

Steady As We Go



Merchant Bank of
Sri Lanka & Finance PLC

MERCHANT BANK OF SRI LANKA &
FINANCE PLC
ANNUAL REPORT 2022

Steady As We Go

The best results come from the best practices, in a challenging environment as was experienced on a national scale, we were able to maintain our impeccable standards while leveraging on new leadership and direction. While being resilient, we also demonstrated empathy and compassion in handling the needs of our team while delivering value to our customers. The results that you will see in the following pages are a culmination of strategy, endurance and dedication, as we emerge through adversity, steady and stronger than ever.



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View this Annual Report online at
<https://www.mbslbank.com/financial-information/>

About the Company

The Merchant Bank of Sri Lanka & Finance PLC (MBSL) 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 a products 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 growth and development of your entire family.

Merchant Bank of Sri Lanka & Finance PLC (MBSL) was incorporated in 1982 as Sri Lanka's first and only specialized merchant bank in the country at the time. In 1991, the Company was listed on the Colombo Stock Exchange and in the year 2000 secured the licence 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.

Our Vision

To be the most innovative & respected financial solutions provider among the NBFIs sector

Our Mission

- To offer solutions to realise our clients 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

Organisational Values

- Uphold the highest traditions of ethics, norms and best practices in all our endeavours
- Guide our principles with wisdom and prudence in search of excellence
- Ensure good governance and transparency
- Delight our clientele through service excellence, differentiation and innovation
- Unite and be courageous to face challenges

Steadfast in our backing





Our Journey



2012

Celebrated the Company's 30th anniversary

Opened up 16 new branches



1980

Operated as a management consultancy division of BOC



2014

Name changed to "Merchant Bank of Sri Lanka & Finance PLC"

GOLD AWARD for the annual report 2013 in the leasing sector



1982

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



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



1989

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



2016

Best Employer Brand Award in Sri Lanka

Emerging Financial Institute of the Year award



1991

Listed in the Colombo Stock Exchange



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



1992

Took over Colombo Credit Ltd





2009

Took over MBSL Savings Bank and MBSL Insurance

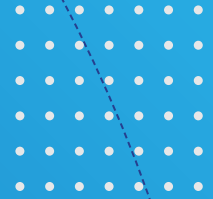
Central Bank of Sri Lanka appointed MBSL as the managing agent of The Finance Company PLC

“Bronze Award” for Financial Institutions



2022

MBSL 40th Anniversary, launched website and Intranet



2008

AA - Institutional Rating “Silver Award - Joint” for Financial Institution



2021

Raised amount of Rs. 2.1 Bn of capital through rights issue



2007

Annual Report Award



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



2006

Obtained ISO 9001 – 2000 & National Productivity Award



2005

Alliance with SBI Capital Markets Ltd – India



2000

Obtained license from CBSL to operate as a license company

Awarded Taiki Akimoto 5S (JASTECA)



2018

National ICT Best Quality ICT Awards

Asia Pacific ICT Alliance Awards (APICTA Awards) Guangzhou





LEASING PRODUCTS



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 PRODUCTS



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 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

- Higher 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
- Ability to retrieve gold items pawned in other institutions



CORPORATE ADVISORY & CAPITAL MARKET



Corporate Advisory & Capital Markets

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

REAL ESTATE



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 landlords, 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 an attractive interest rate



BONUS SAVINGS

- 'Bonus Savings Account' is a special savings account which gives customers 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 with an option to receive 12 bonuses on the interest per year



HIGHER SAVER

A rewarding way for customers 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 citizen's who are 60 years and above with a relatively high yield, privileged services and other benefits

MINOR SAVINGS

A savings account which offers 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 entitles them to free medical insurance



FIXED DEPOSITS

සඵලිත තැන්පතු Fixed Deposits

NON SENIOR CITIZEN FIXED DEPOSITS

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

SENIOR CITIZEN FIXED DEPOSITS

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

Key features

- Tenure ranges between one month to sixty months
- Guaranteed returns
- Interest income monthly or at maturity
- Partial or full premature withdrawal facility available with penalty interest rate
- Quick loans against deposit
- Offering embassy letters/guarantee letters
- Superior customer service



Prof. N.S. Punchihewa
*Non-Executive /
Independent Director*

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

Mr. H.P.K. Silva
*Non-Executive /
Non Independent Director*

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



Mr. M.P. Ruwan Kumara
*Non-Executive /
Non Independent Director*

Mr. R.M.N. Jeewantha
*Non-Executive /
Non Independent Director*

Mr. J.D.V.N. Jayasinghe
*Non-Executive /
Independent Director*

Mr. Y. A. Jayathilaka
*Non-Executive /
Non Independent Director*

Mr. A.M.A. Perera — Chairman (Non-Executive/Independent)

Mr. A.M.A Perera was appointed as the Chairman of Merchant Bank of Sri Lanka & Finance PLC (MBSL) on 03rd March 2023. He 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 the Post Graduate Institute of Management (PIM) of Sri Lanka and the 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. He also served as the Chairman of the Technical Committee of the Annual National Conference of CA Sri Lanka.

Mr. Perera served as the Senior Director of MBSL since July 2020 until he was appointed as the Chairman. He served as Chairman of the Audit Committee, Related Party Transactions Review Committee, Integrated Risk Management Committee and Information and Communication Technology Committee of MBSL as well until 08th March 2023. He was a member of the Human Resources and Remuneration Committee and Nomination Committee of MBSL until 08th March 2023.

Prof. N.S. Punchihewa — Non-Executive / Independent Director

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

Prof. Punchihewa is a former 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 Excellence by the University of Colombo. Furthermore, he has served as the Managing Editor of the Colombo Law Review (2017-2018) and currently is a member of the Editorial Board of the Sri Lanka Journal of International Law.

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.

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

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

Mr. Jayashantha counts over 25 years of service in Bank of Ceylon. He has performed duties in the branch banking in early part of his career and later 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 Bank of Ceylon prior to being appointed as the Chief Risk Officer. He was the Chief Risk Officer of Bank of Ceylon from 25.11.2020 to 17.03.2023.

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 experiences in policy matters/strategic decisions at Bank of Ceylon.

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. He is an Associate Member of the Institute of Bankers of Sri Lanka.

Mr. J.D.V.N. Jayasinghe — Non-Executive Director /Independent

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

Mr. Varuna 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 acts as a Legal Advisor to the Canowin Hotel (PVT) Ltd, a fully owned subsidiary of Sri Lanka Insurance Corporation Ltd. He also acts as a Legal Advisor to the St. Paul's Girls' School, Milagiriya.

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

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

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 Chief Financial Officer. He was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as Non-Executive/Non Independent Director with effect from 20th April 2021. He serves as Chairman of the Audit Committee of MBSL. He is also a member of the Integrated Risk Management Committee of MBSL.

Mr. Ruwan Kumara possesses over 20 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).

Mr. H.P.K. Silva — Non-Executive Director/Non-Independent

Mr. H.P.K. Silva is a member of the Corporate Management of Bank of Ceylon (Boc) and currently serves as Deputy General Manager (Branch Operations) of Bank of Ceylon. He was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as Non Independent/Non-Executive Director with effect from 23rd December 2021. He serves as a member of the Human Resources and Remuneration Committee, Related Party Transactions Review Committee and Information and Communication Technology Committee of MBSL.

Mr. Silva joined Bank of Ceylon in 1997 as a Management Trainee and commenced his career in Branch banking and counts over 26 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.

Mr. Silva graduated from the University of Ruhuna with Bachelor of Business Administration (Specialized in Marketing) Degree with a Second Class Upper division and has obtained 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 CIM. He is an Associate Member of the Institute of Bankers of Sri Lanka (IBSL) and a member of the Sri Lanka Institute of Marketing (SLIM).

He played an impressive role as the Senior Manager of Trade Promotion Unit and as the Chief Manager of International Division for more than five (5) consecutive years. He held several key positions in Bank of Ceylon and played a major role in Marketing Division. He was a member of many executive management committees of Bank of Ceylon including Reward and Recognition Committee and Disciplinary Authority Committee.

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

Mr. R.M.N. Jeewantha — Non-Executive Director/Non-Independent

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

Mr. Y.A. Jayathilaka — Non-Executive Director /Non-Independent

Mr. Y.A. Jayathilaka counts over 24 years of experience in multi-disciplinary roles in Retail Banking, Treasury and Overseas operations, Project Management, Products and Process Development, Credit and Recoveries. He was appointed to the Corporate Management of Bank of Ceylon in February 2020 and currently functions as the Deputy General Manager - Product & Banking Development. Mr. Jayathilaka has been involved in the implementation of major IT projects of Bank of Ceylon such as Core Banking system and Trade Finance systems in BOC UK Ltd, Core Banking and Teller system upgrade, DMS and Workflow Automation System and several other customer-facing digital offerings in the Bank.

Mr. Jayathilaka holds a BSc (Special) Degree in Business Administration (University of Sri Jayewardenepura), Master of Business (Finance) Degree (University of Kelaniya), Diploma in Banking and Finance and Advanced Course in Strategic Management from the Postgraduate Institute of Management (University of Sri Jayewardenepura). He is an Associate of the Institute of Bankers of Sri Lanka.

Mr. Jayathilaka serves as a Director of the Boards of Property Development PLC, Hotel Colombo (1963) Limited, Property Development Management Limited and Ceybank Holiday Homes (Pvt) Limited.

Mr. Jayathilaka was appointed to the Board of Directors of MBSL with effect from 04th April 2023 and currently serves as the Chairman of Information and Communication Technology (ICT) Committee of MBSL.



Mr. D. Hapuhinna
Chief Executive Officer

Mr. T. Gonagala
*Head of Information
Technology*

Mr. A. de S. Pinnaduwege
Compliance Officer

Mr. A. Liyanage
AGM - Recoveries

Mr. K. Jayasinghe
AGM - Internal Audit



Mr. K. Jayasundara
*AGM - Savings, Fixed Deposits,
Pawning & Treasury Front Office*

Mr. R.M.S.P.K. Ranathunga
AGM - Head of Central Credit

Mr. P. Kandanaarachchi
Head of Finance

Mrs. F. Ishar
AGM - Legal

Mr. D. Gunawardhana
AGM - Support Services



Mr. W. Karunaarachchi
AGM - Chief Risk Officer

Mr. K. Ramanayake
*AGM - Marketing/Product Management/
Real Estate & Customer Complaints
Handling*

Mr. S.P. Niroshan
*AGM - Retail & Branch Operations
(Range 01)*

Mr. K. Samarathunga
*Chief Manager Human Resources
(Acting Head of HR)*

Mr. D. Hapuhinna

Chief Executive Officer

Mr. Dammika Hapuhinna is a Leasing and Banking professional with over 32 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 Bank's 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. K. Jayasundara

AGM - 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 position in sales and marketing, operations, credit, recoveries, liability management and treasury operation. He has over 24 years' experience in the industry. He holds a MBA in Banking & Finance offered from the Post Graduate Institute of Management-University of Sri Jayewardenepura and BSc (Hons) degree with a specialisation in Agricultural Economics from University of Peradeniya. He holds Diploma in Credit Management offered from the Institute of Credit Management of Sri Lanka and is an Associate member of the Institute. He holds LLB (Hons) degree from Buckinghamshire New University United Kingdom. He also completed the stage II of Chartered Institute of Management Accountants-United Kingdom.

Mr. D. Gunawardhana

AGM - Support Services

Mr. Dhammika Gunawardhana Assistant General Manager – Support Services, 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 Jayewardenepura, a BSc Degree in Business Administration from the same University, BMS. Sp. Degree (Second Class Upper Honors) (Specialised in Human Resource Management) from the Open University of Sri Lanka and holds a LLB (Honors) Degree from Buckinghamshire University (UK). He holds a Diploma in Management from the Open University of Sri Lanka, Diplomas in Psychological counselling from the Institute of Psychological Studies & Department of Psychiatry, Faculty of Medical Sciences, University of Sri Jayewardenepura and Diploma in Computer Science.

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

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

Mr. P. Kandanaarachchi

Head of Finance

Mr. Kandanaarachchi serves as the Head of Finance. He counts over 22 years of experience in the fields of finance, auditing and accounting. He is a Fellow member of The Institute of the Chartered Accountants of Sri Lanka and an Associate member of The Institute of Certified Management Accountants of Sri Lanka. Mr. Kandanaarachchi also serves as a Non-Executive Director on the Board of MBSL Insurance Company Limited, a subsidiary of the Company.

Mr. A. Liyanage

AGM – Recoveries

Mr. Liyanage counts over 22 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, UK.

Mr. Liyanage serves as the Assistant General Manager-Recoveries overseeing the entire recovery operations and ensuring effective recovery processes.

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

AGM - Head of Central Credit

Mr. Ranathunga currently holds the position of Assistant General Manager and Head of Centralised 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 a B Com. (Special) Degree from University of Sri Jayewardenepura 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

AGM - Marketing / Product Management/ Real Estate & Customer Complaints Handling

Mr. Keerthi Ramanayake currently holds the position of Assistant General Manager-Marketing/Product Management/ Real Estate & Customer Complaints Handling. With over 25 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 has a B'Com (Special) Degree from University of Sri Jayewardenepura, MBA Degree in Master of Business Administration from the London Metropolitan University and he holds a LLB (Hons) Law from Buckinghamshire New University-UK. He is also a Chartered Licentiate of Sri Lanka Institute of Chartered Accountants and holds a Diploma in Intermediate Banking from the Institute of Bankers of Sri Lanka.

Mr. S.P. Niroshan

AGM - Retail & Branch Operations (Range 01)

Mr. Niroshan Selvaraj holds a Bsc in Marketing Management (Special) degree from the University of Sri Jayewardenepura and is a skilled Marketing professional with over 22 years of experience in multiple roles in Marketing, Credit and Operations in different working environments. Mr. Niroshan started his career as a Marketing Executive after his graduation. By his commitment he gradually passed career milestones as Branch Manager, Manager, Senior Manager, Acting Head of Credit & AGM. At present, he is the Assistant General Manager overseeing the entire Range-01 which is consisting of 23 branches located in Western and Southern provinces.

Mrs. F. Ishar

AGM - Legal

Mrs. Fahima Ishar is the Head of Legal Department of MBSL. She is an Attorney-at-Law of the Supreme Court of Sri Lanka and a Notary Public counting over 27 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, UK. She is a Member of the Bar Association of Sri Lanka and the Association of Corporate Lawyers in Sri Lanka. Mrs. Ishar counts over 27 years of experience in MBSL. She has wide and varied exposure and experience in Corporate legal matters, including Litigation, Conveyancing, Corporate Advisory and Capital Market activities.

Mr. T. Gonagala

Head of Information Technology

Mr. Gonagala is a banking savvy technology expert with over of 25 years of experience. He holds a Masters in Information System Management (MSc) from University of Colombo, Sri Lanka and a member of the British Computer Society.

He exceedingly believes in TEAM (Together Everyone Achieves More) and working towards to increasing Business Agility through Digital Transformation ensuring customer centric banking assuring the Governance, Risk Management and Compliance (GRC) aspect and ensuring the sustainability of the bank.

Mr. K. Jayasinghe

AGM - Internal Audit

Mr. Jayasinghe is a Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and holds a Masters degree in Business Administration from Postgraduate Institute of Management, University of Sri Jayewardenepura. He has also been accredited with a Diploma in Information Systems Security, Control & Audit (DISSCA) conducted by CA Sri Lanka jointly with Institute of Chartered Accountants of India. He counts over 13 years of experience in the fields of Governance, Risk & Control.

Mr. W. Karunaarachchi — AGM - Chief Risk Officer

Mr. Wimal Karunaarachchi, currently the Assistant General Manager–Chief Risk Officer of MBSL is a career Banker with over 18 years of progressive experience in banking industry. He started his banking career at a globally, renowned international bank. In 2007 he moved in to a local Commercial Bank specialising in Retail Banking and assumed responsibilities in Corporate and SME credit, Branch Banking and Payment Cards segments. In 2011, he assumed duties with an international bank gaining extensive experience in the field of Risk Management. His specialisations spanned over Credit, Market and Operational Risk paradigms during the tenure where he initiated the Treasury Middle office function and Operational Risk Management function for the Bank. In 2015, he moved on with a local commercial bank heading the portfolio risk management function prior to joining MBSL in 2022. He also serves as a Non Executive Director of MBSL Insurance Company Ltd.

Mr. Karunarachchi holds a MSc. in Applied Finance from University of Sri Jayewardenepura, Master of Business Administration from Chartered Financial Analysts of India (Dehradun), PGD Diploma in Treasury and Risk Management and Diploma in Banking and Finance from IBSL.

Mr. A. de S. Pinnaduwa — Compliance Officer

Mr. Pinnaduwa was an ex-employee of Bank of Ceylon has served the Bank for over 30 years in multiple capacities including Retail credit, Recoveries and Branch banking. He has also led projects in automation including leasing and regulatory systems. He held the Compliance Officer Position of the Bank of Ceylon 7 1/2 years and retired from bank service in September 2020 as Deputy General Manager–Compliance. He is a graduate from the University of Ruhuna, Sri Lanka, with a Bachelor of Science (Special) degree in Agriculture Science.

He is a Fellow member of the Institute of Bankers of Sri Lanka and has obtained a Postgraduate Executive Diploma in Bank Management from the same institute. Currently he holds Compliance Officer of MBSL & Finance PLC from 01st of January 2023. Before that he served as Consultant, Compliance, Risk & Recovery of the Company since March 2021.

Mr. K. Samarathunga — Chief Manager Human Resources (Acting Head of HR)

Mr. Keerthi Samarathunga Chief Manager Human Resources was appointed as the Acting Head of Human Resources on 1st September 2022. In his tenure over during two decades of experience in Banking & Financial field, he has gained a wealth of experience in Human Resources Management in different capacities and contributing effectively to Human Resources Operations. He possess a Diploma in Human Resources Management from the Chartered Institute of Personnel Management and Bachelor of Philosophy from the Pontifical Urban University of Rome.



Mr. S.P. Niroshan
AGM-Retail & Branch Operations
(Range 01)



Mr. S. Pathmadeera
RM-Retail & Branch Operations
(Range 02)

The background is a deep blue with various abstract shapes. There are large, overlapping circles and a prominent white triangle on the right side. At the top left, there are several small, light blue dots. The overall aesthetic is modern and professional.

**Steadfast
in our
leadership**



Key Figures

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

	2022	2021	Change %
Operating Performance (Rs. Mn)			
Net interest income	1,755	2,850	(38.4)
Gross income	6,543	5,971	9.6
Operating profit/(loss) before tax	(415)	1,123	(137.0)
Profit/(loss) before tax	(657)	813	(180.8)
Taxation (expense)/reversal	161	(284)	156.9
Profit/(loss) after tax	(496)	529	(193.7)
Retained profit/(loss)	(945)	(428)	(120.9)
Financial Position (Rs. Mn)			
Total assets	31,232	34,277	(8.9)
Gross loans and advances	27,166	31,662	(14.2)
Total deposits	23,525	22,268	5.6
Shareholders' funds	3,696	4,169	(11.4)
Operating Ratios (%)			
Return on assets	(1.5)	1.6	(195.4)
Return on equity	(12.6)	18.8	(167.1)
Cost to income ratio	123.62	63.23	95.5
Net Non-performing loans ratio	8.87	6.01	47.5
Provision coverage	37.03	46.33	(20.1)
Loans to deposit ratio	115.48	142.19	(18.8)
Core capital ratio	11.33	10.75	5.4
Overall capital ratio	12.01	11.33	6.0
Shareholder Ratios			
Earnings per share (Rs.)	(0.94)	2.04	(146.3)
Net asset value per share (Rs.)	7.05	16.08	(56.2)
Price earnings ratio (Times)	(3.60)	2.89	(224.5)
Market price per share	3.40	5.90	(42.4)



GROSS INCOME **9.6%**

6,543 **5,971**
2022 2021



TOTAL DEPOSITS **5.6%**

23,525 **22,268**
2022 2021



OVERALL CAPITAL RATIO **6.0%**

12.01 **11.33**
2022 2021



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Despite a strong financial start for the year 2022, we were compelled to adapt, adjust and innovate in the face of a very difficult business environment that emerged in April 2022 and continued to worsen throughout the year.
”

Dear Stakeholders,

Subsequent to a turnaround performance in 2021, MBSL stepped into 2022 with renewed hope and sinew to consolidate its gains and deliver stakeholder value during its 40th year of operation. However, owing to the sweeping effects of the macroeconomic deterioration caused by the compounding effects of injudicious policy decisions of previous years and the unsteady political milieu that spewed from the second quarter of the review year the Company was compelled to adjust its sails and re-strategise for the remainder of the year. Despite a strong financial start for the year 2022, we were compelled to adapt, adjust and innovate in the face of a very difficult business environment that emerged in April 2022 and continued to worsen throughout the year.

The economic conditions in Sri Lanka in 2022 were significantly worse than anything experienced before as GDP levels and economic growth slumped to the lowest recorded figures since independence. Consequent to the sovereign downgrade and the sharp depreciation of the rupee, the country continued to struggle with fuel shortages, extended power cuts, import restrictions and hyperinflation. The political uncertainty in the country led to an increase in street protests. Sri Lanka's international image was affected very badly. A marked decline in the disposable incomes of individuals and deterioration of standards of living were felt across all social sectors and communities.

Business and investor confidence weakened in the face of these challenges, resulting in a lower contribution and participation in the private sector in the economic growth of the country. All industries and businesses felt waves of impact from the unprecedented crisis faced by the country and the financial services sector was no exception. Owing to policy measures undertaken to cope with the impacts of the economic downturn, MBSL too faced many challenges in maintaining its financial performance and healthy portfolio management and this was in tandem with the trends and inclinations of the Non-Bank Financial Institutions sector of the country.

FINANCIAL PERFORMANCE

Amidst an extremely high-interest rate regime, the entire Fixed Deposits base of the Company had to be re-priced driving the Company's cost of funds higher while credit appetite declined sharply and loan book growth was constrained. This led to a decline in Net Interest Margins. The negative performance in the Bourse also had a double whammy as the Company had to book fair value losses and impairment provisions on the Margin Trading portfolio. In these circumstances, liquidity management and maintaining capital buffers were the primary focus for the Company throughout the year while earnings were negatively impacted due to thinning Net Interest Margins amidst rising impairments. While cost management was a strategic priority, the Company also doubled up its efforts on recoveries and restructuring of debt to provide customer relief at a time of crisis while also safeguarding portfolio quality and sustainability. It is noteworthy to mention that due to concerted efforts in recoveries, the Company was able to record a minimum impairment charge of Rs. 16.5 Mn for the year. However, mainly due to the reduction of average NIM from 9.42% in 2021 to 5.85% in 2022, the loss on the fair value of financial instruments and impairment in investment in MBSL Insurance amounting to Rs. 132 Mn and 113.77 Mn respectively, the Bank reported a net loss of Rs. 495.707 Mn compared to a profit of Rs. 529Mn in 2021.

DRIVING PRODUCTIVITY & EFFICIENCY

Prudent investment in technology and automation, managing efficiency and productivity of the people and inculcating a performance-driven culture took precedence at MBSL amidst extremely challenging operating conditions. The Company invested in a new delinquency management system to proactively manage the recovery process and provide early warning signals. I am pleased to note that the various timely initiatives and the organisational restructuring undertaken by the Company to drive operational excellence bore fruits of endurance and built great resilience against the headwinds of the year. Throughout our efforts to deal with the repercussions of the unprecedented economic conditions, I am also proud to note that the Company did not compromise on its business integrity, the quality of service and our commitment to delivering perceived value to our stakeholders, as the Company was able to navigate with caution while manoeuvring its trust levers for long term stakeholder confidence and loyalty.

The teams were quick to adjust to the evolving expectations of the Company, customers and other stakeholders in the face of a crisis and kept the operations alive through dedicated efforts while withstanding personal battles caused by deteriorating living conditions due to external challenges. MBSL will continue to invest in its people as a priority with a focus on building a stronger team with enhanced skills to take on the new challenges of the evolving landscape and will remain committed to investing in systems and processes that will drive the Company toward a more productive and performance-oriented culture in the coming year and beyond. By doing so, we hope we will be able to provide more rewarding and exciting career opportunities that will help retain valuable talent in the Company as well as the country.

RISK MANAGEMENT AND CORPORATE GOVERNANCE

During the year under review, the risk management process and structure of MBSL were further strengthened with the establishment of a fully-fledged Risk Management Division. The Company also established a Board Committee on Information and Communication Technology and a Nominations Committee during the year in review. The Terms of Reference of these committees and specific activities accomplished during the year are reported under the respective reports of these committees. The Company also introduced a whistle blowing policy and all the incidents are reported to the Board through the Audit Committee.

OUTLOOK FOR THE FUTURE

Looking ahead into the year 2023 and beyond, I am cautiously optimistic that in the aftermath of the successful finalisation of the EFF facility from the International Monetary Fund (IMF) and the Government's commitment to fulfilling the conditions attached to the EFF, the country will gradually return to normalcy and the business and economic conditions will continue to improve. As economies and businesses recover, there will be emerging opportunities in green businesses and technologies. MBSL seeks to support the national demand for entrepreneurship development and will pursue project lending as a priority with a focus on green projects such as Smart Agriculture that would promote long-term sustainability and greater economic prospects for the nation. We will also continue to innovate for new products and new market spaces while continuing to empower SMEs with novel financial solutions that will help the revival of this nationally-significant sector. As the first Merchant Bank of Sri Lanka, MBSL will critically look at our lost ground in Merchant Banking activities and gradually return to that space with a view to enhance fee-based income. Strengthening our digital presence and technological capabilities will be other key strategic priorities for MBSL in 2023 and beyond.

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During the year under review, the risk management process and structure of MBSL were further strengthened with the establishment of a fully-fledged Risk Management Division.
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APPRECIATION

I wish to take this opportunity to thank Mr. Kanchana Ratwatte who resigned from the Chairmanship of the Board 20th January 2023 for his outstanding stewardship. I also wish to thank Mr. Russel Fonseka for his invaluable contribution over a period of seven years to the success of MBSL and Mr. Dammika Hapuhinna, Chief Executive officer for his commitment and resolve in navigating through challenging times.

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

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

My grateful thanks to the Board of Directors for their valuable advice and insights into the strategic manoeuvring of the Company. Thank you to the senior management team that drives the strategic execution of MBSL with passion and dedication.

Thank you to the entire team at MBSL for their commitment, hard work and dedication that have made the Company resilient against external challenges and all other stakeholders for their continued support and trust on MBSL throughout.



Mr. A.M.A. Perera

Chairman

Non-Executive / Independent Director



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**The Company's
 deposit portfolio
 stood at
 Rs.23,525Mn as at
 end of 2022, as a
 result of phased
 deposit mobilisation
 while maintaining
 portfolio profitability
 amidst rising costs
 of funds within a
 high-interest rate
 regime.**
 ”

A year ago, we were finally emerging from the world-changing impact of COVID-19 with a renewed sense of optimism and hope as to what the future could bring. The year 2021 was a turnaround year for MBSL and the Company was geared to launch into 2022 with a fresh outlook, vigor and commitment for a strong financial performance. The strategic plans for 2022 had prioritised building on the performance of 2021 and focusing on the identified strategic pillars and navigating the challenges of the macroeconomic milieu.

Yet 2022 turned out to be a year of unprecedented change and challenges from global geo-political turbulence triggered by the invasion of Ukraine and its human and economic implications, to political instability in Sri Lanka, spiraling inflation, supply chain shocks, a looming energy crisis and the growing likelihood of recession across Sri Lanka and even in large economies around the world, the phrase “Perma-crisis” certainly speaks to the sense of continuous challenge and uncertainty we faced, during the year under review. Together businesses, policymakers and the society at large recognised the critical need for restoring stability and navigating cautiously against the headwinds of the operating environment.

At MBSL, our purpose has been to build trust and help solve the immediate issues that impact the lives of our stakeholders, especially customers. With this in mind, we strived in our own focused ways to meet customer expectations while balancing the risks and stability of our operations.

Based on these key strategic imperatives, I am pleased to share the highlights of the year herein, focusing on our business, our people, our workplace and our broader sustainability journey.

BUSINESS PERFORMANCE

The Company kicked off to a good start in the first quarter of 2022 with our 40th anniversary celebrations setting the pace for further growth and expansion. However, unprecedented macroeconomic changes that ensued following the decision by the Government to stop external debt servicing and formal default of International Sovereign Bonds in April 2022 and the increase of policy rate by 700 basis points derailed our plans. Interest rates rose sharply with treasury bill rates escalating to as high as 33% during the year in review. This impacted the business dynamics and resulted in a shift in business performance as well as market demands and the credit appetite of customers.

With the increase of risk-free interest rates, a substantial percentage of the deposit portfolio was re-priced. This resulted in a sharp increase in interest cost for the Company, while the net interest margins were adversely impacted given slower credit growth due to adverse market conditions.

Amidst rising inflation, declining household incomes and receding disposal income of key customer groups targeted by the Company, Recoveries became a key business focus and a major challenge in the year 2022. The focus was fully on controlling the Non-Performance Assets (NPA) portfolio of the Company and doubled down on recovery efforts in a year that tested the mettle and affability of the sector in the face of a worsening human and economic crisis.

Lending was curtailed to a great extent from April 2022, with monthly disbursements at very low levels. Thus, the Company's cash flows were immensely impacted during most part of the year, owing to customer dynamics related to higher interest rates and a low credit appetite. Financing to the Small and Medium Enterprises (SMEs), being a key business pillar, of MBSL was not pursued actively given the limitations and the unique challenges faced by the SME sector during the year under review.

The demand for short-term loans and speed drafts however increased during a year in which cash flows were impacted and businesses turned to short-term credit to meet working capital requirements.

The gold loans portfolio saw steady and diversified growth in 2022 owing to an increase in demand for gold loans being generated from urban, middle-income earning households. A market-driven, prudent approach on expanding this product growth led the portfolio to swell up Rs. 6 Bn in the year under review, recording the highest portfolio growth for gold loans in the history of MBSL.

Debt restructuring and recoveries took center stage in the year 2022 and MBSL adopted a customised approach to debt recoveries taking a closer look at individual customer cash flows while taking necessary steps to ensure portfolio health and continuous collections. With portfolio consolidation being the key focus in 2022, the Company set out on a proactive debt restructuring programme with attractive settlement plans to our customers who were greatly and disproportionately impacted by the economic crisis of the country. The programme was designed in line with the CBSL directives to manage defaults effectively and 40 islandwide branches of MBSL conducted recovery camps where the top management directly engaged in dialogue with customers

to offer customised settlement plans. The Company recorded encouraging settlements and debt restructuring through these programmes with more compassionate and customised solutions being offered to our valued customers in these trying times.

Deposit mobilisation was positive in the wake of attractive interest rates and growing customer sentiment for maintaining a safe savings buffer amidst rising uncertainties. The Company's deposit portfolio stood at Rs.23,525 Mn as at end of 2022, as a result of phased deposit mobilisation while maintaining portfolio profitability amidst rising costs of funds within a high-interest rate regime.

Owing to ongoing challenges and turbulence in the market, MBSL recorded a loss of Rs. (495.6 Mn) during the year under review mainly due to the drop in NIM and increased provisioning.

NAVIGATING THROUGH CRISIS

Managing operations and maintaining efficiency were herculean tasks amidst the challenges of 2022. MBSL responded with a customer-focused, humane approach, making sure our customers' needs were swiftly heard, understood and effectively met. Given the limited access available to customers, our branches were kept open despite socio-economic turbulences and fuel crises posing major challenges to daily operations.

The impact of the rupee depreciation, import restrictions and other challenges were felt largely throughout the year in business performance as well as operational activities of the Company. USD-denominated payments of the Company were adversely impacted giving further rise to operational costs for the year. The second-hand vehicle market was severely impacted and the demand for leasing and loans in this category was also impacted and declined as a result.

With avenues for revenue and top-line growth being largely restricted, the Company prioritised its efforts on effective costs and operational efficiency management during the year under review. Branch operations were thus realigned to manage identified cost and efficiency goals while staff was geared toward maintaining higher standards of service and empathy during a difficult year. Staff costs were also swiftly managed through proactive and progressive action taken in agreement with staff unions. Fixed costs of the Company were re-assessed and renegotiated wherever possible and in the culmination of these focused efforts I'm happy to state that the costs of the Company were maintained at the same level as in 2021 despite inflation and other challenges having a major impact.

Helping our customers navigate this crisis period was a top focus area for MBSL during the year under review. A dedicated complaint-handling unit was set up while the call centre was fully aligned to maintain high standards of service. The re-pricing of loans and credit facilities was carried out in a phased manner so as to not impact the NPAs while the Company took measured strategic decisions to absorb the negative impacts on profitability without jeopardizing long-term goals for maintaining customer loyalty.

The Company followed a proactive protocol for identifying stressed customers and focused credit restructuring based on cash flow requirements and targets of the Company while keeping to minimum margins, thus creating a mutually affable recovery process.

Although a digital channel growth plan was underway to increase accessibility during the year under review, the plan was further postponed as the Company re-assessed its priorities to navigate the current challenges. However, the project to connect MBSL ATMS with the BOC ATM

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Managing customer relationships for the long term was the greatest focus area for MBSL in the year 2022 and a conscious, top-down strategy was deployed to ensure our customers were served with maximum integrity and empathy during these difficult times.
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network saw completion in the year 2022, thus enabling our customers to account access from over 1400 ATMs across the island.

The Company's 40th anniversary celebrations were initially planned as a year-long corporate brand-building effort which was launched in March. This was limited to a fully-fledged corporate campaign and continued through the month until April 2022. New investments in branding and campaigns were withdrawn through the remainder of the year as navigating the challenges of the crisis was made a key strategic priority.

Managing customer relationships for the long term was the greatest focus area for MBSL in the year 2022 and a conscious, top-down strategy was deployed to ensure our customers were served with maximum integrity and empathy during these difficult times. True to our motto of being a true financial partner and advisor, MBSL staff members were encouraged to maintain continuous engagement and communication with customer's islandwide, building a loyal client base by understanding their urgent and important needs while assisting them to meet them through customized solutions and support.

Our performance for the year would not have been possible if not for the commitment of our employees and I'm deeply appreciative of team MBSL. Our long-standing and committed employees have helped navigate the Company amidst the many challenges over the years and their expertise, skills, knowledge and the strong relationships cultivated with our customers have proven to be key strengths for MBSL time and again. In order to provide relief and comfort during this difficult year the Company continued to facilitate Work from Home capabilities

and shift-based work flexibilities to the employees. It was greatly encouraging to see our staff being intently focused on the strategic purpose of MBSL despite macroeconomic challenges and their own personal struggles.

OUR COMMITMENT TO A SUSTAINABLE FUTURE

Sustainable finance is the process of taking environmental, social and governance (ESG) considerations into account when making investment decisions to ensure sustainable economic activities that create value to the society at large. The Sustainable Development Act No. 19 of 2017 enacted by Parliament provides the legal framework and national policy for implementing the SDGs. Additionally, the 'Sustainable Sri Lanka' vision and strategic path for 2030 identifies the need for a balanced, inclusive and a greener growth path to facilitate a transition from a 'Conventional Sri Lanka 2018' to a 'Sustainable Sri Lanka 2030'.

In line with the above directives and the national drive towards a sustainable future, MBSL has commenced the formulation of policies, tools, metrics, operational procedures and controls that need to be implemented in order to pursue its strategic intentions for sustainable finance activities. The Company has in place an approved policy for sustainable financing in the year 2023, as a first step toward setting up the required ecosystems. We have further committed to a long-term plan for attaining sustainable financing goals, covering the period up to the year 2030. A Sustainable Financing Officer has been appointed for the setting up of the ESG procedure, assessment of general environmental awareness levels of staff and contractors and to oversee the overall ESG implementation process including conducting due diligence and working

closely with authorities while ensuring that the policy is activated as per the agreed time plans.

The Company's strategic objectives for sustainable lending and operational practices are based on its envisioned future status as an entity that will create value for the community by financial inclusion and minimise the adverse impacts on the environment and society through a sustainable governance framework and uplift communities in alignment with the national economic growth agenda.

OUTLOOK FOR THE FUTURE

The macroeconomic conditions of the country still seem largely erratic with many uncertainties looming ahead. MBSL will continue to steer its operations with prudence and insightful strategic direction that will seek to carefully navigate amidst challenges and uncertainty while continuing to support and strengthen our customers financially. The uncertain political climate, tight monetary policy, volatilities in the economy and the exchange and debt crisis will continue to pose major challenges to the Company as well as the sector. In cognisance 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 creating stronger customer relationships will be continued while delivering convenience and ease of access along with 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 to the staff members of the Company for their contribution 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. We are thankful to our principal shareholder Bank of Ceylon for the continued support and strength bestowed on the Company.

I'm thankful to the astute counsel of the Chairman and the Board of Directors of MBSL which guided me and my team during the year that was seen as one of the most challenging years for MBSL.

My grateful thanks to our customers for the continued trust and confidence placed in us even amidst a challenging year.

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



Mr. Dammika Hapuhinna
Chief Executive Officer

**Steadfast in
our expertise**







The Merchant Bank of Sri Lanka (MBSL) started off the year 2022 with renewed optimism and a turnaround performance from the year 2021. While the first quarter performance was in line with strategic goals and on par with market growth, the deteriorating economic milieu in the country, however, impacted the strategic direction of the Company for the remainder of the year, compelling MBSL's management to rearrange priorities and key management decisions which aided the successful manoeuvring of the Company through a turbulent year.

Prudent management of resources, strategic reallocation of investments and restructuring of portfolios for better performance were key highlights of the year that enabled resilience for the Company during the year. 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

The Sri Lankan economy faced severe headwinds and heightened uncertainties during the first half of 2022 and showed signs of slight stability during the second half of the year aided by a myriad of policy interventions.

Although the economy was on a path to recovery subsequent to the abating of the COVID-19 pandemic, progress was mired by the twin deficits in the Government budget and the external current account. The growth momentum by end of 2021 declined rapidly and the real economy fell into a contraction during the first half of 2022, driven by the spillover effects of the unprecedented economic crisis felt across several sectors. This was further heightened by fuel shortages, power outages, widespread scarcity of key imported raw materials and other essentials and the soaring cost of production, among other factors.

The steady rise in inflation to historically high levels since the beginning of 2022, hollowed out household purchasing power while disposable income levels continued to deteriorate throughout. The rise in inflation stemmed from domestic and global supply-side disruptions, the undertaking of long overdue adjustments in administrative prices, the sharp depreciation of the Sri Lanka rupee against the USD and the release of pent-up demand pressures due to straggled monetary accommodation during previous years. The monetary tightening efforts which commenced in August 2021 were accelerated in 2022 to avoid possible de-anchoring of inflationary expectations and arrest lingering demand-driven pressures. Supported by these measures and the easing of supply-side pressures, inflation was seen to moderate by October 2022 and continued on a declining trend during the remainder of the year.

Monetary tightening measures implemented by the Central Bank of Sri

Lanka (CBSL) coupled with persistently tight money market liquidity conditions led to sharp upward adjustments in market interest rates resulting in a substantial decline in private sector credit. However, net credit to the Government by the banking system expanded notably amidst low Government revenue and limited access to foreign financing sources.

Due to ongoing challenges, the Government announced a standstill on external debt servicing on account of bilateral and commercial loans for an interim period commencing on 12 April 2022. The Government immediately embarked on an economic reform programme by implementing a slew of measures to increase both tax and non-tax revenues, while curtailing expenditure of non-urgent capital expenditure and recurrent expenditure with the aim of helping the economy to transit to more stable and sustainable bearings. The Government also opted to seek financial assistance from the IMF by way of an Extended Fund Facility (EFF) arrangement.

The external sector continued to grapple with heightened challenges amidst the dearth of liquidity in the domestic foreign exchange market. Despite subdued import demand and the announcement of the debt standstill, modest inflows to the current and financial accounts were insufficient to hold down pressures on the exchange rate. The external current account deficit widened in the first half of 2022 and narrowed down subsequently, driven mainly by import control measures, lack of availability of foreign exchange in the market, depreciation of the exchange rate, tighter monetary conditions and robust export performance. Tourism earnings recorded some turnaround, while workers' remittances remained subdued despite some signs of revival. Heightened pressures on the exchange rate necessitated a measured adjustment, which was allowed on 07th March 2022. With a view to curtailing excessive and speculative volatilities in the intraday

exchange rate, the CBSL commenced providing guidance to the market by announcing a middle rate and a variation margin of the interbank weighted average spot exchange rate from 13th May 2022, which enabled stable restoration in the exchange rate while minimising the gap between official and grey market exchange rates.

The engagement with the IMF on a macroeconomic adjustment programme reached a staff-level agreement for an EFF being reached in early September 2022. The debt restructuring process also reached an advanced stage. The IMF EFF programme is expected to provide an opportunity to embark on much needed and long neglected structural adjustments in a more structured and timely manner, which will be instrumental in shaping the country's economy to progress on a trajectory of greater stability and sustained growth. The expected short-term recovery of the economy is fraught with many challenges due to the unprecedented scale of the economic crisis and uncertainties on several fronts which require swift policy actions within an evolving landscape.

In the midst of significant economic challenges on the domestic front, the economy will also have to grapple with global uncertainties emanating from monetary policy tightening measures adopted by major central banks in response to surging inflation, the spillover effects of geopolitical tensions and a looming global recession, which will make the external environment less conducive to economic recovery. Considering the progress that is made in relation to the IMF-EFF programme and debt restructuring negotiations and the reforms already undertaken, the Sri Lankan economy is expected to transition into the path to recovery from the latter part of 2023. Nevertheless, this will hinge on policymakers' commitment to implementing policy reforms in a timely, holistic and efficient manner.

Licensed Financial Companies (LFC) sector performance and outlook

Licensed finance companies (LFCs) and specialised leasing companies (SLCs) represent around 12-15% of Sri Lanka's financial system. However, they play a vital role with their loan products and credit facilities corresponding directly to the demands of many small SMEs, home-based businesses and less financially literate customer segments. LFC's and SLCs, along with microfinance institutions, often serve as the entry point into formal finance and provide SMEs with an opportunity to develop a credit history and financial acumen. Given the greater exposure to SMEs and Micro sectors, the LFC's portfolios were at higher risk of deterioration amidst the external socio-economic shocks of the review year.

In April 2022, Fitch Ratings placed the National Long-Term Ratings of 12 Sri Lankan non-bank financial institutions (NBFIs) on Rating Watch Negative (RWN). The RWN reflected the heightened downside risks to the NBFIs' credit profiles amid increased economic and financial-market volatility in Sri Lanka, further exacerbated by the deteriorating sovereign credit profile (Long-Term Foreign-Currency Issuer Default Rating (IDR): C, Long-Term Local-Currency IDR: CCC) and the ensuing risks to the stability of the financial system.

The credit portfolios contracted amidst high interest rates and stringent credit policies while non-performing loan ratios continued to rise, giving rise to more stringent credit underwriting, recovery efforts and intensive non-performing loan management focus in the sector during the review year.

The asset base of the LFCs and SLCs sector that began to expand since the first quarter of 2021 maintained its momentum up to the third quarter of 2022 amidst challenging macroeconomic conditions. The total asset base of the sector increased by Rs. 201.6 Bn, recording a

significant growth of 13.1 per cent y-o-y by end September 2022 despite the economic contraction, compared to the 1.2 per cent y-o-y growth recorded at end of September 2021. However, the asset base of the sector declined quarter on quarter by Rs. 13.4 Bn, recording a growth of 13.1 per cent at end September 2022 compared to a growth of 16.8 per cent at end June 2022 driven by interest rate hikes.

Loans and advances and investments mainly contributed towards sector expansion and this was mainly concentrated in three product categories. During the period under review, 93.1 per cent of the loan and advances portfolio of the sector was concentrated in leasing and hire purchase (45.6 per cent), secured loans (31.6 per cent) and pawning/gold loan advances (15.9 per cent). A decline in leasing and hire purchase concentration and a surge in gold loans and pawning portfolios was observed during the review period in tandem with market dynamics.

The LFCs and SLCs sector is inherently exposed to higher credit risk compared to the banking sector as the business deals with high-risk customers. Asset quality of the sector deteriorated as indicated by Stage 3 Loans and the Gross and Net Stage 3 Loans Ratios stood at 16.8 per cent and 11.7 per cent, respectively, at end September 2022. The credit quality risks are expected to heighten for the sector given the macro economic pressures of the country.

The sector maintained liquidity well above the minimum requirement as a result of increased mobilisation of deposits supported by high interest rates. The overall available liquid assets of the sector as at end September 2022 indicated a surplus of Rs. 62.7 Bn as against the stipulated minimum requirement of Rs. 98.0 Bn. The LFCs and SLCs sector accumulated excess funds in the form of liquid assets as a risk mitigation measure to face the adverse liquidity concerns of the financial sector. Liquid assets of

the sector grew by 36.3 per cent to Rs. 237.4 Bn as at the end September 2022 compared to Rs. 174.1 Bn recorded at the end of the corresponding period of 2021. Liquid assets were maintained mainly in the form of Government securities and bank deposits.

Profitability of the LFCs and SLCs sector suffered during the period under consideration. PAT of the sector amounted to Rs. 14.6 Bn during the six months ending September 2022 recording a negative y-o-y growth of 10.1 per cent compared to the significant y-o-y growth rate recorded during the 6 months ending September 2021. However, the Core Capital Adequacy Ratio and Total Capital Adequacy Ratio of the sector increased to 18.5 per cent and 20.0 per cent, respectively, by end September 2022 from the reported level of 16.0 per cent and 17.6 per cent in September 2021.

Significantly higher CAR and high liquidity levels are expected to provide some relief an additional cushion to the sector to withstand unexpected solvency risks given the market conditions. However, further contraction in the economy, which could lead to higher Stage 3 Loans, is seen as a key risk factor that could adversely affect CAR through additional impairment in the future.

Longer recovery cycles, rising cost of funds, potential further deterioration of asset quality and continuous challenges in retaining seasoned employees are seen as major challenges for the NBFIs sector during the ensuing year and beyond. The financial services sector is set to face greater adversities in the face of economic challenges and the LFCs that cater to the more vulnerable customer segments are expected to steer with caution during the year 2023 and beyond.

FINANCIAL REVIEW

The macroeconomic challenges and the impact of the unprecedented economic crisis in the country had adverse effects

on the financial performance of the NBF sector. Despite making swift adjustments to its strategic focus and resource management, MBSL recorded losses by the end of the financial year in review, due to portfolio contraction, increase in market interest rate and slower, measured expansion of business activities.

Revenue and Profitability

The first quarter performance of the Company in the year 2022 was on par with the market and strategic objectives of the Company. Following a turnaround performance in 2021, the business strategy of MBSL for the year 2022 was set to capitalise on consumer demand and identified growth opportunities by building product portfolios and increasing the Net Interest Margins to consolidate the wins of the previous year. The strategy could not be executed beyond the first quarter of 2022 as the Company was compelled to adjust its sails to withstand the major headwinds of the macroeconomic milieu.

In response to the adverse economic conditions that intensified from the second quarter of 2022 onwards, the Central Bank of Sri Lanka (CBSL) increased its policy rates by 800 basis points. The increase in interest rates impacted the cost of funds for MBSL, where the customer deposits base of the Company was repriced to match the corresponding market rates in a market where the appetite for credit rapidly declined due to higher interest costs. This impacted the Net Interest Margins of the Company which contracted to 6.42% by 31st December 2022, in comparison to 9.42% recorded in the previous reporting period.

The high interest regime also had a negative impact on the interest income of the Company as lending was mostly curtailed owing to higher risks of impairment and decreased disposable incomes in key target customer segments of MBSL. Accordingly, the Net Interest Income (NII) of the Company regressed 38.41% year on Year (YoY) to LKR 1.76 Bn by the end of December.

Focused efforts were deployed during the year to increase the fee and commission income of the Company, in order to recompense the lacklustre credit growth and to counter the portfolio impacts of the high interest regime. However, despite focused efforts and due to a marked decline in lending by the Company, the Net Fee and Commission income for the period under review narrowed by 27.3% YoY, to report LKR 109.96 Mn by year-end. A marked decline in the Company's Margin Trading portfolio and loan-related fees were major reasons for this decline.

Net Trading income for the year slumped to LKR 2.26 Mn recording a decline of 94.91% YoY. The deterioration of income stemmed from the lacklustre performance of the equity market during a year of unprecedented economic challenges. As a result, the total income of MBSL for the review year was LKR 1.82 Bn in comparison to LKR 3.25 Bn in the comparative period last year, recording a sharp decline of 43.88% YoY.

Total operating expenses were managed prudently to optimise the performance of the Company. Company-wide cost management strategies were strengthened during the year under review while essential and significant strategic investments were deployed to enhance the efficiency and productivity of the Company to meet the evolving needs of the macroeconomic landscape that prevailed throughout the review year. As a result, the operating expenses of the Company increased marginally by 9.7% YoY to LKR 2.26 Bn in the financial year under review. Hyperinflation and rupee devaluation impacted the increase in costs despite the focus for cost optimisation during the year.

Substantial provisions had to be made during the year to safeguard against portfolio risks arising from Non-Performing Assets (NPA) and as a result, the Impairment charge for the year increased by 122.2% YoY to LKR 16.5 Mn owing to multiple recovery and collections

challenges faced by the Company and the industry as a result of the macro-economic challenges. The Gross NPA ratio of the Company deteriorated to 24.03% during the year under review, in comparison to 15.92% in the year 2021, reflecting the cumulative impacts of the economic downturn resulting in a sharp decline of personal and business incomes, higher inflation, rising costs of living and lower disposable incomes amidst other challenges.

