

# Aligned With You



Merchant Bank of Sri Lanka & Finance PLC  
Annual Report 2023

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# Aligned With You

When we look back on our growth for the year under review, our efforts mirror the results that were nothing less than extraordinary. While our progress was shaped by barricades and speed bumps, our stellar accomplishments were stepping stones as we strove through adversity to reach historic new heights. As we strengthened our ventures and diversification, we moved ever closer in our transformation, aligning our actions with our vision for the future, together with the boundless energy and commitment of our team; the consummate professionals who changed the outcome of our story. We continued therefore to be an ever fixed mark, guiding and supporting our stakeholders, all while encouraging them to look upward to their aspirations.

This year, we acknowledge that through unprecedented times, we reached a momentous standpoint in our journey, all while we remained aligned with your needs.



View this Annual Report online at  
<https://www.mbslbank.com/financial-information/>  
[www.mbslbank.com](http://www.mbslbank.com)

## About the Company

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

We are one of the fastest growing financial services providers in the country with 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 license to operate as a "Leasing Company". In 2014, the Company was renamed "Merchant Bank of Sri Lanka & Finance PLC" and in 2015 registered under the Finance Business Act as a licensed finance company authorised to carry out finance business activities. Today, MBSL operates through a network of 47 branches across the island.

## Our Vision

**To be the most innovative & respected financial solutions provider among the NBFi 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

# Aligned with you on the journey to prosperity

The urgent needs for finances can arise anytime anywhere and MBSL, understanding the dreadful needs that can emerge anytime Gold Loan on low interest rates, speedy and convenient transactions with 100% confidentiality.



## ABOUT US

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Milestone / 4

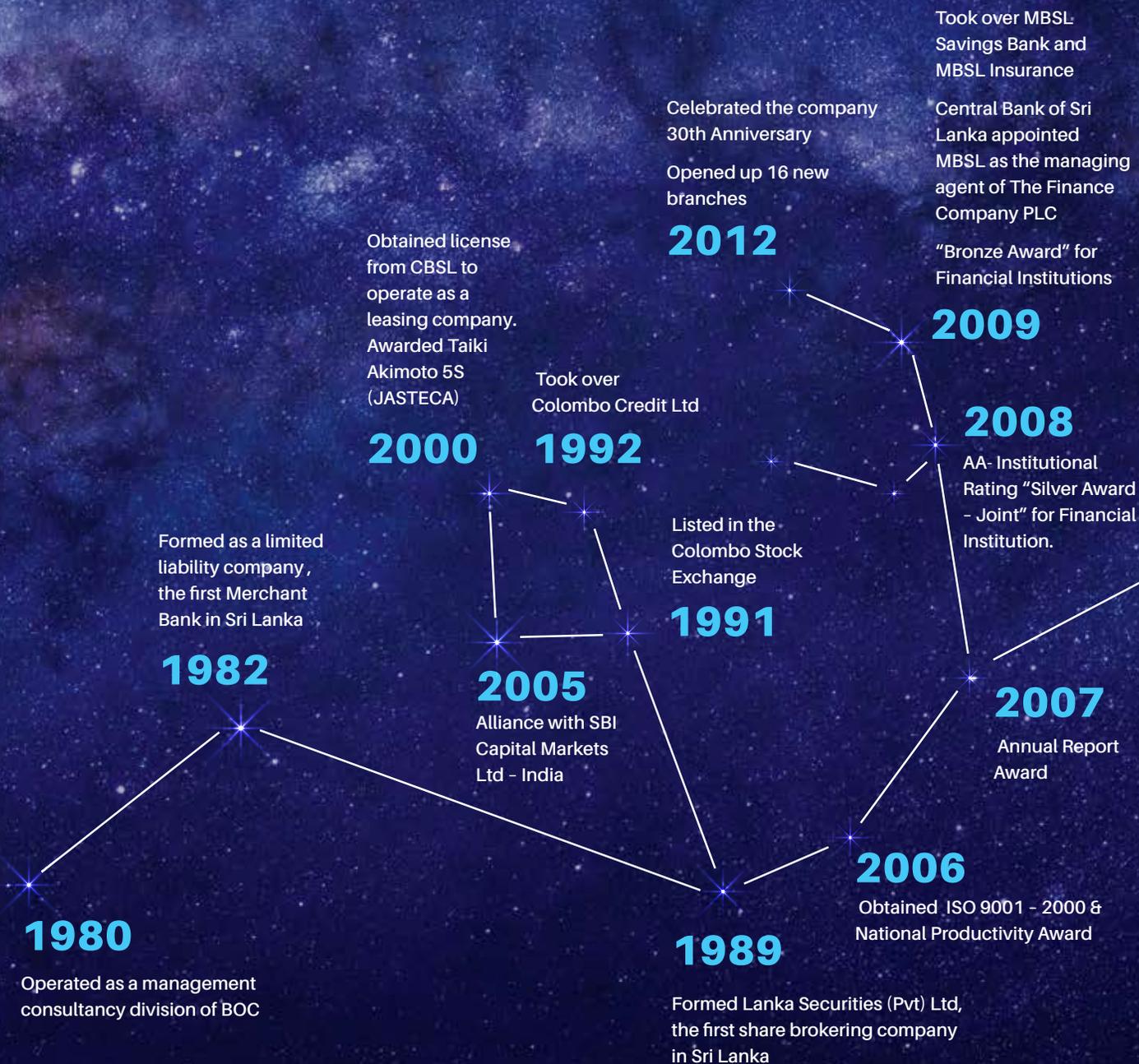
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# Milestone

MBSL keeps soaring in the financial world, just like a mighty Hydra dominating the night sky.





**Hydra (constellation)**  
Largest Constellation in the Sky  
Scan QR code for more information.



# Product Portfolio and Features

## 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 MARKETS



### Corporate Advisory & Capital Markets

#### CORPORATE ADVISORY

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

#### CAPITAL MARKET PRODUCTS

- \* Margin Trading
- \* 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 Plans

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



### SASHREEKA

Recognizing the pivotal roles women play as homemakers, wives, mothers, and societal cornerstones, MBSL offers the "Sashreeka" Savings Account. This exclusive account aims to enhance the savings habits of Sri Lankan women while providing a myriad of distinctive 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

## ස්ථාවර තැන්පතු Fixed Deposits

### NON SENIOR CITIZEN FIXED DEPOSITS

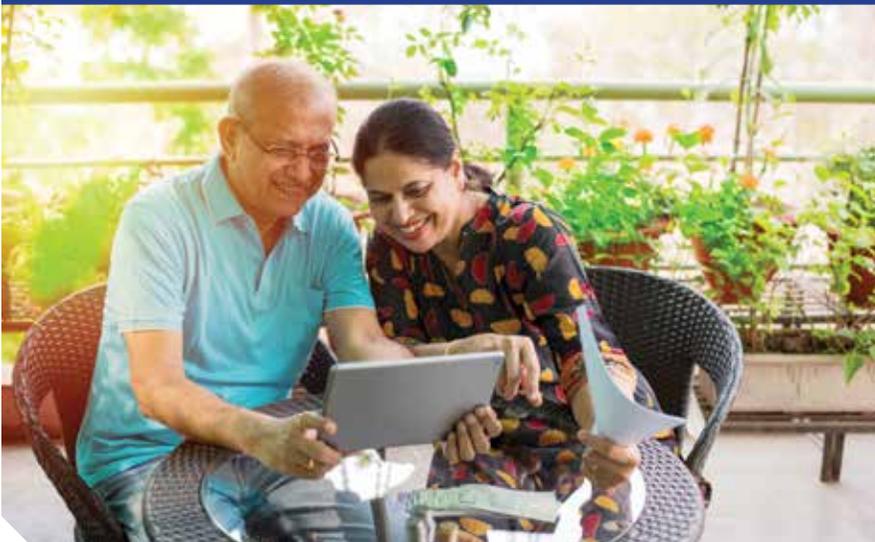
These general fixed deposits focus on customers who are 18 years and above with an attractive comparative interest

### 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
- \* Issuing balance confirmations and guarantee letter
- \* Superior customer service



# Board of Directors



Front seated L- R:

**PROF. N.S. PUNCHIHEWA**

Non-Executive /  
Independent Director

**MR. A.M.A. PERERA**

Chairman  
Non-Executive / Independent Director

**MR. M.P. RUWAN KUMARA**

Non-Executive /  
Non Independent Director



Standing L - R:

**MR. H.P.K. SILVA**

Non-Executive /  
Non Independent Director

**MR. R.M.N. JEEWANTHA**

Non-Executive /  
Non Independent Director

**MR. G.A. JAYASHANTHA**

Non-Executive /  
Non Independent Director

**MR. J.D.V.N.  
JAYASINGHE**

Non-Executive /  
Independent Director

**MR. Y. A. JAYATHILAKA**

Non-Executive /  
Non Independent Director

## Board of Directors (Contd.)

### 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 for the Years 2022 and 2023.

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 Communications 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 Communications 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 – 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 20th April 2021. He is also a member of the Integrated Risk Management Committee and Nomination Committee of MBSL.

Mr. Jayashantha counts over 26 years of service in the Bank of Ceylon. He has performed duties in branch banking in the early part of his career and later he has specialized in various business segments such as Treasury, Dealing & Primary Dealer Unit (PDU), Assets & Liabilities Management Unit (ALM), Risk Management, Corporate Recovery, Offshore Banking and Branch Operations.

Mr. Jayashantha held the position of Assistant General Manager in various business units such as Corporate Recovery, Risk Management, Western Province - South & Offshore Banking Division. On promotion to the Grade of Deputy General Manager he held the positions of Deputy General Manager - Retail Banking, Chief Risk Officer (25.11.2020 to 17.03.2023) and Deputy General Manager - Corporate & Offshore Banking.

Mr. Jayashantha serves as a Director of BoC Property Development & Management (Pvt.) Ltd, and Ceybank Asset Management (Pvt.) Ltd. and also extended his expertise as a member/ an Observer to various Management Committees and Board sub committees.

He Graduated from the University of Sri Jayawardenapura, Sri Lanka in 1994 with a First Class in B.Sc. Business Administration (Special) 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/ Independent Director*

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 Nominations 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 Hotels (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 the 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.

## Board of Directors (Contd.)

### 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 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 Audit Committee of MBSL. He is also a member of the Integrated Risk Management Committee of MBSL.

Mr. Ruwan Kumara possess over 21 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 Jayewardenepura 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 - Independent/Non-Executive Director*

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 the 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 Communications Technology Committee of MBSL.

Mr. Silva joined the 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 the 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 5 consecutive years. He held several key positions of the Bank of Ceylon and played a major role of Marketing Division. He was a member of many executive management committees of the Bank of Ceylon including Reward and Recognition Committee, and Disciplinary Authority Committee.

Prior to being appointed as the Deputy General Manager (Branch Operations), he held 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) and 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-Independent/Non-Executive Director*

Mr. R M N Jeewantha, currently functions as the Deputy General Manager - Development Banking - Branch Credit Operations - Range II of the Bank of Ceylon. Prior to this appointment, he was the Deputy General Manager (International, Treasury and Investment) from 28.08.2020 to 22.02.2024. He was appointed to the Board of Merchant Bank of Sri Lanka & Finance PLC (MBSL) as Non-Independent/Non-Executive Director on 23rd December 2021. He is also 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 a Senior Fellowship holder of the Institute of Bankers of Sri Lanka (FIBs).

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

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

Apart from the above, Mr. Jeewantha holds the positions 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 and a visiting Lecturer of the University of Sri Jayewardenepura and the Institute of Bankers of Sri Lanka.

## **MR. Y A JAYATHILAKA**

### *Non-Executive/Non Independent Director*

Mr. Jayathilaka counts over 26 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 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, Hotels Colombo (1963) Limited, Property Development Management Limited, and Ceybank Holiday Homes (Pvt) Limited.

Mr. Jayathilaka has been appointed to the Board of Directors of MBSL with effect from 4th April 2023 and currently he serves as the Chairman of Information and Communication Technology (ICT) Committee of MBSL.

# Corporate Management



Front seated L- R :

**MR. A. LIYANAGE**  
AGM - Recoveries

**MR. D. HAPUHINNA**  
Chief Executive Officer

**MR. T. GONAGALA**  
Head of Information  
Technology

**MR. K. JAYASUNDARA**  
AGM - Operations &  
Gold Loans

**MRS. F. ISHAR**  
AGM - Legal

**MR. P. KANDANAARACHCHI**  
AGM- Savings, Deposits &  
Treasury Front Office



Standing L - R:

**MR. P. BANDARA**  
Compliance Officer

**MR. K. JAYASINGHE**  
AGM - Internal Audit

**MR. S. PATHMADEERA**  
AGM- Retail & Branch  
Operations (Range 2)

**MR. H. WIJAYATHUNGA**  
Chief Risk Officer

## Corporate Management (Contd.)



Front seated L- R:

**MR. K. RAMANAYAKE**

AGM (Marketing/Product Management/Real Estate/Support Services & Customer Complaints Handling)

**MR. C. VITHANA**

DGM - Chief Financial Officer

Standing L - R:

**MR. K. SAMARATHUNGA**

Chief Manager - Human Resources (Acting Head of HR)

**MR. R. PERERA**

AGM - Central Credit

**MR. S.P. NIROSHAN**

AGM-Retail & Branch Operations (Range 01)

### **MR. DAMMIKA HAPUWINNA**

#### **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 Banks In-Store Banking concept. He holds a Master of Business Administration from University of Wales and an Executive Diploma in Business Administration from University of Colombo.

He has held several leadership positions in leading finance companies in the Kingdom of Saudi Arabia. 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. CHARITHA VITHANA**

#### **Deputy General Manager - Chief Financial Officer**

Mr. Charitha Vithana is an accomplished financial professional with over fifteen years of experience in the financial services sector, complemented by three years in auditing. He holds a BSc. Special Degree in Accounting from the University of Sri Jayewardenepura and is an Associate Member of both the Institute of Chartered Accountants of Sri Lanka (CASL) and the Association of Chartered Certified Accountants (ACCA). Additionally, he holds the designation of Associate Chartered Professional Manager (ACPM) from the Institute of Chartered Professional Managers of Sri Lanka. Mr. Vithana's career journey includes pivotal roles such as Chief Financial Officer at Fintrex Finance Limited, Head of Finance at Mahindra Ideal Finance Limited, and Accountant at AMW Capital Leasing and Finance PLC. He also gained valuable experience during his tenure at KPMG Colombo and Amerasekera & Company. His expertise spans finance and planning, financial reporting, treasury management, MIS, and administration, contributing significantly to organizational success and growth.

### **MR. PURNA KANDANAARACHCHI**

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

Mr. Kandanaarachchi counts over 25 years of experience in the fields of financial management, strategic planning, Treasury Management and auditing. He started his carrier at KPMG Sri Lanka before joining finance sector. He is a Fellow member of Institute of Chartered Accountants of Sri Lanka, an Associate Member of Institute of Certified Management Accountants of Sri Lanka. Mr. Kandanaarachchi also serves as a Non –Executive Director, Chairman of Audit Committee and member of Integrated Risk Management Committee of MBSL Insurance Company Limited, subsidiary of the Company.

### **MR. KUMUDU JAYASUNDARA**

#### **Assistant General Manager – Operations and Gold Loans**

Mr. Jayasundara has multi-faceted exposure in diverse areas in financial services and has previously held senior management positions 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 specialization 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. ASELA LIYANAGE**

#### **Assistant General Manager – Recoveries**

Mr. Liyanage counts over 23 years of extensive experience in the Finance industry, particularly in Recovery Operations. He holds a Banking Diploma from the Institute of Bankers of Sri Lanka and a Degree of Master of Business Administration from the University of Bedfordshire, U.K.

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

### MR. NIROSHAN SELVARAJ

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

Mr. Niroshan Selvaraj holds a Bsc Marketing Management (Special) degree from the University of Sri Jayawardenapura and he is a skilled Marketing professional with over 23 years 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 then 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 consists of 23 branches located in Western and Southern provinces.

### MR. THISHAN GONAGALA

Head of Information Technology

Mr. Gonagala, a seasoned IT expert in banking with over 25 years of experience, started his journey with IBM, specializing in hardware and software products. He began his banking IT career at Seylan Bank PLC in 1999 and holds a Masters in Information System Management from the University of Colombo, Sri Lanka. He is also a proud member of the British Computer Society.

He strongly supports the Bank IT team's mission: "Empowering Banking Through Technology" and is committed to boosting Business Agility via Digital Transformation. He prioritizes customer-centric banking and ensures robust Governance, Risk Management, and Compliance (GRC) practices for the bank's long-term sustainability.

### MRS. FAHIMA ISHAR

Assistant General Manager - 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 28 years of 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 Master's Degree in Law (LLM in International Business and Commercial Law - Merit Pass) from the University of West London, United Kingdom. She is a Member of the Bar Association of Sri Lanka and the Association of Corporate Lawyers in Sri Lanka.

Mrs. Ishar counts over 28 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. KAPILA JAYASINGHE

Assistant General Manager - Internal Audit

Mr. Jayasinghe is a Fellow Member of the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) and an Associate Member of Institute of Bankers of Sri Lanka (IBSL). He holds a Master's degree on Business Administration from Postgraduate Institute of Management, University of Sri Jayawardenepura. He has also been accredited with a Diploma on Information Systems Security, Control & Audit (DISSCA) conducted by CA Sri Lanka jointly with Institute of Chartered Accountants of India. He Counts over 13 years of experience in the fields of Governance, Risk & Control.

### MR. KEERTHI RAMANAYAKE

Assistant General Manager - (Marketing / Product Management/  
Real Estate/ Support Services & Customer Complaints Handling)

Mr. Keerthi Ramanayake currently holds the position of Assistant General Manager- Marketing / Product Management/ Real Estate/ Support Services & Customer Complaints Handling. With over 26 years' experience in MBSL he brings with him a diverse array of skills in Trade Finance, Leasing and Branch Operations. Making his entry into MBSL in 1997 as an Executive - in Trade Finance, he subsequently progressed to hold the positions of Assistant Manager, Deputy Manager, Branch Manager, Senior Manager, Regional Manager and AGM- Retail & Branch Operations.

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

### MR. SAMAN PATHMADEERA

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

Mr. Saman Pathmadeera holds the esteemed position of Assistant General Manager, overseeing the entire Range 02, which encompasses 25 branches strategically located in the central, northwestern, northeastern, northern, and eastern provinces. He counts over 30 years in the steering business and is a highly accomplished and skilled marketing professional. He is an expertise in diverse marketing, branch administration, credit, and operation role, underscoring his versatility and commitment to excellence across various working environments. Embarking on his dynamic and illustrious marketing career as a Marketing Executive in Kurunegala Branch, through his unwavering dedication and progress through the key professional milestones, he ascended to positions of increasing responsibility, serving as a Branch Manager, Senior Manager, Regional Manager, and Acting Range Head.

## MR. HIMALA WIJAYATUNGA

### Chief Risk Officer

Mr. Himala Wijayatunga possesses over eighteen years of expertise in risk management, financial management, and strategic management, with a specialized focus of over ten years in financial risk management. His proficiency spans credit, market, and operational risk, alongside business continuity management. Additionally, he excels in developing forecasting models, credit rating, VaR methodology, and data analysis.

Mr. Wijayatunga holds the prestigious title of Certified Financial Risk Manager awarded by the Global Association of Risk Professionals USA and is an Associate Member (ACA) of the Institute of Chartered Accountants of Sri Lanka. He earned his MBA from the Postgraduate Institute of Management (PIM) and a B.Sc. in Business Administration from the University of Sri Jayewardenepura, supplemented by a Diploma in Bank Integrated Risk Management (DBRIM) with a merit pass.

Mr. Wijayatunga has held pivotal positions throughout his career, notably serving as the Head of Risk at AMW Capital Leasing and Finance PLC and leading the risk management division at MBSL. Additionally, he has contributed his expertise to R.R Donnelley & Sons, a Fortune 500 Company listed on the New York Stock Exchange.

Currently, Mr. Wijayatunga serves as the Chief Risk Officer (CRO) at MBSL, bringing his wealth of experience and knowledge to steer the company towards strategic risk management excellence.

## MR. PANDULA BANDARA

### Compliance Officer

During his university studies, he got through as an audit examiner at the Auditor General's Department. After three years, he transitioned to the banking and finance industry, assuming the position of Anuradhapura Branch Opening Manager at Merchant Bank of Sri Lanka in 2005. Following his tenure there, in 2008 he gained further experience by working with CDB and Central Finance. He subsequently rejoined with MBSL in 2016 as the Branch Manager for Negombo. After years, he has held key positions including Regional Credit Officer, Senior Manager within the Compliance Division, and ultimately, served as Compliance Officer from September 2023.

With almost two decades of professional life, he has acquired a diverse skill set encompassing auditing, branch management, Pawning and gold loan administration, moneygram and foreign exchange operations, credit evaluation, and compliance. In addition to his professional achievements, he possesses the qualifications to serve as an external resource personal at Anuradhapura Open University and Technical Collage.

He holds a Bachelor of Business Administration from the University of Sri Jayawardenepura, a Post Graduate Diploma from SLIIT, and is a Certified Business Accountant accredited by ICA. Moreover, he is a diploma holder in banking and finance and an Associate Member of the Bankers Association. Beyond his financial expertise, he has pursued studies in Counseling Psychology, holding an Advanced Diploma from IHRA-University of Colombo, and a Masters in Buddhist Counseling Psychology from the Kelaniya Pali and Buddhist Postgraduate Institute.

## MR. KEERTHI SAMARATUNGA

### Chief Manager – Human Resources (Acting Head of HR)

Mr. Keerthi Samaratunga Chief Manager Human Resources was appointed as the Acting Head of Human Resources on 1st September 2022. In his tenure over 2 decades of experience in Banking & Financial field he has gained wealth of experience in Human Resources Management being in different capacities and contributing effectively on Human Resources Operations. He possess Diploma in Human Resources Management from the Chartered Institute of Personnel Management and Bachelor of Philosophy from the Pontifical Urban University of Rome.

## MR. RUCHIRA PERERA

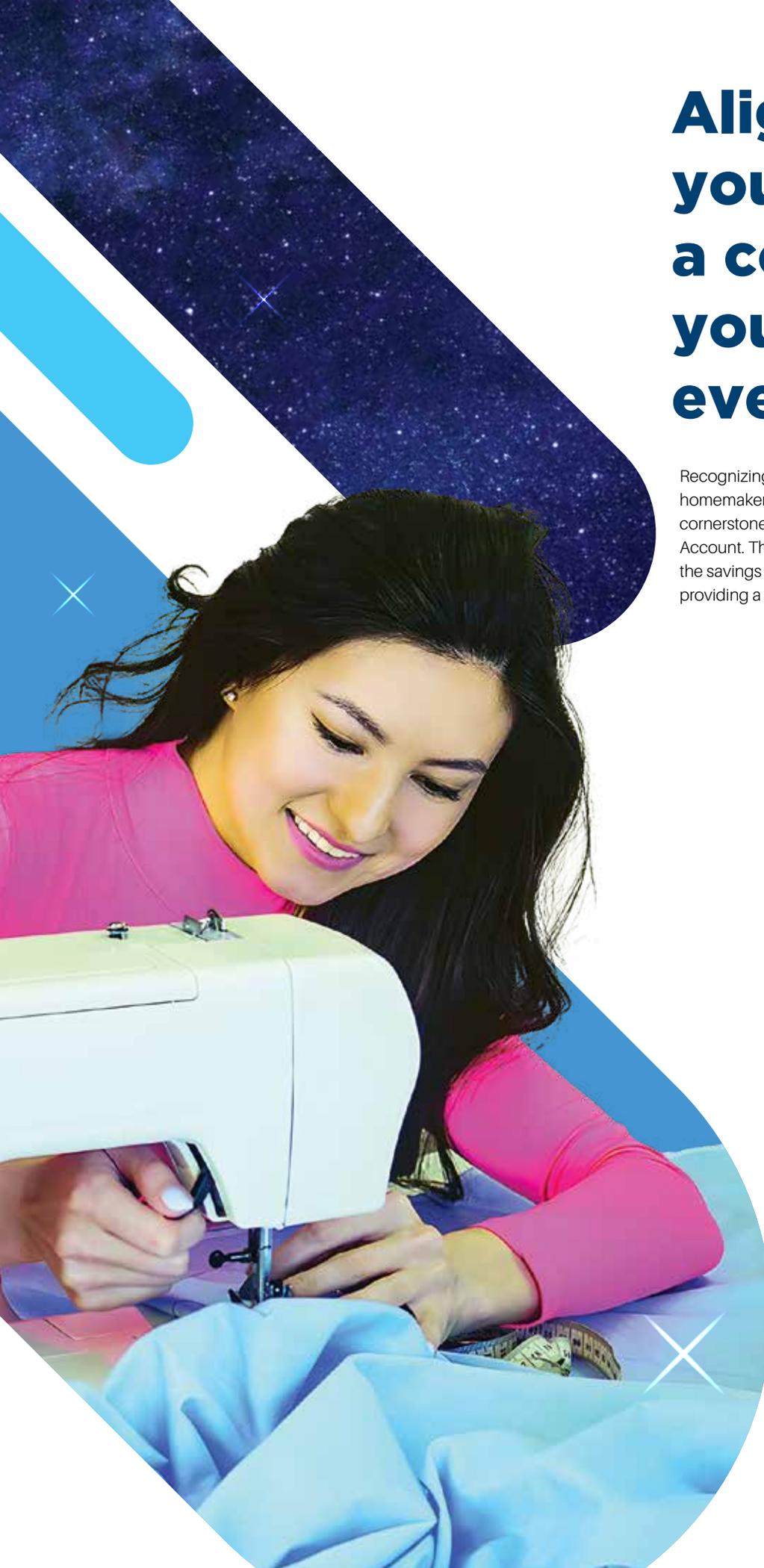
### Assistant General Manager - Central Credit

Mr. Ruchira Perera, an accomplished professional currently serving as the Head of Credit at MBSL, boasts a distinguished career in banking spanning over 25 years. His expertise encompasses a wide spectrum of banking domains including SME, Retail, and Corporate Banking, acquired through extensive experience both locally and internationally.

Commencing his career in 1999, Mr. Perera initially specialized in SME and Retail Banking, gradually transitioning to Corporate Banking and Project Financing. In 2008, he embarked on an enriching journey in the State of Qatar, where he managed Commercial and Corporate Banking operations for a prestigious financial institution. Following a successful tenure abroad, he returned to Sri Lanka in 2010, contributing his talents to an emerging local bank.

Throughout his career progression, Mr. Perera has consistently demonstrated a keen aptitude for branch banking, corporate banking, and credit structuring. His most recent role prior to joining MBSL in 2024 was as Assistant Vice President of Corporate Banking, where he played a pivotal role in driving business growth and enhancing client relationships.

Mr. Perera holds a Master's in Business Administration from Cardiff Metropolitan University, United Kingdom, underscoring his commitment to continuous professional development. Additionally, he possesses a Diploma in Credit Management from the Institute of Bankers of Sri Lanka, further validating his expertise in the field of credit management.



# Aligned with you, charting a course for your success every day

Recognizing the pivotal roles women play as homemakers, wives, mothers, and societal cornerstones, MBSL offers the “Sashreeka” Savings Account. This exclusive account aims to enhance the savings habits of Sri Lankan women while providing a myriad of distinctive benefits.

## KEY MESSAGES

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# Financial Highlights

|                                       | 2023    | 2022   | %       |
|---------------------------------------|---------|--------|---------|
| <b>Operating Performance (Rs. Mn)</b> |         |        |         |
| Gross income                          | 7,478   | 6,543  | 14.3    |
| Net interest income                   | 1,640   | 1,755  | (6.5)   |
| Operating profit/(loss) before tax    | 266     | (415)  | 164.0   |
| Profit/(loss) before tax              | 68      | (657)  | 110.3   |
| Taxation (expense)/reversal           | (47)    | 161    | (129.1) |
| Profit/(loss) after tax               | 21      | (496)  | 104.2   |
| Retained profit/(loss)                | (1,290) | (945)  | (36.5)  |
| <b>Financial Position (Rs. Mn)</b>    |         |        |         |
| Gross loans and advances              | 21,714  | 27,166 | (20.1)  |
| Total assets                          | 33,699  | 31,232 | 7.9     |
| Due to Customer                       | 25,444  | 23,525 | 8.2     |
| Total liabilities                     | 30,028  | 27,536 | 9.1     |
| Shareholders' funds                   | 3,671   | 3,696  | (0.7)   |
| <b>Operating Ratios (%)</b>           |         |        |         |
| Return on assets                      | 0.1     | (1.5)  | 104.3   |
| Return on equity                      | 0.6     | (12.6) | 104.5   |
| Cost to income ratio                  | 90.54   | 123.62 | (26.8)  |
| Net Non-performing loans ratio        | 6.53    | 8.14   | (19.8)  |
| Provision coverage                    | 46.35   | 40.06  | 15.7    |
| Loans to deposit ratio                | 85.34   | 115.48 | (26.1)  |
| Core capital ratio                    | 13.60   | 11.33  | 31.0    |
| Overall capital ratio                 | 16.75   | 12.01  | 52.8    |
| <b>Shareholder Ratios</b>             |         |        |         |
| Earnings per share (Rs.)              | 0.04    | (0.94) | 104.2   |
| Net asset value per share (Rs.)       | 7.00    | 7.05   | (0.7)   |
| Price earnings ratio (Times)          | 110.49  | (3.60) | 3,170.5 |
| Market price per share (Rs.)          | 4.40    | 3.40   | 29.4    |



## Operating Profit (Rs. Mn)

**266** ▲ 164%

2023

(415) 2022



## Profit/Loss (Rs. Mn)

**21** ▲ 104.2%

2023

(496) 2022



## Total Assets (Rs. Mn)

**33,699** ▲ 7.9%

2023

31,232 2022



## Total Deposits (Rs. Mn)

**25,444** ▲ 8.2%

2023

23,525 2022



## Provision Coverage

**46.35** ▲ 15.7%

2023

40.06 2022



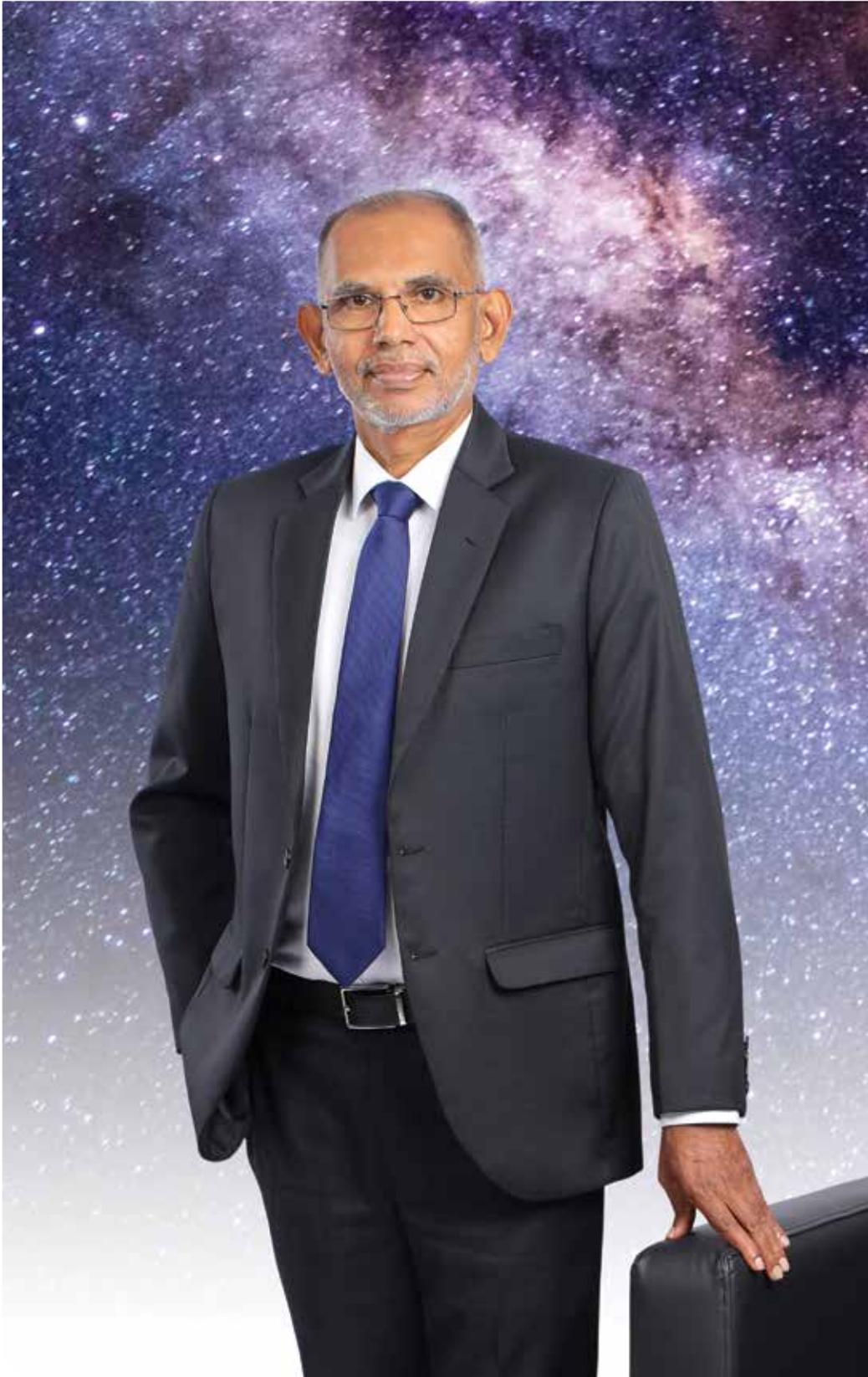
## Overall Capital Ratio

**16.75** ▲ 39.5%

2023

12.01 2022

# Chairman's Statement



*Dear Stakeholder,*

Sri Lanka's economy has shown remarkable progress in the path to recovery emerging from the worst economic crisis the country has faced since independence. This was mainly driven by the macro-prudential measures undertaken by the Central Bank of Sri Lanka and other hard measures undertaken by the government. Some of the stringent government measures include substantial increase in individual income tax, cost reflective pricing of electricity tariffs and curtailment of government expenditure. While these measures resulted in improvement of government fiscal performance to some extent, they also led to inflation and reduced disposable incomes of the households driving a substantial number of the population below the poverty line including brain drain.

Although there are positive signs of recovery the economy is still subject to considerable risks and shocks which are both internal and external. What is important to note is that the economic indicators seem positive in comparison to GDP that contracted by 7.8% in 2022. At the time of writing this message, external debt restructuring (EDR) is yet to be completed. Successful conclusion of EDR and adhering to commitments under the IMF program is essential for bolstering investor confidence, attracting investment into the country, and maintaining sustained economic growth.

Under the given scenario, the banking sector and the LFC sector faced numerous challenges. Interest rate volatility, lower disposable income of

customers and continued restrictions on vehicle imports contracted the lending portfolio. On the other hand, managing recoveries and containing NPA levels within the required limits needed considerable focus and resources.

Despite the formidable headwinds posed by economic uncertainties and market volatility, I am proud to report that MBSL has demonstrated commendable resilience.

The domestic economy made a steadfast recovery in 2023 benefitting from the gradual return of overall macroeconomic stability. According to the Central Bank, the economy recorded an expansion in its activity in Q3-2023, after six consecutive quarters of contraction indicating improvements in market conditions and economic indicators.

Colombo Consumer Price Index (CCPI) based headline inflation decelerated to 1.3 per cent in September 2023. However, several supply-side factors including upward revisions to electricity tariffs in October 2023, increased food prices owing to crop damages under adverse weather conditions and upward revisions to LP gas and fuel prices caused CCPI-based headline inflation to accelerate to 4.0 percent in December 2023.

Overall lending interest rates, market interest rates, including yields on government securities, declined notably during 2023. The interest rate structure across all products saw a downward shift during 2023 compared to end 2022.

Reflecting the sluggish economic performance, upward tax adjustments and elevated price levels, a rise in Non-Performing Loans (NPLs) ratios was observed. The strained households and corporates balance sheet narrowed debt repayment capacities though some improvements were observed in this regard since June 2023.

Adverse macro-economic conditions, lower investor confidence, interest rate volatility, bearish conditions in the equity markets compelled us to play defensively while consolidating our position, and strengthening our balance sheet. Timely decisions were taken to invest in risk-free assets rather than risky loans and to focus on cost containment. Reducing NPA levels was one of the topmost priorities during the year.

#### MBSL PERFORMANCE

During the year under review, MBSL's revenue recorded a 14% increase compared to the previous year. However NIM contracted marginally to 5.55% compared to 5.85% last year reflecting interest rate volatility.

Despite relentless cost reduction measures, operating expenses grew by 1.9% due to higher cost of goods and services. The Bank recorded a PAT of 20.88 Mn compared to a loss of Rs. 496 Mn in 2022, reflecting a growth of 104%. An impairment reversal of loans and other assets amounting to Rs. 25 Mn and impairment reversal of Rs. 95 Mn in the investment in subsidiary also contributed to this result.



**During the year under review, MBSL's revenue recorded a 14% increase compared to the previous year.**

However MBSL Group reported a loss of Rs. 86 Mn due to the loss reported by MBSL Insurance. Subdued performance in the share market led to lower profit in our Associate Company. Nevertheless, the MBSL board will carefully examine the investment in the subsidiary in the upcoming year.

#### FUTURE OUTLOOK

Barring the risks associated with any deviations from the IMF conditions under the EFF program due to the elections, the economy is expected to enter a growth phase this year. The strong rebound in tourism, increased expatriate remittances, a stable local currency against the US dollar, and the fall in interest rates is expected to spur a credit growth.

With the improved liquidity and stronger balance sheet we are poised to cater to the emerging opportunities in the core business. Our strategic plan also includes allocating resources to reestablish MBSL in investment banking, aiming to boost our fee-based income while enhancing efficiency and productivity through technology investments. I am confident that MBSL will be able to grow the business and meet stakeholder expectations in 2024 and beyond.



**The Bank recorded a PAT of 20.88 Mn compared to a loss of Rs. 496 Mn in 2022, reflecting a growth of 104%.**

## Chairman's Statement (Contd.)

### ACKNOWLEDGMENT

I wish to thank the CEO and all the dedicated employees for their unwavering dedication, resilience and commitment. I also wish to extend my sincere appreciation to the members of the Board for their guidance and support. Together, their collective efforts have been crucial in navigating the challenges of the past year and positioning MBSL for sustained success in the future.

Furthermore, I wish to express sincere appreciation to our principal shareholder, Bank of Ceylon, and all other shareholders for their confidence in MBSL and its strategic vision. Your trust is indispensable to our continued growth and success.

I wish to thank our loyal customers, partners, and advocates for your steadfast trust and ongoing support, even amidst challenging times and economic uncertainty. Your faith in MBSL inspires us to continually strive for excellence and surpass expectations. Last but not least, I wish to express my gratitude to all stakeholders including the officials at the Central Bank of Sri Lanka and state regulators for your continued support towards MBSL.



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

*Chairman*

*Non-Executive / Independent Director*

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**Our strategic plan also includes allocating resources to reestablish MBSL in investment banking, aiming to boost our fee-based income while enhancing efficiency and productivity through technology investments.**

# Chief Executive Officer's Report



I am pleased to inform you that despite Sri Lanka's challenging economic landscape during the year under review, the Merchant Bank of Sri Lanka & Finance PLC (MBSL) was able to face the challenges with courage and remarkable resilience.

The repercussions of the unfavorable macroeconomic conditions that began affecting the country in 2022 persisted into 2023, with the economy experiencing further contraction during the initial two quarters. However due to macro prudential efforts taken by the Central Bank, the economy started to rebound from the third quarter. The market dynamics of 2022, characterized by high interest rates, import restrictions and soaring inflation had a profound impact on our operations. The company that started the year on the back of a negative financial position met with high lending rates and inflation intensifying cost pressure. These factors collectively posed substantial hurdles, contributing to a challenging start to 2023.

Despite facing constraints and subdued market activity, MBSL remained resilient, initiating strategic efforts to navigate through the year. Revenue grew by 14.3%. Simultaneously, efforts were made to enhance operational efficiency by streamlining processes and prudent management of NPLs. With these efforts, MBSL was able to record a modest profit of Rs. 20.8 Mn compared to a loss of Rs. 495.6 Mn in 2022, resulting in a 104% improvement in profitability. The dedication and hard work of the MBSL team in addressing the challenges,

paved the way for a gradual turnaround of the company's bottom line. This also stands as testimony to MBSL's commitment to adaptability and strategic insight in the face of adversity.

### CHALLENGES AND OPPORTUNITIES IN THE FINANCIAL SECTOR

The overall economic contraction coupled with tax hikes aimed at supporting fiscal consolidation, contributed to heightened difficulties for both banking and non-banking financial sectors. The company faced a 22% drop in lending, reflecting low demand for credit in line with the overall banking and non-banking sector.

Licensed Finance Companies (LFCs) faced significant contraction in their loans and advances portfolio, particularly due to restrictions on vehicle imports affecting leasing and hire purchase activities. However, the LFCs sector diversified its activities, focusing more on pawning/gold loan facilities, albeit heightening its risk to fluctuations in global gold prices.

The economic crisis severely impacted households and corporate balance sheets, resulting in an erosion of real income levels amidst elevated price levels, hindering debt repayment capacities. The risks for non-performing loans were greater during the year. MBSL strategically took the 'on ground' approach to managing NPLs by individually addressing customer concerns and offering solutions

through regional branch offices. As a result, the company was successful in managing the heightened risk of NPLs during the year.

The government's active implementation of structural reforms aimed at restoring macroeconomic stability also provided a glimmer of hope. Additionally, foreign exchange liquidity pressures began to ease due to factors like robust remittance flows and improved tourism earnings, leading to an increase in usable foreign reserves. In the face of these challenges, MBSL remained steadfast in its commitment to excellence and regulatory compliance.

### COST CONTAINMENT AND OPERATIONAL EFFICIENCY

Central to our strategy during this period was the rigorous pursuit of cost containment, which we approached with a meticulous and disciplined mindset. In April 2023, we initiated a comprehensive effort to streamline our expenditure, carefully scrutinizing every aspect of our operations to identify areas for optimization. Through this meticulous process, we identified specific cost-management measures that allowed us to reduce our expenses significantly. Several initiatives were taken to reduce non-essential expenditures such as administrative overheads and marketing expenses. Additionally, several negotiations were held with suppliers and vendors, ensuring that we obtained the best possible terms and pricing for our procurement needs.



**Despite facing constraints and subdued market activity, MBSL remained resilient, initiating strategic efforts to navigate through the year.**

Furthermore, we improved our operational efficiency to maximize productivity and minimize wastage. By leveraging technology and automation tools, we streamlined our workflows and eliminated redundant processes, to increase operational efficiency across various departments.

Moreover, our enhanced operational efficiency enabled us to respond swiftly to changing market dynamics and position us for continued success in the face of uncertainty.

### OPTIMIZING LIQUIDITY AND INVESTMENT STRATEGIES

Our strategic allocation of resources towards government securities and treasury bonds played a pivotal role in fortifying our financial foundations. Through astute allocation strategies, we significantly increased our holdings in government securities, witnessing a remarkable rise in our liquidity reserves by 11.59% over the course of the year. This proactive approach not only provided us with a solid financial cushion but also positioned us to capitalize on emerging investment opportunities in the market.

While maintaining a cautious approach towards lending practices, we focused on expanding income through prudent investments, demonstrated our unwavering commitment to financial stability and sustainable growth. By diversifying our investment portfolio and seizing opportunities in high-yield instruments, we achieved a notable increase in investment income, with returns improving by 523.2% compared to the previous fiscal period. This strategic emphasis on investment optimization not only helped our revenue protection but also enhanced our overall financial resilience in the face of market uncertainties.

## STAKEHOLDER MANAGEMENT AND REGULATORY COMPLIANCE

In the realm of stakeholder management, MBSL faced a myriad of challenges intensified by the dynamic market landscape and evolving regulatory frameworks. Foremost among these challenges was the retention of skilled professionals amidst brain drain that the country experienced as a whole.

Amidst these challenges, MBSL remained steadfast in its commitment to stakeholder engagement and regulatory compliance. By proactively adapting to emerging regulatory paradigms and fostering open communication channels with stakeholders, the company endeavoured to mitigate the impact of market shifts on its operations. Additionally, a strategic focus on customer relationship management enabled MBSL to navigate the complexities of customer behavior amidst economic uncertainties, especially in terms of managing recoveries and restructuring efforts to address the evolving needs of its clientele.

