<b>198,413</b>	<b>89,505</b>	<b>407,478</b>		<b>2,288,423</b>
<b>Total liabilities as at 31 December 2021</b>	<b>2,502,836</b>	<b>7,818,138</b>	<b>15,120,745</b>	<b>5,013,821</b>	<b>527,618</b>	<b>521,339</b>	<b>31,504,496</b>	
<b>Total liabilities as at 31 December 2020</b>	<b>1,587,018</b>	<b>8,072,537</b>	<b>12,635,900</b>	<b>8,171,587</b>	<b>1,246,404</b>	<b>470,776</b>		<b>32,184,223</b>
<b>Equity</b>								
Stated capital	-	-	-	-	-	4,276,448	4,276,448	2,124,457
Retained earnings	-	-	-	-	-	(251,497)	(251,497)	(714,093)
OCI reserve	-	(19,642)	-	-	-	(4,218)	(23,860)	3,157
Statutory reserves	-	-	-	-	-	339,996	339,996	234,613
Non controlling interests	-	-	-	-	-	424,075	424,075	475,282
<b>Total equity as at 31 December 2021</b>	<b>-</b>	<b>(19,642)</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>4,784,803</b>	<b>4,765,161</b>	
<b>Total equity as at 31 December 2020</b>	<b>-</b>	<b>2,575</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>2,120,841</b>		<b>2,123,416</b>
<b>Total liabilities and equity as at 31 December 2021</b>	<b>2,502,836</b>	<b>7,798,496</b>	<b>15,120,745</b>	<b>5,013,821</b>	<b>527,618</b>	<b>5,306,142</b>	<b>36,269,657</b>	
<b>Total liabilities and equity as at 31 December 2020</b>	<b>1,587,018</b>	<b>8,075,112</b>	<b>12,635,900</b>	<b>8,171,587</b>	<b>1,246,404</b>	<b>2,591,617</b>		<b>34,307,639</b>

# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.8 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 December 2021.

Repayments of short term loans which are subject to notice are treated as if notice were to be given immediately. However the company expects that banks will not request repayment on the earliest date that the company is required to pay and the table does not reflect the expected cash flows indicated by the company.

Company	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2021 Total Rs.'000	2020 Total Rs.'000
<b>Financial assets</b>							
Cash and cash equivalents	1,254,518	-	-	-	-	1,254,518	752,765
Placements with banks & financial institutions	184,557	-	-	-	-	184,557	299,746
Financial investments at fair value through profit or loss	343,175	-	-	-	-	343,175	766,518
Loans & receivables at amortised cost	12,652,132	7,326,909	10,715,847	2,841,182	232,506	33,768,576	32,945,829
Financial investments at fair value through other comprehensive income	1,270,091	750,000	-	-	860	2,020,951	1,305,503
Financial investments at amortised cost	-	-	-	-	-	-	1,564
Financial other assets	67,012	13,254	-	-	12,066	92,332	58,446
<b>Total financial assets as at 31 December 2021</b>	<b>15,771,484</b>	<b>8,090,164</b>	<b>10,715,847</b>	<b>2,841,182</b>	<b>245,432</b>	<b>37,664,108</b>	
<b>Total financial assets as at 31 December 2020</b>	<b>11,224,153</b>	<b>9,308,660</b>	<b>12,486,432</b>	<b>2,976,505</b>	<b>134,621</b>		<b>36,130,371</b>
<b>Financial liabilities</b>							
Due to banks	3,790,669	-	406,249	-	-	4,196,918	4,622,592
Due to customers at amortised cost	5,387,320	11,976,896	4,988,595	495,533	64,084	22,912,428	21,902,816
Debt issued and borrowed funds at amortised cost	2,327,259	186,886	-	-	-	2,514,145	3,011,917
Other financial liabilities	51,817	128,408	-	-	-	180,225	219,204
<b>Total financial liabilities as at 31 December 2021</b>	<b>11,557,064</b>	<b>12,292,190</b>	<b>5,394,844</b>	<b>495,533</b>	<b>64,084</b>	<b>29,803,716</b>	
<b>Total financial liabilities as at 31 December 2020</b>	<b>8,767,755</b>	<b>11,204,439</b>	<b>8,736,153</b>	<b>1,047,740</b>	<b>442</b>		<b>29,756,529</b>

Group	Up to 03 months Rs.'000	3 - 12 months Rs.'000	1-3 years Rs.'000	3-5 years Rs.'000	More than 5 years Rs.'000	2021 Total Rs.'000	2020 Total Rs.'000
<b>Financial assets</b>							
Cash and cash equivalents	1,461,318	-	-	-	-	1,461,318	2,274,105
Placements with banks & financial institutions	392,805	94,622	-	-	-	487,427	778,598
Financial investments at fair value through profit or loss	356,842	-	-	-	-	356,842	1,458,057
Loans & receivables at amortised cost	12,617,187	7,222,077	10,657,682	2,841,182	232,506	33,570,634	32,708,709
Financial investments at fair value through other comprehensive income	2,600,668	750,000	113,722	-	860	3,465,250	1,305,503
Financial investments at amortised cost	-	-	-	-	-	-	1,564
Financial other assets	67,012	13,254	-	-	12,066	92,332	58,446
<b>Total financial assets as at 31 December 2021</b>	<b>17,495,832</b>	<b>8,079,953</b>	<b>10,771,404</b>	<b>2,841,182</b>	<b>245,432</b>	<b>39,433,802</b>	
<b>Total financial assets as at 31 December 2020</b>	<b>11,960,100</b>	<b>11,027,324</b>	<b>12,486,432</b>	<b>2,976,505</b>	<b>134,621</b>		<b>38,584,981</b>
<b>Financial liabilities</b>							
Due to banks	3,807,161	-	406,249	-	-	4,213,410	4,628,421
Due to customers at amortised cost	5,385,777	11,916,176	4,988,595	495,533	64,084	22,850,165	21,842,811
Debt issued and borrowed funds at amortised cost	2,327,259	186,886	-	-	-	2,514,145	3,011,917
Other financial liabilities	51,817	128,408	-	-	-	180,225	219,204
<b>Total financial liabilities as at 31 December 2021</b>	<b>11,572,014</b>	<b>12,231,470</b>	<b>5,394,844</b>	<b>495,533</b>	<b>64,084</b>	<b>29,757,945</b>	
<b>Total financial liabilities as at 31 December 2020</b>	<b>8,773,584</b>	<b>11,144,434</b>	<b>8,736,153</b>	<b>1,047,740</b>	<b>442</b>		<b>29,702,352</b>

# Notes to the Financial Statements

## 49. RISK MANAGEMENT (CONTD.)

### 49.9 Maturity of the Group's Contingent Liabilities and Commitments

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

For issued guarantees to customers the maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called.

	2021						Total 2021 Rs.'000	Total 2020 Rs.'000
	On Demand Rs.'000	Less than 3 Months Rs.'000	3 - 12 Months Rs.'000	1-3 Years Rs.'000	3-5 Years Rs.'000	Over 5 Years Rs.'000		
<b>Company</b>								
Financial guarantees & claims to the customers	-	7,100	95,300	-	-	-	102,400	107,800
<b>Total Commitments and Contingencies as at 31 December 2021</b>	-	7,100	95,300	-	-	-	102,400	
<b>Total Commitments and Contingencies as at 31 December 2020</b>	10,000	4,200	48,600	45,000	-	-		107,800
<b>Group</b>								
Financial guarantees & claims to the customers	-	7,100	130,767	-	-	-	137,867	107,800
<b>Total Commitments and Contingencies as at 31 December 2021</b>	-	7,100	130,767	-	-	-	137,867	
<b>Total Commitments and Contingencies as at 31 December 2020</b>	10,000	4,200	48,600	45,000	-	-		107,800

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

### 49.10 Operational Risk

Operational risk refers to the risk that risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Group's integrated risk management committee and risk management division has taken necessary actions to identify and manage the company operational risk prudently and effectively.

The Company recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, legal or regulatory penalties if such risks are not objectively managed.

## 50. 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.

### 50.1 Capital Adequacy Ratio (CAR)

Central Bank of Sri Lanka introduced Finance Business Act Direction No 03 of 2018 with effect from 1st July 2018 and accordingly the Licensed Finance Companies in Sri Lanka need to maintain a minimum Tier 1 Capital and Total Capital Ratios (CAR) as shown in table below.