Loss before Tax for the period was LKR 656.91 Mn which was a decline of 180.83% YoY. Loss after Tax of MBSL for the financial year 2022 was LKR 495.61 Mn and was a decline of 193.68% YoY. Accordingly, Earning per Share of the Company recorded LKR -0.94 during the review year, in comparison to LKR 2.04 recorded last year.

Balance sheet growth and consolidation

Total Assets of the Company contracted by 8.9% YoY and ended up at LKR 31.2 Bn by 31 December 2022. A marked decline in financial investments at fair value through other comprehensive income and a decrease in placements with banks alongside a decline of 13% in loans and receivables during the year were the key drivers for the contraction.

Total Liabilities of the Company contracted by 8% during the review period and ended at LKR 27.5 Bn by the end of the reporting period. Due to losses in the equity market and a sharp decline of 120% YoY in retained earnings, total equity of the Company was LKR 3.69 Bn by year end and reported a decline of 11.4% YoY.

Net asset value per share declined accordingly by 56% as at end of the reporting period to LKR 7.05.

The Tier 1 Capital and Total Capital Adequacy Ratios of the Company as at end of the reporting period was 11.33% and 12.01% respectively.

MANAGING PRODUCTS AND SERVICES

Product Development and Marketing

Given the volatilities in the market and the resultant changes in consumer behaviour, the Company placed its focus on managing its products and services in tune with the key focus of retaining existing customers and consolidating the portfolios rather than on acquiring new customers and expansion.

The high interest rate regime had an adverse impact on the existing portfolios, especially in lower-income customer segments. The Three wheeler lending portfolio faced the brunt of the economic impacts and was the most affected owing to hyperinflationary pressures, lower-than-usual household incomes and limitations of the fuel crisis that prevailed for the most part of the review year. Hence, challenges in recoveries and collection of rentals impacted the portfolio performance and this was also reflected in the NPAs and the impairment provisions during the review year.

The market dynamics and consumer preferences led the product focus of the Company during the year, with gold loans being pushed as a preferred credit facility across all segments, including urban, middle-income earner households. Three wheeler Leasing continued to lead the credit demand. However, having considered the higher risk involved in this category, the product was offered selectively to provide muscle to small and medium business owners seeking working capital flexibilities during an extremely challenging year. The fixed deposits portfolio continued to grow in tandem with the industry trend owing to the highly attractive interest rates. The launch of the ATM card linked to the Bank of Ceylon ATM network islandwide was a key highlight of the year that enhanced customer access and enabled smoother operations.

In a dedicated effort to promote more sustainable business practices and reduce the impact of paper products on the environment, MBSL introduced the MCash platform from Mobitel during the review year. This allowed for digitalised loan and lease collection management and this platform was promoted amongst customers with a view to encouraging more responsible, digitalised payment practices and contributing towards reducing carbon emissions.

Cost management and optimisation were key priorities during the review year. Therefore, product marketing and lead generation were carried out with prudence on selected digital and social media platforms with a greater focus on ROI and conversions. SMS campaigns and targeted ads on Facebook were key tools deployed for acquiring customers and creating product awareness. Social media platforms were used to effectively reach relevant target audiences and this primarily included LinkedIn to reach professionals, Instagram to reach youth segments and Facebook to reach mass market customers.

Commitment to Sustainable Lending

During the year under review, MBSL intensified its focus on making conscious efforts to ensure sustainable lending practices in order to fulfill its commitment to ensuring better and more accountable lending practices. This is also a part of the Company's commitment to contributing towards reducing its carbon footprint and impact on the environment, in line with the guidance provided by the CBSL on sustainable lending practices. Given due consideration to the novelty of the concept, the Company has started the development of the required ecosystems. Accordingly, a comprehensive Sustainable Financing Policy has been formulated and a dedicated Central Point Officer has been appointed to oversee the implementation.

MBSL, as a responsible corporate entity with a commitment to ensure minimum negative impacts on the natural environment and communities will continue to assess the possible effect of the projects and business operations of its potential borrowers on the environment. This assessment process is expected to form a sound basis for prudent and sustainable credit decisions while encouraging our borrowers to conduct projects and businesses in alignment to the laws and regulations of the related governance.

MANAGING RESOURCES AND TECHNOLOGY

Information Technology

The IT department of a Company plays a critical role in the institution's success by ensuring that its technological infrastructure is reliable, secure and scalable. As such, the department's performance is a vital component of the Company.

In the past year, the IT department has accomplished several significant milestones that have enabled the Company to improve its operations and customer experience.

Firstly, the Wide Area Network was successfully upgraded by introducing Software Defined Wide Area Network (SD-WAN) solution. This is the backbone of branch connectivity which will facilitate a more modern, encrypted, secure and efficient data communication platform. This upgrade has improved the speed and accuracy of transactions, increased system availability and reduced downtime, leading to improved customer satisfaction.

Secondly, the Company invested in a Delinquency Management System (DMS), which was implemented to improve and streamline the credit recovery process. This solution is an effective tool for

automating and streamlining various credit recovery tasks which improve the efficiency by reducing the risk of errors and enabling to make more informed decisions.

Also, the Company IT department newly developed an Anti-Money Laundering (AML) System (goAML), by automating the reporting process, improving compliance monitoring and providing powerful analytics and reporting capabilities. This system helps the Company to identify and combat money laundering and terrorist financing more effectively.

Furthermore, measures were taken to improve the Company's cybersecurity posture. Security awareness trainings were provided to employees to help them identify and prevent cyber threats. These efforts have significantly reduced the risk of cyber-attacks and safeguarded our customers' confidential data. To ensure the Company complies with regulatory requirements, such as data protection and privacy laws & to support the Company's risk management framework, implementation of a Data Leakage Prevention (DLP) and Digital Data Classification solution is in progress.

Lastly, we strengthened the Company's Business Continuity Plan (BCP) by testing the Disaster Recovery Plan (DRP) bi-annually, to ensure that the Company can recover critical systems and data in the event of a disaster.

Overall, the IT department has made significant progress in improving the Company's technology infrastructure and digital capabilities. These efforts have enabled us to provide a seamless banking experience to our customers while ensuring the security and reliability of the Company's IT systems. The Company remains committed to enhancing IT capabilities to support the Company's strategic objectives and maintain our position as a leading financial institution.

MANAGING OPERATIONS

Maintaining smooth and seamless operations amidst the limitations and turmoil 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 'Change Management Procedures' implemented in the year 2021 were continued through the year under review, where the removal of older systems and implementation of newer process efficiencies were handled by a dedicated development team after conducting a thorough gap analysis to identify specific areas that needed improvement.

- In order to ensure business continuity amidst mobility restrictions caused by the fuel crisis and public protests that extended through the months from April 2022, remote working capabilities were enhanced within the Company with concepts such as bring-your-own-device encouraged 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 remote access to the systems through appropriate VPN-level channel access in a safe and secure environment.
- The Company operated through its headquarters and branches even amidst the lockdowns to ensure that customer needs were met in a timely and efficient manner. To this end, the Company ensured that sound safety measures and employee support were mobilised across all its offices in order to safeguard staff, customers and stakeholders while providing relief from external volatilities and challenges.

Managing Natural Resources in Operations

In a year when cost-effective operations and efficiency were prioritised, MBSL took measures and conscious steps to minimise its operational costs through enhanced efficiency planning for power and energy usage and the use of other resources such as company-owned vehicles. The Company educated staff about the optimum use of power and energy and encouraged them to play a part by taking simple steps such as turning off appliances and lights when not in use.

The Company's direct impact on natural resources is minimum due to the nature of its operations. However, the efforts to progress towards a paperless office continued to be implemented through employee education and digitisation of processes. The Company's waste paper is submitted to the Paper Corporation for discreet recycling due to the sensitive nature of documents. However, a formal measurement mechanism of its impact on natural resources is yet to be implemented.



-Hatton Branch Re-location-

MANAGING STAKEHOLDER EXPECTATIONS

Managing shareholder confidence and investor confidence

The Lanka Rating Agency (LRA) assigned an Initial Long-Term Rating of BBB+ with a 'Stable' outlook to Merchant Bank of Sri Lanka & Finance PLC on 1st February 2023. This rating reflects the strength of the Bank of Ceylon (BOC), the Company's largest shareholder. The rating signals the importance of the Company's ability to improve its capital position and relies on the continuous support from BOC and the Company's proficiency in building a diversified portfolio while preserving its asset quality.

Supporting our customers during a year of turbulence

Our loyal customer base is an asset and helping them navigate the turbulent environment and economic challenges was a strategic priority for the Company during the year under review. Customer requests for credit relief and other financial assistance were readily accommodated and managed with compassion and empathy while maintaining good relations and continuous engagement with the customers.

In cognisance of the challenges faced by customers, the Company made conscious and focused efforts to ease the burden of its customers by providing credit settlement plans and conducting recovery clinics in the branch network, thus engaging directly with customers and taking proactive steps to assess the financial health of each customer and customising settlement plans that match their cash flows in a bid to ease their credit burdens while ensuring minimum negative impacts on the Company's portfolio quality.

The interest rate concessions and restructuring mechanisms introduced by the CBSL to ease customer burdens were passed on to customers swiftly while customer-facing teams of the Company maintained a 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. Waiving overdue and future interest for custom rescheduling, matching the customers' affordable and acceptable cash flows when formulating payback plans and affording grace periods up to six months when rescheduling facilities for selected client profiles were some special concessions implemented by the Company during the year to support its customers. Accordingly, an amount of LKR 1.67 Bn of the performing portfolio was rescheduled during the year 2022, while selected customers with large monthly rentals were offered extended repayment periods to lower their monthly rentals. Early settlements were accommodated with 100% future interest and fee waivers during the year under review.

Requests made by customers for rescheduling their term loans obtained for the purpose of working capital, were promptly accommodated. The Company's expert credit teams made an assessment of the clients' business operations to ensure an accurate assessment of customer positions, prior to proposing rescheduling plans, thus enabling them better flexibility in managing their cash flow.

In the interest of managing non-performing loan portfolios, while retaining customer trust and loyalty, default clients with immovable property Mortgage-backed credit facilities were provided reasonable and personalised settlement solutions subsequent to conducting in-person meetings where negotiated settlements were arrived at with mutual agreement. The seizing of movable properties mortgaged to the Company was curtailed until 31st December while alternative, more proactive collection methods were implemented. Default customers were approached proactively and in person to provide customised solutions based on their individual financial backgrounds and status.

Customer Communications

Customer communications were maintained mainly via digital channels while increased advertising and brand presence in the online retail platforms, trading platforms and car sales websites 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.

In celebration of the Company's 40th anniversary, a 360-degree marketing and brand communications drive was launched in the first quarter. However, the campaign was paused in response to the shift in market conditions and the Company's strategic realignment of focus and resources. However, stakeholder communications and brand communications were continued throughout the year on online and digital media in line with the Company's realigned priorities.

40th Anniversary

MBSL celebrated its 40th anniversary with a ceremonious event at the head office premises along with the launching of the 40th anniversary logo.

In reaching a momentous landmark in the legendary journey of MBSL of four decades, a market opening ceremony in the Colombo Stock Exchange (CSE) was held on 4th March 2022 for the first time in the Company history. This occasion was graced by the BOC & MBSL Chairman, Mr. Kanchana Ratwatte, CEO Mr. Dammika Hapuhinna and the Senior Management of MBSL.



-MBSL 40th Anniversary-

Supplier Management

The Company maintained good relations with its key suppliers including car sales outlets, vehicle dealers, trading platforms and IT services providers. MBSL navigated a difficult year with smooth operations owing to its sound supplier relations management strategy that ensured operational efficiencies and cost savings for the Company throughout the year. The procurement of goods and service suppliers was conducted according to the Government's procurement policy,

MANAGING HUMAN RESOURCES

Human capital is a key and significant resource at MBSL and focused efforts were deployed to develop, support and empower employees of the Company within a year of unprecedented challenges. Providing opportunities for employees to develop their careers within the organisation is a strategic objective of the Company.

Organisation structure was revamped during the year taking into consideration the competitive environment and strategic focus. Accordingly, given the need of the hour, the Compliance and Recoveries teams were further strengthened and a new Chief Risk Officer was appointed to bolster the Company's Risk Management Processes. The branches were clustered under two new Cluster Heads, for better operational efficiency through a focused branch grading process which will be continued in the ensuing year. The clustering process is expected to enable better operational efficiencies, easier monitoring and effective achievement of strategic plans.

A number of focused efforts and investments were made in ensuring that teams were well supported during the time of turbulence caused by the fuel crisis and public protests. Arranging work-from-home flexibilities for staff and introducing flexible working hours enabling staff to maximise the available transport options were some of the key measures implemented. Even amidst challenges, an interim allowance was introduced to the staff, especially the junior grades to provide additional support and help overcome hyperinflationary pressures. Salary increments and bonuses were paid based on performance as part of the Company's efforts to fully migrate to a performance-based culture in the coming year and beyond.

The Company currently employs 870 staff out of which 60.8% are male and 39.2% are female.

The Training and Development Plan for the year 2022 was continued despite challenges, providing continuous learning opportunities for all employees on compliance, new products and current processes with a special focus on changes to recovery processes and collection methods. With a mix of in-person and virtual training sessions, the Company completed 265 hours of external training hours and an impressive 8410 hours of internal training sessions during the year under review.

People Development and Sustainability

Growth of the sustainable business agenda of the Company greatly depends on the human resources, their availability and capabilities. Despite the macroeconomic challenges, MBSL took small but significant steps in the direction of investing in the development and upskilling of its human capital towards sustainable business practices.

In this direction, MBSL has set its sails for the year 2023 and beyond, towards employee competency development interventions including technical, behavioral, leadership, management, risk and compliance related subjects, to empower its human capital with the right mix of knowledge, skills and values required to perform their duties within a framework focused on sustainable financing whilst incorporating environmental, social and governance training requirements into the annual training plan with a view to develop internal expertise.



-Event to Dinner Dance 2022-



-MBSL Cricket carnival 2022-

Sustainable Value and Performance-Based Culture

The long-term financial sustainability of the Company is significantly integrated with the individual performance of the employees being the process owners of implementing the corporate and business goals and strategies of the Company. In this direction, MBSL has been able to reinforce a strong value and performance-based culture within the organisation, while keeping the teams motivated with performance-based rewards and career development opportunities which are on par with industry standards and practices.

Sustainable Leadership

The continuous success of the organisation depends on having the right talent in the right place at the right time. Grooming future leaders to succeed in the key leadership roles of the Company is therefore a fundamental component of the people-management strategy at MBSL, which seeks to fulfill the anticipated potential leadership vacuum of the Company from within. The nature of the business of the Company requires a highly specialised technical talent pool with the ability to create a critical impact on the business growth. Hence, MBSL has introduced a Three-Year (03) Succession Plan along with talent management interventions to ensure sustainable leadership within the organisation and to ensure long-term staff retention amidst severe talent bleeding and talent retirement in the country.

Sustainable Risk Mitigation and Statutory Compliance

A strong risk mitigation framework and compliance enriched with sound corporate governance are mandatory requirements for ensuring sustainable business growth and making positive contributions to the economy. Hence, during the year under review, MBSL strengthened its Risk and Compliance Management functions by recruiting versatile professionals for

key positions and enriching the scope of respective departments in order to ensure an effective risk mitigation framework and statutory compliance within the Company while introducing relevant policies, procedures and guidelines for better governance.

OUTLOOK FOR THE FUTURE

MBSL will look for continued consolidation and recovery in the coming year. The Company will continue to manage portfolio risks and manage non-performing asset risks to build a better foundation for the business to grow at a higher rate when the market conditions are more conducive and economic recovery in the country sets off. Building a healthy portfolio and retaining customers will be the retail focus of the Company in the coming years.

The Company's inherent SME client base including small business owners and entrepreneurs will be strategically segmented and re-assessed for focused portfolio growth and management.

Being the first Merchant Bank in the country, the Company will also seek to revisit its roots and expand to the merchant banking business as strategic business priority .

With appropriate policy measures and better commitment from policymakers underway, the Company foresees measured recovery by the third quarter of 2023. The Company will focus on capitalising on emerging demands for credit.

MBSL will cautiously explore growth possibilities while furthering its digital banking agenda for better convenience and cost-efficiency. Providing mobile accessibility through a wallet solution and revamping the IT infrastructure to improve the speed of service, turnaround times and operational efficiency are other key initiatives on the Company's IT strategy Road Map for the coming year and beyond.

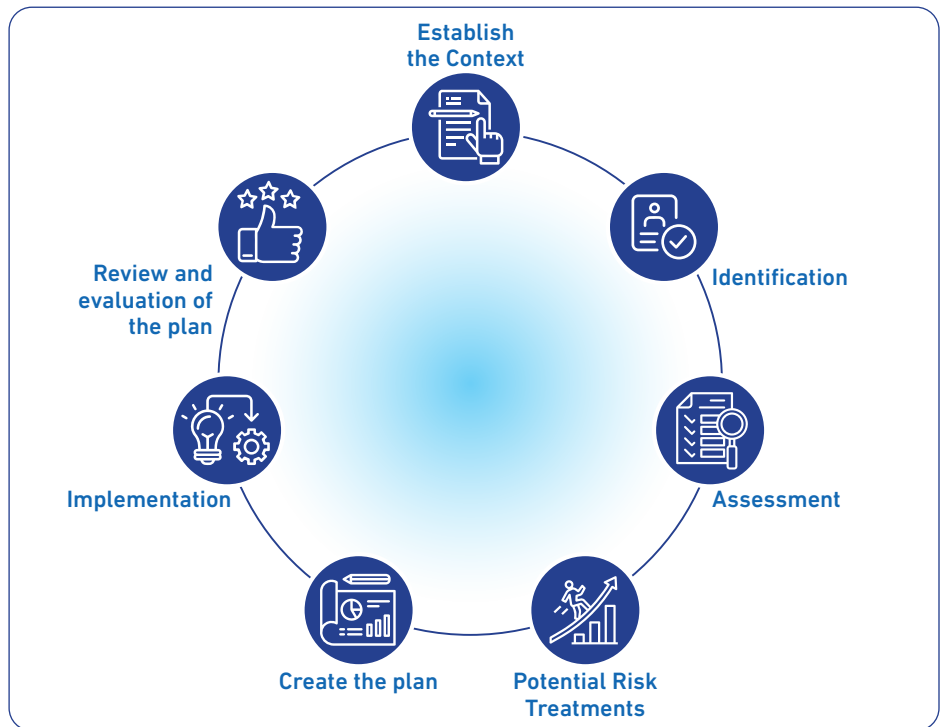
The Risk Management function is a critical component in the execution of our business strategy. In the current dynamic operating environment, a strong Risk Management Framework is essential to safeguard the interests of all stakeholders. Therefore, the Risk Management Framework of the Company is constantly reviewed and realigned to ensure an effective and efficient process is in place.

MBSL's Risk Management process involves the aspects of establishing the context through policy setting, risk identification, analysis and treatments, managing with plans, implementation, review and evaluation with reporting.

Establishing the context includes planning the remainder of the process and mapping out the scope. After establishing the context, the next step in the process of managing risk is to identify potential risks. Once risks have been identified, they are assessed based on their potential severity of incurring losses and the probabilities of occurrence. All techniques to manage risks fall into four major categories of risk transfer, risk avoidance, risk retention and risk control. The Risk Management plan will then propose applicable and effective security controls for managing the risks. Each Risk Management decision is recorded and approved by the appropriate tier of management. Then the planned methods are executed for mitigating the effect of the risks whereby risk analysis results and management plans will be updated periodically as a final step.

Risk Reporting refers to the process of keeping the Board of Directors (BOD) and the Board Integrated Risk Management Committee (BIRMC) informed and apprised of all key risks, strategies and their respective outcomes throughout the above process.

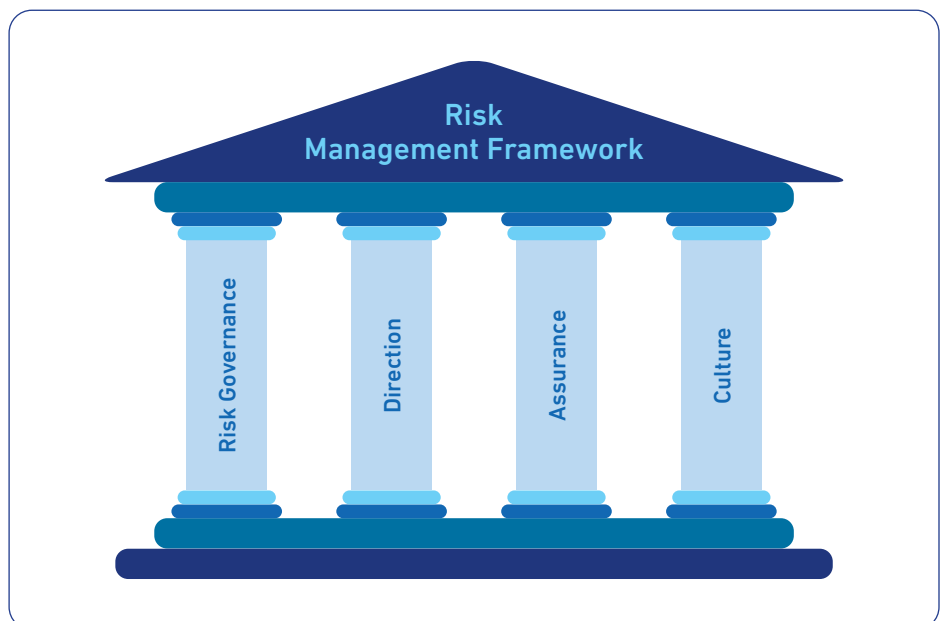
The main objective of establishing a sound risk management infrastructure is to ensure a coordinated approach in managing risks within MBSL and to ensure sustainable business growth along with



stability. It further intends to promote a proactive approach in reporting, evaluating and mitigation of risks associated with MBSL.

Accordingly, the Risk Governance structure of the Company defines the roles and responsibilities of Board of Directors (BOD), Board Integrated Risk Management Committee (BIRMC), Corporate Management Committee (CMC), Other Risk Management related Committees, the Risk Management Division and the employees of MBSL.

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



1. RISK GOVERNANCE

An effective Risk Management process will be driven 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 is ultimately responsible for the implementation of effective risk management across the Company. In this regard, the Board is also responsible for setting up and communicating both quantitative and qualitative risk appetite limits. The Board holds the responsibility to decide on Risk Management goals and setting the tone from the top towards building a Company-wide Risk Management culture. In the performance of these duties, the Board is assisted by the BIRMC. The BIRMC is responsible for the stewardship of risk across the business, including making recommendations to the Board regarding policy matters and risk threshold limits.

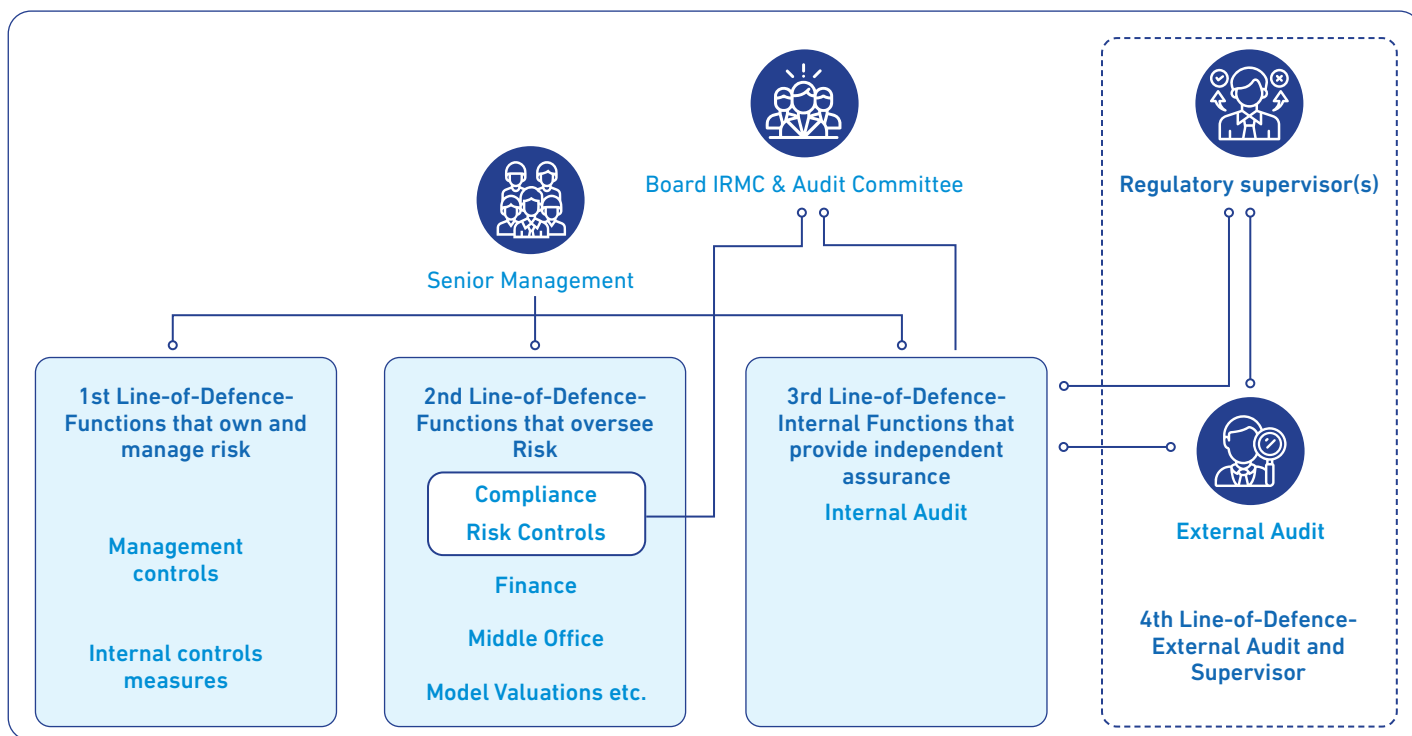
Key Connected Committees and their responsibilities in the Risk Management infrastructure are listed on the table below.

Committee	Responsibilities	Represented by
Board Integrated Risk Management Committee (BIRMC)	The Committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology risks to the finance company through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.	The BIRMC consists of Non-Executive Directors with knowledge and experience in banking, finance, Risk Management issues and practices. The committee is chaired by an Independent Director.
Board Audit Committee	The Board Audit Committee shall establish and review the Company's internal controls, policies & procedures in order to ensure smooth operations. The Committee is mainly responsible for the Operational Risk Management Process.	The Audit Committee consists of Non-executive Directors. The Committee is chaired by an Independent Director who possesses qualifications & experience in accountancy and audit.
Information & Communication Technology Committee	The Committee is responsible for overseeing the overall IT governance of MBSL following MBSL's strategy on technology initiatives and make recommendations to the Board of Directors.	The Committee consists of the Board of Directors while the Committee is chaired by an Independent Director.
Operational Risk Management Committee	The Operational Risk Management Committee (ORMC) is responsible for assessing Operational Risks including people, systems, internal controls, fraud, cyber risk and external risks of MBSL at Branch, Region and Service Divisions.	The Committee consists of Corporate Management personnel headed by the Chief Risk Officer (CRO).
Credit Committee	This is a Management Committee which is empowered to approve credit facilities within the delegated parameters (assigned by BOD) subject to specific terms and conditions. They also recommend specific policies and procedures that require the attention of the BOD.	The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).
Investment Committee	The Committee is responsible for the Market Risk Management of the Company while making decisions to sell, buy or hold the Company's investments.	The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).
Assets & Liability Management Committee (ALCO)	The ALCO is a Management Committee considered as a top-end advisory unit for the Board. ALCO is responsible for the management of Market Risk, Liquidity Risk and balance sheet structures including Capital.	The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).
IT Security Committee	The Committee is the apex management-level body responsible for information security and technology resilience of the Company. The Committee shall be responsible for both strategic and operational aspects of information security and technology risks.	The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).
IT Steering Committee (ITC)	The ITC ensures that the Group's IT strategy is aligned with to the growth strategies and business requirements of each division. The Committee is mainly responsible for the Operational Risk Management of the company.	The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).

Three Lines of Defense Model

Three-lines-of-defence model was established in MBSL as a method for identifying and allocating Risk Management duties and responsibilities of the Company. The Corporate Management, the respective business heads and branch management act as the first line-of-defence by ensuring that all risk-taking activities of the business are conducted in line with established risk management principles. The Compliance Division, Risk Management function, Finance, Middle Office and other functions that oversee risks act as the second line-of-defence. The second line-of-defence ensures that financial and business risks are managed in line with the Company's risk appetite and tolerance limits. The Internal Audit function serves as the third line-of-defence and provides independent verification of the efficiency and effectiveness of the Risk Management Framework that supports the achievement of business objectives.

Although traditionally the model consists of three line-of-defence, as per the BASEL guidelines the model has been now extended and fortified with a fourth line-of-defence with forward integration of the regulatory and external supervision in relation to the design of the internal control system. This acknowledges that, although these components/bodies remain outside the organisation's boundaries, they still constitute a vital element of assurance and governance systems that aid sound Risk Management within the Company.



2. DIRECTION

The Board of Directors and the Senior Management of the Company 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

The Risk Appetite reflects the maximum tolerance level that the Company is willing to accept in order to meet its strategic objectives. Hence, the Risk Appetite Statement defines the 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 BOD prioritises the most significant risks MBSL is exposed to and informs the approach towards managing these risks, inclusive of strategic plans and business plans developed accordingly.

The Risk Appetite Statement is reviewed annually by the BIRMC 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 BIRMC. Risk policies consist of (but are not limited to) 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 the achievement of 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 that the Risk Management activities are conducted in conformity with the Company's Risk Appetite.

3. ASSURANCE

Regular monitoring and assurance ensure that Risk Management activities are conducted in line with approved policies, guidelines and procedures. Key risk indicators are escalated to the BIRMC every two months and any breach in these would immediately be highlighted and 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 performs independent external audits as stipulated by the Constitution of Sri Lanka.

4. CULTURE

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

Managing Key Risks

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

Credit Risk

Credit risk is one of the major risks for MBSL owing to the nature of the business. Credit risk is defined as the potential that a bank borrower or counterparty will fail to meet its obligations in accordance with agreed terms.

Economic Crisis

The Sri Lankan economy experienced significant challenges and uncertainties during the first half of the year 2022. While the economy showed signs of recovery after the subsiding of the COVID-19 pandemic, its growth trajectory was hindered by an unprecedented economic crisis impacting multiple sectors due to fuel shortages, power outages and scarcity of key imported raw materials, resulting in a surge in production costs. This led to

inflation rising to historically high levels, eroding household purchasing power.

High Inflation

The inflation impacted the financial sector in the year 2022, thus directly affecting loan recoveries and portfolio quality. In June 2022, food inflation experienced a steep hike. Consequently, household purchasing power eroded. Families resorted to deploying negative coping mechanisms such as liquidating assets, accessing credit, withdrawing savings and obtaining pawning loans.

Accordingly, within the Food category, increases were observed in the prices of essentials such as fruits, chicken and wheat flour. Further, within the Non-Food category, increases were observed in prices of Housing, Water, Electricity, Gas and Other Fuels (Electricity bill, Water bill and Kerosene oil), Restaurants and Hotels, Health, Education (International School fees), Communication (Telephone charges) and Miscellaneous, Goods and Services sub-categories.

Impact of fuel shortages

Due to the economic crisis, the Government froze all foreign debt payments and ran out of dollars to buy fuel. Miles-long queues for petrol, diesel and other types of gas were common sight and resulted in islandwide lockdowns to manage resources. Such circumstances directly affected loan recoveries during the year while business activities in the country too were negatively impacted.

MBSL has granted debt moratorium to affected customers honouring the Central Bank's directive No. 01 of 2022. CBSL issued more moratorium directives and has further directed extensions to the existing directives during the review year focusing on affected individuals and businesses. Some of the debt moratorium ended on 31 March 2022 while debt restructuring and early settlements were facilitated accordingly.

Default Risk

Default risk is the risk of potential losses arising from the inability of MBSL's customers to settle the loans in full by the due date.

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

The assessment of credit risk among retail customers, is conducted using credit score models, Credit Bureau records as well as internally and externally available customer behaviour 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.

A borrower's capacity 'which is the ability to repay the debt on time' acts as a key driver for the default risk. The key factors which decide the borrower's capacity are assessed at the initial credit risk assessment of the borrower. Collateral in the forms of movable and immovable is obtained as a second recourse to absorb the impact of the defaulted credit.

Significant credit facilities proposed by the business units are independently assessed by the Risk Management Department (RMD). The RMD monitors credit exposures, portfolio performance and external environmental factors that have the potential to impact credit risk profiles. This is achieved through analysis at the total portfolio or sub-portfolio level, to assess the impact of changing economic conditions on asset quality, earnings performance, capital adequacy and liquidity. In addition, credit trends which may include industry analysis, early warning alerts and non-performing loan indicators are submitted to the Board Integrated Risk Management Committee and the Board of Directors to enable key strategies and action plans to be formulated and evaluated.

The credit process is continuously reviewed and improved through various front-to-back initiatives involving the business units, the Operations Divisions, the Risk Management Division and other key stakeholders.

Credit Risk Management Activities in 2022

- 1. Review of Credit Policies and Procedures** – Credit policies and procedures were reviewed in 2022 in order to ensure that policies are updated in line with the current conditions and overall strategic objectives of MBSL.
- 2. Risk-Based Pricing Mechanism** – A Risk-Based Pricing Mechanism was initiated for loans and leasing products which will generate a risk premium for credit proposals based on the borrower and the facility risk.
- 3. Risk Culture** – Regular credit meetings and training programmes are conducted to raise awareness regarding the Company's Credit Risk Management protocols and encourage proactive approaches by branch staff towards the recovery process.
- 4. Initiation of the LRM function** – The LRM function was initiated under the Risk Management Department which manages the process of reviewing facilities based on the annual review plan and the dynamic review plan.
- 5. Recovery Procedure** – A Delinquency Management System (DMS) was implemented in MBSL for enhancing the efficiency of recovery procedures. Implementation of the Early Warning System (EWS) module in the DMS system was initiated during the year which will be completed by 2023.
- 6. Moratorium granted loans** – Moratorium-granted loans were recognised as high credit risk facilities which will be specifically monitored by the Recovery Division. The status of loans under moratorium schemes is periodically reported to the BIRMC by the RMD.
- 7. Strengthening the Risk Review function** – Risk Management Department was expanded with additional staff within a

new department structure. A dedicated Credit Risk Management unit was established in the Risk Management Department that is responsible for handling LRM and credit risk review functions as an ongoing Credit Risk Management initiative.

- 8. Monthly Risk Dashboards** – Monthly Risk Dashboards were developed in Microsoft Power BI by the RMD to provide key credit risk information to every branch in MBSL. This is expected to aid the process of default risk management at branch-level.
- 9. Legal Action** – Expedited legal action is taken against willful defaulters, by the Company's internal lawyers who are entrusted with this authority to take such legal actions against willful defaulters. The process has helped significantly to manage the NPA portfolio of the Company during the year under review.

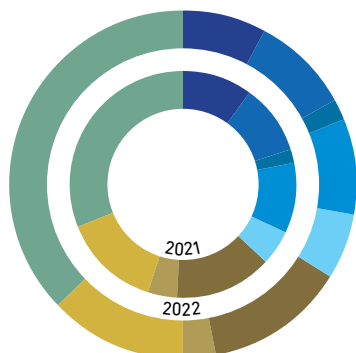
Concentration Risk

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

Credit Concentration Risk Management Activities in 2022

- 1. Setting Limits** – Maximum threshold limits were established for customers, products and sectors to ensure that the concentration risk of the Company is maintained at manageable levels.
- 2. Review Mechanism** – Continuous review of threshold limits based on the current market conditions and other factors in order to ensure that the concentration risks are manageable despite the changes in the external environment.
- 3. Strict Compliance** – Strict adherence to single borrower limits and credit limits were defined by the Central Bank of Sri Lanka (CBSL).
- 4. Monitoring** – Regular monitoring of concentration risk through monthly dashboards

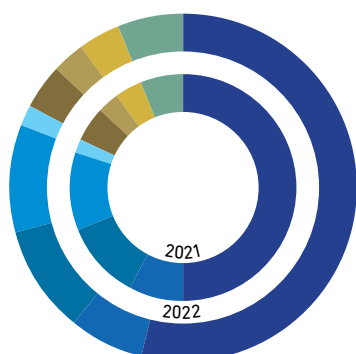
Industry-wise concentration



	2021	2022
● Agriculture	10%	8%
● Manufacturing	10%	9%
● Tourism	2%	2%
● Transportation	10%	9%
● Construction	5%	6%
● Trades	14%	13%
● Services	4%	3%
● Financial	14%	13%
● Consumption	31%	37%

In the year under review, the concentration on the agriculture sector has reduced considerably compared to 2021 while the exposure to the services, trade and manufacturing sectors has slightly decreased in 2022. The concentration on the tourism sector continued to remain low which enabled MBSL to mitigate the default risk even after the sector contracted with the Easter attacks in 2019 and further deteriorated through the pandemic years since 2020. The exposure to the consumption sector was significantly increased during 2022 which will pose a high risk given the current economic crisis in the country.

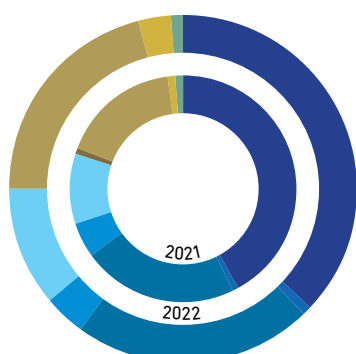
Geographical concentration



	2021	2022
● Western	50%	54%
● Central	8%	7%
● Southern	11%	10%
● North Western	11%	10%
● Uva	2%	2%
● North Central	5%	4%
● Sabaragamuwa	3%	3%
● Eastern	4%	4%
● Northern	6%	6%

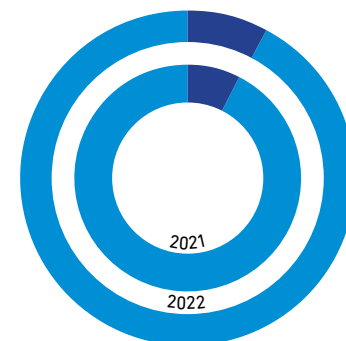
MBSL's Loans and Advances base is highly concentrated in the Western province with 54% in 2022 which was a decline from 50% in 2021. There are no significant changes in concentration in other provinces during 2021.

Product Concentration



	2021	2022
● Finance Lease/Ijarah	42%	37%
● Hire Purches/Murabaha	1%	1%
● Term Loans	22%	22%
● Personal Loans	5%	4%
● Margin Trading	10%	11%
● Micro Finance	1%	0%
● Pawning	17%	21%
● Loans Against Fixed Deposits	1%	3%
● Bill Discounting	1%	1%

Concentration of top 20 customers



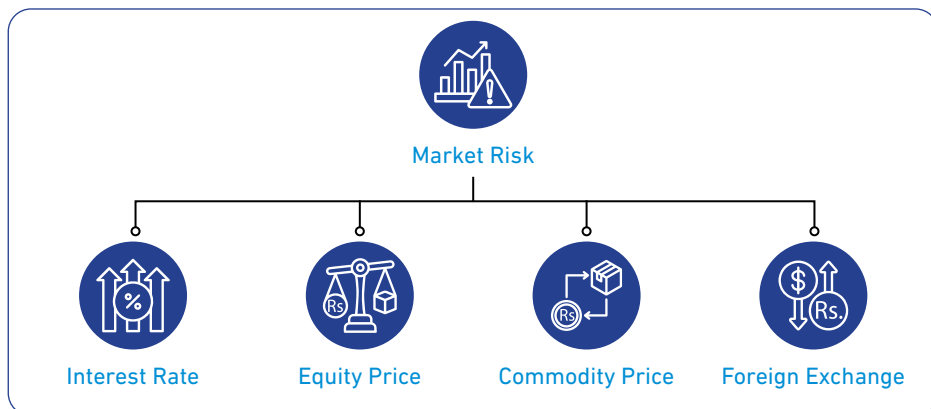
	2021	2022
● Top 20 Customers	7.58%	8.05%
● Other Customers	92.42%	91.95%

The exposure of top 20 borrowers increased during the year in review, mainly due to the significant contraction of the lending portfolio. The exposure value of top 20 borrowers decreased during the year even though the percentage increased.

Market Risk

Market risk is defined as the risk of losses arising from movements in market prices. The risks subject to market risk capital requirements 'include but are not limited' to default risk, interest rate risk, credit spread risk, equity risk, foreign exchange (FX) risk and commodities risk for trading book instruments and FX risk and commodities risk for banking book instruments. For MBSL, market risk arises due to adverse movements 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 the 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. Upward movements in the interest rates during the year directly impacted the Company's interest expense and thereby affected MBSL's net income position. In addition, interest rate risk also affects MBSL funding strategy, term structure and rate sensitive assets and liabilities mismatch, maturity gap and other related components.

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 Department calculates the maturity mismatch, rate-sensitive gaps and identifies the possible negative impacts on the Company's earnings. The BIRMC reviews the short-term and medium-term interest rate risks and directs relevant departments to take appropriate actions.

Interest Rate Risk Review for 2022

The Maximum Interest Rates offered for deposits are directly connected with 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 at the beginning of the year was around 8.39% and peaked to 30% during the year and ended at 29.27% by end 2022. This was mainly due to the Central Bank raising interest rates by mid 2022, where overnight money was printed for banks at 15.5 percent, its highest since September 2001 as the country grappled hyperinflation and currency depreciation. As a result Market interest rates were adjusted notably upwards reflecting the significant monetary policy tightening measures undertaken by the CBSL in April 2022. The interest rates on deposit and lending products of financial institutions also saw inordinate upwards adjustment in response to these directives.

An increase in interest rates resulted in an increase in cost of funds for the Company. Interest rate increases bore negative impacts to the Company since the rate-sensitive asset and liability gap was negative for the short-term since the company funding

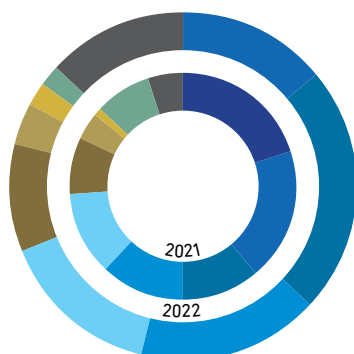
stemmed mainly from short-term fixed deposits. The majority of liabilities were booked at the current interest rates within a short period while the majority of loans and advances which were booked at longer-term fixed interest rates, continued to remain at lower interest rates.

Equity Risk Management

The adverse movement in share prices creates market risks for MBSL. The share price volatility influences the value of the investment portfolio of the Company and thus has an impact on investment income. As such, MBSL took necessary measures to reduce its equity market risk during the year under review. Equity management is handled by the Capital Market Division of the Company which reports directly to the Investment Committee.

The Investment Committee oversees the management of the Company's share portfolio while the BIRMC conducts a periodic review of the performance and concentration of the share portfolio in order to mitigate equity risks. ASPI touched its peak of 13,457 in mid-January 2022. Thereafter, with the uncertainties in the economy and the political instability coupled with the higher interest rate and inflation the market performance continued to deteriorate during the remainder of the year 2022. The overall market declined by nearly 30% from the its original position at the beginning of the year. Further, multiple macroeconomic factors including Sri Lanka announcing a sovereign debt default in June 2022, the intensification of the Russian Ukraine war, global recession and increasing energy prices cumulatively played a role in the decline of the All Share Price Index (ASPI). This resulted in a capital loss and an increase in provisioning for most of the invested stocks of the Company. Alternatively, MBSL placed greater focus on trading stocks while disposing of some investment shares in the portfolio in order to capture capital gains within a challenging operating environment.

Sector wise Equity portfolio risk



	2021	2022
● Banks	20%	0%
● Consumer Service	19%	14%
● Capital Goods	11%	23%
● Food Beverage & Tobacco	12%	17%
● Diversified	12%	15%
● Financials		
● Materials	8%	10%
● Real Estate	4%	4%
● Insurance	1%	2%
● Consumer Durables & Apparel	8%	2%
● Automobiles & Components	0%	0%
● Diversified Holdings / Health Care / Household / Retailing / Utilities / Power and Energy	5%	13%

MBSL took a strategic decision to dispose of investments in banking shares during the year with the purpose of diversifying the portfolio and improving the capital adequacy ratio which resulted in its banking sector exposure to reduce to 0% from 20% in 2021.

Commodity Risk Management

Commodity risk is the risk of change in the 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 world gold prices. There were significant price movements in gold during the year 2022. However, the pawning portfolio saw slight expansion during the year due to the MBSL strategy on risk-taking and product concentrations. The risk appetite on the pawning product was reviewed and increased during the year based on the business strategy of MBSL. Monitoring the loan-to-value ratio for the gold loan portfolio has helped greatly in minimising the impact due to the volatility of gold prices while pawning advances were focused for a shorter period. Pawning advance limits were closely monitored and managed in order to maintain the risk weight asset in capital adequacy calculations efficiently.

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 & Treasury is expected to adhere to the Board approved Liquidity Risk Management Policy in order to ensure adequate liquidity levels and capital buffers are maintained at all times. The main aim here is to ensure key

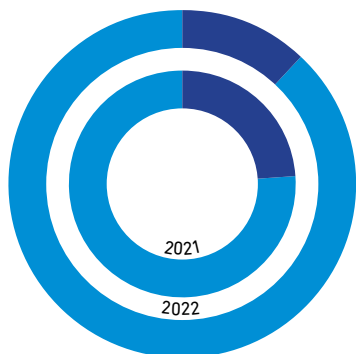
ratios such as Tier 1 CAR, total Capital Ratio, minimum capital and Liquid Asset Ratio are in line with regulatory minimum requirements. Timely reports are submitted to the Board of Directors and the BIRMC in order to ensure that necessary actions are undertaken in a timely manner to reduce MBSL's Liquidity Risk.

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

Liquidity Risk Management Activities in 2022

1. Reviewed the existing MBSL's Risk Appetite on liquidity risk
2. Ensure 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 implemented in order to reduce the top 20 deposit customers
7. Strategies to reduce concentration on corporate deposits and focus more on promoting retail deposits
8. Strategies to grow the Company's savings base, specifically by promoting minor savings accounts
9. Daily, weekly, monthly forecasted cash flow preparation and ongoing cash flow management by the Treasury Division

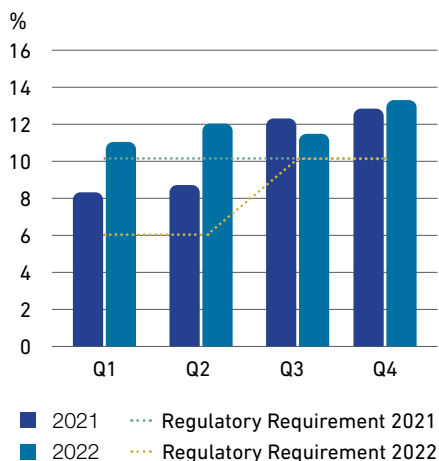
Top 20 depositors



	2021	2022
● Top 20 Customers	24%	12%
● Other Customers	76%	88%

In 2022, the Company's dependency on its top 20 depositors decreased by 12% in line with the strategic decision taken by the MBSL.

Liquid Assets Ratio



The CBSL temporarily reduced the regulatory liquid asset requirement for LFCs up to 30 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 levels, the Company continued to maintain its liquidity ratios in compliance with the regulatory minimum requirements throughout 2022.

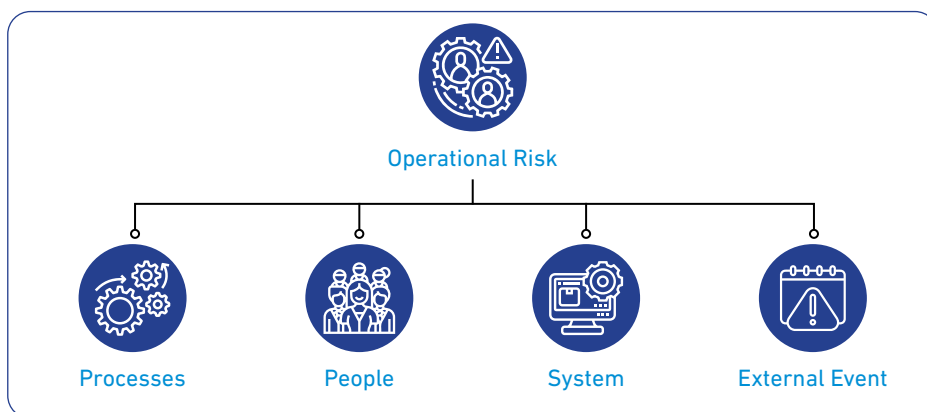
Capital Adequacy

The Central Bank of Sri Lanka (CBSL) revised Tier I and Tier II Capital Adequacy Requirements in 2018 with the expectation of reaching Tier I capital of 8.5% and Total capital of 12.5% by 2021. However, due to the COVID-19 related limitations and impacts to the industry, this deadline was further extended to year 2022.

MBSL was able to infuse additional capital of LKR 2.15 Bn through a rights issue during the year 2021. Accordingly, the Company was able to meet its CAR requirement and minimum capital requirement as specified by the CBSL in 2021. However, due to the maturity of LKR 2 Bn debenture in May 2022, the total capital was impacted. The inconducive market conditions resulted in even lesser borrowing which led the Company to a status of non-compliance with the total regulatory capital requirements. However, the Company has devised a capital management plan to comply with the requirement in the near term.

Operational Risk

Operational risk is defined as the risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. This definition includes legal risk, but excludes strategic and reputational risk.