## OUTLOOK AND FUTURE PROSPECTS

Sri Lankan economic recovery has shown remarkable progress although considerable risks remain as the country is yet to finalize the external debt restructuring. As we have navigated a difficult year and strengthened our balance sheet we remain hopeful and confident that MBSL will be able

to benefit from the emerging opportunities. With the strength of the largest State Bank in the country as our parent, we are in an advantageous position to support Sri Lanka's economic growth through focused investment capital and support to sustainability initiatives. It is our fervent belief that a new era of opportunities lay ahead for multiple industries and thus we continue to strengthen our focus and resources to cater to these opportunities in the future.

## ACKNOWLEDGMENT

I extend my heartfelt gratitude to the entire MBSL team for their unwavering dedication and resilience throughout the challenges we faced this year. Their hard work, especially in the face of personal hardships, has been truly commendable.

I would like to express my sincere thanks to our shareholders for their continued trust and confidence in MBSL's growth trajectory. A special appreciation goes to Bank of Ceylon for their steadfast support, which has been invaluable.

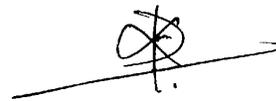
I am deeply appreciative of the Chairman and the Board of Directors for their invaluable guidance and counsel during a challenging period.

I extend my warmest thanks to our customers for continuous confidence and patronizing of MBSL.

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**Moreover, our enhanced operational efficiency enabled us to respond swiftly to changing market dynamics and position us for continued success in the face of uncertainty.**

Lastly, I would like to express gratitude to our regulatory partners, including the Governor of the Central Bank of Sri Lanka, for their consistent support and guidance.



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

# Aligned with you towards a golden dawn

MBSL Achara is a Savings Account introduced recently, specially bestowed as a signal honour by us on the senior citizen residents of Sri Lanka.



## MANAGING, RISK AND GOVERNANCE

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# Management Discussion & Analysis



## FINANCIAL REVIEW

In the year under review, MBSL faced many challenges due to the adverse macroeconomic conditions that directly impacted the banking and non-banking finance sectors. The volatile interest and exchange rates and unpredictable market conditions necessitated careful navigation of these intricacies while maintaining our financial position.

### Strategic Initiatives for Financial Performance Improvement

In response to the challenges faced in the previous fiscal year, MBSL undertook strategic initiatives aimed at enhancing financial performance and ensuring sustained growth. These initiatives were strategically designed to address key areas of concern and capitalize on emerging opportunities in the market landscape.

#### 1. Margin Management and Revenue Optimization:

MBSL prioritized margin management due to escalating costs and unyielding interest income. To safeguard net interest income, the Bank undertook measures to enhance the yield on both lending and deposit products. This included a meticulous re-pricing strategy for lending products and deposit products, to align with prevailing market rates. Additionally, the Bank adopted a proactive approach towards managing its investment portfolio, focusing on safer avenues to optimize returns without compromising on risk exposure.

#### 2. Risk Mitigation and Portfolio Diversification:

Recognizing the inherent risks associated with certain industries, particularly in lending, retail and corporate sectors, MBSL took deliberate steps to mitigate risk exposure. The Bank strategically

diverted resources towards safer investment options, steering away from high-risk industries. By prioritizing investments in credit portfolios with lower risk profiles, MBSL aimed to fortify its balance sheet and strengthen its revenue streams.

#### 3. Performance Evaluation and Financial Recovery:

Despite the challenges, MBSL exhibited resilience and adaptability, as reflected in its financial performance. The Bank recorded a notable increase in revenue, with a 14.3% growth compared to the previous year. Moreover, the Profit Before Tax (PBT) witnessed a substantial improvement, reaching 67.9 million, compared to a loss of 656.9 million in the preceding year. Notably, the bottom-line profit after tax reflected a turnaround from a loss of 495.6 million in 2022 reaching a favourable position of 20.8 million in 2023. This remarkable

recovery highlights the effectiveness of MBSL's strategic initiatives and its commitment to financial stability and growth.

### Impact of Central Bank Capital Adequacy Requirements on Financial Performance

Changes to the rules set by the Central Bank regarding the minimum capital requirement of the Company, had a substantial impact on MBSL's financial path in the past year. The required capital ratio went up to 12.5% w.e.f 01.07.2022. by the end of the year. MBSL has been proactive in following these rules utilizing them to strengthen its financial position. This commitment has not only shown the strength of MBSL financially, but has also led to positive earnings, especially from retail operations. As a result, MBSL's capital position has become stronger compared to the past, enhancing its stability and safety in accordance with regulations.

## Management Discussion & Analysis (Contd.)

Efforts to expand and increase income have enabled MBSL to easily align with regulatory changes. Measures taken to increase income and streamline collections amidst challenges such as high inflation and increasing costs, have yielded positive results. Also prudent management of assets such as investment in safer alternatives has led to a significant 7.9% increase in total assets. This smart use of resources has made MBSL's assets stronger and set it up for steady growth.

Moreover, MBSL has done well in getting more deposits from customers even amidst volatile market conditions such as the under-performing Sri Lankan share market and higher interest rates. Hence, the customers seeking secure investment options have placed greater trust in MBSL. This trust has led to big increases in both the total amount of deposits and the number of customers. This growth, at an impressive 8.2% from the previous year, shows the extent to which the customer trust MBSL and the extent to which MBSL has adapted to fluctuation market conditions.

### Future Strategy for Financial Growth and Stability

Looking ahead, MBSL is strategically positioned to pursue key initiatives that drive sustainable growth and mitigate potential market challenges.

#### \* Strengthening Lending Portfolio

MBSL will focus on expanding its lending portfolio, particularly in retail lending to both corporate and individual customers.

Emphasis will be placed on products such as leasing and term loans to meet evolving customer needs and drive revenue growth.

#### \* Diversification and Sustainability

The company will diversify revenue streams by promoting sustainable products and services, aligning with market demands and environmental goals. This approach enhances market competitiveness while mitigating risk.

#### \* Pricing Optimization and Cost Controls

MBSL will refine pricing strategies to align with market dynamics and implement cost-effective measures through process automation. This ensures operational efficiency and maintains financial resilience.

#### \* Market Expansion and Opportunity Exploration

Despite anticipated challenges, MBSL will expand its market presence and explore opportunities in merchant banking, stock market revival and strategic partnerships. Leveraging on expected improvement in business sentiment and government expenditures, the company aims for growth and diversification while managing risks.

### MARKETING REVIEW

#### Managing Products and Services

MBSL stands out as a reliable and trusted partner, offering a variety of services to meet the changing needs of its customers.

As a licensed finance company, MBSL focuses on safety and growth, providing a wide range of products for both individuals and businesses. Whether it's safe investments or easy financing options, MBSL's offerings show strength and opportunity, paving the way for financial prosperity.

### Product Portfolio Overview

At the core of MBSL's offerings lies a commitment to diversity and reliability. Fixed Deposits provide a secure avenue for capital growth, while Gold Loans offer convenient liquidity against precious assets. Leveraging fixed deposit holdings, clients can access additional capital through Loans, ensuring flexibility in financial planning. Savings Accounts promote a culture of thrift and stability, while Leasing solutions facilitate asset acquisition for personal or business purposes. Margin Trading opportunities amplify investment potential and personal and business loans cater to diverse financial needs. All these services make up MBSL's strong lineup, helping people and businesses thrive in the dynamic financial world.

### Product Performance amidst Economic Challenges

In navigating the tumultuous economic climate of recent years, MBSL's product portfolio has showcased remarkable resilience amidst significant challenges faced by the Sri Lankan economy. The adverse economic conditions, stemming from a series of destabilizing events such as the Easter Sunday attacks in 2019, the COVID-19 outbreak in 2020 and the socioeconomic and political

crisis in 2022, have deeply impacted economic activity, leading to widespread hardships for individuals and businesses alike. In response to these unprecedented challenges, the government and the Central Bank implemented various measures aimed at restoring macroeconomic balance, including the tightening of monetary policy, suspension of selected foreign debt and initiatives to enhance foreign exchange liquidity.

Despite the prevailing economic turmoil, the financial sector, including MBSL, demonstrated signs of stabilization in 2023. Financial stress, which had escalated significantly in the preceding years, notably remained relatively subdued compared to the turbulence experienced in 2022. As the economy gradually stabilized, MBSL confronted the imperative need to adapt its product portfolio to the evolving market dynamics, ensuring responsiveness amidst ongoing economic uncertainties. The escalating fuel and dollar prices further complicated the situation, necessitating strategic adjustments in pricing across MBSL's product spectrum, including fixed rates. Also, the challenging economic conditions, with higher policy rates and borrowing costs, demonstrated to MBSL the importance of adapting the products to ensure competitive edge and maintain market position.

Throughout these challenges, MBSL remained steadfast in its commitment to meet evolving market demands while

confronting numerous obstacles. The resilience displayed by MBSL's product portfolio amidst the economic adversities speaks volumes about the company's ability to adapt and thrive in challenging environments, ultimately maintaining its position as a trusted financial partner in Sri Lanka's financial landscape.

### Strategic Product Adaptations and Successes

In response to the prevailing economic conditions and evolving market dynamics, MBSL proactively undertook strategic adaptations to its product portfolio, fortifying its position and sustaining growth amidst challenging circumstances. A notable achievement during this period was the revitalization of the three-wheeler leasing product, known as the "Wheel Deal," which resonated particularly well with the lower to middle socio-economic demographic. Through this initiative, MBSL modified its existing specialized leasing facility dedicated to three-wheelers of any brand. The scheme offered customers a comprehensive benefits package, including a free vehicle insurance policy, waiver of documentation charges and a complimentary voucher for purchasing household essentials, lending a helping hand to ease off the demands of the daily lives of our valued customers.

Moreover, MBSL introduced customized leasing solutions tailored to meet the diverse needs of customers across all vehicle types. These solutions offered easy payment schemes with unmatched interest rates, flexibility in choosing rental

payments based on budget and expedited doorstep service, ensuring transparency with no hidden charges or guarantors. Additionally, the introduction of the Sashreeka Savings Account exemplified MBSL's commitment to financial inclusion and empowerment, specifically designed to elevate women's financial stability by encouraging savings and providing financial security.

Furthermore, MBSL embraced digital transformation through its partnership with Dialog Enterprise to deploy a Software-Defined Wide Area Network (SD-WAN) solution. This strategic initiative facilitated operational efficiency and enhanced customer experience, underscoring MBSL's commitment to innovation and leveraging technology to navigate challenging market dynamics.

### Post-Performance Review: New products

The new products, post-launch, have recorded positive growth beyond initial expectations. They have successfully contributed to strengthening the portfolio and meeting the financial goals of MBSL. With the evolving customer requirements, these products are a testimony to the market requirement prevalent at the time. MBSL has been able to reach and support a wider audience through these products, leading to better financial management and the prosperity of our valued clientele. Especially, the revamped three-wheeler leasing product, along with smart changes in leasing options and new saving products for women, show MBSL's

commitment to innovation and responsiveness to market requirements even in tough economic times.

### Additional Product Introductions and Customer Base Growth

In addition to the aforementioned new products, MBSL launched a special leasing offer in collaboration with the Sri Lankan motorbike brand "Senaro", which focused on a different target segment. This was a unique partnership aimed at collaborative growth recognizing and supporting the local business strength. The company has witnessed an increase in its customer base across these segments, indicating market acceptance and sustained demand for its offerings.

### Customer-Centric Brand Strategy

Even during the period of economic turbulence, MBSL remains committed to upholding its brand promise of delivering tailored financial solutions that cater to the diverse needs of its customer base. Recognizing the significance of maintaining customer trust and loyalty, MBSL adopts a customer-centric approach, prioritizing continuous engagement and support to its valued clientele throughout their tenor with MBSL.

By leveraging its affiliation with one of Sri Lanka's largest banks, MBSL reinforces its brand positioning as a reliable and trustworthy financial partner. This strategic alignment allows MBSL to reassure customers amidst economic uncertainties, further enhancing its reputation

for integrity and ethical business practices.

MBSL went beyond addressing immediate customer concerns by implementing relief measures such as flexible repayment structures, extensions and discretionary relief on repayments. These initiatives not only helped the clients in managing their financial situations but also demonstrated MBSL's unwavering commitment to supporting their financial well-being.

Through a combination of customer-centricity and strategic brand positioning, MBSL empowered its clientele to navigate through challenging economic conditions with confidence and resilience. By remaining dedicated to fostering enduring relationships and providing exceptional customer service, MBSL strengthened its position as a trusted financial partner throughout the customer journey.

### Managing Credit Risk amid Economic Uncertainty

In response to economic turbulence, MBSL has taken proactive measures to mitigate credit risk and ensure the stability of its lending operations. The economic landscape, marked by the introduction of new taxes and shifting consumer behaviours, prompted a reevaluation of lending practices. MBSL responded with stringent credit risk assessment procedures, rigorously evaluating potential clients based on predefined criteria and adapting to evolving market dynamics through effective communication strategies.

## Management Discussion & Analysis (Contd.)

To navigate through uncertain economic conditions, MBSL initially curtailed lending activities, focusing on stabilizing and consolidating its existing portfolio. By being careful about who they lend to and combining their loans, MBSL successfully managed its risks, while maintaining its financial stability.

MBSL has been proactive in supporting clients, offering flexible repayment plans and help to those struggling financially. These actions not only helped clients with immediate financial issues but also built loyalty and trust, improving relationships and reducing the risks of clients defaulting on loans.

When lending, MBSL followed strong procedures and rules, making sure their lending decisions matched the willingness to take risks. MBSL carefully checked if potential clients met certain criteria and assessed their credit risk wisely, keeping their approval process consistent and in line with their risk management goals.

### Digital Marketing Strategy and Initiatives

In 2023, MBSL strategically leveraged digital marketing and social media platforms in line with the surge in digital technology and e-commerce. The digital calendar maintained constant and continuous communication aimed at increased brand awareness, engagement and lead creation.

#### \* Social Media Presence and Content Creation

MBSL actively maintained profiles on popular social media platforms such as Facebook, Instagram and LinkedIn. They curated engaging content tailored to each platform, including informative posts, financial tips, success stories and updates about their products and services. By regularly sharing valuable content, MBSL aimed to build an online community and foster interactions with existing and potential customers.

#### \* Promotional Campaigns

Targeted promotional campaigns were designed to attract attention and drive engagement with existing and potential customers across the island through the widespread MBSL branch network. These below-the-line campaigns were supported with press and online communication campaigns featuring eye-catching visuals, compelling copy and clear calls-to-action, aimed at showcasing the benefits of various financial products and services that are on offer. Among many, "Wheel Deal" Three-Wheeler Leasing, "Sashreeka" Savings Account and "Ran Naya" Gold Loan promotions were exemplary and widely embraced by customers owing to the very nature of such offers directly catering to the specific financial needs of the aforementioned segments.

#### \* Customer Support and Engagement

Specifically designed customer support features and engagement through all digital platforms optimize accessibility for customers to reach MBSL without failure. Apart from branch hot-lines, the corporate web site

and social media platforms along with call centre, ensure prompt response to queries, resolving complaints and providing personalized assistance to customers. By engaging with customers publicly, the commitment of MBSL towards service excellence and building lasting relationships with the retail and corporate customers.

### Digital Advertising

In order to reach specific demographics effectively, strategic investments were made into targeted digital advertising across platforms leveraging on technology. Guided by data analytics, focus on ad placements and optimization strategies was refined, ensuring the marketing messages reached the right audience segments. By leveraging digital advertising, specific outcomes including increased brand awareness, website traffic and lead generation were accomplished.

Overall, the comprehensive and well-executed digital marketing initiatives in 2023 enabled MBSL to effectively engage with the target audience, drive customer acquisition and establish brand positioning in the competitive financial services industry.

### Future Strategies and Market Outlook

Looking ahead, MBSL remains agile and open-minded, ready to capitalize on market improvements and economic recovery. The Bank is keen on expanding its presence in the SME sector, recognizing its key role in driving economic growth. Additionally, MBSL plans to enhance its retail

lending portfolio, targeting professionals and individuals seeking financial assistance for various needs such as vehicle purchases, home construction, education expenses and lifestyle enhancements.

The retail component of MBSL's lending portfolio encompasses individuals who require financial support for personal endeavours beyond business ventures. This includes professionals looking to enhance their lifestyle, parents financing their children's education abroad or individuals investing in home improvements. By catering to these diverse retail needs, MBSL aims to further strengthen its market position and drive sustainable growth.

MBSL strives to deliver an un-paralleled, seamless service experience to its clientele as demanded by their busy schedules utilizing latest technology and user friendly processes. Continuous reengineering of processes is inevitable as customer satisfaction and loyalty are priority for MBSL in line with its overall business goals and corporate value system.

## IT AND DEVELOPMENT REVIEW

### Managing Resources and Technology

MBSL's technological adaptation is emblematic of a strategic shift towards digitalization and innovation in internal processes. With a keen focus on enhancing customer experience and operational efficiency, MBSL has embraced a variety of cutting-edge technologies across its diverse range of

services. Spearheaded by an adept in-house team, MBSL's technological initiatives are meticulously tailored to meet the specific needs of the organization, ensuring seamless integration and maximum effectiveness.

From robust payment systems leveraging electronic fund transfers to comprehensive risk management solutions, MBSL harnesses technology to streamline operations and mitigate potential threats. The utilization of Compliance and Regulatory Technology (RegTech) underscores MBSL's commitment to upholding industry standards and regulatory requirements, safeguarding both customer trust and organizational integrity.

Additionally, the proactive approach also extends to cybersecurity, with investments in advanced technologies like Cloud Strike Client Antivirus solution and Security Incident and Event Management (SIEM) system highlighting MBSL's commitment to protecting important financial information and maintaining the best data security standards.

Central to MBSL's technological adaptation is the emphasis on automation and efficiency, exemplified by the integration of Microsoft Forms and cloud-based platforms. By digitizing numerous internal processes and leveraging the Microsoft cloud platform, MBSL ensures swift, reliable and user-friendly services accessible to authorized users anytime, anywhere.

### **IT Department's Impact on Productivity and Customer Satisfaction**

The IT department has led many digital changes to improve customer experiences and banking activities. By using new technologies like the "Velocity" platform with its 20 Core modules, they have updated banking operations and cashless options like mCASH CEFT, & SLIPS operations to meet customer preferences and improve satisfaction.

The IT department's work has greatly increased efficiency and productivity at MBSL. With a team of 29 skilled professionals, they work closely with other departments to find and use the best technology. By connecting technology with business goals, the team has been able to ensure process efficiencies, assisting employees do more in less time, boosting productivity throughout the organization.

### **Strengthening Cyber Security Resilience**

MBSL has embarked on an all-inclusive journey to fortify its cyber security posture and address key areas of concern. One key aspect of this initiative is the implementation of Multi-factor Authentication (MFA) across user accounts. This additional layer of security, employed particularly for platforms like Microsoft Outlook and VPN access, adds a crucial barrier against unauthorized access to sensitive systems and data.

Furthermore, recognizing the critical role of employees in maintaining cyber security, MBSL conducts regular training sessions to raise awareness about prevalent threats, phishing attacks and best practices. Through circulated email awareness campaigns and online training modules, employees are equipped with the knowledge and skills necessary to mitigate the risk of human error that leads to security breaches.

In addition, MBSL focuses on encrypting data as a key way to protect important information. This means making sure that data is scrambled and unreadable when it's being sent or stored. By using Secure SDWAN solutions and encrypting data on laptops, MBSL strengthens security at different points of contact, safeguarding customer information and financial transactions.

MBSL also pays close attention to the security of third-party vendors and service providers. They have strong protocols for managing the risks related to the vendors, regularly checking and monitoring their security practices, especially when they handle important data or critical systems. This proactive approach helps MBSL meet strict security standards and follow regulations.

In preparation for potential security incidents, MBSL has developed and regularly tests a comprehensive incident response plan. Through periodic Incident Security Committee (ISC) meetings, the bank

ensures readiness to swiftly and effectively respond to security breaches, minimizing their impact and expediting recovery efforts.

Finally, MBSL keeps a close eye on its digital systems by using continuous monitoring and regular security checks. This helps them find and fix any weaknesses in their security before they can be exploited by cybercriminals, showing their strong commitment to excellent cybersecurity.

### **Advancements in Technical Applications, Regional Support and Future Directions**

At MBSL, our focus on technical applications and regional support is complemented by a forward-thinking approach to future developments. Ensuring the reliability and efficiency of our systems remains a top priority and we are committed to implementing innovative solutions to enhance customer experiences and operational effectiveness.

Looking ahead, we aim to leverage emerging technologies to further elevate our technical capabilities. This includes exploring possibilities for integrating artificial intelligence and machine learning algorithms into our systems to optimize performance and anticipate customer needs proactively. Additionally, we plan to invest in advanced analytics tools to gain deeper insights into customer behaviour and preferences, enabling us to tailor our services more effectively.

## Management Discussion & Analysis (Contd.)

In terms of regional support, our future roadmap includes expanding our network infrastructure to reach even more customers across diverse geographical locations. This entails strategic investments in network expansion and optimization to ensure seamless connectivity and accessibility for all users.

Furthermore, we remain committed to upholding the highest standards of data security and governance compliance. As cyber threats continue to evolve, we will continue to invest in cutting-edge cyber security measures and conduct regular assessments to stay ahead of emerging risks.

In our vendor management practices, we envision fostering even stronger partnerships with service providers to drive innovation and deliver superior services. This involves collaborating closely with vendors to co-create solutions that address the evolving needs of our customers and enable us to stay ahead in a rapidly changing market landscape.

### MANAGING STAKEHOLDER RELATIONSHIPS

In the dynamic landscape of the financial sector, stakeholder engagement stands as a basis for sustainable growth and resilience. At MBSL, we recognize the crucial role stakeholders play in shaping our journey and guiding our decisions. Our commitment to fostering robust relationships with stakeholders is not just a strategic imperative but a fundamental aspect of our corporate ethos.

Stakeholder engagement at MBSL goes beyond simple interaction; it shows a deep commitment to understanding and meeting the diverse needs of those invested in our success. We use a multifaceted approach that includes a variety of stakeholders, each important to our operations and mission.

Customers are at the core of our business and their satisfaction and trust are very important. We aim to surpass customer expectations and build lasting relationships through personalized financial solutions, clear communication and strong support.

Our shareholders and investors are valued partners on this journey and their confidence fuels our endeavors. We uphold transparency and accountability through timely reporting.

Within our organization, our employees are not just assets but pillars of strength. We invest in their growth, well-being and development, fostering a culture of excellence and innovation that propels us forward.

Regulators and government authorities serve as guardians of integrity and compliance in the financial domain. We engage proactively, adhering to regulations and standards while championing best practices that uphold the trust placed in us.

Beyond our immediate sphere, we embrace our responsibility to the wider community. Through impactful CSR initiatives, we strive to make a meaningful difference, enriching lives and

contributing to sustainable development. In year 2023, MBSL had started to develop sustainable products inline with market requirements and the CBSL guidelines.

Our relationships with suppliers and business partners are built on mutual respect, fairness and collaboration. By fostering an ecosystem of trust and reliability, we ensure seamless operations and shared success.

Lastly, we recognize the crucial role of media and the public in shaping perceptions and narratives. Transparent communication and authentic engagement underscore our commitment to accuracy, integrity and reputation management.

### Strengths in Stakeholder Engagement

MBSL's approach to engaging with stakeholders is marked by its strong commitment to prioritizing their well-being and satisfaction. With a focus on customers, MBSL actively listens to their feedback and adapts financial solutions to meet their changing needs. Through open communication and responsive customer service, MBSL ensures a positive experience for its customers.

Additionally, MBSL values its employees as important stakeholders and invests in their growth and development. Various initiatives are in place to enhance job satisfaction and provide career advancement opportunities.

MBSL also maintains a strong investor relations framework, keeping shareholders and investors well-informed through regular financial reporting, annual general meetings and comprehensive briefings.

### Challenges in Stakeholder Engagement

While MBSL has many strengths in engaging with stakeholders, it also faces several challenges due to the constantly changing financial sector. One major challenge is the shift to digital services, which requires MBSL to blend new digital approaches with its traditional services smoothly. The IT department has made a substantial impact



- MBSL Chilaw Branch Relocation - Date 14th June 2023 -

by facilitating new developments and software innovations. Their expertise and dedication have been crucial in integrating innovative technologies, enhancing operational efficiency, and fostering business expansion through cost-effective, reliable, in-house software solutions.

Another significant challenge is managing its reputation, which is tricky in the financial industry due to its vulnerabilities. MBSL must also balance the different needs of the stakeholders, like customers, shareholders, employees and regulators, which can be complicated.

External factors like changes in the economy and competition add to the challenges, highlighting the need for MBSL to stay flexible and adaptable in how it engages with stakeholders, ensuring it stays relevant and strong in a changing market.

### MANAGING HUMAN RESOURCES

At MBSL, the workforce is diverse, qualified, skilled and passionate. Many employees have been with the organization for a long time, some for over 30 years, showing their dedication to MBSL's mission. This experience not only shows how MBSL values talent but also highlights the deep industry knowledge and expertise within the organization.

The human capital at MBSL is the foundation of the organization, leading change and guiding its transformation. Their ability to adapt and stay dedicated is crucial for MBSL to respond to market changes and operate smoothly. In financial services, where trust is key, the human workforce is essential for delivering services. Their personalized and reliable financial solutions set MBSL apart and strengthen its reputation.

Moreover, MBSL's success is built on strong relationships. The trust and connections employees build with clients have been vital for the organization's growth and success. The human capital at MBSL is not just a workforce; they are the heart of the organization, embodying its values and driving its success. Their diverse backgrounds, qualifications, skills and passion shape the organizational culture, defining its identity and future.



- MBSL Welfare Association conducted a blood donation campaign -

### Role of Human Capital in Value Creation

In the service industry, such as MBSL, human capital plays a crucial role in value creation, focusing on intangible assets and customer-centric strategies.

Employees engage in various activities to enhance customer experience and build trust, such as offering a range of financial products including liability products, savings, leasing and loans. MBSL's commitment to providing fast and efficient service compared to other banks ensures customer satisfaction. This emphasis on service quality has allowed MBSL to sustain its market position despite not offering the best rates in the market.

Human capital at MBSL is tasked with bringing in revenue through innovative service initiatives. We give priority to existing staff when opportunities are created, fostering loyalty and continuity. Additionally, we plan learning and development (L&D) programmes to minimize competency gaps in line with business strategy, ensuring that employees are equipped with the necessary skills to provide excellent service.

### Strategic Concerns of Human Capital

During the year under review, MBSL faced significant strategic concerns related to its human capital, impacting operational efficiency and long-term sustainability.

One major concern was the bureaucratic and lengthy procedures within the organization. These processes resulted in delays in day-to-day operational activities, hindering efficiency. To address this, MBSL aimed to streamline its systems and procedures within the next year or two, ensuring faster decision-making and operational efficiency.

Another critical concern was the financial constraints limiting investment in staff members' development, welfare and engagement activities. This constraint affected the organization's ability to enhance employee skills and well-being, potentially impacting employee morale and performance.



- Ice cream Dansala -

## Management Discussion & Analysis (Contd.)

### Ensuring Diversity and Inclusion

MBSL is dedicated to ensuring diversity and inclusion in its workforce through transparent and unbiased policies.

The organization's recruitment process focuses solely on merit, seeking the best candidates for each position. Internal job postings are available to all staff members, ensuring equal opportunity for career advancement. Promotions follow guidelines approved by the Board of Directors, based strictly on performance and merit, thus eliminating bias in decision-making.

Moreover, the onboarding process at MBSL is based on merit to match the job role, removing bias based on gender, religion, cultural background, sexuality and other factors. This ensures that all new employees are selected based on their qualifications and suitability for the role, contributing to a diverse and inclusive workplace culture.

### Ensuring Employee Safety

MBSL has established health and safety guidelines that all staff members must adhere to. These guidelines cover a range of safety protocols and procedures to ensure the well-being of employees.

Additionally, MBSL conducts annual training sessions on fire safety, first aid and general health to create awareness among employees and educate them on how to respond in emergencies. These programmes aim to promote a culture of safety in the workplace and reduce the risk of accidents and injuries.

Furthermore, MBSL regularly identifies and assesses possible risks to employee safety and takes necessary action to mitigate these risks. This proactive approach helps prevent accidents and injuries in the workplace, ensuring a safe working environment for all employees.

### Managing Talent

MBSL has implemented several strategies to effectively manage its talent, focusing on talent attraction, retention and continuous development.

### Talent Acquisition/Management

MBSL introduced a "Business Volume Based Branch & Range Structure" to align with competitive market requirements. This strengthened talent acquisition strategies, offering competitive monetary and non-monetary rewards to attract the right candidates. Additionally, the "Recruitment & Selection Policy" was reviewed to align with strategic and business requirements, enhancing talent acquisition strategies.

### Talent Development

MBSL has initiated rapid and continuous employee development interventions. These interventions focus on technical, behavioural, leadership and management competency development to empower staff with the right mix of knowledge, skills and values. Internal, external and foreign training opportunities are provided based on identified competency gaps. The Training and Development Policy was reviewed to reinforce the learning culture within the company.

| Training & Development Interventions -2023 |                     |                     |           |
|--|---------------------|---------------------|-----------|
| Category                                   | External Programmes | Internal Programmes | Total     |
| No. of Employee                            | 75                  | 864                 | 939       |
| Training Investment (LKR)                  | 1,103,650           | 3,515,483           | 4,619,133 |
| Total Training Hours                       | 1480.5              | 6976                | 8,457     |

### Talent Retention

MBSL introduced a comprehensive Succession Plan to ensure smooth leadership and key role transitions within the organization. This plan ensures sustained operations by identifying successors who have demonstrated the potential and capability to take over leadership positions. Individual talent management and retention plans are developed and executed for these successors.

Moreover, MBSL leverages internal career development opportunities to retain key talents. In 2023, 161 staff promotions were granted to support employees in achieving their career aspirations and retain them within the company.



- MBSL Talent Development -

### Way Forward for HR

Looking ahead to the next financial year, MBSL's Human Resources department is focused on several key strategies to address future concerns and enhance the organization's human capital.

The priority is to increase awareness of the MBSL employer brand. This involves highlighting the organization's values, culture and opportunities for growth and development to attract and retain the best talent in the industry. To achieve this, MBSL plans to offer competitive remuneration packages and non-financial benefits, aligning the remuneration policy with key performance indicators (KPIs) to create a performance-based culture. This will encourage employees to strive for excellence and reward high performers accordingly.

Additionally, MBSL aims to provide better non-financial benefits to staff, including initiatives to improve work-life balance, employee well-being and professional development opportunities. The HR department will also focus on increasing efficiency by streamlining processes, leveraging technology and enhancing communication channels to better support the organization's human capital needs.

Lastly, MBSL plans to improve emotional intelligence among its employees to enhance the human touch and empathy in customer interactions and internal relationships. This focus on emotional intelligence will help create a more empathetic and understanding workplace culture.

### OPERATING ENVIRONMENT

The Sri Lanka's economy showed progress in 2023 restoring the country's macroeconomic stability during the year. Amidst uncertainties and challenging conditions following the worst crisis in the country's history, economic activity resumed supported by the gradual easing of interest rates and the revival in the external sector through Central Bank efforts.

The domestic economy made a steadfast recovery in 2023 benefitting from the gradual return of overall macroeconomic stability. The

economy recorded an expansion in its activity in Q3-2023, after six consecutive quarters of contraction. Supported by the easing of monetary policy and improvement in domestic economic activity, an expansion in credit to the private sector was also observed mid-2023.

### GDP

Total revenue of the Government increased significantly by 52.7 per cent to Rs. 2,758.0 billion during the eleven months ending November 2023. Upward revisions to tax rates (personal income tax, corporate income tax, VAT, excise duties) and expanding the tax base (reducing tax-free thresholds for income taxes) mainly contributed to the significant improvement in revenue collection. In addition, the Social Security Contribution Levy (SSCL), which was introduced in October 2022, also contributed notably to the growth in revenue during 2023. With the easing of import restrictions, except for vehicles, since mid-2023, revenue from international trade related taxes such as Import Duties and the Special Commodity Levy (SCL), improved during the period from January to November 2023. Total expenditure and net lending also increased by 40.5 per cent, year-on-year, to Rs. 4,791.7 billion during the period from January to November 2023, mainly due to the increase in recurrent expenditure on account of the high domestic interest payments.

Accordingly, as a percentage of projected GDP, the overall budget deficit and the current account deficit widened to 7.1 per cent (Rs. 2,020.3 billion) and 5.4 per cent (Rs. 1,534.8 billion), respectively, during the period from January to November 2023, compared to 6.6 per cent (Rs. 1,601.3 billion) and 4.7 per cent (Rs. 1,138.4 billion), recorded in the corresponding period of 2022.

### Inflation

Colombo Consumer Price Index (CCPI) based headline inflation (year-on-year), which peaked at 69.8 per cent in September 2022 decelerated to 1.3 per cent in September 2023. However, several supply-side factors including upward revisions to electricity tariffs in October 2023, increased food prices due to crop damages instigated by adverse weather conditions and upward revisions to LP gas and fuel



- MBSL Dinner Dance -



- MBSL X'mas Carols 2023 -

## Management Discussion & Analysis (Contd.)

prices which caused CCPI-based headline inflation to accelerate to 4.0 per cent in December 2023.

Reflecting subdued demand conditions in the economy, CCPI-based core inflation (year-on-year), moderated to 0.6 per cent in December 2023 from the peak of 50.2 per cent at end September 2022. The moderation in core inflation was driven mainly by the decline in the price momentum in the non-volatile food category in the consumer basket. NCPI-based core inflation (year-on-year) also slowed to 0.9 per cent in December 2023 from the peak of 64.1 per cent at end September 2022.

### Real Sector

Sri Lanka's economy, which contracted for six consecutive quarters on a year-on-year basis from Q1-2022, recorded positive growth in Q3-2023. During the nine months ending September 2023 (9M-2023), the economy contracted by 4.9 per cent (year-on-year), compared to the contraction of 6.3 per cent (year-on-year) recorded in the corresponding period of 2022.

During the 9-month period, Agriculture activities continued its growth momentum into 2023 recording an expansion of 2.5 per cent, Industry and Services activities, which contracted in both Q1-2023 and Q2-2023 (year-on-year) turned positive in Q3-2023 thanks to improvements in the tourism, food and beverage related service industries and revival in the construction and manufacturing sectors.

GDP at current market prices during the 9-month period grew by 16.0 per cent, compared to the growth of 36.5 per cent recorded in the corresponding period of 2022. Meanwhile, at constant prices, investment expenditure and net external demand grew, while consumption expenditure declined, resulting in an overall contraction of GDP by 4.9 per cent during 9M-2023.

### Interest Rates

Underpinned by monetary policy easing measures, falling risk premia and administrative measures to reduce excessive as well as overall lending interest rates, market interest rates, including yields on government securities, declined notably during 2023. The interest rate structure across all products has shown a notable downward shift during 2023 compared to end 2022. In response to eased monetary policy, the administrative measures introduced in late August 2023 to reduce excessive lending interest rates, and broader guidelines that were introduced to induce a gradual reduction in other market interest rates on rupee loans and advances during the latter part of the year, market lending rates have declined reflecting an appreciable passthrough. This reduction was also supported by the falling risk premia attached to government securities.

The Average Weighted New Lending Rate (AWNLR) declined by 11.8 percentage points to 14.38 per cent by end 2023 compared to end 2022, with

a larger portion of the decline taking place since June 2023 with the relaxation of the monetary policy stance by the Central Bank.

The Average Weighted New Deposit Rate (AWNDR) also declined by 12.5 percentage points during the year to 10.55 per cent in December 2023, although a marginal increase in deposit interest rates was observed during September-November 2023.

Yields on Treasury bills that declined notably with the announcement of the domestic debt optimisation (DDO) operation in July 2023, continued to reduce further, underpinned by the easing of monetary policy and a further decline in associated risk premia due to multilateral organisation lending.

Treasury bond yields also moderated, paving the way for a normalised upward-sloping yield curve. Despite the decline in market interest rates, real interest rates remain positive, given the low level of inflation.

### Balance of Payments

Continuation of the IMF-EFF programme led to greater stability in the external sector. Notable reduction in the trade deficit supported by compressed imports, significant improvement in workers' remittances and inflows to the services sector resulted in notable improvements in the current account in 2023. The current account is estimated to have recorded a surplus in 2023, for the first time since 1977.

The current account balance for 2023 is estimated to have recorded a surplus compared to a deficit of US dollars 1.5 billion recorded in 2022. The estimated surplus for 2023 is assisted by the moderated trade deficit of US dollars 4.9 billion in 2023 compared to a trade deficit of US dollars 5.2 billion recorded in 2022.

The services sector contribution increased due to earnings from tourism (US dollars 2.1 billion in 2023 in comparison to US dollars 1.1 billion in 2022) and workers' remittances, which grew by 57.5 per cent, year-on-year, to US dollars 6.0 billion.

The deficit in the primary income account increased in 2023 due to higher interest payments on foreign loans, including arrears. Despite the positive developments in the current account, the financial account recorded a subdued performance in 2023. Foreign direct investment (FDI) remained modest in 2023.

### Exchange Rate

Domestic forex market improved in 2023, mainly in the first half of the year, with subdued import demand and increased forex inflows in terms of workers' remittances and foreign investments to the government securities market. However, some depreciation pressures were observed at the beginning of the second half of the year mainly due to tight forex liquidity conditions due to increased forex demand from banks following the settlement of Sri Lanka Development Bonds (SLDBs) in

local currency as part of DDO. The currency remained broadly stable since then and recorded an appreciation of 12.1 per cent against the US dollar by end 2023 as opposed to the depreciation of 44.8 per cent recorded in 2022. The exchange rate continued its appreciating trend in early 2024 recording an appreciation of 1.2 per cent against the US dollar by 23 January 2024.

### Financial Sector

Reflecting the sluggish economic performance, upward tax adjustments and elevated price levels, a rise in Non-Performing Loans (NPLs) ratios was observed as households and corporates faced balance sheet strains and narrowed debt repayment capacities. However, some improvements were observed in this regard since June 2023.

Market rates shifted downward and domestic financial markets showed some level of stabilisation towards the end of 2023 after experiencing a turbulent period in the past.

The banking sector continued to operate in a challenging environment during the financial year ending December 2023. However, the total assets of the banking sector expanded during the period under review mainly due to increased investments in government securities.

A gradual increase in credit was witnessed during the second half of 2023 with the easing of policy interest rates by the Central Bank. Overall default risk of the sector,

as reflected through the Stage 3 Loans Ratio, remained at an elevated level of 12.8 per cent at end December 2023 compared to the corresponding period of the previous year. However, the growth in Stage 3 loans has been decelerating since June 2023 with the expansion in loans and receivables, indicating a stabilisation of credit risk in the banking sector.

The Licensed Finance Companies (LFCs) sector recorded a contraction in its loans and advances portfolio in 2023, due to challenges in its core business of leasing and hire purchase. The asset quality of the sector deteriorated as indicated by the elevated Gross Stage 3 Loans Ratio of 17.8 per cent at the end of December 2023 compared to 17.4 per cent at end December 2022. However, the Stage 3 loans to total loans ratio of the sector has recorded a deceleration from its highest level of 20.5 per cent observed in May 2023, indicating an improvement in default risk during the second half of 2023.

The liquidity position of the sector remained above the regulatory requirement, mainly due to increased investments in government securities. Capital adequacy of the sector improved with higher growth in regulatory capital compared to risk-weighted assets.

Note: The content of this report is based on data provided as of the January 2024 monetary policy round of the Central Bank.

# Risk Management Report

Effective risk management plays a pivotal role in the successful execution of our business strategy. In today's ever-evolving operating landscape, maintaining a robust Risk Management Framework is imperative to protect the interests of all stakeholders. As such, our company continuously evaluates and adjusts its Risk Management Framework to ensure an efficient and effective process.

At MBSL, our approach to risk management encompasses a comprehensive set of activities. This includes establishing contextual parameters through policy formulation, identifying and analyzing risks, implementing appropriate treatments and managing them through detailed plans. We emphasize proactive management through thorough implementation, periodic review and evaluation, all underpinned by transparent reporting mechanisms.

MBSL initiates the risk management process by setting the context, which involves planning out the remaining steps and outlining the scope. Once this groundwork is laid, our attention turns to identifying potential risks.

These risks are then thoroughly evaluated based on their potential severity and the likelihood of occurrence. We categorize our risk management techniques into four main strategies: risk transfer, risk avoidance, risk retention and risk control.

Following this categorization, our Risk Management plan suggests suitable security controls to address the identified risks effectively. Each decision in this regard undergoes meticulous recording and approval by the appropriate management tier.

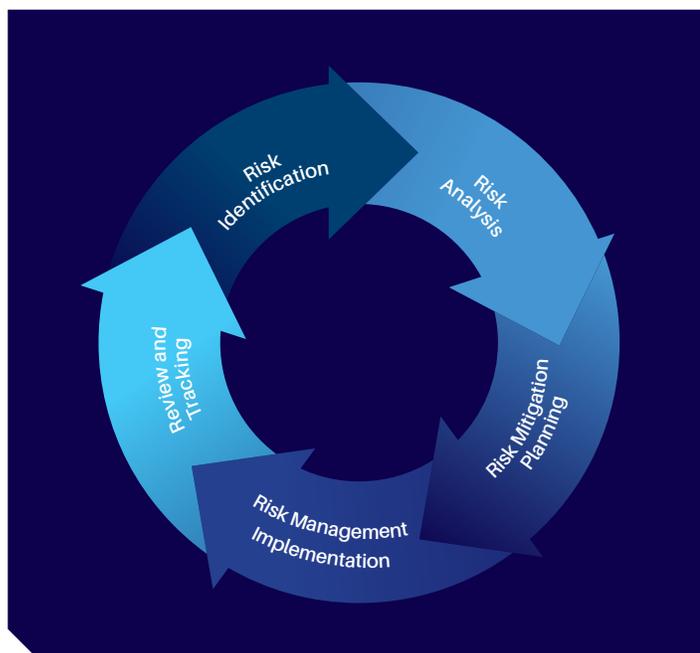
With approvals in place, we proceed to execute the planned methods aimed at mitigating the impact of the identified risks. As a final step, we regularly update our risk analysis findings and management plans to ensure their relevance and efficacy over time.

Risk reporting involves ongoing communication of key risks, strategies and their outcomes to both the Board of Directors (BOD) and the Board Integrated Risk Management Committee (BIRMC) throughout the process.

The primary objective of establishing a robust risk management infrastructure is to foster a coordinated approach to risk management within MBSL, ensuring sustainable business growth and stability. This infrastructure is designed to encourage a proactive approach to reporting, evaluating and mitigating risks associated with MBSL.

As part of this effort, the Risk Governance structure of the Company delineates the roles and responsibilities of various entities, including the Board of Directors (BOD), Board Integrated Risk Management Committee (BIRMC), Corporate Management Committee (CMC), other risk management-related committees, the Risk Management Division and all employees of MBSL.

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



## 1. RISK GOVERNANCE

An efficient Risk Management process hinges on a robust Risk Governance mechanism. MBSL boasts a well-established governance structure designed to oversee the management of both current and potential risks. Ultimately, MBSL's Board of Directors bears the responsibility for ensuring the effective implementation of risk management practices throughout the Company.

In this capacity, the Board is charged with establishing and communicating both quantitative and qualitative risk appetite limits. Additionally, it plays a pivotal role in determining Risk Management objectives and fostering a Company-wide Risk Management culture from the top down. To aid in these efforts, the Board receives support from the Board Integrated Risk Management Committee (BIRMC).

The BIRMC assumes responsibility for overseeing Risk Management across the organization, including providing recommendations to the Board on policy matters and risk threshold limits.