	31-December-2021		31-December-2020	
	Required Ratio	Actual Ratio	Required Ratio	Actual Ratio
Tier 1 Capital	7.00	10.75	6.50	4.41
Total Capital	11.00	11.33	10.50	5.59







# SUPPLEMENTARY INFORMATION

# Quarterly Analysis

Statement of Profit or Loss for the quarter ended	2021			
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
Net interest income	880,310	642,929	609,321	717,807
Net fee and commission income	53,772	37,655	22,556	33,032
Net trading income	46,133	(23,267)	2,494	18,921
Net gain/(loss) on financial instruments at fair value through profit or loss	(30,638)	36,073	(140)	(28,730)
Other operating income	120,401	48,604	41,198	28,459
<b>Total operating income</b>	<b>1,069,978</b>	<b>741,994</b>	<b>675,431</b>	<b>769,488</b>
Less : Impairment charges from loans and other losses	(235,970)	162,669	279,587	(131,836)
<b>Net operating income</b>	<b>1,305,948</b>	<b>579,325</b>	<b>395,844</b>	<b>901,324</b>
Less : Total operating expense	593,089	465,545	505,201	495,590
<b>Profit/(loss) from operations</b>	<b>712,859</b>	<b>113,780</b>	<b>(109,358)</b>	<b>405,734</b>
Less : Impairment charge/(Reversal) from investment in Group companies	-	1,074	9,567	5,378
<b>Profit/(loss) from operations after impairment from subsidiary investments</b>	<b>712,859</b>	<b>112,706</b>	<b>(118,925)</b>	<b>400,356</b>
Less : Taxes on financial services	129,043	52,597	23,309	89,319
<b>Profit before income tax</b>	<b>583,816</b>	<b>60,109</b>	<b>(142,234)</b>	<b>311,037</b>
Less : Income tax expense/(Reversal)	236,814	18,350	(21,679)	50,199
<b>Profit/(loss) for the period</b>	<b>347,002</b>	<b>41,758</b>	<b>(120,555)</b>	<b>260,838</b>
<b>Statement of Comprehensive Income</b>				
Other comprehensive income for the period, net of tax	19,742	1,250	-	-
<b>Total comprehensive income for the period, net of tax</b>	<b>366,744</b>	<b>43,008</b>	<b>(120,555)</b>	<b>260,838</b>

Statement of Financial Position as at	2021			
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
Total assets	34,277,459	32,446,056	32,426,402	32,878,425
Loans & receivables at amortised cost	28,184,638	26,643,471	27,163,960	27,518,598
Due to customers at amortised cost	22,267,862	21,978,754	21,488,253	22,819,964
Total equity	4,168,955	3,802,209	1,608,133	1,728,689

Regulatory Liquidity as at	2021			
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
Required minimum amount of liquid assets	2,563,952	2,430,240	1,540,235	1,542,302
Available total liquid assets	3,252,670	2,958,800	2,258,908	2,135,366
Statutory liquid asset ratio (%)	12.92	12.41	8.76	8.00

## 2020

31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
649,874	155,978	190,226	421,770
20,734	31,797	17,430	24,861
10,273	(390)	151	278
4,463	37,381	103,214	(81,429)
12,880	24,220	3,559	5,882
698,224	248,987	314,580	371,362
343,745	44,266	185,461	(10,041)
354,479	204,721	129,119	381,402
450,520	531,855	473,080	499,685
(96,041)	(327,134)	(343,961)	(118,282)
536,122	(59,903)	(38,666)	19,933
(632,163)	(267,231)	(305,295)	(138,215)
21,023	4,812	(4,132)	20,343
(611,140)	(272,044)	(301,163)	(158,558)
(234,600)	-	-	-
(376,540)	(272,044)	(301,163)	(158,558)
(31,632)	-	-	-
(408,172)	(272,044)	(301,163)	(158,588)

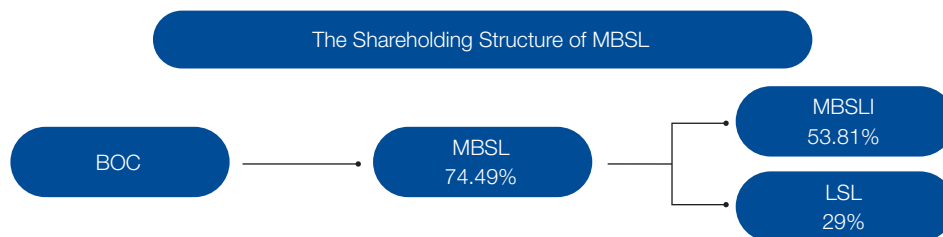
## 2020

31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
32,359,209	33,973,994	33,450,857	35,921,442
26,785,517	27,814,564	27,363,610	27,946,814
21,725,261	22,717,608	22,356,025	22,532,980
1,467,851	1,875,515	2,148,074	2,449,237

## 2020

31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
1,531,136	1,600,361	1,566,836	1,642,334
2,087,485	2,110,631	1,943,355	3,670,069
8.17	7.93	7.44	13.27

# Shareholder Information



## PUBLIC HOLDINGS

	2021		2020	
	No. of shares	% of holding	No. of shares	% of holding
Shares held by the public	81,295,572	15.50%	42,312,240	25.51%
No. of public shareholders	11,324	99.97%	11,040	99.96%

	2021	
	No. of shares	% of holding
Residents	523,971,709	99.89%
Foreign	567,928	0.11%

## DISTRIBUTION OF ORDINARY SHARES

	As at 31 December 2021				As at 31 December 2020			
	No. of shareholders	No. of shareholders %	No. of shares	No. of shares % (limit two decimal points)	No. of shareholders	No. of shareholders % (limit two decimal points)	No. of shares	No. of shares % (limit two decimal points)
1 to 1,000	9,107	80.40%	1,571,805	0.30%	9,096	82.36%	1,570,576	0.95%
1,001 to 10,000	1,584	13.98%	5,695,871	1.09%	1,531	13.86%	5,376,684	3.24%
10,001 to 100,000	529	4.67%	16,951,423	3.23%	373	3.38%	10,523,602	6.34%
100,001 to 1,000,000	97	0.86%	24,329,121	4.64%	41	0.37%	11,563,205	6.97%
Over 1,000,000	10	0.09%	475,991,417	90.74%	3	0.03%	136,840,474	82.50%
Total	11,327	100.00%	524,539,637	100.00%	11,044	100.00%	165,874,541	100.00%

## COMPOSITION OF ORDINARY SHAREHOLDERS

	As at 31 December 2021				As at 31 December 2020			
	No. of shareholders	No. of shareholders %	No. of shares	No. of shares % (limit two decimal points)	No. of shareholders	No. of shareholders % (limit two decimal points)	No. of shares	No. of shares % (limit two decimal points)
Resident -Individual	10,375	91.60%	39,811,008	7.59%	10,102	91.47%	21,610,743	13.03%
- company	905	7.99%	484,160,701	92.30%	895	8.10%	143,606,920	86.58%
Non Resident-Individual	46	0.41%	554,278	0.11%	46	0.42%	643,228	0.39%
- company	1	0.01%	13,650	0.00%	1	0.01%	13,650	0.01%
Total	11,327	100.00%	524,539,637	100.00%	11,044	100.00%	165,874,541	100.00%

## DIRECTORS' SHAREHOLDING

Names of Directors	No. of shares 31.12.2021	As a % of total shares	No. of shares 31.12.2020	As a % of total shares
None				

## CEO'S SHAREHOLDING

Names of Directors	No. of shares 31.12.2021	As a % of total shares	No. of shares 31.12.2020	As a % of total shares
None				

# Shareholder Information

## TWENTY LARGEST SHAREHOLDERS

Shareholder	As at 31 December 2021		As at 31 December 2020	
	No. of Shares	Percentage holding	No. of Shares	Percentage holding
Bank of Ceylon No. 1 Account	401,577,367	76.56%	123,562,267	74.49%
BOC Property Development & Management (Pvt) Ltd	41,666,682	7.94%	5	0.00%
Bank of Ceylon A/C Ceybank Unit Trust	11,798,960	2.25%	11,798,960	7.11%
Sampath Bank PLC/ Dr.T.Senthilvel	7,804,958	1.49%	-	-
Hatton National Bank PLC/Dinesh Nagendra Sellamuttu	4,255,478	0.81%	386,301	0.23%
Mr. A.M. Weerasinghe	2,727,403	0.52%	839,201	0.51%
Mr. W.A.S.P. De Saram	1,738,509	0.33%	552,537	0.33%
Seylan Bank PLC/Babarandage Don Joseph Charuka Suchendra	1,700,000	0.32%	-	-
Laugfs Gas PLC	1,600,810	0.31%	-	-
Mr. B.T. Prathapasinghe	1,121,250	0.21%	345,000	0.21%
Mr. W.D.N.H. Perera	1,000,000	0.19%	-	-
Hatton National Bank PLC/Ravindra Erle Rambukwelle	979,651	0.19%	756,703	0.46%
DFCC Bank PLC/N. G. Mahinda	844,751	0.16%	-	-
Mr. D.P.J. Jayamaha	786,971	0.15%	-	-
Ravi Exports Private Limited	681,250	0.13%	-	-
Merrill J Fernando & Sons (Pvt) Limited	526,165	0.10%	526,165	0.32%
People's Merchant Finance PLC/A.O.M.S.Akmeemana	500,000	0.10%	-	-
Mr. T Loganathan	477,340	0.09%	428,340	0.26%
Seylan Bank PLC/Millawitana Arachchige don chandima Nalin Wickramaratna	476,625	0.09%	-	-
Mrs.R N R Aziz	475,673	0.09%	131,361	0.08%
Total of largest shareholders	482,739,843			
Total of other shareholders	41,799,794			
Total of all shareholders	524,539,637			