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

IT Risk

Information security is a complex area to manage. Potential risks to our information assets (particularly the valuable proprietary information in our computer systems and filing cabinets) are difficult to determine and bring under control, especially in ways that don't unduly interfere with our legitimate use of the information.

Risk is the possibility that a threat exploits a vulnerability in an information asset, leading to an adverse impact on the organisation. At a high level, the Information Security Management Systems (ISMS) will help minimise the costs of security incidents and enhance our reputation.

In more detail, the ISMS will be used to:

1. Systematically assess the organisation's information security risks in order to establish and prioritise its control requirements, primarily in terms of the need to protect the confidentiality, integrity and availability of information;
2. Design and implement a suite of security controls, both technical and non-technical in nature, to address any risks deemed unacceptable by management;
3. Ensure that our security controls comply with applicable laws and regulations
4. Operate, manage and maintain the security controls;
5. Monitor and continuously improve information security, updating the controls when the risks change (e.g. responding to novel hacker attacks or frauds, preferably in advance thereby preventing us from suffering actual incidents).

Operational Risk Management Activities in 2022

1. MBSL has conducted the BCP testing process during the year which (2) in March and December 2022.
2. The TOR of the Operational Risks Management Committee (ORMC) was reviewed during the year and the Chief Risk Officer was appointed as the Chairman of Operational Risk Management Committee.
3. Monthly ORMC meetings were conducted with the revised TOR and the summaries of ORMC meetings were reported to the BIRMC.
4. The Risk and Control Self-Assessment (RCSA) framework was developed by the RMD and was approved by the Board of Directors.
5. The Operational Risk Unit has commenced conducting the Risk Control Self-Assessment (RCSA) according to the annual plan, which has helped to streamline several processes in order to reduce the risk of a process failure and improve employee productivity under current conditions.
6. The branch risk assessment process has also been commenced and it enables identification and categorisation of branches according to the risk levels and work towards identifying and gradually reducing the overall risk levels of the branch network.
7. IT risk management function was initiated within the Risk Management Department with the proposal to assign a dedicated Information Security Officer within the RMD structure.

Compliance Risk

Financial institutions are subject to compliance risk, which is the risk of incurring financial damage or damage to their reputation as a result of not conducting its business in accordance with the laws, rules, regulations and other standards that have been established by the CBSL and other regulatory authorities. MBSL has a well-established Compliance Division that is headed by a dedicated Compliance Officer represented by the Corporate Management. This division is functionally independent from the day-to-day operational functions and reports to the Board Integrated Risk Management Committee.

The Board has approved a compliance annual plan to avoid any compliance and Anti-Money Laundering/Combating the Financing of Terrorism (AML/CFT) risks posed by its customers through identification, assessment and management of that risk, which includes using established systems and procedures with robust monitoring mechanisms and ongoing staff awareness.

Compliance Risk Management Activities in 2022

1. Systematically communicated and empowered the policies and procedures to concerned departments, all branches and the respective officials demarcated in the compliance function.
2. As cited in the Financial Transactions Reporting Act, overall risk profiling and assessments were conducted for the Company's total customer base.
3. A compliance education programme was conducted via an e-learning platform developed in-house and all staff underwent mandatory compliance certification which was linked with their annual KPIs.
4. To overcome limitations in travel due to challenges related to fuel shortages, an online compliance assessment mechanism was introduced for compliance audit within the branch network.
5. Implemented a mechanism as per the CMC decision to obtain approval from the Compliance Division, Risk Division and Internal Audit Division before new products and services are introduced or existing ones are changed.

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

GOVERNANCE FRAMEWORK

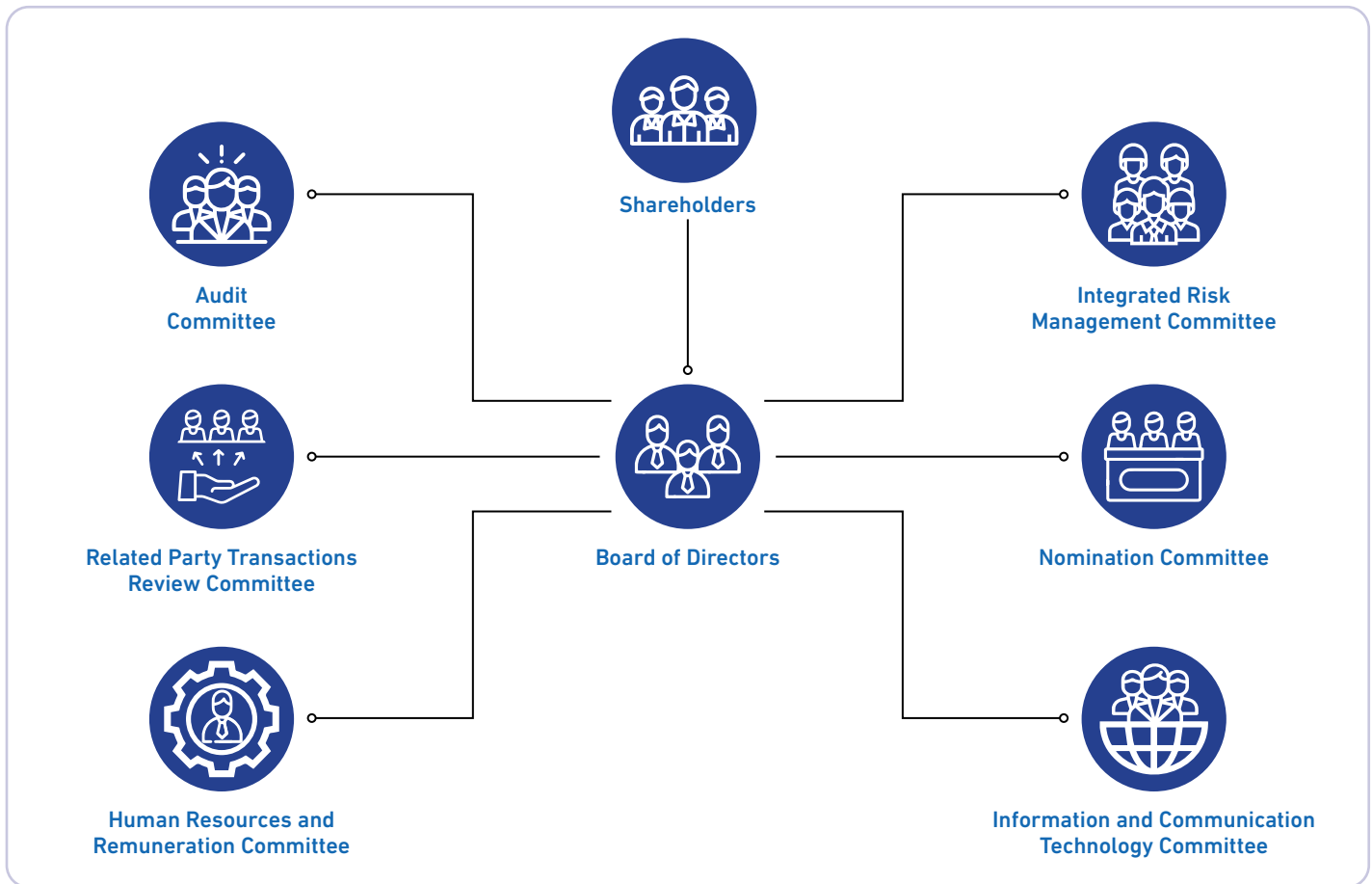
MBSL's Corporate Governance framework has been developed to comply with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and other relevant laws and regulations. In addition, the Company has voluntarily adopted the GRI Standards for Sustainability Reporting issued by the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

Standards and Principles		Governance systems
Internal	External	
<ul style="list-style-type: none"> ○ Vision, Mission and Values ○ Articles of Association ○ Director's Code of Ethics ○ Group's Corporate Governance Framework and practices ○ Board Charter and Terms of References for Board sub-committees ○ Comprehensive framework of policies, systems and procedures 	<ul style="list-style-type: none"> ○ Companies Act No. 7 of 2007 ○ Finance Business Act (Corporate Governance) Direction No.05 of 2021. ○ Finance Leasing (Corporate Governance) Direction No. 4 of 2009 ○ Listing Rules of the Colombo Stock Exchange ○ Sri Lanka Accounting Standards ○ Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) ○ GRI Standards for Sustainability reporting issued by the Global Reporting Initiative 	<ul style="list-style-type: none"> ○ Stakeholder engagement ○ Strategic planning ○ Risk management ○ Compliance ○ People management ○ Internal and external audit ○ Related Party Transactions

THE BOARD OF DIRECTORS

The Board of Directors is the apex governing body and consisted of nine (09) Non-Executive Directors (including the Chairman) of whom three (03) are deemed independent as at 31 December 2022. 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 Credit Committee, Investment Committee, Real Estate Committee, Recovery Committee, IT Steering Committee, Corporate Management Committee, Operational Risk Management Committee, Asset Disposal Committee, Procurement Committee, Marketing Committee, Vehicle Disposal Committee, Asset and Liability Management 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 52 to 61 and the Report of the Integrated Risk Management Committee on pages 104 to 105. Directors are also responsible for formulating and implementing a comprehensive framework of internal controls which ensure that assets are safeguarded, and the integrity of financial reporting is preserved.

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 2022/ Explanations
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 96)
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 95)
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 254 to 256 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 254 to 256.
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 254 to 256.
7.6 (vi)	Information pertaining to material foreseeable risk factors.	Please refer "Risk Management Report" on pages 52 to 61
7.6 (vii)	Details of material issues pertaining to employees and industrial relations.	Please refer "Management Discussion and Analysis" on pages 49 to 50.
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 254 to 256.
7.6 (xi)	Ratios and market price information on: EQUITY 1. Dividend per share. 2. Dividend payout. 3. Net asset value per share. 4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year). DEBT 1. Interest rate of comparable government security. 2. Debt/equity ratio. 3. Interest cover. 4. Quick asset ratio. 5. The market prices & yield during the year. 6. Changes in credit rating.	Not applicable. Not applicable. Please refer "Statement of Financial Position". Please refer "Shareholder Information " on pages 254 to 256. Please refer "Debenture Information". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Decade at a Glance". Please refer "Debenture Information". Please refer "Debenture Information".
7.6 (xii)	Significant changes in the Company's or its subsidiaries' fixed assets and the market value of land, if the value differs substantially from the book value.	Please refer "Note 30" to the "Financial Statements" page 197.
7.6 (xiii)	Details of funds raised through a public issue, rights issue and a private placement.	Complied The Company has not raised funds through a public issue, a rights issue or a private placement during the year 2022.
7.6 (xiv)	Information in respect of Employee Share Option Schemes or Employee Share Purchase Schemes.	The Company does not have any Employee Share Option Schemes or Employee Share Purchase Schemes at present.
7.6 (xv)	Disclosures pertaining to Corporate Governance practices in terms of rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.	This report provides the disclosures referred to in Rules 7.10.3, 7.10.5 c and 7.10.6 c of Section 7 of the Listing Rules.
7.6 (xvi)	Related Party transactions exceeding 10% of the Equity or 5% of the total assets of the Entity as per Audited Financial Statements, whichever is lower.	Complied. Please refer Note 43 to the Financial Statements on page 219.

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 2022
7.10.1	<p>Non-Executive Directors</p> <p>a. The board shall include at least, two (2) non-executive directors; or such number of non-executive directors' equivalent to one third (1/3) of the total number of directors, whichever is higher.</p> <p>b. The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.</p> <p>c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.</p>	<p>Complied.</p> <p>All eight (08) directors who comprise the Board are non-executive directors and have held office prior to and immediately preceding the Annual General Meeting.</p>
7.10.2	<p>Independent Directors</p> <p>a. Where the constitution of the board includes only two (2) non- executive directors in terms of Rule 7.10.1 above, both such non- executive directors shall be "independent" (as per the criteria set out in Rule 7.10.4 of the CSE Listing Rules). In all other instances two (2) or one third (1/3) of non-executive directors appointed to the board, whichever is higher, shall be "independent".</p> <p>b. The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.</p>	<p>Complied.</p> <p>Three (03) out of the eight (08) non-executive directors are independent.</p> <p>Complied.</p>
7.10.3	<p>Disclosure relating to Directors</p> <p>a. The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the Annual Report the names of directors determined to be "independent."</p> <p>b. In the event a director does not qualify as "independent" against any of the criteria set out below but if the board, taking into account all the circumstances, is of the opinion that the director is nevertheless "independent" the board shall specify the criteria not met and the basis for its determination in the Annual Report.</p> <p>c. In addition to disclosures relating to the independence of a director set out above, the board shall publish in its Annual Report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.</p> <p>d. Upon appointment of a new director to its board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.</p>	<p>Complied.</p> <p>Not applicable.</p> <p>Complied.</p> <p>Resume of each director is given on pages 16 to 19 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>
7.10.5	<p>Remuneration Committee</p> <p>a. Composition</p> <p>The remuneration committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where the company has only two (2) directors on its board);</p> <p>or</p> <p>of non-executive directors a majority of whom shall be independent, whichever is higher.</p> <p>One (1) non-executive director shall be appointed as Chairman of the committee by the board.</p> <p>b. Functions</p> <p>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.</p> <p>Human Resources and Remuneration Committee consists of Two (02) independent non-executive directors.</p> <p>Complied.</p> <p>Please refer the "Human Resources and Remuneration Committee' Report on page 106 of the Annual Report.</p>

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
1	BOARD'S OVERALL RESPONSIBILITIES	
1(1)	The Board shall assume overall responsibility and accountability for the operations of the Finance Company (FC), by setting up the strategic direction, governance framework, establishing corporate culture and ensuring compliance with regulatory requirements. The Board shall carry out the functions listed in Direction 1.2 to 1.7 below, but not limited to, in effectively discharging its responsibilities.	Complied. Please refer Direction 1.2 to 1.7 below.
1(2)	Business Strategy and Governance Framework	
	a) Approving and overseeing the implementation of the FC's overall business strategy with measurable goals for next three years and update it annually in view of the developments in the business environment.	a) Complied. The Strategic Plan for 2023- 2025 is available which is reviewed by the Board on an annual basis.
	b) Approving and implementing FC's governance framework commensurate with the FC's size, complexity, business strategy and regulatory requirements.	b) Complied. Governance Framework of the Company has been developed to comply with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and other relevant regulations. There is a dedicated agenda item for the Directors to discuss governance/ regulation related matters at each Board meeting.
	c) Assessing the effectiveness of its governance framework periodically.	c) Complied. Policies, Procedures and TORs of the Board Sub Committees and the Management Committees are forwarded to the Board for periodic review with the Management and sub committees' recommendations as applicable. Further Delegation of Authority, Corporate Structure and HR Management System are also reviewed periodically by the Board.
	d) Appointing the Chairperson and the Chief Executive Officer (CEO) and define the roles and responsibilities.	d) Two separate persons function as the Chairperson and the Chief Executive Officer. Their roles and responsibilities have been defined separately in the Board Charter.
1(3)	Corporate Culture and Values	
	a) Ensuring that there is a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.	a) Complied. The Board of Directors plays a vital role in setting the right tone at the top, collectively driving toward achieving the right professional and ethical conduct aligned with the corporate values.
	b) Playing a lead role in establishing the FC's corporate culture and values, including developing a code of conduct and managing conflicts of interest.	b) Complied. The Board of Director always provides leadership and guidance to establish the right culture and values through the Code of Conduct, Directors' Code of Ethics, Board Charter, Related Party Transactions Policy, etc.
	c) Promoting sustainable finance through appropriate environmental, social and governance considerations in the FC's business strategies.	c) Complied. ESG considerations have been incorporated into the strategic plan.
	d) Approving the policy of communication with all stakeholders, including depositors, shareholders, borrowers and other creditors, in the view of projecting a balanced view of the FC's performance, position and prospects in public and regulators.	d) Complied. A Communication Policy approved by the Board is in place.

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Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
1 (4)	Risk Appetite, Risk Management and Internal Controls	
	a) Establishing and reviewing the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework.	a) Complied. The Board approved RAS is available, which is reviewed annually.
	b) Ensuring the implementation of appropriate systems and controls to identify, mitigate and manage risks prudently.	b) Complied. 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. The Board addresses such issues on a continuous basis.
	c) Adopting and reviewing the adequacy and the effectiveness of the FC's internal control systems and management information systems periodically.	c) Complied. The Audit Committee assesses the adequacy and the effectiveness of the Company's internal control systems and management information systems. On direction and recommendation of the Audit Committee the Board continuously review the internal control systems and management information systems to identify any gaps. The Directors' Responsibility Statement on Internal Control over Financial Reporting is validated by the external auditors each year.
	d) Approving and overseeing business continuity and disaster recovery plan for the FC to ensure stability, financial strength, and preserve critical operations and services under unforeseen circumstances.	d) Complied. The Board approved Business Continuity Management Policy and Disaster Recovery Plan are available. Periodic tests are done to ensure the robustness of the plan. Plan is updated based on the test results.
1 (5)	Board Commitment and Competency	
	a) All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the FC.	a) Complied. All Directors come well prepared for the Board and Sub-committee meetings.
	b) All members of the Board shall possess necessary qualifications, adequate skills, knowledge, and experience.	b) Complied. Directors possess qualifications and experience with credible track records and have necessary skills to bring an independent judgment to bear on issues of strategy performance and resources. Brief profiles of the Directors are given on pages 16 to 19 of this Annual Report.
	c) The Board shall regularly review and agree the training and development needs of all the members.	c) Complied. The Board Charter covers training and development of members. Further the Directors undertake training in their personal capacity, attend forums organized by the Central Bank of Sri Lanka and other institutions.
	d) The Board shall adopt a scheme of self-assessment to be undertaken by each director annually on individual performance, of its Board as a whole and that of its committees and maintain records of such assessments.	d) Complied. Self-assessment is carried out annually on individual, Board as a whole and sub-committees and the records are maintained by the Company Secretary.
	e) The Board shall resolve to obtain external independent professional advice to the Board to discharge duties to the FC.	e) Complied. The Board Charter includes a provision to enable the Directors to seek independent professional advice at the Company's expense.

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
1 (6)	Oversight of Senior Management	
	a) Identifying and designating senior management, who are in a position to significantly influence policy, direct activities and exercise control over business operations and risk management.	a) Complied. The Board has clearly defined senior management hierarchy.
	b) Defining the areas of authority and key responsibilities for the senior management.	b) Complied. Areas of authority and Key Responsibilities of the Senior Management are included in the respective job descriptions and Delegation of Authority.
	c) Ensuring the senior management possess the necessary qualifications, skills, experience and knowledge to achieve the FC's strategic objectives.	c) Complied.
	d) Ensuring there is an appropriate oversight of the affairs of the FC by senior management.	d) Complied. Senior Management personnel 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. Senior Management responsible for internal controls and compliance attend every IRMC meeting. Board has delegated the function of overseeing IAD to the Audit Committee. Board exercises oversight of the affairs of the Company by the Senior Management through the minutes of the meetings of the IRMC and Audit Committee tabled at Board meetings.
	e) Ensuring the FC has an appropriate succession plan for senior management.	e) Complied. A succession plan approved by the Board is available. Human Resources Department is vested with the responsibility of revising and keeping the succession planning process up to date. Human Resources department is currently in the process of revising the existing succession plan.
	f) Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.	f) Complied. The Board meets the Senior Management at the Board and Board Sub-Committee meetings on a regular basis.
1 (7)	Adherence to the Existing Legal Framework	
	a) Ensuring that the FC does not act in a manner that is detrimental to the interests of and obligations to, depositors, shareholders and other stakeholders.	a) Complied. The Board of Directors always take due care to protect the interests and rights of all the stakeholders. This aspect has been covered in the Board Charter.
	b) Adherence to the regulatory environment and ensuring compliance with relevant laws, regulations, directions and ethical standards.	b) Complied. Compliance with statutory regulations and ethical standards is regularly monitored by the Board. The Compliance Officer of the Company submits a monthly compliance report which covers the compliance status of all the applicable laws, rules, regulations directions and etc.
	c) Acting with due care and prudence, and with integrity and be aware of potential civil and criminal liabilities that may arise from their failure to discharge the duties diligently.	c) Complied. The Company adheres to the directions, regulations, rules, and circulars issued by the Central Bank of Sri Lanka and other regulatory bodies. Further, the Company ensures that all the employees adhere to the internal policies and procedures. A Board approved Governance Framework and Communication Policy is in place. The Company operates within the Governance Framework and the laws and directions issued by the regulator.

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
2	GOVERNANCE FRAMEWORK	
2(1)	Board shall develop and implement a governance framework in line with these directions and including but not limited to the following. a) role and responsibilities of the Board b) matters assigned for the Board. c) delegation of authority. d) composition of the Board. e) the Board's independence. f) the nomination, election and appointment of directors and appointment of senior management. g) the management of conflicts of interests h) access to information and obtaining independent advice. i) capacity building of Board members, j) the Board's performance evaluation. k) role and responsibilities of the chairperson and the CEO. l) role of the company secretary, m) Board sub committees and their role; and n) limits on related party transactions.	Complied. All these aspects of the governance framework are covered in the Board Charter.
3	COMPOSITION OF THE BOARD	
3(1)	The Board's shall ensure a balance of skills and experience as may be deemed appropriate and desirable for the requirements of the size, complexity and risk profile of the FC.	Complied.
3(2)	The number of directors on the Board shall not be less than seven (07) and not more than thirteen (13).	Complied. There are Eight (08) Non-Executive Directors on the Board.
3(3)	The total period of service of a director other than a director who holds the position of CEO/executive director shall not exceed nine years, subject to direction 3.4.	Complied.
3(4)	Non-executive directors, who directly or indirectly holds more than 10% of the voting rights or who is appointed to represent a shareholder who directly or indirectly holds more than 10% of the voting rights by producing sufficient evidence are eligible to hold office exceeding 9 years of service with prior approval of Director, Department of Supervision of Non-Bank Financial Institutions subject to provisions contained in direction 4.2 and 4.3. Provided, however number of non- executive directors eligible to exceed 9 years are limited to one-fourth (14) of the total number of directors of the Board.	Complied. No Director is close to 9 years of holding office.
3(5)	Executive Directors a) Only an employee of a FC shall be nominated, elected and appointed, as an executive director of the FC, provided that the number of executive directors shall not exceed one-third (1/3) of the total number of directors of the Board. b) A shareholder who directly or indirectly holds more than 10% of the voting rights of the FC, shall not be appointed as an executive director or as senior management. Provided however, existing executive directors with a contract of employment and functional reporting line and existing senior management are allowed to continue as an executive director/senior management until the retirement age of the FC and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3. Existing executive directors without a contract of employment and functional reporting line need to step down from the position of executive director from the effective date of this direction and may reappoint as a non-executive director subject to provisions contained in direction 4.2 and 4.3.	a) There are no Executive Directors on the Board. b) Complied.

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Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
3(5)	c) In the event of presence of the executive directors, CEO shall be one of the executive directors and may be designated as the managing director of the FC.	c) Not Applicable
	d) All Executive directors shall have a functional reporting line in the organization structure of the FC.	d) Not Applicable
	e) The executive directors are required to report to the Board through CEO.	e) Not Applicable
	f) Executive directors shall refrain from holding executive directorships or senior management positions in any other entity.	f) Not Applicable
3(6)	Non-Executive Directors	
	a) Non-executive directors shall possess credible track records, and have necessary skills, competency and experience to bring independent judgment on the issues of strategy, performance, resources and standards of business conduct.	a) Complied. Directors' qualifications and experience are given in pages 16 to 19 of the Annual Report.
	b) A non-executive director cannot be appointed or function as the CEO/ executive director of the FC.	b) Complied.
3(7)	Independent Directors	
	a) The number of independent directors of the Board shall be at least three (03) or one-third (1/3) of the total number of directors, whichever is higher.	a) Complied. Please refer page 96 of the Annual Report.
	b) Independent directors appointed shall be of highest caliber, with professional qualifications, proven track record and sufficient experience.	b) Complied. Please refer pages 16 to 19 of the Annual Report.
	c) A non-executive director shall not be considered independent if such: <ul style="list-style-type: none"> i. Director has a direct or indirect shareholding exceeding 5% of the voting rights of the FC or exceeding 10% of the voting rights of any other FC. ii. Director or a relative has or had during the period of one year immediately preceding the appointment as director, material business transaction with the FC, as described in direction 12.1(c) hereof, aggregate value outstanding of which at any particular time exceeds 10% of the stated capital of the FC as shown in its last audited statement of financial position. iii. Director has been employed by the FC or its affiliates or is or has been a director of any of its affiliates during the one year, immediately preceding the appointment as director. iv. Director has been an advisor or consultant or principal consultant/advisor in the case of a firm providing consultancy to the FC or its affiliates during the one year preceding the appointment as director. v. Director has a relative, who is a director or senior management of the FC or has been a director or senior management of the FC during the one year, immediately preceding the appointment as director or holds shares exceeding 10% of the voting rights of the FC or exceeding 20% of the voting rights of another FC. vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC. vii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, in which any of the other directors of the FC is employed or is a director. viii. Director is an employee or a director or has direct or indirect shareholding of 10% or more of the voting rights in a company, which has a transaction with the FC as defined in direction 12.1(c), or in which any of the other directors of the FC has a transaction as defined in direction 12.1(c), aggregate value outstanding of which at any particular time exceeds 10% of the stated capital as shown in its last audited statement of financial position of the FC. 	c) Complied.

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Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
3(7)	<p>d) The nomination committee and Board should determine whether there is any circumstance or relationship, which is not listed at direction 3.7, which might impact a director's independence, or the perception of the independence.</p> <p>e) An independent director shall immediately disclose to the Board any change in circumstances that may affect the status as an independent director. In such a case, the Board shall review such director's designation as an independent director and notify the Director, Department of Supervision of Non-Bank Financial Institutions in writing of its decision to affirm or change the designation.</p>	<p>d) Complied.</p> <p>e) At every Board meeting there is an agenda item dedicated to this which requires the Directors to make necessary disclosures.</p>
3(8)	Alternate Directors	
	<p>a) Representation through an alternate director is allowed only;</p> <p>i) With prior approval of the Director, Department of Supervision of Non-Bank Financial Institutions under Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) or as amended; and</p> <p>ii) If the current director is unable to perform the duties as a director due to prolonged illness or unable to attend more than three consecutive meetings due to being abroad.</p>	a) Currently there are no Alternate Directors appointed.
	b) The existing directors of the FC cannot be appointed as an alternate director to another existing director of the FC.	b) Not applicable.
	c) A person appointed as an alternate director to one of the directors cannot extend the role as an alternate director to another director in the same Board.	c) Not applicable.
	d) An alternate director cannot be appointed to represent an executive director.	d) Not applicable.
	e) In the event an alternate director is appointed to represent an independent director, the person so appointed shall also meet the criteria that apply to an independent director.	e) Not applicable.
3(9)	Cooling off Periods	
	a) There shall be a cooling off period of six months prior to an appointment of any person as a director, CEO of the FC, who was previously employed as a CEO or director, of another FC. Any variation thereto in exceptional circumstances where expertise of such persons requires to reconstitute a Board of a FC which needs restructuring, shall be made with prior approval of the Monetary Board.	a) Complied.
	b) A director, who fulfills the criteria to become an independent director, shall only be considered for such appointment after a cooling off period of one year if such director has been previously considered as non-independent under the provisions of this Direction.	b) Complied.
3(10)	Common Directorships	
	Director or a senior management of a FC shall not be nominated, elected or appointed as a director of another FC except where such FC is a parent company, subsidiary company or an associate company or has a joint arrangement with the first mentioned FC subject to conditions stipulated in Direction 3.5(f).	Complied.
3(11)	The Board shall determine the appropriate limits for directorships that can be held by directors. However, a director of a FC shall not hold office as a director or any other equivalent position (shall include alternate directors) in more than 20 companies/societies/bodies, including subsidiaries and associates of the FC.	Complied.

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
4	ASSESSMENT OF FITNESS AND PROPRIETY CRITERIA	
4(1)	No person shall be nominated, elected or appointed as a director of the FC or continue as a director of such FC unless that person is a fit and proper person to hold office as a director of such FC in accordance with the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction or as amended.	Complied.
4(2)	A person over the age of 70 years shall not serve as a director of a FC.	Complied. No Director has exceeded the age of 70 years.
4(3)	Notwithstanding provisions contained in 4.2 above, a director who is already holding office at the effective date of this direction and who attains the age of 70 years on or before 31.03.2025, is permitted to continue in office as a director, exceeding 70 years of age up to maximum of 75 years of age subject to the following, a) Assessment by the Director/Department of Supervision of Non-Bank Financial Institutions on the fitness and propriety based on the criteria specified in the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction. b) Prior approval of the Monetary Board based on the assessment of the Director/Department of Supervision of Non-Bank Financial Institutions in 4.3(a). c) The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors. d) The director concerned shall have completed a minimum period of 3 continuous years in office, as at the date of the first approval.	These provisions are not currently applicable as no Director has exceeded the stipulated age limit.
5	APPOINTMENT AND RESIGNATION OF DIRECTORS AND SENIOR MANAGEMENT	
5(1)	The appointments, resignations or removals shall be made in accordance with the provisions of the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	Complied.
6	THE CHAIRPERSON AND THE CEO	
6(1)	There shall be a clear division of responsibilities between the chairperson and CEO and responsibilities of each person shall be set out in writing.	Complied. Responsibilities of the Chairman and the CEO have been defined in the Board Charter in writing. Chairman's responsibilities are distinct from those of the CEO. Chairman provides leadership to the Board while the CEO manages the day to day operations of the Company giving effect to the strategies and policies approved by the Board.
6(2)	The chairperson shall be an independent director, subject to 6.3 below	Complied. Chairperson is an Independent Director.
6(3)	In case where the chairperson is not independent, the Board shall appoint one of the independent directors as a senior director, with suitably documented terms of reference to ensure a greater independent element. Senior director will serve as the intermediary for other directors and shareholders. Non-executive directors including senior director shall assess the chairperson's performance at least annually.	Not applicable.

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
6(4)	<p>Responsibilities of the Chairperson shall at least include the following:</p> <ul style="list-style-type: none"> a) Provide leadership to the Board. b) Maintain and ensure a balance of power between executive and non-executive directors. c) Secure effective participation of both executive and non-executive directors. d) Ensure the Board works effectively and discharges its responsibilities. e) Ensure all key issues are discussed by the Board in a timely manner. f) Implement decisions/directions of the regulator. g) Prepare the agenda for each Board Meeting and may delegate the function of preparing the agenda and to maintaining minutes in an orderly manner to the company secretary. h) Not engage in activities involving direct supervision of senior management or any other day to day operational activities. i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board. j) Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO. 	<p>Complied. Approved Board Charter includes the responsibilities of the Chairperson.</p>
6(5)	<p>Responsibilities of the CEO</p> <p>The CEO shall function as the apex executive-in-charge of the day-to-day-management of the FC's operations and business. The responsibilities of the CEO shall at least include:</p> <ul style="list-style-type: none"> a) Implementing business and risk strategies in order to achieve the FC's strategic objectives. b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions. c) Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior. d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator. e) Strengthening the regulatory and supervisory compliance framework. f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner. g) CEO must devote the whole of the professional time to the service of the FC and shall not carry on any other business, except as a non-executive director of another company, subject to Direction 3.10. 	<p>Complied. Approved Board Charter includes the responsibilities of the CEO.</p>
7	MEETINGS OF THE BOARD	
7(1)	<p>The Board shall meet at least twelve times a financial year at approximately monthly intervals. Obtaining the Board's consent through the circulation of papers to be avoided as much as possible.</p>	<p>Complied. Eighteen (18) meetings were held during the year.</p>
7(2)	<p>The Board shall ensure that arrangements are in place to enable matters and proposals by all directors of the Board to be represented in the agenda for scheduled Board Meetings.</p>	<p>Complied. The Board Charter includes the provisions for this.</p>
7(3)	<p>A notice of at least 3 days shall be given for a scheduled Board meeting. For all other Board meetings, a reasonable notice shall be given.</p>	<p>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 3-day notice.</p>
		<p>Any change to the schedule shall be notified to the Directors at least 3 days prior to the date of the meeting.</p>

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Section	Governance Requirement	Extent of Compliance in 2022
7(4)	A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.	Complied.
7(5)	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 fourth (1/4) of the number of directors that constitute the quorum at such meeting are independent directors.	Complied. Please refer page 91 of the Annual Report. All meetings of the Board held during the year have been attended by the required number of independent directors.
7(6)	The chairperson shall hold meetings with the non-executive directors only, without the executive directors being present, as necessary and at least twice a year.	There are no executive directors in the Company.
7(7)	A director shall abstain from voting on any Board resolution in relation to a matter in which such director or relative 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 in the Board meeting.	Complied. Approved Board Charter includes specific provisions to avoid conflicts of interest 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 for that matter and he/she is not counted in the quorum.
7(8)	A director who has not attended at least two-thirds (2/3) of the meetings in the period of 12 months immediately preceding or has not attended three consecutive meetings held, shall cease to be a director. Provided that participation at the directors' meetings through an alternate director shall be acceptable as attendance, subject to applicable directions for alternate directors.	Complied. Details of the Directors attendance is set out on page 91 of the Annual Report 2022. No Director has violated this requirement during the financial year 2022.
7(9)	Scheduled Board Meetings and Ad Hoc Board Meetings For the scheduled meetings, participation in person is encouraged and for ad hoc meetings where director cannot attend on a short notice, participation through electronic means is acceptable.	Complied.
8	COMPANY SECRETARY	
8(1)	a) The Board shall appoint a company secretary considered to be a senior management whose primary responsibilities shall be to handle the secretarial services to the Board and of shareholder meetings, and to carry out other functions specified in the statutes and other regulations. b) The Board shall appoint its company secretary, subject to transitional provision stated in 19.2 below, a person who possesses such qualifications as may be prescribed for a secretary of a company under section 222 of the Companies Act, No. 07 of 2007, on being appointed the company secretary, such person shall become an employee of FC and shall not become an employee of any other institution.	a) Complied. Company Secretary has been designated in Senior Manager Grade. b) Complied.
8(2)	All directors shall have access to advice and services of the company secretary with a view to ensuring the Board procedures 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.
8(3)	The company secretary shall be responsible for preparing the agenda in the event chairperson has delegated carrying out such function.	Complied.
8(4)	The company secretary shall maintain minutes of the Board meetings with all submissions to the Board and/or voice recordings/video recordings for a minimum period of 6 years.	Complied. Board Minutes are maintained by the Company Secretary.
8(5)	The company secretary is responsible for maintaining minutes in an orderly manner and shall follow the proper procedure laid down in the Articles of Association of the FC.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2022
8(6)	Minutes of the Board meetings shall be recorded in sufficient detail so that it is possible to ascertain whether the Board acted with due care and prudence in performing its duties. The minutes of a Board meeting shall clearly include the following: <ul style="list-style-type: none"> (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, including contribution of each individual director; (d) the explanations and confirmations of relevant parties, which indicate compliance with the Board's strategies and policies and adherence to relevant laws, regulations, directions; (e) the Board's knowledge and understanding of the risks to which the FC 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 proper assessment to be made of the depth of deliberations at the meeting.
8(7)	The minutes shall be open for inspection at any reasonable time, on reasonable notice by any director.	Complied. The Directors have access to the Board papers and minutes through a secure electronic link.
9	DELEGATION OF FUNCTIONS BY THE BOARD	
9(1)	The Board shall approve a Delegation of Authority (DA) and give clear directions to the senior management, as to the matters that shall be approved by the Board before decisions are made by senior management, on behalf of the FC.	Complied. Approved Board Charter includes a provision for delegation of powers by the Board. Board Charter also includes a provision for the matters reserved for the Board.
9(2)	In the absence of any of the sub-committees mentioned in Direction 10 below, the Board shall ensure the functions stipulated under such committees shall be carried out by the Board itself.	Complied. All the Board Subcommittees required by the Direction have been established.
9(3)	The Board may establish appropriate senior management level sub-committees with appropriate DA to assist in Board decisions.	Complied. Senior Management level sub committees have been established and the matters have been delegated to them by the Board with appropriate Delegation of Authority.
9(4)	The Board shall not delegate any matters to a board sub-committee, executive directors or senior management, to an extent that such delegation would significantly hinder or reduce the ability of the Board as a whole to discharge its functions.	Complied. The Board has delegated matters pertaining to the affairs of MBSL to the Board Sub Committees within scope of the respective Board approved Terms of Reference.
9(5)	The Board shall review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the FC.	Complied. Delegation of Authority is subject to review as and when necessary.
10	BOARD SUB-COMMITTEES	
10(1)	a) For the purpose of specifying the requirements for board committees, FCs are divided into two categories based on the asset base as per the latest audited statement of financial position as FCs with asset base of more than Rs. 20 Bn and FCs with asset base of less than Rs. 20 Bn, subject to transitional provisions stated in direction 19.3.	a) Complied. MBSL has an asset base exceeding Rs. 20 Bn. The company has established the following six Board sub committees. <ul style="list-style-type: none"> 01. Audit Committee 02. Integrated Risk Management Committee. 03. Related Party Transactions Review Committee 04. Human Resources & Remuneration Committee 05. Nomination Committee 06. Information and Communication Technology Committee.

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Section	Governance Requirement	Extent of Compliance in 2022
10(1)	<p>b) Each Board sub-committee shall have a board approved written terms of reference specifying clearly its authority and duties.</p> <p>c) The Board shall present a report on the performance of duties and functions of each Board sub-committee, at the annual general meeting of the FC.</p> <p>d) Each sub-committee shall appoint a secretary to arrange its meetings, maintain minutes, voice or video recordings, maintenance of records and carry out such other secretarial functions under the supervision of the chairperson of the committee.</p> <p>e) Each Board sub-committee shall consist of at least three Board members and shall only consist of members of the Board, who have the skills, knowledge and experience relevant to the responsibilities of the committee.</p> <p>f) The Board may consider occasional rotation of members and of the chairperson of Board sub-committees, as to avoid undue concentration of power and promote new perspectives.</p>	<p>b) Complied. For each Board Sub Committee written Terms of Reference have been approved by the Board.</p> <p>c) A Report from each Board Sub Committee has been published in this Annual Report. Please refer pages from 99 to 107.</p> <p>d) Company Secretary acts as the Secretary of Audit Committee, Integrated Risk Management Committee, Human Resources & Remuneration Committee and Nomination Committee. Head of Finance acts as the Secretary of Related Party Transactions Review Committee. Head of IT acts as the secretary of Information and Communication Technology Committee.</p> <p>e) Complied. Please refer pages 99 to 107 for the composition of the Board Sub committees and refer pages from 16 to 19 for the profiles of the Board Members.</p> <p>f) Complied.</p>
10.2	<p>Board Audit Committee (BAC)</p> <p>The following shall apply in relation to the BAC.</p> <p>a) The chairperson of BAC shall be an independent director who possesses qualifications and experience in accountancy and/or audit.</p> <p>b) The Board members appointed to the BAC shall be non-executive directors and majority shall be independent directors with necessary qualifications and experience relevant to the scope of the BAC.</p> <p>c) The secretary to the BAC shall preferably be the Chief Internal Auditor (CIA).</p> <p>d) External Audit Function</p> <p>i. The BAC shall make recommendations on matters in connection with the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes, the service period, audit fee and any resignation or dismissal of the auditor.</p> <p>ii. Engagement of an audit partner shall not exceed five years, and that the particular audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. Further, FC shall not use the service of the same external audit firm for not more than ten years consecutively.</p> <p>iii. Audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.</p> <p>iv. The committee shall review and monitor the external auditor's independence and objectivity and the effectiveness of the audit processes in accordance with applicable standards and best practices.</p>	<p>During the entirety of the financial year under review Mr. Anura Perera, Independent non-executive Director/ fellow member of ICASL functioned as the Chairman of Board Audit Committee. Mr. Ruwan Kumara, non-executive Director was appointed as the Chairman of BAC on 8th March 2023. Mr. Ruwan Kumara is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka.</p> <p>Complied.</p> <p>Board Secretary functions as the Secretary for BAC.</p> <p>As Auditor General functions as the Auditor of MBSL under the provisions of Constitution, BAC has no major control in this regard.</p> <p>Complied. Please refer response under d) 1 above. As the AG decides on the appointment of an Auditor on his behalf, BAC ensures the compliance on this rule.</p> <p>Complied.</p> <p>Complied.</p>

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Section	Governance Requirement	Extent of Compliance in 2022
10.2	Board Audit Committee (BAC)	
	d) External Audit Function	
	v. Audit partner shall not be assigned to any non-audit services with the FC during the same financial year in which the audit is being carried out. The BAC shall develop and implement a policy with the approval of the Board on the engagement of an external audit firm to provide non-audit services that are permitted under the relevant regulatory framework. In doing so, the BAC shall ensure that the provision of service by an external audit firm of non-audit rvicees does not impair the external auditor’s independence or objectivity.	Complied.
	vi. The BAC shall, before the audit commences, discuss and finalise with the external auditors the nature and scope of the audit, including: (i) an assessment of the FC’s compliance with Directions issued under 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 auditor is involved.	Complied.
	vii. The BAC shall review the financial information of the FC, in order to monitor the integrity of the financial statements of the FC in its annual report, accounts and periodical reports prepared for disclosure, and the significant financial reporting judgments contained therein. In reviewing the FC’s annual report and accounts and periodical reports before submission to the Board, the 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. Monthly, Quarterly, Annual Financial Statements are presented to BAC for review before they are submitted to the Board and released to shareholders.
	viii. The BAC 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 senior management, if necessary,	Complied.
	ix. The BAC shall review the external auditor’s management letter and the management’s response thereto within 3 months of submission of such, and report to the Board.	Complied.
	e) The BAC shall at least annually conduct a review of the effectiveness of the system of internal controls.	Complied.
	f) The BAC shall ensure that the senior management are taking necessary corrective actions in a timely manner to address internal control weaknesses, non-compliance with policies, laws and regulations, and other problems identified by auditors and supervisory bodies with respect to internal audit function of the FC.	Complied.
	g) Internal Audit Function	
	i. The committee shall establish an independent internal audit function (either in house or outsourced as stipulated in the Finance Business Act (Outsourcing of Business Operations) Direction or as amended that provides an objective assurance to the committee on the quality and effectiveness of the FC’s internal control, risk management, governance systems and processes.	Complied.
	ii. The internal audit function shall have a clear mandate, be accountable to the BAC, be independent and shall have sufficient expertise and authority within the FC to carry out their assignments effectively and objectively.	Complied.

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Section	Governance Requirement	Extent of Compliance in 2022
10.2	<p>g) Internal Audit Function</p> <p>iii. The BAC shall take the following steps with regard to the internal audit function of the FC:</p> <p>(i) Review the adequacy of the scope, functions and skills and resources of the internal audit department and ensure the internal audit department has the necessary authority to carry out its work.</p> <p>(ii) Review the internal audit program and results of the internal audit process and, where necessary, ensure appropriate actions are taken on the recommendations of the internal audit.</p> <p>(iii) Assess the performance of the head and senior staff members of the internal audit department.</p> <p>(iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.</p> <p>(v) Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.</p> <p>(vi) Examine the major findings of internal investigations and management's responses thereto.</p> <p>h) The BAC shall review the statutory examination reports of the Central Bank of Sri Lanka (CBSL) and ensure necessary corrective actions are taken in a timely manner and monitor the progress of implementing the time bound action plan quarterly.</p>	<p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied. Performance review of CIA and Senior Manager - IA are under the purview of BAC.</p> <p>Complied.</p> <p>Complied.</p> <p>Complied.</p>
	<p>i) Meetings of the Committee</p> <p>i. The BAC shall meet as specified in 10.1 above, with due notice of issues to be discussed and shall record its conclusions in discharging its duties and responsibilities.</p> <p>ii. Other Board members, senior management or any other employee may attend meetings upon the invitation of the committee when discussing matters under their purview.</p> <p>iii. BAC shall meet at least twice a year with the external auditors without any other directors/senior management/employees being present.</p>	<p>Complied.</p> <p>Complied.</p> <p>Complied.</p>
10.3	<p>Board Integrated Risk Management Committee (BIRMC)</p> <p>The following shall apply in relation to the BIRMC:</p> <p>a) The BIRMC shall be chaired by an independent director. The Board members appointed to BIRMC shall be non-executive directors with knowledge and experience in banking, finance, risk management issues and practices. The CEO and Chief Risk Officer (CRO) may attend the meetings upon invitation. The BIRMC shall work with senior management closely and make decisions on behalf of the Board within the framework of the authority and responsibility assigned to the committee.</p> <p>b) The secretary to the committee may preferably be the CRO.</p> <p>c) The committee shall assess the impact of risks, including credit, market, liquidity, operational, strategic, compliance and technology, to the FC at least on once in two months basis through appropriate risk indicators and management information and make recommendations on the risk strategies and the risk appetite to the Board.</p>	<p>The Committee is chaired by a Non-Executive Director. The CEO and CRO attend all IRMC meetings and other CMC members are invited to the meetings when requested by the Committee.</p> <p>Company Secretary functions as the secretary to BIRMC.</p> <p>Complied The Committee assesses the Company wide risks covering all areas.</p>

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Section	Governance Requirement	Extent of Compliance in 2022
10.3	Board Integrated Risk Management Committee (BIRMC)	
	d) Developing FC's risk appetite through a Risk Appetite Statement (RAS), which articulates the individual and aggregate level and types of risk that a FC will accept, or avoid, in order to achieve its strategic business objectives. The RAS should include quantitative measures expressed relative to earnings, capital, liquidity, etc., and qualitative measures to address reputation and compliance risks as well as money laundering and unethical practices. The RAS should also define the boundaries and business considerations in accordance with which the FC is expected to operate when pursuing business strategy and communicate the risk appetite linking it to daily operational decision making and establishing the means to raise risk issues and strategic concerns throughout the FC.	Complied. Approved RAS is monitored by the CRO and reported to the BIRMC on ongoing basis. RAS is subjected to annual review.
	e) The BIRMC shall review the FC's risk policies including RAS, at least annually.	Complied.
	f) The BIRMC shall review the adequacy and effectiveness of senior management level committees (such as credit, market, liquidity investment, technology and operational) to address specific risks and to manage those risks within quantitative and qualitative risk limits as specified by the committee.	Complied. The BIRMC assesses the adequacy of the operational level committees periodically.
	g) The committee shall assess all aspects of risk management including updated business continuity and disaster recovery plans.	Complied. Business Continuity and Disaster Recovery plans are subjected to annual review.
	h) BIRMC shall annually assess the performance of the compliance officer and the CRO.	Complied.
	i) Compliance Function	
	i. BIRMC shall establish an independent compliance function to assess the FC's compliance with laws, regulations, directions, rules, regulatory guidelines and approved policies on the business operations.	Complied. Company has established an independent division headed by a dedicated Compliance Officer.
	ii. For FCs with asset base of more than Rs. 20 Bn, a dedicated compliance officer considered to be senior management with sufficient seniority, who is independent from day-to-day management shall carry out the compliance function and report to the BIRMC directly. The compliance officer shall not have management or financial responsibility related to any operational business lines or income-generating functions, and there shall not be 'dual hatting', i.e. the chief operating officer, chief financial officer, chief internal auditor, chief risk officer or any other senior management shall not serve as the compliance officer.	Complied. The Compliance Officer is independent from day-to-day management functions and there is no 'dual hatting'.
	iii. For FCs with asset base of less than Rs. 20Bn, an officer with adequate seniority considered to be senior management shall be appointed as compliance officer avoiding any conflict of interest.	Not applicable.