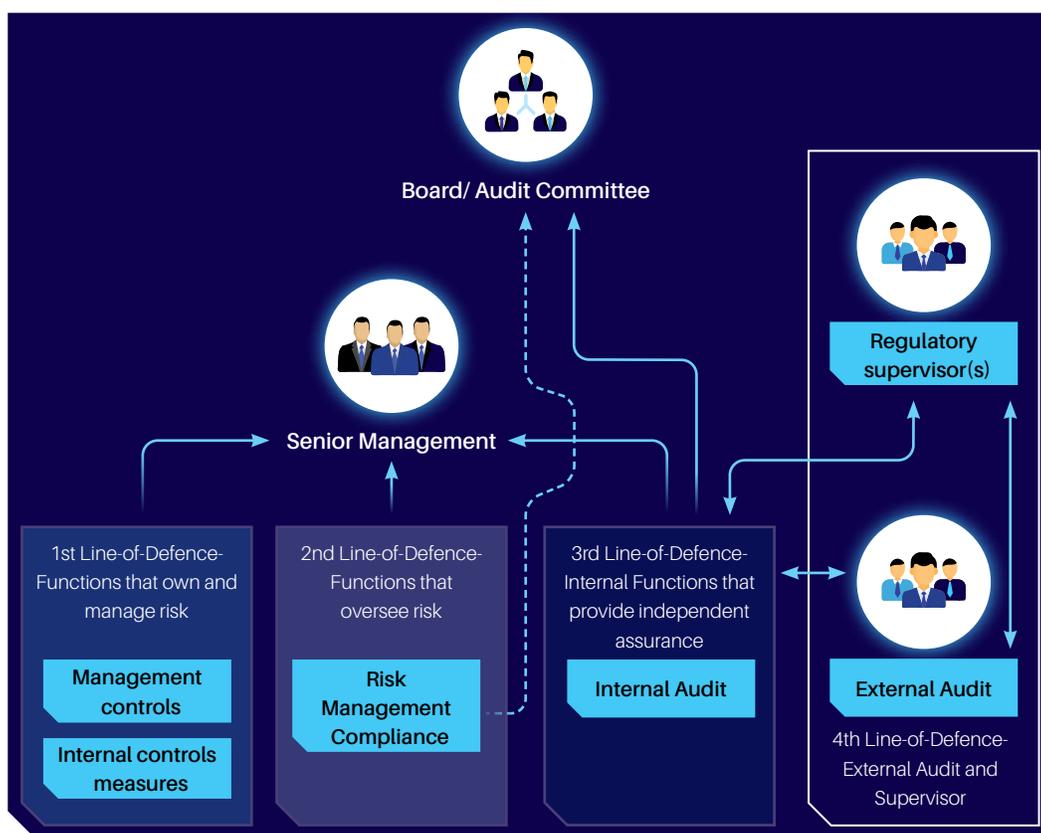
The table below outlines the key connected committees and their respective responsibilities within MBSL's Risk Management infrastructure.

| Committee  | Responsibilities  | Represented by  |
|--|---|---|
| Board Integrated Risk Management Committee (BIRMC) | The committee is tasked with evaluating the effects of various risks, encompassing credit, market, liquidity, operational, strategic, compliance and technology risks on MBSL. This assessment involves utilizing suitable risk indicators and management information to gauge the magnitude of these risks accurately. Subsequently, the committee formulates recommendations concerning risk strategies and the risk appetite to be presented 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 holds the responsibility of establishing and reviewing the internal controls, policies and procedures of the Company to facilitate seamless operations. Primarily, the committee focuses on overseeing the Operational Risk Management Process to mitigate potential risks and ensure the efficient functioning of the organization.  | The Audit Committee consists of Non- Executive Directors. The Committee is chaired by a director who possesses qualifications & experience in accountancy and audit.                        |
| Information & Communication Technology Committee   | The committee bears the responsibility of supervising the comprehensive IT governance of MBSL, aligning with the company's strategy regarding technology initiatives. It is tasked with making informed recommendations to the Board of Directors based on its oversight of IT governance, ensuring that technology-related decisions are in line with MBSL's overarching objectives and strategic direction.   | The Committee consists of the Board of Directors while the Committee is chaired by a director.  |
| Operational Risk Management Committee              | The Operational Risk Management Committee (ORMC) is responsible for evaluating operational risks across various facets of MBSL, including but not limited to personnel, systems, internal controls, fraud, cyber risks and external risks. Its assessment covers MBSL's branches, regions and service divisions, ensuring a comprehensive understanding and management of operational risks throughout the organization.                                      | The Committee consists of Corporate Management personnel headed by the Chief Risk Officer (CRO).  |
| Credit Committee                                   | This Management Committee is authorized to approve credit facilities within the delegated parameters, as assigned by the Board of Directors, contingent upon predefined terms and conditions. Additionally, the committee is entrusted with recommending specific policies and procedures that necessitate the attention of the Board of Directors.   | The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).   |
| Investment Committee                               | The Committee oversees the Market Risk Management of the company, particularly in relation to decisions regarding the sale, purchase or retention of the Company's investments.   | The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).   |
| Assets & Liability Management Committee (ALCO)     | The Asset and Liability Committee (ALCO) serves as a high-level advisory body for the Board and is entrusted with significant responsibilities. ALCO's purview includes the management of Market Risk, Liquidity Risk and the structuring of the balance sheet, including Capital management.   | The committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).   |
| IT Security Committee                              | The Committee serves as the apex management-level body overseeing the information security and technology resilience of the Company. Its responsibilities span both strategic and operational facets 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 alignment between the Group's IT strategy and the growth strategies and business requirements of each division. Primarily, the committee is responsible for overseeing the Operational Risk Management of the company.  | The Committee consists of Corporate Management personnel headed by the Chief Executive Officer (CEO).   |

## Risk Management Report (Contd.)

MBSL employs the three-lines-of-defence model to delineate and allocate Risk Management responsibilities within the Company. Corporate Management, business heads and branch management comprise the first line of defence, ensuring that all business activities adhere to established risk management principles. The second line of defence involves the Compliance division, Risk Management function, Finance, Middle Office and other overseeing functions, which ensure that risks are managed within the Company's risk appetite and tolerance limits. The Internal Audit division serves as the third line of defence, providing independent verification of the effectiveness of the Risk Management framework.

In alignment with BASEL guidelines, MBSL has augmented the model by incorporating a fourth line of defence, which integrates regulatory and external supervision into the internal control system. This recognizes the pivotal role of external components in bolstering assurance and governance systems for robust Risk Management within the Company.



## 2. DIRECTION

The Board of Directors and Senior Management of the Company bear the responsibility of providing clear direction for the Company's Risk Management function. This direction is articulated through the Risk Appetite Statement, Risk Management Policies, Procedures and Guidelines, which collectively form the essential framework for effectively managing risk at all levels of the business.

### Risk Appetite Statement

The Risk Appetite Statement delineates the maximum tolerance level that the Company is willing to accept to achieve its strategic objectives. It sets forth the risk limits that MBSL should uphold. The responsibility for establishing MBSL's Risk Appetite lies with the Board of Directors, who consider the optimal risk-return trade-off for the Company. In crafting the Risk Appetite Statement, the Board prioritizes the most significant risks facing MBSL and outlines the approach for managing these risks, aligning with strategic plans and business initiatives.

Annually, the Risk Appetite Statement undergoes review by the Board Integrated Risk Management Committee (BIRMC) and receives approval from the Board. This review aims to identify any changes to current risk profiles and account for potential or emerging risks that may affect the Company in the short to medium term.

### Risk Management Policies

The Company's Risk Appetite serves as the cornerstone for crafting Risk Management Policies. These policies are developed taking into account industry best practices and regulatory requirements. Upon formulation, Risk Management Policies are presented to the Board for approval, guided by recommendations from the BIRMC.

These policies encompass various aspects, including but not limited to the overall Risk Management Policy, Market & Liquidity Risk Management Policy, Loan Review Management Policy, Sustainable Financing Policy Framework, Business Continuity Management Policy, IT Risk Management Framework and the Internal Capital Adequacy Assessment Process (ICAAP) document.

### Guidelines and Procedures

Guidelines encompass the scope and caliber of information necessary to make specific risk management decisions. Which are designed to cover diverse areas of the business and are implemented in conjunction with policies established by the Risk Management function.

Procedures are established to facilitate the attainment of overarching business objectives while operating within the Company's established policies. Senior Management is tasked with formulating procedures to guide specific actions and ensure that Risk Management activities align with the Company's Risk Appetite.

### 3. ASSURANCE

Regular monitoring and assurance mechanisms are essential to ensure that Risk Management activities adhere to approved policies, guidelines and procedures. Key risk indicators are escalated to the Board Integrated Risk Management Committee (BIRMC) every two months and any breaches are promptly highlighted and reported to the Board for necessary action.

Independent assurance is crucial for verifying the Company's adherence to sound Risk Management practices. To this end, the Audit Committee appoints an internal auditor to conduct a comprehensive risk assessment annually, with the findings submitted to the Board for review. Additionally, in accordance with the Constitution of Sri Lanka, the Auditor General of Sri Lanka conducts independent external audits to provide further assurance.

### 4. CULTURE

A proactive Risk Culture stands as the cornerstone of MBSL's Risk Management Framework. Recognizing this, MBSL is committed to cultivating a company-wide Risk culture that instills appropriate values and behaviors guiding risk-related

decisions of both management and employees in alignment with the Company's Risk Management and strategic objectives. The MBSL Board of Directors and Senior Management hold pivotal roles in fostering a robust risk culture within the Company. Moreover, Risk Management responsibilities are clearly communicated throughout the organization.

In cases of employee violation or failure to adhere to company policies and risk aversion directives, the responsibility for initiating corrective action lies with the Board of Directors.

#### Dealing with Primary Risk Concerns

Aligned with directives from CBSL and industry-leading standards, MBSL prudently navigates the following risks, all the while advancing its strategic objectives.

#### Credit risk

Credit risk stands out as a significant concern for MBSL due to the inherent characteristics of its operations. This risk is defined as the possibility that a borrower or counterparty associated with the bank may not fulfill its obligations as per agreed terms.

#### Default risk

Default risk pertains to the potential losses that may occur if MBSL's clients fail to repay their loans in full by the designated deadline. While the MBSL Board establishes the overarching strategy for managing credit risk across both retail and corporate lending sectors, the specifics of credit risk and its application are delineated within the credit policy.

For retail customers, credit risk evaluation involves the utilization of credit scoring models, credit bureau data and internal and external customer behavior records to gauge their adherence to MBSL's Risk Acceptance Criteria (RAC) for various asset classes such as leasing, pawning and other retail lending products. A borrower's repayment capacity serves as a pivotal determinant of default risk, with key factors assessed during the initial credit risk appraisal. Additionally, collateral in the form of movable and immovable assets is acquired as a secondary measure to mitigate the repercussions of defaulted credit. Immovable collaterals are valued by an independent valuer in line with the directions given in Finance Business Act Directions (Valuation of Immovable Properties) No. 04 of 2018 & its amendments.

The Risk Management Department (RMD) autonomously evaluates significant credit facilities proposed by business units. RMD oversees credit exposures, portfolio performance and external factors with potential impacts on credit risk profiles. This involves analyzing the overall portfolio or specific sub-portfolios to gauge the effects of evolving economic conditions on asset quality, earnings, capital adequacy and liquidity.

Moreover, credit trends, including industry analysis, early warning alerts and indicators of non-performing loans, are presented to both the Board Integrated Risk Management Committee and the Board of Directors. This facilitates the formulation and evaluation

of essential strategies and action plans.

Continuous enhancement of the credit process occurs through front-to-back initiatives involving collaboration among business units, operations divisions, risk management divisions and other pertinent stakeholders.

#### Credit and Default Risk Management Initiatives in 2023

##### Credit Policies and Procedures

**Review:** In 2023, a thorough review of credit policies and procedures was conducted to ensure alignment with current conditions and MBSL's strategic objectives.

##### Implementation of Risk-Based Pricing Mechanism:

MBSL introduced a risk-based pricing mechanism for loans and leasing products, which entails generating a risk premium for credit proposals based on the borrower's risk profile and facility risk.

##### Cultivating Risk-Aware Culture:

Regular credit meetings and training programmes are held to enhance awareness of the Company's Credit Risk Management protocols and promote proactive approaches among branch staff toward the recovery process.

##### Establishment of the LRM

**Function:** The LRM function was launched under the Risk Management Department to oversee the review process of facilities according to the annual review plan and dynamic review plan and the system is fully automated.

## Risk Management Report (Contd.)

### Enhancement of Recovery

**Procedures:** MBSL implemented a Delinquency Management System (DMS) to streamline recovery procedures. The introduction of the Early Warning System (EWS) module in the DMS system commenced in the year 2023.

### Implementation of Sustainable Financing Policy Framework

A Sustainable Financing Framework was created in compliance with the Central Bank of Sri Lanka's guidelines. This framework includes an ESG risk assessment procedure outlined in the Sustainable Financing Policy. This policy guides the evaluation and management of environmental, social and governance risks associated with financial activities. By integrating sustainability considerations into decision-making processes, financial institutions can foster responsible practices, contribute to long-term well-being and enhance transparency and accountability.

### Management of Moratorium-Granted Loans:

Loans granted moratorium status were identified as high credit risk facilities, subject to specific monitoring by the recovery division. The Risk Management Department periodically reports the status of such loans to the Board Integrated Risk Management Committee (BIRMC).

### Strengthening the Risk Review

**Function:** The Risk Management Department expanded its personnel and introduced a new departmental structure. Additionally, a dedicated

Credit Risk Management unit was established within the department to oversee LRM and credit risk review functions as part of ongoing Credit Risk Management initiatives.

### Deployment of Monthly Risk

**Dashboards:** Monthly Risk Dashboards were developed and updated using Microsoft Power BI by the Risk Management Department to furnish key credit risk information to all MBSL branches. This initiative aims to bolster default risk management at the branch level.

### Pursuing Legal Actions:

MBSL expedites legal actions against willful defaulters through internal legal counsel authorized to initiate such proceedings. This approach significantly contributed to managing the Company's Non-Performing Assets (NPA) portfolio during the review period.

### Credit Concentration Risk

The level of exposure within the company's credit portfolio is defined as Credit Concentration Risk. This risk can stem from various sources such as customers, products, geographic regions and sectors.

### Credit Concentration Risk Management initiatives in 2023

**Establishing Limits:** MBSL sets maximum threshold limits for customers, products and sectors to maintain concentration risk at manageable levels.

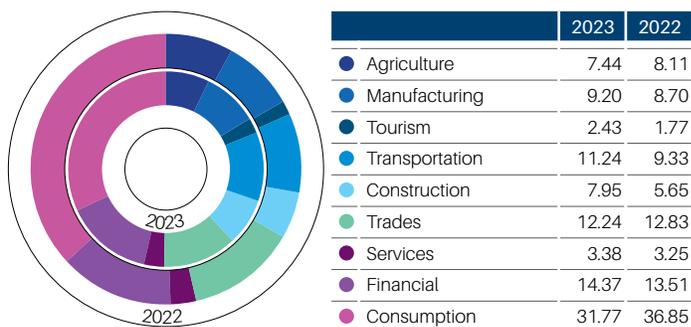
**Review Process:** Continuous evaluation of threshold limits is conducted based on current market conditions and other

factors to manage concentration risks amidst changes in the external environment.

**Stringent Adherence:** The Central Bank of Sri Lanka defined strict compliance with single borrower limits and credit thresholds.

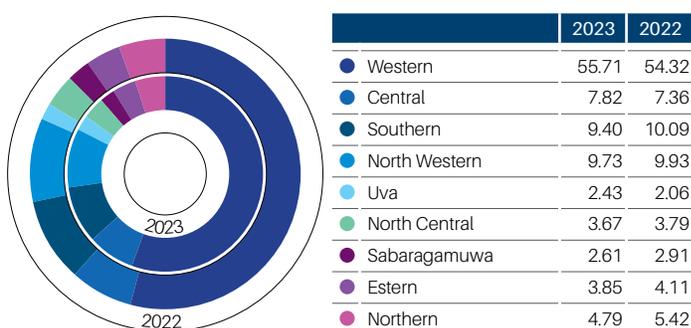
**Oversight:** Concentration risk is regularly monitored through monthly dashboard reviews.

### Industry wise concentration (%)



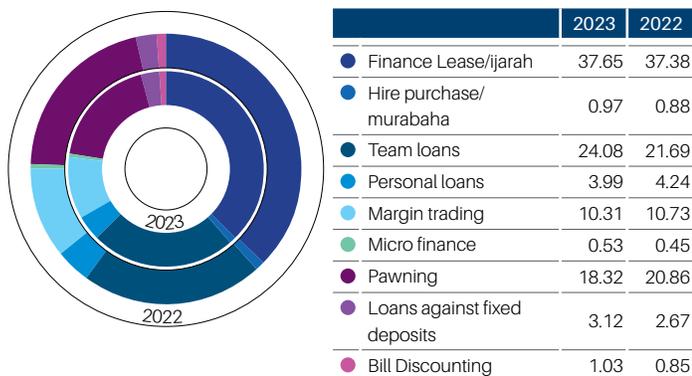
During the period being reviewed, MBSL has strategically reduced its focus on the Consumption sector significantly compared to 2022. This strategic shift is attributed to the prevailing economic crisis and higher inflation rates, both of which have impacted consumer purchasing power. Nevertheless, there has been an increase in concentration on the Transportation and Tourism sectors. This adjustment is primarily driven by the resurgence in tourist arrivals and associated activities. It's noteworthy that there have been no significant alterations in MBSL's exposure to other industries during the review period.

### Geographical Concentration (%)



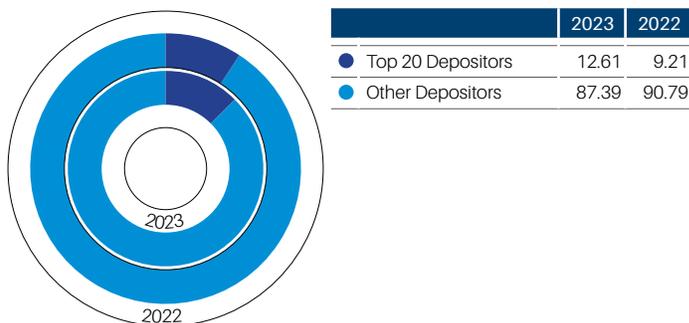
MBSL's loan and advances portfolio display a notable concentration in the Western province, accounting for 56% in 2023 a slight uptick from 54% in 2022. There were no substantial changes observed in concentration levels across other provinces throughout 2023.

### Product Concentration (%)



MBSL’s loan and advances portfolio is highly concentrated in the Finance lease followed by Term Loans and Pawning portfolio. During the period under review, exposure to Finance lease/ijarah was 38% slightly increased from 37% in the Year 2022.

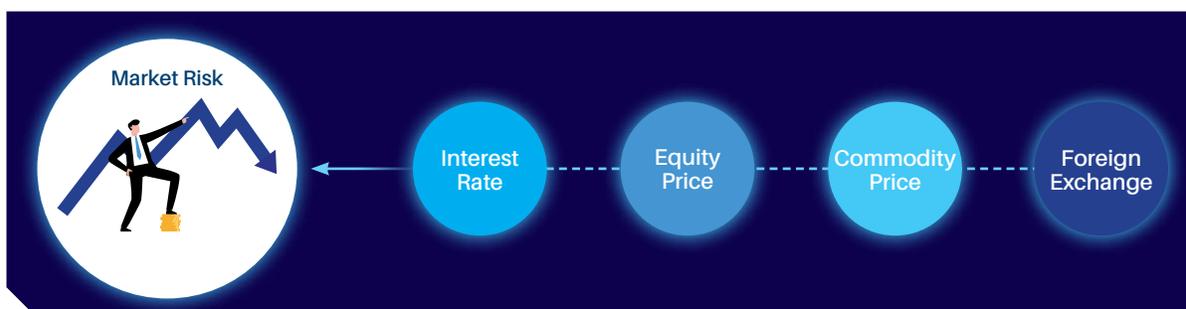
### Concentration Top 20 Customers (%)



During the review period, the exposure to the top 20 borrowers saw an increase, primarily attributed to a notable reduction in the lending portfolio from LKR 27.16 billion in 2022 to LKR 21.17 billion in 2023. Despite the decrease in the overall lending portfolio, the exposure value to the top 20 borrowers rose in percentage terms.

### Market Risk

Market risk refers to potential losses stemming from fluctuations in market prices. This encompasses various risks such as default, interest rate, credit spread, equity, foreign exchange (FX) and commodities risks for trading book instruments and FX and commodities risks for banking book instruments. For MBSL, market risk emerges from adverse shifts in interest rates, equity markets, commodity prices and exchange rates.



Fluctuations in interest rates, equity markets and commodity prices directly affect the Company’s ability to attain its strategic objectives, whereas exchange rates have an indirect impact on MBSL’s performance. Market risk exposures are overseen and addressed through the utilization of diverse risk models, stress testing frameworks and market forecasts. The Assets and Liabilities Committee (ALCO) and the Investment Committee are instrumental in managing MBSL’s Market Risk.

### Interest Rate Risk Management

Interest rate risk stands as a primary element of market risk, emerging from unexpected shifts in market interest rates. Throughout the year, fluctuations in interest rates directly influenced the Company’s interest expenses, consequently impacting MBSL’s net income. Furthermore, interest rate risk affects MBSL’s funding strategy, term structure and the alignment of rate-sensitive assets and liabilities, including maturity gap and related factors.

The ALCO regularly assesses interest rate movements to gauge potential impacts on the Company. Drawing from these assessments, the ALCO implements necessary measures to mitigate interest rate risk. Meanwhile, the Risk Management Department conducts analyses on maturity mismatches and rate-sensitive gaps, identifying potential adverse effects on the Company’s earnings. The BIRMC evaluates short-term and medium-term interest rate risks, instructing relevant departments to undertake suitable actions in response.

## Risk Management Report (Contd.)

### Interest Rate Risk Review for 2023

Anomalies observed in market interest rates during previous periods are mostly adjusted in the latter part of 2023 in response to decreasing inflation rates and government security yields, as well as diminishing risk premia due to the Domestic Debt Offering (DDO). Following the Central Bank's reduction of its policy rate starting from June 2023, the Average Weighted Deposit Rate (AWDR), Average Weighted Lending Rate (AWLR) and Average Weighted Prime Lending Rate (AWPR) have all seen declines, albeit at varying speeds. Throughout the year, there was a significant decline in Treasury bill rates as well. At the beginning of 2023, rates ranged approximately between 30-32%, but by the year's end, they had decreased to approximately 13-15%. This downward trend in market interest rates aligns with both relaxed monetary policies and administrative actions aimed at lowering overall lending rates. Additionally, government securities' yields have continued to decrease, supported by decreasing risk premia. The Monetary Policy Board of the Central Bank of Sri Lanka anticipates further reductions in market interest rates, particularly lending rates and government security yields, in the coming period, in line with recent policy rate cuts. Furthermore, the banking sector's credit to the private sector expanded notably on a month-on-month basis in the later part of 2023, reflecting the transmission of the accommodative monetary policy stance.

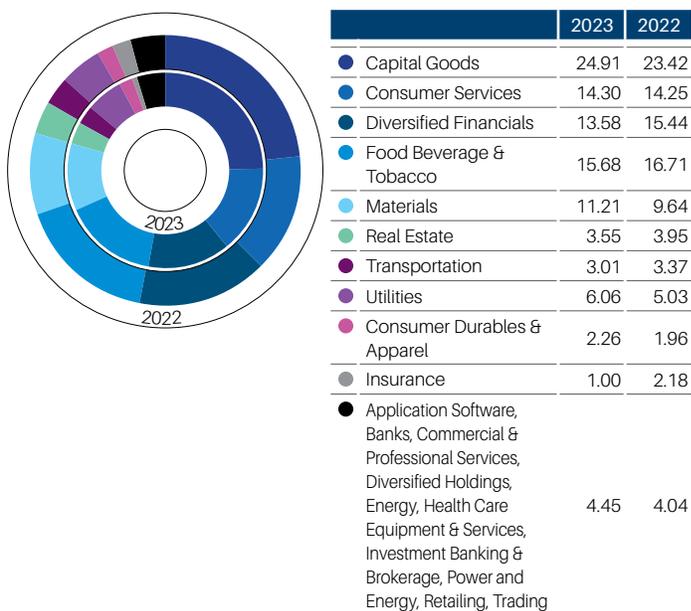
### Market Risk Management

The fluctuation in share prices poses market risks for MBSL. These price variations directly affect the value of the company's investment portfolio, consequently impacting investment income. In response to this, MBSL implemented strategic measures aimed at mitigating its exposure to equity market risk throughout the reviewed period. Oversight of equity management falls under the purview of the Capital Market Division, which operates under the direct supervision of the Investment Committee. This ensures a focused approach to managing market volatility and safeguarding the company's financial interests. Further, the Investment Committee is responsible for monitoring and providing guidelines for the management of the company's share portfolio, ensuring it aligns with strategic objectives and risk tolerance levels. Additionally, the Board Investment and Risk Management Committee (BIRMC) conducts regular assessments of the share portfolio's performance and concentration. These evaluations are aimed at identifying and mitigating potential equity risks, thereby enhancing the overall resilience of the portfolio.

In 2023, volatility in the share market gradually decreased, influenced by notable shifts in market sentiment following the Government's collaboration with the IMF. The All-Share Price Index (ASPI) began the year at 8,509.6 points and experienced a significant increase, surpassing 2,000 points to reach 10,654.2 points by the year's end. By the

end of June 2023, the Government announced its Domestic Debt Offering (DDO), which excluded Rupee-denominated Government securities held by banks. This announcement was met with optimism by investors, particularly towards bank stocks, resulting in a rally in mid-2023 that notably contributed to the ASPI's rise. However, despite these positive developments, foreign investor participation in the share market remained relatively low throughout the year.

### Sector wise Equity portfolio risk (%)



In 2023, MBSL made a strategic decision to allocate additional funds with the aim of averaging down the cost of high-priced shares. This approach was taken in anticipation of capitalizing on potential gains when the market experiences a recovery. By strategically investing in these shares, MBSL aimed to position itself to benefit from future market improvements and optimize its returns on investment.

### Commodity Risk Management

Commodity risk refers to the potential for fluctuations in the value of a portfolio comprising various commodities held by the Company. MBSL primarily manages gold as its main commodity, which is intricately linked with its pawning advances. The Pawning Division assumes responsibility for managing the commodity risk associated with fluctuations in gold prices.

The year 2023 witnessed significant price volatility in the gold market. To counteract the risk of price declines, MBSL made a strategic decision to reduce the concentrations of its pawning products. Additionally, closely monitoring the loan-to-value ratio for the gold loan portfolio proved effective in mitigating the impact of gold price volatility. This was achieved by focusing pawning advances on shorter-term durations.

Furthermore, MBSL rigorously monitored and managed pawning advance limits to ensure efficient maintenance of risk-weighted assets in capital adequacy calculations. By employing these measures, MBSL aimed to safeguard against potential losses stemming from fluctuations in gold prices while optimizing its overall risk management strategy.

### Liquidity Risk

Liquidity risk emerges when a financial institution encounters challenges in maintaining or generating sufficient cash reserves to fulfil its payment obligations. At MBSL, the oversight of liquidity risk management falls within the purview of the Asset and Liability Management Committee (ALCO).

Under the guidance of the ALCO, Treasury operations are tasked with adhering to the Liquidity Risk Management Policy approved by the Board. The primary objective is to ensure that adequate liquidity levels and capital buffers are consistently upheld. This entails maintaining key financial ratios such as Tier 1 Capital Adequacy Ratio (CAR), total Capital Ratio, minimum capital requirements, and Liquid Asset Ratio in alignment with regulatory stipulations.

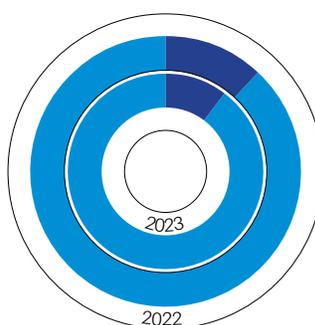
Regular reports are furnished to the Board of Directors and the Board Investment and Risk Management Committee (BIRMC) to facilitate prompt actions in mitigating liquidity risk exposures. Additionally, the company employs recognized methodologies such as stress testing, sensitivity analysis and

gap analysis techniques. These practices offer insights into MBSL's liquidity requirements under normal business conditions and help anticipate potential disruptions during periods of stress. By adopting these measures, MBSL endeavours to proactively manage liquidity risk and uphold financial stability.

- \* Assessed MBSL's current Risk Appetite regarding liquidity risk to ensure alignment with organizational objectives and regulatory requirements.
- \* Implemented stringent measures to manage liquidity in accordance with MBSL's Risk Appetite, ensuring optimal balance between liquidity levels and operational needs.
- \* Devised strategies aimed at maintaining a higher fixed deposit renewal ratio to enhance the stability and sustainability of funding sources.
- \* Established contingency fund arrangements with banks to mitigate potential liquidity disruptions and ensure resilience against unforeseen events.
- \* Adhered rigorously to liquidity requirements mandated by the Central Bank of Sri Lanka to uphold regulatory compliance and maintain financial stability.
- \* Implemented targeted strategies to reduce reliance on the top 20 deposit customers, thereby diversifying funding sources and mitigating concentration risk.

- \* Developed initiatives to decrease reliance on corporate deposits and enhance focus on attracting retail deposits, fostering greater stability and inclusivity in funding.
- \* Formulated strategies to expand the Company's savings base, particularly by promoting minor savings accounts, to diversify funding sources and foster long-term growth.
- \* Conducted regular preparation of forecasted cash flows on a daily, weekly and monthly basis, alongside ongoing management of cash flow by the treasury division to ensure liquidity adequacy and operational continuity.

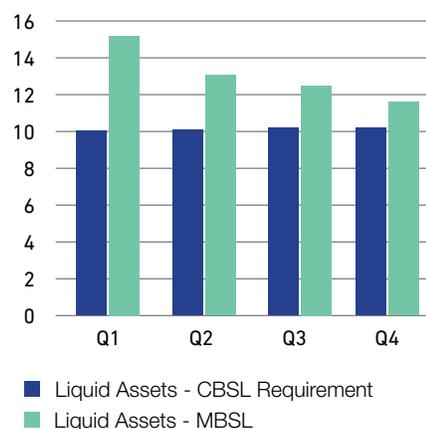
### Top 20 depositors (%)



|                  | 2023  | 2022  |
|------------------|-------|-------|
| Top 20 Customers | 10.42 | 11.95 |
| Other Customers  | 89.58 | 88.05 |

In 2023, MBSL strategically reduced its reliance on its top 20 depositors, resulting in 10% dependency in the year 2023 from 12% dependency compared to the previous year. This decision reflects the company's proactive approach towards diversifying its funding sources and mitigating concentration risk. By reducing dependence on a small group of depositors, MBSL enhances its financial resilience and stability, positioning itself for sustainable growth and profitability in the long term.

### Liquid Assets Ratio (%)



Throughout the year 2023, MBSL has maintained liquid assets well above the CBSL's regulatory minimum requirement.

## Risk Management Report (Contd.)

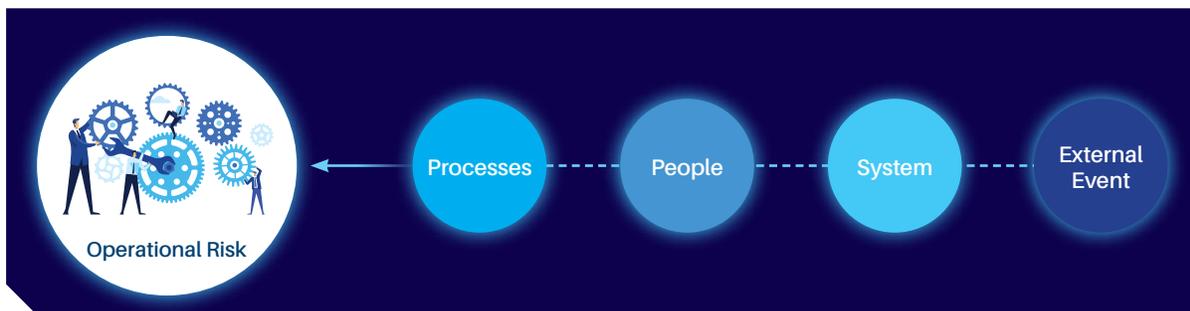
### Capital Adequacy

The Central Bank of Sri Lanka (CBSL) maintained the stipulated Tier I and Tier II Capital Adequacy Requirements, setting Tier I capital at 8.5% and Total capital at 12.5% throughout 2023. However, in May 2022, the maturity of LKR 2 billion worth of debentures affected the company's capital, resulting in non-compliance with the total regulatory capital requirements. To rectify this shortfall and adhere to regulatory standards, MBSL pursued a debenture issuance of LKR 500 million, with an option to increase it to LKR 1 billion in case of oversubscription. Unfortunately, due to elevated market interest rates and uncertainty regarding interest rate trends, MBSL was unable to raise the intended capital and only managed to secure LKR 67.7 million. Consequently, in April 2023, MBSL conducted another debenture issue, raising approximately LKR 622.8 million. This capital infusion enabled MBSL to fulfil the Capital Adequacy Requirements and remain compliant with regulatory standards.

### Operational Risk

Operational risk encompasses the potential for financial loss stemming from deficiencies or breakdowns within internal processes, personnel and systems, as well as from external occurrences. It encompasses legal risk but does not cover strategic or reputational risks.

The Operational Risk Management Framework (ORMF) of MBSL serves as the foundational structure for handling operational risk across the company's spectrum. Its primary aims encompass various objectives such as fortifying measures to guarantee uninterrupted business operations, validating the precision of internal information usage, fostering the competence of personnel and securing sufficient safeguards to protect the physical and IT assets of the Company.



### Information Technology Risk

Managing information security is a multifaceted challenge. Assessing and mitigating risks to our valuable information assets, especially proprietary data stored in both digital systems and physical filing cabinets, presents complexities. It's crucial to balance effective risk management with maintaining the legitimate usage of information without undue disruption.

Risk in this context refers to the potential for a threat to exploit vulnerabilities within an information asset, resulting in adverse consequences for the organization. At a broader level, implementing Information Security Management Systems (ISMS) aims to reduce the financial impacts of security incidents and bolster the organization's reputation.

In greater detail, the Information Security Management Systems (ISMS) will be utilized to achieve the following objectives:

- \* Methodically evaluate the organization's information security risks to establish and prioritize control requirements. This primarily involves safeguarding the confidentiality, integrity and availability of information assets.
- \* Develop and deploy a comprehensive set of security controls, encompassing both technical and non-technical measures, to mitigate any risks deemed unacceptable by management.
- \* Ensure that our security controls align with relevant laws and regulations, thus maintaining compliance throughout our operations.
- \* Effectively operate, oversee and sustain the implemented security controls to ensure their ongoing efficacy.
- \* Continuously monitor and enhance information security measures, promptly updating controls in response to evolving risks such as emerging hacker tactics or fraudulent activities. Ideally, this proactive approach mitigates the likelihood of experiencing actual security incidents.

### Operational Risk Management Initiatives for the Year 2023

- \* The Terms of Reference (TOR) for the Operational Risk Management Committee (ORMC) underwent a review.
- \* Monthly meetings of the ORMC were held, aligning with the ORMC TOR and summaries of these meetings were subsequently reported to the Board of Integrated Risk Management Committee (BIRMC).
- \* The operational risk unit in the Risk Management Department initiated the Risk Control Self-Assessment (RCSA) in accordance with the annual plan. This initiative aimed to streamline various processes, thereby reducing the risk of operational failures and enhancing employee productivity in the current operational environment.
- \* The process of conducting branch risk assessments commenced, facilitating the identification and categorization of branches based on their risk levels. This effort is part of a broader strategy to progressively reduce overall risk levels across the branch network.
- \* The establishment of an IT risk management function within the Risk Management Department was implemented, with a proposal to designate a dedicated Information Security Officer within the department's structure. Further, MBSL tested and Implemented Disaster Recovery Planning (DRP) during the year 2023.
- \* During this period, an IT risk management policy was formulated and put into action. Simultaneously, the scope of the Risk Management Department was broadened to encompass IT risk management functions.

### Compliance Risk

Financial institutions face compliance risk, which entails the potential for financial loss or harm to reputation due to failure to adhere to laws, regulations and standards set by regulatory bodies like the Central Bank of Sri Lanka (CBSL). MBSL boasts a robust Compliance Division overseen by a dedicated Compliance Officer within the Corporate Management team. This division operates independently from day-to-day operations and reports directly to the Board Integrated Risk Management Committee.

The Board has sanctioned an annual compliance plan aimed at mitigating compliance and Anti-Money Laundering/Countering the Financing of Terrorism (AML/CFT) risks posed by customers. This plan involves the identification, assessment and management of such risks through the utilization of established systems, procedures and rigorous monitoring mechanisms. Additionally, ongoing staff training and awareness initiatives are integral components of this proactive approach to compliance risk management.

### Compliance Risk Management Activities in 2023

- \* During this period, compliance-related policies and procedures underwent a thorough review and update to ensure alignment with the requirements outlined by the Central Bank of Sri Lanka (CBSL) and other regulatory mandates.
- \* Comprehensive policies and procedures were systematically disseminated and reinforced across relevant departments, all branches and designated officials within the compliance function, ensuring clarity and empowerment.
- \* In compliance with the Financial Transaction Reporting Act, thorough risk profiling and assessments were conducted for the entire customer base of the company.
- \* An in-house e-learning platform facilitated a comprehensive compliance education programme, with all staff mandated to undergo mandatory compliance certification. This certification was integrated with their annual Key Performance Indicators (KPIs), emphasizing the importance of compliance throughout the organization.

# Corporate Governance Report

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

## GOVERNANCE FRAMEWORK

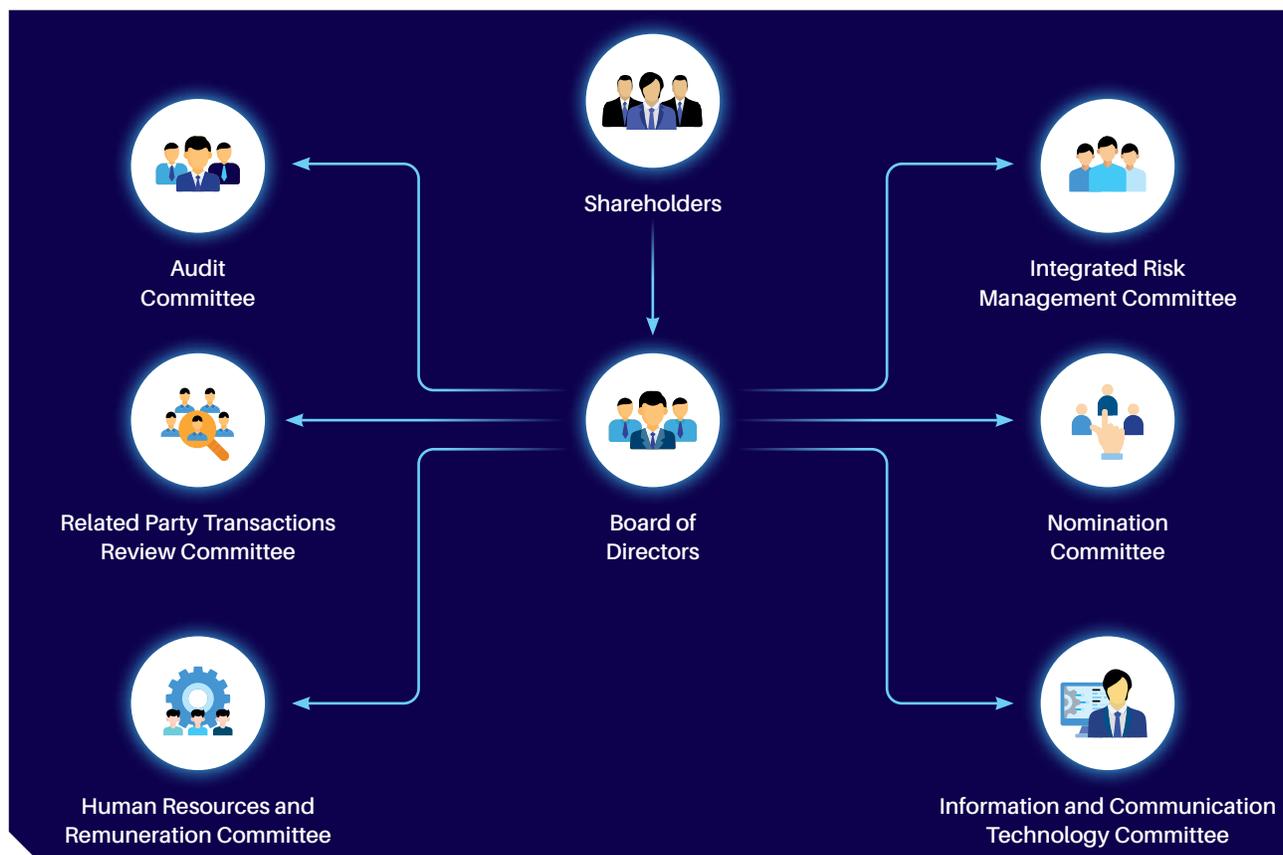
MBSL’s Corporate Governance framework has been developed to comply with the requirements of the Central Bank of Sri Lanka, the Colombo Stock Exchange and other relevant laws and regulations. In addition, the Company has voluntarily adopted the GRI Standards for Sustainability Reporting issued by the Global Reporting Initiative and the Integrated Reporting Framework issued by the International Integrated Reporting Council (IIRC). In terms of 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  |                               |
| * Vision, Mission and Values                                     | * Companies Act No. 7 of 2007   | * Stakeholder engagement      |
| * Articles of Association  | * Finance Business Act (Corporate Governance) Direction No.05 of 2021.                            | * Strategic planning          |
| * Director’s Code of Ethics                                      | * Finance Leasing (Corporate Governance) Direction No. 4 of 2009                                  | * Risk management             |
| * Group’s Corporate Governance Framework and practices           | * Listing Rules of the Colombo Stock Exchange   | * Compliance                  |
| * Board Charter and Terms of References for Board sub-committees | * Sri Lanka Accounting Standards  | * People management           |
| * Comprehensive framework of policies, systems and procedures    | * Integrated Reporting Framework issued by the International Integrating Reporting Council (IIRC) | * Internal and external audit |
|  | * GRI Standards for Sustainability reporting issued by the Global Reporting Initiative            | * Related Party Transactions  |

## THE BOARD OF DIRECTORS

The Board of Directors is the apex governing body and consisted of Eight (08) Non-Executive Directors (including the Chairman) of whom three (03) are deemed independent as at 31 December 2023. 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 with 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 42 to 51 and the Report of the Integrated Risk Management Committee on pages 92 to 93. The Board is also responsible for formulating and implementing a comprehensive framework of internal controls which ensure that assets are safeguarded, and the integrity of financial reporting is preserved.