## MARKET SHARE INFORMATION

	2021	Q4	Q3	Q2	Q1	2020
<b>Share price (Rs.)</b>						
Highest	9.40	6.60	7.90	9.40	9.20	9.60
Lowest	5.70	5.70	6.10	6.00	6.70	5.50
Closing	5.90	5.90	6.40	6.70	7.00	7.50
No. of transactions	133,047,944	20,785,030	102,171,369	5,626,785	4,464,760	7,323,940
No. of shares traded (Mn)	9.58	4.33	1.81	1.73	1.71	3.86
Shares traded to total shares (%)	5.78	2.61	1.09	1.04	1.03	2.33
Turnover (Rs. Mn)	269.82	126.36	63.83	42.93	36.70	56.38
MBSL turnover to total market turnover (%)	0.02	0.03	0.02	0.03	0.01	0.01
No. of days traded	240	62	63	57	58	203
Average daily turnover-CSE (Rs. Mn)	4,888	6,132	5,271	2,395	5,594	1,899
Market Capitalisation - CSE (MC)(Rs. Bn)	5,489	5,489	4,216	3,470	3,111	2,961
Market Capitalisation - MBSL (MC)(Rs. Bn)	3.09	3.09	1.06	1.11	1.16	1.24
MBSL MC to CSE MC (%)	0.06	0.06	0.03	0.03	0.04	0.04
MBSL market capitalisation ranking	167	167	221	210	201	204
Float adjusted market capitalisation (Rs.Mn)	479.64	479.64	520.29	283.49	296.19	317.34

# Debenture Information

Debenture - Market Information						
Type	2021			2020		
	Type A 17 MAY	Type B 17 MAY	Type C 17 MAY	Type A 17 MAY	Type B 17 MAY	Type C 17 MAY
Tenure	5 Years	5 Years	5 Years	5 Years	5 Years	5 Years
Issue date	12-May-17	12-May-17	12-May-17	12-May-17	12-May-17	12-May-17
Maturity date	03-May-22	03-May-22	03-May-22	03-May-22	03-May-22	03-May-22
Interest rate	15.00%	14.50%	11.47%	15.00%	14.50%	11.47%
Coupon rate (%)	15.00%	14.50%	11.47%	15.00%	14.50%	11.47%
Effective annual yield (%)	15.00%	15.03%	12.86%	15.00%	15.03%	12.86%
Interest rate comparable government security (%)	11.56%	11.56%	11.56%	11.56%	11.56%	11.56%
Frequency of interest payable	Annually	Bi - annually	Bi - annually	Annually	Bi - annually	Bi - annually
Rating	ICRA “[SL] BBB + (Stable Outlook)”			ICRA “[SL] BBB + (Negative Outlook)”		
Amount (Rs. Mn)	805.76	1,193.23	1.01	805.76	1,193.23	1.01
ISIN No.	LK0186D23824	LK0186D23816	LK0186D23808	LK0186D23824	LK0186D23816	LK0186D23808
Highest	HAS NOT BEEN TRADED	99.98	HAS NOT BEEN TRADED	105.47	106.5	HAS NOT BEEN TRADED
Lowest		99.98		101.00	102.17	
Closing		99.98		100.00	106.5	
Current yield (%)		14.50%		15.00%	14.50%	
YTM (%)		14.50%		15.00%	14.50%	

# Decade at a Glance

	2021	2020	2019	2018
<b>Operating Results</b>				
Income	5,971,065	5,188,013	6,839,015	6,549,905
Interest expenses	2,675,588	3,532,790	4,331,275	3,752,471
Net interest income	2,850,367	1,417,848	2,201,454	2,442,466
Operating expenses & provisions	2,133,875	2,518,571	2,401,990	2,140,150
Share of associate company	-	-	-	-
<b>Profit/(loss) before income tax</b>	<b>812,728</b>	<b>(1,342,905)</b>	<b>57,194</b>	<b>446,676</b>
Income tax on profit (expense)/reversal	(283,684)	234,600	45,390	(265,391)
<b>Profit/(loss) for the year</b>	<b>529,044</b>	<b>(1,108,305)</b>	<b>102,584</b>	<b>181,285</b>
<b>Statement of Financial Position Information</b>				
<b>Assets</b>				
Cash & cash equivalents including placements	1,437,540	1,041,852	2,832,888	965,197
Reverse repurchase agreement	-	-	-	1,292,670
Financial assets designated at FVPL	2,330,716	2,242,628	2,161,677	1,448,104
Loans & receivable at amortised cost	28,184,638	26,787,036	29,262,864	30,781,975
Investment in associate & subsidiary companies	452,488	468,508	925,994	160,360
Property & equipment, intangible assets, investment properties and real estate stock	843,466	1,348,377	1,490,405	711,918
Other assets	1,028,611	470,808	301,288	504,202
<b>Total assets</b>	<b>34,277,459</b>	<b>32,305,209</b>	<b>36,975,116</b>	<b>35,864,426</b>
<b>Liabilities</b>				
Due to banks	4,116,812	5,436,682	7,749,021	5,869,317
Cash collateral on securities lent and repurchase agreements	-	-	-	-
Due to customers	22,267,862	21,725,261	22,755,930	20,831,021
Debt issued and borrowed funds	2,381,579	2,568,829	2,466,268	5,331,077
Other liabilities & deferred taxation	1,342,251	1,160,586	1,396,109	1,308,907
<b>Total liabilities</b>	<b>30,108,504</b>	<b>30,891,358</b>	<b>34,367,328</b>	<b>33,340,322</b>
<b>Net assets</b>	<b>4,168,955</b>	<b>1,467,851</b>	<b>2,607,788</b>	<b>2,524,104</b>
<b>Capital Employed</b>				
Stated capital	4,276,448	2,124,457	2,124,457	2,124,457
Retained earnings & reserves	(107,493)	(656,606)	483,331	399,647



2017	2016	2015	2014	2013	2012
6,402,825	4,888,155	4,216,991	4,734,641	2,355,366	1,869,714
3,708,808	2,709,604	2,133,325	2,579,431	1,371,937	1,035,739
2,448,478	2,028,170	1,939,834	1,805,198	893,899	779,559
2,465,367	1,945,654	2,119,094	2,101,923	807,547	590,572
-	-	-	-	-	-
228,650	232,897	(35,428)	53,287	175,882	243,403
(127,799)	(154,247)	(42,878)	(83,957)	(58,942)	(42,156)
100,851	78,650	(78,306)	(30,670)	116,940	201,247
1,928,482	520,234	820,923	2,026,901	964,584	296,372
1,302,748	265,687	785,965	465,211	140,768	116,532
2,046,445	3,059,300	2,296,177	2,060,990	930,672	1,007,544
29,233,023	27,109,765	23,282,286	21,422,320	9,905,403	9,286,076
102,201	158,390	391,281	597,180	1,008,106	678,823
671,726	470,738	403,918	373,195	95,132	107,675
360,582	342,640	294,000	368,127	224,135	398,289
35,645,207	31,926,754	28,274,550	27,313,924	13,268,800	11,891,311
123,849	201,635	258,062	200,002	99,118	138,239
437,672	401,820	416,472	442,170	-	419,462
21,918,869	18,518,419	15,846,306	11,092,643	-	-
8,818,862	8,722,787	7,883,323	11,141,793	9,623,147	7,946,502
1,112,135	975,578	862,325	1,285,893	765,659	693,449
32,411,387	28,820,239	25,266,488	24,162,501	10,487,924	9,197,652
3,233,820	3,106,515	3,008,062	3,151,423	2,780,876	2,693,659
2,124,457	2,124,457	2,124,457	2,124,457	1,607,000	1,607,000
1,109,363	982,058	883,602	1,026,965	1,173,876	1,086,659

## Decade at a Glance

	2021	2020	2019	2018
<b>Investors Ratios</b>				
Market value of a voting share - Rs.	5.9	7.50	9.60	9.60
Basic earnings per share - Rs.	2.04	(6.68)	0.62	1.09
Net assets value per share - Rs.	16.08	8.85	15.72	19.33
Price earnings ratio - Times	2.89	(1.12)	15.52	8.78
Earning yield - %	34.59	(89.09)	6.44	11.38
<b>Operating Ratios</b>				
Return on net assets - %	18.77	(54.39)	4.00	6.30
Net profit - %	8.86	(21.32)	1.50	2.77
Return on assets - %	1.59	(3.20)	0.28	0.51
Net interest margin - %	9.42	4.50	6.52	7.83
Cost to income ratio - %	63.23	119.72	85.51	70.70
Income growth - %	15.09	(24.14)	4.41	2.30
Assets growth - %	5.77	(12.48)	3.10	0.62
Net assets growth - %	184.02	(43.71)	3.32	(21.95)
<b>Gearing Ratios</b>				
Debt to equity - Times	7.22	20.25	13.18	13.21
Interest cover - Times	1.30	0.62	1.01	1.12
<b>Liquidity Ratios</b>				
Quick ratio - Times	-	-	-	-
Liquidity ratio	12.92	8.17	12.30	10.20

	2017	2016	2015	2014	2013	2012
	13.50	13.60	15.00	17.50	13.60	19.90
	0.60	0.50	(0.47)	(0.18)	0.87	1.49
	19.50	18.73	18.13	19.00	20.60	19.95
	22.20	28.68	(31.77)	(94.65)	15.70	13.35
	4.50	3.49	(3.15)	(1.06)	6.37	7.49
	3.18	2.57	(2.54)	(0.97)	4.21	7.47
	1.58	1.61	(1.86)	(0.65)	4.96	10.76
	0.30	0.26	(0.28)	(0.11)	0.88	1.69
	7.64	7.18	7.61	9.96	8.22	8.37
	73.10	71.89	66.89	62.05	65.71	55.03
	30.99	15.92	(10.93)	86.46	25.97	34.17
	11.65	12.92	3.52	75.91	11.58	21.00
	4.10	3.27	(4.55)	4.95	3.24	(2.48)
	9.68	8.96	8.11	3.88	3.50	3.16
	1.06	1.09	0.98	1.02	1.13	1.24
	0.77	0.66	0.76	0.88	0.69	0.75
	11.49	10.75	11.25	-	-	-

# Basis of Ratio & Glossary

## A

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Actuarial assumptions

An actuarial assumption is an entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing postemployment benefits.