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Section	Governance Requirement	Extent of Compliance in 2022
10.3	<p>iv. The BIRMC shall ensure responsibilities of a compliance officer would broadly encompass the following: (i) develop and implement policies and procedures designed to eliminate or minimize the risk of breach of regulatory requirements; (ii) ensure compliance policies and procedures are clearly communicated to all levels of the FC to enhance the compliance culture; (iii) ensure reviews are undertaken at appropriate frequencies to assess compliance with regulatory rules and internal compliance standards; (iv) understand and apply new legal and regulatory developments relevant to the business of FC; (v) secure early involvement in the design and structuring of new products and systems, to ensure conformity with the regulatory requirements, internal compliance and ethical standards; (vi) highlight serious or persistent compliance issues and where appropriate, work with the management to ensure that they are rectified within an acceptable time; and (vii) maintain regular contact and good working relationship with regulators based upon clear and timely communication and a mutual understanding of the regulators' objectives with highest integrity,</p>	<p>Complied Process and procedures were developed and put into place to eliminate regulatory breaches, and the entire process is being carried out in accordance with the annual compliance plan approved by the Board, and BIRMC examines progress on a bi-monthly basis.</p>
	j) Risk Management Function	
	i. BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC	Complied.
	ii. For FCs with asset base of more than Rs.20 Bn, it is expected to have a separate risk management department and a dedicated CRO considered to be senior management shall carry out the risk management function and report to the BIRMC periodically.	Complied.
	iii. The CRO has the primary responsibility for implementing the Board approved risk management policies and processes including RAS in order to ensure the FC's risk management function is robust and effective to support its strategic objectives and to fulfill broader responsibilities to various stakeholders.	Complied.
	<p>iv. The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers:</p> <ul style="list-style-type: none"> (i) various potential risks and frauds; (ii) possible sources of such risks and frauds; (iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing ; (iv) effective measures to control and mitigate risks at prudent levels; and (v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually. 	<p>Complied. Risk Management Policy frameworks are approved and in place.</p>
	v. The CRO shall also participate in key decision-making processes such as capital and liquidity planning, new product or service development, etc., and make recommendations on risk management.	Complied.
	vi. The CRO shall maintain an updated risk register, which shall be submitted to the BIRMC on a quarterly basis.	<p>Complied. Comprehensive updates are shared with the IRMC periodically.</p>
	vii. The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.	<p>Complied. The Risk Assessment Reports are submitted to the upcoming Board meeting periodically.</p>

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Section	Governance Requirement	Extent of Compliance in 2022
10.4	<p>Nomination Committee</p> <p>The following shall apply in relation to the Nomination Committee:</p>	
	a) The committee shall be constituted with non-executive directors and preferably the majority may be independent directors. An independent director shall chair the committee. The CEO may be present at meetings by invitation of the committee.	a) Complied The Committee is chaired by an Independent Director.
	b) Secretary to the nomination committee may preferably be the company secretary.	b) Complied Company Secretary is the secretary of the Committee.
	c) The committee shall implement a formal and transparent procedure to select/appoint new directors and senior management. Senior management are to be appointed with the recommendation of CEO, excluding CIA, CRO and compliance officer.	c) Complied. HR Recruitment Policy is applicable for the Senior Management and there are provisions in the Board Charter to the appointment of the Directors. CEO does not get involved in the selection/ appointment procedure of the CIA, CRO and Compliance Officer.
	d) The committee shall ensure that directors and senior management are fit and proper persons to perform their functions as per the Finance Business Act (Assessment of Fitness and Propriety of Key Responsible Persons) Direction.	d) Complied.
	e) The selection process shall include reviewing whether the proposed directors <ul style="list-style-type: none"> (i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board; (ii) have a record of integrity and good repute; and (iii) have sufficient time to fully carry out their responsibilities. 	e) Complied.
	f) The committee shall strive to ensure that the Board composition is not dominated by any individual or a small group of individuals in a manner that is detrimental to the interests of the stakeholders and the FC as a whole.	f) Since the company is a SOE, all the nominations are received from either the Treasury or the parent company, Bank of Ceylon.
	g) The committee shall set the criteria, such as qualifications, experience and key attributes required for eligibility, to be considered for appointment to the post of CEO and senior management.	g) Complied.
	h) Upon the appointment of a new director to the Board, the committee shall assign the responsibility to the company secretary to disclose to shareholders: <ul style="list-style-type: none"> (i) a brief resume of the director; (ii) the nature of the expertise in relevant functional areas; (iii) the names of companies in which the director holds directorships or memberships in Board committees; and (iv) whether such director can be considered as independent. 	h) Complied.
	i) The committee shall consider and recommend (or not recommend) the reelection of current directors, taking into account the combined knowledge, performance towards strategic demands faced by the FC and contribution made by the director concerned towards the discharge of the Board's overall responsibilities.	i) Complied The Committee recommended 2 Directors for re-election after having considered their knowledge, performance and their contribution to carry out the Board's overall responsibilities
	j) The committee shall consider and recommend from time to time, the requirements of additional/new expertise and the succession arrangements for retiring directors and senior management	j) Complied
	k) A member of the nomination committee shall not participate in decision making relating to own appointment/ reappointment and the Chairperson of the board should not chair the committee when it is dealing with the appointment of the successor.	k) Complied

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Section	Governance Requirement	Extent of Compliance in 2022
10.5.	Human Resource and Remuneration Committee The following shall apply in relation to the Human Resources and Remuneration Committee:	
	a) The committee shall be chaired by a non-executive director and the majority of the members shall consist of non-executive directors.	Complied All three members of the Committee are Non-Executive Directors.
	b) The secretary to the human resource and remuneration committee may preferably be the company secretary.	Complied.
	c) The committee shall determine the remuneration policy (salaries, allowances, and other financial payments) relating to executive directors and senior management of the FC and fees and allowances structure for non-executive directors.	Complied.
	d) There shall be a formal and transparent procedure in developing the remuneration policy.	Complied It is developed in accordance with all the applicable Directions, Rules and Regulations.
	e) The committee shall recommend the remuneration policy for approval of the Board on paying salaries, allowances and other financial incentives for all employees of the FC. The policy shall be subject to periodic review of the Board, including when material changes are made.	Complied
	f) The remuneration structure shall be in line with the business strategy, objectives, values, long-term interests and cost structure of the FC. It shall also incorporate measures to prevent conflicts of interest. In particular, incentives embedded within remuneration structures shall not incentivize employees to take excessive risk or to act in self-interest.	Complied.
	g) The committee shall review the performance of the senior management (excluding chief internal auditor, compliance officer, chief risk officer) against the set targets and goals, which have been approved by the Board at least annually, and determine the basis for revising remuneration, benefits and other payments of performance-based incentives	Complied The Committee reviews the performance of the Senior Management excluding Chief Internal Auditors, Compliance Officer and Chief Risk Officers.
	h) The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.	Complied.
11	INTERNAL CONTROLS	
11(1)	FCs shall adopt well-established internal control systems, which include the organizational structure, segregation of duties, clear management reporting lines and adequate operating procedures in order to mitigate operational risks.	Complied. Well defined internal control systems have been established covering all these areas. The Company has deployed procedures for all its business activities and are periodically reviewed. Internal control policies and procedures to mitigate the risks associated with such business processes are duly incorporated into those manuals with ongoing reviews.
11(2)	A proper internal control system shall: (a) promote effective and efficient operations; (b) provide reliable financial information; (c) safeguard assets; (d) minimize the operating risk of losses from irregularities, fraud and errors; (e) ensure effective risk management systems; and (f) ensure compliance with relevant laws, regulations, directions and internal policies.	Complied. Objectives of each internal control process/procedure cover these aspects.

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Section	Governance Requirement	Extent of Compliance in 2022
11(3)	All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.	Complied. Clear responsibilities for control activities are identified in Business Procedure Manuals.
12	RELATED PARTY TRANSACTIONS	
12(1)	Board shall establish a policy and procedures for related party transactions, which covers the following.	
	a) All FCs shall establish a Related Party Transactions Review Committee (RPTRC) and the chairperson shall be an independent director and the members shall consist of non-executive directors.	Complied
	b) All related party transactions shall be prior reviewed and recommended by the RPTRC.	Complied
	c) The business transactions with a related party that are covered in this Direction shall be the following: <ul style="list-style-type: none"> i. Granting accommodation. ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable. iii. Providing financial or non-financial services to the FC or obtaining those services from the FC. iv. Creating or maintaining reporting lines and information flows between the FC and any related party which may lead to share proprietary, confidential or information not available in the public domain or otherwise sensitive information that may give benefits to such related party. 	
12(2)	The committee shall take the necessary steps to avoid any conflicts of interest that may arise from any transaction of the FC with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction. In this regard, there shall be a named list of natural persons/institutions identified as related parties, which is subject to periodic review as and when the need arises.	A list of related parties as defined under a-e has been compiled and made available to relevant managers and staff to avoid any conflicts and facilitate reporting.
	a) Directors and senior management.	
	b) Shareholders who directly or indirectly holds more than 10% of the voting rights of the FC.	
	c) Subsidiaries, associates, affiliates, holding company, ultimate parent company and any party (including their subsidiaries, associates and affiliates) that the FC exert control over or vice versa.	
	d) Directors and senior management of legal persons in paragraph (b) or (c).	
	e) Relatives of a natural person described in paragraph (a), (b) or (d). f) Any concern in which any of the FC's directors, senior management or a relative of any of the FC's director or senior management or any of its shareholders who has a shareholding directly or indirectly more than 10% of the voting rights has a substantial interest.	

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
12(3)	<p>The committee shall ensure that the FC does not engage in business transactions with a related party in a manner that would grant such party "more favorable treatment" than that is accorded to other similar constituents of the FC. For the purpose of this paragraph, "more favorable treatment" shall mean:</p> <ol style="list-style-type: none"> a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee. b) Charging of a lower rate of interest or paying a rate of interest exceeding the rate paid for a comparable transaction with an unrelated comparable counterparty. c) Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties. d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or e) Maintaining reporting lines and information flows between the FC 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 the performance of legitimate duties and functions. 	<p>Complied.</p> <p>Internal controls have been deployed to comply with these parameters. Sufficient education has been provided to relevant employees in this regard.</p>
13.	GROUP GOVERNANCE	
13(1)	<p>Responsibilities of the F C as a Holding Company</p> <ol style="list-style-type: none"> a) The FC is responsible for exercising adequate oversight over its subsidiaries and associates while complying with the independent legal, regulatory and governance responsibilities that apply to them. b) The Board of the FC shall: <ol style="list-style-type: none"> i) Ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies. ii) Ensure that the differences in the operating environment, including the legal and regulatory requirements for each company, are properly understood and reflected in the group governance framework. iii) Have in place reporting arrangements that promote the understanding and management of material risks and developments that may affect the holding FC and its subsidiaries. iv) Assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and v) Ensure that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements. c) The FC, as the apex entity, shall ensure that the group structure does not undermine its ability to exercise effective oversight. The Board shall establish a clearly defined process of approving the creation of new legal entities under its management and identifying and managing all material group-wide risks through adequate and effective policies and controls. d) The Board and senior management of the FC shall validate that the objectives, strategies, policies and governance framework set at the group level are fully consistent with the regulatory obligations of the FC and ensure that company-specific risks are adequately addressed. e) The FC shall avoid setting up complicated structures that lack economic substance or business purpose that can considerably increase the complexity of the operations. 	<p>Complied.</p> <p>The Company is in the process of developing a comprehensive Group Governance Framework.</p>

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
13(2)	Responsibilities as a Subsidiary If the FC is a subsidiary of another financial institution subject to prudential regulation, FC shall discharge its own legal and governance responsibilities.	Complied
14	CORPORATE CULTURE	
14(1)	A FC shall adopt a Code of Conduct which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.	A code of conduct covering these areas is in place and made available to all employees.
14(2)	The FC shall maintain records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity.	Complied.
14(3)	A FC shall establish a Whistleblowing policy that sets out avenues for legitimate concerns to be objectively investigated and addressed. Employees shall be able to raise concerns about illegal, unethical or questionable practices in a confidence manner and without the risk of reprisal. The BAC shall review the policy periodically.	Complied. Company has deployed a well-defined Whistleblowing policy which is displayed at every branch allowing internal and external parties to report unethical, fraudulent and illegal activities. All incidents are investigated and reported to the BAC.
15	CONFLICTS OF INTEREST	
15(1)	<p>a) Relationships between the directors shall not exercise undue influence or Interest coercion. A director shall abstain from voting on any Board resolution in relation to a matter in which such director or any of the relatives or a concern in which such director has substantial interest, is interested, and such director shall not be counted in the quorum for the relevant agenda item in the Board meeting,</p> <p>b) The Board shall have a formal written policy and an objective compliance process for implementing the policy to address potential conflicts of interest with related parties. The policy for managing conflicts of interest shall,</p> <ol style="list-style-type: none"> Identify circumstances which constitute or may give rise to conflicts of interests. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest. Define the process for directors and senior management to keep the Board informed on any change in circumstances that may give rise to a conflict of interest. Implement a rigorous review and approval process for director and senior management to follow before they engage in certain activities that could create conflicts of interest. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and Articulate how any non-compliance with the policy to be addressed. 	<p>Complied.</p> <p>Partially complied through the Directors' Code of Ethics. Related Party Transaction Policy and Code of Conduct. The Company is in the process of developing a comprehensive policy to address potential conflicts of interest.</p>

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
16	DISCLOSURES	
16.1	The Board shall ensure that:	Complied
	(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.	
	(b) such statements are published in the newspapers in Sinhala, Tamil and English. The Board shall ensure that at least following disclosures are made in the Annual Report of the FC.	Complied.
	i. Financial statements	
	In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,	
	<ul style="list-style-type: none"> ○ A statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures. 	Please refer "Directors responsibility for financial reporting" page 113.
	<ul style="list-style-type: none"> ○ A statement of responsibility of the Board in preparation and presentation of financial statements. 	Please refer "Directors responsibility for financial reporting" page 113.
	ii. Chairperson, CEO and Board related disclosures	
	<ul style="list-style-type: none"> ○ Name, qualification and a brief profile. ○ Whether executive, non-executive and/or independent director. ○ Details of the director who is serving as the senior director, if any. ○ The nature of expertise in relevant functional areas. 	Please refer the Profiles of the Directors on pages 16 to 19 of this Annual Report.
	<ul style="list-style-type: none"> ○ Relatives and/or any business transaction relationships with other directors of the company. ○ Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity. 	Please refer Note 43 to the "Related party transactions" on page 217.
	<ul style="list-style-type: none"> ○ Number/percentage of Board meetings of the FC attended during the year; and 	Please refer page 91 of this Annual Report.
	<ul style="list-style-type: none"> ○ Names of board committees in which the director serves as the Chairperson or a member. 	Please refer the Profiles of the Directors on page 16 and committee reports pages 99 to 107.

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
16.1	<p>iii. Appraisal of board performance</p> <p>An overview of how the performance evaluations of the Board and its committees have been conducted.</p>	<p>The Board has adopted a scheme of self-assessment which has been completed by each director for the period under review on individual performance, of the Board as a whole and that of its committees. Such records are maintained with the Company Secretary. A summary of the self-assessments completed by the Directors has been submitted to the Board for information and discussion.</p>
	<p>iv. Remuneration</p> <p>A statement on remuneration policy, which includes Board fee structure and breakdown of remuneration of senior management, level and mix of remuneration (financial and non- financial, the procedure for setting remuneration, and the relationships between remuneration, performance and value creation)</p> <p>The aggregate values of remuneration paid by the FC to its directors and senior management.</p>	<p>Please refer Note 43c on page 218. Also please refer the Report of the Human Resources and Remuneration Committee on page 106.</p> <p>Please refer Note 43c on page 218.</p>
	<p>v. Related party transactions</p> <ul style="list-style-type: none"> ○ The nature of any relationship [including financial, business, family or other material/relevant relationship(s)], if any, between the Chairperson and the CEO and the relationships among members of the Board. ○ Total net accommodation granted 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 FC's core capital. ○ The aggregate values of the transactions of the FC with its senior management during the financial year, set out by broad categories such as accommodation granted, and deposits or investments made in the FC. 	<p>A declaration is submitted by each director on quarterly basis declaring related party details. According to the Declaration submitted there is no any financial, business, family or any other material relationship between the Chairperson and the CEO and among members of the Board, other than the BOC nominee directors who are employees of the same entity.</p> <p>Please refer Note 43 to the "Related party transactions" on pages 218 to 219.</p> <p>Please refer Note 43 to the "Related party transactions" on pages 218 to 219.</p>
	<p>vi. Board appointed committees</p> <p>The details of the chairperson and members of the board committees and attendance at such meetings.</p>	<p>Please refer page 91 of this Annual Report.</p>
	<p>vii. Group Structure</p> <ul style="list-style-type: none"> ○ The group structure of the FC within which it operates. ○ The group governance framework. 	<p>Please refer Note 1.3 to the "Group Structure" on page 125.</p>

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
16.1	<p>viii. Director's report</p> <p>A report, which shall contain the following declarations by the Board:</p> <ul style="list-style-type: none"> ● The FC has not engaged in any activity, which contravenes laws and regulations. ● The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested. ● The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors. ● The business is a going concern with supporting assumptions; and ● The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness. 	<p>Please refer the Annual report of the Board of Directors on the Affairs of the Company on page 94 of this Annual Report.</p> <p>Please refer Note 43 to the "Related party transactions" on pages 217 to 220.</p> <p>The Board has specifically covered the fair treatment of stake holders under the Board Charter. In addition, the Company endeavors fair treatment of all stakeholders, particularly the depositors by implementing the Customer Protection Framework and Whistle-Blowing policy and procedures.</p> <p>Please refer the Annual report of the Board of Directors on the Affairs of the Company on page 94 of this Annual Report.</p> <p>Please refer Directors' Responsibility Statement on Internal Control Over Financial Reporting on page 111.</p>
	<p>ix. Statement on Internal Control</p>	
	<ul style="list-style-type: none"> ● A report by the Board on the FC'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 for external purposes has been done in accordance with relevant accounting principles and regulatory requirements. ● The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published. ● A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances. ● A statement of the regulatory and supervisory concerns on lapses in the FC's risk management, or non-compliance with the Act, and rules and directions 	<p>Please refer Directors Responsibility Statement on Internal Control Over Financial Reporting on page 111.</p> <p>Please refer Directors Responsibility Statement on Internal Control Over Financial Reporting on page 111.</p> <p>Please refer the Corporate Governance Report on page 62 and the Annual Report of the Board of Directors on the affairs of the Company on page 94.</p> <p>Please refer Risk Management Report (Compliance Risk section) on page 52.</p>

Section iii

Finance Companies (Corporate Governance) Direction No. 5 of 2021 for Licensed Finance Companies in Sri Lanka

Section	Governance Requirement	Extent of Compliance in 2022
16.1	<p>x. Corporate governance report</p> <ul style="list-style-type: none"> Shall disclose the manner and extent to which the company has complied with Corporate Governance Direction and the external auditor's assurance statement of the compliance with the Corporate Governance Direction. 	<p>Please refer the Corporate Governance Report on page 62 of this Annual Report.</p> <p>External Auditors have issued an independent assurance report confirming that the Company has complied with the Corporate Governance Direction No. 05 of 2021.</p>
	<p>xi. Code of Conduct</p> <ul style="list-style-type: none"> FC's code of business conduct and ethics for directors, senior management and employees. The Chairperson shall certify that the company has no violations of any of the provisions of this code. 	<p>The Company has adopted a Code of Conduct for the employees and a Code of Ethics for the Directors which includes the guidelines on appropriate conduct and addresses issues of confidentiality, conflicts of interest, integrity of reporting, protection and proper use of company assets and fair treatment of customers.</p> <p>The Company maintains records of breaches of code of conduct and address such breaches in a manner that upholds high standards of integrity.</p>
	<p>xii. Management report</p> <ul style="list-style-type: none"> Industry structure and developments Opportunities and threats Risks and concerns Sustainable finance activities carried out by the company Prospects for the future 	<p>Please refer "Management Discussion and Analysis" on page 42.</p>
	<p>xiii. Communication with shareholders</p> <ul style="list-style-type: none"> The policy and methodology for communication with shareholders. The contact person for such communication. 	<p>The Company has a Policy for Communication with all stakeholders, which covers the shareholders as well.</p> <p>Company Secretary communicates with the shareholders through the Annual report and other announcements published on the CSE website. Further, according to the Communication Policy, Chairman and CEO are the main spokespersons.</p>

ATTENDANCE AT THE MEETINGS OF THE BOARD & SUB-COMMITTEES HELD DURING THE FINANCIAL YEAR 2022

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

Steadfast in our trust





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

Merchant Bank of Sri Lanka & Finance PLC
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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 4th April 2023.

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 31.12.2022.

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 125
ii Signed Financial Statements of the Company and the Group for the accounting period completed.	Section 168 (1) (b)	Refer on page 121
iii Auditors' Report on the Financial Statements of the Company and of the Group.	Section 168 (1) (c)	Refer on pages 114 to 117
iv Accounting Policies and any changes therein (Group also included)	Section 168 (1) (d)	Refer on pages 125 to 249
v Particulars of the entries made in the Interest Register during the accounting period	Section 168 (1) (e)	Refer on page 97
vi Director's fee and other benefits paid to Directors of the Company and its subsidiaries during the accounting period.	Section 168 (1) (f)	Refer on pages 97 and 218
vii Information on donations made by the Company during the accounting period.	Section 168 (1) (g)	Refer on page 98
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 96 to 97
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 97
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 97
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 98

VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission and values are given on page 5 of this Report.

PRINCIPAL ACTIVITIES

The Company is a registered Finance Leasing Company under the provisions of the Finance Leasing Act No.56 of 2000 and a Finance Company licensed by the Monetary Board of Central Bank of Sri Lanka under the Finance Business Act No 42 of 2011. The Company is also a registered Market Intermediary by the 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 125.

REVIEW OF OPERATIONS

A review of the operations of the Company during the financial year ended 31 December 2022 and results of those operations are contained in the Chairman's Review on pages 32 to 34, the Chief Executive Officer's Review on pages 36 to 39 and Management Discussion and Analysis on pages 42 to 51 These reports form an integral part of the Annual Report.

FUTURE OUTLOOK

An overview of the future plans and developments of the Company is presented in the Chairman's review on page 33 and in the Chief Executive Officer's Review on page 39 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 2022 duly signed by the Head of Finance, the Chief Executive Officer and approved by the Board of Directors of the Company are given on page 121 and form an integral part this Report of the Board.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors is responsible for the preparation of the Financial Statements of the Group and the Company, which reflect 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 118 to 249 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 113 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 2022 is given on page 114 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 125 to 249 of the Annual Report.

INCOME

The income of the Company for the year ended 31 December 2022 is given in Financial Statements on page 118.

FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Company and the Group performance and appropriation of profit are given on page 118 and pages 118 to 124 respectively.

RESERVES

Information on the movement of reserves is given in the Statement of Changes in Equity on page 122 and in Note 42 respectively to the Financial Statements on page 216.

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TAXATION

The Company is liable for income tax at the rate of 30% (2021-24%) and VAT on Financial Services at 18% (2021-15%).

STATUTORY PAYMENTS

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

PROPERTY AND EQUIPMENT

The total capital expenditure incurred on the acquisition of property and equipment and intangible assets of the Company and the Group amounted to Rs.49.73 Mn and Rs. 64.15Mn respectively. The details of property and equipment of the Company are given in Note 30 and 31 to the Financial Statements on pages 197 to 202.

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 197 to 200.

ISSUE OF SHARES AND DEBENTURES

The Company did not issue any shares during the financial year. The Company issued 677,000 unsecured redeemable subordinated debentures with a par value of LKR 100 each.

STATED CAPITAL AND DEBENTURES

The Company's Stated Capital as at 31 December 2022 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 215.

The details of debentures outstanding as at 31 December 2022 are given in Note 35.3 to the Financial Statements on page 207.

CAPITAL ADEQUACY

Core capital and total risk weighted capital adequacy ratios of the Company stood at 11.33 percent and 12.01 percent respectively as at 31 December 2022.

SHARE INFORMATION

Information relating to earnings, net assets and market value per share is given in 'Key Figures' on page 30 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 254 to 256.

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 256.

DIRECTORS

The names of the Directors who comprised the Board of Directors of the Company as at 31 December 2022 are given below and their attendance at the Board meetings during the year is given on page 91 of the Annual Report.

Name of the Director	Executive/ Non-Executive Status	Independent / Non-Independent Status
Mr. K Ratwatte <i>(Resigned w.e.f. 20.01.2023)</i>	Chairman Non-Executive Director	Non-Independent
Mr. A M A Perera	Senior Director Non-Executive Director	Independent
Mr. W P R P H Fonseka <i>(Resigned w.e.f. 21.03.2023)</i>	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

None.

Resignations During the Year under Review

None.

Appointments after 1st January 2023

Mr. Y A Jayathilaka was appointed to the Directorate of MBSL as a Non – Executive/ Non Independent Director w.e.f. 4th April 2023.

Resignations after 1st January 2023

Mr. K Ratwatte resigned from the Directorate of MBSL as Chairman/Non-Executive/ Non-Independent Director w.e.f. 20.01.2023.

Mr. W P R P H Fonseka resigned from the Directorate of MBSL as a Non-Executive/ Non-Independent Director w.e.f. 21.03.2023.

Recommendations for Election and Re-election

Mr. M P R Kumara and Mr. G A Jayashantha retire in terms of Article 86 read with Article 87 of the Articles of Association of the Company and being eligible for re-election have offered themselves for re-election at the forthcoming Annual General Meeting. Board of Directors has recommended their re-election.

Mr. Y A Jayathilaka retires in terms of Article 93 of the Articles of Association of the Company and being eligible for election has offered himself for election at the forthcoming Annual General Meeting. Board of Directors has recommended his 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, Related Party Transactions Review Committee, Nomination Committee and Information and Communication Technology Committee and details of attendance at such meetings are presented on page 91.

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 218 to 220 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	4.36	9.26

DIRECTORS' INTEREST IN SHARES OF THE COMPANY

None of the Directors of the Board held shares of the Company as at 31.12.2022.

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 218 to 220.

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 the preparation of the Financial Statements. This Disclosure is given in Note 43 to the Financial Statements on pages 218 to 220 which form an integral part of the Annual Report of the Board of Directors.

All Related Party Transactions have been placed before the Related Party Transactions Review Committee 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 2022.

APPOINTMENT OF AUDITORS

The retiring Auditors, the Auditor General has expressed his willingness to continue in office for the financial year 2023.

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 was the Auditor of the Company during the period under review. The fee amount payable for the year ended 31 December 2022 as audit fee by the Company is Rs. 1,857,250. In addition, a sum of Rs. 330,000 is payable by the Company for permitted non-audit-related services.

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

COMPLIANCE WITH LAWS AND REGULATIONS

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

ENVIRONMENTAL PROTECTION

The Company has used its best 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.

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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 220.

OUTSTANDING LITIGATION

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company which is disclosed in Note 47 to the Financial Statements on pages 228 to 229 will not have a material impact on the financial position of the Company or on its future operations.

GOING CONCERN

The Board of Directors has a reasonable expectation that the Company possesses adequate resources to continue in operation for the foreseeable future.

For this reason, the Board of Directors continues to adopt the going concern basis in preparing Financial Statements.

RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. The Directors continuously review this process through the Board Integrated Risk Management Committee. Specific steps taken by the Company in managing risks are detailed in the Risk Management Report on pages 52 to 61.

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 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 its 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 62 to 91.

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 Forty First (41st) 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 Wednesday 31st May 2023 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform without the physical presence of the Shareholders. The Notice convening the Forty First (41st) Annual General Meeting is given on page 274.

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 acknowledges the contents of this Annual Report.

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



Mr. A M A Perera
Chairman



Mr. H P K Silva
Director



Amila Belpamulla
Company Secretary

4th April 2023
Colombo

AUDIT COMMITTEE REPORT 2022

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, considering 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.

COMPOSITION OF AUDIT COMMITTEE

The composition of the Audit committee during the year 2022 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)
- Professor 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 2022

The Committee held 13 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors. (Attendance given on page 91 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 whistle blowing 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 reduce the recurrence and risk of 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. Eighty six (86) internal audit reports including fifteen (15) information system audit reports and twenty two (22) 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 2022. 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.



Mr. M P R Kumara
Chairman - Audit Committee

8th March 2023
Colombo, Sri Lanka

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 31.12.2022
1. Mr. J.D.V.N Jayasinghe	Non-Executive Independent Director	Chairman
2. Mr. A. M Anura Perera <i>(Ceased to be member on 08.03.2023)</i>	Non-Executive Independent Director	Member
3. Mr. W P R P H Fonseka <i>(Ceased to be member on 21.03.2023)</i>	Non-Executive Non- Independent Director	Member
4. Dr. N. Sampath PUNCHIHewa	Non-Executive Independent Director	Member
5. Mr. H. P. Kithsiri Silva <i>(Appointed on 08.03.2023)</i>	Non-Executive Non- Independent Director	Member

Activities in 2022

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 09.11.2022. The Committee held five 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. Anura Perera	Independent/Non-Executive Director	05
2. Mr. Russel Fonseka	Independent/Non-Executive Director	05
3. Dr. S. PUNCHIHewa	Independent/Non-Executive Director	04
4. Mr. Varuna Jayasinghe	Independent/Non-Executive Director	04

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 2022 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 2022 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 94.



Mr. J D V N Jayasinghe
Chairman
Related Party Transactions Review Committee

4th April 2023
Colombo

TERMS OF REFERENCE OF THE COMMITTEE

- To review the structure, size and composition of the Board and Board Committees with a view to determine the impact on the Board and Committees in respect of its effectiveness and recommend on any improvements or changes.
- To review and recommend to the Board the appointment of any Executive Directors, Chief Executive Officer ("CEO") and Senior Management in the Company.
- To ensure plans are in place for orderly succession to senior management positions and oversee the development of a diverse pipeline for succession, taking into account the challenges and opportunities facing the Company.
- To review the criteria for identifying Independent Non-Executive Directors laid down by the applicable statutes, rules and regulations and continuous compliance with it.
- To recommend suitable orientation/induction, educational and training programmes to continuously train and equip the existing and new Directors.
- To analyze the self-evaluation process of the Board as a whole, the individual Directors, the Board committees and CEO and present a summary and suitable recommendations to address any shortcomings identified on an annual basis.

Composition and Meetings

The Nomination and Corporate Governance Committee was established on 1st March 2022. At the first meeting held on 15th September 2022, the name of the Committee was changed from Nomination and Corporate Governance Committee to 'Nomination Committee' in line with the provisions of the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 of the Central Bank of Sri Lanka.


Mr. J D V N Jayasinghe	Chairman
Mr. G A Jayashantha	Member
Mr. R M N Jeewantha	Member

(Mr. A M A Perera ceased to be a member w.e.f. 08.03.2023).

The Company Secretary functions as the Secretary of the Committee.

The attendance at meetings (one meeting) of the Nomination Committee is given below:

Director Name	15.09.2022
J D V N Jayasinghe	Present
A M A Perera	Present
G A Jayashantha	Present



Mr. J D V N Jayasinghe
Chairman
Nomination Committee

4th April 2023
Colombo

Report of the Information & Communication Technology (ICT) Committee

The Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) formulated an "Information & Communication Technology" (ICT) Committee in April 2022 with the specific Terms of Reference to assist the Board of Directors in overseeing the overall IT Governance and Strategy.

Key roles and responsibilities of the Committee are given below.

- Periodically review the IT Strategy and the IT Road Map to ensure that those are aligned with the company's business strategy and comply with the regulatory requirements.
- Ensure that there is a methodology in place to evaluate Return on Investment (ROI) to balance risks and benefits.
- Through management reports or independent reviews, ensure that the IT has competent, sufficient & efficient resources, applications, information, infrastructure and people.
- Ensure that a Business Continuity Plan (BCP) is in place which should include Disaster Recovery (DR) and business continuity of IT operations.
- Ascertain a methodology and tools for the Management to track project completion process, performance and service delivery, as well as resource utilization and monitoring of IT Services.
- Ascertain the current information security risks associated with the IT functions and propose appropriate & adequate actions required to mitigate business impacts.
- Ensure suitable procurement processes, procedures and practices for the information security-related products and services.
- Ensure that the Information Security Management is aligned with the international industry standard such as ISO 27001.

COMPOSITION OF THE COMMITTEE

- Mr. Y A Jayathilaka (Chairman) - Non-Executive/ Non- Independent Director
- Prof. N S Punchihewa - Non-Executive/ Independent Director
- Mr. H P K Silva - Non-Executive/ Non- Independent Director

**(Mr. A M A Perera functioned as the Chairman of the Committee until he ceased to be a member w.e.f. 08.03.2023)*

Three meetings were held during the Year and the attendance is given below.

Directors Name	No. of Meetings	Attended
Mr. A M A Perera	3	3
Prof. N S Punchihewa	3	3
Mr. H P K Silva	3	3

***Mr. Y A Jayathilaka was appointed to the Committee during the year 2023.*

Key activities during the year

The Committee reviewed and approved the IT roadmap for 2023-25, implementation of the in-house developed Credit Appraisal System, procurement of SD-WAN solution, procurement of Human Resource Management System and Data Loss Prevention (DLP) & data classification system.



Mr. Y A Jayathilaka

Chairman

Information & Communication Technology (ICT) Committee

4th April 2023
Colombo

The Board Integrated Risk Management Committee Report

THE BOARD INTEGRATED RISK MANAGEMENT COMMITTEE REPORT

The Board Integrated Risk Management Committee (BIRMC) is the apex body which formulates and reviews the overall Risk Appetite of the Bank under the guidance of the Board of Directors.

CHARTER OF THE BIRMC

The BIRMC was established as a Sub Committee of the Board, in compliance with the requirements of Finance Business Act (Corporate Governance) Direction No.05 of 2021. The composition, the scope and functions of the BIRMC are in conformity with the provisions of the aforementioned Direction and TOR approved by the Board. The Bank has adopted an Integrated Risk Management Policy Framework (IRMF).

The supportive structures and the risk management ecosystem is outlined in detail under the IRMF.

COMPOSITION AND THE MEETINGS OF THE BIRMC

The Committee was reconstituted with effect from 8th March 2023.

Name	Designation
Mr. G.A. Jayashantha*	Chairman/ 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

* Mr.A.M.A.Perera was appointed as the Chairman of BIRMC with effect from 01 March 2022 and stepped down on 08th March 2023 and Mr. G.A. Jayashantha was appointed as the Chairman of BIRMC from 08th March 2023.

** Mr. R M N Jeewantha was appointed to the BIRMC with effect from 01 March 2022

BIRMC meetings & functions

- The BIRMC held six meetings during the year under review.
- Risk appetite, polices & procedures, were reviewed at the BIRMC meetings.
- The risk assessment reports, compliance reports and other risk related reports were reviewed at the BIRMC meetings.
- Adequacy and effectiveness of management level committees were reviewed at the BIRMC meetings.
- The BIRMC 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).

DIRECTION OF THE BIRMC

The Company had granted moratorium support from 2019 to 2021 based on the circulars issued by the CBSL and voluntarily, depending on the customer requirements. The shift of the repayments were mostly recognized in the year 2022 and the BIRMC closely monitored and recommended the risk mitigating actions considering the potential increase in forborne portfolios.

Even though the impact of COVID subdued in year 2022, the economic crisis heavily impacted the individual and business cash flows. Additionally the forward shifting of the recognition point of classified advances saw a significant increase in NPA portfolios industry-wide. The BIRMC closely monitored the changes and reviewed the portfolios regularly with clear directions to bringing down the NPA portfolios.

During the period, owing to depleted capital levels CBSL imposed assets & liability caps which the BIRMC is monitored in line with the lending portfolio & deposit portfolio dynamics while directing the Risk Management strategies. Granting of new loans were consciously restricted during the period while collections were utilized to settle the high cost borrowings. Retail deposits were promoted during the period while the high deposit concentration was reduced to optimum levels.

The rupee depreciated to historical highs in the year 2022. The market yields and the inflation were also recorded at all-time high levels in the history. Owing to the adverse market conditions, the overnight liquidity of the market dried up in the first half of the year 2022. The Committee noted the measures taken by the Company in managing the liquidity and monitored the asset and liability composition with specific directions on managing the maturity mismatches with due consideration to the availability and affordability of the liquidity.

The Committee reviewed the capital levels of the Company on an ongoing basis and recommended prudential measures to improve and conserve the capital during the troubled times. The Committee noted the improvements made therein and plans put forward by the Company to manage the capital in a sustainable way.

During the period, the Company's risk infrastructure was critically reviewed by the BIRMC. Accordingly the Committee took substantial measures to restructure the Risk Management Department and approved a plan for uplifting of the resources. Additionally the adequacy and performance of the closely related management committees such as Asset and Liability Committee (ALCO), the Operational Risk Management Committee (ORMC) and other management committees were reviewed and recommendations for changes were made.

The BIRMC noted that the heavy reliance on the internet enabled services and increasing risks of information technology usage. The BIRMC directed the stakeholders for the review of Information Security/Technology Policies and Procedures while vulnerability assessment and Penetration tests were performed taking into consideration the security threats arising from alternative/remote working arrangements till August 2022.

During the year the Committee reviewed policies and procedures related to the entire risk management infrastructure and made recommendations to better manage the overall governance infrastructure.

The Committee paid special attention to the development and the testing of the Business Continuity Plan (BCP) and the Disaster Recovery (DR) testing .The results were reviewed by the Committee and several recommendations were made therein to manage the overall plan as an ongoing contingency arrangement for the Company.

The Committee noted the overall improvements made in the risk management paradigm given the adverse market conditions in-terms of ease of doing business, interest costs, liquidity ,capital levels and realization of the shifting of the maturities in the loan book with given forborne characteristics.



Mr. G A Jayashantha

Chairman

Board Integrated Risk Management Committee

4th April 2023
Colombo

Report of the Human Resources & Remuneration Committee

Key Responsibilities of the Committee

- To assist the Board in fulfilling its corporate governance and oversight responsibilities in relation to the MBSL's remuneration framework 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 review and make recommendations to the Board with regard to the overall remuneration Philosophy, Strategy, Policies and Practices including Performance based Pay Plans.
- 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 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 Board 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 KMPs are disclosed in Note 43 on page 217 of the Financial Statement.

COMPOSITION AND MEETINGS

The Committee was reconstituted w.e.f. 08.03.2023 with the following members.

Mr. J D V N Jayasinghe - Chairman - *Independent/Non-Executive Director*
Prof. N S Punchihewa - Member - *Independent/Non-Executive Director*
Mr. H P K Silva - Member - *Non Independent/Non-Executive Director*

(Mr. A M A Perera functioned as the Chairman of the Committee until he ceased to be a member w.e.f. 08.03.2023)

The Company Secretary functions as the Secretary of the Committee.

CEO was present at the meetings as an invitee except when matters relating to the CEO were being discussed.

The Committee held five (05) meetings during the year under review. The attendance at meetings is given below.

Director Name	March 08.03.2022	May 10.05.2022	July 08.07.2022	November 08.11.2022	December 13.12.2022
J D V N Jayasinghe	1	1	1	1	1
A M A Perera	1	1	1	1	1
N S Punchihewa	1	1	1	1	1

Activities in 2022

- The Committee reviewed and recommended to the Board, the revised Terms of Reference of the Human Resources & Remuneration Committee pursuant to the Finance Business Act (Corporate Governance) Direction No. 05 of 2021 of the Central Bank of Sri Lanka. The revised TOR were approved by the Board of Directors on 8th June 2022.
- The Committee reviewed and recommended revisions to policies and procedures with regard to remuneration, recruitment, selection, transfers, promotions, rotation, retirement and training and development etc. to the Board.
- The Committee reviewed and recommended to the Board, the Incentive Schemes, Annual Salary Increments, Staff Bonus, Benefit Packages and Special Allowances for the year 2022. Further the Committee evaluated the cadre assessment of the branches.

REPORTING TO THE BOARD

Minutes of the Committee meetings were tabled at the Board meetings enabling the Board members to have access to the deliberations at the Committee meetings.

PERFORMANCE EVALUATION OF THE COMMITTEE

Each Board member evaluated the performance of the Committee through a self-evaluation which indicated that the performance of the Committee was effective.



Mr. J D V N Jayasinghe

Chairman

Human Resources & Remuneration Committee

4th April 2023

Colombo



Steadfast in our support



Financial Calendar

FINANCIAL CALENDER 2022

Annual General Meetings	Date
41st Annual General Meeting	31-May-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:

	Date released to the CSE	Date published in Newspapers (in Sinhala, English & Tamil)
Interim Financial Statements		
1st Quarter ended 31 March 2022	12-May-22	N/A
2nd Quarter ended 30 June 2022	12-Aug-22	31-Aug-22
3rd Quarter ended 30 September 2022	10-Nov-22	N/A
4th Quarter ended 31 December 2022	28-Feb-23	N/A

Annual Financial Statements

Annual financial statements for 2022	31-Mar-23	31-Mar-23
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PROPOSED FINANCIAL CALENDER 2023

Annual General Meetings	Date
42nd Annual General Meeting on or before	30-Jun-24

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:

	Date to be released to the CSE	Date to be published in Newspapers (in Sinhala, English & Tamil)
Interim Financial Statements		
1st Quarter ended 31 March 2023	15-May-23	N/A
2nd Quarter ended 30 June 2023	15-Aug-23	31-Aug-23
3rd Quarter ended 30 September 2023	15-Nov-23	N/A
4th Quarter ended 31 December 2023	28-Feb-24	N/A

Annual Financial Statements

Annual financial statements for 2023	31-Mar-24	31-Mar-24
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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 system of internal controls of Merchant Bank of Sri Lanka & Finance PLC (MBSL). 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 entirely. Accordingly, the system of internal controls can only provide a reasonable but not an 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 at departments and branches based on the risk based audit plan, 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 risk based annual audit plan is reviewed and approved by the Audit Committee and the findings of the audits are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committee of the Company reviews internal control gaps identified by the internal audit division, external auditors, regulatory authorities, and management, and evaluates the adequacy and effectiveness of the risk management and internal control systems. Further it highlights the areas that need more internal controls while suggesting improvements to existing internal controls. The minutes of the Audit Committee meetings are tabled to the Board on a periodic basis. Further details of

the activities undertaken by the Audit Committee of the Company are set out in the Audit Committee Report in the Annual Report.

- Operational committees are established by the Board with appropriate empowerment to assist the Board in ensuring the effectiveness of the company's daily operations and that the company's operations are in accordance with the corporate objectives, strategies, and the annual budget as well as the policies and business directions that have been approved.
- In assessing the internal control system, 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 2022 is compliant with all accounting standards currently in force.

Directors' Responsibility Statement on Internal Control Over Financial Reporting

- In 2022, the Company initiated a project to automate impairment computation of individually significant loans and the provisioning under this category. Automated solution will be finalized within next financial years. The Board will exercise reasonable care to ensure that such provisions are free from material errors through Internal Audit, External Audit and Management representations.
- In 2022, 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 during financial year ended from 31 December 2022 without interruption.
- To ensure business continuity, protect workers and continue to serve customers amidst incidents similar to COVID-19 pandemic, in the future, the Company plans move certain areas of its operations to online platforms. However, this will be done with all required safeguards in place to protect the Company's and its customer's confidential information.

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 impairment computation on monthly basis, 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,



Mr. M.P.R. Kumara
Director



Mr. A.M.A. Perera
Director

8th April 2023
Colombo

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.

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 114 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 2022, 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 2022 have been prepared and presented based on the Sri Lanka Accounting Standards (SLFRSs and LKASs), Companies Act No. 07 of 2007, Sri Lanka Accounting & Auditing Standard Act No. 15 of 1995, Finance Business Act No. 42 of 2011 and Directions issued thereto, Listing Rules of the Colombo Stock Exchange, Code of Best Practice on

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

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

The 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 2022 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 expresses 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 114 of this Annual Report.

COMPLIANCE REPORT

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



Mr. A. Belpamulla
Company Secretary

4th April 2023
Colombo



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தேசிய கணக்காய்வு அலுவலகம்

NATIONAL AUDIT OFFICE



මගේ අංකය
எனது இல.
My No. }

BAN/H/BOC-S/MBSL/FA/2022

ඔබේ අංකය
உமது இல.
Your No. }

දිනය
திகதி
Date }

30 March 2023

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
2022 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 2022
comprising the statement of financial
position as at 31 December 2022 and the
statement of profit or loss, the statement
of comprehensive income, statement of
changes in equity and statement of cash
flows for the year then ended, and notes
to the Financial Statements, including a
summary of significant accounting policies,
was carried out under my direction in

pursuance of provisions in Article 154(1)
of the Constitution of the Democratic
Socialist Republic of Sri Lanka read in
conjunction with provisions of the National
Audit Act No. 19 of 2018. My report to
Parliament in pursuance of provisions
in Article 154 (6) of the Constitution will
be tabled in due course. To carry out this
audit I was assisted by a firm of Chartered
Accountants in public practice.

In my opinion, the accompanying financial
statements give a true and fair view of the
financial position of the Company and the
Group as at 31 December 2022 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
section of my report, including in relation
to these matters. Accordingly, my audit
included the performance of procedures
designed to respond to my assessment of
the risks of material misstatement of the
financial statements. The results of my
audit procedures, including the procedures
performed to address the matters below,
provide the basis for my audit opinion on
the accompanying financial statements.





Key audit matter	How my audit addressed the key audit matter
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<p>Allowance for Impairment Losses on Loans & Receivables at amortised cost</p> <p>Allowance for Impairment Losses on Loans & Receivables at amortised cost as stated in Notes 12 & 23 is determined by management in accordance with the accounting policies described in Note 3.5.11.</p> <p>This was a key audit matter due to:</p> <ul style="list-style-type: none"> ○ the materiality of the reported allowance for Impairment Losses which involved complex calculations; and ○ degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cash flows management expects to receive from such Loans & Receivables at amortised cost <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"> ○ management overlays to incorporate the current economic contraction. ○ the incorporation of forward-looking information such that expected cash flows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios. 	<p>In addressing the adequacy of the allowance for Impairment Losses on Loans & Receivables at amortised cost, My audit procedures included the following key procedures;</p> <ul style="list-style-type: none"> ○ I assessed the alignment of the allowance for Impairment Losses computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of my report. ○ I evaluated the internal controls over estimation of allowance for Impairment Losses, which included assessing the level of oversight, review and approval of allowance for Impairment Losses policies and procedures by the Board and management. ○ In addition to the above, the following procedures were performed: <ul style="list-style-type: none"> ○ For loans & receivables assessed on an individual basis for impairment: <ul style="list-style-type: none"> ◆ I evaluated the reasonableness of credit quality assessments. ◆ I checked the arithmetical accuracy of the underlying individual impairment calculations. ◆ I evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on current economic contraction. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collaterals. ○ For Loans & Receivables at amortised cost assessed on a collective basis for impairment: <ul style="list-style-type: none"> ◆ I tested the key calculations used in the allowance for impairment. ◆ I assessed whether judgements, 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. ◆ I assessed the adequacy of the related financial statement disclosures as set out in Notes 3.5.11, 12, 23 and 48.2.
<p>Information Technology (IT) systems and controls over financial reporting</p> <p>A significant part of the Company's financial reporting process is significantly 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.</p> <p>Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.</p>	<p>My audit procedures included the following,</p> <ul style="list-style-type: none"> ○ I obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. ○ I identified and test checked relevant controls of key IT systems related to the Company's financial reporting process. ○ 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. ○ I checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations. ○ 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.



1.4 Other information included in the Company's 2022 Annual Report

The other information comprises the information included in the Company's 2022 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 2022 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) of the Constitution that will be tabled in due course.

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

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

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

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

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

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

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

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

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.



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

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

2. REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS

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

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

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

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

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

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

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

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

Reference to law/ direction	Description
Direction No.03 of 2018 issued by the Central Bank of Sri Lanka (Risk Weighted Average Capital Adequacy Requirements).	Non-compliance of the total capital ratio as disclosed in Note 49.1 of the financial statements.

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

2.2.4 to state that the resources of the Company had not been procured and 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

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

For the year ended 31 December 2022	Note	Company			Group		
		2022 Rs.'000	2021 Rs.'000	Change %	2022 Rs.'000	2021 Rs.'000	Change %
Income	4	6,542,593	5,971,065	9.6	7,284,346	6,319,854	15.3
Interest and similar income		6,451,083	5,525,955	16.7	6,704,775	5,601,459	19.7
Interest and similar expenses		(4,695,684)	(2,675,588)	75.5	(4,688,064)	(2,682,522)	74.8
Net interest income	5	1,755,399	2,850,367	(38.4)	2,016,711	2,918,937	(30.9)
Fee and commission income		129,157	189,929	(32.0)	136,861	201,058	(31.9)
Fee and commission expenses		(19,205)	(38,587)	(50.2)	(1,432)	(21,359)	(93.3)
Net fee and commission income	6	109,952	151,342	(27.3)	135,429	179,699	(24.6)
Insurance premium income	7	-	-	-	381,735	288,998	32.1
Net claims and benefits	8	-	-	-	(323,862)	(137,982)	134.7
Net trading income	9	2,255	44,281	(94.9)	2,255	44,281	(94.9)
Net gain/(loss) on financial instruments at fair value through profit or loss	10	(132,131)	(23,435)	463.8	(139,460)	(20,085)	594.4
Other operating income	11	92,229	234,335	(60.6)	198,180	204,143	(2.9)
Total operating income		1,827,704	3,256,890	(43.9)	2,270,988	3,477,991	(34.7)
Impairment charges for loans and other assets	12	16,504	(74,450)	122.2	16,504	(74,450)	122.2
Net operating income		1,844,208	3,182,440	(42.1)	2,287,492	3,403,541	(32.8)
Personnel expenses	13	(1,333,268)	(1,200,450)	11.1	(1,527,073)	(1,360,993)	12.2
Depreciation and amortisation	14	(265,420)	(245,115)	8.3	(298,623)	(272,431)	9.6
Other operating expenses	15	(660,683)	(613,860)	7.6	(848,194)	(749,639)	13.1
Total operating expenses		(2,259,371)	(2,059,425)	9.7	(2,673,890)	(2,383,063)	12.2
Operating profit/(loss) before VAT on financial services and impairment of investment in group companies		(415,163)	1,123,015	(137.0)	(386,398)	1,020,478	(137.9)
Impairment reversal/(charge) of investment in subsidiary	28	(113,773)	(16,019)	610.2	-	-	-
Profit/(loss) from operations after impairment of investment in group companies		(528,936)	1,106,996	(147.8)	(386,398)	1,020,478	(137.9)
Taxes on financial services	16.1	(127,978)	(294,268)	(56.5)	(127,978)	(294,268)	(56.5)
Share of associate company's profit/(loss) before tax	27.1	-	-	-	56,131	109,490	(48.7)
Profit/(loss) before income tax		(656,914)	812,728	(180.8)	(458,245)	835,700	(154.8)
Income tax (expense)/reversal	16.2	161,306	(283,684)	156.9	148,757	(358,399)	141.5
Profit/(loss) for the year		(495,608)	529,044	(193.7)	(309,488)	477,301	(164.8)
Profit/(loss) for the year attributable to:							
Equity holders of the parent		(495,608)	529,044	(193.7)	(325,059)	525,073	(161.9)
Non-controlling interests		-	-	-	15,571	(47,772)	132.6
Profit/(loss) for the year		(495,608)	529,044	(193.7)	(309,488)	477,301	(164.8)
Earnings per share:							
Basic/diluted earning per share (Rs.)	17	(0.94)	2.04	(146.3)	(0.62)	2.03	(130.6)

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 125 to 249 form an integral part of the Financial Statements.