## Corporate Governance Report (Contd.)

### Section i

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

| CSE Rule No. | Governance Requirement   | Extent of Compliance in 2023/ Explanations   |
|--------------|--|--|
| 7.6 (i)      | Names of persons who were directors of the Company during the financial year.  | Complied.<br>Please refer to "Annual Report of the Board of Directors on the Affairs of the Company". (page 84)  |
| 7.6 (ii)     | Principal activities of the Company and its Subsidiaries during the year and any changes therein.  | Complied<br>Please refer "Annual Report of the Board of Directors on the Affairs of the Company" (page 82)   |
| 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<br>Please refer "Shareholder Information " on pages 222 to 224 for the 20 largest holders of voting shares.<br>The Company has not issued any non-voting shares.  |
| 7.6 (iv)     | The public holding percentage.   | Please refer "Shareholder Information " on pages 222 to 224.   |
| 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 222 to 224.   |
| 7.6 (vi)     | Information pertaining to material foreseeable risk factors.   | Please refer "Risk Management Report" on pages 42 to 51  |
| 7.6 (vii)    | Details of material issues pertaining to employees and industrial relations.   | Please refer "Management Discussion and Analysis" on pages 31 to 41.   |
| 7.6 (viii)   | Extents, locations, valuations and the number of buildings of the land holdings and investment properties.   | Please refer "Note 29 and 30" to the "Financial Statements".   |
| 7.6 (ix)     | Number of shares representing the stated capital.  | Please refer "Note 41" to the "Financial Statements" on 'Capital'.   |
| 7.6 (x)      | A distribution schedule of the number of holders in each class of equity securities, and the percentage of their total holdings.   | Please refer "Shareholder Information " on pages 222 to 224.   |
| 7.6 (xi)     | Ratios and market price information on:<br><b>EQUITY</b><br>1. Dividend per share.<br>2. Dividend payout.<br>3. Net asset value per share.<br>4. Market value per share (highest and lowest values recorded during the financial year and value as at the end of financial year).<br><b>DEBT</b><br>1. Interest rate of comparable government security.<br>2. Debt/equity ratio.<br>3. Interest cover.<br>4. Quick asset ratio.<br>5. The market prices & yield during the year.<br>6. Changes in credit rating. | Not declared.<br>Not applicable.<br>Please refer "Statement of Financial Position".<br>Please refer "Shareholder Information " on pages 222 to 224.<br><br>Please refer "Debenture Information".<br>Please refer "Decade at a Glance".<br>Please refer "Decade at a Glance".<br>Please refer "Decade at a Glance".<br>Please refer "Debenture Information".<br>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 174.   |
| 7.6 (xiii)   | Details of funds raised through a public issue, rights issue and a private placement.  | Not Applicable<br>The Company has not raised funds through a public issue, a rights issue or a private placement during the year 2023.   |
| 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 pages 191 to 193.  |

## 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 2023   |
|--------------|---|--|
| 7.10.1       | <p><b>Non-Executive Directors</b></p> <p>a. The board shall include at least, two (2) non-executive directors; or such number of non-executive directors' equivalent to one third (1/3) of the total number of directors, whichever is higher.</p> <p>b. The total number of directors is to be calculated based on the number as at the conclusion of the immediately preceding Annual General Meeting.</p> <p>c. Any change occurring to this ratio shall be rectified within ninety (90) days from the date of the change.</p>   | <p>Complied.</p> <p>All eight (08) directors to the Board are non-executive directors and have held office prior to and immediately preceding the Annual General Meeting.</p>  |
| 7.10.2       | <p><b>Independent Directors</b></p> <p>a. Where the constitution of the board includes only two (2) non-executive directors in terms of Rule 7.10.1 above, both such non-executive directors shall be "independent" (as per the criteria set out in Rule 7.10.4 of the CSE Listing Rules). In all other instances two (2) or one third (1/3) of non-executive directors appointed to the board, whichever is higher, shall be "independent".</p> <p>b. The board shall require each non-executive director to submit a signed and dated declaration annually of his/her independence or non-independence against the specified criteria.</p>  | <p>Complied.</p> <p>Three (03) out of the eight (08) non-executive directors are independent.</p> <p>Complied.</p>   |
| 7.10.3       | <p><b>Disclosure relating to Directors</b></p> <p>a. The board shall make a determination annually as to the independence or non-independence of each non-executive director based on such declaration and other information available to the board and shall set out in the Annual Report the names of directors determined to be "independent."</p> <p>b. In the event a director does not qualify as "independent" against any of the criteria set out below but if the board, taking into account all the circumstances, is of the opinion that the director is nevertheless "independent" the board shall specify the criteria not met and the basis for its determination in the Annual Report.</p> <p>c. In addition to disclosures relating to the independence of a director set out above, the board shall publish in its Annual Report a brief resume of each director on its board which includes information on the nature of his/her expertise in relevant functional areas.</p> <p>d. Upon appointment of a new director to its board, the company shall forthwith provide to the Colombo Stock Exchange (the "Exchange") a brief resume of such director for dissemination to the public. Such resume shall include information on the matters itemized in paragraphs (a), (b) and (c) above.</p> | <p>Complied.</p> <p>Not applicable.</p> <p>Complied.</p> <p>Resume of each director is given on pages 12 to 15 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><b>Remuneration Committee</b></p> <p>a. <b>Composition</b></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. <b>Functions</b></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>Chairman of the HRRC is an independent director</p> <p>Complied.</p> <p>Please refer the "Human Resources and Remuneration Committee' Report on page 94 of the Annual Report.</p>  |
| 7.10.5       | <p>c. <b>Disclosure in the Annual Report</b></p> <p>The Annual Report should set out the names of directors (or persons in the parent company's committee in the case of a group company) comprising the remuneration committee, contain a statement of the remuneration policy and set out the aggregate remuneration paid to executive and non-executive directors.</p>   | <p>Complied.</p> <p>The names of the members of the Human Resources and Remuneration Committee together with a statement of the remuneration policy are given in the "Human Resources and Remuneration Committee Report" on page 94 of the Annual Report. Fees paid to directors are disclosed in the 'Note 15 to Financial Statements' on pages 132 to 133 of the Annual Report. There are no executive directors on the Board.</p> |

## Corporate Governance Report (Contd.)

### Section ii

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

| CSE Rule No. | Governance Requirement   | Extent of Compliance in 2023   |
|--------------|--|--|
| 7.10.6       | <p><b>Audit Committee</b></p> <p><b>a. Composition</b></p> <p>The audit committee shall comprise; of a minimum of two (2) independent non-executive directors (in instances where an entity has only two (2) directors on its board);</p> <p>or</p> <p>of non-executive directors, a majority of whom shall be independent, whichever shall be higher.</p> | <p>Complied. Committee comprised of three non executive directors out of which two (2) are independent directors.</p>  |
|              | In a situation where both the parent company and the subsidiary are 'listed Entities', the audit committee of the parent company may function as the audit committee of the subsidiary   | Not applicable.  |
|              | One (1) non-executive director shall be appointed as the Chairman of the audit committee by the board.   | Complied   |
|              | Unless otherwise determined by the audit committee, the CEO and the Chief Financial Officer ("CFO") of the company shall attend audit committee meetings.  | Complied.<br>CEO and Chief Financial Officer attend the Audit Committee Meetings by invitation.  |
|              | The Chairman or one (1) member of the audit committee should be a Member of a recognized professional accounting body.   | Complied.<br>Audit Committee Chairman is a fellow member of the Institute of Chartered Accountants of Sri Lanka  |
|              | <p><b>b. Functions</b></p> <p>The audit committee's functions shall include,</p>   | Complied.  |
|              | (i) Overseeing of the preparation, presentation, and adequacy of disclosures in the financial statements of the company, in accordance with Sri Lanka Accounting Standards.  | The functions of the Audit Committee and its report are given on pages 87 to 88.   |
|              | (ii) Overseeing of the company's compliance with financial reporting requirements, information requirements of the Companies Act No. 7 of 2007 and other relevant financial reporting related regulations and requirements.  | Complied.  |
|              | (iii) Overseeing the processes to ensure that the company's internal controls and risk management are adequate to meet requirements of the Sri Lanka Auditing Standards  | Complied.  |
|              | (iv) Assessment of the independence and performance of the company's external auditors.  | Not Applicable<br>Since the Auditor General is the external auditor of the Company where the independence is guaranteed under the Constitution of Sri Lanka, the Committee has no role to play in the engagement of the external auditor. However the Audit Committee verifies the independence of the Auditor nominated by the AG to carry the audit on his behalf. |
|              | (v) To make recommendations to the board pertaining to appointment, re-appointment and removal of the external auditors and to approve the remuneration and terms of engagement of the external auditors.  | Not applicable.<br>External auditor is appointed by the AG to assist the Audit functions of the FC   |
| 7.10.6       | <p><b>c. Disclosure in the Annual Report</b></p> <p>The names of the directors (or persons in the parent company's committee in the case of a group company) comprising the audit committee should be disclosed in the Annual Report.</p>  | Complied.<br>The names of members of the Audit Committee and its report are given on pages 87 to 88 of the Annual Report.  |
|              | The Audit Committee shall make a determination of the independence of the auditors and shall disclose the basis for such determination in the Annual Report.   | Complied.<br>Please refer Audit Committee Report on page 87 of the Annual Report.  |
|              | The Annual Report shall contain a report by the audit committee setting out the manner of compliance by the company in relation to the above, during the period to which the Annual Report relates.  | Complied.<br>Please refer Audit Committee Report on page 87 of the Annual Report.  |

### 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 2023   |
|----------|---|--|
| <b>1</b> | <b>BOARD'S OVERALL RESPONSIBILITIES</b>   |  |
| 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.<br>Please refer Direction 1.2 to 1.7 below.  |
| 1(2)     | <b>Business Strategy and Governance Framework</b>   |  |
|          | 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.<br>Board approved Strategic Plan with measurable goals for the period 2023- 2025 is in place. Regular review process also in place..  |
|          | b) Approving and implementing FC's governance framework commensurate with the FC's size, complexity, business strategy and regulatory requirements.   | b) Complied.<br>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.<br>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)     | <b>Corporate Culture and Values</b>   |  |
|          | a) Ensuring that there is a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.   | a) Complied.<br>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.<br>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.<br>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.<br>A Communication Policy approved by the Board is in place.  |

## Corporate Governance Report (Contd.)

| Section | Governance Requirement  | Extent of Compliance in 2023   |
|---------|---|--|
| 1 (4)   | <b>Risk Appetite, Risk Management and Internal Controls</b>   |  |
|         | a) Establishing and reviewing the Risk Appetite Statement (RAS) in line with FC's business strategy and governance framework.   | a) Complied.<br>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.<br>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.<br>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.<br>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)   | <b>Board Commitment and Competency</b>  |  |
|         | a) All members of the Board shall devote sufficient time on dealing with the matters relating to affairs of the FC.   | a) Complied.<br>All Directors come well prepared for the Board and Sub-committee meetings and devote adequate time for the affairs of the FC.  |
|         | b) All members of the Board shall possess necessary qualifications, adequate skills, knowledge, and experience.   | b) Complied.<br>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 12 to 15 of this Annual Report.   |
|         | c) The Board shall regularly review and agree the training and development needs of all the members.  | c) Complied.<br>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. Training need assessment for the Board is in place and reviewed annually.  |
|         | 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.<br>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.<br>The Board Charter includes a provision to enable the Directors to seek independent professional advice at the Company's expense.   |

| Section | Governance Requirement  | Extent of Compliance in 2023  |
|---------|---|---|
| 1 (6)   | <b>Oversight of Senior Management</b>   |   |
|         | 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.<br>The Board has clearly defined senior management hierarchy.  |
|         | b) Defining the areas of authority and key responsibilities for the senior management.  | b) Complied.<br>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.<br>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.<br>Senior Management responsible for internal controls and compliance attend every IRMC meeting.<br>Board has delegated the function of overseeing IAD to the Audit Committee.   |
|         | e) Ensuring the FC has an appropriate succession plan for senior management.  | e) Complied.<br>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.  |
|         | f) Meeting regularly with the senior management to review policies, establish lines of communication and monitor progress towards strategic objectives.   | f) Complied.<br>The Board meets the Senior Management at the Board and Board Sub-Committee meetings on a regular basis.   |
| 1 (7)   | <b>Adherence to the Existing Legal Framework</b>  |   |
|         | 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.<br>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.<br>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.<br>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. |

## Corporate Governance Report (Contd.)

| Section  | Governance Requirement   | Extent of Compliance in 2023   |
|----------|--|--|
| <b>2</b> | <b>GOVERNANCE FRAMEWORK</b>  |  |
| 2(1)     | Board shall develop and implement a governance framework in line with these directions and including but not limited to the following.<br>a) role and responsibilities of the Board<br>b) matters assigned for the Board.<br>c) delegation of authority.<br>d) composition of the Board.<br>e) the Board's independence.<br>f) the nomination, election and appointment of directors and appointment of senior management.<br>g) the management of conflicts of interests<br>h) access to information and obtaining independent advice.<br>i) capacity building of Board members,<br>j) the Board's performance evaluation.<br>k) role and responsibilities of the chairperson and the CEO.<br>l) role of the company secretary,<br>m) Board sub committees and their role; and<br>n) limits on related party transactions.              | Complied.<br>All these aspects of the governance framework are covered in the Board Charter. The Board Charter has been revised with the approval of the Board in line with Finance Business Act Direction No.05 of 2021 on Corporate Governance |
| <b>3</b> | <b>COMPOSITION OF THE BOARD</b>  |  |
| 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. The Board is satisfied with the balance of skills and experience of the current Board Members.   |
| 3(2)     | The number of directors on the Board shall not be less than seven (07) and not more than thirteen (13).  | Complied.<br>The Board comprised of Eight (08) Non-Executive Directors.  |
| 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.<br>None of the Directors have served more than 9 years.  |
| 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 (1/4) of the total number of directors of the Board.   | Complied<br>None of the Directors have exceeded nine years during the year 2023.   |
| 3(5)     | <b>Executive Directors</b>   |  |
|          | 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.   | a) There are no Executive Directors on 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. | b) Not relevant/applicable.  |

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| 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)    | <b>Non-Executive Directors</b>  |  |
|         | 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.<br>Directors' qualifications are experience are given in pages 12 to 15 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)    | <b>Independent Directors</b>  |  |
|         | 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.<br>There have been three(3) independent non -executive directors during the year 2023<br>Please refer page 84 of the Annual Report.                     |
|         | b) Independent directors appointed shall be of highest caliber, with professional qualifications, proven track record and sufficient experience.  | b) Independent Directors possess professional qualifications, experience and skills in their respective fields.<br>Please refer pages 12 to 15 of the Annual Report. |
|         | c) A non-executive director shall not be considered independent if such: <ul style="list-style-type: none"> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>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.</li> <li>vi. Director represents a shareholder, debtor, creditor or such other similar stakeholder of the FC.</li> <li>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.</li> <li>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.</li> </ul> | c) Complied.   |

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| 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)    | <b>Alternate Directors</b>   |  |
|         | <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)    | <b>Cooling off Periods</b>   |  |
|         | 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.<br>Directors or CEO were not previously employed as CEO or Director of another Finance Company.   |
|         | 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)   | <b>Common Directorships</b>  |  |
|         | 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.<br>At every Board meeting there is an item in the agenda which requires the Directors to make necessary disclosures.                             |
| 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.<br>None of the Directors held Directorships of more than 20 companies, societies, bodies including subsidiaries and associates of the FC.        |

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| <b>4</b> | <b>ASSESSMENT OF FITNESS AND PROPRIETY CRITERIA</b>   |   |
| 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.<br>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,<br>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.<br>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).<br>c) The maximum number of directors exceeding 70 years of age is limited to one-fifth (1/5) of the total number of directors.<br>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.   |
| <b>5</b> | <b>APPOINTMENT AND RESIGNATION OF DIRECTORS AND SENIOR MANAGEMENT</b>   |   |
| 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.<br>Resignations of KRPs have been duly informed to Director Non-Banking Supervision and approval received.  |
| 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.<br>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.<br>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.   |

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| 6(4)     | <p>Responsibilities of the Chairperson shall at least include the following:</p> <ul style="list-style-type: none"> <li>a) Provide leadership to the Board.</li> <li>b) Maintain and ensure a balance of power between executive and non-executive directors.</li> <li>c) Secure effective participation of both executive and non-executive directors.</li> <li>d) Ensure the Board works effectively and discharges its responsibilities.</li> <li>e) Ensure all key issues are discussed by the Board in a timely manner.</li> <li>f) Implement decisions/directions of the regulator.</li> <li>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.</li> <li>h) Not engage in activities involving direct supervision of senior management or any other day to day operational activities.</li> <li>i) Ensure appropriate steps are taken to maintain effective communication with shareholders and that the views of shareholders are communicated to the Board.</li> <li>j) Annual assessment on the Performance and the contribution during the past 12 months of the Board and the CEO.</li> </ul>   | <p>Complied.</p> <p>Approved Board Charter includes the responsibilities of the Chairperson as given in 6(4).</p>  |
| 6(5)     | <p><b>Responsibilities of the CEO</b></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"> <li>a) Implementing business and risk strategies in order to achieve the FC's strategic objectives.</li> <li>b) Establishing a management structure that promotes accountability and transparency throughout the FC's operations and preserves the effectiveness and independence of control functions.</li> <li>c) Promoting, together with the Board, a sound corporate culture within the FC, which reinforces ethical, prudent and professional behavior.</li> <li>d) Ensuring implementation of proper compliance culture and being accountable for accurate submission of information to the regulator.</li> <li>e) Strengthening the regulatory and supervisory compliance framework.</li> <li>f) Addressing the supervisory concerns and non-compliance with regulatory requirements or internal policies in a timely and appropriate manner.</li> <li>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.</li> </ul> | <p>Complied.</p> <p>Approved Board Charter has defined the responsibilities of the CEO.</p>  |
| <b>7</b> | <b>MEETINGS OF THE BOARD</b>   |  |
| 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.</p> <p>Fourteen (14) 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.</p> <p>The Board Charter includes a provision in this regard.</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.</p> <p>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-days notice.</p> <p>Ad hoc meetings are held by giving short notice in order to discuss matters of urgency.</p> |
| 7(4)     | <p>A director shall devote sufficient time to prepare and attend Board meetings and actively contribute by providing views and suggestions.</p>  | <p>Complied.</p> <p>Directors attend the meetings well prepared and devote sufficient time.</p>  |

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| 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.<br>Please refer page 80 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.  | Complied.  |
| 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.   | In the Approved Board Charter there is a specific provisions to avoid conflicts of interest.<br><br>Directors' interests are disclosed to the Board at the beginning of each meeting of the Board..<br><br>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.<br>Details of the Directors attendance is set out on page 80 of the Annual Report 2023.<br><br>No Director has violated this requirement during the financial year 2023.   |
| 7(9)     | <b>Scheduled Board Meetings and Ad Hoc Board Meetings</b><br>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.  |
| <b>8</b> | <b>COMPANY SECRETARY</b>   |  |
| 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.<br><br>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.<br>Company Secretary is a member of Senior Management of the FC, has been designated in Chief Manager Grade.<br><br>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.<br>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.<br>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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| 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:<br>(a) a summary of data and information used by the Board in its deliberations;<br>(b) the matters considered by the Board;<br>(c) the fact-finding discussions and the issues of contention or dissent, including contribution of each individual director;<br>(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;<br>(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<br>(f) the decisions and Board resolutions. | Complied.<br>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.<br>The Directors have access to the Board papers and minutes through a secure electronic link.   |
| <b>9</b>  | <b>Delegation of Functions by the Board</b>  |  |
| 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.<br>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.<br>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.<br>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.<br>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.<br>Delegation of Authority is subject to review as and when necessary.   |
| <b>10</b> | <b>BOARD SUB-COMMITTEES</b>  |  |
| 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.<br>MBSL has an asset base exceeding Rs. 20 Bn.<br>The company has established the following six Board sub committees.<br>01. Audit Committee<br>02. Integrated Risk Management Committee.<br>03. Related Party Transactions Review Committee<br>04. Human Resources & Remuneration Committee<br>05. Nomination Committee<br>06. Information and Communication Technology Committee. |

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| 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>b) Complied.<br/>For each Board Sub Committee, Board approved written Terms of Reference (TOR) is in place..</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>c) A Report from each Board Sub Committee has been published in this Annual Report. Please refer pages from 87 to 94.</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>d) Company Secretary acts as the Secretary of Audit Committee, Integrated Risk Management Committee, Human Resources &amp; Remuneration Committee and Nomination Committee.<br/>Chief Financial Officer acts as the Secretary of Related Party Transactions Review Committee whereas Head of IT acts as the secretary of Information and Communication Technology 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>e) Complied.<br/>Please refer pages 87 to 94 for the composition of the Board Sub committees and refer pages from 12 to 15 for the profiles of the Board Members.</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>f) Complied.</p>  |
| 10.2    | <p><b>Board Audit Committee (BAC)</b><br/>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>Mr. A.M.A.Perera (Independent- Non Executive Director) fellow member of ICASL had been the Chairman of the Committee up to 8th March . After he was appointed as Chairman of the Board, Mr .M.P. Ruwan Kumara, non-executive Non Independent 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>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>Complied.<br/>The Committee comprised of three (3) non- executive Directors out of which two are Independent Directors.</p>   |
|         | <p>c) The secretary to the BAC shall preferably be the Chief Internal Auditor (CIA).</p>   | <p>Board Secretary functions as the Secretary for BAC.</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>As Auditor General functions as the Auditor of the FC in terms of Article 154(4) of the Constitution, BAC has no discreion for the appointment of external 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>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>iii. Audit partner of an FC shall not be a substantial shareholder, director, senior management or employee of any FC.</p>  | <p>Complied.</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>Complied.</p>   |

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| 10.2    | <b>Board Audit Committee (BAC)</b>  |  |
|         | 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 services 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) <b>Internal Audit Function</b>   |  |
|         | 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.   | An in-house Internal Audit Function is in place.   |
|         | 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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| 10.2    | <b>Board Audit Committee (BAC)</b>   |  |
|         | iii. The BAC shall take the following steps with regard to the internal audit function of the FC:  | Complied.  |
|         | (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.  | Complied.  |
|         | (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.  | Complied.  |
|         | (iii) Assess the performance of the head and senior staff members of the internal audit department.  | Complied.  |
|         | (iv) Ensure the internal audit function is independent and activities are performed with impartiality, proficiency and due professional care.  | Complied.<br>AGM -IA reports to the BAC and his performance is evaluated by the BAC.   |
|         | (v) Ensure internal audit function carry out periodic review of compliance function and regulatory reporting to regulatory bodies.   | Complied.  |
|         | (vi) Examine the major findings of internal investigations and management's responses thereto.   | Complied.  |
|         | 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.  | Complied.  |
|         | i) Meetings of the Committee   |  |
|         | 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.   | Complied.  |
|         | 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.   | Complied.  |
|         | iii. BAC shall meet at least twice a year with the external auditors without any other directors/senior management/employees being present.  | Complied.  |
| 10.3    | <b>Board Integrated Risk Management Committee (BIRMC)</b>  |  |
|         | The following shall apply in relation to the BIRMC:  |  |
|         | 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. | The Committee is chaired Chairman of the Board , who is an Independent, 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. |
|         | b) The secretary to the committee may preferably be the CRO.   | Company Secretary functions as the secretary to BIRMC.   |
|         | 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.   | Complied<br>The Committee assesses the Company risks covering all these areas.   |

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| Section | Governance Requirement  | Extent of Compliance in 2023   |
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| 10.3    | <b>Board Integrated Risk Management Committee (BIRMC)</b>   |  |
|         | 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.<br>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.<br>BIRMC reviews the FC's risk policies including RAS, at least annually.  |
|         | 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.<br>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.<br>Business Continuity and Disaster Recovery plans are subject to annual review. (or periodic)                         |
|         | 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.<br>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.<br>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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| 10.3    | 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, | Complied<br>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. |
|         | j) Risk Management Function   |  |
|         | i. BIRMC shall establish an independent risk management function responsible for managing risk-taking activities across the FC  | Complied.<br>The FC has already established an Independent Risk Management function.   |
|         | 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.  |
|         | iv. The BIRMC shall ensure that the CRO is responsible for developing and implementing a Board approved integrated risk management framework that covers:<br>(i) various potential risks and frauds;<br>(ii) possible sources of such risks and frauds;<br>(iii) mechanism of identifying, assessing, monitoring and reporting of such risks which includes quantitative and qualitative analysis covering stress testing ;<br>(iv) effective measures to control and mitigate risks at prudent levels; and<br>(v) relevant officers and committees responsible for such control and mitigation. The framework shall be reviewed and updated at least annually.   | Complied.<br>Board approved Risk Management Policy framework is in place.  |
|         | 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.  | Complied.<br>Comprehensive updates are shared with the IRMC periodically.  |
|         | vii. The BIRMC shall submit a risk assessment report for the upcoming Board meeting seeking the Board's views, concurrence and/or specific directions.  | Complied.<br>The Risk Assessment Reports are submitted to the upcoming Board meeting periodically.   |

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| Section | Governance Requirement   | Extent of Compliance in 2023  |
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| 10.4    | <b>Nomination &amp; Corporate Governance Committee</b>   |   |
|         | The following shall apply in relation to the Nomination Committee:   |   |
|         | 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<br>The Committee is chaired by an Independent Director.   |
|         | b) Secretary to the nomination committee may preferably be the company secretary.  | b) Complied<br>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.<br>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<br>(i) possess the knowledge, skills, experience, independence and objectivity to fulfill their responsibilities on the board;<br>(ii) have a record of integrity and good repute; and<br>(iii) have sufficient time to fully carry out their responsibilities.  | e) Complied.<br>Nominations received from parent BOC and Treasury are referred to the committee for their recommendation. Proposed nomination with the recommendation of the Committee is submitted to the Board approval. After the Board approval, nomination is submitted to the Regulator for the final approval. |
|         | 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) As 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.<br>Please refer to (f) above.  |
|         | 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:<br>(i) a brief resume of the director;<br>(ii) the nature of the expertise in relevant functional areas;<br>(iii) the names of companies in which the director holds directorships or memberships in Board committees; and<br>(iv) whether such director can be considered as independent. | h) Complied.<br>When a new Director is appointed upon obtaining approval from CBSL announcement is made to CSE with a brief resume including their expertise, experience, professional and academic qualifications.   |
|         | 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<br>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<br>The FC is a State owned Enterprise. Nominations for the Board are received from parent BOC or Treasury. For the senior management Board approved succession plan is in place.  |
|         | 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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| 10.5.     | <b>Human Resource and Remuneration Committee</b><br>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<br>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.<br>Fees for non-executive directors are paid as per the circular No. PED 01/2020 dated 27.01.2020 issued by Ministry of Finance. Remuneration to senior management is determined under the remuneration policy.   |
|           | d) There shall be a formal and transparent procedure in developing the remuneration policy.   | Complied<br>Remuneration Policy reviewed and recommended by HRRC is in place.   |
|           | 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<br>Policy is being reviewed periodically. Last review was approved by the Board on 08th June 2022  |
|           | 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.<br>Incentives schemes that are designed to motivate and achieve superior performance are subject to approval by the HRRC and the Board. Checks and balances in place to safeguard excessive risk and self-interest.   |
|           | 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<br>The Committee reviews the performance of the Senior Management excluding Chief Internal Auditors, Compliance Officer and Chief Risk Officers against set KPIs agreed upon at the beginning of the year..  |
|           | h) The committee shall ensure that the senior management shall abstain from attending committee meetings, when matters relating to them are being discussed.  | Complied.   |
| <b>11</b> | <b>INTERNAL CONTROLS</b>  |   |
| 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.<br>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:<br>(a) promote effective and efficient operations;<br>(b) provide reliable financial information;<br>(c) safeguard assets;<br>(d) minimize the operating risk of losses from irregularities, fraud and errors;<br>(e) ensure effective risk management systems; and<br>(f) ensure compliance with relevant laws, regulations, directions and internal policies. | Complied.<br>Objectives of each internal control process/procedure cover these aspects.<br><br>The Board Audit Committee assists the Board in ensuring that company has proper internal controls. Internal Audit Department support the process via their regular audits.. BIRMC ensure effective risk management of the FC   |
| 11(3)     | All employees shall be given the responsibility for internal controls as part of their accountability for achieving objectives.   | Complied.<br>Clear responsibilities for control activities are identified in Business Procedure Manuals.  |

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| <b>12</b> | <b>RELATED PARTY TRANSACTIONS</b>  |   |
| 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.<br>The FC has established a Related Party Transactions Review Committee. An independent director functions as the Chairman of the Committee   |
|           | 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"> <li>i. Granting accommodation.</li> <li>ii. Creating liabilities to the FC in the form of deposits, borrowings and any other payable.</li> <li>iii. Providing financial or non-financial services to the FC or obtaining those services from the FC.</li> <li>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.</li> </ul> | The Board approved related Party Transactions Policy covers types of related party transactions in line with the Direction.   |
| 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. Identification of related parties have been automated to some extent. |
|           | 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.   |   |

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| 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> <ul style="list-style-type: none"> <li>a) Granting of "total accommodation" to a related party, exceeding a prudent percentage of the FCs regulatory capital, as determined by the committee.</li> <li>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.</li> <li>c) Providing preferential treatment, such as favorable terms, that extends beyond the terms granted in the normal course of business with unrelated parties.</li> <li>d) Providing or obtaining services to or from a related party without a proper evaluation procedure; or</li> <li>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.</li> </ul>   | <p>Complied.</p> <p>Board approved Related Party Transactions Policy has a provision to ensure that the company does not engage in transactions that would grant "more favourable treatment "</p> |
| <b>13.</b> | <b>GROUP GOVERNANCE</b>  |   |
| 13(1)      | <p>Responsibilities of the F C as a Holding Company</p> <ul style="list-style-type: none"> <li>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.</li> <li>b) The Board of the FC shall: <ul style="list-style-type: none"> <li>i) Ensure that the group governance framework clearly defines the roles and responsibilities for the oversight and implementation of group-wide policies.</li> <li>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.</li> <li>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.</li> <li>iv) Assess whether the internal control framework of the group adequately addresses risks across the group, including those arising from intra-group transactions; and</li> <li>v) Ensure that there are adequate resources to effectively monitor compliance of the FC and its subsidiaries with all applicable legal and regulatory requirements.</li> </ul> </li> <li>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.</li> <li>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.</li> <li>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.</li> </ul> | <p>The Company is in the process of developing a comprehensive Group Governance Framework.</p>  |

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| 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   |
| <b>14</b> | <b>CORPORATE CULTURE</b>   |  |
| 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.<br>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.   |
| <b>15</b> | <b>CONFLICTS OF INTEREST</b>   |  |
| 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"> <li>i. Identify circumstances which constitute or may give rise to conflicts of interests.</li> <li>ii. Express the responsibility of directors and senior management to avoid, to the extent possible, activities that could create conflicts of interest.</li> <li>iii. 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.</li> <li>iv. 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.</li> <li>v. Identify those responsible for maintaining updated records on conflicts of interest with related parties, and</li> <li>vi. Articulate how any non-compliance with the policy to be addressed.</li> </ol> | <p>The Directors are well aware of their ethical conduct with regard to conflict of interests. There is a separate agenda item in the Board meetings to disclose any conflict of interests . Related Party Transaction Policy and Code of Conduct also cover these areas comprehensively.<br/>Related party Transaction Policy provides that directors shall abstain from voting on Board resolution when such director or relative has substantial interest and such director shall not be counted in the quorum.</p> <p>The Company is in the process of developing a comprehensive policy to address potential conflicts of interest.</p> |

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| <b>16</b> | <b>DISCLOSURES</b>  |  |
| 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.  |
|           | <b>i. Financial statements</b>  |  |
|           | In addition to the set of financial statements as per LKAS 1 or applicable standard annual report shall include,  |  |
|           | * 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 99.                           |
|           | * A statement of responsibility of the Board in preparation and presentation of financial statements.   | Please refer "Directors responsibility for financial reporting" page 99.                           |
|           | <b>ii. Chairperson, CEO and Board related disclosures</b>   |  |
|           | * Name, qualification and a brief profile.  | Please refer the Profiles of the Directors on pages 12 to 15 of this Annual Report.                |
|           | * 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.   |  |
|           | * Relatives and/or any business transaction relationships with other directors of the company.  | Please refer Note 43 to the "Related party transactions" on page 191.                              |
|           | * Names of other companies in which the director/CEO concerned serves as a director and whether in an executive or non-executive capacity.  |  |
|           | * Number/percentage of Board meetings of the FC attended during the year; and   | Please refer page 80 of this Annual Report.  |
|           | * Names of board committees in which the director serves as the Chairperson or a member.  | Please refer the Profiles of the Directors on pages 12 to 15 and committee reports pages 87 to 94. |

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| 16.1    | <p><b>iii. Appraisal of board performance</b></p> <p>An overview of how the performance evaluations of the Board and its committees have been conducted.</p>  | Please refer page 52 in CG report.  |
|         | <p><b>iv. Remuneration</b></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 192. Also please refer the Report of the Human Resources and Remuneration Committee on page 94.</p> <p>Please refer Note 43c on page 192.</p>  |
|         | <p><b>v. Related party transactions</b></p> <p>* 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.</p> <p>* 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.</p> <p>* 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> | <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 192 to 193.</p> <p>Please refer Note 43 to the "Related party transactions" on pages 192 to 193.</p> |
|         | <p><b>vi. Board appointed committees</b></p> <p>The details of the chairperson and members of the board committees and attendance at such meetings.</p>   | Please refer page 80 of this Annual Report.   |
|         | <p><b>vii. Group Structure</b></p> <p>* The group structure of the FC within which it operates.</p> <p>* The group governance framework.</p>  | Please refer Note 1.3 to the "Group Structure" on page 111.   |

| Section | Governance Requirement  | Extent of Compliance in 2023  |
|---------|---|---|
| 16.1    | <p><b>viii. Director's report</b></p> <p>A report, which shall contain the following declarations by the Board:</p> <ul style="list-style-type: none"> <li>* The FC has not engaged in any activity, which contravenes laws and regulations.</li> <li>* The directors have declared all related party transactions with the FC and abstained from voting on matters in which they were materially interested.</li> <li>* The FC has made all endeavors to ensure the fair treatment for all stakeholders, in particular the depositors.</li> <li>* The business is a going concern with supporting assumptions; and</li> <li>* The Board has conducted a review of internal controls covering material risks to the FC and have obtained reasonable assurance of their effectiveness.</li> </ul>  | <p>Please refer the Annual report of the Board of Directors on the Affairs of the Company on page 82 of this Annual Report.</p> <p>Please refer Note 43 to the "Related party transactions" on pages 191 to 193.</p> <p>The Board has specifically covered the fair treatment of stake holders under the Board Charter. In addition, the Company endeavours 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 82 of this Annual Report.</p> <p>Please refer Directors' Responsibility Statement on Internal Control Over Financial Reporting on page 97.</p> |
|         | <p><b>ix. Statement on Internal Control</b></p> <ul style="list-style-type: none"> <li>* 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.</li> <li>* The external auditor's assurance statement on the effectiveness of the internal control mechanism referred above, in respect of any statement prepared or published.</li> <li>* A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any non-compliances.</li> <li>* 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</li> </ul> | <p>Please refer Directors Responsibility Statement on Internal Control Over Financial Reporting on page 97.</p> <p>Please refer Directors Responsibility Statement on Internal Control Over Financial Reporting on page 97.</p> <p>Please refer the Corporate Governance Report on page 52 and the Annual Report of the Board of Directors on the affairs of the Company on page 82.</p> <p>Please refer Risk Management Report (Compliance Risk section) on page 51.</p>   |

## Corporate Governance Report (Contd.)

| Section | Governance Requirement  | Extent of Compliance in 2023  |
|---------|---|---|
| 16.1    | <p><b>x. Corporate governance report</b></p> <ul style="list-style-type: none"> <li>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.</li> </ul> | <p>Please refer the Corporate Governance Report on page 52 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><b>xi. Code of Conduct</b></p> <ul style="list-style-type: none"> <li>FC's code of business conduct and ethics for directors, senior management and employees.</li> <li>The Chairperson shall certify that the company has no violations of any of the provisions of this code.</li> </ul>                       | <p>Disclose on page 52 in CG Report.</p>  |
|         | <p><b>xii. Management report</b></p> <ul style="list-style-type: none"> <li>Industry structure and developments</li> <li>Opportunities and threats</li> <li>Risks and concerns</li> <li>Sustainable finance activities carried out by the company</li> <li>Prospects for the future</li> </ul>                      | <p>Please refer "Management Discussion and Analysis" on page 31.</p>  |
|         | <p><b>xiii. Communication with shareholders</b></p> <ul style="list-style-type: none"> <li>The policy and methodology for communication with shareholders.</li> <li>The contact person for such communication.</li> </ul>   | <p>Disclosed on Page 52 in CG Report</p>  |

### ATTENDANCE AT THE MEETINGS OF THE BOARD & SUB-COMMITTEES HELD DURING THE FINANCIAL YEAR 2023

| Name of the Director  | Directorship Status                     | Board                   | Audit Committee | Integrated Risk Management Committee | Related Party Transactions Review Committee | Human Resources & Remuneration Committee | Nomination and Committee | Information and Communication Technology Committee |
|---|---|-------------------------|-----------------|--------------------------------------|---|--|--------------------------|--|
|   |   | Number of meetings held |                 |                                      |   |  |                          |  |
|   |   | 14                      | 12              | 6                                    | 4   | 11                                       | 4                        | 4  |
| Mr. K Ratwatta - Former Chairman<br>Resigned w.e.f 2023.01.20 | Non-Independent/ Non Executive Director | 1                       | -               | -                                    | -   | -  | -                        | -  |
| Mr. A M A Perera - Chairman                                   | Independent/ Non Executive Director     | 14                      | 2               | 4                                    | -   | 2  | -                        | 1  |
| Mr. W P R P H Fonseka<br>Resigned w.e.f 2023.03.21            | Non-Independent/ Non Executive Director | 02                      | 2               | -                                    | -   | -  | -                        | -  |
| Prof. N S Punchihewa  | Independent/ Non Executive Director     | 13                      | 12              | -                                    | 4   | 11                                       | -                        | 4  |
| Mr. M P R Kumara  | Non-Independent/Non Executive Director  | 14                      | 10              | 6                                    | -   | -  | -                        | -  |
| Mr. G A Jayashantha   | Non-Independent/Non Executive Director  | 13                      | -               | 6                                    | -   | -  | 4                        | -  |
| Mr. J D V N Jayasinghe  | Independent/Non Executive Director      | 14                      | 10              | -                                    | 4   | 11                                       | 4                        | -  |
| Mr. R M N Jeewantha   | Non-Independent/Non Executive Director  | 13                      | -               | 3                                    | -   | -  | 4                        | -  |
| Mr. H P K Silva   | Non-Independent/Non Executive Director  | 11                      | -               | -                                    | 4   | 6  | -                        | 4  |
| Mr. Y A Jayathilaka<br>Appointed w.e.f. 2023.04.04            | Non-Independent/Non Executive Director  | 9                       | -               | -                                    | -   | -  | -                        | 3  |

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## COMMITTEE REPORTS

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Report of the Information & Communication Technology (ICT) Committee / **91**  
The Board Integrated Risk Management Committee Report / **92**  
Report of the Human Resources & Remuneration Committee / **94**



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

## GENERAL

The Board of Directors present this report to the shareholders as required by the Companies Act No. 07 of 2007, Finance Business Act No. 42 of 2011 and Directions issued thereunder, and the Listing Rules of the Colombo Stock Exchange. This Report was approved by the Board of Directors on 18.04.2024.

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 here under, for the year ended 31.12.2023.

| 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 111   |
| ii Signed Financial Statements of the Company and the Group for the accounting period completed.  | Section 168 (1) (b)                                    | Refer on page 107   |
| iii Auditors' Report on the Financial Statements of the Company and of the Group.   | Section 168 (1) (c)                                    | Refer on pages 100 to 103                                       |
| iv Accounting Policies and any changes therein (Group also included)  | Section 168 (1) (d)                                    | Refer on pages 111 to 218                                       |
| v Particulars of the entries made in the Interests Register during the accounting period  | Section 168 (1) (e)                                    | Refer on page 85  |
| 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 85 and 192                                       |
| vii Information on donations made by the Company during the accounting period.  | Section 168 (1) (g)                                    | Refer on page 85  |
| viii Names of Directors of the Company as at the end of the accounting period and the names of persons who ceased to hold office as Directors during the accounting period.                     | Section 168 (1) (h)                                    | Refer on page 84  |
| 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 pages 85 and 133                                       |
| 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 85  |
| 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 86  |

## VISION, MISSION AND CORPORATE CONDUCT

The Company's vision, mission, and values are given on page 2 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, corporate and retail credit, margin trading, micro financing, agricultural credit facilities, real estate, gold loan, corporate advisory services, capital market operations and accepting of savings and fixed deposits, 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 111.

## REVIEW OF OPERATIONS

A review of the operations of the Company during the financial year ended 31 December 2023 and results of those operations are contained in the Chairman's Review on pages 24 to 26, the Chief Executive Officer's Review on pages 27 to 29 and Management Discussion and Analysis on pages 31 to 41. These reports form an integral part of the Annual Report.

## FUTURE OUTLOOK

An overview of the future plans and developments of the Company is presented in the Chairman's review on pages 24 to 26 and in the Chief Executive Officer's Review on pages 27 to 29 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 2023 duly signed by the Chief Financial

Executive Officer and approved by the Board of Directors of the Company are given on page 107 and form an integral part of this Report of the Board.

## DIRECTORS' RESPONSIBILITY FOR FINANCIAL REPORTING

The Board of Directors are responsible for the preparation of the Financial Statements of the Group and the Company, which 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 104 to 218 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 99 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 2023 is given on page 100 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 111 to 218 of the Annual Report.

## INCOME

The income of the Company for the year ended 31 December 2023 is given in Financial Statements on page 124.

## FINANCIAL RESULTS AND APPROPRIATIONS

Details of the Company and the Group performance and appropriation of profit are given on page 104 and page 105 respectively.

## RESERVES

Information on the movement of reserves are given in the

Statement of Changes in Equity on page 108 and in Note 42 respectively to the Financial Statements on page 109.

## TAXATION

The Company is liable for income tax at the rate of 30% (2022-30%), VAT on Financial Services at 18% (2022-18%) and Social Security Contribution Levy (SSCL) at 2.5% (2022-2.5%).

## STATUTORY PAYMENTS

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

## PROPERTY AND EQUIPMENT

The total capital expenditure incurred on the acquisition of property and equipment and intangible assets of the Company and the Group amounted to Rs.29.48 Mn and Rs. 45.25Mn respectively. The details of property and equipment of the Company are given in Note 30 and 31 to the Financial Statements on pages 174 to 178.

## MARKET VALUE OF FREEHOLD PROPERTIES

All freehold land and buildings of the Company were revalued by a professionally qualified independent valuer. The Directors are of the opinion that the carrying amount is not in excess of the current market values of the property. The details of freehold property owned by the Company are given in Note 30 to Financial Statements on pages 174 to 176.

# Annual Report of the Board of Directors on the Affairs of the Company (Contd.)

## ISSUE OF SHARES AND DEBENTURES

The Company did not issue any shares during the financial year. The Company issued 6,228,300 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 2023 was LKR 4,276.45 Mn., comprising of 524,539,637 ordinary voting shares. The details of the Stated Capital are given in Note 41 to the Financial Statements on page 190.

The details of debentures outstanding as at 31 December 2023 are given in Note 35.1 to the Financial Statements on page 182.

## CAPITAL ADEQUACY

Core capital and total risk weighted capital adequacy ratios of the Company stood at 13.60 percent and 16.75 percent respectively as at 31 December 2023.

## SHARE INFORMATION

Information relating to earnings, net assets and market value per share is given in 'Financial Highlights' on page 23. 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 222 to 224.

## 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 pages 222 to 224.

## DIRECTORS

The names of the Directors who comprised the Board of Directors of the Company as at 31 December 2023 are given below and their attendance at the board meetings during the year is given on page 80 of the Annual Report.

| Name of the Director                              | Executive/ Non-Executive Status    | Independent / Non-Independent Status |
|---|------------------------------------|--------------------------------------|
| Mr. A M A Perera<br>(Appointed w.e.f. 03.03.2023) | Chairman<br>Non-Executive Director | Independent                          |
| Prof. N S PUNCHIHewa                              | Non-Executive Director             | Independent                          |
| Mr. M P Ruwan 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                      |
| Mr. Y A Jayathilaka                               | Non-Executive Director             | Non-Independent                      |

## CHANGES TO THE DIRECTORATE

### Appointments During the Year under Review

Mr. Y A. Jayathilaka was appointed to the Directorate of MBSL as a Non - Executive/ Non Independent Director w. e. f. 04.04.2023

### Resignations During the Year under Review

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.

### Appointments after 1st January 2024

None

### Resignations after 1st January 2024

None

### Recommendations for Election and Re-election

Prof. N S PUNCHIHewa and Mr. J D V N Jayasinghe retires in terms of Article 86 read with Article 87 of the Articles of Association of the Company and being eligible for re-election has offered themselves for re-election at the forthcoming Annual General Meeting. Board of Directors has recommended their re-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, Nominations Committee, and Information and Communication Technology Committee and details of attendance at such meetings are presented on page 80.

## 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 191 to 193 of the Annual Report, dealing with related party disclosures.

## DIRECTORS' REMUNERATION

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

|                                | Company<br>Rs. Mn | Group<br>Rs. Mn |
|--------------------------------|-------------------|-----------------|
| Directors' Fees and Emoluments | 4.66              | 8.46            |

## DIRECTORS' INTEREST IN SHARES OF THE COMPANY

None of the Directors of the Board held shares of the Company as at 31.12.2023.

## 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 191 to 193.

## RELATED PARTY TRANSACTIONS

Directors have disclosed transactions if any that could be classified as related party transactions in terms of Sri Lanka Accounting Standard - LKAS 24 - 'Related Party Disclosures', which is adopted in the preparation of the Financial Statements. This Disclosure is given in Note 43 to the Financial Statements on pages 191 to 193 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 2023.

## APPOINTMENT OF AUDITORS

The retiring Auditors, the Auditor General has expressed his willingness to continue in office for the financial year 2024.

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 2023 as audit fee by the Company is Rs. 2,830,450 and the Group is Rs. 4,502,880. In addition, a sum of Rs. 577,000 is payable by the Company and Rs. 750,030 by the Group for permitted non-audit-related services.

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

## COMPLIANCE WITH LAWS AND REGULATIONS

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

## ENVIRONMENTAL PROTECTION

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

## CORPORATE DONATIONS

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

## EVENTS AFTER THE REPORTING PERIOD

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

## OUTSTANDING LITIGATION

In the opinion of the Board of Directors and the Company's lawyers, pending litigation against the Company is disclosed in Note 46 to the Financial Statements on page 198 to 200 will not have a material impact on the financial position of the Company or on its future operations.

## GOING CONCERN

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

## RISK MANAGEMENT AND SYSTEM OF INTERNAL CONTROLS

### Risk Management

The Company has an ongoing process in place to identify, evaluate and manage the risks that are faced by the Company. The Directors continuously review this process through the Board Integrated Risk

Management Committee. Specific steps taken by the Company in managing risks are detailed in the Risk Management Report on pages 42 to 51.

## 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 52 to 80.

## 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 Second (42nd) 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 31st May 2024 at 10.00 a.m. via Microsoft TEAMS Online Meeting Platform without the physical presence of the Shareholders. The Notice convening the Forty Second (42nd) Annual General Meeting is given on page 242.