### Amortisation

The systematic allocation of the depreciable amount of an asset over its useful life.

### Amortised Cost

The amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortization using the effective interest rate method of any difference between that initial amount and the maturity amount.

### Asset and Liability Committee (ALCO)

A risk management committee that generally comprises the senior management levels of the Company. The ALCO's primary goal is to evaluate, monitor and approve practices relating to risk due to imbalances in the capital structure. Among the factors considered are liquidity risk, interest rate risk, operational risk and external events that may affect the Company's forecast and strategic balance sheet allocations.

### Associate company

An entity over which the investor has significant influence and that is neither a subsidiary nor an interest in a joint venture.

### Available-for-Sale financial Asset

non-derivative financial assets designated on initial recognition as available for sale or any other instruments that are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at fair value through profit or loss

## C

### Capital Adequacy Ratio

The ratio between capital and risk-weighted assets as defined in the framework developed by the Bank for International Settlements (BIS) and as modified by the Central Bank of Sri Lanka to suit local requirements.

### Cash equivalents

Short-term highly liquid investments which are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### Cash Flows

Cash flows are inflows and outflows of cash and cash equivalents

### Cash Generating Units (CGU)

A cash-generating unit is the smallest group of assets that independently generates cash flow and whose cash flow is largely independent of the cash flows generated by other assets.

### Collective Impairment Provisions

Impairment is measured on a collective basis for homogeneous groups of loans that are not considered individually significant.

### Commercial Paper

An unsecured short term debt instrument issued by a corporation, typically for the financing of accounts receivable, inventories and meet short-term liabilities. The debt is usually issued at a discount, reflecting prevailing market interest rates.

### Commitments

Credit facilities approved but not yet utilized by the clients as at the reporting date.

### Compounded Annual Growth Rate (CAGR)

The rate at which it would have grown if it grew at an even rate compounded annually.

### Consolidated Financial Statements

Financial statements of a holding company and its subsidiaries based on their combined assets, liabilities and operating results.

### Contingencies

A condition or situation existing on the statement of financial position where the outcome will be confirmed only by occurrence or non-occurrence of one or more future events.

## Corporate Governance

The process by which corporate entities are governed. It is concerned with the way in which power is exercised over the management and direction of entity, the supervision of executive actions and accountability to owners and others.

## Cost Method

This is a method of accounting for an investment whereby the investment is initially recognised at cost. The investor recognises income from the investment only to the extent that the investor receives distributions from accumulated profits of the investee arising after the date of acquisition. Distributions received in excess of such profits are regarded as a recovery of investment and are recognised as a reduction of the cost of the investment.

## Cost of Equity

In finance, the cost of equity is the return a firm theoretically pays to its equity investors

## 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.

$$\frac{\text{Total Operating cost Without VAT on Financial Services}}{\text{Net Operating Income}} \times 100$$

## Credit Ratings

An evaluation of a corporate's ability to repay its obligations or the likelihood of not defaulting, carried out by an independent rating agency.

## Credit Risk

Credit risk or default risk is the potential that a borrower or counterparty failing to meet its obligations in accordance with agreed terms and conditions.

## Current Ratio

The current ratio is a liquidity ratio that measures a company's ability to pay short-term obligations or those due within one year. It tells investors and analysts how a company can maximize the current assets on its balance sheet to satisfy its current debt and other payables.

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

# D

## Debt Equity Ratio

Long-term borrowings divided by shareholder's equity

## Deferred Taxation

Sum set aside for income tax in the Financial Statements that may become payable/receivable in a financial year other than the current financial year.

## Depreciation

The systematic allocation of the depreciable amount of an asset over its useful life.

## Derecognition

Removal of a previously recognized financial asset or financial liability from an entity's Statement of Financial Position.

## Derivative

A derivative is a financial instrument or other contract, the value of which changes in response to some underlying variable (e.g. an interest rate), that has an initial net investment smaller than would be required for other instruments that have a similar response to the variable, and that will be settled at a future date.

## Discount Rate

A rate used to place a current value on future cash flows. It is needed to reflect the fact that money has a time value.

## Dividend Per Share (DPS)(Rs:)

Value of the total dividend paid out and proposed to ordinary shareholders divided by the number of ordinary shares in issue; indicates the proportion of current years dividend attributable to an ordinary share in issue

$$\frac{\text{Profit / Loss Attributable to Ordinary Share}}{\text{Number of Ordinary Share}}$$

## Dividend Yield

Dividend per share as a percentage of its market value.

$$\frac{\text{Dividend Per Ordinary Share}}{\text{Market Price Per Share}} \times 100$$

# Basis of Ratio & Glossary

## E

### Earnings Yield (EY)

The earnings yield refers to the earnings per share for the period divided by the current market price per share. The earnings yield (which is the inverse of the P/E ratio) shows the percentage of the Company's earnings per share.

$$\frac{\text{Earnings Per Share}}{\text{Market Price Per Share}} \times 100$$

### Earnings per Ordinary share (EPS)

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

$$\frac{\text{Profit / Loss Attributable to ordinary shareholders}}{\text{Average Number of Share}}$$

### Economic Value Added (EVA)

A measure of productivity that takes into consideration cost of total invested equity.

### Effective Interest Rate (EIR)

The rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability.

### Effective Tax Rate

Provision for taxation excluding deferred tax expressed as a percentage of the profit before taxation.

### Employee Turnover (%)

Employee turnover refers to the workers leaving an organization over a period as a percentage of average employees during the period.

$$\frac{\text{Number of attritions during the year}}{\text{Average number of employees during the year}} \times 100$$

### Equity Method

This is a method of accounting whereby the investment is initially recognised at cost and adjusted thereafter for the post-acquisition changes in the investor's share of net assets of the investee. The profit or loss of the investor includes the investor's share of the profit or loss of the investee.

### Equity Return Premium

An equity risk premium is an excess return earned by an investor when they invest in the stock market over a risk-free rate.

### Equity securities

An equity security is a financial instrument that represents an ownership share in a corporation.

### Expected credit loss (ECL)

ECLs are probability-weighted estimate of the present value of cash shortfalls (i.e. the weighted average credit losses, with respective risks of defaults occurring in a given time period used as the weights). ECL measurements are unbiased and are determined by evaluating a range of possible outcomes.

### Exposure

A claim, contingent claim or position which carries a risk of financial loss.

### Exposure at Default

This is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of principal & interest and expected drawdowns of committed facilities.

## F

### Fair Value

The amount for which an asset could be exchanged or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

### Fair Value Through Profit or Loss

A financial asset/liability: Acquired/incurred principally for the purpose of selling or repurchasing it in the near term, part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short-term profit-taking, or a derivative (except for a derivative that is a financial guarantee contract)

### Finance Lease

A contract whereby a lessor conveys to the lessee the right to use an asset for rent over an agreed period of time which is sufficient to amortise the capital outlay of the lessor. The lessor retains ownership of the asset but transfers substantially all the risks and rewards of ownership to the lessee.

### Financial Asset

Any asset that is cash, an equity instrument of another entity or a contractual right to receive cash or another financial asset from another entity.

### Financial Guarantee Contract

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

### Financial Instrument

A financial instrument is any contract that gives rise to both a financial asset in one entity and a financial liability or equity instrument in another entity.

### Financial Liability

A contractual obligation to deliver cash or another financial asset to another entity.

## G

---

### Gearing

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

### Global Reporting Initiative (GRI)

GRI is a leading organization in the sustainability field. GRI promotes the use of sustainability reporting as a way for organizations to become more sustainable and contribute to sustainable development.

### Going Concern

The financial statements are normally prepared on the assumption that an entity is a going concern and will continue in operation for the foreseeable future. Hence, it is assumed that the entity has neither the intention nor the need to liquidate or curtail materially the scale of its operations.

### Group

A group is a parent and all its subsidiaries.

### Guarantees

Three party agreement involving a promise by one party (the guarantor) to fulfil the obligations of a person owing a debt if that person fails to perform.

## H

---

### Held-to-Maturity (HTM) Investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and a fixed maturity that an entity has the positive intention and ability to hold till maturity.