Statement of Comprehensive Income

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

For the year ended 31 December 2022	Note	Company			Group		
		2022 Rs.'000	2021 Rs.'000	Change %	2022 Rs.'000	2021 Rs.'000	Change %
Profit/(loss) for the year		(495,608)	529,044	(193.7)	(309,488)	477,301	(164.8)
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		(10,735)	(22,217)	(51.7)	(10,562)	(31,139)	(66.1)
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods		(10,735)	(22,217)	(51.7)	(10,562)	(31,139)	(66.1)
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	47,045	59,658	(21.1)	49,032	61,143	(19.8)
Reclassification reserve recognized during the year		-	-	-	121	-	-
Share of associates company's other comprehensive income	27.1	-	-	-	406	633	(35.8)
Deferred tax effect relating to components of other comprehensive income	38.1	(14,113)	(16,449)	(14.2)	(14,103)	(17,261)	(18.3)
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods		32,932	43,209	(23.8)	35,457	44,514	(20.3)
Other comprehensive income/(expenses) for the year, net of tax		22,197	20,992	5.7	24,895	13,376	86.1
Total comprehensive income/(expenses) for the year, net of tax		(473,411)	550,036	(186.1)	(284,593)	490,677	(158.0)
Total comprehensive income/(expenses) attributable to:							
Equity holders of the parent		(473,411)	550,036	(186.1)	(301,223)	541,884	(155.6)
Non controlling interests		-	-	-	16,630	(51,207)	132.5
Total comprehensive income/(expenses) for the year, net of tax		(473,411)	550,036	(186.1)	(284,593)	490,677	(158.0)

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 125 to 249 form an integral part of the Financial Statements.

Statement of Financial Position

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

As at 31 December 2022	Note	Company			Group		
		2022 Rs.'000	2021 Rs.'000	Change %	2022 Rs.'000	2021 Rs.'000	Change %
Assets							
Cash and cash equivalents	20	748,724	1,191,374	(37.2)	944,784	1,436,435	(34.2)
Placements with banks & financial institutions	21	103,682	246,166	(57.9)	137,162	535,292	(74.4)
Financial investments at fair value through profit or loss	22	287,510	341,547	(15.8)	293,847	355,214	(17.3)
Loans & receivables at amortised cost	23	24,423,300	28,184,638	(13.3)	24,370,850	28,016,693	(13.0)
Financial investments at fair value through other comprehensive income	24	15,863	1,989,169	(99.2)	78,151	3,415,338	(97.7)
Financial investments at amortised cost	25	4,307,394	-	-	5,883,995	-	-
Real estate stock	26	96,937	175,816	(44.9)	96,937	175,816	(44.9)
Investment in associate company	27	81,084	81,084	-	172,842	131,399	31.5
Investment in subsidiary	28	257,631	371,404	(30.6)	-	-	-
Investment properties	29	104,798	107,703	(2.7)	104,798	107,703	(2.7)
Property, equipment and right-of-use assets	30	504,669	607,185	(16.9)	634,780	742,708	(14.5)
Intangible assets	31	103,208	128,578	(19.7)	106,396	128,578	(17.3)
Deferred tax assets	38	33,824	-	-	42,893	4,111	943.3
Other assets	32	163,157	852,795	(80.9)	529,240	1,220,370	(56.6)
Total assets		31,231,781	34,277,459	(8.9)	33,396,674	36,269,657	(7.9)
Liabilities							
Due to banks	33	2,925,953	4,116,812	(28.9)	2,935,170	4,133,305	(29.0)
Due to customers at amortised cost	34	23,524,609	22,267,862	5.6	23,354,493	22,201,604	5.2
Debt issued and borrowed funds at amortised cost	35	69,082	2,381,579	(97.1)	69,082	2,381,579	(97.1)
Insurance contract liabilities-life	36.1	-	-	-	355,190	416,634	(14.7)
Insurance contract liabilities-non life	36.2	-	-	-	643,229	511,538	25.7
Current tax liabilities	37	49,029	178,898	(72.6)	49,029	178,898	(72.6)
Deferred tax liabilities	38	-	78,301	(100.0)	-	78,301	(100.0)
Other liabilities	39	686,361	764,118	(10.2)	1,215,186	1,269,913	(4.3)
Retirement benefits obligations	40	281,203	320,934	(12.4)	292,326	332,724	(12.1)
Total liabilities		27,536,237	30,108,504	(8.5)	28,913,705	31,504,496	(8.2)

As at 31 December 2022	Note	Company			Group		
		2022 Rs.'000	2021 Rs.'000	Change %	2022 Rs.'000	2021 Rs.'000	Change %
Equity							
Stated capital	41	4,276,448	4,276,448	0.0	4,276,448	4,276,448	(0.0)
Statutory reserves	42.1	339,996	339,996	0.0	339,996	339,996	-
Retained earnings	42.2	(944,964)	(427,847)	120.9	(594,119)	(251,498)	136.2
RLA reserve	42.3	54,441	-	-	54,441	-	-
OCI reserve	42.4	(30,377)	(19,642)	54.7	(34,502)	(23,860)	44.6
Total equity attributable to equity holders of the parent		3,695,544	4,168,955	(11.4)	4,042,264	4,341,086	(6.9)
Non controlling interests		-	-	-	440,705	424,075	3.9
Total equity		3,695,544	4,168,955	(11.4)	4,482,969	4,765,161	(5.9)
Total liabilities and equity		31,231,781	34,277,459	(8.9)	33,396,674	36,269,657	(7.9)
Commitments and contingent liabilities	48.9	103,938	102,400	1.5	131,377	137,867	(4.7)
Net assets value per share (Rs.)		7.05	16.08	(56.2)	7.71	16.75	(54.0)

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;



A.M.A. Perera
Chairman



H.P.K. Silva
Director

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 125 to 249 form an integral part of the Financial Statements.

29 March 2023
Colombo.

Statement of Changes in Equity

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

For the year ended 31 December 2022	Stated capital	Statutory reserves	RLA reserves	OCI reserve	Retained earnings	Total equity
Company	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
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)	-
Balance as at 31 December 2021	4,276,448	339,996	-	(19,642)	(427,847)	4,168,955
Balance as at 01 January 2022	4,276,448	339,996	-	(19,642)	(427,847)	4,168,955
Net profit/(loss) for the year	-	-	-	-	(495,608)	(495,608)
Other comprehensive income, net of tax	-	-	-	(10,735)	32,932	22,197
Issue of ordinary shares through right issue	-	-	-	-	-	-
Transaction cost related to rights issue	-	-	-	-	-	-
Transfers to regulatory loss allowance reserve	-	-	54,441	-	(54,441)	-
Transfers to statutory reserve fund	-	-	-	-	-	-
Balance as at 31 December 2022	4,276,448	339,996	54,441	(30,377)	(944,964)	3,695,544

For the year ended 31 December 2022	Stated capital	Statutory reserves	RLA reserves	OCI reserve	Retained earnings	Non controlling interests	Total equity
Group	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
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)	-	-
Balance as at 31 December 2021	4,276,448	339,996	-	(23,860)	(251,498)	424,075	4,765,161
Balance as at 01 January 2022	4,276,448	339,996	-	(23,860)	(251,498)	424,075	4,765,161
Net profit/(loss) for the year	-	-	-	-	(325,059)	15,571	(309,488)
Prior year adjustment made to share of associate company profit	-	-	-	-	2,401	-	2,401
Other comprehensive income, net of tax	-	-	-	(10,642)	34,478	1,059	24,895
Issue of ordinary shares through right issue	-	-	-	-	-	-	-
Transaction cost related to rights issue	-	-	-	-	-	-	-
Transfers to regulatory loss allowance reserve	-	-	54,441	-	(54,441)	-	-
Transfers to statutory reserve fund	-	-	-	-	-	-	-
Balance as at 31 December 2022	4,276,448	339,996	54,441	(34,502)	(594,119)	440,705	4,482,969

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 125 to 249 form an integral part of the Financial Statements.

Statement of Cash Flows

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Cash flows from operating activities					
Profit/(loss) before income tax		(656,914)	812,728	(458,245)	835,700
Adjustments for :					
Net interest income	5	(1,755,399)	(2,850,367)	(2,016,711)	(2,918,937)
WHT movement for the year	37.1	-	(5,006)	-	(5,006)
Impairment charges for loans and other losses	12	(16,504)	74,450	(16,505)	74,450
Impairment (reversal)/charge of investment in subsidiary	28	113,773	16,019	-	-
Share of associate company's profit/(loss) before tax	27.1	(56,131)	(109,490)	-	-
Depreciation and amortisation	14	265,420	245,115	298,623	272,431
Provision of investment properties	29.1	-	3,761	-	3,761
Profit from sales of real estate		(28,533)	(48,818)	(28,533)	(48,818)
Profit from sales of property & equipment		(540)	(12,546)	(540)	(12,546)
Dividend income from associates		-	(43,496)	-	(43,496)
Dividend income from financial assets at FVTPL		(7,207)	(5,874)	(7,667)	(6,890)
Contribution to defined benefit plans	40	61,641	48,608	64,341	51,162
Fair value change of financial assets at FVTPL	10	132,131	23,435	134,945	20,085
		(1,892,133)	(1,741,991)	(2,086,424)	(1,887,594)
Interest paid to customers at amortised cost		(3,312,186)	(1,929,843)	(3,312,186)	(1,929,843)
Interest paid on other borrowings		(1,246,872)	(620,938)	(1,286,172)	(676,633)
Interest received on loans & receivables at amortised cost		5,880,095	5,751,076	5,880,095	5,751,076
Interest received on other investment		571,457	225,079	872,070	350,360
Gratuity paid	40	(54,328)	(19,922)	(55,707)	(21,111)
Change in operating assets					
Loans & receivables at amortised cost		3,741,431	(1,875,680)	3,742,431	(1,875,680)
Other operating assets		599,714	(422,094)	586,967	(474,947)
Change in operating liabilities					
Due to customers at amortised cost		1,027,839	487,219	1,027,839	487,219
Payments made under operating leases	39.1	(196,488)	(182,821)	(226,741)	(204,097)
Insurance provision		-	-	70,246	(59,379)
Other liabilities		78,780	54,550	131,217	143,731
Net cash generated from/(used in) operating activities before income tax		5,197,310	(275,366)	5,343,636	(396,898)
Tax paid		(94,800)	-	(94,800)	-
Net cash generated from/(used in) operating activities		5,102,510	(275,366)	5,248,836	(396,898)

Statement of Cash Flows

Merchant Bank of Sri Lanka & Finance PLC
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For the year ended 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Cash flows from investing activities					
Net increase/(decrease) in financial investments at FVTOCI		(2,297,017)	(720,848)	(2,509,737)	(1,974,522)
Proceeds from real estate stock		107,411	203,189	107,411	203,189
Net (increase)/decrease in placements with banks & financial institutions		139,421	84,165	291,210	267,638
Net (increase)/decrease in investment of government securities at FVTPL		99,922	570,716	99,922	570,716
Net (increase)/decrease in other financial investments at FVTPL		(181,815)	14,314	(174,485)	14,314
Purchase of property & equipment	30.1	(38,052)	(38,612)	(53,212)	(65,804)
Purchase of intangible assets	31.2	(11,681)	(18,151)	(14,937)	(18,151)
Proceeds from sale of property & equipment		567	12,597	567	12,598
Dividends received		7,207	49,370	7,667	50,386
Net cash used in investing activities		(2,174,037)	156,741	(2,245,594)	(939,637)
Cash flows from financing activities					
Net increase/(decrease) reverse repo and repo agreements		164,000	(578,952)	164,000	(578,952)
Net increase/(decrease) in other borrowings at amortised cost		(2,911,972)	(1,371,850)	(3,028,467)	(1,440,883)
Proceeds from rights issue of shares	41	-	2,151,991	-	2,151,991
Transaction cost related to rights issue		-	(923)	-	(923)
Net cash used in financing activities		(2,747,972)	200,266	(2,864,467)	131,233
Net decrease in cash and cash equivalents during the year		180,501	81,641	138,775	(1,205,302)
Cash and cash equivalents at the beginning of year		416,163	334,522	644,732	1,850,034
Cash and cash equivalents at the end of year		596,664	416,163	783,507	644,732
Analysis of cash and cash equivalents at the end of the year					
Cash and short-term funds	20	748,724	1,191,374	944,784	1,436,435
Dues to banks	33.1	(152,060)	(775,211)	(161,277)	(791,703)
		596,664	416,163	783,507	644,732

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 125 to 249 form an integral part of 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 2022 were 893 and 1,136 respectively. (982 and 1,192 as at 31 December 2021)

1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31 December 2022, comprise the Company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

Parent Entity & Ultimate Parent Entity

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

1.3 Group Information

Ownership by the Company in its Subsidiary and Associate.



Principal Activities and Nature of Operations

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

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

1.4 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended 31 December 2022 (including comparatives) were approved and authorized for issue on 29 March 2023 in accordance with the resolution of the Board of Directors on 29 March 2023.

2. BASIS OF PREPARATION

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

2.1 Basis of Preparation and Other Significant Accounting Policies

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

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

2.2 Statement of Compliance

The consolidated Financial Statements of the Group and the Separate Financial Statements of the Company, as at 31 December 2022 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	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 receivables - Note No. 23
- Retirement benefits obligation - Note No. 40
- Provision and contingent liabilities - Note No. 48.9

2.8.1 Going Concern

The Company has recorded a loss of Rs. 495.6 Million during the year. However, based on the strategies / actions taken by the Group, the Directors have assessed the Company's ability to continue as a going concern and are satisfied that it has the resources to continue in business for the foreseeable future. In this assessment, the Directors have considered the impact of the current adverse macro-economic conditions on the business operations of the Company, including a possible restructuring and hair-cuts on government debts. Furthermore, Board is not aware of any material uncertainties that may cast significant doubt upon the Company's ability to continue as a going concern and they do not intend either to liquidate or to cease operations of the Company. 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 2022 comprise the Financial Statements of the Company (Parent Company) and its subsidiary (together referred to as the 'Group') and the Company's interest in associate company as per the requirements of Sri Lanka Financial Reporting Standard - SLFRS 10 - 'Consolidated

Financial Statements' and Sri Lanka Accounting Standard LKAS 27 - "Consolidated and Separate Financial Statements" and the proportionate share of the profit or loss and net assets of its Associates as per the requirements of Sri Lanka Accounting Standard - LKAS 28 - 'Investment in Associates and Joint Ventures'. The Financial Statements of all companies in the Group have common financial year which ends on 31 December, and use consistent accounting policies.

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

3.2 Business Combination and Goodwill

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

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

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

Following initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is reviewed for impairment annually, or more frequently, if events or changes in circumstances indicate that the carrying value may be impaired. For the purpose

of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's Cash Generating Units (CGUs) or group of CGUs, which are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the acquiree are assigned to those units.

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

3.3 Common Control Business Combination

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

Accordingly,

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

3.3.1 Loss of Control

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

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

3.3.2 Transactions Eliminated on Consolidations

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

3.4 Foreign Currency

3.4.1 Foreign Currency Transactions and Balances

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

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

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

3.5 Financial Instruments-Initial Recognition, Classification and Subsequent Measurement

3.5.1 Date of Recognition

Financial assets and financial liabilities are initially recognised when a Group entity becomes a party to the contractual provisions of the instruments. All regular way purchases or sales of financial assets

are recognised and de-recognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the market place.

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

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

3.5.2 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 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 Principal & Interest (SPPI).

Principal' 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 principal 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 principal 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.

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 48.2.1.

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.

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

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

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

3.5.11.6 Forward Looking Information

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

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

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 1 October 2021 to 31 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 thereceived 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.

3.5.13 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.

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 recognized 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 recognized 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 recognized in the income statement by setting up a provision for liability adequacy.

3.9.3.2 Non-Life Insurance Contract Liabilities

Non-life insurance contract liabilities are recognized when contracts are entered into and premiums are charged. These liabilities are known as the outstanding claims provision, which are based on the estimated ultimate cost of all claims incurred but not settled at the reporting date, whether reported or not, together with related claims handling costs and reduction for the expected value of salvage and other recoveries. Delays can be experienced in the notification and settlement of certain types of claims, therefore the ultimate cost of these cannot

be known with certainty at the reporting date. The liability is calculated at the reporting date using a range of standard actuarial claim projection techniques, based on empirical data and current assumptions that may include a margin for adverse deviation. The liability is not discounted for the time value of money. No provision for equalization or catastrophe reserves is recognized. The liabilities are derecognized when the contract expires, is discharged or is cancelled.

Liability Adequacy Test (LAT)

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

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 recognized when contracts are entered into and premiums are charged. These liabilities are initially recognized 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 recognized 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 statement of financial position adjusted to take account of the effect on the liabilities of the deferred tax on unrealized 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 derecognized 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 following new Sri Lanka Accounting Standards/amendments which have been issued by the Institute of Chartered Accountants of Sri Lanka was effective for annual periods began on or after 1 January 2022.

Accounting Standard	Description	Effective Date	Assessment of the Impact on the Company/Group
SLFRS 3 – Business combinations	The amendment replaced 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	No material impact on the Financial Statements of the Company/Group
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	No material impact on the Financial Statements of the Company/Group
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	No material impact on the 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 2022 in the preparation of the Financial Statements for the year ended 31 December 2022.

Accounting Standards/CBSL Directives issued but not yet effective as at 31 December 2022

3.1.2.1 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 2023 & 2025.

Accounting Standard	Description	Effective Date	Assessment of the Impact on the Company/Group
SLFRS 17 - Insurance Contracts	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 (SLFRS 4) that was issued in 2005.	1 January 2025	
SLFRS 3 – Accounting Policies, Changes in Accounting Estimates and Errors	The amendments clarify the distinction between changes in accounting estimates and changes in accounting policies and the correction of errors. Also, they clarify how entities use measurement techniques and inputs to develop accounting estimates. The amended standard clarifies that the effects on an accounting estimate of a change in an input or a change in a measurement technique are changes in accounting estimates if they do not result from the correction of prior period errors	1 January 2023	
LKAS 12 - Income Tax	Under the amendments, the initial recognition exception does not apply to transactions that, on initial recognition, give rise to equal taxable and deductible temporary differences. It only applies if the recognition of a lease asset and lease liability (or decommissioning liability and decommissioning asset component) give rise to taxable and deductible temporary differences that are not equal.	1 January 2023	No material impact on the Financial Statements of the Company/ Group
LKAS 1 - Presentation of Financial Statements	Amendments to LKAS 1 Making Materiality Judgements, provides guidance and examples to help entities apply materiality judgements to accounting policy disclosures. The amendments aim to help entities provide accounting policy disclosures that are more useful by: <ul style="list-style-type: none"> Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies. Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures. 	1 January 2023	

3.1.2.2 Finance Business 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 1 January 2023.

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

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 1 April 2022. Since the Company 'MBSL' financial year ends in December this directive will be applied effective from 1 January 2023.

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Interest and similar income	6,451,083	5,525,955	6,704,775	5,601,459
Fee and commission income	129,157	189,929	136,861	201,058
Insurance premium income	-	-	381,735	288,998
Net trading gain/(loss)	2,255	44,281	2,255	44,281
Net gain/(loss) on financial instruments at fair value through profit or loss	(132,131)	(23,435)	(139,460)	(20,085)
Other operating income	92,229	234,335	198,180	204,143
	6,542,593	5,971,065	7,284,346	6,319,854

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.

Overdue Interest

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

For the year ended 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Interest and similar income					
Loans & receivables at amortised cost	5.1	5,838,627	5,332,071	5,815,345	5,289,568
Financial investments at FVTOCI & amortised cost		608,927	175,028	667,790	197,627
Placements with banks & financial institutions		3,529	18,856	221,640	114,264
		6,451,083	5,525,955	6,704,775	5,601,459
Interest and similar expenses					
Due to banks		890,505	261,584	890,505	263,557
Due to customers at amortised cost	5.2	3,541,093	1,985,225	3,517,456	1,978,967
Interest expense on lease liabilities	39.1	39,951	51,553	55,968	62,772
Debt issued and borrowed funds at amortised cost		224,135	377,226	224,135	377,226
		4,695,684	2,675,588	4,688,064	2,682,522
Net interest income		1,755,399	2,850,367	2,016,711	2,918,937

5.1 Interest and similar income - Loans & receivables product wise

For the year ended 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Finance lease/ijarah	2,267,707	2,764,126	2,267,707	2,764,126
Hire purchase/murabaha	6,281	5,876	6,281	5,876
Term loans	659,384	806,200	636,102	763,697
Short term loans	284,214	251,003	284,214	251,003
Personal loans	186,644	330,835	186,644	330,835
Pawning	1,453,628	926,165	1,453,628	926,165
Micro finance	5,375	12,111	5,375	12,111
Loans against fixed deposits	176,691	48,082	176,691	48,082
Margin trading	798,703	187,673	798,703	187,673
	5,838,627	5,332,071	5,815,345	5,289,568

5.2 Interest and similar expenses - Due to customers product wise

For the year ended 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Savings deposits	35,339	28,419	35,339	28,419
Term deposits	3,505,754	1,956,806	3,482,117	1,950,548
	3,541,093	1,985,225	3,517,456	1,978,967

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Fee and commission income				
Trade & other related activities	129,157	189,929	111,384	172,701
Reinsurance commission income	-	-	-	15,258
Others	-	-	25,477	13,099
	129,157	189,929	136,861	201,058
Fee and commission expenses				
Commission expenses	19,205	38,587	1,432	21,359
	19,205	38,587	1,432	21,359
Net fee and commission income	109,952	151,342	135,429	179,699

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	
	2022 Rs.'000	2021 Rs.'000
Non-life insurance	595,500	416,770
Life insurance	36,850	40,370
Total gross written premium	632,350	457,140
Premium ceded to reinsurers	(184,175)	(136,414)
Net premium income	448,175	320,726
Change in unearned premium provisions-net	(66,440)	(31,728)
Total net earned premium	381,735	288,998

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	
	2022 Rs.'000	2021 Rs.'000
General insurance		
Claims paid	304,046	192,830
Claims outstanding	65,250	(8,974)
	369,296	183,856
Reinsurance on claims paid	43,311	41,755
Reinsurance on claims outstanding	24,846	(12,265)
Reinsurance recoveries	68,157	29,490
General insurance net claim and benefits	301,139	154,366

8. NET CLAIMS AND BENEFITS CONTD.

For the year ended 31 December	Group	
	2022 Rs.'000	2021 Rs.'000
Life insurance		
Claims paid	47,734	51,914
Change in life Insurance contract liabilities	(68,258)	(84,933)
	(20,524)	(33,019)
Claims outstanding	-	-
Gross claims - death, disability and hospitalisation	(20,524)	(33,019)
Reinsurance on claims paid	503	3,533
Reinsurance on claims outstanding	(122)	(84)
Reinsurance recoveries	381	3,449
Shareholder's profit	-	-
Long term insurance net claim and benefits	(20,905)	(36,468)
Underwriting and net acquisition costs	43,628	20,084
Net claims and benefits	323,862	137,982

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Gain/(loss) on disposal of quoted shares	2,255	44,281	2,255	44,281
Net trading income	2,255	44,281	2,255	44,281

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Government securities		-	(71,242)	-	(71,242)
Quoted securities	22.2	(132,131)	47,807	(139,460)	51,157
		(132,131)	(23,435)	(139,460)	(20,085)

11. OTHER OPERATING INCOME

Accounting Policy

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

Dividend Income

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

For the year ended 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Profit on sale of real estate		28,533	48,818	28,533	48,818
Recovery of bad debts written off		39,895	47,476	39,895	47,476
Dividend income from financial assets at FVTPL		7,207	5,874	7,667	6,890
Dividend income from other investment		-	960	-	960
Dividend income from associates		-	43,496	-	-
Profit/(loss) on sale of Property, equipment and right-of-use assets including foreclosed properties		1,943	36,724	1,943	36,724
Other income	11.1	14,651	50,987	120,142	63,275
		92,229	234,335	198,180	204,143

11.1 In the other income of the Company for the year 2021 consists of write-back of assets worth Rs 42.2 million and share issue management income fee of Rs. 4.3 million.

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Loans and receivables to customers					
Impairment on individually significant loans	23	(247,053)	(115,100)	(247,053)	(115,100)
Impairment on collective loans	23	(488,067)	172,654	(488,067)	172,654
Write-off	12.1	713,559	-	713,559	-
Total impairment charges for loans and receivables to customers		(21,561)	57,554	(21,561)	57,554
Cash and cash equivalents	20.1.1	7	113	7	113
Placements with banks & financial institutions	21.1	54	(328)	54	(328)
Other assets		4,995	17,111	4,995	17,111
		(16,504)	74,450	(16,504)	74,450

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 2022		Group 2022	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
Loans & receivables at amortised cost				
Stage 1	-	(23,441)	-	(23,441)
Stage 2	-	89,773	-	89,773
Stage 3	(247,053)	(554,399)	(247,053)	(554,399)
Write-off				
Stage 1	-	187	-	187
Stage 2	-	2	-	2
Stage 3	545,819	167,551	545,819	167,551
Cash and cash equivalents				
Stage 1	-	7	-	7
Placements with banks & financial institutions				
Stage 1	-	54	-	54
Other assets				
Stage 3	4,995	-	4,995	-
Total impairment charges/(reversal)	303,761	(320,265)	303,761	(320,265)

For the year ended 31 December	Company 2021		Group 2021	
	Individual Rs.'000	Collective Rs.'000	Individual Rs.'000	Collective Rs.'000
Loans & receivables at amortised cost				
Stage 1	-	(15,366)	-	(15,366)
Stage 2	-	(52,430)	-	(52,430)
Stage 3	(115,100)	240,450	(115,100)	240,450
Cash and cash equivalents				
Stage 1	-	113	-	113
Placements with banks & financial institutions				
Stage 1	-	(328)	-	(328)
Stage 2	-	-	-	-
Stage 3	-	-	-	-
Other assets				
Stage 1	-	-	-	-
Stage 2	-	-	-	-
Stage 3	17,111	-	17,111	-
Total impairment charges	(97,989)	172,439	(97,989)	172,439

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Staff emoluments		1,146,271	1,034,360	1,315,376	1,174,136
Employers' contribution to defined contribution & benefit plans					
Employees' Provident Fund		100,285	93,985	117,885	108,555
Employees' Trust Fund		25,071	23,497	29,471	27,140
Retirement benefit expenses	40.1	61,641	48,608	64,341	51,162
		1,333,268	1,200,450	1,527,073	1,360,993

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

14. DEPRECIATION AND AMORTISATION CONTD,**Accounting Policy****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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 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	225,463	205,696	258,599	230,592
Amortisation of intangible assets	31	37,051	36,513	37,118	38,933
		265,420	245,115	298,623	272,431

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 2022.

For the year ended 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Directors' emoluments	4,364	4,342	9,262	6,048
Auditors' remuneration				
Audit fees	1,857	1,744	3,353	2,929
Non audit fees	330	599	743	846
Professional & legal fees	22,115	29,088	23,408	30,117
Insurance premium for deposits paid to the central bank	34,929	30,764	34,929	30,764
Crop insurance levy	2,039	2,482	2,039	2,482
Advertising and business promotional expenses	86,507	96,212	86,507	96,212
Office administration & establishment expenses	508,542	448,629	687,953	580,241
	660,683	613,860	848,194	749,639

16. TAXES

16.1 Value Added Tax (VAT) on Financial Services

VAT on financial services is calculated in accordance with the Value Added Tax (VAT) Act No. 14 of 2002 and subsequent amendments thereto. The base for the computation of value added tax on financial services is the accounting profit before VAT and income tax, adjusted for the economic depreciation and emoluments payable to employees including cash, non – cash benefits and provisions relating to terminal benefits.

As per the Value Added Tax (Amendment) Act No. 13 of 2022, the VAT rate has been increased from 15% to 18% on supply of financial services on financial institutions with effect from 1 January 2022 (2021- 15%).

Surcharge Tax

The Government of Sri Lanka imposed a one-time tax, referred to as a Surcharge Tax in 2022, as the rate of 25% on group of companies that have earned a taxable income in excess of Rs. 2,000 Million for the year of assessment 2020/2021. According to the Surcharge Tax Act No. 14 of 2022, the Surcharge Tax shall be deemed to be an expenditure in the financial statements commenced on 1 January 2020. Since the Act supersedes the requirements of the Sri Lanka Accounting Standards, the Surcharge Tax expense has been accounted as recommended by the SoAT on Accounting for Surcharge Tax issued by the Institute of Chartered Accountants of Sri Lanka. Since the Company has recorded a loss for the year 2020, the Company has not recognized the liability to the Surcharge Tax as an adjustment to the opening retained earnings as at 01 January 2022.

Social Security Contribution Levy (SSCL)

Social Security Contribution Levy (SSCL) shall be paid by any person carrying on the business of supplying financial services, on the liable turnover specified in the Second Schedule of the Social Security Contribution Levy Act no. 25 of 2022 (SSCL Act), at the rate of 2.5% with effect from 01 October 2022. SSCL is payable on 100% if the Value Addition attributable to financial services.

The Value Addition attributable to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred in to Chapter IIIA of the Value Added Tax Act No. 14 of 2002.

SSCL rate applied for the current financial year is 2.5% (2021 - Nil%).

For the year ended 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Value Added Tax on financial services	123,868	294,268	123,868	294,268
Social Security Contribution Levy (SSCL)	4,110	-	4,110	-
	127,978	294,268	127,978	294,268

16. TAXES CONTD.

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, amendments thereto Act No.10 of 2021 effect from 13 May, 2021 and the Inland Revenue (Amendment) Act No. 45 of 2022, at the rate specified in Note 16.2 to the Financial Statements. 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'.

Effect of changes in tax rate in current year

The Inland Revenue (Amendment) Act No. 45 of 2022 was certified by the Speaker on 19th December 2022. The standard rate of income tax has been increased to 30% from 24% w.e.f 1 October 2022. The increase in income tax rate to 30% in mid year has resulted in two tax rates being applicable for the Year of Assessment 2022/23. The Company/Group has computed the current tax payable on pro rata basis for the year of Assessment 2022/23.

Treatment of Impairment charges

As per Part 1: Sec (1) of the Gazette notification issued on 25th October 2022 under sub section (2) and (3) of section 66 of the Inland revenue Act No. 24 of 2017, the impairment charges of Stage 3 credit facilities classified as per Sri Lanka Accounting Standards (SLFRS 9) have been considered as an allowable deduction (after adjusting for specifications given under section 1 of schedule 1 of the said Gazette notification).

Effect of changes in tax rate in previous year

Further as per the Inland Revenue (Amendment) Act No. 10 of 2021 which was certified by the Speaker on 13th May 2021 and which became effective from 1 January 2020, the Company/Group computed the current tax payable 2021 at the rate of 24% and the current tax liability for 2020 was reassessed at the said rate during the year 2021.

Deferred Tax

The Inland Revenue (Amendment) Act No. 45 of 2022 was certified by the Speaker on 19th December 2022. The standard rate of income tax has been increased to 30% from 24% w.e.f. 1 October 2022. Accordingly, deferred tax asset and liability have been computed at 30%.

Deferred tax asset has been recognized on all temporary difference arising on impairment provisions after adjustments been made in respect of impairment charges pertaining to stage 3 credit facilities, based on the specifications given in section 1 of schedule (i) of the Gazette notification issued on 25 October 2022 under Inland Revenue Act No. 24 of 2017.

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

For the year ended 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Current tax expense					
Current tax based on profit for the year	16.3	940	137,227	940	137,227
Over provision in respect of previous years		-	-	-	-
Due to rate reduction		-	-	-	-
Other (reversal)/charge including settlements		(36,008)	31,846	(36,008)	31,846
Share of associate company's current tax		-	-	17,496	30,334
Total current tax expense		(35,068)	169,073	(17,572)	199,406
Deferred tax expense/(reversal)					
Due to rate reduction	38.1	-	8,321	(542)	15,246
Due to change in temporary differences	38.1	(126,238)	106,290	(130,643)	143,747
Total deferred tax expense/(reversal)		(126,238)	114,611	(131,185)	158,993
Total income tax expense/(reversal)		(161,306)	283,684	(148,757)	358,399
Effective tax rate		24.56%	34.91%	32.46%	42.89%

16.3 Reconciliation of the Accounting Profit to Current Tax Expense

For the year ended 31 December	Company				Group			
	Rate %	2022 Rs.'000	Rate %	2021 Rs.'000	Rate %	2022 Rs.'000	Rate %	2021 Rs.'000
Profit as per the Statement of Profit or Loss		(656,914)		812,728		(458,245)		835,700
Tax effect on accounting profit before tax	30.0	(197,074)	24.0	195,055	30.0	(188,445)	24.0	172,822
Tax effect on								
Disallowable expenses	32.7	214,997	22.3	180,952	32.7	219,693	22.3	197,009
Lease capital recoverable	18.0	117,936	37.5	304,866	18.0	117,936	37.5	304,866
Tax deductible expenses	21.7	(142,657)	(43.1)	(350,549)	21.7	(146,253)	(43.1)	(358,034)
Exempt income	(1.2)	7,738	(3.7)	(29,916)	(1.2)	(38,338)	(3.7)	(46,738)
Income from other sources	-	-	-	-	-	-	-	-
Elimination of profit liable for turnover based tax	-	-	-	-	-	-	-	-
Tax losses/(set-off)	0.0	-	(20.1)	(163,180)	0.0	(9,550)	(20.1)	(203,975)
Current tax based on profit for the year	(0.1)	940	-	137,227	(0.1)	940	-	137,227
Over provision in respect of previous years	-	-	-	-	-	-	-	-
Due to rate increase /(decrease)	-	-	-	-	-	-	-	-
Other (reversal)/charge including settlements	5.5	(36,008)	3.9	31,846	5.5	(18,512)	3.9	62,178
Deferred tax expense/(reversal)								
Due to rate increase /(decrease)	0.0	-	-	8,321	0.0	(542)	-	15,246
Due to change in temporary differences	19.2	(126,238)	13.1	106,290	19.2	(130,643)	13.1	143,747
Total income tax expense/(reversal)	24.6	(161,306)	34.9	283,684	(18.3)	(148,757)	44.1	358,399

16. TAXES (CONTD.)

16.4 The break up of Tax Losses is as follows

For the year ended 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Balance as at 01 January	-	679,919	1,849,376	1,822,704
Tax loss during the year	-	-	199,133	127,006
Tax loss utilized during the year	-	(679,919)	(236,271)	(100,334)
Balances as at 31 December	-	-	1,812,238	1,849,376

16.5 Taxes paid to the government during the year

For the year ended 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Direct taxes				
Income tax	94,800	-	94,800	-
Value added tax on financial services	130,930	231,823	130,930	231,823
Withholding tax on interest	-	-	1,122	-
Social security contribution levy	2,336	-	4,965	-
Crop insurance levy	4,247	-	4,247	-
Total direct taxes	232,313	231,823	236,064	231,823
Indirect taxes				
Value added tax	-	-	59,178	-
Stamp duty	30,297	30,982	31,049	30,982
PAYE/APIIT tax	2,103	1,107	4,286	1,107
Any other category	4,690	2,627	6,344	2,627
Total indirect taxes	37,090	34,716	100,857	34,716

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	
	2022	2021	2022	2021
Profit attributable to ordinary shareholders (Rs.'000)	(495,608)	529,044	(325,059)	525,073
Weighted-average number of ordinary shares used as denominator (Rs.'000)	524,540	259,226	524,540	259,226
Basic earnings per ordinary share (Rs.)	(0.94)	2.04	(0.62)	2.03

17.1 Weighted average number of shares

For the year ended 31 December	Company		Group	
	2022	2021	2022	2021
Brought forward number of shares	259,226	165,875	259,226	165,875
Effect of rights issue	265,314	93,351	265,314	93,351
Weighted-average number of shares	524,540	259,226	524,540	259,226

17.2 Dividend per share

No dividend has been declared and paid by the Company and the Group during the year 2022 and 2021.

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 - 2022

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	748,724	748,724
Placements with banks & financial institutions	-	-	103,682	103,682
Financial investments at fair value through profit or loss	287,510	-	-	287,510
Loans & receivables at amortised cost	-	-	24,423,300	24,423,300
Financial investments at fair value through other comprehensive income	-	15,863	-	15,863
Financial investments at amortised cost	-	-	4,307,394	4,307,394
Other assets	-	-	66,230	66,230
Total financial assets	287,510	15,863	29,649,330	29,952,703

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	2,925,953	2,925,953
Due to customers at amortised cost	23,524,609	23,524,609
Debt issued and borrowed funds at amortised cost	69,082	69,082
Other liabilities	142,227	142,227
Total financial liabilities	26,661,870	26,661,870

18.2 Company - 2021

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	1,191,374	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
Financial investments at amortised cost	-	-	-	-
Other assets	-	-	92,332	92,332
Total financial assets	341,547	1,989,169	29,714,510	32,045,226

	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
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
Total financial liabilities	28,946,478	28,946,478

18. ANALYSIS OF FINANCIAL INSTRUMENTS BY MEASUREMENT BASIS CONTD.

18.3 Group - 2022

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	944,784	944,784
Placements with banks & financial institutions	-	-	137,162	137,162
Financial investments at fair value through profit or loss	293,847	-	-	293,847
Loans & receivables at amortised cost	-	-	24,370,850	24,370,850
Financial investments at fair value through other comprehensive income	-	78,151	-	78,151
Financial investments at amortised cost	-	-	5,883,995	5,883,995
Other assets	-	-	66,230	66,230
Total financial assets	293,847	78,151	31,403,021	31,775,019

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
Due to banks	2,935,170	2,935,170
Due to customers at amortised cost	23,354,493	23,354,493
Debt issued and borrowed funds at amortised cost	69,082	69,082
Other liabilities	142,226	142,226
Total financial liabilities	26,500,971	26,500,971

18.4 Group - 2021

	Financial Instrument at FVTPL Rs.'000	Financial Instrument at FVTOCI Rs.'000	Financial Instrument at Amortised Cost Rs.'000	Total Rs.'000
Assets				
Cash and cash equivalents	-	-	1,436,435	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
Financial investments at amortised cost	-	-	-	-
Other assets	-	-	92,332	92,332
Total financial assets	355,214	3,415,338	30,080,752	33,851,304

	Financial Liabilities at Amortised Cost Rs.'000	Total Rs.'000
Liabilities		
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
Total financial liabilities	28,896,713	28,896,713

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	Note	2022				2021			
		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
Investment securities - Quoted	22.2, 22.4	287,510	-	-	287,510	237,825	-	-	237,825
		287,510	-	-	287,510	341,547	-	-	341,547

Financial investments at FVTOCI

Government securities	24.1	-	-	-	-	1,962,059	-	-	1,962,059
Equity securities - Quoted	24.3	15,000	-	-	15,000	26,250	-	-	26,250
Equity securities - Unquoted	24.4	-	-	863	863	-	-	860	860
		15,000	-	863	15,863	1,988,309	-	860	1,989,169
		302,510	-	863	303,373	2,329,856	-	860	2,330,716

19.1.2 Group

As at 31 December	Note	2022				2021			
		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
Investment securities - Quoted	22.2, 22.4	293,847	-	-	293,847	251,492	-	-	251,492
		293,847	-	-	293,847	355,213	-	-	355,213

Financial investments at FVTOCI

Government securities	24.1	-	-	-	-	3,332,651	-	-	3,332,651
Equity securities - Quoted	24.3	15,000	-	-	15,000	26,250	-	-	26,250
Equity securities - Unquoted	24.4	-	-	863	863	-	-	860	860
Unit trust		-	62,288	-	62,288	-	55,577	-	55,577
		15,000	62,288	863	78,151	3,358,901	55,577	860	3,415,338
		308,847	62,288	863	371,998	3,714,115	55,577	860	3,770,552

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			
	2022		2021		2022		2021	
	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000	Carrying Amount Rs.'000	Fair Value Rs.'000
Financial assets								
Placements with banks & financial institutions	103,682	103,682	246,166	246,166	137,162	137,162	535,292	535,292
Loans & receivables at amortised cost	24,423,300	22,695,840	28,184,638	29,938,837	24,370,850	22,640,435	28,016,693	29,760,439
Financial investments at amortised cost	4,307,394	4,307,394	-	-	5,883,995	4,307,394	-	-
Other assets	66,230	66,230	92,332	92,332	66,230	66,230	92,332	92,332
	28,900,606	27,173,146	28,523,136	30,277,335	30,458,237	27,151,221	28,644,317	30,388,063
Financial liabilities								
Due to customers at amortised cost	23,524,609	24,974,083	22,267,862	22,103,633	23,354,493	24,798,658	22,201,604	22,044,075
Debt issued and borrowed funds at amortised cost	69,082	69,082	2,381,579	2,381,579	69,082	69,082	2,381,579	2,381,579
Other liabilities	142,227	142,227	180,225	180,225	142,226	142,226	180,225	180,225
	23,735,918	25,185,392	24,829,666	24,665,437	23,565,801	25,009,966	24,763,408	24,605,879

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

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

Assets for which Fair Value Approximates Carrying Value

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

Fixed Rate Financial Instruments

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

20. CASH AND CASH EQUIVALENTS

Accounting Policy

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

Securities Purchased Under Resale Agreements

Securities purchased under agreements to resell at a specified future date are recognised in the Statement of Financial Position. The consideration paid, including accrued interest, is recorded in the Statement of Financial Position, within 'Cash and cash equivalents', reflecting the transaction's economic substance as a loan by the Group. The difference between the purchase and resale prices is recorded in 'Net interest income' and is accrued over the life of the agreement using the EIR.

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Cash in hand		215,465	170,356	215,870	170,708
Cash at bank	20.1	312,842	385,124	396,920	425,753
Repurchase agreements		220,417	635,894	331,994	839,974
		748,724	1,191,374	944,784	1,436,435

20.1 Analysis of Cash at Banks

Cash at bank		312,857	385,132	396,935	425,761
Less : Allowance for impairment losses					
Collective impairment	20.1.1	15	8	15	8
		312,842	385,124	396,920	425,753

20. CASH AND CASH EQUIVALENTS CONTD.**20.1 Analysis of Cash at Banks Contd.****20.1.1 Movement of impairment during the year - Company**

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2021	105	-	-	105
Charge during the year	(113)	-	-	(113)
Balance as at 31 December 2021	(8)	-	-	(8)
Reversals during the year	(7)	-	-	(7)
Balance as at 31 December 2022	(15)	-	-	(15)

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
Collective				
Balance as at 01 January 2021	105	-	-	105
Charge during the year	(113)	-	-	(113)
Balance as at 31 December 2021	(8)	-	-	(8)
Reversals during the year	(7)	-	-	(7)
Balance as at 31 December 2022	(15)	-	-	(15)

20.1.2 Cash and cash equivalents allocated for the liquidity requirement

As at 31 December	Company	
	2022 Rs.'000	2021 Rs.'000
Cash in hand	210,143	167,292
Balances in current accounts free from lien	282,674	302,258
Government securities, maturing within one year, free from any lien or charge	-	635,895
	492,817	1,105,445

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Fixed deposits and other deposits		103,805	246,234	137,285	535,360
Less : Allowance for impairment losses					
Collective impairment	21.1	123	68	123	68
		103,682	246,166	137,162	535,292

21.1 Movement of impairment during the year - Company

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2021	(397)	-	-	(397)
Charge during the year	329	-	-	329
Balance as at 31 December 2021	(68)	-	-	(68)
Charge during the year	(54)	-	-	(54)
Balance as at 31 December 2022	(122)	-	-	(122)

21.2 Movement of impairment during the year - Group

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Collective				
Balance as at 01 January 2021	(397)	-	-	(397)
Charge during the year	329	-	-	329
Balance as at 31 December 2021	(68)	-	-	(68)
Charge during the year	(54)	-	-	(54)
Balance as at 31 December 2022	(122)	-	-	(122)

21.3 Placements with banks allocated for the liquidity requirement

As at 31 December	Company	
	2022 Rs.'000	2021 Rs.'000
Deposits in Commercial Banks free from lien	-	184,017
	-	184,017

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Government securities	22.1	-	103,722	-	103,722
Investment securities - Quoted	22.2, 22.4	287,510	237,825	293,847	251,492
Other debt securities - Quoted	-	-	-	-	-
		287,510	341,547	293,847	355,214

22.1 Government Securities

Treasury bonds	-	103,722	-	103,722
	-	103,722	-	103,722

22.2 Quoted Equities and Unit Trusts

As at 31 December	Company					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Application Software						
hSenid Business Solutions PLC	60,000	1,277	1,020	-	-	-
	-	1,277	1,020	-	-	-
Banks						
National Development Bank PLC	-	-	-	20,000	3,504	1,378
Nations Trust Bank PLC	-	-	-	209,949	19,546	11,547
Sanasa Development Bank PLC	-	-	-	98,770	9,029	4,247
Seylan Bank PLC	-	-	-	443,912	30,620	19,532
Seylan Bank PLC-Non Voting	-	-	-	205	8	7
	-	-	-	-	62,707	36,711

Application Software

hSenid Business Solutions PLC	60,000	1,277	1,020	-	-	-
	-	1,277	1,020	-	-	-

Banks

National Development Bank PLC	-	-	-	20,000	3,504	1,378
Nations Trust Bank PLC	-	-	-	209,949	19,546	11,547
Sanasa Development Bank PLC	-	-	-	98,770	9,029	4,247
Seylan Bank PLC	-	-	-	443,912	30,620	19,532
Seylan Bank PLC-Non Voting	-	-	-	205	8	7
	-	-	-	-	62,707	36,711

As at 31 December	Company					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Capital Goods						
Access Engineering PLC	474,992	16,388	5,082	25,000	863	797
ACL Cables PLC	54,000	4,980	3,785	-	-	-
Brown & Company PLC	96,838	29,478	11,427	-	-	-
Central Industries PLC	10,000	949	580	-	-	-
Colombo Dockyard PLC	50,000	4,496	2,950	-	-	-
E B Creasy & Company PLC	5,000	285	103	5,000	285	133
Hayles PLC	74,275	7,157	5,051	-	-	-
Hemas Holdings PLC	85,515	7,794	4,823	50,000	5,178	3,345
John Keells Holdings PLC	42,500	6,275	5,748	85,000	12,688	12,750
Kelani Cabels PLC	250	110	65	-	-	-
Lanka Tile PLC	7,500	734	346	-	-	-
Mackwoods Energy PLC	1,200,000	3,848	3,000	1,200,000	3,848	3,480
MTD Walkers PLC	165,000	6,751	-	165,000	6,751	2,442
Renuka Holdings PLC	821,317	14,978	11,334	-	-	-
Renuka Holdings PLC-Non Voting	123	2	2	100,000	1,324	1,310
Royal Ceramics Lanka PLC	182,000	10,524	5,151	-	-	-
Serendib Engineering Group PLC	-	-	-	164,900	1,137	1,154
		114,749	59,447		32,074	25,411
Consumer Durables & Apparel						
Ambeon Capital PLC	80,000	1,004	792	-	-	-
Blue Diamonds Jewellery						
Worldwide PLC-Non Voting	5,250,000	3,125	1,575	250,000	125	125
Dankotuwa Porcelain PLC	-	-	-	1,000,000	15,395	14,600
Hayles Fabric PLC	100,000	3,929	2,260	-	-	-
Hayleys Fibre PLC	-	-	-	34,741	2,768	2,825
Hela Apparel Holdings PLC	92,954	1,482	790	-	-	-
Singer Industries (Ceylon) PLC	1,486	74	53	-	-	-
Teejay Lanka PLC	-	-	-	150,000	6,430	6,660
		9,614	5,470		24,718	24,210
Commercial & Professional Services						
E M L Consultants PLC	131,352	693	512	-	-	-
		693	512		-	-

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

22.2 Quoted Equities and Unit Trusts Contd.

As at 31 December	Company					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Consumer Services						
Hayleys Leisure PLC	67,866	1,688	1,432	42,866	1,113	964
Anilana Hotels & Properties PLC	750,000	1,106	675	1,000,000	1,475	1,400
Beruwala Resorts PLC	250,000	350	300	-	-	-
Browns Beach Hotel PLC	10,000	135	127	-	-	-
Citrus Leisure PLC	151,086	1,198	907	36,296	390	323
Dolphin Hotels PLC	-	-	-	15,000	630	558
Eden Hotel Lanka PLC	127,743	3,676	2,248	127,743	3,677	4,254
Galadari Hotels (Lanka) PLC	50,000	724	625	-	-	-
Hikkaduwa Beach Resort PLC	194,353	1,252	972	-	-	-
Palm Garden Hotels PLC	35,000	2,341	1,935	28,000	2,052	3,402
Tangerine Beach Hotels PLC	2,500	200	148	2,500	200	165
The Kandy Hotels Company (1938) PLC	215,006	1,972	1,548	175,000	1,617	1,470
The Kingsbury PLC	3,875,454	41,834	32,941	3,875,454	41,834	36,817
The Lighthouse Hotel PLC	124,467	4,704	3,734	-	-	-
Waskaduwa Beach Resort PLC	2,100,000	8,616	5,250	1,500,000	6,340	5,550
		69,796	52,842		59,328	54,903
Diversified Financials						
Asia Asset Finance PLC	399,999	4,056	3,080	399,999	4,253	3,360
Asia Siyaka Commodities Limited	-	-	-	750,000	2,527	2,400
Associated Motor Finance Company PLC	50,000	642	405	-	-	-
Central Finance Company PLC	73,205	8,172	4,575	48,205	5,722	4,483
Ceylon Investment PLC	65,045	6,680	2,029	66,974	6,411	3,590
Commercial Leasing & Finance PLC	-	-	-	59,835	2,323	1,789
Galle Face Capital Partners PLC	32,500	1,026	523	-	-	-
HNB Finance PLC	25,000	259	105	25,000	259	240
Lanka Credit & Business Finance PLC	836,561	3,408	1,924	500,000	2,260	1,950
LB Finance PLC	25,000	1,867	1,000	-	-	-
LOLC Development Finance PLC	-	-	-	2,000	960	651
LOLC Finance PLC	898,277	16,758	7,366	200,000	5,168	4,000
LOLC Holdings PLC	25,346	20,293	10,088	-	-	-
Orient Finance PLC	-	-	-	30,000	378	480
People's Leasing & Finance PLC	477,768	5,186	2,389	211,538	3,000	2,263
People's Merchant Finance PLC	-	-	-	50,000	375	340
Shaw Wallace Investments PLC	6,410	66	46	-	-	-
SMB Finance PLC-Non Voting	5,000,000	3,000	1,500	-	-	-
Softlogic Finance PLC	122,056	4,215	1,379	67,215	3,532	874
		75,628	36,409		37,168	26,420