## ACKNOWLEDGEMENT OF THE CONTENTS OF THE REPORT

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

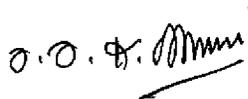
This Annual Report is signed for and on behalf of the Board of Directors by:



**Mr. A M A Perera**  
Chairman



**Mr. G A Jayashantha**  
Director



**Ms. Theranjani Attanayake**  
Company Secretary

18.04.2024  
Colombo

# Audit Committee Report

## AUDIT COMMITTEE REPORT 2023

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 those 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 reporting 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 2023 was as follows:

- Mr. M P Ruwan Kumara – Chairman  
Non-Executive / Non-Independent Director  
*(Appointed as Chairman of Board Audit Committee w.e.f 08/03/2023 to date)*

## Audit Committee Report (Contd.)

- Mr. J D V N Jayasinghe – Member  
Non-Executive / Independent Director  
(Appointed w.e.f 08/03/2023 to date)
- Professor N S Punchihewa – Member  
Non-Executive / Independent Director  
(Appointed w.e.f 16/07/2020 to date)
- Mr. A M A Perera  
Non-Executive / Independent Director  
(Appointed w.e.f 16/07/2020 until 08/03/2023 as Chairman of Board Audit Committee)
- Mr. W P R P H Fonseka  
Non-Executive / Non-Independent Director  
(Appointed w.e.f 16/07/2020 Resigned w.e.f 21/03/2023)

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 by invitation. The Heads of Divisions are invited to the meetings to seek any clarifications.

### AREAS OF FOCUS AND ACTIVITIES IN 2023

The Committee held 12 meetings during the year under review. The proceedings of the Audit Committee are reported regularly to the Board of Directors. (Attendance given on page 80 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. Ninety five (95) internal audit reports including Fifteen (15) information system audit reports and twenty three (23) special assignments and investigation reports were reviewed by the Committee relating to the financial year 2023.

### 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 2023. 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 Ruwan Kumara**  
Chairman - Audit Committee

21.03.2024  
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 31.12.2023 |
|---|-------------------------------|------------------------------|
| 1. Mr. J D V N Jayasinghe                                       | Non-Executive/Independent     | Chairman                     |
| 2. Mr. A M Anura Perera<br>(Ceased to be member on 08.03.2023)  | Non-Executive/Independent     | Former Chairman              |
| 3. Mr. W P R P H Fonseka<br>(Ceased to be member on 21.03.2023) | Non-Executive/Non-Independent | Former Member                |
| 4. Prof. N. Sampath Punchihewa                                  | Non-Executive/Independent     | Member                       |
| 5. Mr. H P Kithsiri Silva<br>(Appointed on 08.03.2023)          | Non-Executive/Non-Independent | Member                       |

## Activities in 2023

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 27.07.2023. In addition to that Terms of Reference was changed in line with CBSL Directions with effect from 11th October 2023. The Committee held four meetings during the year under review. The attendance at the meetings are given below.

| Name of the Director                                     | Directorship Status           | Attendance at the Meetings |
|--|-------------------------------|----------------------------|
| 1. Mr. Varuna Jayasinghe                                 | Non-Executive/Independent     | 04                         |
| 2. Dr. S. Punchihewa                                     | Non-Executive/Independent     | 04                         |
| 3. Mr. H. P. Kithsiri Silva<br>(Appointed on 08.03.2023) | Non-Executive/Non-Independent | 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 2023 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 2023 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 2023, is contained in the Annual Report of the Board of Directors on the Affairs of the Company on page 82.



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

18.04.2024  
Colombo

# Nomination Committee Report

## 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 programs 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 01st 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

*(With the reconstitution of the Committee Mr. A M A Perera ceased to be a member on 08th March 2023).*

The Company Secretary functions as the Secretary of the Committee.

The attendance at meetings of the Nomination Committee is given below:

| Director Name                                      | Mar        | Sep        | Oct        | Dec        |
|--|------------|------------|------------|------------|
|  | 31.03.2023 | 11.09.2023 | 16.10.2023 | 22.12.2023 |
| Mr. J D V N Jayasinghe<br>(Chairman)               | 1          | 1          | 1          | 1          |
| Mr. G A Jayashantha                                | 1          | 1          | 1          | 1          |
| Mr. R M N Jeewantha<br>(Appointed on 08.03.2023)   | 1          | 1          | 1          | 1          |
| Mr. A M A Perera<br>(was a member up to 8.03.2023) | -          | -          | -          | -          |



**Mr. J D V N Jayasinghe**  
Chairman  
Nomination Committee

18.04.2024  
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 a specific Terms Of Reference (TOR) to assist the Board of Directors in overseeing the overall IT Governance and Strategy.

Key roles and responsibilities of the committee are given below.

- \* Review of the IT Strategy and the IT Road Map to ensure that they are aligned with the company’s business strategy .
- \* Periodic Review and approval of IT Policies , Processes, expenditure and Budgets.  
Review of methodology and tools used to track project completion process, performance, and service delivery, as well as resource utilization and monitoring of IT Services.
- \* Review of information security risks of the Bank and ensure adequate measures are taken to mitigate such risks.
- \* Review of procurement processes, procedures and practices for the information security-related products and services.
- \* Periodic review of the TOR to encompass the evolving needs and advancements in technology

## COMPOSITION OF THE COMMITTEE

- \* Mr. A M A Perera (Chairman of the committee until 04th April 2023) -Non-Executive/ Non- Independent Director
- \* 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 served as the Chairman of the Committee until 4th April 2023 and the Committee was reconstituted on the same date*

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

| Directors Name                                      | No. of Meetings | Attended |
|---|-----------------|----------|
| Mr. A M A Perera , Chairman until (3rd April 2023)  | 1               | 1        |
| Mr. Y A Jayathilaka (Chairman) w.e.f 4th April 2023 | 3               | 3        |
| Prof. N S PUNCHIHEWA , Member                       | 4               | 4        |
| Mr. H P K Silva , Member                            | 4               | 4        |

## Key activities during the year.

The Committee reviewed the enhancing of security and new business requirements of the in-house developed Credit Appraisal System to align with business unit needs, strengthening security features with the SD-WAN solution, implementation of the Human Resource Management System, implementing Data Loss Prevention (DLP) and data classification systems, and integrating the Security Information and Event Management (SIEM).



**Mr. Y A Jayathilaka**

*Chairman*

**Information & Communication Technology (ICT) Committee**

21.03.2024

Colombo

# 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 Management Framework of the Bank under the guidance of the Board of Directors.

## CHARTER OF THE BIRMC

The conduct of the BIRMC was in accordance with the Finance Business Act (Corporate Governance) Direction No. 05 of 2021, establishing it as a subcommittee of the Board. The composition, scope, and functions of the BIRMC align with the stipulations of the mentioned Direction and the Terms of Reference (TOR) approved by the Board. Additionally, the Bank has embraced an Integrated Risk Management Policy Framework (IRMF), elucidating the supportive structures and the intricacies of the risk management ecosystem in detail within the IRMF.

## COMPOSITION AND THE MEETINGS OF THE BIRMC

The committee was reconstituted with effect from August 17, 2023 and is chaired by a Non-Executive Independent Director

| Name                 | Designation                                  |
|----------------------|--|
| Mr. A M A Perera     | Chairman/ Non-Executive Independent Director |
| Mr. G A Jayashantha  | Non-Executive /Non-Independent Director      |
| Mr. R M N Jeewantha  | Non-Executive /Non-Independent Director      |
| Mr. M P Ruwan Kumara | Non-Executive /Non-Independent Director      |

On March 8, 2023, Mr. G.A. Jayashantha assumed the role of Chairman of BIRMC. Subsequently, on August 17, 2023, he stepped down from the Chairmanship, and Mr. A M A Perera was appointed as the new Chairman of BIRMC.

## BIRMC MEETINGS & FUNCTIONS

The BIRMC conducted six meetings during the year. The main functions of Committee were;

- \* Deliberation on various aspects of the corporate governance direction issued by the Central Bank of Sri Lanka.
- \* Rigorous scrutiny and evaluation of risk appetite, policies, and procedures
- \* Comprehensive reviews of risk assessment reports, compliance reports, and other pertinent risk-centric documents within the framework of BIRMC meetings.
- \* Review and examination of efficiency and effectiveness of management-level committees
- \* The BIRMC risk assessments report were formally presented to the Board of Directors, seeking their insights, concurrence, and potential directives in line with the Corporate Governance directives mandated by the Central Bank of Sri Lanka (CBSL).

## DIRECTION OF THE BIRMC

In 2023, the Government took significant steps towards macroeconomic stability following the unprecedented challenges of 2022. Despite uncertainties stemming from the severe crisis, inflation decreased, and economic activity slowly resumed. This recovery was aided by the relaxation of monetary policy and enhancements in the external sector.

Efforts in macroeconomic policies and structural reforms played a crucial role in stabilizing domestic prices. Inflation, measured by the Colombo Consumer Price Index (CCPI), decreased to single-digit figures, reaching as low as 1.3 percent in September 2023. However, it slightly increased to 4.0 percent by the end of the year due to supply-side factors. Core inflation also moderated, indicating lower fundamental demand pressures.

The domestic economy saw a robust recovery in 2023, driven by the gradual restoration of macroeconomic stability through long-term economic strategies. Investor confidence increased, and economic activity rebounded in Q3-2023 after six consecutive quarters of decline. Monetary policy easing led to a notable expansion in credit to the private sector from mid-2023 onwards.

The BIRMC closely monitored market and economic trends, proposing tailored risk mitigation strategies. The economic downturn affected individual

and business cash flows, prompting regular portfolio reviews and directives to reduce Non-Performing Asset (NPA) portfolios.

To address non-compliance with regulatory capital requirements in Q1-2023, MBSL conducted a successful debenture issue, raising approximately LKR 622.8 million to meet Capital Adequacy Requirements. The Committee continuously assessed capital levels and endorsed prudent measures to enhance and preserve capital. Due to these prudent measures the Capital adequacy of the Company reached very healthy levels starting from Q2-2023

The Sri Lankan rupee, after experiencing significant depreciation in 2022, saw gradual stabilization in 2023. Market yields and inflation, which reached their peak in 2022, declined as a result of corrective measures and structural reforms. The Committee commended MBSL's efforts in liquidity management, closely monitoring the asset and liability mix and addressing maturity mismatches.

During the period, the BIRMC thoroughly assessed the methodology adopted by the Company in dealing with various risks. As a result, the Committee took significant actions to reorganize the Risk Management Department and approved a plan to improve its resources. BIRMC also evaluated how well management committees were working and suggested changes. Additionally, in 2023,

the Risk Management Department started a new function to handle IT risks better and deployed a full time Information Security Officer under the risk department. MBSL also conducted rigorous testing and implemented protocols for Disaster Recovery Planning (DRP), making sure they could quickly get back to work if unexpected disruptions occurred.

Throughout the year, the Committee conducted comprehensive reviews of MBSL's policies and procedures, providing recommendations to strengthen the overall risk governance framework.



**Mr. A M A Perera**

*Chairman*

**Board Integrated Risk Management Committee**

18.04.2024

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 42 on page 192 of the Financial Statement.

## COMPOSITION AND MEETINGS

The Committee was reconstituted on 08th March 2023 with the following members.

Mr. J D V N Jayasinghe- Chairman (w.e.f 08.03.2023) -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 with the reconstitution of the Committee on 08th March 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 eleven (11) meetings during the year under review. The attendance at meetings is given below.

| Director Name          | Jan.       | Mar.       | Jun.       | Sep.       | Oct.       | Nov.       | Dec.       |            |            |            |            |
|------------------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|------------|
|                        | 06.01.2023 | 08.03.2023 | 29.03.2023 | 09.06.2023 | 27.06.2023 | 08.09.2023 | 09.10.2023 | 16.10.2023 | 22.11.2023 | 12.12.2023 | 22.12.2023 |
| Mr. J D V N Jayasinghe | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          |
| Mr. A M A Perera       | 1          | 1          | -          | -          | -          | -          | -          | -          | -          | -          | -          |
| Prof. N S PUNCHIHewa   | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          | 1          |
| Mr. H P K Silva        | -          | -          | 1          | 1          | E          | 1          | 1          | E          | E          | 1          | 1          |

E - Excused

## ACTIVITIES IN 2023

- \* 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 08th 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, Benefit Packages and Special Allowances for the year 2023. 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

18.04.2024  
 Colombo

# Aligned with you in guiding your dreams towards reality

Our minor savings accounts are designed to ensure the financial security of your children. They offer higher than average interest rates for maximum returns, and are structured to allow children to start their adult lives on a secure financial footing. Parents or guardians can open an account for a child from the moment of birth, up to any age below 18 years.

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# Financial Calendar

## PROPOSED FINANCIAL CALENDER 2023

| Annual General Meetings                  | Date      |
|--|-----------|
| 42nd Annual General Meeting on or before | 31-May-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:

| Interim Financial Statements        | Date released to the CSE | Date published in Newspapers (in Sinhala, English & Tamil) |
|-------------------------------------|--------------------------|--|
| 1st Quarter ended 31 March 2023     | 12-May-23                | N/A  |
| 2nd Quarter ended 30 June 2023      | 14-Aug-23                | 31-Aug-23  |
| 3rd Quarter ended 30 September 2023 | 13-Nov-23                | N/A  |
| 4th Quarter ended 31 December 2023  | 28-Feb-24                | N/A  |

### Annual Financial Statements

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Annual financial statements for 2023 | 28-Mar-24 | 28-Mar-24 |
|--------------------------------------|-----------|-----------|

## PROPOSED FINANCIAL CALENDER 2024

| Annual General Meetings                  | Date       |
|--|------------|
| 43rd Annual General Meeting on or before | 30-June-25 |

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

| Interim Financial Statements        | Date to be released to the CSE | Date to be published in Newspapers (in Sinhala, English & Tamil) |
|-------------------------------------|--------------------------------|--|
| 1st Quarter ended 31 March 2024     | 15-May-24                      | N/A  |
| 2nd Quarter ended 30 June 2024      | 15-Aug-24                      | 30-Aug-24  |
| 3rd Quarter ended 30 September 2024 | 14-Nov-24                      | N/A  |
| 4th Quarter ended 31 December 2024  | 28-Feb-25                      | N/A  |

### Annual Financial Statements

|                                      |           |           |
|--------------------------------------|-----------|-----------|
| Annual financial statements for 2024 | 31-Mar-25 | 31-Mar-25 |
|--------------------------------------|-----------|-----------|

# 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 poses a significant impact on impairment assessment of financial assets Since 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 and to ensure that the impact of the current economic predicament is accurately captured in the financial reporting. The Financial statements for the year ended 31 December 2023 is compliant with all accounting standards currently in force.
- \* In 2023, the Company initiated a project to automate impairment computation of individually significant loans and the provisioning under this category and this automated solution will be finalised 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 2023, there were a significant focus on clearing long outstanding and unresolved balances within the Company's General Ledger. Under the direction and instruction of Board Audit Committee and Board of Directors, Management made extensive reviews, investigations and audits to identify the root cause and reasons of those balances. After careful review of findings and observations by Board Audit Committee and Board of Directors, the adjustments had been made to maintain the General Ledger in an up to date manner.

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

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

Progressive improvements on processes to comply with new Sri Lanka Accounting Standards requirements of recognition, measurement, classification, and disclosure are being made whilst some processes were not fully completed at the reporting date. In particular, areas with respect to the 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.

### STATEMENT OF PRUDENTIAL REQUIREMENTS, REGULATIONS AND LAWS

There are no material non-compliances to prudential requirements regulations, laws and internal controls affecting the Company.

There were no lapses which caused supervisory concern on the Company's Risk Management Systems or non-compliance with these directions which led to them being pointed out by the Director off Non-Bank Supervision of the Central Bank of Sri Lanka and which have caused the Monetary Board to give directions that they be disclosed to the public. Since there have been no such lapses or instances of non-compliance and since no such directions have been given by the Monetary Board, the issue of measures to be taken does not arise and there is nothing to disclose in this regard.

For and on behalf of the Board,



**Mr. M P Ruwan Kumara**  
Director



**Mr. A M A Perera**  
Director

21.03.2024  
Colombo

# Directors Responsibility for Financial Reporting

This Statement sets out the responsibilities of the Directors in relation to the financial statements of the Company and the Group. The responsibilities of the auditors in relation to the financial statements are set out in the 'Independent Auditor's Report' on page 100 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 2023, 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 2023 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.

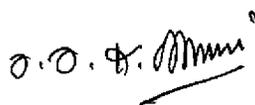
The Directors have ensured that this Annual Report has been prepared and published as required by the Sections 166 (1) and 167 (1) of the Companies Act and ensured that a printed copy of this Annual Report is sent to every shareholder of the Company, who have expressed desire to receive a hard copy. 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 2023 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 100 of this Annual Report.

## COMPLIANCE REPORT

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

By Order of the Board,



**Theranjani Attanayake**  
Company Secretary

18.04.2024  
Colombo

# Report of the Auditor General



## ජාතික විගණන කාර්යාලය தேசிய கணக்காய்வு அலுவலகம் NATIONAL AUDIT OFFICE



මගේ අංකය  
எனது இல.  
My No.

BAN/H/BOC-S/MBSL/FA/2023

ඔබේ අංකය  
உமது இல.  
Your No.

දිනය  
திகதி  
Date

27 March 2024

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 2023 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 2023 comprising the statement of financial position as at 31 December 2023 and 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 material accounting policy information, 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 2023 and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

### 1.2 Basis for Opinion

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

### 1.3 Key Audit Matters

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

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

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

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

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



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| Key audit matter  | How my audit addressed the key audit matter   |
|---|---|
| <p><b>Allowance for Impairment Losses on Loans &amp; Receivables at Amortised Cost</b></p> <p>Allowance for impairment losses on loans &amp; receivables at amortised cost as stated in Note 12 &amp; 23, respectively, is determined by management based on 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"> <li>* the involvement of significant management judgements, assumptions and level of estimation uncertainty associated in estimating management expectation of future cash flows to recover such loans &amp; receivables; and</li> <li>* the materiality of the reported amount of allowance for impairment losses and use of complex calculations in its determination.</li> </ul> | <p>In addressing the adequacy of the allowance for impairment losses on loans &amp; receivables at amortised cost, my audit procedures included the following key procedures:</p> <ul style="list-style-type: none"> <li>* I assessed the alignment of the Company's allowance for impairment loss computations and underlying methodology including responses to current economic conditions with its accounting policies, based on the best available information up to the date of my report.</li> <li>* I evaluated the design, implementation, and operating effectiveness of 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.</li> <li>* I checked the completeness, accuracy and reasonableness of the underlying data used in the allowance for impairment loss computations by agreeing details to relevant source documents and accounting records of the Company.</li> <li>* I evaluated the reasonableness of credit quality assessments and related stage classifications.</li> <li>* In addition to the above, the following procedures were performed:</li> </ul>  |
| <p>Key areas of significant judgements, assumptions and estimates used by management in the assessment of the allowance for impairment losses on loans &amp; receivables at amortised cost included: assumed future occurrence of events and conditions relating to the forward-looking macroeconomic scenarios and their associated weightages, which are subject to inherently heightened levels of estimation uncertainty.</p>   | <ul style="list-style-type: none"> <li>* <b>For loans and receivables assessed on an individual basis for impairment:</b> <ul style="list-style-type: none"> <li>* I checked the arithmetical accuracy of the underlying individual impairment calculations.</li> <li>* I evaluated the reasonableness of key inputs used in the allowance for impairment losses made with particular focus on current economic conditions. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries and status of recovery action of the collaterals.</li> </ul> </li> <li>* <b>For loans &amp; receivables assessed on a collective basis for impairment:</b> <ul style="list-style-type: none"> <li>* I tested the key inputs and the calculations used in the allowance for impairment losses.</li> <li>* I assessed the reasonableness of judgements, assumptions and estimates used by the Management in the underlying methodology and the management overlays. My testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios.</li> <li>* I assessed the adequacy of the related financial statement disclosures set out in notes 3.5.11,12,23 and 47.2.</li> </ul> </li> </ul> |
| <p><b>Information Technology (IT) systems related internal controls over financial reporting</b></p> <p>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 related internal controls over financial reporting were considered a key audit matter</p>   | <p>My audit procedures included the following key procedures:</p> <ul style="list-style-type: none"> <li>* I obtained an understanding of the internal control environment of the processes and test checked relevant controls relating to financial reporting and related disclosures.</li> <li>* I involved our internal specialized resources and;</li> <li>* I identified, evaluated and tested the design and operating effectiveness of IT systems related internal controls, including those related to user access and change management, and</li> <li>* I obtained a high-level understanding of the cybersecurity risks affecting the Company and the actions taken to address these risks primarily through inquiry.</li> <li>* I tested source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.</li> </ul>   |



### 1.4 Other information included in the Company's 2023 Annual Report

The other information comprises the information included in the Company's 2023 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 2023 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 Group's financial reporting process.

As per Section 16(1) of the National Audit Act No. 19 of 2018, the Company and the Group is required to maintain proper books and records of all their income, expenditure, assets and liabilities, to enable annual and periodic Financial Statements to be prepared of the Company and 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 internal control of the Company and the Group.
- ★ Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.
- ★ Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention in my auditor's report to the related disclosures in the Financial Statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- \* Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- \* Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

I communicate with those charged with governance regarding, among other matters, 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;

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

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



**W.P.C. Wickramaratne**  
*Auditor General*

# Statement of Profit or Loss

| For the year ended 31 December 2023   | Note | Company         |                 |             | Group           |                 |             |
|---|------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
|   |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | Change<br>% | 2023<br>Rs.'000 | 2022<br>Rs.'000 | Change<br>% |
| <b>Income</b>   | 4    | 7,478,049       | 6,542,593       | 14.3        | 8,356,704       | 7,284,346       | 14.7        |
| Interest and similar income   |      | 6,559,123       | 6,451,083       | 1.7         | 6,915,047       | 6,704,775       | 3.1         |
| Interest and similar expenses   |      | (4,918,658)     | (4,695,684)     | 4.7         | (4,897,486)     | (4,688,064)     | 4.5         |
| <b>Net interest income</b>  | 5    | 1,640,465       | 1,755,399       | (6.5)       | 2,017,561       | 2,016,711       | 0.0         |
| Fee and commission income   |      | 123,292         | 129,157         | (4.5)       | 157,295         | 136,861         | 14.9        |
| Fee and commission expenses   |      | (16,757)        | (19,205)        | (12.7)      | (3,774)         | (1,432)         | 163.5       |
| <b>Net fee and commission income</b>  | 6    | 106,535         | 109,952         | (3.1)       | 153,521         | 135,429         | 13.4        |
| Insurance premium income  | 7    | -               | -               | -           | 494,462         | 381,735         | 29.5        |
| Net claims and benefits   | 8    | -               | -               | -           | (503,761)       | (323,862)       | 55.5        |
| Net trading income  | 9    | 120,243         | 3,658           | 3,187.4     | 120,243         | 3,658           | 3,187.1     |
| Net gain/(loss) on financial instruments at fair value through profit or loss                                   | 10   | 559,224         | (132,131)       | 523.2       | 561,446         | (139,460)       | 502.6       |
| Other operating income  | 11   | 116,167         | 90,826          | 27.9        | 108,211         | 196,777         | (45.0)      |
| <b>Total operating income</b>   |      | 2,542,634       | 1,827,704       | 39.1        | 2,951,684       | 2,270,988       | 30.0        |
| Allowance for impairment losses charge for loans and other assets   | 12   | 25,094          | 16,504          | 52.0        | 25,094          | 16,504          | 52.0        |
| <b>Net operating income</b>   |      | 2,567,728       | 1,844,208       | 39.2        | 2,976,778       | 2,287,492       | 30.1        |
| Personnel expenses  | 13   | (1,289,690)     | (1,333,268)     | (3.3)       | (1,491,147)     | (1,527,073)     | (2.4)       |
| Depreciation and amortisation   | 14   | (272,869)       | (265,420)       | 2.8         | (309,308)       | (298,623)       | 3.6         |
| Other operating expenses  | 15   | (739,416)       | (660,683)       | 11.9        | (943,349)       | (848,194)       | 11.2        |
| <b>Total operating expenses</b>   |      | (2,301,975)     | (2,259,371)     | 1.9         | (2,743,804)     | (2,673,890)     | 2.6         |
| <b>Operating profit/(loss) before VAT on financial services and impairment of investment in group companies</b> |      | 265,753         | (415,163)       | 164.0       | 232,974         | (386,398)       | 160.3       |
| Impairment reversal/(charge) of investment in subsidiary  | 28   | 95,065          | (113,773)       | 183.6       | -               | -               | -           |
| <b>Profit/(loss) from operations after impairment of investment in group companies</b>                          |      | 360,818         | (528,936)       | 168.2       | 232,974         | (386,398)       | 160.3       |
| Taxes on financial services   | 16.1 | (292,911)       | (127,978)       | 128.9       | (292,911)       | (127,978)       | 128.9       |
| Share of associate company's profit/(loss) before tax   | 27.1 | -               | -               | -           | 29,182          | 56,131          | (48.0)      |
| <b>Profit/(loss) before income tax</b>  |      | 67,907          | (656,914)       | 110.3       | (30,755)        | (458,245)       | (93.3)      |
| Income tax (expense)/reversal   | 16.2 | (47,019)        | 161,306         | (129.1)     | (55,106)        | 148,757         | (137.0)     |
| <b>Profit/(loss) for the year</b>   |      | 20,888          | (495,608)       | 104.2       | (85,861)        | (309,488)       | (72.3)      |
| <b>Profit/(loss) for the year attributable to:</b>  |      |                 |                 |             |                 |                 |             |
| Equity holders of the parent  |      | 20,888          | (495,608)       | 104.2       | (82,098)        | (325,059)       | (74.7)      |
| Non-controlling interests   |      | -               | -               | -           | (3,763)         | 15,571          | (124.2)     |
| <b>Profit/(loss) for the year</b>   |      | 20,888          | (495,608)       | 104.2       | (85,861)        | (309,488)       | (72.3)      |
| <b>Earnings per share:</b>  |      |                 |                 |             |                 |                 |             |
| Basic/diluted earning per share (Rs.)   | 17   | 0.04            | (0.94)          | 104.2       | (0.16)          | (0.62)          | 74.7        |

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 111 to 218 form an integral part of the Financial Statements.

25 March 2024

Colombo

# Statement of Comprehensive Income

| For the year ended 31 December 2023   | Note | Company         |                 |             | Group           |                 |             |
|---|------|-----------------|-----------------|-------------|-----------------|-----------------|-------------|
|   |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | Change<br>% | 2023<br>Rs.'000 | 2022<br>Rs.'000 | Change<br>% |
| <b>Profit/(loss) for the year</b>   |      | 20,888          | (495,608)       | 104.2       | (85,861)        | (309,488)       | (72.3)      |
| <b>Other comprehensive income/(expenses)</b>  |      |                 |                 |             |                 |                 |             |
| <b>Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):</b>      |      |                 |                 |             |                 |                 |             |
| Gains/(Losses) on re-measuring financial investments at fair value through other comprehensive income           |      | (1,515)         | (10,735)        | (85.9)      | 2,965           | (10,562)        | 128.1       |
| <b>Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods</b>     |      | (1,515)         | (10,735)        | (85.9)      | 2,965           | (10,562)        | 128.1       |
| <b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</b>  |      |                 |                 |             |                 |                 |             |
| Actuarial gains/(losses) on defined benefit plans   | 40   | (63,207)        | 47,045          | (234.4)     | (63,551)        | 49,032          | (229.6)     |
| Reclassification reserve recognized during the year   |      | -               | -               | -           | -               | 121             | (100.0)     |
| Share of associates company's other comprehensive income  | 27.1 | -               | -               | -           | (60)            | 406             | (114.8)     |
| Deferred tax effect relating to components of other comprehensive income  | 38.1 | 18,962          | (14,113)        | 234.4       | 18,962          | (14,103)        | 234.5       |
| <b>Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods</b> |      | (44,245)        | 32,932          | (234.4)     | (44,649)        | 35,457          | (225.9)     |
| <b>Other comprehensive income/(expenses) for the year, net of tax</b>   |      | (45,760)        | 22,197          | (306.2)     | (41,684)        | 24,895          | (267.4)     |
| <b>Total comprehensive income/(expenses) for the year, net of tax</b>   |      | (24,872)        | (473,411)       | (94.7)      | (127,545)       | (284,593)       | (55.2)      |
| <b>Total comprehensive income/(expenses) attributable to:</b>   |      |                 |                 |             |                 |                 |             |
| Equity holders of the parent  |      | (24,872)        | (473,411)       | (94.7)      | (125,693)       | (301,223)       | (58.3)      |
| Non controlling interests   |      | -               | -               | -           | (1,852)         | 16,630          | (111.1)     |
| <b>Total comprehensive income/(expenses) for the year, net of tax</b>   |      | (24,872)        | (473,411)       | (94.7)      | (127,545)       | (284,593)       | (55.2)      |

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 111 to 218 form an integral part of the Financial Statements.

25 March 2024  
Colombo

# Statement of Financial Position

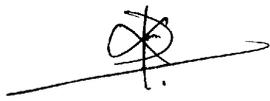
| As at 31 December 2023   | Note | Company           |                   |             | Group             |                   |             |
|--|------|-------------------|-------------------|-------------|-------------------|-------------------|-------------|
|  |      | 2023<br>Rs.'000   | 2022<br>Rs.'000   | Change<br>% | 2023<br>Rs.'000   | 2022<br>Rs.'000   | Change<br>% |
| <b>Assets</b>  |      |                   |                   |             |                   |                   |             |
| Cash and cash equivalents  | 20   | 720,397           | 748,724           | (3.8)       | 871,126           | 944,784           | (7.8)       |
| Placements with banks & financial institutions                         | 21   | 574,588           | 103,682           | 454.2       | 645,823           | 137,162           | 370.8       |
| Financial investments at fair value through profit or loss             | 22   | 8,161,368         | 287,510           | 2,738.6     | 8,169,927         | 293,847           | 2,680.3     |
| Loans & receivables at amortised cost                                  | 23   | 19,054,715        | 24,423,300        | (22.0)      | 19,059,962        | 24,370,850        | (21.8)      |
| Financial investments at fair value through other comprehensive income | 24   | 14,348            | 15,863            | (9.6)       | 119,221           | 78,151            | 52.6        |
| Financial investments at amortised cost                                | 25   | 3,727,940         | 4,307,394         | (13.5)      | 5,304,189         | 5,883,995         | (9.9)       |
| Real estate stock  | 26   | 58,158            | 96,937            | (40.0)      | 58,158            | 96,937            | (40.0)      |
| Investment in associate company  | 27   | 81,084            | 81,084            | -           | 168,908           | 172,841           | (2.3)       |
| Investment in subsidiary   | 28   | 352,696           | 257,631           | 36.9        | -                 | -                 | -           |
| Investment properties  | 29   | 95,446            | 104,798           | (8.9)       | 95,446            | 104,798           | (8.9)       |
| Property, equipment and right-of-use assets                            | 30   | 585,436           | 504,669           | 16.0        | 695,697           | 634,780           | 9.6         |
| Intangible assets  | 31   | 67,117            | 103,208           | (35.0)      | 69,491            | 106,396           | (34.7)      |
| Deferred tax assets  | 38   | 54,951            | 33,824            | 62.5        | 64,355            | 42,893            | 50.0        |
| Other assets   | 32   | 150,878           | 163,157           | (7.5)       | 490,547           | 529,240           | (7.3)       |
| <b>Total assets</b>  |      | <b>33,699,122</b> | <b>31,231,781</b> | <b>7.9</b>  | <b>35,812,850</b> | <b>33,396,674</b> | <b>7.2</b>  |
| <b>Liabilities</b>   |      |                   |                   |             |                   |                   |             |
| Due to banks   | 33   | 2,599,970         | 2,925,953         | (11.1)      | 2,603,003         | 2,935,170         | (11.3)      |
| Due to customers at amortised cost                                     | 34   | 25,444,119        | 23,524,609        | 8.2         | 25,245,868        | 23,354,493        | 8.1         |
| Debt issued and borrowed funds at amortised cost                       | 35   | 741,030           | 69,082            | 972.7       | 741,030           | 69,082            | 972.7       |
| Insurance contract liabilities-life                                    | 36.1 | -                 | -                 | -           | 393,030           | 355,190           | 10.7        |
| Insurance contract liabilities-non life                                | 36.2 | -                 | -                 | -           | 671,728           | 643,229           | 4.4         |
| Current tax liabilities  | 37   | 30,055            | 49,029            | (38.7)      | 30,055            | 49,029            | (38.7)      |
| Other liabilities  | 39   | 858,908           | 686,361           | 25.1        | 1,406,010         | 1,215,186         | 15.7        |
| Retirement benefits obligations  | 40   | 354,368           | 281,203           | 26.0        | 366,703           | 292,326           | 25.4        |
| <b>Total liabilities</b>   |      | <b>30,028,450</b> | <b>27,536,237</b> | <b>9.1</b>  | <b>31,457,427</b> | <b>28,913,705</b> | <b>8.8</b>  |

| As at 31 December 2023   | Note | Company           |                   |              | Group             |                   |              |
|--|------|-------------------|-------------------|--------------|-------------------|-------------------|--------------|
|  |      | 2023<br>Rs.'000   | 2022<br>Rs.'000   | Change<br>%  | 2023<br>Rs.'000   | 2022<br>Rs.'000   | Change<br>%  |
| <b>Equity</b>  |      |                   |                   |              |                   |                   |              |
| Stated capital   | 41   | 4,276,448         | 4,276,448         | 0.0          | 4,276,448         | 4,276,448         | -            |
| Statutory reserves   | 42.1 | 344,174           | 339,996           | 1.2          | 344,174           | 339,996           | 1.2          |
| Retained earnings  | 42.2 | (1,289,648)       | (944,964)         | 36.5         | (1,042,034)       | (594,119)         | 75.4         |
| RLA reserve  | 42.3 | 371,590           | 54,441            | 582.6        | 371,590           | 54,441            | 582.6        |
| OCI reserve  | 42.4 | (31,892)          | (30,377)          | 5.0          | (33,607)          | (34,502)          | (2.6)        |
| <b>Total equity attributable to equity holders of the parent</b> |      | <b>3,670,672</b>  | <b>3,695,544</b>  | <b>(0.7)</b> | <b>3,916,571</b>  | <b>4,042,264</b>  | <b>(3.1)</b> |
| Non controlling interests  |      | -                 | -                 | -            | 438,852           | 440,705           | (0.4)        |
| <b>Total equity</b>  |      | <b>3,670,672</b>  | <b>3,695,544</b>  | <b>(0.7)</b> | <b>4,355,423</b>  | <b>4,482,969</b>  | <b>(2.8)</b> |
| <b>Total liabilities and equity</b>                              |      | <b>33,699,122</b> | <b>31,231,781</b> | <b>7.9</b>   | <b>35,812,850</b> | <b>33,396,674</b> | <b>7.2</b>   |
| Commitments and contingent liabilities                           | 47.8 | 42,093            | 103,938           | (59.5)       | 128,909           | 131,377           | (1.9)        |
| Net assets value per share (Rs.)                                 |      | 7.00              | 7.05              | (0.7)        | 7.47              | 7.71              | (3.1)        |

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



**W. K. C. S. Vithana**  
Chief Financial Officer



**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



**M. P. Ruwan Kumara**  
Director

**Figures in brackets indicate deductions.**

The accounting policies and the notes on pages 111 to 218 form an integral part of the Financial Statements.

25 March 2024  
Colombo

# Statement of Changes in Equity

| For the year ended 31 December 2023<br>Company | Stated<br>capital<br>Rs.'000 | Statutory<br>reserves<br>Rs.'000 | RLA<br>reserves<br>Rs.'000 | OCI<br>reserve<br>Rs.'000 | Retained<br>earnings<br>Rs.'000 | Total<br>equity<br>Rs.'000 |
|--|------------------------------|----------------------------------|----------------------------|---------------------------|---------------------------------|----------------------------|
| <b>Balance as at 01 January 2022</b>           | 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                     |
| Transfers to regulatory loss allowance reserve | -                            | -                                | 54,441                     | -                         | (54,441)                        | -                          |
| <b>Balance as at 31 December 2022</b>          | 4,276,448                    | 339,996                          | 54,441                     | (30,377)                  | (944,964)                       | 3,695,544                  |
| <b>Balance as at 01 January 2023</b>           | 4,276,448                    | 339,996                          | 54,441                     | (30,377)                  | (944,964)                       | 3,695,544                  |
| Net profit/(loss) for the year                 | -                            | -                                | -                          | -                         | 20,888                          | 20,888                     |
| Other comprehensive income, net of tax         | -                            | -                                | -                          | (1,515)                   | (44,245)                        | (45,760)                   |
| Transfers to regulatory loss allowance reserve | -                            | -                                | 317,149                    | -                         | (317,149)                       | -                          |
| Transfers to statutory reserve fund            | -                            | 4,178                            | -                          | -                         | (4,178)                         | -                          |
| <b>Balance as at 31 December 2023</b>          | 4,276,448                    | 344,174                          | 371,590                    | (31,892)                  | (1,289,648)                     | 3,670,672                  |

| For the year ended 31 December 2023<br>Group                       | Stated<br>capital<br>Rs.'000 | Statutory<br>reserves<br>Rs.'000 | RLA<br>reserves<br>Rs.'000 | OCI<br>reserve<br>Rs.'000 | Retained<br>earnings<br>Rs.'000 | Non<br>controlling<br>interests<br>Rs.'000 | Total<br>equity<br>Rs.'000 |
|--|------------------------------|----------------------------------|----------------------------|---------------------------|---------------------------------|--|----------------------------|
| <b>Balance as at 01 January 2022</b>                               | 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<br>associate company profit | -                            | -                                | -                          | -                         | 2,401                           | -  | 2,401                      |
| Other comprehensive income, net of tax                             | -                            | -                                | -                          | (10,642)                  | 34,478                          | 1,059                                      | 24,895                     |
| Transfers to regulatory loss allowance<br>reserve                  | -                            | -                                | 54,441                     | -                         | (54,441)                        | -  | -                          |
| <b>Balance as at 31 December 2022</b>                              | 4,276,448                    | 339,996                          | 54,441                     | (34,502)                  | (594,119)                       | 440,705                                    | 4,482,969                  |
| <b>Balance as at 01 January 2023</b>                               | 4,276,448                    | 339,996                          | 54,441                     | (34,502)                  | (594,119)                       | 440,705                                    | 4,482,969                  |
| Net profit/(loss) for the year                                     | -                            | -                                | -                          | -                         | (82,098)                        | (3,763)                                    | (85,861)                   |
| Other comprehensive income, net of tax                             | -                            | -                                | -                          | 895                       | (44,490)                        | 1,910                                      | (41,685)                   |
| Transfers to regulatory loss allowance<br>reserve                  | -                            | -                                | 317,149                    | -                         | (317,149)                       | -  | -                          |
| Transfers to statutory reserve fund                                | -                            | 4,178                            | -                          | -                         | (4,178)                         | -  | -                          |
| <b>Balance as at 31 December 2023</b>                              | 4,276,448                    | 344,174                          | 371,590                    | (33,607)                  | (1,042,034)                     | 438,852                                    | 4,355,423                  |

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 111 to 218 form an integral part of the Financial Statements.

# Statement of Cash Flows

## ACCOUNTING POLICY

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

| For the year ended 31 December  | Note | Company          |                  | Group            |                  |
|---|------|------------------|------------------|------------------|------------------|
|   |      | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| <b>Cash flows from operating activities</b>                                     |      |                  |                  |                  |                  |
| Profit/(loss) before income tax   |      | 67,907           | (656,914)        | (30,755)         | (458,245)        |
| <b>Adjustments for :</b>  |      |                  |                  |                  |                  |
| Net Interest Income   | 5    | (1,640,465)      | (1,755,399)      | (2,017,561)      | (2,016,711)      |
| WHT movement for the year   | 37.1 | (1,258)          | -                | (1,258)          | -                |
| Impairment charges for loans and other losses                                   | 12   | (25,094)         | (16,504)         | (25,094)         | (16,505)         |
| Impairment (reversal)/charge of investment in subsidiary                        | 28   | (95,065)         | 113,773          | -                | -                |
| Share of associate company's profit/(loss) before tax                           | 27.1 | -                | -                | (29,182)         | (56,131)         |
| Depreciation and amortisation   | 14   | 272,869          | 265,420          | 309,308          | 298,623          |
| Profit from sales of real estate  |      | (19,577)         | (28,533)         | (19,577)         | (28,533)         |
| Profit from sales of property & equipment                                       |      | (1,558)          | (540)            | (1,558)          | (540)            |
| Dividend income from associates   |      | (24,633)         | -                | -                | -                |
| Dividend income from financial assets at FVTPL                                  |      | (8,805)          | (7,207)          | (9,287)          | (7,667)          |
| Contribution to defined benefit plans   | 40   | 72,052           | 61,641           | 75,604           | 64,341           |
| Fair value change of financial assets   | 10   | (559,224)        | 132,131          | (557,310)        | 134,945          |
|   |      | (1,962,851)      | (1,892,132)      | (2,306,670)      | (2,086,423)      |
| Interest paid to customers at amortised cost                                    |      | (4,398,503)      | (3,312,186)      | (4,398,503)      | (3,312,186)      |
| Interest paid on other borrowings   |      | (457,648)        | (1,246,872)      | (474,524)        | (1,286,172)      |
| Interest received on loans & receivables at amortised cost                      |      | 5,196,452        | 5,880,095        | 5,196,452        | 5,880,095        |
| Interest received on other investment   |      | 1,217,138        | 571,457          | 1,611,110        | 872,070          |
| Gratuity paid   | 40   | (62,094)         | (54,328)         | (64,778)         | (55,707)         |
| <b>Change in operating assets</b>   |      |                  |                  |                  |                  |
| Loans & receivables at amortised cost   |      | 5,125,038        | 3,741,431        | 5,122,769        | 3,742,431        |
| Other operating assets  |      | (276,856)        | 599,715          | (225,809)        | 586,968          |
| <b>Change in operating liabilities</b>  |      |                  |                  |                  |                  |
| Due to customers at amortised cost  |      | 1,956,127        | 1,027,839        | 1,956,127        | 1,027,839        |
| Payments made under operating leases  | 39.1 | (204,952)        | (196,488)        | (238,460)        | (226,741)        |
| Insurance provision   |      | -                | -                | 66,339           | 70,246           |
| Other liabilities   |      | 318,488          | 78,780           | 370,617          | 131,217          |
| <b>Net cash generated from/(used in) operating activities before income tax</b> |      | <b>6,450,339</b> | <b>5,197,311</b> | <b>6,614,670</b> | <b>5,343,637</b> |
| Tax paid  |      | (66,900)         | (94,800)         | (66,900)         | (94,800)         |
| <b>Net cash generated from/(used in) operating activities</b>                   |      | <b>6,383,439</b> | <b>5,102,511</b> | <b>6,547,770</b> | <b>5,248,837</b> |

## Statement of Cash Flows (Contd.)

| For the year ended 31 December  | Note | Company            |                    | Group              |                    |
|---|------|--------------------|--------------------|--------------------|--------------------|
|   |      | 2023<br>Rs.'000    | 2022<br>Rs.'000    | 2023<br>Rs.'000    | 2022<br>Rs.'000    |
| <b>Cash flows from investing activities</b>                               |      |                    |                    |                    |                    |
| Net increase/(decrease) in financial investments at FVTOCI                |      | 662,107            | (2,297,017)        | 619,873            | (2,509,737)        |
| Proceeds from real estate stock   |      | 58,356             | 107,411            | 58,356             | 107,411            |
| Net (increase)/decrease in placements with banks & financial institutions |      | (403,000)          | 139,421            | (468,889)          | 291,210            |
| Net (increase)/decrease in investment of government securities at FVTPL   |      | (6,968,774)        | 99,922             | (6,968,774)        | 99,922             |
| Net (increase)/decrease in other financial investments at FVTPL           |      | (73,544)           | (181,815)          | (73,544)           | (174,485)          |
| Purchase of property & equipment  | 30.1 | (27,437)           | (38,053)           | (43,212)           | (53,212)           |
| Purchase of intangible assets   | 31.2 | (2,041)            | (11,681)           | (2,041)            | (14,938)           |
| Proceeds from sale of property & equipment                                |      | 3,276              | 567                | 3,276              | 567                |
| Dividends received  |      | 33,438             | 7,207              | 9,287              | 7,667              |
| <b>Net cash used in investing activities</b>                              |      | <b>(6,717,619)</b> | <b>(2,174,038)</b> | <b>(6,865,668)</b> | <b>(2,245,595)</b> |
| <b>Cash flows from financing activities</b>                               |      |                    |                    |                    |                    |
| Net increase/(decrease) reverse repo and repo agreements                  |      | (250,000)          | 164,000            | (250,000)          | 164,000            |
| Net increase/(decrease) in other borrowings at amortised cost             |      | 671,018            | (2,911,972)        | 615,589            | (3,028,467)        |
| <b>Net cash used in financing activities</b>                              |      | <b>421,018</b>     | <b>(2,747,972)</b> | <b>365,589</b>     | <b>(2,864,467)</b> |
| <b>Net decrease in cash and cash equivalents during the year</b>          |      | <b>86,838</b>      | <b>180,501</b>     | <b>47,691</b>      | <b>138,775</b>     |
| Cash and cash equivalents at the beginning of year                        |      | 596,664            | 416,163            | 783,507            | 644,732            |
| <b>Cash and cash equivalents at the end of year</b>                       |      | <b>683,502</b>     | <b>596,664</b>     | <b>831,198</b>     | <b>783,507</b>     |
| <b>Analysis of cash and cash equivalents at the end of the year</b>       |      |                    |                    |                    |                    |
| Cash and short-term funds   | 20   | 720,397            | 748,724            | 871,126            | 944,784            |
| Dues to banks   | 33.1 | (36,895)           | (152,060)          | (39,928)           | (161,277)          |
|   |      | 683,502            | 596,664            | 831,198            | 783,507            |

Figures in brackets indicate deductions.