## I

---

### Impaired Loans

Loans where identified impairment provisions have been raised and also include loans which are collateralised or where indebtedness has already been written down to the expected realisable value. The impaired loan category may include loans, which, while impaired, are still performing.

### Impairment

This occurs when recoverable amount of an asset is less than its carrying amount.

### Impairment Allowances

Impairment allowances are a provision held as a result of the raising of a charge against profit for the incurred loss.

### Individually Assessed Impairment

Exposure to loss is assessed on all individually significant accounts and all other accounts that do not qualify for collective assessment.

### Intangible Asset

An intangible asset is an identifiable non-monetary asset without physical substance.

### Interest cover

A ratio showing the number of times interest charges are covered by earnings before interest and tax.

$$\frac{\text{Profit Before Interest \& Tax}}{\text{Interest Expenses}}$$

### Interest in Suspense

Interest suspended on non-performing leases, hire purchases and other advances.

### Interest Margin

Net interest income expressed as a percentage of average interest earnings assets.

## Basis of Ratio & Glossary

### Interest rate risk

The risk that the fair value or future cash flows of a financial instrument will fluctuate because of the changes in market interest rates.

### Interest Spread

Represents the difference between the average interest rate earned on interest earnings assets and the average interest rate paid on interest-bearing liabilities.

### International Financial Reporting Standards (IFRS)

A set of international accounting standards stating how particular types of transactions and other events should be reported in financial statements. IFRS are issued by the International Accounting Standards Board (IASB).

### Investment properties

Investment property is property (land or a building – or part of a building – or both) held (by the owner or by the lessee under a finance lease) to earn rentals or for capital appreciation or both rather than for use or sale.

## K

---

### Key Management Personnel (KMP)

Key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the entity, directly or indirectly, including any Director (whether Executive or otherwise) of that entity.

## L

---

### Lending portfolio

Total value of lending products net of unearned income, amounts received in advance and allowance for impairment.

### Lifetime expected credit loss (LTECL)

The expected credit losses that result from all possible default events over the expected life of a financial instrument.

### Liquid Assets

Assets that are held in cash or in a form that can be converted to cash readily, such as deposits with Banks, bills of exchange and Treasury Bills and Bonds.

### Liquid Assets Ratio

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

### Liquidity Risk

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

### Loan to Value Ratio (LTV)

The LTV ratio is a mathematical calculation which expresses the amount of a first mortgage lien as a percentage of the total appraised value of real property. The LTV ratio is used in determining the appropriate level of risk for the loan and therefore the correct price of the loan to the borrower.

### Loans and Receivables

Conventional loan assets that are unquoted (originated or acquired).

### Loss Given Default (LGD)

LGD is the percentage of an exposure that a lender expects to lose in the event of obligor defaults. It is based on the difference between the contractual cash flows due and those that the lender would receive including any collateral.

## M

---

### Market Capitalisation

Number of ordinary shares in issue multiplied by the market value of a share as at the year end.

$$\text{Market price per share} \times \text{Number of shares}$$

### Market Risk

This refers to the possibility of loss arising from changes in the value of a financial instrument as a result of changes in market variables such as interest rates, exchange rates, credit spreads and other asset prices.

### Materiality

The relative significance of a transaction or an event, the omission or misstatement of which could influence the economic decisions of users of Financial Statements.

## N

---

### Net Assets Value per Ordinary Share

Shareholders' funds excluding preference shares, if any, divided by the number of ordinary shares in issue.

$$\frac{\text{Total Share Holders Equity}}{\text{Number of Share}}$$



### Net Interest Income (NII)

The difference between income earned from interest bearing assets and cost incurred on financial instrument / facilities used for funding the interest bearing assets.

### Net Interest Margin (NIM - %)

Net interest income expressed as a percentage of average interest earning assets.

$$\frac{\text{Net Interest Income}}{\text{Average Interest Earnings Assets}} \times 100$$

### Non-Controlling Interest

Equity in a subsidiary not attributable, directly or indirectly, to a parent.

### Non-performing ratio

Total non-performing leases, hire purchase loans and other advances divided by total advances portfolio.

$$\frac{\text{Gross non- performing portfolio}}{\text{Gross loans and receivables}} \times 100$$

## O

### Off-Balance Sheet Transactions

Transactions that are not recognised as assets or liabilities in the Balance Sheet, but which give rise to contingencies and commitments.

### Offsetting of financial statements

Financial assets and financial liabilities are offset and the net amount reported in the statement of financial position only when there is a legally enforceable right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settled the liability simultaneously.

### Operational Risk

This refers to the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events.

## P

### Parent Company

A Parent is an entity which has one or more subsidiaries.

### Past Due

A financial asset is past due when a counter party has failed to make a payment when contractually due.

### Price Earnings Ratio (P/E Ratio)

Market price of an ordinary share divided by earnings per share.

$$\frac{\text{Market price per share}}{\text{Earnings per share}}$$

### Price to Book Value (PBV - Times)

$$\frac{\text{Market Price Per Share}}{\text{Net Assets Per Share}}$$

### Probability of Default (PD)

The Probability that an obligor will default within a one-Year time horizon.

### Prudence

Inclusion of a degree of caution in the exercise of judgment needed in making the estimates required under conditions of uncertainty, such that assets or income are not overstated and liabilities or expenses are not understated.

## R

### Related Parties

Parties where one party has the ability to control the other party or exercise significant influence over the other party in making financial and operating decisions, directly or indirectly.

### Repurchase Agreement

Contract to sell and subsequently repurchase securities at a specified date and price

### Return on Assets (ROA)

Profit after tax expressed as a percentage of the average assets.

$$\frac{\text{Profit After tax}}{\text{Average Assets}} \times 100$$

### Return on Equity (ROE)

Net profit for the year, less dividends on preference shares, if any, expressed as a percentage of average ordinary shareholders' equity.

### Reverse Repurchase Agreement

Transaction involving the purchase of securities by a bank or a dealer and resale back to the seller at a future date at a specified price.

## Basis of Ratio & Glossary

### Right-of-use Asset (ROU)

ROU asset is a lessee's right to use an asset over the life of a lease. The asset is calculated as the initial amount of the lease liability, plus any lease payments made to the lessor before the lease commencement date, plus any initial direct costs incurred, minus any lease incentives received.

### Rights Issue

Issue of shares to the existing shareholders at an agreed price, generally lower than market price.

### Risk Free Rate

The risk-free rate is the theoretical rate of return on an investment with zero risk

### Risk Mitigation

A technique to reduce the credit risk associated with an exposure by application of risk mitigants such as collateral, guarantee and credit protection

### Risk Premium

The risk premium is the rate of return on an investment over and above the risk-free or guaranteed rate of return

### Risk weighted assets

On statement of financial position assets and the credit equivalent of off-balance sheet assets multiplied by the relevant risk weighting factors.

## S

---

### Segment analysis

Analysis of financial information by segments of an entity specifically the different business in which it operates.

### Shareholders' Funds

Total of stated capital and reserves.

### Specific Impairment Provisions

Impairment is measured individually for loans that are individually significant to the Company.

### Sri Lanka Financial Reporting Standards (SLFRSs)

Standards and Interpretations adopted by Institute of Chartered Accountants of Sri Lanka. They comprise Sri Lanka Accounting Standards (SLFRS & LKAS); and Interpretations adopted by the Council of ICASL (IFRIC and SIC).

### Subsidiary Company

A subsidiary is an enterprise that is controlled by another enterprise which is known as the parent.

### Substance over Form

The consideration that the accounting treatment and the presentation in Financial Statements of transactions and events should be governed by their substance and financial reality and not merely by legal form.

## T

---

### Terminal Growth

The terminal growth rate is the constant rate that a company is expected to grow at forever.

### Tier I Capital

Tier I: Core capital representing permanent shareholders' equity and reserves created or increased by appropriations of retained earnings or other surpluses.

### Tier II Capital

Representing general provisions and other capital instruments which combines certain characteristics of equity and debt such as hybrid capital instruments and subordinated term debts.

### Total Return of Share (%)

Total shareholder return is the financial gain that results from a change in the stock's price plus any dividends paid by the company during the measured interval divided by the initial purchase price of the stock.

$$\frac{(\text{Closing Market Price} - \text{Opening Market Price}) + \text{Dividend Per Share}}{\text{Opening Market Price}} \times 100$$

### Transaction costs

Incremental costs that is directly attributable to the acquisition, issue or disposal of a financial asset or financial liability

## U

---

### **Unit Trust**

An undertaking formed to invest in securities under the terms of a trust deed.

## V

---

### **Value Added**

Value of wealth created by providing financial and other-related services less the cost of providing such services.

## Y

---

### **Yield**

Return of an investment in percentage terms, taking in to account annual income and any changes in capital value

### **Yield to Maturity**

Discount rate at which the present value of future cash flows would equal the security's current price.