As at 31 December	Company					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Diversified Holdings						
Richard Pieris & Company PLC	60,000	1,609	1,446	-	-	-
		1,609	1,446		-	-
Energy						
Laugfs Gas PLC-Non Voting	107,500	1,876	1,086	97,500	1,731	1,706
		1,876	1,086		1,731	1,706
Food Beverage & Tobacco						
Agalawatta Plantation PLC	147,500	7,895	4,705	-	-	-
Browns Investments PLC	2,440,262	29,811	17,082	-	-	-
Ceylon Cold Stores PLC	187,000	12,200	6,900	17,500	11,652	9,275
Distilleries Company of Sri Lanka PLC	75,000	1,512	990	75,000	1,512	1,275
Elpitiya Plantations PLC	3,830	396	329	-	-	-
HVA Foods PLC	160,000	1,342	592	150,000	1,302	1,005
Kotagala Plantations PLC	35,000	305	270	-	-	-
Kotmale Holdings PLC	2,296	952	887	633	253	281
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	-	2,514,546	14,958	2,766
Malwatte Valley Plantations PLC-Non Voting	-	-	-	25,000	700	700
Melstacorp PLC	180,000	9,854	8,316	125,000	7,150	7,012
Renuka Agri Foods PLC	210,000	1,436	1,176	-	-	-
Raigam Wayamba Salterns PLC	50,000	391	290	-	-	-
Sunshine Holdings PLC	20,211	824	703	211	6	10
		81,876	42,240		37,533	22,324
Health Care Equipment & Services						
Asiri Hospital Holdings PLC	5,000	210	128	-	-	-
Asiri Surgical Hospital PLC	25,000	387	325	-	-	-
Nawaloka Hospital PLC	10,000	72	72	-	-	-
Singhe Hospitals PLC	-	-	-	300,000	900	900
		669	525		900	900
Insurance						
Arpico Insurance PLC	10,000	300	227	-	-	-
Janashakthi Insurance Company PLC	14,634	480	464	82,500	2,683	2,533
Softlogic Capital PLC	1,035,000	9,843	10,453	-	-	-
Softlogic Life Insurance PLC	1,000	60	87	-	-	-
		10,683	11,231		2,683	2,533

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

22.2 Quoted Equities and Unit Trusts Contd.

As at 31 December	Company					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Investment Banking & Brokerage						
Capital Alliance PLC	30,000	669	597	-	-	-
First Capital Treasury PLC	10,000	260	229	-	-	-
		929	826		-	-
Materials						
Alumex PLC	659,710	7,926	4,750	-	-	-
Chevron Lubricants Lanka PLC	69,400	7,570	6,697	-	-	-
CIC Holdings PLC-Non Voting	5,000	368	278	-	-	-
Dipped Products PLC	165,000	10,651	4,802	150,000	10,175	7,605
Industrial Asphalts (Ceylon) PLC	500,000	200	150	-	-	-
Pelwatte Sugar Industries PLC	41,600	1,799	-	41,600	1,799	-
Haycarb PLC	57,500	5,503	3,312	55,000	5,333	4,224
Tokyo Cement Company (Lanka) PLC-Non Voting	100,000	5,285	2,600	125,000	6,606	6,213
Tokyo Cement Company (Lanka) PLC	67,050	3,512	2,213	-	-	-
Bogala Graphite Lanka PLC	39,002	3,098	1,786	-	-	-
JAT Holdings PLC	25,000	574	310	-	-	-
Ex-Pack Corrugated Cartons PLC	47,500	752	622	-	-	-
		47,238	27,520		23,913	18,042
Power and Energy						
Vallibel Power Erathna PLC	750,000	5,205	4,725	100,000	870	860
		5,205	4,725		870	860
Real Estate						
Lanka Realty Investments PLC	245,000	5,881	2,475	-	-	-
City Housing & Real Estate Company PLC	-	-	-	38,435	190	138
Colombo Land & Development Company PLC	74,939	2,660	1,177	74,939	2,660	2,578
East West Properties PLC	500,000	6,014	4,000	350,000	4,243	3,640
Millennium Housing Developers PLC	-	-	-	500,000	3,524	3,100
Overseas Realty (Ceylon) PLC	38,941	596	580	50,000	1,050	960
Prime Lands Residencies PLC	150,000	1,995	975	-	-	-
Property Development PLC	-	-	-	8,547	1,058	1,141
Seylan Developments PLC	100,000	2,189	1,180	-	-	-
		19,335	10,387		12,725	11,557

As at 31 December	Company					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Retailing						
Ceylon Tea Brokers PLC	35,000	176	147	-	-	-
Eastern Merchants PLC	-	-	-	325,000	3,013	2,925
John Keels PLC	25,998	1,929	1,693	-	-	-
R I L Properties PLC	340,000	3,811	1,938	-	-	-
Singer (Sri Lanka) PLC	15,751	275	132	-	-	-
		6,191	3,910		3,013	2,925
Telecommunication Services						
Sri Lanka Telecom PLC	-	-	-	10,000	400	388
		-	-		400	388
Trading						
Tess Agro PLC	733,224	1,048	807	-	-	-
Tess Agro PLC-Non Voting	220,353	314	176	-	-	-
		1,362	983		-	-
Transportation						
Expolanka Holdings PLC	65,487	16,491	11,935	-	-	-
		16,491	11,935		-	-
Utilities						
Laugfs Power PLC-Non Voting	77,849	714	529	100,000	917	850
Panasian Power PLC	250,000	1,258	850	150,000	870	825
Vallibel One PLC	136,090	9,657	4,096	100,000	6,491	7,260
Vidullanka PLC	1,450,000	11,885	8,845	-	-	-
Vidullanka PLC-Non Voting	150,000	1,122	675	-	-	-
		24,636	14,996		8,278	8,935
Total value of financial assets at FVTPL		489,857	287,510		308,041	237,825
Marked to market valuation loss		(202,347)			(70,216)	
Fair value of financial assets designated at FVTPL		287,510			237,825	

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

22.3 GICS analysis of equity securities

As at 31 December	2022		2021	
	Total Cost Rs.'000	Fair Value Rs.'000	Total Cost Rs.'000	Fair Value Rs.'000
Application Software	1,277	1,020	-	-
Banks	-	-	62,707	36,711
Capital Goods	114,749	59,447	32,074	25,411
Consumer Durables & Apparel	9,614	5,470	24,718	24,210
Commercial & Professional Services	693	512	-	-
Consumer Services	69,796	52,842	59,328	54,903
Diversified Financials	75,628	36,409	37,168	26,420
Diversified Holdings	1,609	1,446	-	-
Energy	1,876	1,086	1,731	1,706
Food Beverage & Tobacco	81,876	42,240	37,533	22,324
Health Care Equipment & Services	669	525	900	900
Insurance	10,683	11,231	2,683	2,533
Investment Banking & Brokerage	929	826	-	-
Materials	47,238	27,520	23,913	18,042
Power and Energy	5,205	4,725	870	860
Real Estate	19,335	10,387	12,725	11,557
Retailing	6,191	3,910	3,013	2,925
Telecommunication Services	-	-	400	388
Trading	1,362	983	-	-
Transportation	16,491	11,935	-	-
Utilities	24,636	14,996	8,278	8,935
Total value of financial assets at FVTPL	489,857	287,510	308,041	237,825
Marked to market valuation loss	(202,347)		(70,216)	
Fair value of financial assets designated at FVTPL	287,510		237,825	

22.4 Quoted Equities and Unit Trusts

As at 31 December	Group					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Application Software						
hSenid Business Solutions PLC	60,000	1,277	1,020	-	-	-
		1,277	1,020		-	-
Banks						
National Development Bank PLC	-	-	-	20,000	3,504	1,378
Nations Trust Bank PLC	-	-	-	209,949	19,546	11,547
Sanasa Development Bank PLC	-	-	-	98,770	9,029	4,247
Seylan Bank PLC	-	-	-	443,912	30,620	19,532
Seylan Bank PLC-Non Voting	-	-	-	205	8	7
		-	-		62,707	36,711
Capital Goods						
Access Engineering PLC	474,992	16,388	5,082	25,000	863	798
ACL Cables PLC	54,000	4,980	3,785	-	-	-
Brown & Company PLC	96,838	29,478	11,427	-	-	-
Central Industries PLC	10,000	949	580	-	-	-
Colombo Dockyard PLC	50,000	4,496	2,950	-	-	-
E B Creasy & Company PLC	5,000	285	103	5,000	285	133
Hayles PLC	74,275	7,157	5,051	-	-	-
Hemas Holdings PLC	85,515	7,794	4,823	50,000	5,178	3,345
John Keells Holdings PLC	63,871	9,618	8,638	106,371	16,031	15,955
Kelani Cabels PLC	250	110	65	-	-	-
Lanka Tile PLC	7,500	734	346	-	-	-
Mackwoods Energy PLC	1,200,000	3,848	3,000	1,200,000	3,848	3,480
MTD Walkers PLC	165,000	6,751	-	165,000	6,751	2,442
Renuka Holdings PLC	821,317	14,978	11,334	-	-	-
Renuka Holdings PLC-Non Voting	123	2	2	100,000	1,324	1,310
Royal Ceramics Lanka PLC	182,000	10,524	5,151	-	-	-
Serendib Engineering Group PLC	-	-	-	164,900	1,137	1,154
		118,092	62,337		35,417	28,617

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

22.4 Quoted Equities and Unit Trusts Contd.

As at 31 December	Group					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Consumer Durables & Apparel						
Ambeon Capital PLC	80,000	1,005	792	-	-	-
Blue Diamonds Jewellery Worldwide PLC-Non Voting	5,250,000	3,125	1,575	250,000	125	125
Dankotuwa Porcelain PLC	-	-	-	1,000,000	15,395	14,600
Hayles Fabric PLC	100,000	3,929	2,260	-	-	-
Hayleys Fibre PLC	-	-	-	34,741	2,768	2,824
Hela Apparel Holdings PLC	92,954	1,482	790	-	-	-
Singer Industries (Ceylon) PLC	1,486	74	53	-	-	-
Teejay Lanka PLC	-	-	-	150,000	6,430	6,660
		9,615	5,470		24,718	24,209
Commercial & Professional Services						
E M L Consultants PLC	131,352	693	512	-	-	-
		693	512		-	-
Consumer Services						
Hayleys Leisure PLC	67,866	1,688	1,432	42,866	1,113	964
Anilana Hotels & Properties PLC	750,000	1,106	675	1,000,000	1,475	1,400
Beruwala Resorts PLC	250,000	350	300	-	-	-
Browns Beach Hotel PLC	10,000	135	127	-	-	-
Citrus Leisure PLC	151,086	1,198	906	36,296	390	323
Dolphin Hotels PLC	-	-	-	15,000	630	558
Eden Hotel Lanka PLC	127,743	3,676	2,248	127,743	3,677	4,254
Galadari Hotels (Lanka) PLC	50,000	724	625	-	-	-
Hikkaduwa Beach Resort PLC	194,353	1,252	972	-	-	-
Palm Garden Hotels PLC	35,000	2,341	1,936	28,000	2,052	3,402
Tangerine Beach Hotels PLC	2,500	200	148	2,500	200	165
The Kandy Hotels Company (1938) PLC	215,006	1,972	1,548	175,000	1,617	1,470
The Kingsbury PLC	3,875,454	41,834	32,941	3,875,454	41,834	36,817
The Lighthouse Hotel PLC	124,467	4,704	3,734	-	-	-
Waskaduwa Beach Resort PLC	2,100,000	8,616	5,250	1,500,000	6,340	5,550
		69,796	52,842		59,328	54,903

As at 31 December	Group					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Diversified Financials						
Asia Asset Finance PLC	399,999	4,056	3,080	399,999	4,253	3,360
Asia Siyaka Commodities Limited	-	-	-	750,000	2,528	2,400
Associated Motor Finance Company PLC	50,000	643	405	-	-	-
Central Finance Company PLC	73,205	8,172	4,575	48,205	5,722	4,483
Ceylon Investment PLC	65,045	6,680	2,029	66,974	6,411	3,590
Commercial Leasing & Finance PLC	-	-	-	59,835	2,323	1,789
Galle Face Capital Partners PLC	50,972	2,032	821	18,472	1,006	632
HNB Finance PLC	25,000	259	105	25,000	259	240
Lanka Credit & Business Finance PLC	836,561	3,408	1,924	500,000	2,260	1,950
LB Finance PLC	25,000	1,867	1,000	-	-	-
LOLC Development Finance PLC	-	-	-	2,000	960	651
LOLC Finance PLC	898,277	16,757	7,366	200,000	5,168	4,000
LOLC Holdings PLC	25,346	20,293	10,088	-	-	-
Orient Finance PLC	-	-	-	30,000	378	480
People's Leasing & Finance PLC	477,768	5,186	2,389	211,538	3,000	2,263
People's Merchant Finance PLC	-	-	-	50,000	375	340
Shaw Wallace Investments PLC	19,910	238	144	13,500	172	174
SMB Finance PLC-Non Voting	5,000,000	3,000	1,500	-	-	-
Softlogic Finance PLC	122,056	4,215	1,379	67,215	3,532	874
		76,806	36,805		38,347	27,226
Diversified Holdings						
Richard Pieris & Company PLC	60,000	1,609	1,446	-	-	-
		1,609	1,446		-	-
Energy						
Laugfs Gas PLC-Non Voting	107,500	1,876	1,086	97,500	1,731	1,706
		1,876	1,086		1,731	1,706

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

22.4 Quoted Equities and Unit Trusts Contd.

As at 31 December	Group					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Food Beverage & Tobacco						
Agalawatta Plantation PLC	147,500	7,895	4,705	-	-	-
Browns Investments PLC	2,440,262	29,811	17,082	-	-	-
Ceylon Cold Stores PLC	187,000	12,200	6,900	17,500	11,653	9,275
Distilleries Company of Sri Lanka PLC	75,000	1,512	990	75,000	1,512	1,275
Elpitiya Plantations PLC	3,830	396	329	-	-	-
HVA Foods PLC	160,000	1,342	592	150,000	1,302	1,005
Kotagala Plantations PLC	35,000	305	270	-	-	-
Kotmale Holdings PLC	2,296	952	887	633	253	281
Lucky Lanka Milk Processing Company PLC	2,514,546	14,958	-	2,514,546	14,957	2,766
Malwatte Valley Plantations PLC-Non Voting	-	-	-	25,000	700	700
Melstacorp PLC	180,000	9,854	8,316	125,000	7,150	7,012
Renuka Agri Foods PLC	210,000	1,436	1,176	-	-	-
Raigam Wayamba Salterns PLC	50,000	391	290	-	-	-
Sunshine Holdings PLC	20,211	824	703	211	6	10
		81,876	42,240		37,533	22,324
Health Care Equipment & Services						
Asiri Hospital Holdings PLC	5,000	210	129	-	-	-
Asiri Surgical Hospital PLC	25,000	387	325	-	-	-
Nawaloka Hospital PLC	10,000	72	72	-	-	-
Singhe Hospitals PLC	-	-	-	300,000	900	900
		669	526		900	900
Insurance						
Arpico Insurance PLC	10,000	300	227	-	-	-
Janashakthi Insurance Company PLC	14,634	480	464	82,500	2,683	2,533
Softlogic Capital PLC	1,035,000	9,843	10,453	-	-	-
Softlogic Life Insurance PLC	1,000	60	87	-	-	-
		10,683	11,231		2,683	2,533
Investment Banking & Brokerage						
Capital Alliance PLC	30,000	669	597	-	-	-
First Capital Treasury PLC	10,000	260	229	-	-	-
		929	826		-	-

As at 31 December	Group					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Materials						
Alumex PLC	659,710	7,925	4,750	-	-	-
Chevron Lubricants Lanka PLC	69,400	7,569	6,697	-	-	-
CIC Holdings PLC-Non Voting	5,000	368	278	-	-	-
Dipped Products PLC	165,000	10,652	4,802	150,000	10,175	7,605
Industrial Asphalts (Ceylon) PLC	500,000	200	150	-	-	-
Pelwatte Sugar Industries PLC	68,400	2,924	-	68,400	2,924	-
Haycarb PLC	57,500	5,503	3,312	55,000	5,333	4,224
Tokyo Cement Company (Lanka) PLC-Non Voting	100,000	5,285	2,600	125,000	6,607	6,213
Tokyo Cement Company (Lanka) PLC	67,050	3,512	2,213	-	-	-
Bogala Graphite Lanka PLC	39,002	3,099	1,786	-	-	-
JAT Holdings PLC	25,000	574	310	-	-	-
Ex-Pack Corrugated Cartons PLC	47,500	752	622	-	-	-
		48,363	27,520		25,039	18,042
Power and Energy						
Vallibel Power Erathna PLC	750,000	5,205	4,725	100,000	870	860
		5,205	4,725		870	860
Real Estate						
Lanka Realty Investments PLC	245,000	5,881	2,475	-	-	-
City Housing & Real Estate Company PLC	-	-	-	38,435	190	138
Colombo Land & Development Company PLC	77,639	2,757	1,219	77,639	2,756	2,671
East West Properties PLC	500,000	6,014	4,000	350,000	4,243	3,640
Millennium Housing Developers PLC	-	-	-	500,000	3,524	3,100
Overseas Realty (Ceylon) PLC	38,941	596	580	50,000	1,050	960
Prime Lands Residencies PLC	150,000	1,995	975	-	-	-
Property Development PLC	-	-	-	8,547	1,058	1,141
Seylan Developments PLC	100,000	2,189	1,180	-	-	-
		19,432	10,429		12,821	11,650

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

22.4 Quoted Equities and Unit Trusts Contd.

As at 31 December	Group					
	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Retailing						
Ceylon Tea Brokers PLC	35,000	176	147	-	-	-
Eastern Merchants PLC	-	-	-	325,000	3,013	2,925
John Keels PLC	25,998	1,929	1,693	-	-	-
R I L Properties PLC	340,000	3,811	1,938	-	-	-
Singer (Sri Lanka) PLC	15,751	275	132	-	-	-
		6,191	3,910		3,013	2,925
Telecommunication Services						
Sri Lanka Telecom PLC	-	-	-	10,000	400	388
		-	-		400	388
Trading						
Tess Agro PLC	733,224	1,048	807	-	-	-
Tess Agro PLC-Non Voting	220,353	314	176	-	-	-
		1,362	983		-	-
Transportation						
Expolanka Holdings PLC	65,487	16,491	11,935	-	-	-
		16,491	11,935		-	-
Utilities						
Laugfs Power PLC-Non Voting	77,849	714	529	100,000	917	850
Panasian Power PLC	250,000	1,258	850	150,000	870	825
Vallibel One PLC	136,090	9,657	4,096	100,000	6,492	7,260
Vidullanka PLC	1,450,000	11,885	8,845	-	-	-
Vidullanka PLC-Non Voting	150,000	1,122	675	-	-	-
Resus Energy PLC	223,381	3,407	3,009	223,381	3,407	9,563
		28,043	18,004		11,686	18,498
Total value of quoted equities		499,008	293,847		317,193	251,492
Marked to market valuation loss		(205,161)			(65,701)	
Fair value of financial assets designated at FVTPL		293,847			251,492	

22.5 GICS analysis of equity securities

As at 31 December	2022		2021	
	Total Cost Rs.'000	Fair Value Rs.'000	Total Cost Rs.'000	Fair Value Rs.'000
Application Software	1,277	1,020	-	-
Banks	-	-	62,707	36,711
Capital Goods	118,092	62,337	35,417	28,617
Consumer Durables & Apparel	9,615	5,470	24,718	24,209
Commercial & Professional Services	693	512	-	-
Consumer Services	69,796	52,842	59,328	54,903
Diversified Financials	76,806	36,805	38,347	27,226
Diversified Holdings	1,609	1,446	-	-
Energy	1,876	1,086	1,731	1,706
Food Beverage & Tobacco	81,876	42,240	37,533	22,324
Health Care Equipment & Services	669	526	900	900
Insurance	10,683	11,231	2,683	2,533
Investment Banking & Brokerage	929	826	-	-
Materials	48,363	27,520	25,039	18,042
Power and Energy	5,205	4,725	870	860
Real Estate	19,432	10,429	12,821	11,650
Retailing	6,191	3,910	3,013	2,925
Telecommunication Services	-	-	400	388
Trading	1,362	983	-	-
Transportation	16,491	11,935	-	-
Utilities	28,043	18,004	11,686	18,498
Total value of financial assets at FVTPL	499,008	293,847	317,193	251,492
Marked to market valuation loss	(205,161)		(65,701)	
Fair value of financial assets designated at FVTPL	293,847		251,492	

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 SLFRS 9 "Loans and receivables 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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Bills receivable	23.2	231,055	246,566	231,055	246,566
Loans and receivables to customers	23.3	16,306,705	17,718,898	16,254,254	17,550,953
Lease and hire purchase receivable	23.4	10,627,758	13,696,511	10,627,758	13,696,511
Gross loans and receivables		27,165,518	31,661,975	27,113,067	31,494,030
Less : Allowance for impairment losses					
Bills receivable	23.2	166,921	154,405	166,921	154,405
Loans and receivables to customers	23.3	1,451,222	1,521,850	1,451,222	1,521,850
Lease and hire purchase receivable	23.4.3	1,124,075	1,801,082	1,124,074	1,801,082
		2,742,218	3,477,337	2,742,217	3,477,337
Net loans and receivables		24,423,300	28,184,638	24,370,850	28,016,693

23.1 Analysis of loans and receivables

23.1.1 Product wise analysis of loans and receivables

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Finance lease/ijarah		10,153,646	13,428,663	10,153,646	13,428,663
Hire purchase/murabaha		238,313	267,848	238,313	267,848
Term loans		5,964,610	6,874,253	5,912,159	6,706,309
Personal loans		1,151,084	1,603,032	1,151,084	1,603,032
Margin trading		2,913,773	3,336,346	2,913,773	3,336,346
Micro finance		121,140	265,569	121,140	265,569
Pawning		5,665,762	5,254,583	5,665,762	5,254,583
Loans against fixed deposits		726,135	385,115	726,135	385,115
Bill discounting		231,055	246,566	231,055	246,566
Gross loans and receivables		27,165,518	31,661,975	27,113,067	31,494,031

23.1.2 Sector/Industry wise analysis of loans and receivables

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Agriculture		2,201,784	3,197,561	2,201,784	3,197,561
Manufacturing		2,364,434	3,002,920	2,364,434	3,002,920
Tourism		482,080	607,194	482,080	607,194
Transportation		2,533,917	3,280,715	2,533,917	3,280,715
Construction		1,534,884	1,707,752	1,534,884	1,707,752
Trade		3,484,168	4,344,593	3,484,168	4,344,593
Services		881,892	1,397,955	829,442	1,230,011
Financials		3,670,575	4,412,060	3,670,575	4,412,060
Consumption		10,011,784	9,711,225	10,011,783	9,711,225
Gross loans and receivables		27,165,518	31,661,975	27,113,067	31,494,031

Not all customers in the tourism sector have applied for the 4th phase of the COVID-19 moratorium.

23. LOANS AND RECEIVABLES AT AMORTISED COST CONTD.**23.1.3 Contractual maturity analysis of loans and receivables - 2022**

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Agriculture	1,500,257	607,496	94,031	2,201,784
Manufacturing	1,257,480	828,857	278,097	2,364,434
Tourism	341,510	109,141	31,429	482,080
Transportation	1,355,676	1,014,116	164,125	2,533,917
Construction	788,786	647,561	98,537	1,534,884
Trade	1,716,636	1,517,562	249,971	3,484,169
Services	429,980	388,917	62,995	881,892
Financials	3,324,661	280,222	65,692	3,670,575
Consumption	7,953,495	1,708,518	349,770	10,011,783
Gross loans and receivables	18,668,481	7,102,390	1,394,647	27,165,518

23.1.4 Contractual maturity analysis loans and receivables - 2021

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total 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
Gross loans and receivables	20,386,204	11,069,913	205,858	31,661,975

23.2 Bills receivable

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Bills discounted		231,055	246,566	231,055	246,566
Less : Allowance for impairment losses					
Individual impairment	23.2.2	147,790	135,183	147,790	135,183
Collective impairment	23.2.2	19,131	19,222	19,131	19,222
Net bills receivables		64,134	92,161	64,134	92,161

23.2.1 Analysis of bill discounting on maximum exposure to credit risk as at 31 December 2022

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	3,711	-	227,344	231,055
Individual impairment	-	-	(147,790)	(147,790)
Collective impairment	(918)	-	(18,213)	(19,131)
As at 31 December	2,793	-	61,341	64,134

23.2.2 Movement of impairment during the year 2022

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	135,183	135,183
Charge during the year	-	-	12,607	12,607
As at 31 December	-	-	147,790	147,790
Collective				
As at 01 January	1,881	476	16,865	19,222
Charge during the year	(963)	(476)	1,348	(91)
As at 31 December	918	-	18,213	19,131

23.2.3 Analysis of bill discounting on maximum exposure to credit risk as at 31 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)
As at 31 December	5,460	1,029	85,672	92,161

23.2.4 Movement of impairment during the year 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	158,393	158,393
Charge during the year	-	-	(23,210)	(23,210)
As at 31 December	-	-	135,183	135,183
Collective				
As at 01 January	1,062	1,840	11,166	14,069
Charge during the year	819	(1,364)	5,699	5,154
As at 31 December	1,881	476	16,865	19,222

23.3 Loans and receivables to customers

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Term loans and receivables		16,306,705	17,718,898	16,254,254	17,550,953
Less : Allowance for impairment losses					
Individual impairment	23.3.2	933,234	673,531	933,234	673,531
Collective impairment	23.3.2	517,988	848,319	517,988	848,319
Net loans and receivables		14,855,483	16,197,048	14,803,032	16,029,103

23.3.1 Analysis of term loans receivables on maximum exposure to credit risk as at 31 December 2022

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	7,857,916	2,673,163	5,775,627	16,306,705
Individual impairment	-	-	(933,234)	(933,234)
Collective impairment	(51,651)	(56,075)	(410,262)	(517,988)
As at 31 December	7,806,265	2,617,088	4,432,131	14,855,483

23.3.2 Movement of impairment during the year 2022

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	673,531	673,531
Charge during the year	-	-	259,703	259,703
As at 31 December	-	-	933,234	933,234
Collective				
As at 01 January	53,253	32,738	762,329	848,319
Charge during the year	(1,602)	23,337	(352,066)	(330,331)
As at 31 December	51,651	56,075	410,262	517,988

23.3.3 Analysis of term loans receivables on maximum exposure to credit risk as at 31 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	17,718,899
Individual impairment	-	-	(673,531)	(673,531)
Collective impairment	(53,253)	(32,738)	(762,329)	(848,320)
As at 31 December	9,826,504	1,316,350	5,054,194	16,197,048

23.3.4 Movement of impairment during the year 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	780,624	780,624
Charge during the year	-	-	(107,093)	(107,093)
As at 31 December	-	-	673,531	673,531
Collective				
As at 01 January	64,479	49,979	530,995	645,453
Charge during the year	(11,226)	(17,242)	231,334	202,866
As at 31 December	53,253	32,738	762,329	848,319

23.4 Lease and hire purchase receivable

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000

23.4.1 Finance lease/Hire purchase receivable within one year from the reporting date

Total lease and hire purchase rental receivable		13,051,397	16,909,231	13,051,397	16,909,231
Less : lease and hire purchase rental receivable after one year		8,270,159	11,312,847	8,270,159	11,312,847
Rental receivable within one year from the reporting date		4,781,238	5,596,384	4,781,238	5,596,384
Less : Unearned lease and hire purchase income		1,307,947	1,645,698	1,307,947	1,645,698
		3,473,291	3,950,686	3,473,291	3,950,686

23.4.2 Finance lease/hire purchase receivable after one year from the reporting date

Rental receivable after one year from the reporting date		8,270,159	11,312,847	8,270,159	11,312,847
Less : Unearned lease and hire purchase income		1,115,692	1,567,022	1,115,692	1,567,022
		7,154,467	9,745,825	7,154,467	9,745,825
Gross investment in leases and hire purchase		10,627,758	13,696,511	10,627,758	13,696,511

23.4.3 Lease and hire purchase receivable

Gross investment in leases and hire purchase		10,627,758	13,696,511	10,627,758	13,696,511
Less : Allowance for impairment losses					
Individual impairment	23.4.5	574,151	1,093,515	574,151	1,093,515
Collective impairment	23.4.5	549,923	707,567	549,923	707,567
Net investment in leases and hire purchase		9,503,684	11,895,430	9,503,684	11,895,430

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

23.4.4 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31 December 2022

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Gross receivables	4,363,425	3,253,614	3,010,719	10,627,758
Individual impairment	-	-	(574,151)	(574,151)
Collective impairment	(76,755)	(171,413)	(301,755)	(549,923)
As at 31 December	4,286,670	3,082,201	2,134,813	9,503,684

23.4.5 Movement of impairment during the year 2022

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
As at 01 January	-	-	1,093,515	1,093,515
Charge during the year	-	-	(519,364)	(519,364)
As at 31 December	-	-	574,151	574,151
Collective				
As at 01 January	97,631	104,501	505,435	707,567
Charge during the year	(20,876)	66,912	(203,680)	(157,644)
As at 31 December	76,755	171,413	301,755	549,923

23.4.6 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31 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)
As at 31 December	5,591,768	2,559,469	3,744,192	11,895,429

23.4.7 Movement of impairment during the year 2021

	Stage 1 Rs.'000	Stage 2 Rs.'000	Stage 3 Rs.'000	Total Rs.'000
Individual				
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
Collective				
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

23.4.8 Credit exposure and expected credit loss (impairment provision) movement - Stage wise

	Stage 1		Stage 2		Stage 3		Total	
	Gross Carrying Amount Rs.'000	Impairment (ECL) Rs.'000	Gross Carrying Amount Rs.'000	Impairment (ECL) Rs.'000	Gross Carrying Amount Rs.'000	Impairment (ECL) Rs.'000	Gross Carrying Amount Rs.'000	Impairment (ECL) Rs.'000
Financial assets measured at amortised cost								
Loans and receivables								
As at 01 January 2021	13,787,533	168,132	4,956,057	190,144	11,456,018	3,054,992	30,199,608	3,413,268
Transfer from Stage 1	(2,648,755)	(57,153)	1,221,936	24,126	1,426,819	33,027	-	-
Transfer from Stage 2	547,287	22,667	(2,261,255)	(99,467)	1,713,968	76,800	-	-
Transfer from 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)	(35,858,894)	(460,159)
As at 31 December 2021	15,576,492	152,765	4,014,562	137,714	12,070,916	3,186,856	31,661,970	3,477,335
Transfer from Stage 1	714,558	17,641	(385,857)	(8,796)	(328,701)	(8,845)	-	-
Transfer from Stage 2	(1,295,875)	(67,706)	2,276,003	126,462	(980,128)	(58,756)	-	-
Transfer from Stage 3	(489,421)	(63,083)	(429,331)	(54,556)	918,752	117,639	-	-
New assets originated or purchased	7,260,578	48,229	2,735,349	53,620	1,791,784	246,829	11,787,711	348,678
Financial assets derecognized or repaid	(4,855,234)	(25,182)	(1,592,463)	(28,962)	(2,760,245)	(243,132)	(9,207,942)	(297,276)
Write-off loans	(187)	(187)	(2)	(2)	(713,370)	(713,370)	(713,559)	(713,559)
Changes in facility amount	(1,717,894)	68,107	(669,443)	2,007	(990,071)	(143,077)	(3,377,408)	(72,963)
As at 31 December 2022	15,193,017	130,584	5,948,818	227,487	9,008,937	2,384,144	30,150,772	2,742,215

24. FINANCIAL INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME**Accounting Policy**

As per SLFRS 9, this comprises debt instruments measured at FVTOCI and equity instruments designated at FVTOCI.

Debt instruments at FVTOCI

A debt instrument is measured at FVTOCI only if it meets both of the following conditions and is not designated at FVTPL:

- The asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

FVTOCI debt instruments are subsequently measured at fair value with gains and losses arising due to changes in fair value recognised in OCI. Interest income and losses and ECL and reversals are recognised in profit or loss. On derecognition, cumulative gains or losses previously recognised in OCI are reclassified from OCI to profit or loss.

These instruments comprise Government Securities that had previously been classified as available for sale classified and Loans and receivables under LKAS 39.

Equity instruments at FVTOCI

Upon initial recognition, the Company occasionally elects to classify irrevocably some of its equity investments held for strategic purpose, as equity instruments at FVTOCI when they meet the definition of Equity under Sri Lanka Accounting Standard - LKAS 32 - 'Financial Instruments: Presentation' and are not held for trading. Such classification is determined on an instrument-by-instrument basis.

Gains and losses on these equity instruments are never recycled to profit or loss instead directly transferred to retained earnings at the time of derecognition. Dividends are recognised in profit or loss as other operating income when the right of the payment has been established. Equity instruments at FVTOCI are not subject to an impairment assessment.

These instruments comprise quoted and unquoted shares that had been previously classified as Available-for-sale under LKAS 39.

As per LKAS 39, Available-for-sale financial investments included equity and debt securities. Equity investments classified as available-for-sale were those which were neither classified as held-for-trading nor designated at fair value through profit or loss. Debt securities in this category were intended to be held for an indefinite period of time and may be sold in response to needs for liquidity or in response to changes in the market conditions.

The Group had not designated any loans or receivables as available-for-sale. After initial measurement, available-for-sale financial investments are subsequently measured at fair value. Unrealised gains and losses were recognised in equity through OCI in the 'Available-for-sale reserve'. When these financial investments were disposed, the cumulative gain or loss previously recognised in equity was recycled to profit or loss through 'Operating income'. Interest earned while holding available-for-sale financial investments was reported as 'Interest income' using the EIR. Dividend earned while holding available-for-sale financial investments were recognised in the Income Statement as 'Operating income' when the right to receive the payment had been established.

As at 31 December	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Government securities	24.1	-	1,962,059	-	3,332,651
Equity securities - Quoted	24.3	15,000	26,250	15,000	26,250
Equity securities - Unquoted	24.4	863	860	863	860
Unit trust		-	-	62,288	55,577
Net financial investments at FVTOCI		15,863	1,989,169	78,151	3,415,338

24.1 Government Securities

Treasury bills		-	1,702,755	-	2,963,479
Treasury bonds		-	259,304	-	369,172
		-	1,962,059	-	3,332,651

24.2 Government securities allocated for the liquidity requirement

As at 31 December	Company	
	2022 Rs.'000	2021 Rs.'000
Government securities, maturing within one year, free from any lien or charge	-	1,962,059
	-	1,962,059

24.3 Equity Securities - Quoted

As at 31 December	2022			2021		
	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000	No of Shares	Total Cost Rs.'000	Fair Value Rs.'000
Company						
Power and Energy						
LVL Energy Fund PLC	2,500	20,000	15,000	2,550	20,000	26,250
		20,000	15,000		20,000	26,250
Group						
Power and Energy						
LVL Energy Fund PLC	2,500	20,000	15,000	2,550	20,000	26,250
		20,000	15,000		20,000	26,250

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

24.4 Equity Securities - Unquoted

As at 31 December	Company						
	Holding %	2022			2021		
		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	-
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	-
UB Finance Limited	0.00	2,506,562	17,546	809	2,506,562	17,546	806
			36,200	863		36,200	860
Adjustment due to impairment			(35,337)			(35,340)	
Total unquoted investments			863			860	

24.5 Equity Securities - Unquoted

As at 31 December	Group						
	Holding %	2022			2021		
		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	-
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	-
UB Finance Limited	0.00	2,506,562	17,546	809	2,506,562	17,546	806
			36,200	863		36,200	860
Adjustment due to impairment			(35,337)			(35,340)	
Total unquoted investments			863			860	

24.5.1 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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Government securities	4,307,394	-	5,883,995	-
	4,307,394	-	5,883,995	-

25.1 Government Securities

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Treasury bills	2,910,161	-	4,020,106	-
Treasury bonds	1,397,233	-	1,863,889	-
	4,307,394	-	5,883,995	-

25.2 Government securities allocated for the liquidity requirement

As at 31 December	Company	
	2022 Rs.'000	2021 Rs.'000
Government securities, maturing within one year, free from any lien or charge	2,992,197	-
	2,992,197	-

25. FINANCIAL INVESTMENTS AT AMORTISED COST CONTD.

25.3 Considering the unprecedented changes in the macro-economic conditions, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued the "Statement of Alternative Treatment (SoAT) on Reclassification of Debt Portfolio". This SoAT provide a temporary practical expedient to permit the Group to reclassify the debt portfolio measured at Fair Value through Other Comprehensive Income (FVTOCI) to Amortised cost.

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Real estate stock	96,937	175,816	96,937	175,816
	96,937	175,816	96,937	175,816

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 %	2022		2021	
					Cost Rs.'000	Fair Value Rs.'000	Cost Rs.'000	Fair Value Rs.'000
Unquoted								
Lanka Securities (Pvt) Ltd	Sri Lanka	Share Brokering	5,212,543	29.00%	81,084	81,084	81,084	81,084
Less : Impairment provision/ (reversal)					-	-	-	-
Balance as at 31 December					81,084	81,084	81,084	81,084

27.1 Carrying Value on Equity Basis

As at 31 December	Group	
	Lanka Securities (Pvt) Ltd	
	2022 Rs.'000	2021 Rs.'000
Net assets at the beginning of the year	131,399	95,106
Prior year adjustment	2,401	-
Add : Profit/(loss) before tax accruing to the group	56,131	109,490
Less : Income tax	17,496	30,334
Add : Other comprehensive income for the year, net of income tax	406	633
Less : Dividend received	-	43,496
Net assets at the end of the year	172,842	131,399

27.2 Summarized Financial Information of Associate

For the year ended 31 December	Lanka Securities (Pvt) Ltd	
	2022 Rs.'000	2021 Rs.'000
	Income	539,822
Less : Expenses	346,267	369,198
Profit/(loss) before taxation	193,555	377,553
Less : Income tax expense/(reversal)	60,333	104,598
Profit/(loss) for the period	133,222	272,955
Defined benefit plan actuarial gains/(losses)	2,001	2,182
Tax impact on actuarial (loss)/gain	(600)	-
Total comprehensive income/(expense) for the period	134,623	275,137
As at 31 December	2022 Rs.'000	2021 Rs.'000
Total assets	1,066,824	1,406,346
Total liabilities	470,823	959,418

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.

The Subsidiary, MBSLI has not met the regulatory Total Available Capital (TAC) requirement as at 31 December 2022. However, the company has taken measures to infuse capital in order to comply with the requirement stipulated by the Insurance Regulator, IRCSL.

The consolidated financial statements of the Group include:

28.1

As at 31 December	Note	Principal activity	Country of Incorporation	2022			2021		
				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	257,631	53.81	1,016,096	371,404
Less : Impairment provision/(reversal)	28.2				758,465			644,692	
Balance as at 31 December					257,631			371,404	

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

	MBSL Insurance Rs.'000
Cost	
Balance as at 01 January 2021	1,016,096
Investment made during the year	-
Balance as at 31 December 2021	1,016,096
Investment made during the year	-
Balance as at 31 December 2022	1,016,096
Impairment provision	
Balance as at 01 January 2021	(628,673)
Impairment reversal/(charge)	(16,019)
Balance as at 31 December 2021	(644,692)
Impairment reversal/(charge)	(113,773)
Balance as at 31 December 2022	(758,465)
As at 31 December 2021	371,404
As at 31 December 2022	257,631

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.

28.3 Summarized Financial Information of MBSL Insurance Company Ltd

	2022 Total Rs.'000	2021 Total Rs.'000
Non-controlling interest (NCI) percentage (%)	46.19%	46.19%
Net operating income	443,285	264,598
Operating expenses	(414,521)	(323,639)
Profit before income tax	28,764	(59,041)
Income tax (expense)/reversal	4,947	(44,383)
Profit/(loss) for the year	33,711	(103,424)
Profit allocated to non-controlling interest (NCI)	15,571	(47,772)
Other comprehensive income allocated to non-controlling interest (NCI)	1,059	(3,435)

28. INVESTMENT IN SUBSIDIARIES CONTD.

28.4

As at 31 December	2022 Rs.'000	2021 Rs.'000
Cash and cash equivalents	196,060	245,061
Placements with banks & financial institutions	203,596	355,384
Financial investments at fair value through profit or loss	6,337	13,668
Loans & receivables at amortised cost	2,978	3,979
Financial investments at amortised cost	1,638,889	1,426,169
Property, equipment and right-of-use assets	133,300	135,523
Deferred tax assets	9,069	4,110
Other assets	366,084	367,577
Total assets	2,556,312	2,551,471
Due to banks	9,217	16,492
Debt issued and borrowed funds at amortised cost	55,429	171,924
Insurance contract liabilities-life	355,190	416,634
Insurance contract liabilities-non life	643,229	511,538
Other liabilities	528,821	505,794
Retirement benefits obligations	11,123	11,789
Total liabilities	1,603,009	1,634,171
Net assets value	953,303	917,300
Carrying amount of non-controlling interest (NCI)	440,331	423,701

28.5 Valuation assumptions and the sensitivity 2022

The Subsidiary MBSLI valuation of Non-life segment based on the sensitivity on the residual income value approach

Key valuation assumptions used in Non-life business		Sensitivity table (Total equity value -Non Life of MBSLI company)						
		Cost of equity [valuation of Non-life & Life business] in rupees						
Risk free rate	20.0%			27.08%	27.33%	27.58%	27.83%	28.08%
Equity return premium	6.80%	Terminal Value Growth [valuation of Non-life business]	5.0%	(72,368,997)	(76,602,835)	(80,642,696)	(84,746,941)	(88,663,589)
Company risk premium	0.75%							
Cost of equity	27.58%							
Terminal growth	5.00%							

The Subsidiary MBSLI valuation of life segment based on market multiple value approach where as same value approach in the previous year.

28.6 Valuation assumptions and the sensitivity 2021

Key valuation assumptions used in Non-life business		Sensitivity table (Total equity value -Non Life of MBSLI company)						
		Cost of equity [valuation of Non-life & Life business] in rupees						
Risk free rate	10.70%			17.74%	17.99%	18.24%	18.49%	18.74%
Equity return premium	6.80%	Terminal Value Growth [valuation of Non-life business]	5.0%	212,472,419	199,823,132	187,603,069	175,762,720	164,317,042
Company risk premium	1.00%							
Cost of equity	18.24%							
Terminal growth	5.00%							

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. 258 Mn. Accordingly impairment charge of Rs.114 Mn (2021 impairment charge : Rs.16 Mn) was recorded during the year 2022 in the Company's 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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Cost as at 01 January		148,408	148,408	148,408	148,408
Less: Provision		3,761	3,761	3,761	3,761
Cost as at 31 December	29.1	144,647	144,647	144,647	144,647
Accumulated depreciation as at 31 December		39,849	36,944	39,849	36,944
Net book value as at 31 December		104,798	107,703	104,798	107,703
Accumulated depreciation					
Balance as at 01 January		36,944	34,038	36,944	34,038
Charge for the year		2,906	2,906	2,906	2,906
Balance as at 31 December		39,849	36,944	39,849	36,944
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	2022										
	Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	Cost/Carrying amount			Fair Value		
						Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
	No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya			16.61P	Level 3	1,750	-	1,750	-	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, 1 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			
	Total value of investment property					86,532	58,115	144,647			

As at 31 December	2021										
	Location	No of Buildings	Building sq.ft	Extent Perches	Fair Value Hierarchy	Cost/Carrying amount			Fair Value		
						Land Rs.'000	Buildings Rs.'000	Total Rs.'000	Land Rs.'000	Buildings Rs.'000	Total Rs.'000
	No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya			16.61P	Level 3	1,750	-	1,750	-	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, 1 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			
	Total value of investment property					86,532	58,115	144,647			

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 Feet	LKR.100/-
		Depreciation Rate	25%
		Capitalizing Rate	7%
	Fingara town & country Club, No. 50/21, Old Kesbewa Road, Boralesgamuwa.	Market Comparable Method Price Per Square Feet	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"> Price per perch for land Price per square feet for building Depreciation rate for building 	Estimated fair value would increase/ (decrease) if; <ul style="list-style-type: none"> Price per perch of land would increase/(decrease) Price per square feet for building would increase/(decrease) Depreciation rate for building would increase/(decrease)

29.1.b The Company has entered into an agreement with 71 tenants to sell the lease hold rights of the property at No. 102 & 104, Dam Street, Colombo 12 subject to the approval of Urban Development Authority (UDA). The date of the completion of this sale and the execution of the deed of transfer in favor of the purchaser in respect of lease hold rights of the premises shall be fixed subsequent to the registration of the said premises as a condominium unit and upon a condominium deed of declaration being executed and obtaining all necessary approvals from the UDA for such registration. However, the Company has not obtained the condominium status and other necessary approval from UDA to proceed selling the lease hold right agreement till the reporting date. MBSL shall expeditiously affect the transfer deeds contemplated by the agreement after having obtained the registration of the condominium plan and the condominium declaration and any other statutory approval from UDA and upon the balance payment of the purchase consideration settled in full.

30. PROPERTY, EQUIPMENT AND RIGHT-OF-USE ASSETS

Accounting Policy

Basis of Recognition

Property and equipment are tangible items that are held for servicing, or for administrative purposes, and are expected to be used during more than one year.

Property and equipment are recognised if it is probable that future economic benefits associated with the asset will flow to the Group and cost of the asset can be reliably measured.

Basis of Measurement

An item of property and equipment that qualifies for recognition as an asset is initially measured at its cost. Cost includes expenditure that is directly attributable to the acquisition of the asset and cost incurred subsequently to add to or replace a part of it. The cost of self-constructed assets includes the cost of materials and direct labour, any other costs directly attributable to bringing the asset to a working condition for its intended use and the costs of dismantling and removing the items and restoring at the site on which they are located and capitalised borrowing costs. Purchased software that is integral to the functionality of the related equipment is capitalised as a part of computer equipment.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property & equipment.

The Company and the Group apply the cost model to property & equipment and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

Subsequent Cost

The cost of replacing a part of an item of property and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Group and its cost can be measured reliably. The cost of day to day servicing of property and equipment are charged to the Statement of Profit or Loss as incurred.

Repairs and Maintenance

Repairs and maintenance are charged to the Statement of Profit or Loss during the financial period in which they are incurred. The cost of major renovations is included in the carrying amount of the assets when it is probable that future economic benefits in excess of the most recently assessed standard of performance of the existing assets will flow to the Company and the Group and the renovation replaces an identifiable part of the asset. Major renovations are depreciated during the remaining useful life of the related asset.

Derecognition

Property and equipment is de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is recognised in 'other operating income' in the Statement of Profit or Loss in the year the asset is de-recognised.

Borrowing costs

There were no capitalised borrowing costs relating to the acquisition of property & equipment during the year.

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

30.1 Company

	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Right -of-use Assets	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost								
Balance as at 01 January 2021	14,000	-	125,553	4,585	424,937	502,046	720,781	1,791,902
Additions during the year	-	-	-	-	9,288	29,324	118,472	157,084
Disposals during the year	-	-	(5,208)	(4,585)	-	(1,198)	(161,312)	(172,303)
Adjustment due to verification	-	-	(1,395)	-	(129,078)	(147,935)	-	(278,408)
Balance as at 31 December 2021	14,000	-	118,950	-	305,147	382,237	677,941	1,498,275
Additions during the year	-	-	-	-	14,717	23,335	84,922	122,974
Disposals during the year	-	-	-	-	-	(336)	(36,435)	(36,771)
Adjustment due to verification	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	14,000	-	118,950	-	319,864	405,236	726,428	1,584,478
Accumulated Depreciation								
Balance as at 01 January 2021	-	-	87,306	4,585	334,701	319,078	287,542	1,033,212
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)
Balance as at 31 December 2021	-	-	93,309	-	234,603	205,648	357,530	891,090
Charge for the year	-	-	11,503	-	26,563	30,313	157,084	225,463
On disposals	-	-	-	-	-	(309)	(36,435)	(36,744)
Adjustment due to verification	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	-	-	104,812	-	261,166	235,652	478,179	1,079,809
Net book value								
As at 31 December 2021								607,185
As at 31 December 2022								504,669

30.2 Group

	Freehold Land	Freehold Buildings	Motor Vehicles	Leasehold Vehicles	Computer Equipment	Office Equipment & Furniture	Right-of-use Assets	Total
	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000	Rs.'000
Cost								
Balance as at 01 January 2021	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)	(172,303)
Adjustment due to verification	-	-	(1,395)	-	(129,078)	(147,935)	-	(278,408)
Balance as at 31 December 2021	14,000	-	119,188	-	371,195	482,113	812,153	1,798,649
Additions during the year	-	-	-	-	18,361	34,851	97,486	150,698
Disposals during the year	-	-	-	-	-	(336)	(36,435)	(36,771)
Adjustment due to verification	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	14,000	-	119,188	-	389,556	516,628	873,204	1,912,576
Accumulated Depreciation								
Balance as at 01 January 2021	-	-	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	-	-	93,548	-	294,241	282,062	386,090	1,055,941
Charge for the year	-	-	11,503	-	28,580	38,358	180,158	258,599
On disposals	-	-	-	-	-	(309)	(36,435)	(36,744)
Adjustment due to verification	-	-	-	-	-	-	-	-
Balance as at 31 December 2022	-	-	105,051	-	322,821	320,111	529,813	1,277,796
Net book value								
As at 31 December 2021								742,708
As at 31 December 2022								634,780

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	NBV of 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	9th 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.