The accounting policies and the notes on pages 111 to 218 form an integral part of the Financial Statements.

# Notes to the Financial Statements

## 1. CORPORATE INFORMATION

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

### 1.1 Reporting Entity

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

### Number of Employees

The staff strength of the Company and the Group as at 31 December 2023 were 785 and 967 respectively. (893 and 1,136 as at 31 December 2022)

## 1.2 Consolidated Financial Statements

The Consolidated Financial Statements of Merchant Bank of Sri Lanka & Finance PLC for the year ended 31 December 2023, comprise the Company and its subsidiary (together referred to as the 'Group'), and the Group's interest in its associate company.

### Parent Entity & Ultimate Parent Entity

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

## 1.3 Group Information

### Ownership by the Company in its Subsidiary and Associate.



### Principal Activities and Nature of Operations

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

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

## 1.4 Approval of Financial Statements by the Board of Directors

The Financial Statements of the Company and the Group for the year ended 31 December 2023 (including comparatives) were approved and authorized for issue on 25 March 2024 in accordance with the resolution of the Board of Directors on 25 March 2024.

## 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 2023 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.

## Notes to the Financial Statements (Contd.)

These Financial Statements include the following components:

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

### 2.3 Responsibility for Financial Statements

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

The Board of Directors acknowledges their responsibility in relation to the Financial Statements, as set out in the 'Statement of Directors' Responsibility for Financial

Reporting', 'Annual Report of the Board of Directors on the Affairs of the Company' and in the certification on the Statement of Financial Position.

### 2.4 Basis of Measurement

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

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

### 2.5 Functional and Presentation Currency

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

### 2.6 Presentation of Financial Statements

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

### 2.7 Use of Materiality, Offsetting and Rounding

#### Materiality & Aggregation

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

#### Offsetting

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

#### Rounding

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

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

The preparation of the Financial Statements of the Company and the Group in conformity with SLFRSs/ LKASs requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses and disclosure of contingencies. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the

circumstances. Hence, actual experience and results may differ from these judgments and estimates. Estimates and underlying assumptions are reviewed on an ongoing basis and revisions to accounting estimates are recognised prospectively.

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

- ★ Impairment losses on non-financial assets - Note No. 28,29,30,31
- ★ Deferred tax liabilities - Note No. 38
- ★ Provision for impairment of loans and receivables - Note No. 23
- ★ Retirement benefits obligation - Note No. 40
- ★ Provision and contingent liabilities - Note No. 47.8

### 2.8.1 Going Concern

The Company has recorded a marginal profit of Rs. 20.9Million during the year. 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. 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 2023 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

## Notes to the Financial Statements (Contd.)

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 its business model at the level that best reflects how it manages the financial assets to achieve its 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 into 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.

### 3.5.10 Contractual Cash Flow Characteristic Test

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

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

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

and the period for which the interest rate is set.

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

### 3.5.11 Impairment of Financial Assets

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

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

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

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

## Notes to the Financial Statements (Contd.)

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.

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 47.2.1.

### 3.5.11.2 Significant Increase in Credit Risk

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

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

### 3.5.11.3 Individually Significant Assessment and Not Impaired Individually

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

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

- \* Other changes in the rates or terms of an existing financial instrument that would be significantly different if the instrument was newly originated.
- \* Significant changes in external market indicators of credit risk for a particular financial instrument or similar financial instrument.
- \* Other Information related to the borrower, such as changes in the price of a borrower's debt/equity instrument.
- \* An actual/expected internal credit rating downgrade for the borrower or decrease in behavioral score used to assess credit risk internally.
- \* Existing or forecast adverse changes in business, financial or economic condition that are expected to cause significant change in the borrower's ability to meet it's obligation.
- \* An actual or expected significant change in the operating results of the borrower in relating to actual/expected decline in revenue, increase in operating risk, working capital deficiency, decrease in asset quality, increase in gearing, liquidity management problems.
- \* Significant increase in credit risk on other financial instruments of the same borrower.

- \* An actual or expected significant adverse change in the regulatory, economic or technological environment of the borrower that result in a significant change in the borrower's ability to meet the debt obligation.

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

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

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

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

### 3.5.11.5 The Calculation of ECL

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

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

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

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

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

**3.5.11.6 Forward Looking Information**

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

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

The 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, the Group changed the values of the key macro-economic variables in the impairment calculation model including the GDP growth rate, unemployment rate, interest rate, exchange rate etc. These values have been determined based on the most recent forecasts available as at the date of the calculation. To ensure completeness and accuracy, the Group obtains the above data primarily from the Central Bank of Sri Lanka (CBSL).

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

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

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

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

**3.5.11.8 Modified Financial Assets**

The Company makes concessions or modifications to the original terms of loans as response to the borrower's financial difficulties, rather than taking possession or to otherwise enforce collection of collateral. Such concessions or modifications are provided as a result of the borrower's present or expected financial difficulties and the Company would not have agreed to them if the borrower had been financially healthy. This may involve extending the payment arrangements and the agreement 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.

When the loan has been renegotiated or modified but not de-recognised, a reassessment is made whether there has been a significant increase in credit risk, as set out in Note 23.4.8 to the financial statements. Accordingly all rescheduled loans are classified as Stage 3 unless upgraded due to satisfactory performing period. Further loans which have been restructured one time and days past due less than 90 days are classified as Stage 2. If restructured two times, move to the next stage beyond the existing stage while such loans which have been restructured more than three times are classified as Stage 3.

## Notes to the Financial Statements (Contd.)

### 3.5.11.9 Collateral repossessed

Repossession of collateral is resorted to in extreme situations where action is necessitated to recover the dues. The repossessed assets are disposed, in an orderly and a transparent manner and the proceeds are used to reduce or recover the outstanding claims and the amounts recovered in excess of the dues are refunded to the customers.

### 3.5.11.10 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.

### 3.5.11.11 Definition of Default and Credit Impaired Assets

The Group generally considers financial assets as defaulted and therefore assessed in Stage 3 (as credit-impaired) for ECL calculations when:

The borrower is unlikely to pay its obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or

The borrower becomes 90 days past due on its contractual payments.

In addition, the Group classifies the financial investments (excluding securities issued by Government of Sri Lanka) under Stage 3 when the external credit rating assigned to the particular investment is "default".

In assessing whether a borrower is in default, Group reviews its individually significant loans and advances above a predefined threshold at each reporting date. The Group considers customers with one or more of the default indicators as credit impaired.

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

#### 3.5.12.1 Financial Assets

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

- \* The rights to receive cash flows from the asset have expired; or
- \* The Company and the Group have transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a 'pass-through' arrangement; and either:
  - \* The Company and the Group has transferred substantially all the risks and rewards of the asset; or

- \* The Company and the Group have neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

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

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

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

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

### 3.5.12.2 Financial Liabilities

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

### 3.5.13 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.

## Notes to the Financial Statements (Contd.)

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.

## Notes to the Financial Statements (Contd.)

### 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 1st January 2023.

| Accounting Standard   | Description  | Effective Date   | Assessment of the Impact on the Company/Group                        |
|---|--|------------------|--|
| 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.  | 1st January 2023 | No material impact on the Financial Statements of the Company/ Group |
| 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.   | 1st 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"> <li>* Replacing the requirement for entities to disclose their 'significant' accounting policies with a requirement to disclose their 'material' accounting policies.</li> <li>* Adding guidance on how entities apply the concept of materiality in making decisions about accounting policy disclosures.</li> </ul> | 1st January 2023 | 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 31st December 2023 in the preparation of the Financial Statements for the year ended 31st December 2023.

### Accounting Standards/CBSL Directives issued but not yet effective as at 31st December 2023

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

The following new Sri Lanka Accounting Standards/amendments which have been issued by the Institute of Chartered Accountants of Sri Lanka is effective for annual periods beginning on or after 1st January 2024 & 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. | 1st January 2025 | No material impact on the Financial Statements of the Company/ Group |

### **3.12.2 Finance Business Act Directions Issued by the Central Bank of Sri Lanka**

#### **Financial Consumer Protection Regulations No. 01 of 2023**

Regulations of the Financial Consumer Protection Regulations No. 01 of 2023 and shall come into operation on the date which completes the period of six months from the date of these Regulations except for Regulations 15, 17, 18.3, 43, 44, 45, 46 and 47 which shall come into operation on the date which completes the period of twelve months from the date of these Regulations.

#### **This Directive is effective from 9th August 2024**

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

#### **Sustainable Finance Activities**

Guidelines for Sustainable Finance Activities issued by the Central Bank of Sri Lanka in November 2022. CBSL has issued action plan of Sustainable Finance for the activities recommended for the year 2024.

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

#### **Finance Business Act Directions No.01 of 2024**

Finance Business Act Directions No.01 of 2024 - Periodic Reporting Requirements, new list of returns to be continued in the FinNet system along with the deadlines for submission of the same.

## Notes to the Financial Statements (Contd.)

### 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           |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Interest and similar income   | 6,559,123       | 6,451,083       | 6,915,047       | 6,704,775       |
| Fee and commission income   | 123,292         | 129,157         | 157,295         | 136,861         |
| Insurance premium income  | -               | -               | 494,462         | 381,735         |
| Net trading gain/(loss)   | 120,243         | 3,658           | 120,243         | 3,658           |
| Net gain/(loss) on financial instruments at fair value through profit or loss | 559,224         | (132,131)       | 561,446         | (139,460)       |
| Other operating income  | 116,167         | 90,826          | 108,211         | 196,777         |
|   | 7,478,049       | 6,542,592       | 8,356,704       | 7,284,345       |

#### 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            |                  |
|--|------|------------------|------------------|------------------|------------------|
|  |      | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| <b>Interest and similar income</b>               |      |                  |                  |                  |                  |
| Loans & receivables at amortised cost            | 5.1  | 4,919,146        | 5,838,627        | 4,919,146        | 5,815,345        |
| Financial investments at FVTOCI & amortised cost |      | 1,509,677        | 577,284          | 1,543,007        | 636,147          |
| Placements with banks & financial institutions   |      | 130,300          | 35,172           | 452,894          | 253,283          |
|  |      | <b>6,559,123</b> | <b>6,451,083</b> | <b>6,915,047</b> | <b>6,704,775</b> |
| <b>Interest and similar expenses</b>             |      |                  |                  |                  |                  |
| Due to banks                                     |      | 383,737          | 890,505          | 386,552          | 890,505          |
| Due to customers at amortised cost               | 5.2  | 4,361,886        | 3,541,093        | 4,323,838        | 3,517,456        |
| Interest expense on lease liabilities            | 39.1 | 59,012           | 39,951           | 73,073           | 55,968           |
| Debt issued and borrowed funds at amortised cost |      | 114,023          | 224,135          | 114,023          | 224,135          |
|  |      | <b>4,918,658</b> | <b>4,695,684</b> | <b>4,897,486</b> | <b>4,688,064</b> |
| <b>Net interest income</b>                       |      | <b>1,640,465</b> | <b>1,755,399</b> | <b>2,017,561</b> | <b>2,016,711</b> |

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

| For the year ended 31 December | Company          |                  | Group            |                  |
|--------------------------------|------------------|------------------|------------------|------------------|
|                                | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| Finance lease/ijarah           | 1,699,067        | 2,267,707        | 1,699,067        | 2,267,707        |
| Hire purchase/murabaha         | 4,190            | 6,281            | 4,190            | 6,281            |
| Term loans                     | 575,946          | 659,384          | 575,946          | 636,102          |
| Short term loans               | 290,726          | 284,214          | 290,726          | 284,214          |
| Personal loans                 | 107,424          | 186,644          | 107,424          | 186,644          |
| Pawning                        | 1,436,905        | 1,453,628        | 1,436,905        | 1,453,628        |
| Micro finance                  | 2,144            | 5,375            | 2,144            | 5,375            |
| Loans against fixed deposits   | 176,708          | 176,691          | 176,708          | 176,691          |
| Margin trading                 | 626,036          | 798,703          | 626,036          | 798,703          |
|                                | <b>4,919,146</b> | <b>5,838,627</b> | <b>4,919,146</b> | <b>5,815,345</b> |

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

| For the year ended 31 December | Company          |                  | Group            |                  |
|--------------------------------|------------------|------------------|------------------|------------------|
|                                | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| Savings deposits               | 44,150           | 35,339           | 44,150           | 35,339           |
| Term deposits                  | 4,317,736        | 3,505,754        | 4,279,688        | 3,482,117        |
|                                | <b>4,361,886</b> | <b>3,541,093</b> | <b>4,323,838</b> | <b>3,517,456</b> |

## Notes to the Financial Statements (Contd.)

### 6. NET FEE AND COMMISSION INCOME

#### Fee and Commission Income

##### ACCOUNTING POLICY

Fee and commission income is earned from a diverse range of services provided by the Group to its customers. Fees and commission income is accounted for as follows:

- \* Income earned on the execution of a significant act is recognised as revenue when the act is completed; and
- \* Income earned from the provision of services is recognised as revenue as the services are provided;

| For the year ended 31 December     | Company         |                 | Group           |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Fee and commission income</b>   |                 |                 |                 |                 |
| Trade & other related activities   | 123,292         | 129,157         | 110,309         | 111,384         |
| Reinsurance commission income      | -               | -               | 5,353           | -               |
| Others                             | -               | -               | 41,633          | 25,477          |
|                                    | 123,292         | 129,157         | 157,295         | 136,861         |
| <b>Fee and commission expenses</b> |                 |                 |                 |                 |
| Commission expenses                | 16,757          | 19,205          | 3,774           | 1,432           |
|                                    | 16,757          | 19,205          | 3,774           | 1,432           |
| Net Fee and commission income      | 106,535         | 109,952         | 153,521         | 135,429         |

### 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           |                 |
|---|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Non-life insurance                        | 728,684         | 595,500         |
| Life insurance                            | 29,463          | 36,850          |
| <b>Total gross written premium</b>        | <b>758,147</b>  | <b>632,350</b>  |
| Premium ceded to reinsurers               | (242,359)       | (184,175)       |
| <b>Net premium income</b>                 | <b>515,788</b>  | <b>448,175</b>  |
| Change in unearned premium provisions-net | (21,326)        | (66,440)        |
| <b>Total net earned premium</b>           | <b>494,462</b>  | <b>381,735</b>  |

## 8. NET CLAIMS AND BENEFITS

### ACCOUNTING POLICY

#### Gross benefits and claims

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

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

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

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

| For the year ended 31 December                  | Group           |                 |
|---|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>General Insurance</b>                        |                 |                 |
| Claims paid                                     | 410,517         | 304,046         |
| Claims outstanding                              | 7,174           | 65,250          |
|   | <b>417,691</b>  | <b>369,296</b>  |
| Reinsurance on claims paid                      | 54,870          | 43,311          |
| Reinsurance on claims outstanding               | (18,224)        | 24,846          |
| Reinsurance recoveries                          | 36,646          | 68,157          |
| <b>General insurance net claim and benefits</b> | <b>381,045</b>  | <b>301,139</b>  |

## Notes to the Financial Statements (Contd.)

### 8. NET CLAIMS AND BENEFITS (Contd.)

| For the year ended 31 December                       | Group           |                 |
|--|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Life Insurance</b>                                |                 |                 |
| Claims paid  | 34,036          | 47,734          |
| Change in life Insurance contract liabilities        | 161,291         | (68,258)        |
|  | 195,327         | (20,524)        |
| Claims outstanding                                   | (723)           | -               |
| Gross claims - death, disability and hospitalisation | 194,604         | (20,524)        |
| Reinsurance on claims paid                           | 763             | 503             |
| Reinsurance on claims outstanding                    | (349)           | (122)           |
| Reinsurance recoveries                               | 414             | 381             |
| Shareholder's profit                                 | 103,921         | -               |
| <b>Long term insurance net claim and benefits</b>    | <b>90,269</b>   | <b>(20,905)</b> |
|  |                 |                 |
| Underwriting and net acquisition costs               | 32,447          | 43,628          |
| <b>Net claims and benefits</b>                       | <b>503,761</b>  | <b>323,862</b>  |

### 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           |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Gain/(loss) on disposal of quoted shares         | 12,218          | 2,255           | 12,218          | 2,255           |
| Gain/(loss) on disposal of government securities | 108,025         | 1,403           | 108,025         | 1,403           |
| <b>Net trading income</b>                        | <b>120,243</b>  | <b>3,658</b>    | <b>120,243</b>  | <b>3,658</b>    |

### 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           |                 |
|--------------------------------|------|-----------------|-----------------|-----------------|-----------------|
|                                |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Government securities          |      | 566,032         | -               | 566,031         | -               |
| Quoted securities              | 22.2 | (6,808)         | (132,131)       | (4,585)         | (139,460)       |
|                                |      | 559,224         | (132,131)       | 561,446         | (139,460)       |

## 11. OTHER OPERATION INCOME

### ACCOUNTING POLICY

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

### Dividend Income

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

| For the year ended 31 December   | Note | Company         |                 | Group           |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Profit on sale of real estate  |      | 19,577          | 28,533          | 19,576          | 28,533          |
| Recovery of bad debts written off  |      | 31,382          | 39,895          | 31,382          | 39,895          |
| Dividend income from financial assets at FVTPL   |      | 8,805           | 7,207           | 9,287           | 7,667           |
| Dividend income from associates  |      | 24,633          | -               | -               | -               |
| Profit/(loss) on sale of Property, equipment and right-of-use assets including foreclosed properties |      | 5,384           | 540             | 5,384           | 540             |
| Other income   | 11.1 | 26,386          | 14,651          | 42,582          | 120,142         |
|  |      | 116,167         | 90,826          | 108,211         | 196,777         |

11.1 In the other income of the Company for the year 2023 consists of write-back of assets worth Rs. 14 million. (2022 Rs. 8 million).

## 12. ALLOWANCE FOR IMPAIRMENT LOSSES CHARGE 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           |                 |
|--|--------|-----------------|-----------------|-----------------|-----------------|
|  |        | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Loans and receivables to customers</b>                                    |        |                 |                 |                 |                 |
| Impairment on individually significant loans                                 | 23     | (756,994)       | (247,053)       | (756,994)       | (247,053)       |
| Impairment on collective loans   | 23     | 674,262         | (488,067)       | 674,262         | (488,067)       |
| Write-off  | 12.1   | 48,973          | 713,559         | 48,973          | 713,559         |
| <b>Allowance for impairment charge/(reversal) for loans</b>                  |        | <b>(33,759)</b> | <b>(21,561)</b> | <b>(33,759)</b> | <b>(21,561)</b> |
| Cash and cash equivalents  | 20.1.1 | 28              | 7               | 28              | 7               |
| Placements with banks & financial institutions                               | 21.1   | (36)            | 54              | (36)            | 54              |
| Other assets   |        | 8,673           | 4,996           | 8,673           | 4,996           |
| <b>Allowance for impairment charge/(reversal) for loans and other assets</b> |        | <b>(25,094)</b> | <b>(16,504)</b> | <b>(25,094)</b> | <b>(16,504)</b> |

## Notes to the Financial Statements (Contd.)

### 12. ALLOWANCE FOR IMPAIRMENT LOSSES CHARGE FOR LOANS AND OTHER ASSETS (Contd.)

#### 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<br>2023       |                       | Group<br>2023         |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | Individual<br>Rs.'000 | Collective<br>Rs.'000 | Individual<br>Rs.'000 | Collective<br>Rs.'000 |
| <b>Loans &amp; receivables at amortised cost</b>          |                       |                       |                       |                       |
| Stage 1   | -                     | (62,325)              | -                     | (62,325)              |
| Stage 2   | -                     | (145,215)             | -                     | (145,215)             |
| Stage 3   | (756,994)             | 881,802               | (756,994)             | 881,802               |
| <b>Write-off</b>  |                       |                       |                       |                       |
| Stage 3   | 48,973                | -                     | 48,973                | -                     |
| <b>Cash and cash equivalents</b>                          |                       |                       |                       |                       |
| Stage 1   | -                     | 28                    | -                     | 28                    |
| <b>Placements with banks &amp; financial institutions</b> |                       |                       |                       |                       |
| Stage 1   | -                     | (36)                  | -                     | (36)                  |
| <b>Other assets</b>                                       |                       |                       |                       |                       |
| Stage 3   | 8,672                 | -                     | 8,672                 | -                     |
| <b>Total impairment charges/(reversal)</b>                | <b>(699,349)</b>      | <b>674,254</b>        | <b>(699,349)</b>      | <b>674,254</b>        |

| For the year ended 31 December                            | Company<br>2022       |                       | Group<br>2022         |                       |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
|   | Individual<br>Rs.'000 | Collective<br>Rs.'000 | Individual<br>Rs.'000 | Collective<br>Rs.'000 |
| <b>Loans &amp; receivables at amortised cost</b>          |                       |                       |                       |                       |
| Stage 1   | -                     | (23,441)              | -                     | (23,441)              |
| Stage 2   | -                     | 89,773                | -                     | 89,773                |
| Stage 3   | (247,053)             | (554,399)             | (247,053)             | (554,399)             |
| <b>Write-off</b>  |                       |                       |                       |                       |
| Stage 1   | -                     | 187                   | -                     | 187                   |
| Stage 2   | -                     | 2                     | -                     | 2                     |
| Stage 3   | 545,819               | 167,551               | 545,819               | 167,551               |
| <b>Cash and cash equivalents</b>                          |                       |                       |                       |                       |
| Stage 1   | -                     | 7                     | -                     | 7                     |
| <b>Placements with banks &amp; financial institutions</b> |                       |                       |                       |                       |
| Stage 1   | -                     | 54                    | -                     | 54                    |
| <b>Other assets</b>                                       |                       |                       |                       |                       |
| Stage 3   | 4,995                 | -                     | 4,996                 | -                     |
| <b>Total impairment charges/(reversal)</b>                | <b>303,761</b>        | <b>(320,265)</b>      | <b>303,761</b>        | <b>(320,265)</b>      |

### 13. PERSONNEL EXPENSES

#### ACCOUNTING POLICY

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

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

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

#### Defined Benefit Plan - Gratuity

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

| For the year ended 31 December   | Note | Company         |                 | Group           |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Staff emoluments   |      | 1,098,248       | 1,146,271       | 1,273,626       | 1,315,376       |
| <b>Employers' contribution to defined contribution &amp; benefit plans</b> |      |                 |                 |                 |                 |
| Employees' Provident Fund  |      | 95,512          | 100,285         | 113,533         | 117,885         |
| Employees' Trust Fund  |      | 23,878          | 25,071          | 28,383          | 29,471          |
| Retirement benefit expenses  | 40.1 | 72,052          | 61,641          | 75,605          | 64,341          |
|  |      | 1,289,690       | 1,333,268       | 1,491,147       | 1,527,073       |

### 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 |

## Notes to the Financial Statements (Contd.)

### 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           |                 |
|---|------|-----------------|-----------------|-----------------|-----------------|
|   |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Depreciation of investment property                         | 29   | 6,394           | 2,906           | 6,394           | 2,906           |
| Depreciation of property, equipment and right-of-use assets | 30   | 228,343         | 225,463         | 263,968         | 258,599         |
| Amortisation of intangible assets                           | 31   | 38,132          | 37,051          | 38,946          | 37,118          |
|   |      | 272,869         | 265,420         | 309,308         | 298,623         |

### 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 31st December 2023.

| For the year ended 31 December                          | Company         |                 | Group           |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Directors' emoluments                                   | 4,663           | 4,364           | 8,291           | 9,262           |
| <b>Auditors' remuneration</b>                           |                 |                 |                 |                 |
| Audit fees  | 2,830           | 1,857           | 4,503           | 3,353           |
| Non audit fees  | 577             | 330             | 750             | 743             |
| Professional & legal fees                               | 31,816          | 22,115          | 34,537          | 23,408          |
| Insurance premium for deposits paid to the central bank | 35,369          | 34,929          | 35,369          | 34,929          |
| Crop insurance levy                                     | -               | 2,039           | -               | 2,039           |
| Advertising and business promotional expenses           | 45,835          | 86,507          | 45,835          | 86,507          |
| Office administration & establishment expenses          | 618,326         | 508,542         | 814,064         | 687,953         |
|   | <b>739,416</b>  | <b>660,683</b>  | <b>943,349</b>  | <b>848,194</b>  |

## 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.

Vat rate applied for the current financial year is 18% (2022-18%)

### 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. Further Non-Financial Services are made liable on the turnover at the rate of 2.5%.

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% (2022-2.5%).

| For the year ended 31 December           | Company         |                 | Group           |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Value added tax on financial services    | 256,312         | 123,868         | 256,312         | 123,868         |
| Social security contribution levy (SSCL) | 36,599          | 4,110           | 36,599          | 4,110           |
|  | <b>292,911</b>  | <b>127,978</b>  | <b>292,911</b>  | <b>127,978</b>  |

## Notes to the Financial Statements (Contd.)

### 16. TAXES (Contd.)

#### 16.2 Income Tax Expense

##### ACCOUNTING POLICY

###### Current Tax

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

Accordingly, provision for taxation is made on the basis of the accounting profit for the year, as adjusted for taxation purposes, in accordance with the provisions of the Inland Revenue Act No. 24 of 2017, amendments thereto Act No.10 of 2021 effect from 13th 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'.

###### Treatment of Impairment charges

As per Part 1: Sec (1) of the Gazette notification issued on 25 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

The Inland Revenue (Amendment) Act No. 45 of 2022 was certified by the Speaker on 19 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. Accordingly, The Company computed the income tax liability for the first six month of the year of assessment 2022/2023 by applying the income tax rate of 24%. The revised income tax rate of 30% and other amendments in line with the Inland Revenue (Amendment) Act No. 45 of 2022 were considered to calculate the income tax liability of the Company for second six month of the year of assessment 2022/2023.

The Company/ Group has computed the current year tax payable at the rate of 30%.

###### Deferred Tax

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.

The deferred tax assets/liabilities of the Company as at 31 December 2023 were computed using the tax rate of 30%.

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           |                  |
|---|------|-----------------|------------------|-----------------|------------------|
|   |      | 2023<br>Rs.'000 | 2022<br>Rs.'000  | 2023<br>Rs.'000 | 2022<br>Rs.'000  |
| <b>Current tax expense</b>                    |      |                 |                  |                 |                  |
| Current tax based on profit for the year      | 16.3 | 50,124          | 940              | 50,124          | 940              |
| Other (reversal)/charge including settlements |      | (940)           | (36,008)         | (940)           | (36,008)         |
| Share of associate company's current tax      |      | -               | -                | 8,422           | 17,496           |
| <b>Total current tax expense</b>              |      | <b>49,184</b>   | <b>(35,068)</b>  | <b>57,606</b>   | <b>(17,572)</b>  |
| <b>Deferred tax expense/(reversal)</b>        |      |                 |                  |                 |                  |
| Due to rate reduction                         | 38.1 | -               | -                | -               | (542)            |
| Due to change in temporary differences        | 38.1 | (2,165)         | (126,238)        | (2,500)         | (130,643)        |
| <b>Total deferred tax expense/(reversal)</b>  |      | <b>(2,165)</b>  | <b>(126,238)</b> | <b>(2,500)</b>  | <b>(131,185)</b> |
| <b>Total income tax expense/(reversal)</b>    |      | <b>47,019</b>   | <b>(161,306)</b> | <b>55,106</b>   | <b>(148,757)</b> |
| Effective tax rate                            |      | <b>69.24%</b>   | <b>24.56%</b>    | <b>-179.18%</b> | <b>32.46%</b>    |

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

| For the year ended 31 December                       | Company     |                 |             |                  | Group        |                 |             |                  |
|--|-------------|-----------------|-------------|------------------|--------------|-----------------|-------------|------------------|
|  | Rate<br>%   | 2023<br>Rs.'000 | Rate<br>%   | 2022<br>Rs.'000  | Rate<br>%    | 2023<br>Rs.'000 | Rate<br>%   | 2022<br>Rs.'000  |
| <b>Profit as per the Statement of Profit or Loss</b> |             | 67,907          |             | (656,914)        |              | (30,755)        |             | (458,245)        |
| Tax effect on accounting profit before tax           | 30.0        | 20,372          | 30.0        | (197,074)        | 30.0         | 19,639          | 30.0        | (188,445)        |
| <b>Tax effect on</b>                                 |             |                 |             |                  |              |                 |             |                  |
| Disallowable expenses                                | 241.6       | 164,068         | (32.7)      | 214,997          | 241.6        | 171,197         | (32.7)      | 219,693          |
| Lease capital recoverable                            | 62.4        | 42,348          | (18.0)      | 117,936          | 62.4         | 42,348          | (18.0)      | 117,936          |
| Tax deductible expenses                              | (228.5)     | (155,178)       | 21.7        | (142,657)        | (228.5)      | (160,036)       | 21.7        | (146,253)        |
| Exempt income  | (19.5)      | (13,271)        | (1.2)       | 7,738            | (19.5)       | (28,944)        | (1.2)       | (38,338)         |
| Income from other sources                            | -           | -               | -           | -                | -            | 15,473          | -           | -                |
| Tax losses/(set-off)                                 | (12.1)      | (8,215)         | -           | -                | (12.1)       | (9,553)         | -           | (9,550)          |
| Current tax based on profit for the year             | 73.8        | 50,124          | (0.1)       | 940              | 73.8         | 50,124          | (0.1)       | 940              |
| Other (reversal)/charge including settlements        | (1.4)       | (940)           | 5.5         | (36,008)         | 1.4          | 7,482           | 5.5         | (18,512)         |
| <b>Deferred tax expense/(reversal)</b>               |             |                 |             |                  |              |                 |             |                  |
| Due to rate increase/(decrease)                      | -           | -               | -           | -                | -            | -               | -           | (542)            |
| Due to change in temporary differences               | (3.2)       | (2,165)         | 19.2        | (126,238)        | 3.2          | (2,500)         | 19.2        | (130,643)        |
| <b>Total income tax expense/(reversal)</b>           | <b>69.2</b> | <b>47,019</b>   | <b>24.6</b> | <b>(161,306)</b> | <b>(8.4)</b> | <b>55,106</b>   | <b>22.6</b> | <b>(148,757)</b> |

## Notes to the Financial Statements (Contd.)

### 16. TAXES (Contd.)

#### 16.4 The break up of Tax Losses is as follows;

| For the year ended 31 December    | Company         |                 | Group            |                  |
|-----------------------------------|-----------------|-----------------|------------------|------------------|
|                                   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| Balance as at 01 January          | -               | 679,919         | 1,812,238        | 1,849,376        |
| Tax loss during the year          | -               | -               | 259,607          | 199,133          |
| Tax loss utilized during the year | -               | (679,919)       | (278,070)        | (236,271)        |
| <b>Balances as at 31 December</b> | -               | -               | <b>1,793,775</b> | <b>1,812,238</b> |

#### 16.5 Taxes paid to the government during the year

| For the year ended 31 December        | Company         |                 | Group           |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                       | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Direct Taxes</b>                   |                 |                 |                 |                 |
| Income Tax                            | 66,900          | 94,800          | 66,900          | 94,800          |
| Value added tax on financial services | 195,205         | 130,930         | 195,205         | 130,930         |
| Social security contribution levy     | 30,214          | 2,336           | 30,214          | 4,965           |
| Crop insurance levy                   | -               | 4,247           | -               | 4,247           |
| <b>Total direct taxes</b>             | <b>292,319</b>  | <b>232,313</b>  | <b>292,319</b>  | <b>234,942</b>  |
| <b>Indirect Taxes</b>                 |                 |                 |                 |                 |
| Value added tax                       | 9,309           | -               | 88,823          | 59,178          |
| Withholding tax on interest           | 222,632         | -               | 225,351         | 1,122           |
| Stamp duty                            | 16,210          | 30,297          | 17,038          | 31,049          |
| PAYE/APIIT tax                        | 38,767          | 2,366           | 50,758          | 4,549           |
| <b>Total indirect taxes</b>           | <b>286,918</b>  | <b>32,663</b>   | <b>381,970</b>  | <b>95,898</b>   |

### 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    |           |
|---|---------|-----------|----------|-----------|
|   | 2023    | 2022      | 2023     | 2022      |
| Profit attributable to ordinary shareholders (Rs.'000)                | 20,888  | (495,608) | (82,098) | (325,059) |
| Weighted-average number of ordinary shares used as denominator ('000) | 524,540 | 524,540   | 524,540  | 524,540   |
| Basic earnings per ordinary share (Rs.)                               | 0.04    | (0.94)    | (0.16)   | (0.62)    |

### 17.1 Weighted average number of shares

| For the year ended 31 December    | Company |         | Group   |         |
|-----------------------------------|---------|---------|---------|---------|
|                                   | 2023    | 2022    | 2023    | 2022    |
| Brought forward number of shares  | 524,540 | 259,226 | 524,540 | 259,226 |
| Effect of rights issue            | -       | 265,314 | -       | 265,314 |
| Weighted-average number of shares | 524,540 | 524,540 | 524,540 | 524,540 |

### 17.2 Dividend Per Share

No dividend has been declared and paid by the Company and the Group during the year 2023 and 2022.

## 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 - 2023

|  | Financial Instrument at FVTPL<br>Rs.'000 | Financial Instrument at FVTOCI<br>Rs.'000 | Financial Instrument at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|---|---|-------------------|
| <b>Assets</b>  |  |   |   |                   |
| Cash and cash equivalents  | -  | -   | 720,397   | 720,397           |
| Placements with banks & financial institutions                         | -  | -   | 574,588   | 574,588           |
| Financial investments at fair value through profit or loss             | 8,161,368                                | -   | -   | 8,161,368         |
| Loans & receivables at amortised cost                                  | -  | -   | 19,054,715  | 19,054,715        |
| Financial investments at fair value through other comprehensive income | -  | 14,348                                    | -   | 14,348            |
| Financial investments at amortised cost                                | -  | -   | 3,727,940   | 3,727,940         |
| Other assets   | -  | -   | 70,068  | 70,068            |
| <b>Total financial assets</b>  | <b>8,161,368</b>                         | <b>14,348</b>                             | <b>24,147,708</b>                                 | <b>32,323,425</b> |

|  | Financial Liabilities at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|-------------------|
| <b>Liabilities</b>                               |  |                   |
| Due to banks                                     | 2,599,970  | 2,599,970         |
| Due to customers at amortised cost               | 25,444,119   | 25,444,119        |
| Debt issued and borrowed funds at amortised cost | 741,030  | 741,030           |
| Other liabilities                                | 151,273  | 151,273           |
| <b>Total financial liabilities</b>               | <b>28,936,392</b>                                  | <b>28,936,392</b> |

## Notes to the Financial Statements (Contd.)

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

#### 18.2 Company - 2022

|  | Financial Instrument at FVTPL<br>Rs.'000 | Financial Instrument at FVTOCI<br>Rs.'000 | Financial Instrument at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|---|---|-------------------|
| <b>Assets</b>  |  |   |   |                   |
| 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   | -  | -   | 66,231  | 66,231            |
| <b>Total financial assets</b>  | <b>287,510</b>                           | <b>15,863</b>                             | <b>29,649,331</b>                                 | <b>29,952,704</b> |

|  | Financial Liabilities at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|-------------------|
| <b>Liabilities</b>                               |  |                   |
| 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           |
| <b>Total financial liabilities</b>               | <b>26,661,871</b>                                  | <b>26,661,871</b> |

#### 18.3 Group - 2023

|  | Financial Instrument at FVTPL<br>Rs.'000 | Financial Instrument at FVTOCI<br>Rs.'000 | Financial Instrument at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|---|---|-------------------|
| <b>Assets</b>  |  |   |   |                   |
| Cash and cash equivalents  | -  | -   | 871,126   | 871,126           |
| Placements with banks & financial institutions                         | -  | -   | 645,823   | 645,823           |
| Financial investments at fair value through profit or loss             | 8,169,927                                | -   | -   | 8,169,927         |
| Loans & receivables at amortised cost                                  | -  | -   | 19,059,962  | 19,059,962        |
| Financial investments at fair value through other comprehensive income | -  | 119,221                                   | -   | 119,221           |
| Financial investments at amortised cost                                | -  | -   | 5,304,189   | 5,304,189         |
| Other assets   | -  | -   | 70,068  | 70,068            |
| <b>Total financial assets</b>  | <b>8,169,927</b>                         | <b>119,221</b>                            | <b>25,951,168</b>                                 | <b>34,240,315</b> |

|  | Financial Liabilities at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|-------------------|
| <b>Liabilities</b>                               |  |                   |
| Due to banks                                     | 2,603,003  | 2,603,003         |
| Due to customers at amortised cost               | 25,245,868   | 25,245,868        |
| Debt issued and borrowed funds at amortised cost | 741,030  | 741,030           |
| Other liabilities                                | 151,274  | 151,274           |
| <b>Total financial liabilities</b>               | <b>28,741,176</b>                                  | <b>28,741,176</b> |

#### 18.4 Group - 2022

|  | Financial Instrument at FVTPL<br>Rs.'000 | Financial Instrument at FVTOCI<br>Rs.'000 | Financial Instrument at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|---|---|-------------------|
| <b>Assets</b>  |  |   |   |                   |
| 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   | -  | -   | 66,231  | 66,231            |
| <b>Total financial assets</b>  | <b>293,847</b>                           | <b>78,151</b>                             | <b>31,403,022</b>                                 | <b>31,775,020</b> |

|  | Financial Liabilities at Amortised Cost<br>Rs.'000 | Total<br>Rs.'000  |
|--|--|-------------------|
| <b>Liabilities</b>                               |  |                   |
| 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           |
| <b>Total financial liabilities</b>               | <b>26,500,971</b>                                  | <b>26,500,971</b> |

## Notes to the Financial Statements (Contd.)

### 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.

#### 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       | 2023               |                    |                    |                  | 2022               |                    |                    |                  |
|--|------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
|  |            | Rs.'000<br>Level 1 | Rs.'000<br>Level 2 | Rs.'000<br>Level 3 | Rs.'000<br>Total | Rs.'000<br>Level 1 | Rs.'000<br>Level 2 | Rs.'000<br>Level 3 | Rs.'000<br>Total |
| <b>Financial assets</b>                |            |                    |                    |                    |                  |                    |                    |                    |                  |
| <b>Financial investments at FVTPL</b>  |            |                    |                    |                    |                  |                    |                    |                    |                  |
| Government securities                  | 22.1       | 7,807,122          | -                  | -                  | 7,807,122        | -                  | -                  | -                  | -                |
| Investment securities - Quoted         | 22.2, 22.4 | 354,246            | -                  | -                  | 354,246          | 287,510            | -                  | -                  | 287,510          |
|  |            | 8,161,368          | -                  | -                  | 8,161,368        | 287,510            | -                  | -                  | 287,510          |
| <b>Financial investments at FVTOCI</b> |            |                    |                    |                    |                  |                    |                    |                    |                  |
| Equity securities - Quoted             | 24.2       | 13,750             | -                  | -                  | 13,750           | 15,000             | -                  | -                  | 15,000           |
| Equity securities - Unquoted           | 24.3       | -                  | -                  | 598                | 598              | -                  | -                  | 863                | 863              |
|  |            | 13,750             | -                  | 598                | 14,348           | 15,000             | -                  | 863                | 15,863           |
| <b>Total</b>                           |            | <b>8,175,118</b>   | <b>-</b>           | <b>598</b>         | <b>8,175,716</b> | <b>302,510</b>     | <b>-</b>           | <b>863</b>         | <b>303,373</b>   |

### 19.1.2 Group

| As at 31 December                      | Note       | 2023               |                    |                    |                  | 2022               |                    |                    |                  |
|--|------------|--------------------|--------------------|--------------------|------------------|--------------------|--------------------|--------------------|------------------|
|  |            | Rs.'000<br>Level 1 | Rs.'000<br>Level 2 | Rs.'000<br>Level 3 | Rs.'000<br>Total | Rs.'000<br>Level 1 | Rs.'000<br>Level 2 | Rs.'000<br>Level 3 | Rs.'000<br>Total |
| <b>Financial assets</b>                |            |                    |                    |                    |                  |                    |                    |                    |                  |
| <b>Financial investments at FVTPL</b>  |            |                    |                    |                    |                  |                    |                    |                    |                  |
| Government securities                  | 22.1       | 7,807,122          | -                  | -                  | 7,807,122        | -                  | -                  | -                  | -                |
| Investment securities - Quoted         | 22.2, 22.4 | 362,805            | -                  | -                  | 362,805          | 293,847            | -                  | -                  | 293,847          |
|  |            | <b>8,169,927</b>   | -                  | -                  | <b>8,169,927</b> | <b>293,847</b>     | -                  | -                  | <b>293,847</b>   |
| <b>Financial investments at FVTOCI</b> |            |                    |                    |                    |                  |                    |                    |                    |                  |
| Government securities                  | 24.1       | 86,459             | -                  | -                  | 86,459           | -                  | -                  | -                  | -                |
| Equity securities - Quoted             | 24.2       | 13,750             | -                  | -                  | 13,750           | 15,000             | -                  | -                  | 15,000           |
| Equity securities - Unquoted           | 24.3       | -                  | -                  | 598                | 598              | -                  | -                  | 863                | 863              |
| Unit trust                             |            | -                  | 18,414             | -                  | 18,414           | -                  | 62,288             | -                  | 62,288           |
|  |            | <b>100,209</b>     | <b>18,414</b>      | <b>598</b>         | <b>119,221</b>   | <b>15,000</b>      | <b>62,288</b>      | <b>863</b>         | <b>78,151</b>    |
| <b>Total</b>                           |            | <b>8,270,136</b>   | <b>18,414</b>      | <b>598</b>         | <b>8,289,148</b> | <b>308,847</b>     | <b>62,288</b>      | <b>863</b>         | <b>371,998</b>   |

### 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.

## Notes to the Financial Statements (Contd.)

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

#### 19.1.2 Group

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                      |                       |                            |                       |
|--|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|----------------------------|-----------------------|
|  | 2023                       |                       | 2022                       |                       | 2023                       |                       | 2022                       |                       |
|  | Carrying Amount<br>Rs.'000 | Fair Value<br>Rs.'000 |
| <b>Financial assets</b>                          |                            |                       |                            |                       |                            |                       |                            |                       |
| Placements with banks & financial institutions   | 574,588                    | 574,588               | 103,682                    | 103,682               | 645,823                    | 645,823               | 137,162                    | 137,162               |
| Loans & receivables at amortised cost            | 19,054,715                 | 21,589,161            | 24,423,300                 | 22,695,840            | 19,059,962                 | 21,589,167            | 24,370,850                 | 22,640,435            |
| Financial investments at amortised cost          | 3,727,940                  | 3,727,940             | 4,307,394                  | 4,307,394             | 5,304,189                  | 3,727,940             | 5,883,995                  | 4,307,394             |
| Other assets                                     | 70,068                     | 70,068                | 66,231                     | 66,231                | 70,068                     | 70,068                | 66,231                     | 66,231                |
| <b>Total</b>                                     | <b>23,427,311</b>          | <b>25,961,757</b>     | <b>28,900,607</b>          | <b>27,173,147</b>     | <b>25,080,042</b>          | <b>26,032,998</b>     | <b>30,458,238</b>          | <b>27,151,222</b>     |
| <b>Financial liabilities</b>                     |                            |                       |                            |                       |                            |                       |                            |                       |
| Due to customers at amortised cost               | 25,444,119                 | 27,203,535            | 23,524,609                 | 24,974,083            | 25,245,868                 | 27,001,479            | 23,354,493                 | 24,798,658            |
| Debt issued and borrowed funds at amortised cost | 741,030                    | 741,030               | 69,082                     | 69,082                | 741,030                    | 741,030               | 69,082                     | 69,082                |
| Other liabilities                                | 151,273                    | 151,273               | 142,227                    | 142,227               | 151,274                    | 151,274               | 142,226                    | 142,226               |
| <b>Total</b>                                     | <b>26,336,422</b>          | <b>28,095,838</b>     | <b>23,735,918</b>          | <b>25,185,392</b>     | <b>26,138,172</b>          | <b>27,893,783</b>     | <b>23,565,801</b>          | <b>25,009,966</b>     |