# Contact Information

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
<b>REGION 01</b>					
BOC Merchant Tower, No. 28, St.Michael's Road, Colombo 03	011-4711736	011-4711768	Mr. Sulochana Munasinghe <i>Regional Manager - Region 01</i>	076-9956527	sulochanam@mbslbank.com
<b>CORPORATE BUSINESS UNIT</b>					
BOC Merchant Tower, No. 28, St.Michael's Road, Colombo 03	011-4711711 011-4711888	-	Mr. Daya Sagar Vijayan <i>Manager</i>	076-9716907	dayasv@mbslbank.com
<b>HEAD OFFICE BRANCH</b>					
BOC Merchant Tower, No. 28, St.Michael's Road, Colombo 03	011-4711782	011-4711768	Mr. Chiran Nimanka <i>Manager</i>	077-9519460	nimankac@mbslbank.com
<b>MALABE BRANCH</b>					
No. 390 A, Kaduwela Rd, Malabe	011-4498500/5	011-4498502	Mr. Chandrasekaran Sanjeev <i>Branch Manager</i>	077-3240053	sanjeevc@mbslbank.com
<b>NUGEGODA BRANCH</b>					
No. 196, High Level Road, Nugegoda	011-4504966/7	011-2815535	Mr. Thusara Muramudali <i>Branch Manager</i>	077-6720479	thusaram@mbslbank.com
<b>MORATUWA BRANCH</b>					
No. 731, Galle Road, Idama, Moratuwa	011-4504964 011-4504965 011-2641420	011-2642123	Mr. Chalaka Ariyasinghe <i>Manager</i>	076-0169033	chalakaa@mbslbank.com
<b>PANADURA BRANCH</b>					
No. 159/2, Galle Road, Panadura	038-4927941/2	038-2236889	Mr. Ranga Peiris <i>Branch Manager</i>	076-3328220	rangap@mbslbank.com
<b>KOTTAWA BRANCH</b>					
No. 262/2A, High Level Road, Kottawa	011-4504962/3	011-2783389	Mr. Sampath Gunasekera <i>Branch Manager</i>	077-6721537	sampathg@mbslbank.com
<b>HORANA BRANCH</b>					
No. 212, Panadura Road, Horana	034-4200101 034-4200102	034-2262973	Mr. Shamal Kumara <i>Manager</i>	076-9995951	shamalk@mbslbank.com
<b>WATTALA BRANCH</b>					
No. 500/B/C, Negombo Road, Wattala	011-4504671 011-2931761	011-4504672	Mr. Pradeep Kumarage <i>Branch Manager</i>	077-6722479	pradeepk@mbslbank.com

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
<b>KOTAHENA BRANCH</b>					
No. 295, 2/2, Rathi Tower, Geroge R.De Silva Mw, Kotahena, Colombo - 13	011-2388377	011-2432088	Mr. Madushan Abeyrathne <i>Branch Manager</i>	077-3054317	madushana@mbslbank.com
<b>KIRIBATHGODA BRANCH</b>					
No. 276/A, Nawajeewana Place, Kandy Road, Kiribathgoda	011-4504678 011-4504679 011-4324180 011-4324182	-	Mr. Nadeesha Saparamadu <i>Manager</i>	077-6721708	nadeeshap@mbslbank.com
<b>KADAWATHA BRANCH</b>					
No. 1246/A, Kandy Road, Kadawatha	011-4504920	011-2920335	Mr. Kasun Ekanayaka <i>Manager</i>	0773135806	kasune@mbslbank.com
<b>KANDANA BRANCH</b>					
No. 310, Colombo Road, Kandana	011 -4344073 011-4344072	-	Mr. Lasantha Segera <i>Branch Manager</i>	076-3946000 077-3331313	lasanthas@mbslbank.com
<b>JA-ELA BRANCH</b>					
No. 270/1, Negombo Road, Thudella, Ja-ela	011-4504674 011-4504675	011-2249292	Mr. Dilip Niroshan <i>Branch Manager</i>	077-4550970	dilipn@mbslbank.com
<b>REGION 02</b>					
Level 09, Bank of Ceylon Merchant Tower, No. 28, St Michael's Road, Colombo 03	011-4711711	-	Mr. Niroshan Selvarajah <i>Assistant General Manager</i>	077-9154621	niroshans@mbslbank.com
<b>MAHARAGAMA BRANCH</b>					
No. 232, Laksiri Building, Highlevel Road, Maharagama	011-4306096 011-4306097	011-2745451	Mr. Praveen Ferdinandusz <i>Manager</i>	077-6721418	praveenf@mbslbank.com
<b>MATHUGAMA BRANCH</b>					
No. 92/4, Agalawatta Road, Mathugama	034-4947811 034-4947812	034-2249992	Mr. Pathum Dassanayake <i>Manager</i>	077 6720861	pathumd@mbslbank.com
<b>GALLE BRANCH</b>					
No. 37, New Street, Gnanobhashatha Mawatha, Galle	091-4711711 091-4711700	091-2234750	Mr. Shyaman Karunanayaka <i>Manager</i>	077-5506573	shyamank@mbslbank.com

## Contact Information

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
<b>MATARA BRANCH</b>					
No. 344/F, Anagarika Dharmapala Mawatha, Nupe, Matara	041-4650400 041-4650420	041-2233886	Mr. Dharmendra Niwantha <i>Manager</i>	077-3240887	dharmendraa@mbslbank.com
<b>AMBALANTHOTA BRANCH</b>					
No. 133, Main street, Ambalanthota	047-4711711 047-4711700	047-2225610	Mr. Priyajith Subasinghe <i>Branch Manager</i>	077-3240827	priyajiths@mbslbank.com
<b>KALUTHARA BRANCH</b>					
No. 426, Galle Road, Kalutara South	034-4200105	034-2229482	Mr. Sanuka Janith <i>Manager</i>	071-2885504	sanukaj@mbslbank.com
<b>AMBALANGODA BRANCH</b>					
No.45, Station Road, Ambalangoda	091-4943759 091-4943765	091-2256675	Mr. Ranuka Liyana Arachchi <i>Branch Manager</i>	077-6729213	ranukas@mbslbank.com
<b>DENIYAYA BRANCH</b>					
No.1/153, Hospitle road, Deniyaya	041-4935173 041-4935174	041-2273731	Mr. Manjula Prasad Krasinghe Arachchige <i>Manager</i>	077-9286365	manjulak@mbslbank.com
<b>EMBILIPITIYA BRANCH</b>					
No. 79/A , New Town Road , Embilipitiya	047-7711711 047-7711700	047-2261735	Mr. Kishan Keerthi <i>Branch Manager</i>	077-3240572	keerthid@mbslbank.com
<b>TISSAMAHARAMA BRANCH</b>					
No.117, Halambagaswala Road, Palliyawatta Junction, Tissamaharama	047-2238716	047-2238717	Mr. Ruchira Sameera <i>Manager</i>	076-7348744	ruchiras@mbslbank.com
<b>REGION 03</b>					
No. 55, Kings Groove, Rajapihilla Road, Kurunegala	037-4711700	037-2224215	Mr. Keerthi Ramanayake <i>Assistant General Manager</i>	077-3219578	keerthir@mbslbank.com
<b>KURUNEGALA BRANCH</b>					
No. 55, Kings Groove, Rajapihilla Road, Kurunegala	037-4711711	037-2224570	Mr. Indika Pushpakumara <i>Manager</i>	077-3792957	indikap@mbslbank.com

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
<b>KULIYAPITIYA BRANCH</b>					
No.413/1/1, Madampe Road, Kuliyapitiya	037-2281730 037-4941147 037-4200130 037-4200131 0374-937218/ 99 (CDMA)	037-2281731	Mr. Lakmal Jayathunga <i>Branch Manager</i>	077-3240896	lakmalj@mbslbank.com
<b>DAMBULLA BRANCH</b>					
No. 343/B, Matale Road, Dambulla	066-4200105 066-2284204/5	066-2284204	Mr. Nishantha Dhahanaka <i>Manager</i>	077-3241323	nishanthad@mbslbank.com
<b>ANURADHAPURA BRANCH</b>					
No. 82, Maithreepala Senanayake Mawatha, Anuradhapura	025-4580507 025-2234485 025-2221774	025-4580508	Mr. Kanishka Batagoda <i>Branch Manager</i>	074-1899313	kanishkab@mbslbank.com
<b>HINGURAKGODA BRANCH</b>					
No. 17, Air-Port Road, Hingurakgoda	027-4924761 027-4924762	027-2245483	Mr. Amila W. Mawathawewa <i>Manager</i>	077-2519083	amilaw@mbslbank.com
<b>KEKIRAWA BRANCH</b>					
No. 24, Yakalla Road, Kekirawa	025-4928951 025-4928952	025-2264799	Mr. Chaminda Batagoda <i>Branch Manager</i>	077-3240274	kumarab@mbslbank.com
<b>PUTTALAM BRANCH</b>					
No. 126/B, Kurunagala Road, Puttalam.	032-2267285 032-4928795 032-4928796	032-2267776	Mr. Sugath Jayamanna <i>Branch Manager</i>	077-3240631	sugathj@mbslbank.com
<b>WENNAPUWA BRANCH</b>					
No. 177, Samagi Building, Kolinjadiya, Wennappuwa	031-4200109 031-4200110	031-2249979	Mr. Chaminda Pushpakumara <i>Manager</i>	077-1024291	chamindam@mbslbank.com
<b>NEGOMBO BRANCH</b>					
No. 329/16, Main Street, Negombo	031-4200107 031-4200108 031-2237355	031-2228324	Mr. Nuwan Prasanga <i>Manager</i>	077-3973424 077-6643542	nuwanp@mbslbank.com
<b>CHILAW BRANCH</b>					
No. 6, Ebert Silva Estate,Colombo Road, Chillaw	032-4928790 032-4928791	032-2224033	Mr. Chinthana Jayasekera <i>Manager</i>	076-3626138	chinthanap@mbslbank.com