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Motor vehicles	66,512	58,735	66,512	58,735
Computer equipments	215,137	175,173	273,340	233,376
Equipment, furniture & fittings	91,091	54,861	157,508	111,117
Total	372,740	288,769	497,360	403,228

Temporarily Idle Property and Equipment

There were no property and equipment of the Company and the Group that were temporarily idle as at the date of the Statement of Financial Position.

Property and Equipment Retired from Active Use

There were no property and equipment of the Company and the Group were retired from active use as at the date of the Statement of Financial Position.

31. INTANGIBLE ASSETS

Accounting Policy

Basis of Recognition

An intangible asset is recognised only when its cost can be measured reliably, and it is probable that the expected future economic benefits that are attributable to it will flow to the Company and to the Group in accordance with the Sri Lanka Accounting Standard - LKAS 38 - 'Intangible Assets'.

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value as at the date of acquisition. Following initial recognition, intangible assets are stated in the Statement of Financial Position at cost less any accumulated amortisation and any accumulated impairment losses if any.

Subsequent Expenditure

Subsequent expenditure on intangible assets is capitalised only when it increases the future economic benefits embodied in the specific asset to which it relates. All other expenditure is expensed as incurred.

Useful Economic Lives

The useful economic lives of intangible assets are assessed to be either finite or indefinite.

Derecognition

Intangible assets are de-recognised on disposal or when no future economic benefits are expected from its use. Any gain or loss arising on de-recognition of the assets is recognised in the Statement of Profit or Loss in the year the assets is de-recognised.

31.1 Company

	Computer Software Rs.'000	Total Rs.'000
Cost		
Balance as at 01 January 2021	326,657	326,657
Additions and improvements during the year	18,151	18,151
Adjustment due to verification	(43,364)	(43,364)
Balance as at 31 December 2021	301,444	301,444
Additions and improvements during the year	11,681	11,681
Adjustment due to verification	-	-
Balance as at 31 December 2022	313,125	313,125
Accumulated amortisation		
Balance as at 01 January 2021	180,164	180,164
Amortisation for the year	36,513	36,513
Adjustment due to verification	(43,811)	(43,811)
Balance as at 31 December 2021	172,866	172,866
Amortisation for the year	37,051	37,051
Adjustment due to verification	-	-
Balance as at 31 December 2022	209,917	209,917
Net book value		
As at 31 December 2021		128,578
As at 31 December 2022		103,208

31. INTANGIBLE ASSETS CONTD.

31.2 Group

	Computer Software Rs.'000	Goodwill Rs.'000	Total Rs.'000
Cost			
Balance as at 01 January 2021	374,848	18,193	393,041
Additions and improvements during the year	18,151	-	18,151
Adjustment due to verification	(43,364)	-	(43,364)
Balance as at 31 December 2021	349,635	18,193	367,828
Additions and improvements during the year	14,937	-	14,937
Adjustment due to verification	-	-	-
Balance as at 31 December 2022	364,572	18,193	382,765
Accumulated amortisation and impairment			
Balance as at 01 January 2021	225,939	18,193	244,132
Amortisation for the year	38,933	-	38,933
Adjustment due to verification	(43,814)	-	(43,814)
Balance as at 31 December 2021	221,058	18,193	239,251
Amortisation for the year	37,118	-	37,118
Adjustment due to verification	-	-	-
Balance as at 31 December 2022	258,176	18,193	276,369
Net book value			
As at 31 December 2021			128,578
As at 31 December 2022			106,396

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Computer Software	31,047	26,947	41,443	37,343

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 and prepayment and other receivables.

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Other receivables	48,958	95,743	63,921	141,291
Advances and prepayments	135,357	107,098	173,495	137,979
Other accounts	22,134	687,410	41,507	712,126
Reinsurance assets-insurance contracts	-	-	158,580	143,483
Insurance receivables	-	-	135,029	122,947
	206,449	890,251	572,532	1,257,826
Less : Allowance for impairment losses	43,292	37,456	43,292	37,456
	163,157	852,795	529,240	1,220,370

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Bank overdraft	152,060	775,211	161,277	791,703
Reverse repurchase agreements	252,060	86,018	252,060	86,018
Bank borrowings - Short-term loans	2,389,466	2,863,606	2,389,466	2,863,607
Bank borrowings - Long-term loans	132,367	391,977	132,367	391,977
	2,925,953	4,116,812	2,935,170	4,133,305

33. DUE TO BANKS CONTD.**33.1 Analysis of Cash and Cash Equivalents at the End of the Year**

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Dues to banks	152,060	775,211	161,277	791,703
	152,060	775,211	161,277	791,703

33.2 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2022

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Reverse repurchase agreements	252,060	-	-	252,060
Bank borrowings - Short-term loans	2,389,466	-	-	2,389,466
Bank borrowings - Long-term loans	-	132,367	-	132,367
	2,641,526	132,367	-	2,773,893

33.3 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
	2,949,625	391,977	-	3,341,602

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Savings deposits	764,165	911,864	764,165	911,864
Time deposits	22,760,444	21,355,998	22,590,328	21,289,740
	23,524,609	22,267,862	23,354,493	22,201,604

34.1 Contractual Maturity Analysis of Customer Deposits

	2022			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Company				
Savings deposits	764,165	-	-	764,165
Time deposits	15,852,565	6,854,294	53,585	22,760,444
	16,616,730	6,854,294	53,585	23,524,609
Group				
Savings deposits	764,165	-	-	764,165
Time deposits	15,852,565	6,684,177	53,585	22,590,328
	16,616,730	6,684,177	53,585	23,354,492

34.2 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
Company				
Savings deposits	911,864	-	-	911,864
Time deposits	16,182,670	5,109,395	63,933	21,355,998
	17,094,534	5,109,395	63,933	22,267,862
Group				
Savings deposits	911,864	-	-	911,864
Time deposits	16,182,670	5,043,137	63,933	21,289,740
	17,094,534	5,043,137	63,933	22,201,604

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Debentures	35.3	69,082	2,107,182	69,082	2,107,182
Long term loan - Securitization		-	274,397	-	274,397
Total debt issued and borrowed funds	35.1/35.2	69,082	2,381,579	69,082	2,381,579

35.1 Contractual Maturity Analysis of Long Term Securitization - 2022

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

35.2 Contractual Maturity Analysis of Long Term Securitization - 2021

	Company/Group			
	Within one year Rs.'000	1 - 5 Years Rs.'000	Over 5 years Rs.'000	Total Rs.'000
Long term loan - Securitization	274,397	-	-	274,397

35.3 Debentures- 2022

ISIN No.	Interest Rate			Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Face Value Rs '000	Company/ Group
	Coupon Rate	Effective Annual Yield	Comparable Government Security							Value as at 2022 Rs.'000
Fixed rate										
LK0186D25001	24.00%	24.00%	27.60%	listed	Nil	Annually	16-Nov-22	15-Nov-27	23,990	24,472
LK0186D25027	23.50%	24.88%	27.60%	listed	Nil	Bi Annually	16-Nov-22	15-Nov-27	32,880	33,530
Floating rate										
LK0186D25019	29.50%	32.93%	27.60%	listed	Nil	Quarterly	16-Nov-22	15-Nov-27	10,830	11,080
Total debentures									67,700	69,082

35.4 Debentures - 2021

ISIN No.	Interest Rate			Colombo Stock Exchange Listing	Security	Interest Payable Frequency	Allotment Date	Term of Redemption	Face Value Rs '000	Company/ Group
	Coupon Rate	Effective Annual Yield	Comparable Government Security							Value as at 2021 Rs.'000
Fixed rate										
LK0186D23824	15.00%	15.00%	7.68%	listed	Nil	Annually	03-May-17	02-May-22	805,760	884,669
LK0186D23816	14.50%	15.03%	7.68%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,193,230	1,221,480
Floating rate										
LK0186D23808	10.00%	10.25%	7.68%	listed	Nil	Bi Annually	03-May-17	02-May-22	1,010	1,033
Total debentures									2,000,000	2,107,182

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

	2022				2021			
	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	-	69,082	-	69,082	2,107,182	-	-	2,107,182

Outstanding number of debentures as at 31 December 2022 consisted of 677,000 unsecured redeemable debentures of Rs. 100/- each issued by the Company.

The Company has not repurchased any of its own debt during the year. (2021: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2022 and 2021.

Debenture issue proceeds utilization as at 31 December 2022

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 67.7 Mn during the year 2022							
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.	67,700,000	16-Nov-22	67,700,000	100%	67,700,000	100%	N/A
2.	To enhance the total capital base of the Company, for which the Company has obtained approval from the Central Bank of Sri Lanka (CBSL).							

36. INSURANCE CONTRACT LIABILITIES

Accounting Policy

36.1 Valuation of life insurance fund

The valuation of life Insurance fund as at 31 December 2022 was made by Ms.Teja Ranade Gadhoke a qualified professional actuary, who also determined and certified GPV basis the surplus of Rs 51.58 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	
		2022 Rs.'000	2021 Rs.'000
Balance as at 1 January		317,645	393,865
Increase in life fund		-	-
		317,645	393,865
Fair value reserve		-	-
Life fund balance as at 31 December	36.1.2	317,645	393,865
Unclaimed benefits		37,545	22,769
Balance as at 31 December		355,190	416,634

36.1.2 Life insurance fund

The movement of life insurance fund is as follows;

Balance as at 1 January		393,865	449,807
Increase/(decrease) in life fund		(83,302)	(59,144)
		310,563	390,663
Movement of AFS reserve transferred to life fund		6,815	2,800
Actuarial gain on defined benefit plan		267	402
		317,645	393,865

36.2 Accounting Policy

Liability adequacy test (LAT)

A Liability Adequacy Test ("LAT") for non life contract liability was carried out by J.S.A. Plugge for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31 December 2022 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 2022, in many but not all scenarios of future experience. The UPR provision of LKR 235,784,193 set by the Company, net of reinsurance and DAC, is adequate in relation to the unexpired risks of MBSL Insurance Co. Ltd as at 31 December 2022, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

As at 31 December	Group	
	2022 Rs.'000	2021 Rs.'000
Insurance Contract Liabilities-Non Life		
Provision for reported claims by policy holders	363,604	312,934
Provision for claims IBNR	44,414	29,834
Outstanding claims provision	408,018	342,768
Provision for unearned premiums	235,211	168,770
Total Non life insurance contract liabilities	643,229	511,538

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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Current tax liabilities	49,029	178,898	49,029	178,898
Balance at 01 January	178,898	14,831	178,898	14,831
Current tax based on profit for the year	940	137,227	940	137,227
Other (reversal)/charge including settlements	(36,009)	31,846	(36,009)	31,846
ESC movement for the year	-	-	-	-
WHT movement for the year	-	(5,006)	-	(5,006)
Payment of tax	(94,800)	-	(94,800)	-
Balance as at 31 December	49,029	178,898	49,029	178,898

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Net deferred tax asset	38.1	(33,824)	-	(42,893)	(4,111)
Net deferred tax liability	38.1	-	78,301	-	78,301
		(33,824)	78,301	(42,893)	74,190

38.1 Deferred Tax Movement

	Accelerated Depreciation for Tax Purposes		Provision for Loan Losses	Retirement Benefit Obligation	Tax Losses on Operation	Right of Use Assets	T-Bond & Bills	Total
	Property, Plant & Equipment	Leased Assets						
Company								
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)	(37,140)	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
Other comprehensive income								
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	145,287	(36,502)	(77,025)	-	(8,196)	-	78,301
Balance as at 01 January 2022	54,737	145,287	(36,502)	(77,025)	-	(8,196)	-	78,301
Due to rate increase/(decrease)	-	-	-	-	-	-	-	-
Due to change in temporary differences	9,858	(87,461)	(29,021)	(21,450)	-	1,836	-	(126,238)
Other comprehensive income								
Due to rate increase/(decrease)	-	-	-	-	-	-	-	-
Due to change in temporary differences	-	-	-	14,113	-	-	-	14,113
Balance as at 31 December 2022	64,595	57,826	(65,523)	(84,361)	-	(6,360)	-	(33,824)
Group								
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)	48,336	(6,912)	203,323	5,006	-	143,747
Other comprehensive income								
Due to rate increase/(decrease)	-	-	-	2,132	-	-	119	2,251
Due to change in temporary differences	-	-	-	14,318	-	-	693	15,011
Balance as at 31 December 2021	55,403	145,286	(36,503)	(79,660)	-	(10,318)	(18)	74,190
Balance as at 01 January 2022	55,403	145,286	(36,503)	(79,660)	-	(10,318)	(18)	74,190
Due to rate reduction	(62)	-	-	(190)	-	(290)	-	(542)
Due to change in temporary differences	8,223	(87,462)	(29,021)	(21,804)	-	(580)	-	(130,644)
Other comprehensive income								
Due to rate increase/(decrease)	-	-	-	-	-	-	(2)	(2)
Due to change in temporary differences	-	-	-	14,114	-	-	(9)	14,105
Balance as at 31 December 2022	63,564	57,824	(65,524)	(87,540)	-	(11,188)	(29)	(42,893)

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	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Accrued expenses		29,239	65,586	32,654	67,957
Lease liability	39.1	246,832	334,980	358,637	450,324
Payable to employees & suppliers		147,941	158,923	249,274	258,160
Insurance payable		-	-	91,855	100,352
Other liabilities		262,349	204,629	482,766	393,120
		686,361	764,118	1,215,186	1,269,913

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

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Operating Lease				
Balance as at 01 January	334,980	476,033	450,324	505,158
Additions/(disposals)	68,389	(9,785)	78,522	85,646
Accretion of interest	39,951	51,553	55,968	62,772
Payments	(196,488)	(182,821)	(226,741)	(204,097)
Finance Lease				
Within 12 months	-	-	564	845
As at 31 December	246,832	334,980	358,637	450,324

The maturity analysis of lease liabilities are disclosed in Note 48.7.1

Sensitivity of right-of-used assets/lease liability to key assumptions

Sensitivity discount rates

1% increase/(decrease) in discount rate as at 31 December 2022 would have (decreased)/increased the lease liability by approximately Rs. 3.061 Mn with a similar (decrease)/increase in the right-of-used asset (2021 it was Rs. -15.3 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 Rs. 3.25 Mn (2021 it was Rs. 1.009 Mn).

The Group had total cash outflows for leases of Rs 227.02 Mn (2021: Rs 203.3 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.

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 1967/70 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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Balance as at 01 January	320,934	351,906	332,724	363,816
Expense recognised during the year	61,641	48,608	64,341	51,162
Payment made during the year	(54,328)	(19,922)	(55,707)	(21,111)
Actuarial (gains)/losses recognised in the Statement of Other Comprehensive Income	(47,045)	(59,658)	(49,032)	(61,143)
Balance as at 31 December	281,203	320,934	292,326	332,724

40.1 Expense Recognised in the Statement of Profit or Loss

Current service cost	24,733	24,326	26,187	26,047
Interest cost	36,908	24,282	38,154	25,115
Expense recognised during the year	61,641	48,608	64,341	51,162

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2022 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. RETIREMENT BENEFITS OBLIGATIONS CONTD.**40.2 Actuarial Assumptions**

The Bank generally uses the 10 year treasury bond rate as the discount rate. The treasury bond rate increased significantly during the year and was around 30% range during the latter part of 2022. The Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) has issued guidance (via Frequently Asked Questions (FAQs) on use of discount rate under the uncertain economic conditions) to consider an adjusted treasury bond rate as the discount rate for the purpose of the actuarial valuations as at 31 December 2022, on the basis that the current treasury bond rates do not reflect only the time value of money. Accordingly, an adjusted discount rate was derived by removing a credit spread from the current treasury bond rate, as per the guidance issued by CA Sri Lanka.

	Company	
	2022	2021
Financial assumptions		
Discount rate	18.50%	11.50%
Demographic assumptions		
Mortality	A 1967/70 Mortality Table	A 1967/70 Mortality Table
Disability	10% of the Mortality Table	10% of the Mortality Table
Retirement age	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 not recognised in profit or loss as a past service income (2021: Rs. 37.2 Mn)

Expected average working life of the active participants is 7.25 years as of 31 December 2022 (8.15 years as of 31 December 2021)

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.

2022			
Increase/ (decrease) in discount rate	Increase/ (decrease) in salary increment	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%		(9.76)	(9.76)
(1%)		10.54	10.54
	1%	12.03	12.03
	(1%)	(11.23)	(11.23)

Maturity Profile of the Defined benefit Obligation

	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Within the next 12 months	57,736	47,707	57,736	47,777
Between 1-2 years	89,788	96,166	90,365	96,166
Between 2-5 years	58,248	56,235	68,265	67,143
Between 5-10 years	56,646	73,747	56,941	74,202
Beyond 10 years	18,785	47,080	19,019	47,436
Total	281,203	320,935	292,326	332,724

41. STATED CAPITAL

	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
As at 31 December				
Issued and fully paid ordinary shares	4,276,448	2,124,457	4,276,448	2,124,457
Issue of ordinary shares through right issue	-	2,151,991	-	2,151,991
Balance as at 31 December	4,276,448	4,276,448	4,276,448	4,276,448

	Company		Group	
	2022 No. of Shares	2021 No. of Shares	2022 No. of Shares	2021 No. of Shares
As at 31 December				
No. of shares in issue	524,539,637	165,874,541	524,539,637	165,874,541
Rights issue-shares	-	358,665,096	-	358,665,096
Balance as at 31 December	524,539,637	524,539,637	524,539,637	524,539,637

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 31 December 2021

No.	Objective as per the prospectus	Amount allocated as per prospectus LKR	Date of utilization	Amount allocated from proceed 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.					2,151,990,576	100%	N/A
2	To enhance Tier I Capital base of the Company. Tier I ratio of the Company as at 31 December 2020 stood at 4.41% and subsequent to this Rights issue the Tier I ratio of the Company as at 30 September 2021, increased to 11.56%.	2,239,306,302	27/9/2021	2,151,990,576	96%	2,151,990,576	100%	100% of the capital is taken for Tier I.

42. RESERVES

42.1 Statutory Reserves

	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
As at 31 December				
Balance as at 01 January	339,996	234,613	339,996	234,613
Add: Transfers during the year	-	105,383	-	105,383
Balance as at 31 December	339,996	339,996	339,996	339,996

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

	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
As at 31 December				
Balance as at 01 January	(427,847)	(893,794)	(251,497)	(714,093)
Profit/(loss) for the year	(495,608)	529,044	(325,059)	525,073
Prior year adjustment made to share of associate company profit	-	-	2,401	-
Transfers to statutory reserves	-	(105,383)	-	(105,383)
Transfers to regulatory loss allowance reserve	(54,441)	-	(54,441)	-
Other comprehensive income	32,932	43,209	34,478	43,828
Transaction cost related to rights issue	-	(923)	-	(923)
Balance as at 31 December	(944,964)	(427,847)	(594,118)	(251,497)

42.3 RLA reserve

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Balance as at 01 January	-	-	-	-
Transfers during the year	54,441	-	54,441	-
Balance as at 31 December	54,441	-	54,441	-

42.4 OCI Reserve

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Balance as at 01 January	(19,642)	2,575	(23,860)	3,157
Gains/(losses) on remeasuring financial investments at FVTOCI	(10,735)	(22,217)	(10,642)	(27,017)
Balance as at 31 December	(30,377)	(19,642)	(34,502)	(23,860)

Other Financial Disclosures

This section provides information on related party disclosures and other disclosures required by the Sri Lanka Accounting Standards.

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 2022.

43. RELATED PARTY DISCLOSURE CONTD.**43.c Transactions with Key Management Personnel and their Close Family Members**

Remuneration to Key Management Personnel

As at 31 December	Company		Group	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
(a) Remuneration to Board of Directors				
Short term employees benefits	4,364	4,342	9,262	6,048
	4,364	4,342	9,262	6,048
(b) Remuneration to Corporate Management				
Short term employees benefits	94,973	76,623		
Post employment benefits	2,441	3,875		
	97,414	80,498		

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

	Board of Directors		Corporate Management	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
(a) Items in the Statement of Financial Position				
Company				
Assets - Loan and receivables	-	-	12,662	8,411
Liabilities - Due to customers	-	-	7,277	2,585
Group				
Assets - Loan and receivables	65,668	-	-	15,729
Liabilities - Due to customers	30	4,354	4,713	4,274
(b) Items in the Statement of Profit or Loss				
Company				
Interest income	-	-	732	672
Interest expense	-	-	806	80
Group				
Assets - Loan and receivables	10,268	-	-	784
Liabilities - Due to customers	3	26	359	38

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	
	2022	2021
No. of ordinary shares held	-	-

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.

	Nature of Transactions	Income/(Expenses) Recognised During the Year		Assets/(Liabilities) as at 31 December		Net Accomodation as a % of capital funds as at 31.12.2022	Net Accomodation as a % of capital funds as at 31.12.2022
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000		
Company							
Transactions with parent company							
Bank of Ceylon	Money market loan	(417,915)	(58,813)	(1,454,037)	-	-	-
	Debenture	(37,882)	(111,908)	-	(771,780)	-	-
	Current accounts	(1,346)	(1,395)	126,087	66,152	-	-
	OD	(8,848)	(752)	(121,461)	(201,083)	-	-
	Investments in Repo	8,294	3,707	100,242	-	-	-
	Term loan obtained	(48,336)	(45,603)	(132,366)	(391,977)	-	-
Transactions with subsidiary							
MBSL Insurance Company Limited	Loans granted	23,282	42,503	55,429	171,924	1%	8%
	Impairment on loans granted	2,577	(3,127)	1,920	(4,497)	-	-
	Fixed Deposits and savings	(23,637)	(6,258)	(170,116)	(66,258)	-	-
	Insurance agency commission	17,772	17,229	-	-	-	-
	Insurance expenses	(23,992)	(20,466)	-	-	-	-
	Loans granted to Key management personnel of MBSL Insurance Company Limited	10,268	11,444	65,668	76,836	2%	3%
Transactions with associate							
Lanka Securities (Pvt) Ltd	Loans granted	11	72	154	-	0.007%	
	Dividend received	-	43,496	-	-	-	
Transactions with other companies							
BOC Property Development and Management Company Limited	Debenture	(477)	-	(10,477)	-	-	-
	Rent paid	(109,945)	(96,740)	-	-	-	-
	Electricity, water, office maintenance	(12,467)	(10,380)	(883)	-	-	-

43. RELATED PARTY DISCLOSURE CONTD.**43.c Transactions with Key Management Personnel and their Close Family Members Contd.****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	
			2022 Rs.'000	2021 Rs.'000	2022 %	2021 %	2022	2021
Bank of Ceylon	Parent Company	Money Market Loans obtained	5,660,000	8,905,000	86%	149%	Normal terms	Normal terms
		Investments in Repo	13,515,500	16,728,365	206%	280%	Normal terms	Normal terms

44. EVENTS AFTER THE REPORTING PERIOD

No circumstances have arisen since the reporting date which would require adjustments to, or disclosure in the Financial Statements of the Company/Group.

45. 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, 2022.

	Reference	Company			Group		
		Current Presentation Rs.'000	As Reported Previously Rs.'000	Impact Rs.'000	Current Presentation Rs.'000	As Reported Previously Rs.'000	Impact Rs.'000
Statement of Profit or Loss							
Fee and commission income							
Trade & other related activities	1	189,929	185,602	4,327	201,058	196,731	4,327
Other operating income							
Other income	1	50,987	55,314	(4,327)	63,275	67,602	(4,327)

Comparative figures have been changed due to following classification changes for the year 2021.

- Share issue management fees which was categorized under other income, has been reclassified under trade & other related activities.

46. 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

46. FINANCIAL REPORTING BY SEGMENT CONTD.

Group

As at 31 December	Leasing		Loans and Receivables	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Revenue from external customers				
Interest and similar income	2,273,989	2,770,002	2,765,935	2,374,395
Interest and similar expenses	1,503,379	1,021,909	1,772,005	1,055,386
Net interest income	770,609	1,748,093	993,930	1,319,010
Net fee and commission income	43,358	101,139	32,258	31,494
Real estate profit	-	-	28,533	48,818
Other income	23,217	40,008	16,679	7,468
Total operating income	837,185	1,889,240	1,071,399	1,406,789
Impairment (charges)/reversal for loans and other losses	677,007	20,163	269,720	(77,501)
Net operating income	1,514,192	1,909,402	1,341,119	1,329,288
Personnel expenses	426,862	426,141	503,134	459,128
Depreciation and amortisation	84,977	87,012	100,161	93,747
Other operating expenses	211,526	217,911	249,321	234,779
Segment result	790,828	1,178,339	488,503	541,634
Profit/(loss) before VAT on financial services				
Taxes on financial services				
Share of associate company's profit/(loss) before tax				
Profit/(loss) before income tax				
Income tax expense/(reversal)				
Profit/(loss) for the year				
Assets				
Capital expenditures				
Property, equipment and right-of-use assets	10,929	92,615	14,101	100,909
Intangible assets	4,290	6,006	5,535	6,544
Total segment assets	9,503,684	11,895,429	12,261,999	12,960,735
Total segment liabilities	8,389,098	9,874,744	10,823,920	10,759,086

Corporate Advisory & Capital Markets		Insurance		Eliminations/ Other		Total	
2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
798,703	187,673	253,693	75,504	612,455	193,884	6,704,775	5,601,459
462,748	175,816	(7,620)	6,933	957,551	422,478	4,688,064	2,682,522
335,955	11,857	261,313	68,570	(345,096)	(228,594)	2,016,711	2,918,937
375	4,838	25,477	28,357	33,961	13,871	135,429	179,699
-	-	-	-	-	-	28,533	48,818
(109,823)	89,168	156,495	124,174	3,748	69,720	90,316	330,538
226,507	105,863	443,285	221,102	(307,387)	(145,002)	2,270,989	3,477,992
(132,131)	47,807	-	-	(798,093)	(64,918)	16,504	(74,450)
94,376	153,670	443,285	221,102	(1,105,480)	(209,920)	2,287,493	3,403,542
14,337	14,655	193,806	160,544	388,935	300,526	1,527,073	1,360,993
275	272	33,204	27,317	80,006	64,081	298,623	272,430
65,109	34,475	187,511	135,779	134,727	126,695	848,193	749,639
14,656	104,268	28,764	(102,538)	(1,709,148)	(701,223)	(386,396)	1,020,479
						(386,396)	1,020,479
						(127,978)	(294,268)
						56,131	109,490
						(458,244)	835,702
						148,757	(358,399)
						(309,486)	477,303
3,456	27,883	15,161	95,631	9,565	(37,131)	53,212	279,907
1,357	1,808	-	3,256	3,755	538	14,937	18,151
3,005,477	3,581,281	307,577	318,415	8,317,936	7,513,797	33,396,674	36,269,657
2,652,997	2,972,926	1,603,009	1,634,171	5,444,682	6,263,569	28,913,705	31,504,496

46. FINANCIAL REPORTING BY SEGMENT CONTD.

Group

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000
Revenue from external customers			
Interest and similar income	3,767,374	453,465	613,418
Interest and similar expenses	3,745,781	334,292	173,229
Net interest income	21,593	119,173	440,189
Net fee and commission income	62,429	11,758	15,923
Real estate profit	28,533	-	-
Other income	62,010	2,945	4,624
Total operating income	174,565	133,876	460,736
Impairment (charges)/reversal for loans and other losses	(2,937)	(1,140)	981
Net operating income	171,628	132,736	461,717
Personnel expenses	1,134,557	70,920	96,370
Depreciation and amortisation	278,690	2,317	4,892
Other operating expenses	637,007	34,475	52,714
Segment result	(1,878,625)	25,024	307,741
Profit/(loss) before VAT on financial services			
Taxes on financial services			
Share of associate company's profit/(loss) before tax			
Profit/(loss) before income tax			
Income tax expense/(reversal)			
Profit/(loss) for the year			
Assets			
Capital expenditures			
Property, equipment and right-of-use assets	44,140	387	1,385
Intangible assets	14,937	-	-
Total segment assets	22,019,123	1,810,687	2,459,319
Total segment liabilities	22,035,902	2,445,315	1,062,947

North Western Rs.'000	Uva Rs.'000	North Central Rs.'000	Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2022 Rs.'000
649,176	143,075	238,931	184,669	278,774	375,893	6,704,775
239,699	17,351	25,721	26,696	44,879	80,416	4,688,064
409,477	125,724	213,210	157,973	233,895	295,477	2,016,711
18,928	4,698	8,688	4,323	4,909	3,773	135,429
-	-	-	-	-	-	28,533
14,086	1,102	5,242	145	131	30	90,315
442,491	131,524	227,140	162,441	238,935	299,281	2,270,988
(3,406)	2,052	13,035	(5,981)	11,516	2,384	16,504
439,085	133,576	240,175	156,460	250,451	301,665	2,287,492
78,374	18,545	34,184	24,676	39,593	29,854	1,527,073
4,551	1,176	2,035	1,305	1,719	1,939	298,623
41,443	10,499	16,913	13,778	18,649	22,716	848,194
314,717	103,356	187,043	116,701	190,490	247,156	(386,398)
						(386,398)
						(127,978)
						56,131
						(458,245)
						148,757
						(309,488)
2,798	1,798	579	647	797	683	53,212
-	-	-	-	-	-	14,937
2,405,942	534,300	901,996	750,324	1,080,688	1,434,295	33,396,674
1,752,515	150,201	231,169	221,832	385,642	628,182	28,913,705

46. FINANCIAL REPORTING BY SEGMENT CONTD.

Group

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000
Revenue from external customers			
Interest and similar income	2,508,198	457,241	650,905
Interest and similar expenses	2,299,661	125,563	42,339
Net interest income	208,537	331,678	608,566
Net fee and commission income	74,595	16,663	19,163
Real estate profit	48,818	-	-
Other income	324,038	3,222	1,499
Total operating income	655,988	351,563	629,228
Impairment (charges)/reversal for loans and other losses	96,921	(23,028)	(64,133)
Net operating income	752,909	328,535	565,095
Personnel expenses	1,018,183	57,657	88,638
Depreciation and amortisation	239,773	4,104	7,851
Other operating expenses	556,642	30,994	43,627
Segment result	(1,061,689)	235,780	424,979
Impairment reversal/(Impairment) of investment in subsidiary			
Profit/(loss) before VAT on financial services			
Taxes on financial services			
Share of associate company's profit/(loss) before tax			
Profit/(loss) before income tax			
Income tax expense/(reversal)			
Profit/(loss) for the year			
Assets			
Capital expenditures			
Property, equipment and right-of-use assets	43,394	4,970	1,919
Intangible assets	18,151	-	-
Total segment assets	21,818,703	2,311,769	2,980,940
Total segment liabilities	27,232,173	1,454,187	345,665

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	2,449	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	2,461	3,025	2,889	272,431
48,921	8,197	14,809	10,957	13,555	21,937	749,639
449,485	123,269	206,135	167,328	212,329	262,862	1,020,478
						-
						1,020,478
						(294,268)
						109,490
						835,700
						(358,399)
						477,301
1,900	1,754	5,956	226	46	5,639	65,804
-	-	-	-	-	-	18,151
3,277,431	692,515	1,260,436	976,399	1,233,564	1,717,900	36,269,657
1,740,863	40,731	152,217	98,300	121,362	318,998	31,504,496

47. 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	
	2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Financial guarantees & claims to the customers	103,938	102,400	131,377	137,867
Total commitments and contingencies	103,938	102,400	131,377	137,867

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 28th February, 2023 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	Status as at 28/02/2023	Claim amount
1	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 24/04/2023	Damages for wrongful re-possession (Case Value LKR 7.5 Mn)
2	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 30/05/2023	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.
3	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 09/06/2023	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 decreetill payment in full

No.	Action / Case No.	Purpose / Cause of Action	Status as at 28/02/2023	Claim amount
4	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 22/05/2023	Sum of Rs. 5,000,000 as damages together with interest at the rate of 24% per annum from 02/10/1995
5	CHC/215/2015/MR (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 their equity investment in MBSL . This case has been subsequently transferred to Commercial High Court.	Trial on 24/05/2023	LKR 3,841,600
6	DC-KANDY DSP/00079/2016	This is an action filed by the Registered owner/lessee on the alleged failure of MBSL to handover the original of the certificate of registration to the registered owner and seeking a restraining order against the possible repossession of the vehicle by MBSL. However, the position of MBSL is that the facility is not yet fully settled.	Settlement reached between the parties and Case withdrawn on 18/01/2023	LKR 550,000
7	4016/M DC -MARAWILA	This is an action instituted by the Plaintiff seeking damages for wrongfully demanding a further sum of money despite the alleged settlement of the facility.	Further Trial on 12/06/2023	LKR 9,000,000
8	CHC/381/17/MR	The Plaintiff is seeking inter alia, damages from MBSL amounting to a sum of Rs. 9,000,000/- or such other sum to be determined by the court for cancellation of the Purchase Order dated 26/04/2016 in respect of the e-Financial Suit (Core Leasing Software Solution)	Further Trial on 18/05/2023	LKR 9,000,000 together with the legal interest there on from 23 Aug. 2017 up to the Decree and the legal interest thereof up to the date of payment in full.
9	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	Trial on 16/05/2023	LKR 1,000,000,000 and interest on the same from September 2019 and interest on the Decreed amount until payment in full.
10	16245/M DC - KURUNEGALA	This action has been instituted by the Joint Lessees claiming damages for the Vehicle bearing No. NW PR 7078. Plaintiff claims that at the time of transferring the registered ownership of the vehicle a dummy party has been inserted to the book without their concurrence. Plaintiff further claims that due to the insertion of another transfer to the CR the value of the vehicle has been depreciated.	Trial on 15/03/2023	LKR 400,000
11	CA/TAX/43/2019 Court of Appeal	An appeal against the determination dated 2 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.	Argument on 31/05/2023	VAT on LKR 95,000,000
12	Labour Tribunal Application No. 13/01/2021	Labour Tribunal Application filed against MBSL by the former CEO of MBSL seeking inter alia to grant reinstatement with full back wages or in the alternative to grant compensation.	Terms of settlement entered in the Labour Tribunal. Proceedings terminated on 07/02/2023	Back wages from 14th May 2018, or in the alternative compensation and costs.
13	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.	Calling for 1D & 4D's Answer on 03/05/2023	LKR 1,834,336.64

47. CONTINGENT LIABILITIES AND COMMITMENTS CONTD.**47.1 Group**

Contingencies and commitments of MBSI Insurance Company Limited.

47.1.1 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.

47.1.2 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	
	2022 Rs.'000	2021 Rs.'000
Bond claims	20,040	28,068
Insurance claims	7,399	7,399
Third party claims	536,238	507,650
	563,677	543,117

No provision has been made in the financial statements for a performance bond insurance claim amounting to Rs. 293,932,500 intimated in the year 2016. The performance bond was issued on behalf of a contractor, for a period of three years (from 1 November 2013 to 1 November 2016) annually renewable. However, the premium for the final year had not been settled by the contractor and the policy has been cancelled on 12th 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.

48. 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.

48.1 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.

Consideration of current economic conditions on credit risk

Company continued to conduct in-debt analysis on the industries which has been affected and the scale of impact on company lending portfolio, through various stress testing techniques including stage shift assessment of evaluated risk industries. Uncertainties relating to the economic conditions in Sri Lanka stressed the importance of diversification of the Company loan's book across a wide range of industries which in turn would ensure the resilience of the Company in the economic environment of this nature. The Company is comfortable with the existing composition of its loan book and continuous monitoring activities are being carried out to avoid accumulation of exposures to risky economic segments.

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.

48.2 Movement of the total allowance for expected credit losses during the period

For the year ended 31 December 2022	Note	Company		Group	
		2022 Rs.'000	2021 Rs.'000	2022 Rs.'000	2021 Rs.'000
Balance as at 01 January		2,742,217	3,477,337	2,742,217	3,477,337
Net charge for the year	12	(21,561)	57,554	(21,561)	57,554
Balance as at 31 December		2,720,656	3,534,892	2,720,656	3,534,892

48. RISK MANAGEMENT CONTD.

48.2.1 Sensitive Analysis

Impact of the measurement of the Company's allowance for expected credit losses for the year 2022.

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	
Change in Probability of Default (PD)					
Increase existing PD by 10% across all age buckets	86,358	71,328	-	157,686	157,686
Decrease existing PD by 10% across all age buckets	(77,692)	(71,383)	-	(149,075)	(149,075)
Change in Loss Given Default (LGD)					
1% increase	20,340	28,341	49,111	97,792	97,792
1% decrease	(8,995)	(17,645)	(40,897)	(67,537)	(67,537)
Change in Economic Factor Adjustment (EFA)					
	-				
Worse case 5% increase, best case 5% decrease, base case constant	629	1,216	-	1,845	1,845
Worse case 5% decrease, best case 5% increase, base case constant	(655)	(1,221)	-	(1,876)	(1,876)

48.2.2 Impact of the measurement of the Company's allowance for expected credit losses for the year 2021.

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	
Change in Probability of Default (PD)					
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)
Change in Loss Given Default (LGD)					
1% increase	10,847	10,191	68,487	89,525	89,525
1% decrease	(10,866)	(10,200)	(68,530)	(89,596)	(89,596)
Change in Economic Factor Adjustment (EFA)					
	-				
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)

48.2.2 Overview of rescheduled/restructured loans and advances

An analysis rescheduled/restructured loans and advances of the Company, amounting to Rs. 635 Mn which are in stage 3 along with the impairment for ECL is as follows:

It is raised Rs. 92 Mn as impairment charge as at 31 December 2022. This does not include individually significant impaired loans and advances for which ECLs have been derived by discounting future cash flows of such loans.

48.2.3 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.

	2022	
	Maximum exposure to Credit Risk Rs.'000	Net Exposure Rs.'000
Financial assets		
Cash and cash equivalents	748,724	312,842
Placements with banks & financial institutions	103,682	103,682
Financial investments at fair value through profit or loss	287,510	287,510
Loans & receivables at amortised cost	27,165,518	1,962,374
Financial investments at fair value through other comprehensive income	15,863	15,863
Financial investments at amortised cost	4,307,394	4,307,394
	32,628,691	6,989,665

	2021	
	Maximum exposure to Credit Risk Rs.'000	Net Exposure Rs.'000
Financial assets		
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
	35,490,299	4,194,178

48. RISK MANAGEMENT CONTD.**48.3 Market Risk**

Market risk is the risk that the fair value or future cash flows of financial instruments will fluctuate due to changes in market variables such as interest rates, foreign exchange rates, commodity prices and equity prices. The company classifies exposures to market risk into either trading or non-trading portfolios and manages each of those portfolios separately.

Management of market risk

The following table sets out the allocation of assets and liabilities subject to market risk between trading and non-trading portfolios.

As at 31 December 2022	Market Risk Measurement		
	Carrying Amount	Trading Portfolio	Non-trading Portfolio
Treasury bills	2,910,161	2,910,161	-
Treasury bonds	1,397,233	1,397,233	-

48.3.1 Equity Risk

A summary of the VaR position of the Bank's trading equity goldings as at 31 December 2022 and during the period is as follows:

As at 31 December	2022	2021
Value at risk (%)	(5.97)	(4.28)
Maximum possible loss of value (LKR' Mn)	(17.15)	(10.18)

The principal tool used to measure and control market risk exposure within the Company is Value at Risk (VaR). The VaR of a portfolio is the estimated loss that will arise on the portfolio over a specified period of time (holding period) from an adverse market movement with a specified probability (confidence level). The VaR model is used mainly based on historical simulation by the Company upon a 99 percent confidence level.

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the followings.

Assumptions

Method	- Historical simulation method
Confidence level	- 99%
Duration	- 1 Day

Although VaR is an important tool for measuring market risk, the assumptions on which the model is based give rise to some limitations, including the followings.

- The historical simulation method assumes that the statistical properties of the data remain constant over time, which may not always be true.
- The historical simulation method relies on past data to estimate the VaR, which means that it may not be able to capture extreme events that have not occurred in the past.
- The historical simulation method does not take into account current market conditions, such as changes in interest rates or economic conditions, which can affect the accuracy of the VaR estimate.
- The historical simulation method is a non-parametric approach, which means that it does not assume a specific distribution for the data.

The Company's VaR models are subject to regular review by Risk Management Department to ensure that they continue to perform as expected and that assumptions used in model development are still appropriate.

Additionally, the Company uses a wide range of stress tests to model the financial impact of various exceptional market of financial instruments such as equities and bonds. The results of the stress tests are reviewed periodically by the Asset and Liability Committee (ALCO) and Board Integrated Risk Management Committee (BIRMC).

As at 31 December	Magnitude of shock & the fall in value of equities (LKR' Mn)			
	Portfolio market value	Scenario 1 5%	Scenario 2 10%	Scenario 3 15%
2022	287.51	(13.56)	(27.13)	(40.69)
2021	237.83	(5.47)	(10.94)	(16.41)

The above table demonstrates the sensitivity to a reasonably possible change in quoted equity indices (ASPI), with all other variables held constant on the Company's Statement of Profit or Loss.

Assumptions

- There is a direct relationship between the CSE All Share Price Index & the MBSL equity portfolio.
- Impact is calculated based on the beta factor of individual shares

48.3.2 Interest Rate Risk

Interest rate risk arises from the possibility that changes in interest rates will affect future cash flows or the fair values of financial instruments. The company's policy is to continuously monitor positions on a daily basis and use periodic interest re-pricing strategies to ensure positions are maintained within prudential levels.

The following tables demonstrate the sensitivity of the company's Statement of Profit or Loss for the year ended 31 December 2022 and 31 December 2021 to a reasonable possible change in interest rates, with all other variables held constant.

The below impact is calculated based on the rate sensitive assets and liabilities gap up to one year.

Interest rate scenario (+/-)	2022	2021
2%	37.7	44.1
4%	75.5	88.1
6%	113.2	132.2

Assumptions

- Repricing Gap Model is used to calculate the interest rate impact.
- Changes in interest rates will equally impact to RSA & RSL.

48. RISK MANAGEMENT CONTD.

The below table analyses the Company's interest rate risk exposure on financial assets and liabilities. Company's assets and liabilities are included at carrying amount and categorized by the earlier of contractual reprising or maturity dates.

	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	Non Interest bearing Rs.'000	2022 Total Rs.'000
Cash and cash equivalents	748,724	-	-	-	-	-	748,724
Placements with banks & financial institutions	55,492	48,190	-	-	-	-	103,682
Financial investments at fair value through profit or loss	287,510	-	-	-	-	-	287,510
Loans & receivables at amortised cost	7,561,364	3,957,214	669,173	5,696,379	6,539,170	-	24,423,300
Financial investments at fair value through other comprehensive income	15,000	-	-	-	863	-	15,863
Financial investments at amortised cost	-	3,064,494	740,040	47,963	454,897	-	4,307,394
Financial other assets	-	11,112	-	-	55,118	-	66,229
Non financial assets	-	-	-	-	-	1,279,076	1,279,076
Total assets as at 31 December 2022	8,668,090	7,081,009	1,409,213	5,744,342	7,050,048	1,279,076	31,231,780
Due to banks	2,818,785	72,752	34,416	-	-	-	2,925,953
Due to customers at amortised cost	1,912,702	14,704,029	2,996,301	3,857,992	53,585	-	23,524,609
Debt issued and borrowed funds at amortised cost	-	-	-	69,082	-	-	69,082
Other financial liabilities	142,227	-	-	-	-	-	142,227
Non financial liabilities	-	-	-	-	-	874,366	874,366
Total liabilities as at 31 December 2022	4,873,714	14,776,781	3,030,717	3,927,074	53,585	874,366	27,536,237

48.3.3 Commodity Price Risk

Commodity price risk of the Company is limited to the extent of the Pawning portfolio which is impacted by movements in the price of gold. Company uses conservative loan to value ratios to manage its exposures to commodity price risk.

As at 31 December	2022	2021
Portfolio balance (Pawning) (LKR' Mn)	5,666	5,255
Portfolio Loan to Value (LTV) Ratio	66%	78%
Market price scenario & impact on portfolio LTV		
-10%	73%	86%
-20%	82%	97%
-30%	94%	111%

Assumptions

- Market prices of gold at the year end is considered for the calculations.
- LTV Impact is calculated considering the entire pawning portfolio & gold stock.

48.4 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.

48. RISK MANAGEMENT CONTD.

48.5 Industry Analysis Risk Concentration

48.5.1 The Company's concentrations of risk are managed by industry sector.

As at 31 December	Financials Rs.'000	Agriculture Rs.'000	Manufacturing Rs.'000
Financial assets			
Cash and cash equivalents	748,724	-	-
Placements with banks & financial institutions	103,682	-	-
Financial investments at fair value through profit or loss	44,933	48,055	14,460
Loans & receivables at amortised cost	3,670,575	2,201,784	2,364,434
Financial investments at fair value through other comprehensive income			
Government securities	-	-	-
Equity securities - Quoted	-	-	-
Equity securities - Unquoted	863	-	-
Financial investments at amortised cost	4,307,394	-	-
Other assets	66,230	-	-
Total financial assets as at 31 December 2022	8,942,401	2,249,839	2,378,894
Total financial assets as at 31 December 2021	8,085,682	3,226,539	3,009,311

48.5.2 The Group's concentrations of risk are managed by industry sector.

As at 31 December	Financials Rs.'000	Agriculture Rs.'000	Manufacturing Rs.'000
Financial assets			
Cash and cash equivalents	944,784	-	-
Placements with banks & financial institutions	137,162	-	-
Financial investments at fair value through profit or loss	814,527	857,918	-
Loans & receivables at amortised cost	3,670,575	2,201,784	2,364,434
Financial investments at fair value through other comprehensive income			
Government securities	-	-	-
Equity securities - Quoted	-	-	-
Equity securities - Unquoted	863	-	-
Unit trust	-	-	-
Financial investments at amortised cost	5,883,995	-	-
Other assets	-	-	-
Total financial assets as at 31 December 2022	11,451,906	3,059,702	2,364,434
Total financial assets as at 31 December 2021	9,901,143	3,227,320	3,012,185

Tourism Rs.'000	Transportation Rs.'000	Construction Rs.'000	Trade Rs.'000	Services Rs.'000	Consumption Rs.'000	2022 Total Rs.'000	2021 Total Rs.'000
-	-	-	-	-	-	748,724	1,191,374
-	-	-	-	-	-	103,682	246,166
-	-	106,423	20,699	48,784	4,156	287,510	341,547
482,080	2,533,917	1,534,884	3,484,168	881,892	10,011,784	27,165,518	31,661,975
-	-	-	-	-	-	-	1,962,059
-	-	15,000	-	-	-	15,000	26,250
-	-	-	-	-	-	863	860
-	-	-	-	-	-	4,307,394	-
-	-	-	-	-	-	66,230	92,332
482,080	2,533,917	1,656,307	3,504,867	930,676	10,015,940	32,694,921	
607,194	3,280,715	1,787,051	4,366,003	1,446,835	9,713,233		35,522,563

Tourism Rs.'000	Transportation Rs.'000	Construction Rs.'000	Trade Rs.'000	Services Rs.'000	Consumption Rs.'000	2022 Total Rs.'000	2021 Total Rs.'000
-	-	-	-	-	-	944,784	1,436,435
-	-	-	-	-	-	137,162	535,292
-	-	1,744,167	369,544	857,553	19,653	4,663,362	355,214
482,080	2,533,917	1,534,884	3,484,168	829,442	10,011,783	27,113,067	31,494,031
-	-	-	-	-	-	-	3,332,651
-	-	15,000	-	-	-	15,000	26,250
-	-	-	-	-	-	863	860
62,288	-	-	-	-	-	62,288	55,577
-	-	-	-	-	-	5,883,995	-
66,230	-	-	-	-	-	66,230	92,331
610,598	2,533,917	3,294,051	3,853,712	1,686,995	10,031,436	38,886,751	
755,102	3,280,715	1,792,101	4,366,580	1,280,208	9,713,287		37,328,640

48. RISK MANAGEMENT CONTD.**48.6 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 2022 together with comparative figures for the year ended 31 December 2021.