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

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

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

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

#### Fixed Rate Financial Instruments

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

### 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           |                 |
|-----------------------|------|-----------------|-----------------|-----------------|-----------------|
|                       |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Cash in hand          |      | 268,285         | 215,465         | 268,707         | 215,870         |
| Cash at bank          | 20.1 | 452,112         | 312,842         | 545,533         | 396,920         |
| Repurchase agreements |      | -               | 220,417         | 56,886          | 331,994         |
|                       |      | 720,397         | 748,724         | 871,126         | 944,784         |

## 20.1 Analysis of Cash at Banks

|  |        |         |         |         |         |
|--|--------|---------|---------|---------|---------|
| Cash at bank                           |        | 452,155 | 312,857 | 545,576 | 396,935 |
| Less : Allowance for impairment losses |        |         |         |         |         |
| Collective impairment                  | 20.1.1 | 43      | 15      | 43      | 15      |
|  |        | 452,112 | 312,842 | 545,533 | 396,920 |

### 20.1.1 Movement of impairment during the year - Company

|                                       | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|---------------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Collective</b>                     |                    |                    |                    |                  |
| <b>Balance as at 01 January 2022</b>  | (8)                | -                  | -                  | (8)              |
| Charge/(reversal) during the year     | (7)                | -                  | -                  | (7)              |
| <b>Balance as at 31 December 2022</b> | (15)               | -                  | -                  | (15)             |
| Charge/(reversal) during the year     | (28)               | -                  | -                  | (28)             |
| <b>Balance as at 31 December 2023</b> | (43)               | -                  | -                  | (43)             |

### 20.1.1 Movement of impairment during the year - Group

|                                       | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|---------------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Collective</b>                     |                    |                    |                    |                  |
| <b>Balance as at 01 January 2022</b>  | (8)                | -                  | -                  | (8)              |
| Charge/(reversal) during the year     | (7)                | -                  | -                  | (7)              |
| <b>Balance as at 31 December 2022</b> | (15)               | -                  | -                  | (15)             |
| Charge/(reversal) during the year     | (28)               | -                  | -                  | (28)             |
| <b>Balance as at 31 December 2023</b> | (43)               | -                  | -                  | (43)             |

### 20.1.2 Cash and cash equivalents allocated for the liquidity requirement

| As at 31 December                           | Company         |                 |
|---|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Cash in hand                                | 268,285         | 210,143         |
| Balances in current accounts free from lien | 10,131          | 282,674         |
|   | 278,416         | 492,817         |

## Notes to the Financial Statements (Contd.)

### 21. PLACEMENTS WITH BANKS & FINANCIAL INSTITUTIONS

#### ACCOUNTING POLICY

Balances with banks & financial institutions includes fixed deposits and other deposits in local currency. Balances with banks & financial institution are carried at amortised cost in the Statement of Financial Position.

| As at 31 December                      | Note | Company         |                 | Group           |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Fixed deposits and other deposits      |      | 574,675         | 103,805         | 645,910         | 137,285         |
| Less : Allowance for impairment losses |      |                 |                 |                 |                 |
| Collective impairment                  | 21.1 | 87              | 123             | 87              | 123             |
|  |      | 574,588         | 103,682         | 645,823         | 137,162         |

#### 21.1 Movement of impairment during the year - Company

|                                       | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|---------------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Collective</b>                     |                    |                    |                    |                  |
| <b>Balance as at 01 January 2022</b>  | (69)               | -                  | -                  | (69)             |
| Charge/(reversal) during the year     | (54)               | -                  | -                  | (54)             |
| <b>Balance as at 31 December 2022</b> | (123)              | -                  | -                  | (123)            |
| Charge/(reversal) during the year     | 36                 | -                  | -                  | 36               |
| <b>Balance as at 31 December 2023</b> | (87)               | -                  | -                  | (87)             |

#### 21.2 Movement of impairment during the year - Group

|                                       | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|---------------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Collective</b>                     |                    |                    |                    |                  |
| <b>Balance as at 01 January 2022</b>  | (69)               | -                  | -                  | (69)             |
| Charge/(reversal) during the year     | (54)               | -                  | -                  | (54)             |
| <b>Balance as at 31 December 2022</b> | (123)              | -                  | -                  | (123)            |
| Charge/(reversal) during the year     | 36                 | -                  | -                  | 36               |
| <b>Balance as at 31 December 2023</b> | (87)               | -                  | -                  | (87)             |

### 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           |                 |
|--------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
|                                |               | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Government securities          | 22.1          | 7,807,122       | -               | 7,807,122       | -               |
| Investment securities - Quoted | 22.2,<br>22.4 | 354,246         | 287,510         | 362,805         | 293,847         |
|                                |               | 8,161,368       | 287,510         | 8,169,927       | 293,847         |

## 22.1 Government Securities

|                |  |           |   |           |   |
|----------------|--|-----------|---|-----------|---|
| Treasury bonds |  | 7,807,122 | - | 7,807,121 | - |
|                |  | 7,807,122 | - | 7,807,121 | - |

## 22.2 Quoted Equities and Unit Trusts

| As at 31 December              | Company         |                       |                       |                 |                       |                       |
|--------------------------------|-----------------|-----------------------|-----------------------|-----------------|-----------------------|-----------------------|
|                                | 2023            |                       |                       | 2022            |                       |                       |
|                                | No of<br>Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 | No of<br>Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 |
| <b>Application Software</b>    |                 |                       |                       |                 |                       |                       |
| hSenid Business Solutions PLC  | 65,000          | 1,362                 | 748                   | 60,000          | 1,277                 | 1,020                 |
|                                |                 | 1,362                 | 748                   |                 | 1,277                 | 1,020                 |
| <b>Banks</b>                   |                 |                       |                       |                 |                       |                       |
| Amana Bank PLC                 | 102,124         | 270                   | 235                   | -               | -                     | -                     |
|                                |                 | 270                   | 235                   |                 | -                     | -                     |
| <b>Capital Goods</b>           |                 |                       |                       |                 |                       |                       |
| Access Engineering PLC         | 662,968         | 19,712                | 13,458                | 474,992         | 16,388                | 5,082                 |
| ACL Cables PLC                 | 123,750         | 10,507                | 8,514                 | 54,000          | 4,980                 | 3,785                 |
| Unisyst Engineering PLC        | 135,000         | 869                   | 783                   | -               | -                     | -                     |
| Lankem Ceylon PLC              | 13,500          | 1,252                 | 871                   | -               | -                     | -                     |
| Alpha Fire Service PLC         | 21,224          | 731                   | 762                   | -               | -                     | -                     |
| Brown & Company PLC            | 116,496         | 31,337                | 11,650                | 96,838          | 29,478                | 11,427                |
| Central Industries PLC         | 5,310           | 497                   | 464                   | 10,000          | 949                   | 580                   |
| Colombo Dockyard PLC           | 50,000          | 4,496                 | 2,525                 | 50,000          | 4,496                 | 2,950                 |
| E B Creasy & Company PLC       | 25,000          | 785                   | 568                   | 5,000           | 285                   | 103                   |
| Hayles PLC                     | 228,775         | 20,104                | 16,334                | 74,275          | 7,157                 | 5,051                 |
| Hemas Holdings PLC             | 152,015         | 12,439                | 10,139                | 85,515          | 7,794                 | 4,823                 |
| John Keells Holdings PLC       | -               | -                     | -                     | 42,500          | 6,275                 | 5,748                 |
| Kelani Cabels PLC              | 250             | 109                   | 61                    | 250             | 110                   | 65                    |
| Lanka Tile PLC                 | 7,500           | 734                   | 316                   | 7,500           | 734                   | 346                   |
| Mackwoods Energy PLC           | 1,350,000       | 4,193                 | 2,430                 | 1,200,000       | 3,848                 | 3,000                 |
| MTD Walkers PLC                | 165,000         | 6,751                 | -                     | 165,000         | 6,751                 | -                     |
| Renuka Holdings PLC            | 841,722         | 15,274                | 10,690                | 821,313         | 14,978                | 11,334                |
| Renuka Holdings PLC-Non Voting | 127             | 2                     | 1                     | 127             | 2                     | 2                     |
| Royal Ceramics Lanka PLC       | 182,000         | 10,524                | 4,805                 | 182,000         | 10,524                | 5,151                 |
|                                |                 | 140,316               | 84,371                |                 | 114,749               | 59,447                |

## Notes to the Financial Statements (Contd.)

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

#### 22.2 Quoted Equities and Unit Trusts (Contd.)

| As at 31 December                                | Company      |                       |                       |              |                       |                       |
|--|--------------|-----------------------|-----------------------|--------------|-----------------------|-----------------------|
|  | 2023         |                       |                       | 2022         |                       |                       |
|  | No of Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 | No of Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 |
| <b>Consumer Durables &amp; Apparel</b>           |              |                       |                       |              |                       |                       |
| Ambeon Capital PLC                               | 500,000      | 5,035                 | 3,700                 | 80,000       | 1,004                 | 792                   |
| Ambeon Holdings PLC                              | 35,000       | 1,314                 | 1,207                 | -            | -                     | -                     |
| Blue Diamonds Jewellery Worldwide PLC-Non Voting | 5,250,000    | 3,125                 | 1,050                 | 5,250,000    | 3,125                 | 1,575                 |
| Hayles Fabric PLC                                | -            | -                     | -                     | 100,000      | 3,929                 | 2,260                 |
| Hela Apparel Holdings PLC                        | 342,954      | 3,193                 | 1,715                 | 92,954       | 1,482                 | 790                   |
| Singer Industries (Ceylon) PLC                   | 1,486        | 75                    | 49                    | 1,486        | 75                    | 53                    |
|  |              | 12,742                | 7,721                 |              | 9,615                 | 5,470                 |
| <b>Commercial &amp; Professional Services</b>    |              |                       |                       |              |                       |                       |
| E M L Consultants PLC                            | 556,585      | 2,468                 | 1,892                 | 131,352      | 693                   | 512                   |
|  |              | 2,468                 | 1,892                 |              | 693                   | 512                   |
| <b>Consumer Services</b>                         |              |                       |                       |              |                       |                       |
| Hayleys Leisure PLC                              | 77,866       | 1,836                 | 1,635                 | 67,866       | 1,688                 | 1,432                 |
| Anilana Hotels & Properties PLC                  | 750,000      | 1,106                 | 675                   | 750,000      | 1,106                 | 675                   |
| Beruwala Resorts PLC                             | 948,739      | 1,378                 | 1,043                 | 250,000      | 350                   | 300                   |
| Browns Beach Hotel PLC                           | -            | -                     | -                     | 10,000       | 135                   | 127                   |
| Citrus Leisure PLC                               | 361,086      | 2,679                 | 2,022                 | 151,086      | 1,198                 | 907                   |
| Marawila Resort PLC                              | 260,000      | 702                   | 676                   | -            | -                     | -                     |
| Serendib Hotels PLC                              | 25,000       | 378                   | 312                   | -            | -                     | -                     |
| Aitkenspence Hotel Holdings PLC                  | 1,000        | 60                    | 63                    | -            | -                     | -                     |
| Renuka City Hotels PLC                           | 200          | 72                    | 70                    | -            | -                     | -                     |
| Taj Lanka Hotel PLC                              | 16,729       | 366                   | 318                   | -            | -                     | -                     |
| Mahaweli Reach Hotels PLC                        | 50,000       | 724                   | 610                   | -            | -                     | -                     |
| Renuka Hotels PLC                                | 5,000        | 480                   | 419                   | -            | -                     | -                     |
| Eden Hotel Lanka PLC                             | 177,743      | 4,538                 | 1,795                 | 127,743      | 3,676                 | 2,248                 |
| Galadari Hotels (Lanka) PLC                      | 25,000       | 356                   | 400                   | 50,000       | 724                   | 625                   |
| Hikkaduwa Beach Resort PLC                       | 294,353      | 1,852                 | 1,531                 | 194,353      | 1,252                 | 972                   |
| Palm Garden Hotels PLC                           | 37,500       | 2,489                 | 1,545                 | 35,000       | 2,341                 | 1,935                 |
| Tangerine Beach Hotels PLC                       | 11,500       | 792                   | 604                   | 2,500        | 200                   | 148                   |
| The Kandy Hotels Company (1938) PLC              | 140,006      | 1,285                 | 1,176                 | 215,006      | 1,972                 | 1,548                 |
| The Kingsbury PLC                                | 3,875,454    | 41,834                | 41,855                | 3,875,454    | 41,834                | 32,941                |
| The Lighthouse Hotel PLC                         | 124,467      | 4,704                 | 3,921                 | 124,467      | 4,704                 | 3,734                 |
| Waskaduwa Beach Resort PLC                       | 3,598,067    | 12,927                | 9,355                 | 2,100,000    | 8,616                 | 5,250                 |
|  |              | 80,558                | 70,025                |              | 69,796                | 52,842                |

| As at 31 December                       | Company      |                    |                    |              |                    |                    |
|---|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|   | 2023         |                    |                    | 2022         |                    |                    |
|   | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Diversified Financials</b>           |              |                    |                    |              |                    |                    |
| Asia Asset Finance PLC                  | -            | -                  | -                  | 399,999      | 4,056              | 3,080              |
| Asia Siyaka Commodities PLC             | 20,000       | 90                 | 82                 | -            | -                  | -                  |
| Associated Motor Finance Company PLC    | -            | -                  | -                  | 50,000       | 643                | 405                |
| Central Finance Company PLC             | -            | -                  | -                  | 73,205       | 8,171              | 4,575              |
| Ceylon Investment PLC                   | 72,365       | 6,947              | 3,256              | 65,045       | 6,680              | 2,029              |
| Galle Face Capital Partners PLC         | -            | -                  | -                  | 32,500       | 1,026              | 523                |
| HNB Finance PLC                         | 42,500       | 355                | 221                | 25,000       | 259                | 105                |
| Lanka Credit & Business Finance PLC     | 986,561      | 3,802              | 1,677              | 836,561      | 3,408              | 1,924              |
| LB Finance PLC                          | 40,000       | 2,947              | 2,492              | 25,000       | 1,867              | 1,000              |
| LOLC Finance PLC                        | 978,277      | 17,284             | 4,500              | 898,277      | 16,758             | 7,366              |
| LOLC Holdings PLC                       | 57,030       | 35,667             | 20,260             | 25,346       | 20,293             | 10,088             |
| SMB Finance PLC                         | 1,337,753    | 1,070              | 803                | -            | -                  | -                  |
| First Capital Holdings PLC              | 5,000        | 166                | 140                | -            | -                  | -                  |
| People's Leasing & Finance PLC          | 90,424       | 976                | 968                | 477,768      | 5,186              | 2,389              |
| Shaw Wallace Investments PLC            | -            | -                  | -                  | 6,410        | 66                 | 46                 |
| SMB Finance PLC-Non Voting              | 5,000,000    | 3,000              | 1,500              | 5,000,000    | 3,000              | 1,500              |
| Softlogic Finance PLC                   | 122,056      | 4,215              | 720                | 122,056      | 4,215              | 1,379              |
|   |              | 76,519             | 36,619             |              | 75,628             | 36,409             |
| <b>Diversified Holdings</b>             |              |                    |                    |              |                    |                    |
| Richard Pieris & Company PLC            | 189,854      | 4,621              | 3,892              | 60,000       | 1,609              | 1,446              |
|   |              | 4,621              | 3,892              |              | 1,609              | 1,446              |
| <b>Energy</b>                           |              |                    |                    |              |                    |                    |
| Laugfs Gas PLC-Non Voting               | -            | -                  | -                  | 107,500      | 1,876              | 1,086              |
|   |              |                    |                    |              | 1,876              | 1,086              |
| <b>Food Beverage &amp; Tobacco</b>      |              |                    |                    |              |                    |                    |
| Agalawatta Plantation PLC               | 178,500      | 8,919              | 5,819              | 147,500      | 7,895              | 4,705              |
| Browns Investments PLC                  | 4,075,000    | 40,827             | 19,153             | 2,440,262    | 29,811             | 17,082             |
| Ceylon Cold Stores PLC                  | 243,008      | 14,871             | 10,304             | 187,000      | 12,200             | 6,900              |
| Distilleries Company Of Sri Lanka PLC   | -            | -                  | -                  | 75,000       | 1,512              | 990                |
| Elpitiya Plantations PLC                | 3,830        | 396                | 325                | 3,830        | 396                | 329                |
| HVA Foods PLC                           | 160,000      | 1,286              | 608                | 160,000      | 1,342              | 592                |
| Kahawatte Plantations PLC               | 5,000        | 95                 | 80                 | -            | -                  | -                  |
| Kotagala Plantations PLC                | 160,000      | 1,215              | 992                | 35,000       | 305                | 270                |
| Kotmale Holdings PLC                    | 2,296        | 952                | 895                | 2,296        | 952                | 887                |
| Lucky Lanka Milk Processing Company PLC | 2,514,546    | 14,958             | -                  | 2,514,546    | 14,958             | -                  |
| Melstacorp PLC                          | -            | -                  | -                  | 180,000      | 9,854              | 8,316              |
| Renuka Agri Foods PLC                   | 797,356      | 4,545              | 3,110              | 210,000      | 1,436              | 1,176              |
| Raigam Wayamba Salterns PLC             | 34,249       | 266                | 216                | 50,000       | 391                | 290                |
| Sunshine Holdings PLC                   | -            | -                  | -                  | 20,211       | 824                | 703                |
|   |              | 88,330             | 41,502             |              | 81,876             | 42,240             |

## Notes to the Financial Statements (Contd.)

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

#### 22.2 Quoted Equities and Unit Trusts (Contd.)

| As at 31 December                           | Company      |                    |                    |              |                    |                    |
|---|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|   | 2023         |                    |                    | 2022         |                    |                    |
|   | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Health Care Equipment &amp; Services</b> |              |                    |                    |              |                    |                    |
| Asiri Hospital Holdings PLC                 | 5,000        | 210                | 123                | 5,000        | 210                | 129                |
| Asiri Surgical Hospital PLC                 | 124,860      | 1,685              | 1,611              | 25,000       | 387                | 325                |
| E - Channelling PLC                         | 24,000       | 384                | 336                | -            | -                  | -                  |
| Nawaloka Hospital PLC                       | 10,000       | 72                 | 40                 | 10,000       | 72                 | 72                 |
|   |              | 2,351              | 2,110              |              | 669                | 526                |
| <b>Insurance</b>                            |              |                    |                    |              |                    |                    |
| Arpico Insurance PLC                        | 10,000       | 300                | 225                | 10,000       | 300                | 227                |
| Co-Operative Insurance Company PLC          | 75,000       | 253                | 180                | -            | -                  | -                  |
| Janashakthi Insurance Company PLC           | -            | -                  | -                  | 14,634       | 480                | 464                |
| Softlogic Capital PLC                       | 370,000      | 3,894              | 2,405              | 1,035,000    | 9,843              | 10,453             |
| Softlogic Life Insurance PLC                | 17,000       | 1,185              | 915                | 1,000        | 60                 | 87                 |
|   |              | 5,632              | 3,725              |              | 10,683             | 11,231             |
| <b>Investment Banking &amp; Brokerage</b>   |              |                    |                    |              |                    |                    |
| Capital Alliance PLC                        | -            | -                  | -                  | 30,000       | 669                | 597                |
| First Capital Treasury PLC                  | -            | -                  | -                  | 10,000       | 260                | 229                |
|   |              | -                  | -                  |              | 929                | 826                |
| <b>Materials</b>                            |              |                    |                    |              |                    |                    |
| Alumex PLC                                  | 732,268      | 8,548              | 5,931              | 659,710      | 7,926              | 4,750              |
| Chevron Lubricants Lanka PLC                | 144,400      | 14,425             | 13,039             | 69,400       | 7,570              | 6,697              |
| CIC Holdings PLC-Non Voting                 | 55,000       | 3,022              | 2,338              | 5,000        | 368                | 278                |
| Dipped Products PLC                         | 280,522      | 14,695             | 7,827              | 165,000      | 10,651             | 4,802              |
| Industrial Asphalts (Ceylon) PLC            | 750,000      | 275                | 300                | 500,000      | 200                | 150                |
| Pelwatte Sugar Industries PLC               | 41,600       | 1,799              | -                  | 41,600       | 1,799              | -                  |
| Haycarb PLC                                 | 59,500       | 5,623              | 3,826              | 57,500       | 5,503              | 3,312              |
| Tokyo Cement Company (Lanka) PLC-Non Voting | 152,500      | 7,077              | 5,795              | 100,000      | 5,285              | 2,600              |
| Agstar PLC                                  | 110,000      | 1,107              | 935                | -            | -                  | -                  |
| Richered Peries Export PLC                  | 1,700        | 1,029              | 824                | -            | -                  | -                  |
| Tokyo Cement Company (Lanka) PLC            | -            | -                  | -                  | 67,050       | 3,512              | 2,213              |
| Bogala Graphite Lanka PLC                   | 44,002       | 3,423              | 2,200              | 39,002       | 3,098              | 1,786              |
| JAT Holdings PLC                            | 75,000       | 1,374              | 1,147              | 25,000       | 574                | 310                |
| Ex-Pack Corrugated Cartons PLC              | 52,820       | 767                | 655                | 47,500       | 752                | 622                |
|   |              | 63,164             | 44,817             |              | 47,238             | 27,520             |
| <b>Power and Energy</b>                     |              |                    |                    |              |                    |                    |
| Vallibel Power Erathna PLC                  | 716,322      | 4,966              | 5,158              | 750,000      | 5,205              | 4,725              |
|   |              | 4,966              | 5,158              |              | 5,205              | 4,725              |

| As at 31 December   | Company      |                    |                    |              |                    |                    |
|---|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|   | 2023         |                    |                    | 2022         |                    |                    |
|   | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Real Estate</b>  |              |                    |                    |              |                    |                    |
| Lanka Realty Investments PLC                              | 261,876      | 6,148              | 2,776              | 245,000      | 5,881              | 2,475              |
| Colombo Land & Development Company PLC                    | 79,939       | 2,753              | 1,359              | 74,939       | 2,660              | 1,177              |
| East West Properties PLC                                  | 585,000      | 6,793              | 4,329              | 500,000      | 6,014              | 4,000              |
| Millennium Housing Developers PLC                         | 10,000       | 36                 | 29                 | -            | -                  | -                  |
| Overseas Realty (Ceylon) PLC                              | -            | -                  | -                  | 38,941       | 596                | 580                |
| Prime Lands Residencies PLC                               | 150,000      | 1,995              | 975                | 150,000      | 1,995              | 975                |
| Seylan Developments PLC                                   | 106,500      | 2,283              | 1,533              | 100,000      | 2,189              | 1,180              |
|   |              | 20,008             | 11,001             |              | 19,335             | 10,387             |
| <b>Retailing</b>  |              |                    |                    |              |                    |                    |
| Ceylon Tea Brokers PLC                                    | -            | -                  | -                  | 35,000       | 176                | 147                |
| John Keels PLC  | 25,998       | 1,929              | 1,669              | 25,998       | 1,929              | 1,693              |
| R I L Properties PLC                                      | 480,000      | 4,652              | 2,448              | 340,000      | 3,811              | 1,938              |
| Singer (Sri Lanka) PLC                                    | 50,526       | 842                | 606                | 15,751       | 275                | 132                |
|   |              | 7,423              | 4,723              |              | 6,191              | 3,910              |
| <b>Trading</b>  |              |                    |                    |              |                    |                    |
| Tess Agro PLC   | 783,224      | 1,098              | 862                | 733,224      | 1,048              | 807                |
| Tess Agro PLC-Non Voting                                  | 520,353      | 503                | 364                | 220,353      | 314                | 176                |
|   |              | 1,601              | 1,226              |              | 1,362              | 983                |
| <b>Transpotation</b>                                      |              |                    |                    |              |                    |                    |
| Expolanka Holdings PLC                                    | 67,987       | 16,936             | 9,739              | 65,487       | 16,491             | 11,935             |
|   |              | 16,936             | 9,739              |              | 16,491             | 11,935             |
| <b>Utilities</b>  |              |                    |                    |              |                    |                    |
| Laugfs Power PLC-Non Voting                               | 77,849       | 714                | 607                | 77,849       | 714                | 530                |
| LVL Energy Fund PLC                                       | 250,000      | 1,750              | 1,375              | -            | -                  | -                  |
| Lotus Hydro Power PLC                                     | 21,240       | 183                | 187                | -            | -                  | -                  |
| Panasian Power PLC  | 250,000      | 1,258              | 850                | 250,000      | 1,258              | 850                |
| Vallibel One PLC  | 275,740      | 16,587             | 10,589             | 136,090      | 9,657              | 4,096              |
| Vidullanka PLC  | 1,550,000    | 12,519             | 10,386             | 1,450,000    | 11,885             | 8,845              |
| Vidullanka PLC-Non Voting                                 | 150,000      | 1,122              | 750                | 150,000      | 1,122              | 675                |
|   |              | 34,133             | 24,744             |              | 24,636             | 14,996             |
| <b>Total value of financial assets at FVTPL</b>           |              | 563,400            | 354,246            |              | 489,856            | 287,510            |
| Marked to market valuation loss                           |              | (209,155)          |                    |              | (202,347)          |                    |
| <b>Fair value of financial assets designated at FVTPL</b> |              | 354,246            |                    |              | 287,510            |                    |

## Notes to the Financial Statements (Contd.)

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

#### 22.3 GICS analysis of equity securities

| As at 31 December                                  | 2023                  |                       | 2022                  |                       |
|--|-----------------------|-----------------------|-----------------------|-----------------------|
|  | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 |
| Application Software                               | 1,362                 | 748                   | 1,277                 | 1,020                 |
| Banks  | 270                   | 235                   | -                     | -                     |
| Capital Goods                                      | 140,317               | 84,371                | 114,749               | 59,447                |
| Consumer Durables & Apparel                        | 12,742                | 7,721                 | 9,614                 | 5,471                 |
| Commercial & Professional Services                 | 2,468                 | 1,892                 | 693                   | 512                   |
| Consumer Services                                  | 80,558                | 70,025                | 69,796                | 52,842                |
| Diversified Financials                             | 76,519                | 36,619                | 75,628                | 36,409                |
| Diversified Holdings                               | 4,621                 | 3,892                 | 1,609                 | 1,446                 |
| Energy   | -                     | -                     | 1,876                 | 1,086                 |
| Food Beverage & Tobacco                            | 88,330                | 41,502                | 81,876                | 42,240                |
| Health Care Equipment & Services                   | 2,351                 | 2,110                 | 669                   | 525                   |
| Insurance  | 5,632                 | 3,725                 | 10,683                | 11,231                |
| Investment Banking & Brokerage                     | -                     | -                     | 929                   | 826                   |
| Materials  | 63,164                | 44,817                | 47,238                | 27,520                |
| Power and Energy                                   | 4,966                 | 5,157                 | 5,205                 | 4,725                 |
| Real Estate  | 20,008                | 11,001                | 19,335                | 10,386                |
| Retailing  | 7,423                 | 4,723                 | 6,191                 | 3,910                 |
| Trading  | 1,601                 | 1,226                 | 1,362                 | 983                   |
| Transportation                                     | 16,936                | 9,739                 | 16,491                | 11,935                |
| Utilities  | 34,133                | 24,743                | 24,636                | 14,996                |
| Total value of financial assets at FVTPL           | 563,401               | 354,246               | 489,857               | 287,510               |
| Marked to market valuation loss                    | (209,155)             |                       | (202,347)             |                       |
| Fair value of financial assets designated at FVTPL | 354,246               |                       | 287,510               |                       |

## 22.4 Quoted Equities and Unit Trusts

| As at 31 December                                | Group        |                    |                    |              |                    |                    |
|--|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|  | 2023         |                    |                    | 2022         |                    |                    |
|  | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Application Software</b>                      |              |                    |                    |              |                    |                    |
| hSenid Business Solutions PLC                    | 65,000       | 1,362              | 748                | 60,000       | 1,277              | 1,020              |
|  |              | 1,362              | 748                |              | 1,277              | 1,020              |
| <b>Banks</b>                                     |              |                    |                    |              |                    |                    |
| Amana Bank PLC                                   | 102,124      | 270                | 235                | -            | -                  | -                  |
|  |              | 270                | 235                |              | -                  | -                  |
| <b>Capital Goods</b>                             |              |                    |                    |              |                    |                    |
| Access Engineering PLC                           | 662,968      | 19,712             | 13,458             | 474,992      | 16,388             | 5,082              |
| ACL Cables PLC                                   | 123,750      | 10,507             | 8,514              | 54,000       | 4,980              | 3,785              |
| Unisyst Engineering PLC                          | 135,000      | 869                | 783                | -            | -                  | -                  |
| Lankem Ceylon PLC                                | 13,500       | 1,252              | 871                | -            | -                  | -                  |
| Alpha Fire Service PLC                           | 21,224       | 731                | 762                | -            | -                  | -                  |
| Brown & Company PLC                              | 116,496      | 31,337             | 11,650             | 96,838       | 29,478             | 11,427             |
| Central Industries PLC                           | 5,310        | 497                | 463                | 10,000       | 949                | 580                |
| Colombo Dockyard PLC                             | 50,000       | 4,496              | 2,525              | 50,000       | 4,496              | 2,950              |
| E B Creasy & Company PLC                         | 25,000       | 785                | 568                | 5,000        | 285                | 103                |
| Hayles PLC                                       | 228,775      | 20,104             | 16,334             | 74,275       | 7,157              | 5,051              |
| Hemas Holdings PLC                               | 152,015      | 12,439             | 10,139             | 85,515       | 7,794              | 4,823              |
| John Keells Holdings PLC                         | 21,371       | 3,344              | 4,082              | 63,871       | 9,618              | 8,638              |
| Kelani Cabels PLC                                | 250          | 110                | 61                 | 250          | 110                | 65                 |
| Lanka Tile PLC                                   | 7,500        | 734                | 317                | 7,500        | 734                | 346                |
| Mackwoods Energy PLC                             | 1,350,000    | 4,193              | 2,430              | 1,200,000    | 3,848              | 3,000              |
| MTD Walkers PLC                                  | 165,000      | 6,751              | -                  | 165,000      | 6,751              | -                  |
| Renuka Holdings PLC                              | 841,722      | 15,274             | 10,690             | 821,317      | 14,978             | 11,334             |
| Renuka Holdings PLC-Non Voting                   | 127          | 2                  | 1                  | 123          | 2                  | 2                  |
| Royal Ceramics Lanka PLC                         | 182,000      | 10,524             | 4,805              | 182,000      | 10,524             | 5,151              |
|  |              | 143,661            | 88,453             |              | 118,092            | 62,337             |
| <b>Consumer Durables &amp; Apparel</b>           |              |                    |                    |              |                    |                    |
| Ambeon Capital PLC                               | 500,000      | 5,036              | 3,700              | 80,000       | 1,005              | 792                |
| Ambeon Holdings PLC                              | 35,000       | 1,314              | 1,207              | -            | -                  | -                  |
| Blue Diamonds Jewellery Worldwide PLC-Non Voting | 5,250,000    | 3,125              | 1,050              | 5,250,000    | 3,125              | 1,575              |
| Hayles Fabric PLC                                | -            | -                  | -                  | 100,000      | 3,929              | 2,260              |
| Hela Apparel Holdings PLC                        | 342,954      | 3,193              | 1,715              | 92,954       | 1,482              | 790                |
| Singer Industries (Ceylon) Plc                   | 1,486        | 74                 | 49                 | 1,486        | 74                 | 53                 |
|  |              | 12,742             | 7,721              |              | 9,615              | 5,470              |
| <b>Commercial &amp; Professional Services</b>    |              |                    |                    |              |                    |                    |
| E M L Consultants PLC                            | 556,585      | 2,468              | 1,893              | 131,352      | 693                | 512                |
|  |              | 2,468              | 1,893              |              | 693                | 512                |

## Notes to the Financial Statements (Contd.)

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

#### 22.4 Quoted Equities and Unit Trusts (Contd.)

| As at 31 December                    | Group        |                    |                    |              |                    |                    |
|--------------------------------------|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|                                      | 2023         |                    |                    | 2022         |                    |                    |
|                                      | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Consumer Services</b>             |              |                    |                    |              |                    |                    |
| Hayleys Leisure PLC                  | 77,866       | 1,836              | 1,635              | 67,866       | 1,688              | 1,432              |
| Anilana Hotels & Properties PLC      | 750,000      | 1,106              | 675                | 750,000      | 1,106              | 675                |
| Beruwala Resorts PLC                 | 948,739      | 1,378              | 1,044              | 250,000      | 350                | 300                |
| Browns Beach Hotel PLC               | -            | -                  | -                  | 10,000       | 135                | 127                |
| Citrus Leisure PLC                   | 361,086      | 2,679              | 2,022              | 151,086      | 1,198              | 906                |
| Marawila Resort PLC                  | 260,000      | 702                | 676                | -            | -                  | -                  |
| Serendib Hotels PLC                  | 25,000       | 378                | 312                | -            | -                  | -                  |
| Aitkenspence Hotel Holdings PLC      | 1,000        | 60                 | 63                 | -            | -                  | -                  |
| Renuka City Hotels PLC               | 200          | 72                 | 70                 | -            | -                  | -                  |
| Taj Lanka Hotel PLC                  | 16,729       | 366                | 318                | -            | -                  | -                  |
| Mahaweli Reach Hotels PLC            | 50,000       | 724                | 610                | -            | -                  | -                  |
| Renuka Hotels PLC                    | 5,000        | 480                | 418                | -            | -                  | -                  |
| Eden Hotel Lanka PLC                 | 177,743      | 4,538              | 1,795              | 127,743      | 3,676              | 2,248              |
| Galadari Hotels (Lanka) PLC          | 25,000       | 356                | 400                | 50,000       | 724                | 625                |
| Hikkaduwa Beach Resort PLC           | 294,353      | 1,852              | 1,531              | 194,353      | 1,252              | 972                |
| Palm Garden Hotels PLC               | 37,500       | 2,489              | 1,545              | 35,000       | 2,341              | 1,936              |
| Tangerine Beach Hotels PLC           | 11,500       | 792                | 604                | 2,500        | 200                | 148                |
| The Kandy Hotels Company (1938) PLC  | 140,006      | 1,285              | 1,176              | 215,006      | 1,972              | 1,548              |
| The Kingsbury PLC                    | 3,875,454    | 41,834             | 41,855             | 3,875,454    | 41,834             | 32,941             |
| The Lighthouse Hotel PLC             | 124,467      | 4,704              | 3,921              | 124,467      | 4,704              | 3,734              |
| Waskaduwa Beach Resort PLC           | 3,598,067    | 12,927             | 9,355              | 2,100,000    | 8,616              | 5,250              |
|                                      |              | 80,558             | 70,025             |              | 69,796             | 52,842             |
| <b>Diversified Financials</b>        |              |                    |                    |              |                    |                    |
| Asia Asset Finance PLC               | -            | -                  | -                  | 399,999      | 4,056              | 3,080              |
| Asia Siyaka Commodities PLC          | 20,000       | 90                 | 82                 | -            | -                  | -                  |
| Associated Motor Finance Company PLC | -            | -                  | -                  | 50,000       | 643                | 405                |
| Central Finance Company PLC          | -            | -                  | -                  | 73,205       | 8,172              | 4,575              |
| Ceylon Investment PLC                | 72,365       | 6,947              | 3,256              | 65,045       | 6,680              | 2,029              |
| Galle Face Capital Partners PLC      | 19,269       | 1,006              | 493                | 50,972       | 2,032              | 821                |
| HNB Finance PLC                      | 42,500       | 355                | 221                | 25,000       | 259                | 105                |
| Lanka Credit & Business Finance PLC  | 986,561      | 3,803              | 1,677              | 836,561      | 3,408              | 1,924              |
| LB Finance PLC                       | 40,000       | 2,947              | 2,492              | 25,000       | 1,867              | 1,000              |
| LOLC Finance PLC                     | 978,277      | 17,284             | 4,500              | 898,277      | 16,757             | 7,366              |
| LOLC Holdings PLC                    | 57,030       | 35,667             | 20,260             | 25,346       | 20,293             | 10,088             |
| SMB Finance PLC                      | 1,337,753    | 1,070              | 803                | -            | -                  | -                  |
| First Capital Holdings PLC           | 5,000        | 166                | 141                | -            | -                  | -                  |
| People's Leasing & Finance PLC       | 90,424       | 976                | 968                | 477,768      | 5,186              | 2,389              |
| Shaw Wallace Investments PLC         | 14,115       | 172                | 114                | 19,910       | 238                | 144                |
| SMB Finance PLC-Non Voting           | 5,000,000    | 3,000              | 1,500              | 5,000,000    | 3,000              | 1,500              |
| Softlogic Finance PLC                | 122,056      | 4,215              | 720                | 122,056      | 4,215              | 1,379              |
|                                      |              | 77,698             | 37,227             |              | 76,806             | 36,805             |

| As at 31 December                           | Group        |                    |                    |              |                    |                    |
|---|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|   | 2023         |                    |                    | 2022         |                    |                    |
|   | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Diversified Holdings</b>                 |              |                    |                    |              |                    |                    |
| Richard Pieris & Company PLC                | 189,854      | 4,621              | 3,892              | 60,000       | 1,609              | 1,446              |
|   |              | 4,621              | 3,892              |              | 1,609              | 1,446              |
| <b>Energy</b>                               |              |                    |                    |              |                    |                    |
| Laugfs Gas PLC-Non Voting                   | -            | -                  | -                  | 107,500      | 1,876              | 1,086              |
|   |              | -                  | -                  |              | 1,876              | 1,086              |
| <b>Food Beverage &amp; Tobacco</b>          |              |                    |                    |              |                    |                    |
| Agalawatta Plantation PLC                   | 178,500      | 8,919              | 5,819              | 147,500      | 7,895              | 4,705              |
| Browns Investments PLC                      | 4,075,000    | 40,827             | 19,153             | 2,440,262    | 29,811             | 17,082             |
| Ceylon Cold Stores PLC                      | 243,008      | 14,871             | 10,303             | 187,000      | 12,200             | 6,900              |
| Distilleries Company of Sri Lanka PLC       | -            | -                  | -                  | 75,000       | 1,512              | 990                |
| Elpitiya Plantations PLC                    | 3,830        | 396                | 326                | 3,830        | 396                | 329                |
| HVA Foods PLC                               | 160,000      | 1,286              | 608                | 160,000      | 1,342              | 592                |
| Kahawatte Plantations PLC                   | 5,000        | 95                 | 80                 | -            | -                  | -                  |
| Kotagala Plantations PLC                    | 160,000      | 1,215              | 992                | 35,000       | 305                | 270                |
| Kotmale Holdings PLC                        | 2,296        | 952                | 895                | 2,296        | 952                | 887                |
| Lucky Lanka Milk Processing Company PLC     | 2,514,546    | 14,958             | -                  | 2,514,546    | 14,958             | -                  |
| Melstacorp PLC                              | -            | -                  | -                  | 180,000      | 9,854              | 8,316              |
| Renuka Agri Foods PLC                       | 797,356      | 4,545              | 3,110              | 210,000      | 1,436              | 1,176              |
| Raigam Wayamba Salterns PLC                 | 34,249       | 266                | 216                | 50,000       | 391                | 290                |
| Sunshine Holdings PLC                       | -            | -                  | -                  | 20,211       | 824                | 703                |
|   |              | 88,330             | 41,502             |              | 81,876             | 42,240             |
| <b>Health Care Equipment &amp; Services</b> |              |                    |                    |              |                    |                    |
| Asiri Hospital Holdings PLC                 | 5,000        | 210                | 123                | 5,000        | 210                | 129                |
| Asiri Surgical Hospital PLC                 | 124,860      | 1,685              | 1,611              | 25,000       | 387                | 325                |
| E - Channelling PLC                         | 24,000       | 384                | 336                | -            | -                  | -                  |
| Nawaloka Hospital PLC                       | 10,000       | 72                 | 40                 | 10,000       | 72                 | 72                 |
|   |              | 2,351              | 2,110              |              | 669                | 526                |
| <b>Insurance</b>                            |              |                    |                    |              |                    |                    |
| Arpico Insurance PLC                        | 10,000       | 300                | 225                | 10,000       | 300                | 227                |
| Co-Operative Insurance Company PLC          | 75,000       | 253                | 180                | -            | -                  | -                  |
| Janashakthi Insurance Company PLC           | -            | -                  | -                  | 14,634       | 480                | 464                |
| Softlogic Capital PLC                       | 370,000      | 3,894              | 2,405              | 1,035,000    | 9,843              | 10,453             |
| Softlogic Life Insurance PLC                | 17,000       | 1,185              | 915                | 1,000        | 60                 | 87                 |
|   |              | 5,632              | 3,725              |              | 10,683             | 11,231             |
| <b>Investment Banking &amp; Brokerage</b>   |              |                    |                    |              |                    |                    |
| Capital Alliance PLC                        | -            | -                  | -                  | 30,000       | 669                | 597                |
| First Capital Treasury PLC                  | -            | -                  | -                  | 10,000       | 260                | 229                |
|   |              | -                  | -                  |              | 929                | 826                |

## Notes to the Financial Statements (Contd.)

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

#### 22.4 Quoted Equities and Unit Trusts (Contd.)

| As at 31 December                           | Group        |                    |                    |              |                    |                    |
|---|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|   | 2023         |                    |                    | 2022         |                    |                    |
|   | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Materials</b>                            |              |                    |                    |              |                    |                    |
| Alumex PLC                                  | 732,268      | 8,548              | 5,931              | 659,710      | 7,925              | 4,750              |
| Chevron Lubricants Lanka PLC                | 144,400      | 14,425             | 13,039             | 69,400       | 7,569              | 6,697              |
| CIC Holdings PLC-Non Voting                 | 55,000       | 3,022              | 2,338              | 5,000        | 368                | 278                |
| Dipped Products PLC                         | 280,522      | 14,695             | 7,827              | 165,000      | 10,652             | 4,802              |
| Industrial Asphalts (Ceylon) PLC            | 750,000      | 275                | 300                | 500,000      | 200                | 150                |
| Pelwatte Sugar Industries PLC               | 68,400       | 2,924              | -                  | 68,400       | 2,924              | -                  |
| Haycarb PLC                                 | 59,500       | 5,623              | 3,826              | 57,500       | 5,503              | 3,312              |
| Tokyo Cement Company (Lanka) PLC-Non Voting | 152,500      | 7,077              | 5,795              | 100,000      | 5,285              | 2,600              |
| Agstar PLC                                  | 110,000      | 1,107              | 935                | -            | -                  | -                  |
| Richered Peries Export PLC                  | 1,700        | 1,029              | 824                | -            | -                  | -                  |
| Tokyo Cement Company (Lanka) PLC            | -            | -                  | -                  | 67,050       | 3,512              | 2,213              |
| Bogala Graphite Lanka PLC                   | 44,002       | 3,423              | 2,200              | 39,002       | 3,099              | 1,786              |
| JAT Holdings PLC                            | 75,000       | 1,374              | 1,147              | 25,000       | 574                | 310                |
| Ex-Pack Corrugated Cartons PLC              | 52,820       | 767                | 655                | 47,500       | 752                | 622                |
|   |              | 64,289             | 44,817             |              | 48,363             | 27,520             |
| <b>Power and Energy</b>                     |              |                    |                    |              |                    |                    |
| Vallibel Power Erathna PLC                  | 716,322      | 4,966              | 5,158              | 750,000      | 5,205              | 4,725              |
|   |              | 4,966              | 5,158              |              | 5,205              | 4,725              |
| <b>Real Estate</b>                          |              |                    |                    |              |                    |                    |
| Lanka Realty Investments PLC                | 261,876      | 6,148              | 2,776              | 245,000      | 5,881              | 2,475              |
| Colombo Land & Development Company PLC      | 82,639       | 2,849              | 1,405              | 77,639       | 2,757              | 1,219              |
| East West Properties PLC                    | 585,000      | 6,793              | 4,329              | 500,000      | 6,014              | 4,000              |
| Millennium Housing Developers PLC           | 10,000       | 36                 | 29                 | -            | -                  | -                  |
| Overseas Realty (Ceylon) PLC                | -            | -                  | -                  | 38,941       | 596                | 580                |
| Prime Lands Residencies PLC                 | 150,000      | 1,995              | 975                | 150,000      | 1,995              | 975                |
| Seylan Developments PLC                     | 106,500      | 2,283              | 1,533              | 100,000      | 2,189              | 1,180              |
|   |              | 20,104             | 11,047             |              | 19,432             | 10,429             |
| <b>Retailing</b>                            |              |                    |                    |              |                    |                    |
| Ceylon Tea Brokers PLC                      | -            | -                  | -                  | 35,000       | 176                | 147                |
| John Keels PLC                              | 25,998       | 1,929              | 1,669              | 25,998       | 1,929              | 1,693              |
| R I L Properties PLC                        | 480,000      | 4,652              | 2,448              | 340,000      | 3,811              | 1,938              |
| Singer (Sri Lanka) PLC                      | 50,526       | 842                | 606                | 15,751       | 275                | 132                |
|   |              | 7,423              | 4,723              |              | 6,191              | 3,910              |
| <b>Trading</b>                              |              |                    |                    |              |                    |                    |
| Tess Agro PLC                               | 783,224      | 1,098              | 862                | 733,224      | 1,048              | 807                |
| Tess Agro PLC-Non Voting                    | 520,353      | 503                | 364                | 220,353      | 314                | 176                |
|   |              | 1,601              | 1,226              |              | 1,362              | 983                |

| As at 31 December   | Group        |                    |                    |              |                    |                    |
|---|--------------|--------------------|--------------------|--------------|--------------------|--------------------|
|   | 2023         |                    |                    | 2022         |                    |                    |
|   | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 | No of Shares | Total Cost Rs.'000 | Fair Value Rs.'000 |
| <b>Transportation</b>                                     |              |                    |                    |              |                    |                    |
| Expolanka Holdings PLC                                    | 67,987       | 16,936             | 9,739              | 65,487       | 16,491             | 11,935             |
|   |              | 16,936             | 9,739              |              | 16,491             | 11,935             |
| <b>Utilities</b>  |              |                    |                    |              |                    |                    |
| Laugfs Power PLC-Non Voting                               | 77,849       | 714                | 607                | 77,849       | 714                | 529                |
| LVL Energy Fund PLC                                       | 250,000      | 1,750              | 1,375              | -            | -                  | -                  |
| Lotus Hydro Power PLC                                     | 21,240       | 183                | 187                | -            | -                  | -                  |
| Panasian Power PLC  | 250,000      | 1,259              | 850                | 250,000      | 1,258              | 850                |
| Vallibel One PLC  | 275,740      | 16,587             | 10,588             | 136,090      | 9,657              | 4,096              |
| Vidullanka PLC  | 1,550,000    | 12,518             | 10,385             | 1,450,000    | 11,885             | 8,845              |
| Vidullanka PLC-Non Voting                                 | 150,000      | 1,122              | 750                | 150,000      | 1,122              | 675                |
| Resus Energy PLC  | 254,971      | 3,407              | 3,825              | 223,381      | 3,407              | 3,009              |
|   |              | 37,540             | 28,567             |              | 28,043             | 18,004             |
| <b>Total value of quoted equities</b>                     |              | 572,552            | 362,806            |              | 499,007            | 293,847            |
| Marked to market valuation loss                           |              | (209,746)          |                    |              | (205,161)          |                    |
| <b>Fair value of financial assets designated at FVTPL</b> |              | 362,806            |                    |              | 293,847            |                    |