## Contact Information

ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
<b>REGION 04</b>					
No. 284, Katugasthota Road, Kandy	081-2202213 081-2224820 081-4481702	081-2213880	Mr. Saman Pathmadeera <i>Regional Manager</i>	077-3219579	samanp@mbslbank.com
<b>KANDY BRANCH</b>					
No. 284, Katugasthota Road, Kandy	081-2224818/9 081-4951786/7	081-2213880	Mr. Chaminda Amarasinghe <i>Manager</i>	077-3047775	chamindaa@mbslbank.com
<b>KANDY BRANCH - CITY OFFICE</b>					
No. 88, "Ceybank House" Dalada Veediya, Kandy	081-2237378 081-2237380 081-2237379	081-2237378	Mr. Krishantha Bandara <i>Branch Manager</i>	077-3241027	krishanthab@mbslbank.com
<b>AVISSAWELLA BRANCH</b>					
No. 89 /1/1, Ratnapura Road, Avisawella	036-4928208 036-4928209	036-2232030	Mr. Amal Geekiyanage <i>Branch Manager</i>	077- 3240384	amals@mbslbank.com
<b>RATNAPURA BRANCH</b>					
No. 231, Main Street, Rathnapura	045-4928089 045-4928093	045-2232524	Mr. Chinthaka Athukorala <i>Manager</i>	077-3241089	chinthakaa@mbslbank.com
<b>HATTON BRANCH</b>					
No. 263, Dimbula Road, Hatton	051-4924641 051-4924642	051-2224375	Mr. Asanka Weerasinghe <i>Branch Manager</i>	077-3241168	AsankaW@mbslbank.com
<b>BANDARAWELA BRANCH</b>					
No.11, Thanthiriya, Badulla Road, Bandarawela	057-4926910 057-4926911	057-2233807	Mr. Chandana Rathnayake <i>Branch Manager</i>	077-3240335	rohanr@mbslbank.com
<b>MONARAGALA BRANCH</b>					
No. 280, Wellawaya Road, Monaragala	055-4929361 055-4929362	055-2276087	Mr. Sumith Karunaratne <i>Manager</i>	077-3240329	sumiths@mbslbank.com
<b>NITTAMBUWA BRANCH</b>					
No. 48/3, Kandy Road, Nittambuwa	033-4937564 033-4937565	033-2288842	Mr. Kanchana Costa <i>Manager</i>	0777-512169	KanchanaG@mbslbank.com
<b>GAMPAHA BRANCH</b>					
No. 390, Colombo Road, Gampaha	033-4200110 033-4200109	033-2234227	Mr. Gayan Wijesinghe <i>Branch Manager</i>	077-2970205	Gayanpw@mbslbank.com
<b>AMPARA BRANCH</b>					
No. 6, D S Senanayake Veediya, Ampara	063-4923540 063-4923541	063-2224260	Mr. Chaminda Kadigamuwa <i>Manager</i>	077-3240817	sanjeeewac@mbslbank.com



ADDRESS	TELEPHONE	FAX	HEAD OF BRANCH	MOBILE NO.	EMAIL
<b>NORTH EAST REGION</b>					
<b>REGION OFFICE</b> No. 104/1, Station Road, Vavuniya	024-4711709 024-4711714		Mr. Rengasamy Saravanan <i>Acting Regional Manager</i>	077-6519372	saravananr@mbslbank.com
<b>JAFFNA BRANCH</b>					
No. 233, Stanley Road, Jaffna	021-4200141		Mr. Shanmugavel Harishangar <i>Manager</i>	077-5147548	harishangars@mbslbank.com
<b>KILINOCCHI BRANCH</b>					
No. 30 A9 Road, Karadippokku, Kilinochchi	021-2280078	021-2280079	Mr. Satchithanatham Uganthan <i>Branch Manager</i>	077-6664465	uganthans@mbslbank.Com
<b>VAVUNIYA BRANCH</b>					
No. 104/1, Station Road, Vavuniya	024-4711711		Mr. Kanesalingam Thusijanthan <i>Branch Manager</i>	077-3241007	thusijanthank@mbslbank.com
<b>BATTICALOA BRANCH</b>					
No. 28, Bar Road, Batticaloa	065-4926787 065-4926799	065-2228575	Mr. Panchadcharam Nivaraj <i>Senior Manager</i>	077-3240721	nivarajp@mbslbank.com
<b>TRINCOMALEE BRANCH</b>					
No. 133, Main Street, Trincomalee	026-4924788		Mr. Yogarajah Suluxshan <i>Manager</i>	076-0576783	suluxshany@mbslbank.com

# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Fortieth (40th) Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3 on 31st May 2022 at 10.00 a.m. via an Online Meeting Platform without the physical presence of the Shareholders, due to the prevailing COVID-19 pandemic in the country for the following purposes;

1. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 December 2021 together with the Report of the Auditors thereon.
2. To re-elect as Director Prof. N S Punchihewa 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. J D V N Jayasinghe who was appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
4. To elect as a Director Mr. R M N Jeewantha who was appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
5. To elect as a Director Mr. H P K Silva who was appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.
6. To re-appoint the Auditor General as the auditor of the Company and to determine the Audit Fees in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.
7. To authorize the Directors to determine donations for the financial year ending 31.12.2022.

By Order of the Board of  
MERCHANT BANK OF SRI LANKA & FINANCE PLC



Amila Belpamulla  
Company Secretary  
9 May 2022.  
Colombo

## NOTES:

1. A Form of Proxy is attached hereto, for use if necessary, in which event, it should be completed and returned to the Registered Office of the Company – Bank of Ceylon Merchant Tower, No. 28, St. Michael's Road, Colombo 3 not less than 48 hours before the time appointed for the holding of the Annual General Meeting.
2. A Shareholder entitled to attend and vote at the Annual General Meeting is entitled to appoint a Proxy to attend and vote instead of him/her. A Proxy need not be a Shareholder of the Company.
3. The instrument appointing a Proxy may be in writing under the hand of the appointor or of his/her Attorney, or if such appointor is a corporation under its Common Seal or under the hand of its Attorney or duly authorized person.

# Form of Proxy

I/We..... of .....  
 being a shareholder/ shareholders of Merchant Bank of Sri Lanka & Finance PLC, hereby appoint .....  
 ..... of ..... whom failing  
 ..... of ..... whom failing  
 (Mr. K Ratwatte/ Mr. A M A Perera/ Mr. W P R P H Fonseka/ Prof. N S Punchihewa/ Mr. M P R Kumara/ Mr. G A Jayashantha/ Mr. J D V N Jayasinghe/ Mr. R M N Jeewantha/ Mr. H P K Silva) as \*my/our Proxy, to represent \* me/us, and .....\*..... to vote on \*my/our behalf at the Annual General Meeting of the Company to be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3 on 31st May 2022 at 10.00 a.m. via an Online Meeting Platform and at any adjournment thereof and at every poll which may be taken in consequence thereof. \*I/We the undersigned hereby authorize my/our Proxy to vote on \*my/our behalf in accordance with the preference indicated below:

	For	Against
01. To receive and consider the Annual Report of the Board of Directors and the Audited Financial Statements of the Company for the year ended 31 December 2021 together with the Report of the Auditors thereon.		
02. To re-elect as Director Prof. N S Punchihewa who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.		
03. To elect as a Director Mr. J D V N Jayasinghe who was appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company.		
04. To elect as a Director Mr. R M N Jeewantha who was appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company		
05. To elect as a Director Mr. H P K Silva who was appointed to the Board since the last Annual General Meeting, under and in terms of Article 93 of the Articles of Association of the Company		
06. To re-appoint the Auditor General as the auditor of the Company and to determine the Audit Fees in accordance with Section 04 (Audit Fees) as stipulated in Public Finance Circular No: PED 01/2016 dated 01.01.2016.		
07. To authorize the Directors to determine donations for the financial year ending 31.12.2022.		

Signed this.....day of.....Two Thousand and Twenty Two.

.....  
 Signature

## Notes:

1. Please delete the words which are not applicable.
2. Please indicate with an 'X' in the space provided how your proxy is to vote. If there is in the view of the proxy holder (doubt by reason of the way in which the instructions contain in the proxy have been completed) as to the way in which the proxy holder should vote, the proxy holder shall vote as he thinks fit.
3. If you wish your proxy to speak at the meeting, you should instruct the words "to speak and" in the space indicated with an asterisk.
4. A proxy holder need not be a shareholder of the Company. A proxy so appointed shall have the right to vote on a show of hands or on a poll and to speak at the Meeting.
5. Instructions as to completion of the Form of Proxy is given on the reverse hereof.