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

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000	North Western Rs.'000	Uva Rs.'000	North Central Rs.'000
Financial assets						
Cash and cash equivalents	629,274	16,980	36,693	19,752	5,873	8,346
Placements with banks & financial institutions	103,682	-	-	-	-	-
Financial investments at fair value through profit or loss	287,510	-	-	-	-	-
Loans & receivables at amortised cost	14,757,184	2,000,585	2,742,006	2,697,062	558,590	1,029,461
Financial investments at fair value through other comprehensive income						
Government securities	-	-	-	-	-	-
Equity securities - Quoted	15,000	-	-	-	-	-
Equity securities - Unquoted	863	-	-	-	-	-
Financial investments at amortised cost	4,307,394	-	-	-	-	-
Other assets	66,230	-	-	-	-	-
Total financial assets as at 31 December 2022	20,167,137	2,017,565	2,778,699	2,716,814	564,463	1,037,807
Total financial assets as at 31 December 2021	19,667,181	2,552,107	3,373,193	3,640,496	733,877	1,428,730

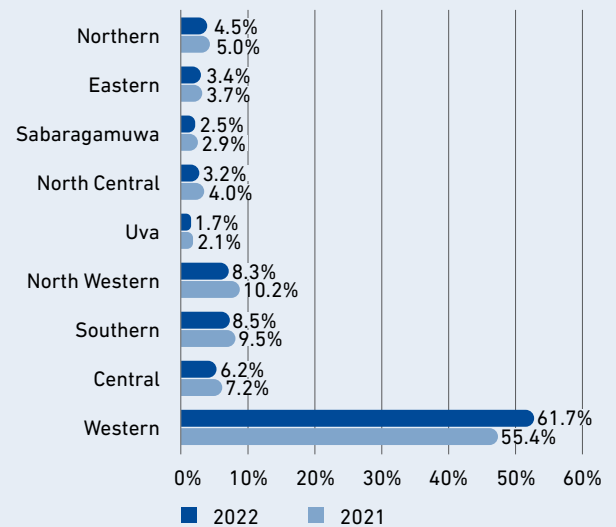
48.6.2 The Group's concentrations of risk are managed by geographical segment.

As at 31 December	Western Rs.'000	Central Rs.'000	Southern Rs.'000	North Western Rs.'000	Uva Rs.'000	North Central Rs.'000
Financial assets						
Cash and cash equivalents	825,334	16,980	36,693	19,752	5,873	8,346
Placements with banks & financial institutions	137,162	-	-	-	-	-
Financial investments at fair value through profit or loss	293,847	-	-	-	-	-
Loans & receivables at amortised cost	14,704,733	2,000,585	2,742,006	2,697,062	558,590	1,029,461
Financial investments at fair value through other comprehensive income						
Government securities	-	-	-	-	-	-
Equity securities - Quoted	15,000	-	-	-	-	-
Equity securities - Unquoted	863	-	-	-	-	-
Unit trust	62,288	-	-	-	-	-
Financial investments at amortised cost	5,883,995	-	-	-	-	-
Other assets	66,230	-	-	-	-	-
Total financial assets as at 31 December 2022	21,989,452	-	2,017,565	-	2,778,699	-
Total financial assets as at 31 December 2021	21,473,260	-	2,552,106	-	3,373,193	-

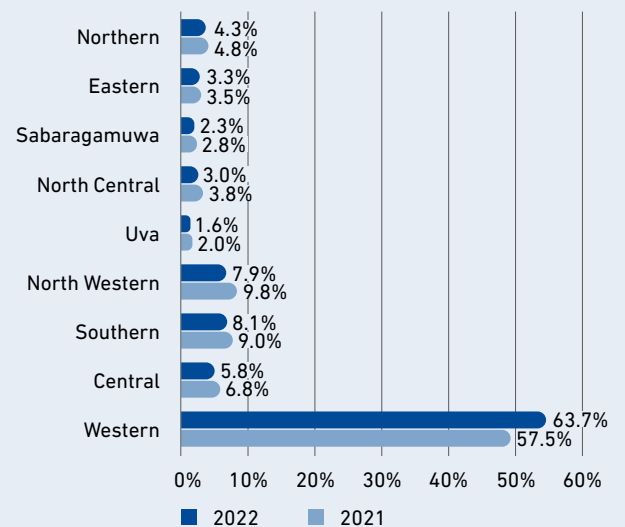
Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2022 Total Rs.'000	2021 Total Rs.'000
11,198	8,303	12,305	748,724	1,191,374
-	-	-	103,682	246,166
-	-	-	287,510	341,547
789,947	1,117,859	1,472,824	27,165,518	31,661,975
-	-	-	-	1,962,059
-	-	-	15,000	26,250
-	-	-	863	860
-	-	-	4,307,394	-
-	-	-	66,230	92,332
801,145	1,126,162	1,485,129	32,694,921	
1,035,257	1,308,226	1,783,496		35,522,563

Sabaragamuwa Rs.'000	Eastern Rs.'000	Northern Rs.'000	2022 Total Rs.'000	2021 Total Rs.'000
11,198	8,303	12,305	944,784	1,436,435
-	-	-	137,162	535,292
-	-	-	293,847	355,214
789,947	1,117,859	1,472,824	27,113,067	31,494,030
-	-	-	-	3,332,651
-	-	-	15,000	26,250
-	-	-	863	860
-	-	-	62,288	55,577
-	-	-	5,883,995	-
-	-	-	-	-
2,716,814	-	564,463	-	1,037,807
3,640,496	-	733,877	-	1,428,730

Company



Group



48. RISK MANAGEMENT CONTD.**48.7 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 2022.

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.

48.7.1 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	2022 Total Rs.'000	2021 Total Rs.'000
Assets								
Financial assets								
Cash and cash equivalents	678,639	70,085	-	-	-	-	748,724	1,191,374
Placements with banks & financial institutions	-	55,492	48,190	-	-	-	103,682	246,166
Financial investments at fair value through profit or loss	-	287,510	-	-	-	-	287,510	341,547
Loans & receivables at amortised cost	4,258,590	3,302,775	3,957,214	669,173	5,696,379	6,539,170	24,423,301	28,184,638
Financial investments at fair value through other comprehensive income	-	15,000	-	-	-	863	15,863	1,989,169
Financial investments at amortised cost	-	-	3,064,494	740,040	47,963	454,897	4,307,394	-
Financial other assets	-	-	11,112	-	-	55,118	66,230	92,332
Total financial assets as at 31 December 2022	4,937,229	3,730,862	7,081,010	1,409,213	5,744,342	7,050,048	29,952,704	
Total financial assets as at 31 December 2021	5,556,866	4,783,818	5,978,429	8,178,788	2,345,688	5,201,637		32,045,226
Non financial assets								
Real estate stock	-	-	96,937	-	-	-	96,937	175,816
Investment in associate company	-	-	-	-	-	81,084	81,084	81,084
Investment in subsidiary	-	-	-	-	-	257,631	257,631	371,404
Investment properties	-	-	-	-	-	104,798	104,798	107,703
Property, equipment and right-of-use assets	-	-	-	-	-	504,669	504,669	607,185
Intangible assets	-	-	-	-	-	103,208	103,208	128,578
Deferred tax assets	-	-	-	-	-	33,824	33,824	-
Other assets	-	-	27,995	68,930	-	-	96,925	760,463
Total non-financial assets as at 31 December 2022	-	-	124,933	68,930	-	1,085,214	1,279,076	
Total non-financial assets as at 31 December 2021	590,252	20,105	325,921	-	-	1,295,955		2,232,233
Total assets as at 31 December 2022	4,937,229	3,730,862	7,205,942	1,478,144	5,744,342	8,135,262	31,231,781	
Total assets as at 31 December 2021	6,147,118	4,803,923	6,304,350	8,178,788	2,345,688	6,497,592		34,277,459

	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	2022 Total Rs.'000	2021 Total Rs.'000
Financial liabilities								
Due to banks	1,687,184	1,131,601	72,752	34,416	-	-	2,925,953	4,116,814
Due to customers at amortised cost	384,060	1,528,642	14,704,029	2,996,301	3,857,992	53,585	23,524,609	22,267,862
Debt issued and borrowed funds at amortised cost	-	-	-	-	69,082	-	69,082	2,381,578
Other financial liabilities	-	142,227	-	-	-	-	142,227	180,225
Total financial liabilities as at 31 December 2022	2,071,244	2,802,470	14,776,781	3,030,717	3,927,074	53,585	26,661,871	
Total financial liabilities as at 31 December 2021	2,502,836	7,117,602	13,942,482	4,863,524	456,102	63,933		28,946,479
Non financial liabilities								
Current tax liabilities	-	-	49,029	-	-	-	49,029	178,898
Deferred tax liabilities	-	-	-	-	-	-	-	78,300
Lease liability	-	20,853	53,716	108,055	57,880	6,328	246,832	334,980
Other liabilities	-	297,302	-	-	-	-	297,302	248,913
Retirement benefits obligations	-	-	-	-	-	281,203	281,203	320,934
Total non-financial liabilities as at 31 December 2022	-	318,155	102,745	108,055	57,880	287,531	874,366	
Total non-financial liabilities as at 31 December 2021	-	293,593	300,179	51,122	71,515	445,616		1,162,025
Total liabilities as at 31 December 2022	2,071,244	3,120,625	14,879,526	3,138,772	3,984,954	341,116	27,536,237	
Total liabilities as at 31 December 2021	2,502,836	7,411,195	14,242,661	4,914,646	527,617	509,549		30,108,504
Equity								
Stated capital	-	-	-	-	-	4,276,448	4,276,448	4,276,448
Retained earnings	-	-	-	-	-	-944,964	(944,964)	(427,847)
RLA reserve	-	-	54,441	-	-	-	54,441	-
OCI reserve	-	(30,377)	-	-	-	-	(30,377)	(19,642)
Statutory reserves	-	-	-	-	-	339,996	339,996	339,996
Total equity as at 31 December 2022	-	(30,377)	54,441	-	-	3,671,480	3,695,544	
Total equity as at 31 December 2021	-	(19,642)	-	-	-	4,188,597		4,168,955
Total liabilities and equity as at 31 December 2022	2,071,244	3,090,248	14,933,967	3,138,772	3,984,954	4,012,596	31,231,781	
Total liabilities and equity as at 31 December 2021	2,502,836	7,391,553	14,242,661	4,914,646	527,617	4,698,146		34,277,459

48. RISK MANAGEMENT CONTD.

48.7.2 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	2022 Total Rs.'000	2021 Total Rs.'000
Assets								
Financial assets								
Cash and cash equivalents	763,122	70,085	111,577	-	-	-	944,784	1,436,435
Placements with banks & financial institutions	-	88,971	48,190	-	-	-	137,161	535,292
Financial investments at fair value through profit or loss	-	293,847	-	-	-	-	293,847	355,214
Loans & receivables at amortised cost	4,258,590	3,305,753	3,901,785	669,173	5,696,379	6,539,170	24,370,850	28,016,693
Financial investments at fair value through other comprehensive income	-	15,000	62,287	-	-	863	78,150	3,415,338
Financial investments at amortised cost	-	-	4,198,123	1,012,221	47,963	625,688	5,883,995	-
Financial other assets	-	-	11,112	-	-	55,118	66,230	92,332
Total financial assets as at 31 December 2022	5,021,712	3,773,656	8,333,074	1,681,394	5,744,342	7,220,839	31,775,018	
Total financial assets as at 31 December 2021	5,597,847	6,351,315	6,066,161	8,178,788	2,455,556	5,201,637		33,851,304
Non financial assets								
Real estate stock	-	-	96,937	-	-	-	96,937	175,816
Investment in associate company	-	-	-	-	-	172,842	172,842	131,399
Investment properties	-	-	-	-	-	104,798	104,798	107,703
Property, equipment and right-of-use assets	-	-	-	-	-	634,780	634,780	742,708
Intangible assets	-	-	-	-	-	106,396	106,396	128,578
Deferred tax assets	-	-	-	-	-	42,893	42,893	4,111
Other assets	-	366,085	27,995	68,929	-	-	463,009	1,128,038
Total non-financial assets as at 31 December 2022	-	366,085	124,933	68,929	-	1,061,708	1,621,655	
Total non-financial assets as at 31 December 2021	590,252	387,681	325,922	-	-	1,114,498		2,418,353
Total assets as at 31 December 2022	5,021,712	4,139,741	8,458,007	1,750,324	5,744,342	8,282,548	33,396,673	
Total assets as at 31 December 2021	6,188,099	6,738,996	6,392,083	8,178,788	2,455,556	6,316,135		36,269,657
Financial liabilities								
Due to banks	1,687,184	1,140,818	72,752	34,416	-	-	2,935,170	4,133,306
Due to customers at amortised cost	384,060	1,528,642	14,533,913	2,996,301	3,857,992	53,585	23,354,493	22,201,604
Debt issued and borrowed funds at amortised cost	-	-	-	-	69,082	-	69,082	2,381,578
Other financial liabilities	-	142,226	-	-	-	-	142,226	180,225
Total financial liabilities as at 31 December 2022	2,071,244	2,811,686	14,606,665	3,030,717	3,927,074	53,585	26,500,971	
Total financial liabilities as at 31 December 2021	2,502,836	7,134,094	13,876,225	4,863,523	456,102	63,933		28,896,713

	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	2022 Total Rs.'000	2021 Total Rs.'000
Non financial liabilities								
Insurance contract liabilities-life	-	-	355,190	-	-	-	355,190	416,634
Insurance contract liabilities-non life	-	-	643,229	-	-	-	643,229	511,538
Current tax liabilities	-	-	49,029	-	-	-	49,029	178,898
Deferred tax liabilities	-	-	-	-	-	-	-	78,301
Lease liability	-	28,362	68,402	159,385	95,139	7,348	358,636	450,324
Other liabilities	-	425,410	101,962	38,792	5,373	142,785	714,322	639,364
Retirement benefits obligations	-	-	-	-	-	292,326	292,326	332,724
Total non-financial liabilities as at 31 December 2022	-	453,772	1,217,812	198,177	100,512	442,459	2,412,732	
Total non-financial liabilities as at 31 December 2021	-	684,044	1,244,521	150,297	71,515	457,406		2,607,783
Total liabilities as at 31 December 2022	2,071,244	3,265,458	15,824,476	3,228,895	4,027,586	496,044	28,913,703	
Total liabilities as at 31 December 2021	2,502,836	7,818,138	15,120,746	5,013,820	527,617	521,339		31,504,496
Equity								
Stated capital	-	-	-	-	-	4,276,448	4,276,448	4,276,448
Retained earnings	-	-	-	-	-	(594,119)	(594,119)	(251,498)
RLA reserve	-	-	54,441	-	-	-	54,441	-
OCI reserve	-	(30,377)	-	-	-	(4,125)	(34,502)	(23,860)
Statutory reserves	-	-	-	-	-	339,996	339,996	339,996
Non controlling interests	-	-	-	-	-	440,705	440,705	424,075
Total equity as at 31 December 2022	-	(30,377)	54,441	-	-	4,458,906	4,482,970	
Total equity as at 31 December 2021	-	(19,642)	-	-	-	4,784,803		4,765,161
Total liabilities and equity as at 31 December 2022	2,071,244	3,235,081	15,878,917	3,228,895	4,027,586	4,954,950	33,396,673	
Total liabilities and equity as at 31 December 2021	2,502,836	7,798,496	15,120,746	5,013,820	527,617	5,306,142		36,269,657

48. RISK MANAGEMENT CONTD.**48.8 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 2022.

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	2022 Total Rs.'000	2021 Total Rs.'000
Financial assets							
Cash and cash equivalents	-	749,500	-	-	-	749,500	1,254,518
Placements with banks & financial institutions	56,081	57,860	-	-	-	113,941	184,557
Financial investments at fair value through profit or loss	-	287,510	-	-	-	287,510	343,175
Loans & receivables at amortised cost	10,342,885	7,316,447	4,864,141	3,345,748	327,724	26,196,945	33,768,576
Financial investments at fair value through other comprehensive income	-	15,863	-	-	-	15,863	2,020,951
Financial investments at amortised cost	-	3,369,586	945,704	86,971	863,450	5,265,711	-
Financial other assets	-	11,112	-	-	55,118	66,230	92,332
Total financial assets as at 31 December 2022	10,398,966	11,807,878	5,809,845	3,432,719	1,246,292	32,695,700	
Total financial assets as at 31 December 2021	15,771,484	8,090,164	10,715,847	2,841,182	245,432		37,664,109
Financial liabilities							
Due to banks	2,944,422	-	-	-	-	2,944,422	4,196,918
Due to customers at amortised cost	5,420,478	13,994,044	4,639,835	5,119,312	431	29,174,100	22,912,428
Debt issued and borrowed funds at amortised cost	-	-	-	151,804	-	151,804	2,514,145
Other financial liabilities	142,227	-	-	-	-	142,227	180,225
Total financial liabilities as at 31 December 2022	8,507,127	13,994,044	4,639,835	5,271,116	431	32,412,553	
Total financial liabilities as at 31 December 2021	11,557,064	12,292,190	5,394,844	495,533	64,085		29,803,716

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	2022 Total Rs.'000	2021 Total Rs.'000
Financial assets							
Cash and cash equivalents	-	833,207	111,577	-	-	944,784	1,461,318
Placements with banks & financial institutions	89,560	57,860	-	-	-	147,420	487,427
Financial investments at fair value through profit or loss	-	293,847	-	-	-	293,847	356,842
Loans & receivables at amortised cost	10,345,864	7,261,018	4,864,141	3,345,748	327,724	26,144,495	33,570,634
Financial investments at fair value through other comprehensive income	-	15,863	-	-	-	15,863	3,465,250
Financial investments at amortised cost	-	4,503,215	1,217,885	86,971	1,034,241	6,842,312	-
Financial other assets	-	11,112	-	-	55,118	66,230	92,332
Total financial assets as at 31 December 2022	10,435,424	12,976,122	6,193,604	3,432,719	1,417,083	34,454,952	
Total financial assets as at 31 December 2021	17,495,832	8,079,953	10,771,404	2,841,182	245,432		39,433,803
Financial liabilities							
Due to banks	2,953,639	-	-	-	-	2,953,639	4,213,410
Due to customers at amortised cost	5,420,478	13,823,928	4,639,835	5,119,312	431	29,003,984	22,850,165
Debt issued and borrowed funds at amortised cost	-	-	-	151,804	-	151,804	2,514,145
Other financial liabilities	142,227	-	-	-	-	142,227	180,225
Total financial liabilities as at 31 December 2022	8,516,344	13,823,928	4,639,835	5,271,116	431	32,251,654	
Total financial liabilities as at 31 December 2021	11,572,014	12,231,470	5,394,844	495,533	64,084		29,757,945

48.9 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.

	2022							Total 2021 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	Total 2022 Rs.'000	
Company								
Financial guarantees & claims to the customers	-	3,500	99,563	875	-	-	103,938	102,400
Total Commitments and Contingencies as at 31 December 2022	-	3,500	99,563	875	-	-	103,938	
Total Commitments and Contingencies as at 31 December 2021	-	7,100	95,300	-	-	-		102,400
Group								
Financial guarantees & claims to the customers	-	3,500	127,002	875	-	-	131,377	137,867
Total Commitments and Contingencies as at 31 December 2022	-	3,500	127,002	875	-	-	131,377	
Total Commitments and Contingencies as at 31 December 2021	-	7,100	130,767	-	-	-		137,867

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

48.10 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.

49. 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.

49.1 Capital Adequacy Ratio (CAR)

Central Bank of Sri Lanka introduced Finance Business Act Direction No 03 of 2018 with effect from 1 July 2018 and accordingly the Licensed Finance Companies in Sri Lanka need to maintain a minimum Tier 1 Capital and Total Capital Ratios (CAR) as shown in table below.

	31-December-2022		31-December-2021	
	Required Ratio	Actual Ratio	Required Ratio	Actual Ratio
Tier 1 Capital	8.50	11.33	7.00	10.75
Total Capital	12.50	12.01	11.00	11.33

CBSL Imposed the following restrictions on 1 of September 2022.

- Reduce net loans and receivables (including the accrued interest receivable) to Rs. 25 Bn by 31 March 2023. However, the company may continue granting cash back loans, pawning advances, gold loans and other related claims secured by gold, in a manner which does not create any adverse impact on CARs.
- Reduce deposit base to Rs. 23.9 Bn (Accrued interest payable on deposits) by 31 March 2023.
- In addition, restricted to mobilize new deposits more than insured deposits.

The Company has taken measures to comply with the Total capital requirement by April 2023. The caps will be removed by CBSL immediately after the Total capital requirements is complied.

To meet the total capital requirement, MBSL management has proposed to issue quoted debenture and have taken all the clearance for the proposed debenture issue of LKR 500 Mn with an option to issue a further LKR 500 Mn debentures in the event of an oversubscription of the initial LKR 500 Mn debentures to raise a sum up to Rupees One Billion (LKR 1.0 Billion). The issue will be opened on 29th March 2023 and the CSE has made a market announcement in terms of the Listing Rules of the Stock Exchange in this regard.



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Quarterly Analysis

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Statement of Profit or Loss for the quarter ended	2022			
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
Net interest income	310,679	226,205	437,209	781,305
Net fee and commission income	28,632	25,531	25,933	29,856
Net trading income	1,144	16,083	1,933	(16,906)
Net gain/(loss) on financial instruments at fair value through profit or loss	(59,249)	97,333	(54,835)	(115,378)
Other operating income	27,450	20,838	18,127	25,814
Total operating income	308,655	385,989	428,367	704,691
Less : Impairment charges from loans and other losses	(106,635)	(104,927)	240,939	(45,882)
Net operating income	415,290	490,917	187,428	750,573
Less : Total operating expense	568,842	538,121	624,175	528,231
Profit/(loss) from operations	(153,552)	(47,205)	(436,747)	222,342
Less : Impairment charge/(reversal) from investment in Group Companies	-	(8,429)	(105,345)	-
Profit/(loss) from operations after impairment from subsidiary investments	(153,552)	(55,633)	(542,092)	222,342
Less : Taxes on financial services	41,225	24,399	(19,281)	81,635
Profit before income tax	(194,777)	(80,033)	(522,811)	140,707
Less : Income tax expense/(reversal)	(120,062)	(43,436)	(46,115)	48,307
Profit/(loss) for the period	(74,715)	(36,596)	(476,696)	92,400

Statement of Comprehensive Income

Other comprehensive income for the period, net of tax	(35,240)	(41,321)	105,121	(6,365)
Total comprehensive income for the period, net of tax	(109,955)	(77,917)	(371,575)	86,035

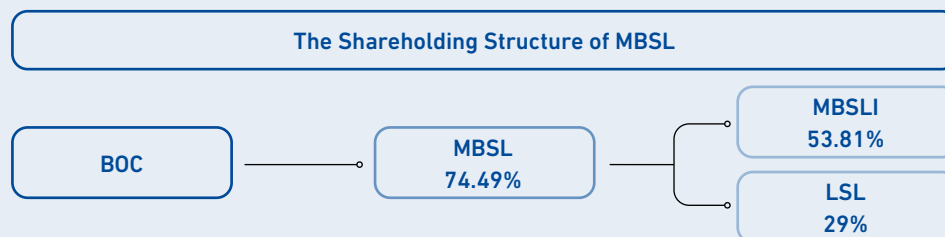
Statement of Financial Position as at	2022			
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
Total assets	31,231,781	35,266,382	35,545,792	35,258,936
Loans & receivables at amortised cost	24,423,300	28,672,857	28,670,913	29,772,518
Due to customers at amortised cost	23,524,609	25,778,274	25,714,787	20,944,756
Total equity	3,695,543	3,805,499	3,883,415	4,254,990

Regulatory Liquidity as at	2022			
	31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
Required minimum amount of liquid assets	2,636,887	2,950,391	2,978,764	2,659,948
Available total liquid assets	3,485,014	3,369,755	3,558,813	2,896,596
Statutory liquid asset ratio (%)	13.41	11.58	12.11	11.08

2021			
31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
880,310	642,929	609,321	717,807
53,772	37,655	22,556	33,032
46,133	(23,267)	2,494	18,921
(30,638)	36,073	(140)	(28,730)
120,401	48,604	41,198	28,459
1,069,978	741,994	675,431	769,488
(235,970)	162,669	279,587	(131,836)
1,305,948	579,325	395,844	901,324
593,089	465,545	505,201	495,590
712,859	113,780	(109,358)	405,734
-	1,074	9,567	5,378
712,859	112,706	118,925	400,356
129,043	52,597	23,309	89,319
583,816	60,109	(142,234)	311,037
236,814	18,350	(21,679)	50,199
347,002	41,758	(120,555)	260,838
19,742	1,250	-	-
366,744	43,008	(120,555)	260,838

2021			
31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
34,277,459	32,446,056	32,426,402	32,878,425
28,184,638	26,643,471	27,163,960	27,518,598
22,267,862	21,978,754	21,488,253	22,819,964
4,168,955	3,802,209	1,608,133	1,728,689

2021			
31 December Rs.'000	30 September Rs.'000	30 June Rs.'000	31 March Rs.'000
2,563,952	2,430,240	1,540,235	1,542,302
3,252,670	2,958,800	2,258,908	2,135,366
12.92	12.41	8.76	8.00



PUBLIC HOLDINGS

	2022		2021	
	No. of shares	% of holding	No. of shares	% of holding
Shares held by the public	81,295,572	15.50%	81,295,572	15.50%
No. of public shareholders	11,133	99.97%	11,324	99.97%

	2022	
	No. of shares	% of holding
Residents	521,544,538	99.43%
Foreign	2,995,099	0.57%

DISTRIBUTION OF ORDINARY SHARES

	As at 31 December 2022				As at 31 December 2021			
	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	9,006	80.87%	1,541,194	0.29%	9,107	80.40%	1,571,805	0.30%
1,001 to 10,000	1,540	13.83%	5,543,315	1.06%	1,584	13.98%	5,695,871	1.09%
10,001 to 100,000	489	4.39%	15,693,504	2.99%	529	4.67%	16,951,423	3.23%
100,001 to 1,000,000	88	0.79%	23,241,073	4.43%	97	0.86%	24,329,121	4.64%
Over 1,000,000	13	0.12%	478,520,551	91.23%	10	0.09%	475,991,417	90.74%
Total	11,136	100.00%	524,539,637	100.00%	11,327	100.00%	524,539,637	100.00%

COMPOSITION OF ORDINARY SHAREHOLDERS

	As at 31 December 2022				As at 31 December 2021			
	No. of shareholders	No. of shareholders %	No. of shares	No. of shares % (limit two decimal points)	No. of shareholders	No. of shareholders %	No. of shares	No. of shares % (limit two decimal points)
Resident - Individual	10,207	91.66%	45,175,641	8.61%	10,375	91.60%	39,811,008	7.59%
- Company	881	7.91%	476,368,897	90.82%	905	7.99%	484,160,701	92.30%
Non Resident-Individual	45	0.40%	603,478	0.12%	46	0.41%	554,278	0.11%
- Company	3	0.03%	2,391,621	0.46%	1	0.01%	13,650	0.00%
Total	11,136	100.00%	524,539,637	100.00%	11,327	100.00%	524,539,637	100.00%

DIRECTORS' SHAREHOLDING

Names of Directors	No. of shares 31.12.2022	As a % of total shares	No. of shares 31.12.2021	As a % of total shares
None	-	-	-	-

CEO'S SHAREHOLDING

Names of Directors	No. of shares 31.12.2022	As a % of total shares	No. of shares 31.12.2021	As a % of total shares
None	-	-	-	-

TWENTY LARGEST SHAREHOLDERS

Shareholder	As at 31 December 2022		As at 31 December 2021	
	No of Shares	Percentage holding	No of Shares	Percentage holding
Bank of Ceylon No. 1 Account	401,577,367	76.56%	401,577,367	76.56%
BOC Property Development & Management (Pvt) Ltd	41,666,682	7.94%	41,666,682	7.94%
Bank of Ceylon A/C Ceybank Unit Trust	11,798,960	2.25%	11,798,960	2.25%
Hatton National Bank PLC/Dinesh Nagendra Sellamuttu	5,320,722	1.01%	4,255,478	0.81%
Mr. J A S M Jayawickrama	4,140,000	0.79%	-	-
Mr. A M Weerasinghe	2,727,403	0.52%	2,727,403	0.52%
Sampath Bank PLC/ Dr.T.Senthilvel	2,039,958	0.39%	7,804,958	1.49%
Thread Capital (Private) Limited	1,905,000	0.36%	-	-
Sandwave Limited	1,877,971	0.36%	-	-
Amaliya Private Limited	1,817,656	0.35%	-	-
Mrs. M. P. R. Silva	1,442,582	0.28%	-	-
Mr. B.T. Prathapasinghe	1,121,250	0.21%	1,121,250	0.21%
Hatton National Bank PLC/Ravindra Erle Rambukwelle	1,085,000	0.21%	979,651	0.19%
Ravi Exports Private Limited	850,000	0.16%	681,250	0.13%
Mr. P K C P Samarasinghe	784,031	0.15%	-	-
Mr. J M S J B P Peiris	745,862	0.14%	-	-
Mr. P C P Samarasinghe	611,931	0.12%	-	-
Dr. P M C B Digana	595,005	0.11%	402,850	0.08%
Dialog Finance PLC/K.W.J.P.L. Perera	593,725	0.11%	280,000	0.05%
Mr. B P C J De Silva	534,056	0.10%	-	-
Total of largest shareholders	483,235,161	92.13%		
Total of other shareholders	41,304,476			
Total of all shareholders	524,539,637			

MARKET SHARE INFORMATION

	2022	Q4	Q3	Q2	Q1	2021
Share price (Rs.)						
Highest	9.50	4.50	5.20	5.70	9.50	9.40
Lowest	2.90	3.00	2.90	3.00	4.90	5.70
Closing	3.40	3.40	3.10	3.10	5.10	5.90
No. of transactions	17,177	1,072	3,236	1,597	11,272	9,583
No. of shares traded (Mn)	117	2	9	6	101	133
Shares traded to total shares (%)	22.35	0.41	1.66	1.06	19.22	25.36
Turnover (Rs. Mn)	874	8	34	21	811	269.82
MBSL turnover to total market turnover (%)	0.13	0.01	0.02	0.03	0.27	0.02
No. of days traded	260	65	66	65	64	240
Average daily turnover-CSE (Rs. Mn)	2,972	1,992	3,024	1,442	5,223	4,888
Market Capitalisation - CSE (MC)(Rs. Bn)	3,847	3,847	4,341	3,184	3,826	5,489
Market Capitalisation - MBSL (MC)(Rs. Bn)	2	2	2	2	3	3.09
MBSL MC to CSE MC (%)	0.05	0.05	0.05	0.05	0.07	0.06
MBSL market capitalisation ranking	188	188	179	176	149	167

Debenture Information

Merchant Bank of Sri Lanka & Finance PLC
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Debenture - Market Information						
Type	2022			2021		
	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	Years 5	Years 5	Years 5	Years 5	Years 5	Years 5
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	A- :ICRA Lanka Limited			A- :ICRA Lanka Limited		
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	100.61				99.98	
Lowest	100.50				99.98	
Closing	100.50	Has not been Traded	Has not been Traded	Has not been Traded	99.98	Has not been Traded
Current yield (%)	15.00%				14.50%	
YTM (%)	15.00%				14.50%	

	2022	2021	2020	2019
Operating Results				
Income	6,542,592	5,971,065	5,188,013	6,839,015
Interest expenses	(4,695,684)	2,675,588	3,532,790	4,331,275
Net interest income	1,755,398	2,850,367	1,417,848	2,201,454
Operating expenses & provisions	(2,242,865)	2,133,875	2,518,571	2,401,990
Share of associate company	-	-	-	-
Profit/(loss) before income tax	(656,914)	812,728	(1,342,905)	57,194
Income tax on profit (expense)/reversal	161,306	(283,684)	234,600	45,390
Profit/(loss) for the year	(495,608)	529,044	(1,108,305)	102,584
Statement of Financial Position Information				
Assets				
Cash & cash equivalents including placements	852,406	1,437,540	1,041,852	2,832,888
Reverse repurchase agreement	-	-	-	-
Financial assets designated at FVPL	4,610,767	2,330,716	2,242,628	2,161,677
Loans & receivable at amortised cost	24,423,300	28,184,638	26,787,036	29,262,864
Investment in associate & subsidiary companies	338,715	452,488	468,508	925,994
Property & equipment, intangible assets, investment properties and real estate stock	712,675	843,466	1,348,377	1,490,405
Other assets	293,918	1,028,611	470,808	301,288
Total assets	31,231,781	34,277,459	32,305,209	36,975,116
Liabilities				
Due to banks	2,925,953	4,116,812	5,436,682	7,749,021
Cash collateral on securities lent and repurchase agreements	-	-	-	-
Due to customers	23,524,609	22,267,862	21,725,261	22,755,930
Debt issued and borrowed funds	69,082	2,381,579	2,568,829	2,466,268
Other liabilities & deferred taxation	1,016,593	1,342,251	1,160,586	1,396,109
Total liabilities	27,536,237	30,108,504	30,891,358	34,367,328
Net assets	3,695,544	4,168,955	1,467,851	2,607,788
Capital Employed				
Stated capital	4,276,448	4,276,448	2,124,457	2,124,457
Retained earnings & reserves	(580,904)	(107,493)	(656,606)	483,331

2018	2017	2016	2015	2014	2013
6,549,905	6,402,825	4,888,155	4,216,991	4,734,641	2,355,366
3,752,471	3,708,808	2,709,604	2,133,325	2,579,431	1,371,937
2,442,466	2,448,478	2,028,170	1,939,834	1,805,198	893,899
2,140,150	2,465,367	1,945,654	2,119,094	2,101,923	807,547
-	-	-	-	-	-
446,676	228,650	232,897	(35,428)	53,287	175,882
(265,391)	(127,799)	(154,247)	(42,878)	(83,957)	(58,942)
181,285	100,851	78,650	(78,306)	(30,670)	116,940
965,197	1,928,482	520,234	820,923	2,026,901	964,584
1,292,670	1,302,748	265,687	785,965	465,211	140,768
1,448,104	2,046,445	3,059,300	2,296,177	2,060,990	930,672
30,781,975	29,233,023	27,109,765	23,282,286	21,422,320	9,905,403
160,360	102,201	158,390	391,281	597,180	1,008,106
711,918	671,726	470,738	403,918	373,195	95,132
504,202	360,582	342,640	294,000	368,127	224,135
35,864,426	35,645,207	31,926,754	28,274,550	27,313,924	13,268,800
5,869,317	123,849	201,635	258,062	200,002	99,118
-	437,672	401,820	416,472	442,170	-
20,831,021	21,918,869	18,518,419	15,846,306	11,092,643	-
5,331,077	8,818,862	8,722,787	7,883,323	11,141,793	9,623,147
1,308,907	1,112,135	975,578	862,325	1,285,893	765,659
33,340,322	32,411,387	28,820,239	25,266,488	24,162,501	10,487,924
2,524,104	3,233,820	3,106,515	3,008,062	3,151,423	2,780,876
2,124,457	2,124,457	2,124,457	2,124,457	2,124,457	1,607,000
399,647	1,109,363	982,058	883,602	1,026,965	1,173,876

	2022	2021	2020	2019
Investors Ratios				
Market value of a voting share - Rs.	3.40	5.9	7.50	9.60
Basic earnings per share - Rs.	(0.94)	2.04	(6.68)	0.62
Net assets value per share - Rs.	7.05	16.08	8.85	15.72
Price earnings ratio - Times	(3.60)	2.89	(1.12)	15.52
Earning yield - %	(27.79)	34.59	(89.09)	6.44
Operating Ratios				
Return on equity - %	(12.60)	18.77	(54.39)	4.00
Net profit - %	(7.58)	8.86	(21.32)	1.50
Return on assets - %	(1.51)	1.59	(3.20)	0.28
Net interest margin - %	5.85	9.42	4.50	6.52
Cost to income ratio - %	123.62	63.23	119.72	85.51
Income growth - %	9.57	15.09	(24.14)	4.41
Assets growth - %	(8.89)	5.77	(12.48)	3.10
Net assets growth - %	(11.36)	184.02	(43.71)	3.32
Gearing Ratios				
Debt to equity - Times	7.18	7.22	20.25	13.18
Interest cover - Times	0.86	1.30	0.62	1.01
Liquidity Ratios				
Quick ratio - Times	-	-	-	-
Liquidity ratio	13.41	12.92	8.17	12.30

	2018	2017	2016	2015	2014	2013
	9.60	13.50	13.60	15.00	17.50	13.60
	1.09	0.60	0.50	(0.47)	(0.18)	0.87
	19.33	19.50	18.73	18.13	19.00	20.60
	8.78	22.20	28.68	(31.77)	(94.65)	15.70
	11.38	4.50	3.49	(3.15)	(1.06)	6.37
	6.30	3.18	2.57	(2.54)	(0.97)	4.21
	2.77	1.58	1.61	(1.86)	(0.65)	4.96
	0.51	0.30	0.26	(0.28)	(0.11)	0.88
	7.83	7.64	7.18	7.61	9.96	8.22
	70.70	73.10	71.89	66.89	62.05	65.71
	2.30	30.99	15.92	(10.93)	86.46	25.97
	0.62	11.65	12.92	3.52	75.91	11.58
	(21.95)	4.10	3.27	(4.55)	4.95	3.24
	13.21	9.68	8.96	8.11	3.88	3.50
	1.12	1.06	1.09	0.98	1.02	1.13
	-	0.77	0.66	0.76	0.88	0.69
	10.20	11.49	10.75	11.25	-	-

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.

Dividend Per Ordinary Share

Market Price Per Share

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.

Earnings per Ordinary share (EPS)

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

$$\frac{\text{Profit / Loss Attributable to ordinary shareholders}}{\text{Average Number of Share}}$$

Price Earning (PE) Ratio (Times)

$$\frac{\text{Market Price Per Share}}{\text{Earning Per Share}}$$

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.

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.

$$\frac{\text{Total Share Holders Equity}}{\text{Average Number of Share}}$$

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.

$$\frac{\text{Gross non-performing portfolio}}{\text{Gross loans and receivables}} \times 100$$

Net profit

Net profit expressed as a percentage of total income.

$$\frac{\text{Net Profit}}{\text{Total Income}} \times 100$$

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.

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

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Annual Report 2022

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Merchant Bank of Sri Lanka & Finance PLC
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No. 343/B Matale Road, Dambulla	066-4200105/6 066-2284204/5		Mr. Nishantha Dhahanaka <i>Manager</i>	077-3241323	nishanthad@mbslbank.com
ANURADHAPURA BRANCH					
No. 82, Maithreepala Senanayake Mawatha, Anuradhapura	025-2234485 025-2221774 025-4580507		Mr. Kanishka Batagoda <i>Branch Manager</i>	074-1899313	kanishkab@mbslbank.com
HINGURAKGODA BRANCH					
No. 17, Air-Port Road, Hingurakgoda	027-4924761 027-4924762		Mr. Amila W. Mawathawewa <i>Manager</i>	077-2519083	amilaw@mbslbank.com
KEKIRAWA BRANCH					
No. 24, Yakalla Road, Kekirawa	025-4928951 025-4928952		Mr. Chaminda Batagoda <i>Branch Manager</i>	077-3240274	kumarab@mbslbank.com;

Address	Telephone	Fax	Head of Branch	Mobile No.	E-Mail
PUTTALAM BRANCH					
No.126/B, Kurunagala Road, Puttalam	032-2267285 032-4928795 032-4928796	032-2267776	Mr. Neel Kantha Thevarapperuma <i>Officer-In-Charge</i>	077-2281244	neelk@mbslbank.com
WENNAPPUWA BRANCH					
No. 177, Samagi Building, Kolinjadiya, Wennappuwa	031-4200109 031-4200110		Mr. Chaminda Pushpakumara <i>Manager</i>	077-1024291	chamindam@mbslbank.com
NEGOMBO BRANCH					
No. 329/16, Main Street, Negombo	031-4200107 031-4200108		Mr. Pradeep Kumarage <i>Branch Manager</i>	077-6722479	pradeepk@mbslbank.com
CHILAW BRANCH					
No. 6, Ebert Silva Estate, Colombo Road, Chillaw	032-4928790 032-4928791		Mr. Nuwan Prasanga <i>Manager</i>	077-3973424 077-6643542	nuwanp@mbslbank.com
KANDY BRANCH					
No. 284, Katugasthota Road, Kandy	081-2224818/9 081-4951786/7	081-2213880	Mr. Chaminda Amarasinghe <i>Manager</i>	077-3047775	chamindaa@mbslbank.com
KANDY BRANCH - CITY OFFICE					
No. 88, "Ceybank House" Dalada Veediya, Kandy	081-2237378 081-2237380 081-2237379	081-2237378	Mr. Krishantha Bandara <i>Branch Manager</i>	077-3241027	krishanthab@mbslbank.com
AVISSAWELLA BRANCH					
No. 89 /1/1, Ratnapura Road, Avisawella	036-4928208 036-4928209	036-2232030	Mr. Amal Geekiyana <i>Branch Manager</i>	077- 3240384	amals@mbslbank.com
RATNAPURA BRANCH					
No. 231, Main Street, Rathnapura	045-4928089 045-4928093	045-2232524	Mr. Chinthaka Athukorala <i>Manager</i>	077-3241089	chinthakaa@mbslbank.com
HATTON BRANCH					
No. 36, Circula Road, Hatton	051-4924641 051-4924642	051-2224375	Mr. Asanka Weerasinghe <i>Branch Manager</i>	077-3241168	asankaw@mbslbank.com
BANDARAWELA BRANCH					
No. 11, Thanthiriya, Badulla Road, Bandarawela	057-4926910 057-4926911	057-2233807	Mr. Chandana Rathnayake <i>Branch Manager</i>	077-3240335	rohanr@mbslbank.com
MONARAGALA BRANCH					
No. 280, Wellawaya Road, Monaragala	055-4929361 055-4929362	055-2276087	Mr. Sumith Karunaratne <i>Manager</i>	077-3240329	sumiths@mbslbank.com

Address	Telephone	Fax	Head of Branch	Mobile No.	E-Mail
NITTAMBUWA BRANCH					
No. 48/3, Kandy Road, Nittambuwa	033-4937564 033-4937565	033-2288842	Mr. Kanchana Costa <i>Manager</i>	077-75121169	kanchanaG@mbslbank.com
GAMPAHA BRANCH					
No. 390, Colombo Road, Gampaha	033-4200110 033-4200109	033-2234227	Mr. Gayan Wijesinghe <i>Branch Manager</i>	077-2970205	gayanpw@mbslbank.com
AMPARA BRANCH					
No. 6, D S Senanayake Veediya, Ampara	063-4923540 063-4923541	063-2224260	Mr. Chaminda Kadigamuwa <i>Manager</i>	077-3240817	sanjeewac@mbslbank.com
NORTH EAST REGION					
Region office No. 104/1, Station Road, Vavuniya	024-4711709 024-4711714		Mr. Rengasamy Saravanan <i>Senior Manager</i>	077-6519372	saravananr@mbslbank.com
JAFFNA BRANCH					
No. 233, Stanley Road, Jaffna	021-4200141		Mr. Shanmugavel Harishangar <i>Manager</i>	077-5147548	harishangars@mbslbank.com
KILINOCCHI BRANCH					
No. 30, A9 Road, Karadippokku, Kilinochchi	021-2280078	021-2280079	Mr. Satchithanantham Uganthan <i>Branch Manager</i>	077-6664465	uganthans@mbslbank.com
VAVUNIYA BRANCH					
No. 104/1, Station Road, Vavuniya	024-4711711		Mr. Kanesalingam Thusijanthan <i>Branch Manager</i>	077-3241007	thusijanthank@mbslbank.com
BATTICALOA BRANCH					
No. 28, Bar Road, Batticaloa	065-4926787 065-4926799	065-2228575	Mr. Yogarajah Suluxshan <i>Manager</i>	076-0576783	suluxshany@mbslbank.com
TRINCOMALEE BRANCH					
No. 133, Main Street, Trincomalee	026-4924788		Mr. Panchadcharam Nivaraj <i>Senior Manager</i>	077-3240721	nivarajp@mbslbank.com

Notice of Meeting

Merchant Bank of Sri Lanka & Finance PLC
Annual Report 2022

NOTICE IS HEREBY GIVEN that the Forty-First (41) 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 Wednesday 31st May 2023 at 10.00 a.m. as a virtual meeting via an Online Meeting Platform 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 2022 together with the Report of the Auditors thereon.
2. To re-elect as Director Mr. M P R Kumara who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To re-elect as Director Mr. G A Jayashantha who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
4. To elect as a Director Mr. Y A Jayathilaka 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 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.
6. To authorize the Directors to determine donations for the financial year ending 31.12.2023.

By Order of the Board of
MERCHANT BANK OF SRI LANKA & FINANCE PLC



Amila Belpamulla
Company Secretary

9th May 2023
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.

The Annual General Meeting (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 Colombo Stock Exchange (CSE) for the hosting of Virtual Annual General Meeting 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 Wednesday 31st May 2023.
- (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).

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 (Annexure I) enclosed herewith should be duly completed and forwarded to the Company together with a copy of the National Identity Card (NIC) or Passport of the shareholder/proxy holder to the e-mail address: dinushar@mbslbank.com or Fax to No. 0114711742 or post to the address given in the Registration Form to be received by the Company not less than 48 hours prior to the time 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 (ANNEXURE I) 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 the e-mail address: dinushar@mbslbank.com or Fax to No.0114711742 or post to the address given in the Registration Form to be received by the Company not less than 48 hours prior to the time 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 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.
- (e) Shareholders could vote their preference on the agenda items and relevant procedures will be explained at the meeting.

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 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 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. The Company will proceed to hold the AGM as planned on 31st May 2023 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



Amila Belpamulla
Company Secretary

9th May 2023
Colombo

Registration Form

ANNUAL GENERAL MEETING

Wednesday 31st May 2023 10.00 a.m

at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC,
BOC Merchant Tower, No.28 St. Michael's Road, Colombo 03

To: The Company Secretary
Merchant Bank of Sri Lanka & Finance PLC
Bank of Ceylon Merchant Tower
No. 28, St. Michael's Road
Colombo 03

Full Name of the Shareholder (In the event of joint shareholders, please mention the name of primary holder)		
Address of the Shareholder		
Shareholder's NIC No./Passport No./ Company Registration Number		
Telephone Number	Mobile:	
	Landline:	
E mail Address:		
Willingness to participate via online	Yes <input type="checkbox"/>	No <input type="checkbox"/>
IF A PROXY IS APPOINTED		
Full Name of the proxy holder		
Proxy holder's NIC No./Passport No.		
Telephone Number	Mobile:	
	Landline:	
E mail Address		

.....
Shareholder's signature

.....
Date

Notes:

1. It is mandatory for the shareholder/s to provide the email address in the space provided above in order to forward the log in information to facilitate the online participation at the meeting.
2. Duly filled Registration Form should be forwarded to reach the Company Secretaries via e-mail to dinushar@mbslbank.com or nimalig@mbslbank.com or facsimile on 0114711742 or by post to the registered address of the company BOC Merchant Tower, No. 28, St. Michael's Road, Colombo 03.
3. In the case of a Company/Corporation, this form should be attested in the manner prescribed by its Articles of Association.
4. 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.

Form of Proxy

I/Weof.....
being a shareholder/ shareholders of Merchant Bank of Sri Lanka & Finance PLC, hereby appoint
..... of.....
whom failing (Mr. A M A Perera/ 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/Mr. Y A Jayathilaka) 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 Wednesday 31st May 2023 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 2022 together with the Report of the Auditors thereon.	<input type="checkbox"/>	<input type="checkbox"/>
02. To re-elect as Director Mr. M P R Kumara who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
03. To re-elect as Director Mr. G A Jayashantha who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.	<input type="checkbox"/>	<input type="checkbox"/>
04. To elect as a Director Mr. Y A Jayathilaka 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.	<input type="checkbox"/>	<input type="checkbox"/>
05. 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.	<input type="checkbox"/>	<input type="checkbox"/>
06. To authorize the Directors to determine donations for the financial year ending 31.12.2023.	<input type="checkbox"/>	<input type="checkbox"/>

Signed this.....day of.....Two Thousand and Twenty Three.

.....
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 the completion of the Form of Proxy are 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.

Corporate Information

NAME OF COMPANY

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

COMPANY REGISTRATION NO

PQ10

LEGAL FORM

A limited liability company incorporated on 4th March 1982 under the Companies Ordinance No. 51 of 1938 and re-registered under the Companies Act No. 07 of 2007 on 4th May 2007 and quoted on the Colombo Stock Exchange.

A Registered Finance Leasing Company under the Finance Leasing Act No. 56 of 2000.

A Registered Finance Company licensed under the Finance Business Act No. 42 of 2011.

STOCK EXCHANGE LISTING

25th April 1991

REGISTERED OFFICE

Bank of Ceylon Merchant Tower,
No. 28, St. Michael's Road,
Colombo 03
Tel. 011 4711711 Fax. 011 4711742
Web. www.mbslbank.com

TAX PAYER IDENTIFICATION NO.

124011426

VAT REGISTRATION NO.

24011426 7000

CENTRAL BANK REGISTRATION NO.

050

FINANCIAL YEAR END

31st December

WEBSITE

www.mbslbank.com

BOARD OF DIRECTORS:

Mr. A M A Perera (Chairman)
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
Mr. Y A Jayathilaka

BOARD SUB COMMITTEES

- Audit Committee
- Integrated Risk Management Committee
- Related Party Transactions Review Committee
- Human Resources & Remuneration Committee
- Nomination Committee
- Information & Communication Technology Committee

CHIEF EXECUTIVE OFFICER:

Mr. Dammika Hapuhinna
Tel: 4711700 Fax: 4711704
E-mail: DammikaH@mbslbank.com

COMPANY SECRETARY

Ms. Amila Belpamulla
Tel: 4711708
E-mail : amilac@mbslbank.com

SUBSIDIARY COMPANY

MBSL Insurance Company Limited
No. 519, T B Jayah Mawatha,
Colombo - 10
Tel : 2 304500 Fax: 2 300499
E-mail : info@mbslinsurance.lk
Web : www.mbslinsurance.lk

ASSOCIATE COMPANY

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



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

Bank of Ceylon Merchant Tower,
No. 28, St. Michael's Road, Colombo 03
Tel. 011 4711711 | Fax. 011 4711742
www.mbslbank.com