## 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 at 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.

# Administrative Details

The AGM will be held in compliance with the Companies Act No.7 of 2007, the Articles of Association of the Company, the principles set out in the Guidance Notes issued by the CSE for the hosting of Virtual Annual General Meetings dated 27th March 2020 and 27th July 2020 and the legal advice obtained thereon.

The details regarding the participation and the procedure to be adopted during the AGM is set out below:

## 1. Date, Time, Place and Conduct of AGM

- (a) AGM by virtual means will be held on 31st May 2022 at 10.00 a.m.
- (b) Board members and other key officials who are essential for the administration of the formalities and conduct of AGM will be physically present in the Board Room of the Company.
- (c) All others including the shareholders will only be able to participate the AGM by virtual means via the designated online platform (Microsoft Teams). These measures have been adopted to observe social distancing regulations/ requirements to mitigate the dangers of spread of the virus.

## 2. Confirmation of participation, pre-registration and voting

- a). Shareholders of the Company who wish to participate at the virtual AGM are required to pre- register. In order to pre- register, the Registration Form enclosed herewith should be duly completed and forwarded to the Company together with a copy of National Identity Card (NIC) or Passport of the shareholder/ proxy holder to the e-mail address: [dinushar@mbslbank.com](mailto:dinushar@mbslbank.com) or Fax to No. 0114711742 or post to the address given in the Registration Form to be received by the Company not less than 48 hours prior to the time scheduled for the AGM.

PLEASE NOTE THAT SINCE THE AGM IS TO BE HELD AS A VIRTUAL MEETING, YOU ARE REQUIRED TO PROVIDE A VALID EMAIL ID IN THE REGISTRATION FORM FOR THE LOGIN INFORMATION TO BE FORWARDED TO YOU. IN THE EVENT A VALID EMAIL ID IS NOT PROVIDED, YOU WILL NOT BE ABLE TO PARTICIPATE IN THE AGM.

- b). Shareholders are entitled to appoint a proxy holder to participate at the virtual AGM on his/ her behalf. Completed proxy form should be forwarded to e mail address: [dinushar@mbslbank.com](mailto:dinushar@mbslbank.com) or Fax to No. 0114711742 or post to the address given in the Registration Form to be received by the Company not less than 48 hours prior to the time scheduled for the AGM .
- c). The Company will forward to the shareholders who register for the AGM, the AGM meeting log-in information via email in advance of the AGM. In addition, a dedicated telephone line will be made available to assist them in resolving any difficulty they may encounter in using/ accessing the online meeting platform.

Meeting log-in information is authorized only for the use by the shareholders/ proxy holders and such information should strictly not be divulged to any other person.

A detailed guidance note covering all of the above information will be provided to the shareholders who register themselves to participate in the AGM, prior to the meeting.

- d). The Company encourages shareholders to submit duly completed proxy forms appointing one of the Directors of the Company to represent them at the AGM by completing the Form of Proxy accordingly each such shareholder shall be identified and recorded as if such shareholder was present at the meeting.
- e). Shareholders could vote their preference on the agenda items and relevant procedures will be explained at the meeting.

## Administrative Details

### 3. Shareholders' queries

- a. Shareholders will be given the opportunity to raise any questions or make comments on the resolutions specified in the attached Notice of Meeting during the time allotted for participants to make comments as directed by the Chairman of the meeting. All individuals participating in the AGM remotely through the online platform are required to first identify themselves by providing the name and NIC/ Passport number before raising any questions or making comments.

However, if the shareholders wish to raise any queries/questions during the meeting, they are encouraged to forward same via e mail: [dinushar@mbslbank.com](mailto:dinushar@mbslbank.com) or by post to the registered address of the Company at BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3, at least 7 days prior to the meeting, so that the Company Secretary will be able to compile queries and forward same for the attention of the Board of Directors to be discussed at the meeting.

- b. The Shareholders who are unable to participate in the virtual AGM may send their questions on the matters listed in the Notice of Meeting to the e mail: [dinushar@mbslbank.com](mailto:dinushar@mbslbank.com) or via Fax No. 0114711742 or by post to the Company Secretary, Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3. The responses from the Board of Directors and the Management to the questions will be forwarded to the shareholders by the Company within 30 working days from the receipt.
4. This Notice together with Registration Form, Notice of Meeting and Proxy Form will also be published on the Company's website ([www.mbslbank.com](http://www.mbslbank.com)) and on the website of the Colombo Stock Exchange ([www.cse.lk](http://www.cse.lk))
  5. The Company will proceed to hold the AGM as planned on 31st May 2022 with the shareholders who wish to participate through the online platform, irrespective of whether it is declared a public holiday or otherwise since the aforesaid measures will enable full participation at the meeting.

The Company has taken adequate measures to ensure that a contingency plan will be in place to enable the conduct of the AGM successfully in the event of a technical malfunction.

By Order of the Board of  
MERCHANT BANK OF SRI LANKA & FINANCE PLC



Amila Belpamulla  
Company Secretary  
9 May 2022  
Colombo

# Registration Form

ANNUAL GENERAL MEETING  
31st May 2022 at 10.00 a.m  
at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC,  
BOC Merchant Tower, No.28 St. Michael's Road, Colombo 03.

To: The Company Secretary  
Merchant Bank of Sri Lanka & Finance PLC  
Bank of Ceylon Merchant Tower  
No. 28, St. Michael's Road  
Colombo 03

Full Name of the Shareholder (In the event of joint shareholders, please mention the name of primary holder)		
Address of the Shareholder		
Shareholder's NIC No./Passport No./ Company Registration Number		
Telephone Number	Mobile:	
	Landline:	
E-mail Address:		
Willingness to participate via online	YES <input type="checkbox"/>	NO <input type="checkbox"/>
<b>IF A PROXY IS APPOINTED</b>		
Full Name of the proxy holder		
Proxy holder's NIC No./Passport No.		
Telephone Number	Mobile:	
	Landline:	
E-mail Address		

.....  
Shareholder's signature

.....  
Date

**Notes:**

- \* In the case of a Company/Corporation, this form should be attested in the manner prescribed by its Articles of Association.
- \* If this form is signed by an Attorney for and on behalf of a shareholder, notarially certified copy of the Power of Attorney registered in the Books of the Company should be attached.









# Corporate Information

## NAME OF COMPANY

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

## COMPANY REGISTRATION NO

PQ10

## LEGAL FORM

A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re- registered under the Companies Act No. 07 of 2007 on 4th May 2007 and quoted on the Colombo Stock Exchange.

A Registered Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

A Registered Finance Company licensed under the Finance Business Act No. 42 of 2011.

## STOCK EXCHANGE LISTING

25th April 1991

## REGISTERED OFFICE

Bank of Ceylon Merchant Tower,  
No. 28, St. Michael's Road,  
Colombo 03  
Tel. 011 4711711 Fax. 011 4711742  
Web. [www.mbslbank.com](http://www.mbslbank.com)

## TAX PAYER IDENTIFICATION NO.

124011426

## VAT REGISTRATION NO.

124011426 7000

## CENTRAL BANK REGISTRATION NO.

050

## FINANCIAL YEAR END

31st December

## WEBSITE

[www.mbslbank.com](http://www.mbslbank.com)

## BOARD OF DIRECTORS

Mr. K Ratwatte (Chairman)  
Mr. A M A Perera (Senior Director)  
Mr. W P R P H Fonseka  
Prof. N S Punchihewa  
Mr. M P R Kumara  
Mr. G A Jayashantha  
Mr. J D V N Jayasinghe  
Mr. R M N Jeewantha  
Mr. H P K Silva

## BOARD SUB COMMITTEES

Audit Committee  
Integrated Risk Management Committee  
Related Party Transactions Review Committee  
Human Resources & Remuneration Committee  
Nominations & Corporate Governance Committee  
Information & Communications Technology Committee

## CHIEF EXECUTIVE OFFICER

Mr. Dammika Hapuhinna  
Tel: 4711700 Fax: 4711704  
E-mail: [DammikaH@mbslbank.com](mailto:DammikaH@mbslbank.com)

## COMPANY SECRETARY

Ms. Amila Belpamulla  
Tel: 4711708 E-mail : [amilac@mbslbank.com](mailto:amilac@mbslbank.com)

## SUBSIDIARY COMPANY

MBSL Insurance Company Limited  
No. 519, T B Jayah Mawatha,  
Colombo - 10  
Tel : 2 304500 Fax: 2 300499  
E-mail : [info@mbslinsurance.lk](mailto:info@mbslinsurance.lk)  
Web : [www.mbslinsurance.lk](http://www.mbslinsurance.lk)

## ASSOCIATE COMPANY

Lanka Securities (Pvt.) Ltd  
No. 228/1, Galle Road  
Colombo 04  
Tel : 4706757 Fax: 4706767  
E-mail: [info@lankasec.com](mailto:info@lankasec.com)  
Web : [www.lankasecurities.com](http://www.lankasecurities.com)

## AUDITORS

The Auditor General

## LAWYERS

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

## PRINCIPAL BANKER

Bank of Ceylon



Bank of Ceylon Merchant Tower,  
No. 28, St. Michael's Road, Colombo 03  
Tel. 011 4711711 | Fax. 011 4711742  
[www.mbslbank.com](http://www.mbslbank.com)