## 22.5 GICS analysis of equity securities

| As at 31 December   | 2023               |                    | 2022               |                    |
|---|--------------------|--------------------|--------------------|--------------------|
|   | Total Cost Rs.'000 | Fair Value Rs.'000 | Total Cost Rs.'000 | Fair Value Rs.'000 |
| Application Software                                      | 1,362              | 748                | 1,277              | 1,020              |
| Banks   | 270                | 235                | -                  | -                  |
| Capital Goods   | 143,661            | 88,453             | 118,092            | 62,337             |
| Consumer Durables & Apparel                               | 12,742             | 7,721              | 9,615              | 5,470              |
| Commercial & Professional Services                        | 2,468              | 1,892              | 693                | 512                |
| Consumer Services   | 80,558             | 70,025             | 69,796             | 52,842             |
| Diversified Financials                                    | 77,698             | 37,227             | 76,806             | 36,805             |
| Diversified Holdings                                      | 4,621              | 3,892              | 1,609              | 1,446              |
| Energy  | -                  | -                  | 1,876              | 1,086              |
| Food Beverage & Tobacco                                   | 88,330             | 41,502             | 81,876             | 42,240             |
| Health Care Equipment & Services                          | 2,351              | 2,110              | 669                | 526                |
| Insurance   | 5,632              | 3,725              | 10,683             | 11,231             |
| Investment Banking & Brokerage                            | -                  | -                  | 929                | 826                |
| Materials   | 64,289             | 44,817             | 48,363             | 27,520             |
| Power and Energy  | 4,966              | 5,158              | 5,205              | 4,725              |
| Real Estate   | 20,104             | 11,047             | 19,432             | 10,429             |
| Retailing   | 7,423              | 4,723              | 6,191              | 3,910              |
| Trading   | 1,601              | 1,226              | 1,362              | 983                |
| Transportation  | 16,936             | 9,739              | 16,491             | 11,935             |
| Utilities   | 37,540             | 28,567             | 28,043             | 18,004             |
| <b>Total value of financial assets at FVTPL</b>           | 572,552            | 362,806            | 499,008            | 293,847            |
| Marked to market valuation loss                           | (209,746)          |                    | (205,161)          |                    |
| <b>Fair value of financial assets designated at FVTPL</b> | 362,806            |                    | 293,847            |                    |

## Notes to the Financial Statements (Contd.)

### 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             |                   |
|--|--------|-------------------|-------------------|-------------------|-------------------|
|  |        | 2023<br>Rs.'000   | 2022<br>Rs.'000   | 2023<br>Rs.'000   | 2022<br>Rs.'000   |
| Bills receivable                       | 23.2   | 224,353           | 231,055           | 224,353           | 231,055           |
| Loans and receivables to customers     | 23.3   | 12,986,075        | 16,306,705        | 12,991,322        | 16,254,254        |
| Lease and hire purchase receivable     | 23.4   | 8,503,772         | 10,627,758        | 8,503,772         | 10,627,758        |
| <b>Gross loans and receivables</b>     |        | <b>21,714,200</b> | <b>27,165,518</b> | <b>21,719,447</b> | <b>27,113,067</b> |
| Less : Allowance for impairment losses |        |                   |                   |                   |                   |
| Bills receivable                       | 23.2   | 167,159           | 166,921           | 167,159           | 166,921           |
| Loans and receivables to customers     | 23.3   | 1,668,576         | 1,451,222         | 1,668,576         | 1,451,222         |
| Lease and hire purchase receivable     | 23.4.3 | 823,750           | 1,124,075         | 823,750           | 1,124,074         |
|  |        | <b>2,659,485</b>  | <b>2,742,218</b>  | <b>2,659,485</b>  | <b>2,742,217</b>  |
| <b>Net loans and receivables</b>       |        | <b>19,054,715</b> | <b>24,423,300</b> | <b>19,059,962</b> | <b>24,370,850</b> |

## 23.1 Analysis of loans and receivables

### 23.1.1 Product wise analysis of loans and receivables

| As at 31 December                  | Company           |                   | Group             |                   |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | 2023<br>Rs.'000   | 2022<br>Rs.'000   | 2023<br>Rs.'000   | 2022<br>Rs.'000   |
| Finance lease/ijarah               | 8,174,480         | 10,153,646        | 8,174,480         | 10,153,646        |
| Hire purchase/murabaha             | 211,240           | 238,313           | 211,240           | 238,313           |
| Term loans                         | 5,227,799         | 5,964,610         | 5,233,046         | 5,912,159         |
| Personal loans                     | 865,931           | 1,151,084         | 865,931           | 1,151,084         |
| Margin trading                     | 2,239,729         | 2,913,773         | 2,239,729         | 2,913,773         |
| Micro finance                      | 115,614           | 121,140           | 115,614           | 121,140           |
| Pawning                            | 3,978,103         | 5,665,762         | 3,978,103         | 5,665,762         |
| Loans against fixed deposits       | 676,951           | 726,135           | 676,951           | 726,135           |
| Bill Discounting                   | 224,353           | 231,055           | 224,353           | 231,055           |
| <b>Gross loans and receivables</b> | <b>21,714,200</b> | <b>27,165,518</b> | <b>21,719,447</b> | <b>27,113,067</b> |

### 23.1.2 Sector/Industry wise analysis of loans and receivables

| As at 31 December                  | Company           |                   | Group             |                   |
|------------------------------------|-------------------|-------------------|-------------------|-------------------|
|                                    | 2023<br>Rs.'000   | 2022<br>Rs.'000   | 2023<br>Rs.'000   | 2022<br>Rs.'000   |
| Agriculture                        | 1,614,844         | 2,201,784         | 1,614,844         | 2,201,784         |
| Manufacturing                      | 1,996,764         | 2,364,434         | 1,996,764         | 2,364,434         |
| Tourism                            | 526,885           | 482,080           | 526,885           | 482,080           |
| Transportation                     | 2,439,990         | 2,533,917         | 2,439,990         | 2,533,917         |
| Construction                       | 1,725,646         | 1,534,884         | 1,725,646         | 1,534,884         |
| Trade                              | 2,657,948         | 3,484,168         | 2,657,948         | 3,484,168         |
| Services                           | 733,697           | 881,892           | 738,944           | 829,442           |
| Financials                         | 3,120,493         | 3,670,575         | 3,120,493         | 3,670,575         |
| Consumption                        | 6,897,933         | 10,011,784        | 6,897,933         | 10,011,783        |
| <b>Gross loans and receivables</b> | <b>21,714,200</b> | <b>27,165,518</b> | <b>21,719,447</b> | <b>27,113,067</b> |

### 23.1.3 Contractual maturity analysis of loans and receivables - 2023

|                                    | Company/Group                 |                           |                            |                   |
|------------------------------------|-------------------------------|---------------------------|----------------------------|-------------------|
|                                    | Within one<br>year<br>Rs.'000 | 1 - 5<br>Years<br>Rs.'000 | Over<br>5 years<br>Rs.'000 | Total<br>Rs.'000  |
| Agriculture                        | 2,097,381                     | 380,582                   | 39,363                     | 2,517,326         |
| Manufacturing                      | 1,652,898                     | 629,390                   | 102,002                    | 2,384,290         |
| Tourism                            | 439,917                       | 96,074                    | 16,190                     | 552,181           |
| Transportation                     | 1,276,825                     | 1,056,365                 | 174,722                    | 2,507,912         |
| Construction                       | 922,225                       | 745,146                   | 156,467                    | 1,823,838         |
| Trade                              | 1,895,653                     | 1,053,922                 | 112,407                    | 3,061,982         |
| Services                           | 550,495                       | 280,427                   | 23,241                     | 854,163           |
| Financials                         | 2,837,863                     | 368,883                   | 114,191                    | 3,320,937         |
| Consumption                        | 3,494,974                     | 1,026,838                 | 169,759                    | 4,691,571         |
| <b>Gross loans and receivables</b> | <b>15,168,231</b>             | <b>5,637,627</b>          | <b>908,342</b>             | <b>21,714,200</b> |

## Notes to the Financial Statements (Contd.)

### 23.1 Analysis of loans and receivables (Contd.)

#### 23.1.4 Contractual maturity analysis loans and receivables - 2022

|                                    | Company/Group              |                           |                            |                   |
|------------------------------------|----------------------------|---------------------------|----------------------------|-------------------|
|                                    | Within one year<br>Rs.'000 | 1 - 5<br>Years<br>Rs.'000 | Over<br>5 years<br>Rs.'000 | Total<br>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        |
| <b>Gross loans and receivables</b> | <b>18,668,481</b>          | <b>7,102,390</b>          | <b>1,394,647</b>           | <b>27,165,518</b> |

### 23.2 Bills receivable

| As at 31 December                      | Note   | Company         |                 | Group           |                 |
|--|--------|-----------------|-----------------|-----------------|-----------------|
|  |        | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Bills discounted                       |        | 224,353         | 231,055         | 224,353         | 231,055         |
| Less : Allowance for impairment losses |        |                 |                 |                 |                 |
| Individual impairment                  | 23.2.2 | 49,699          | 147,790         | 49,699          | 147,790         |
| Collective impairment                  | 23.2.2 | 117,460         | 19,131          | 117,460         | 19,131          |
| <b>Net bills receivables</b>           |        | <b>57,194</b>   | <b>64,134</b>   | <b>57,194</b>   | <b>64,134</b>   |

#### 23.2.1 Analysis of bill discounting on maximum exposure to credit risk as at 31st December 2023

|                          | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|--------------------------|--------------------|--------------------|--------------------|------------------|
| Gross receivables        | 1,908              | -                  | 222,445            | 224,353          |
| Individual impairment    | -                  | -                  | (49,699)           | (49,699)         |
| Collective impairment    | (191)              | -                  | (117,269)          | (117,460)        |
| <b>As at 31 December</b> | <b>1,717</b>       | <b>-</b>           | <b>55,477</b>      | <b>57,194</b>    |

#### 23.2.2 Movement of impairment during the year 2023

|                                   | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|-----------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Individual</b>                 |                    |                    |                    |                  |
| <b>As at 01 January</b>           | -                  | -                  | 147,790            | 147,790          |
| Charge/(reversal) during the year | -                  | -                  | (98,091)           | (98,091)         |
| <b>As at 31 December</b>          | <b>-</b>           | <b>-</b>           | <b>49,699</b>      | <b>49,699</b>    |
| <b>Collective</b>                 |                    |                    |                    |                  |
| <b>As at 01 January</b>           | 918                | -                  | 18,213             | 19,131           |
| Charge/(reversal) during the year | (727)              | -                  | 99,056             | 98,329           |
| <b>As at 31 December</b>          | <b>191</b>         | <b>-</b>           | <b>117,269</b>     | <b>117,460</b>   |

### 23.2.3 Analysis of bill discounting on maximum exposure to credit risk as at 31st December 2022

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

### 23.2.4 Movement of impairment during the year 2022

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

### 23.3 Loans and receivables to customers

| As at 31 December                      | Note   | Company           |                   | Group             |                   |
|--|--------|-------------------|-------------------|-------------------|-------------------|
|  |        | 2023<br>Rs.'000   | 2022<br>Rs.'000   | 2023<br>Rs.'000   | 2022<br>Rs.'000   |
| Term loans and receivables             |        | 12,986,075        | 16,306,705        | 12,991,322        | 16,254,254        |
| Less : Allowance for impairment losses |        |                   |                   |                   |                   |
| Individual impairment                  | 23.3.2 | 690,269           | 933,234           | 690,269           | 933,234           |
| Collective impairment                  | 23.3.2 | 978,307           | 517,988           | 978,307           | 517,988           |
| <b>Net loans and receivables</b>       |        | <b>11,317,499</b> | <b>14,855,483</b> | <b>11,322,746</b> | <b>14,803,032</b> |

### 23.3.1 Analysis of term loans receivables on maximum exposure to credit risk as at 31st December 2023

|                          | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000  |
|--------------------------|--------------------|--------------------|--------------------|-------------------|
| Gross receivables        | 5,951,191          | 1,931,595          | 5,103,289          | 12,986,075        |
| Individual impairment    | -                  | -                  | (690,269)          | (690,269)         |
| Collective impairment    | (23,951)           | (32,674)           | (921,682)          | (978,307)         |
| <b>As at 31 December</b> | <b>5,927,240</b>   | <b>1,898,921</b>   | <b>3,491,338</b>   | <b>11,317,499</b> |

## Notes to the Financial Statements (Contd.)

### 23.2 Loans and receivables to customers (Contd.)

#### 23.3.2 Movement of impairment during the year 2023

|                                   | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|-----------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Individual</b>                 |                    |                    |                    |                  |
| As at 01 January                  | -                  | -                  | 933,234            | 933,234          |
| Charge/(reversal) during the year | -                  | -                  | (242,965)          | (242,965)        |
| <b>As at 31 December</b>          | -                  | -                  | <b>690,269</b>     | <b>690,269</b>   |
| <b>Collective</b>                 |                    |                    |                    |                  |
| As at 01 January                  | 51,651             | 56,075             | 410,262            | 517,988          |
| Charge/(reversal) during the year | (27,700)           | (23,401)           | 511,420            | 460,319          |
| <b>As at 31 December</b>          | <b>23,951</b>      | <b>32,674</b>      | <b>921,682</b>     | <b>978,307</b>   |

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

|                          | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000  |
|--------------------------|--------------------|--------------------|--------------------|-------------------|
| Gross receivables        | 7,857,916          | 2,673,163          | 5,775,626          | 16,306,705        |
| Individual impairment    | -                  | -                  | (933,234)          | (933,234)         |
| Collective impairment    | (51,651)           | (56,075)           | (410,262)          | (517,988)         |
| <b>As at 31 December</b> | <b>7,806,265</b>   | <b>2,617,088</b>   | <b>4,432,130</b>   | <b>14,855,483</b> |

#### 23.3.4 Movement of impairment during the year 2022

|                                   | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|-----------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Individual</b>                 |                    |                    |                    |                  |
| As at 01 January                  | -                  | -                  | 673,531            | 673,531          |
| Charge/(reversal) during the year | -                  | -                  | 259,703            | 259,703          |
| <b>As at 31 December</b>          | -                  | -                  | <b>933,234</b>     | <b>933,234</b>   |
| <b>Collective</b>                 |                    |                    |                    |                  |
| As at 01 January                  | 53,253             | 32,738             | 762,328            | 848,319          |
| Charge/(reversal) during the year | (1,602)            | 23,337             | (352,066)          | (330,331)        |
| <b>As at 31 December</b>          | <b>51,651</b>      | <b>56,075</b>      | <b>410,262</b>     | <b>517,988</b>   |

### 23.4 Lease and hire purchase receivable

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

| As at 31 December   | Company          |                  | Group            |                  |
|---|------------------|------------------|------------------|------------------|
|   | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| Total lease and hire purchase rental receivable                 | 10,522,098       | 13,051,397       | 10,522,098       | 13,051,397       |
| Less : lease and hire purchase rental receivable after one year | 6,633,012        | 8,270,159        | 6,633,012        | 8,270,159        |
| Rental receivable within one year from the reporting date       | <b>3,889,086</b> | <b>4,781,238</b> | <b>3,889,086</b> | <b>4,781,238</b> |
| Less : Unearned lease and hire purchase income                  | 1,089,048        | 1,307,947        | 1,089,048        | 1,307,947        |
|   | <b>2,800,038</b> | <b>3,473,291</b> | <b>2,800,038</b> | <b>3,473,291</b> |

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

| As at 31 December  | Note | Company          |                   | Group            |                   |
|--|------|------------------|-------------------|------------------|-------------------|
|  |      | 2023<br>Rs.'000  | 2022<br>Rs.'000   | 2023<br>Rs.'000  | 2022<br>Rs.'000   |
| Rental receivable after one year from the reporting date |      | 6,633,012        | 8,270,159         | 6,633,012        | 8,270,159         |
| Less : Unearned lease and hire purchase income           |      | 929,278          | 1,115,692         | 929,278          | 1,115,692         |
|  |      | 5,703,734        | 7,154,467         | 5,703,734        | 7,154,467         |
| <b>Gross investment in leases and hire purchase</b>      |      | <b>8,503,772</b> | <b>10,627,758</b> | <b>8,503,772</b> | <b>10,627,758</b> |

#### 23.4.3 Lease and hire purchase receivable

|   |        |                  |                  |                  |                  |
|---|--------|------------------|------------------|------------------|------------------|
| Gross investment in leases and hire purchase      |        | 8,503,772        | 10,627,758       | 8,503,772        | 10,627,758       |
| Less : Allowance for impairment losses            |        |                  |                  |                  |                  |
| Individual impairment                             | 23.4.5 | 158,213          | 574,151          | 158,213          | 574,151          |
| Collective impairment                             | 23.4.5 | 665,537          | 549,924          | 665,537          | 549,924          |
| <b>Net investment in leases and hire purchase</b> |        | <b>7,680,022</b> | <b>9,503,683</b> | <b>7,680,022</b> | <b>9,503,683</b> |

#### 23.4.4 Analysis of lease and hire purchase receivable on maximum exposure to credit risk as at 31st December 2023

|                          | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|--------------------------|--------------------|--------------------|--------------------|------------------|
| Gross receivables        | 4,453,644          | 1,843,952          | 2,206,176          | 8,503,772        |
| Individual impairment    | -                  | -                  | (158,213)          | (158,213)        |
| Collective impairment    | (42,857)           | (49,599)           | (573,081)          | (665,537)        |
| <b>As at 31 December</b> | <b>4,410,787</b>   | <b>1,794,353</b>   | <b>1,474,882</b>   | <b>7,680,022</b> |

#### 23.4.5 Movement of impairment during the year 2023

|                                   | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|-----------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Individual</b>                 |                    |                    |                    |                  |
| <b>As at 01 January</b>           | -                  | -                  | 574,151            | 574,151          |
| Charge/(reversal) during the year | -                  | -                  | (415,938)          | (415,938)        |
| <b>As at 31 December</b>          | -                  | -                  | 158,213            | 158,213          |
| <b>Collective</b>                 |                    |                    |                    |                  |
| <b>As at 01 January</b>           | 76,755             | 171,413            | 301,755            | 549,923          |
| Charge/(reversal) during the year | (33,898)           | (121,814)          | 271,326            | 115,614          |
| <b>As at 31 December</b>          | <b>42,857</b>      | <b>49,599</b>      | <b>573,081</b>     | <b>665,537</b>   |

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

|                          | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|--------------------------|--------------------|--------------------|--------------------|------------------|
| Gross receivables        | 4,363,425          | 3,253,614          | 3,010,719          | 10,627,758       |
| Individual impairment    | -                  | -                  | (574,151)          | (574,151)        |
| Collective impairment    | (76,756)           | (171,413)          | (301,755)          | (549,924)        |
| <b>As at 31 December</b> | <b>4,286,669</b>   | <b>3,082,201</b>   | <b>2,134,813</b>   | <b>9,503,683</b> |

## Notes to the Financial Statements (Contd.)

### 23.4 Lease and hire purchase receivable (Contd.)

#### 23.4.7 Movement of impairment during the year 2022

|                                   | Stage 1<br>Rs.'000 | Stage 2<br>Rs.'000 | Stage 3<br>Rs.'000 | Total<br>Rs.'000 |
|-----------------------------------|--------------------|--------------------|--------------------|------------------|
| <b>Individual</b>                 |                    |                    |                    |                  |
| <b>As at 01 January</b>           | -                  | -                  | 1,093,515          | 1,093,515        |
| Charge/(reversal) during the year | -                  | -                  | (519,364)          | (519,364)        |
| <b>As at 31 December</b>          | -                  | -                  | 574,151            | 574,151          |
| <b>Collective</b>                 |                    |                    |                    |                  |
| <b>As at 01 January</b>           | 97,631             | 104,502            | 505,435            | 707,568          |
| Charge/(reversal) during the year | (20,876)           | 66,912             | (203,680)          | (157,644)        |
| <b>As at 31 December</b>          | 76,755             | 171,413            | 301,755            | 549,924          |

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

|  | Stage 1                          |                             | Stage 2                          |                             | Stage 3                          |                             | Total                            |                             |
|--|----------------------------------|-----------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|----------------------------------|-----------------------------|
|  | Gross carrying amount<br>Rs.'000 | Impairment (ECL)<br>Rs.'000 |
| <b>Financial assets measured at amortised cost</b> |                                  |                             |                                  |                             |                                  |                             |                                  |                             |
| <b>Loans and receivables</b>                       |                                  |                             |                                  |                             |                                  |                             |                                  |                             |
| <b>As at 01 January 2022</b>                       | 15,611,832                       | 151,522                     | 4,014,563                        | 137,715                     | 12,075,766                       | 3,188,101                   | 31,702,161                       | 3,477,338                   |
| Transfer from Stage 1                              | 714,559                          | 17,641                      | (385,857)                        | (8,796)                     | (328,701)                        | (8,845)                     | -                                | -                           |
| Transfer from Stage 2                              | (1,147,940)                      | (57,597)                    | 1,536,265                        | 78,000                      | (388,325)                        | (20,403)                    | -                                | -                           |
| Transfer from Stage 3                              | (456,127)                        | (59,644)                    | (323,114)                        | (41,287)                    | 779,241                          | 100,931                     | -                                | -                           |
| New assets originated or purchased                 | 4,556,098                        | 48,228                      | 2,701,276                        | 51,615                      | 1,782,547                        | 244,996                     | 9,039,921                        | 344,838                     |
| Financial assets derecognized or repaid            | 5,122,773                        | 25,179                      | 1,591,644                        | 28,915                      | 2,759,228                        | 242,983                     | 9,473,645                        | 297,077                     |
| Write-off loans                                    | 187                              | 187                         | 2                                | 2                           | 713,370                          | 713,370                     | 713,559                          | 713,559                     |
| Changes in facility amount                         | (1,770,412)                      | (68,760)                    | (670,262)                        | (1,960)                     | (991,087)                        | 143,209                     | (3,431,762)                      | 72,489                      |
| Reschedule   | (182,137)                        | (14,220)                    | 667,594                          | 37,198                      | (443,056)                        | (19,812)                    | 42,401                           | 3,166                       |
| <b>As at 31 December 2022</b>                      | <b>12,202,913</b>                | <b>129,324</b>              | <b>5,948,819</b>                 | <b>227,488</b>              | <b>9,013,786</b>                 | <b>2,385,406</b>            | <b>27,165,518</b>                | <b>2,742,218</b>            |
| Transfer from Stage 1                              | 626,462                          | 6,273                       | (501,595)                        | (4,867)                     | (124,867)                        | (1,407)                     | -                                | -                           |
| Transfer from Stage 2                              | (836,710)                        | (19,521)                    | 1,041,001                        | 24,235                      | (204,292)                        | (4,715)                     | -                                | -                           |
| Transfer from Stage 3                              | (289,558)                        | (20,314)                    | (555,141)                        | (39,561)                    | 844,699                          | 59,875                      | -                                | -                           |
| New assets originated or purchased                 | 4,798,627                        | 34,089                      | 1,105,943                        | 4,442                       | 935,660                          | 253,347                     | 6,840,230                        | 291,878                     |
| Financial assets derecognized or repaid            | 4,588,987                        | 33,092                      | 2,750,215                        | 48,078                      | 2,023,503                        | 203,518                     | 9,362,705                        | 284,688                     |
| Write-off loans                                    | -                                | -                           | -                                | -                           | 48,973                           | 48,973                      | 48,973                           | 48,973                      |
| Changes in facility amount                         | (1,417,743)                      | 26,026                      | (926,344)                        | 87,886                      | (535,783)                        | (72,962)                    | (2,879,870)                      | 40,950                      |
| Reschedule   | (88,258)                         | (3,734)                     | 413,078                          | 6,500                       | (324,820)                        | (2,766)                     | -                                | -                           |
| <b>As at 31 December 2023</b>                      | <b>10,406,746</b>                | <b>66,999</b>               | <b>3,775,546</b>                 | <b>82,273</b>               | <b>7,531,907</b>                 | <b>2,510,211</b>            | <b>21,714,200</b>                | <b>2,659,485</b>            |

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

### ACCOUNTING POLICY

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

#### Debt instruments at FVTOCI

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

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

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

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

#### 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           |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Government securities                      | 24.1 | -               | -               | 86,459          | -               |
| Equity securities - Quoted                 | 24.2 | 13,750          | 15,000          | 13,750          | 15,000          |
| Equity securities - Unquoted               | 24.3 | 598             | 863             | 598             | 863             |
| Unit trust                                 |      | -               | -               | 18,414          | 62,288          |
| <b>Net financial investments at FVTOCI</b> |      | <b>14,348</b>   | <b>15,863</b>   | <b>119,221</b>  | <b>78,151</b>   |

### 24.1 Government Securities

|                |   |   |        |   |
|----------------|---|---|--------|---|
| Treasury bonds | - | - | 86,459 | - |
|                | - | - | 86,459 | - |

## Notes to the Financial Statements (Contd.)

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

#### 24.2 Equity Securities - Quoted

| As at 31 December       | 2023         |                       |                       | 2022         |                       |                       |
|-------------------------|--------------|-----------------------|-----------------------|--------------|-----------------------|-----------------------|
|                         | No of Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 | No of Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 |
| <b>Company</b>          |              |                       |                       |              |                       |                       |
| <b>Power and Energy</b> |              |                       |                       |              |                       |                       |
| LVL Energy Fund PLC     | 2,500        | 20,000                | 13,750                | 2,500        | 20,000                | 15,000                |
|                         |              | 20,000                | 13,750                |              | 20,000                | 15,000                |
| <b>Group</b>            |              |                       |                       |              |                       |                       |
| <b>Power and Energy</b> |              |                       |                       |              |                       |                       |
| LVL Energy Fund PLC     | 2,500        | 20,000                | 13,750                | 2,550        | 20,000                | 15,000                |
|                         |              | 20,000                | 13,750                |              | 20,000                | 15,000                |

#### 24.3 Equity Securities - Unquoted

| As at 31 December                                 | Company      |                 |                       |                       |                 |                       |                       |
|---|--------------|-----------------|-----------------------|-----------------------|-----------------|-----------------------|-----------------------|
|   | Holding<br>% | 2023            |                       |                       | 2022            |                       |                       |
|   |              | No of<br>Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 | No of<br>Shares | Total Cost<br>Rs.'000 | Fair Value<br>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<br>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                | 544                   | 2,506,562       | 17,546                | 809                   |
|   |              |                 | 36,200                | 598                   |                 | 36,200                | 863                   |
| Adjustment due to impairment                      |              |                 | (35,602)              |                       |                 | (35,337)              |                       |
| <b>Total unquoted investments</b>                 |              |                 | 598                   |                       |                 | 863                   |                       |

#### 24.4 Equity Securities - Unquoted

| As at 31 December                                 | Group        |                 |                       |                       |                 |                       |                       |
|---|--------------|-----------------|-----------------------|-----------------------|-----------------|-----------------------|-----------------------|
|   | Holding<br>% | 2023            |                       |                       | 2022            |                       |                       |
|   |              | No of<br>Shares | Total Cost<br>Rs.'000 | Fair Value<br>Rs.'000 | No of<br>Shares | Total Cost<br>Rs.'000 | Fair Value<br>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<br>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                | 544                   | 2,506,562       | 17,546                | 809                   |
|   |              |                 | 36,200                | 598                   |                 | 36,200                | 863                   |
| Adjustment due to impairment                      |              |                 | (35,602)              |                       |                 | (35,337)              |                       |
| <b>Total unquoted investments</b>                 |              |                 | 598                   |                       |                 | 863                   |                       |

24.4.1 Although the Company has acquired 46.35% equity capital of Ceylinco Investment Company Limited, the investment has not been classified as an associate company due to pending court decision on the ownership structure of the Company.

## 25. FINANCIAL INVESTMENTS AT AMORTISED COST

### ACCOUNTING POLICY

As per SLFRS 9, 'Financial investments' are measured at amortised cost if it meets both of the following conditions and is not designated at FVTPL:

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

After initial measurement, these are subsequently measured at amortised cost (gross carrying amount using the EIR, less provision for impairment). Amortised cost is calculated by taking into account any discount or premium on acquisition and fees and costs that are an integral part of the EIR. The amortisation is included in 'Interest Income' while the losses arising from impairment are recognised in 'impairment charges for loans and other losses' in the Statement of Profit or Loss.

As per previously classified under LKAS 39, this included financial investments held-to-maturity.

Held-to-maturity financial investments were non-derivative financial assets with fixed or determinable payments and fixed maturities, that the Group had the positive intention and ability to hold to maturity, and which are not designated at fair value through profit or loss or available-for-sale. After initial measurement, held-to-maturity financial investments were subsequently measured at amortised cost using the EIR, less provision for impairment. EIR is calculated by taking into account any discount or premium on acquisition and fees. The amortisation is included in 'Interest Income' while the losses arising from impairment of such investments are recognised in 'Impairment charges and other losses' in the Statement of Profit or Loss.

| As at 31 December     | Company         |                 | Group           |                 |
|-----------------------|-----------------|-----------------|-----------------|-----------------|
|                       | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Government securities | 3,727,940       | 4,307,394       | 5,304,189       | 5,883,995       |
|                       | 3,727,940       | 4,307,394       | 5,304,189       | 5,883,995       |

### 25.1 Government Securities

| As at 31 December | Company         |                 | Group           |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
|                   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Treasury bills    | 234,720         | 2,910,161       | 1,339,267       | 4,020,106       |
| Treasury bonds    | 3,493,220       | 1,397,233       | 3,964,922       | 1,863,889       |
|                   | 3,727,940       | 4,307,394       | 5,304,189       | 5,883,995       |

### 25.2 Government securities allocated for the liquidity requirement

| As at 31 December   | Company         |                 |
|---|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Government securities, maturing within one year, free from any lien or charge | 2,979,348       | 2,992,197       |
|   | 2,979,348       | 2,992,197       |

## Notes to the Financial Statements (Contd.)

### 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           |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
|                   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Real estate stock | 58,158          | 96,937          | 58,158          | 96,937          |
|                   | 58,158          | 96,937          | 58,158          | 96,937          |

### 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 % | 2023          |                    | 2022          |                    |
|  |                          |                    |               |           | Cost Rs.'000  | Fair Value Rs.'000 | Cost Rs.'000  | Fair Value Rs.'000 |
| <b>Unquoted</b>                        |                          |                    |               |           |               |                    |               |                    |
| Lanka Securities (Pvt) Ltd             | Sri Lanka                | Share Brokering    | 5,212,543     | 29.00%    | 81,084        | 81,084             | 81,084        | 81,084             |
| Less : Impairment provision/(reversal) |                          |                    |               |           | -             | -                  | -             | -                  |
| <b>Balance as at 31 December</b>       |                          |                    |               |           | <b>81,084</b> | <b>81,084</b>      | <b>81,084</b> | <b>81,084</b>      |

### 27.1 Carrying Value on Equity Basis

| As at 31 December  | Group                      |                |
|--|----------------------------|----------------|
|  | Lanka Securities (Pvt) Ltd |                |
|  | 2023 Rs.'000               | 2022 Rs.'000   |
| Net assets at the beginning of the year                          | 172,841                    | 131,399        |
| Prior year adjustment  | -                          | 2,401          |
| Add : Profit/(loss) before tax accruing to the group             | 29,182                     | 56,131         |
| Less : Income tax  | (8,423)                    | (17,496)       |
| Add : Other comprehensive income for the year, net of Income Tax | (60)                       | 406            |
| Less : Dividend received   | (24,633)                   | -              |
| <b>Net assets at the end of the year</b>                         | <b>168,908</b>             | <b>172,841</b> |

### 27.2 Summarized Financial Information of Associate

| For the year ended 31 December                           | Lanka Securities (Pvt) Ltd |                |
|--|----------------------------|----------------|
|  | 2023 Rs.'000               | 2022 Rs.'000   |
| Income   | 414,252                    | 539,822        |
| <b>Less : Expenses</b>                                   | <b>313,623</b>             | <b>346,267</b> |
| Profit/(loss) before taxation                            | 100,629                    | 193,555        |
| Less : Income tax expense/(reversal)                     | 29,044                     | 60,333         |
| <b>Profit/(loss) for the year</b>                        | <b>71,585</b>              | <b>133,222</b> |
| Defined Benefit Plan Actuarial Gains/(Losses)            | (296)                      | 2,001          |
| Tax impact on Actuarial (Loss)/Gain                      | 89                         | (600)          |
| <b>Total comprehensive income/(expense) for the year</b> | <b>71,378</b>              | <b>134,623</b> |

| As at 31 December | 2023 Rs.'000 | 2022 Rs.'000 |
|-------------------|--------------|--------------|
| Total assets      | 865,568      | 1,066,824    |
| Total liabilities | 298,120      | 470,823      |

## Notes to the Financial Statements (Contd.)

### 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 met the minimum regulatory 'Total Available Capital' (TAC) to carryout general insurance business as at 31st December 2023. The Life Insurance business operates with a deficit of TAC as of 31st December 2023, however, no new Life Insurance policies is underwritten by the company and taken measures 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 | 2023              |                |                    | 2022              |                |                    |
|----------------------------------|------|--------------------|--------------------------|-------------------|----------------|--------------------|-------------------|----------------|--------------------|
|                                  |      |                    |                          | 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      | 352,696            | 53.81             | 1,016,096      | 257,631            |
| Less: Impairment provision       | 28.2 |                    |                          |                   | 663,400        |                    |                   | 758,465        |                    |
| <b>Balance as at 31 December</b> |      |                    |                          |                   | <b>352,696</b> |                    |                   | <b>257,631</b> |                    |

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

|                                       | MBSL<br>Insurance<br>Rs.'000 |
|---------------------------------------|------------------------------|
| <b>Cost</b>                           |                              |
| <b>Balance as at 01 January 2022</b>  | 1,016,096                    |
| Investment made during the year       | -                            |
| <b>Balance as at 31 December 2022</b> | 1,016,096                    |
| Investment made during the year       | -                            |
| <b>Balance as at 31 December 2023</b> | 1,016,096                    |
| <b>Impairment provision</b>           |                              |
| <b>Balance as at 01 January 2022</b>  | (644,692)                    |
| Impairment reversal/(charge)          | (113,773)                    |
| <b>Balance as at 31 December 2022</b> | (758,465)                    |
| Impairment reversal/(charge)          | 95,065                       |
| <b>Balance as at 31 December 2023</b> | (663,400)                    |
| <b>As at 31 December 2022</b>         | 257,631                      |
| <b>As at 31 December 2023</b>         | 352,696                      |

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 Profit or loss Statement of MBSL Insurance Company Ltd

|   | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|---|--------------------------|--------------------------|
| Non-controlling interest (NCI) percentage (%)                                 | 46.19%                   | 46.19%                   |
| Net operating income  | 433,682                  | 443,285                  |
| Operating expenses  | (441,828)                | (414,521)                |
| <b>Profit before income tax</b>   | <b>(8,146)</b>           | <b>28,764</b>            |
| Income tax (expense)/reversal   | -                        | 4,947                    |
| <b>Profit/(loss) for the year</b>   | <b>(8,146)</b>           | <b>33,711</b>            |
| <b>Profit allocated to non-controlling interest (NCI)</b>                     | <b>(3,763)</b>           | <b>15,571</b>            |
| <b>Other comprehensive income allocated to non-controlling interest (NCI)</b> | <b>1,910</b>             | <b>1,059</b>             |

## Notes to the Financial Statements (Contd.)

### 28. INVESTMENT IN SUBSIDIARIES (Contd.)

#### 28.4 Summarized Financial Position Statement of MBSL Insurance Company Ltd

| As at 31 December  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
|--|------------------|------------------|
| Cash and cash equivalents                                  | 150,728          | 196,060          |
| Placements with banks & financial institutions             | 269,485          | 203,596          |
| Financial investments at fair value through profit or loss | 8,560            | 6,337            |
| Loans & receivables at amortised cost                      | 5,247            | 2,978            |
| Financial investments at amortised cost                    | 1,681,123        | 1,638,889        |
| Property, equipment and right-of-use assets                | 112,636          | 133,300          |
| Deferred tax assets  | 9,402            | 9,068            |
| Other assets   | 339,672          | 366,084          |
| <b>Total assets</b>  | <b>2,576,853</b> | <b>2,556,312</b> |
| Due to banks   | 3,033            | 9,217            |
| Debt issued and borrowed funds at amortised cost           | -                | 55,429           |
| Insurance contract liabilities-life                        | 393,030          | 355,190          |
| Insurance contract liabilities-non life                    | 671,728          | 643,229          |
| Other liabilities  | 547,100          | 528,821          |
| Retirement benefits obligations                            | 12,337           | 11,123           |
| <b>Total liabilities</b>                                   | <b>1,627,228</b> | <b>1,603,009</b> |
| <b>Net assets value</b>                                    | <b>949,625</b>   | <b>953,303</b>   |
| <b>Carrying amount of non-controlling interest (NCI)</b>   | <b>438,632</b>   | <b>440,331</b>   |

#### 28.5 Valuation assumptions and the Sensitivity 2023

The Subsidiary MBSLI valuation of life segment based on the absolute valuation methodology has used Net Asset Value (NAV) which reflect in the financial position of the Statement of Financial Position.

Valuation of Non- life segment based on Market Multiple value approach (MMM) used to perform a comparable analysis for the peers in the same industry. The comparable peers were selected from the listed companies in Sri Lanka in the non -life (general) insurance industry.

#### 28.6 Impairment Provision/Reversal

##### Impairment of Investment in Subsidiary :

Recoverable amount of the investment in subsidiary at the end of the financial position date as Rs. 353 Mn. Accordingly impairment reversal of Rs. 95 Mn (2022 impairment charge : Rs.114 Mn) was recorded during the year 2023 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           |                 |
|--|------|-----------------|-----------------|-----------------|-----------------|
|  |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Cost as at 01 January</b>   |      | 148,246         | 148,408         | 148,246         | 148,408         |
| Less: Provision  |      | 6,557           | 3,761           | 6,557           | 3,761           |
| <b>Cost as at 31 December</b>  | 29.1 | 141,689         | 144,647         | 141,689         | 144,647         |
| Accumulated depreciation as at 31 December   |      | 46,243          | 39,849          | 46,243          | 39,849          |
| <b>Net book value as at 31 December</b>  |      | 95,446          | 104,798         | 95,446          | 104,798         |
| <b>Accumulated depreciation</b>  |      |                 |                 |                 |                 |
| <b>Balance as at 01 January</b>  |      | 39,849          | 36,943          | 39,849          | 36,944          |
| Charge for the year  |      | 6,394           | 2,906           | 6,394           | 2,906           |
| <b>Balance as at 31 December</b>   |      | 46,243          | 39,849          | 46,243          | 39,849          |
| 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             |

## Notes to the Financial Statements (Contd.)

### 29. INVESTMENT PROPERTIES (Contd.)

#### 29.1 Investment Properties Held by the Company/Group

| As at 31 December  | 2023            |                |                |                      |                      |                   |               |                   |                                  |               |              |                   |               |
|--|-----------------|----------------|----------------|----------------------|----------------------|-------------------|---------------|-------------------|----------------------------------|---------------|--------------|-------------------|---------------|
|  | No of Buildings | Building sq.ft | Extent Perches | Fair Value Hierarchy | Cost/Carrying amount |                   |               | Net Book Value    |                                  |               | Fair Value   |                   |               |
|  |                 |                |                |                      | Land Rs.'000         | Buildings Rs.'000 | Total Rs.'000 | Provision Rs.'000 | Accumulated Depreciation Rs.'000 | Total Rs.'000 | Land Rs.'000 | Buildings Rs.'000 | Total Rs.'000 |
| Location   |                 |                |                |                      |                      |                   |               |                   |                                  |               |              |                   |               |
| No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.                               |                 |                | 16.61P         | Level 3              | 1,750                | -                 | 1,750         | 1,750             | -                                | -             | -            | -                 | -             |
| No 385/1, Kotte Road, Pitakotte. (Note.29.3)                                       | 1               | 2,896          | 19.01P         | Level 3              | 2,958                | 1,730             | 4,688         | 2,958             | 1,730                            | -             | 53,000       | -                 | 53,000        |
| No. 116/4,116/7,116/26, 116/27,116/29 1st Cross Street, Colombo 11.                |                 |                | 12.35P         | Level 3              | 1,249                | -                 | 1,249         | 1,249             | -                                | -             | -            | -                 | -             |
| No. 102 & 104, Dam Street, Colombo 12. (Note.29.3)                                 | 1               | 20,368         | 1R-10.7P       | Level 3              | 17,970               | 11,989            | 29,959        | -                 | 11,392                           | 18,567        | 188,000      | -                 | 188,000       |
| Kumbuththukuliya watte, Bangadeniya Road, Puttalam.                                |                 |                | 2.0A           | Level 3              | 600                  | -                 | 600           | 600               | -                                | -             | -            | -                 | -             |
| Fingara town & country Club, no.50/21, Old Kesbewa Road, Boralesgamuwa (Note.29.3) | 1               |                | 2A-1R-4.35P    | Level 3              | 65,604               | 44,396            | 110,000       | -                 | 33,121                           | 76,879        | 200,191      | 119,809           | 320,000       |
|  |                 |                |                |                      | 90,131               | 58,115            | 148,246       | 6,557             | 46,243                           | 95,446        | 441,191      | 119,809           | 561,000       |

#### 29.2 Investment Properties Held by the Company/Group

| As at 31 December   | 2022            |                |                |                      |                      |                   |               |                   |                                  |               |              |                   |               |
|---|-----------------|----------------|----------------|----------------------|----------------------|-------------------|---------------|-------------------|----------------------------------|---------------|--------------|-------------------|---------------|
|   | No of Buildings | Building sq.ft | Extent Perches | Fair Value Hierarchy | Cost/Carrying amount |                   |               | Net Book Value    |                                  |               | Fair Value   |                   |               |
|   |                 |                |                |                      | Land Rs.'000         | Buildings Rs.'000 | Total Rs.'000 | Provision Rs.'000 | Accumulated Depreciation Rs.'000 | Total Rs.'000 | Land Rs.'000 | Buildings Rs.'000 | Total Rs.'000 |
| Location  |                 |                |                |                      |                      |                   |               |                   |                                  |               |              |                   |               |
| No. 64 & 66, Nonagama Road, Pallegama, Embilipitiya.                                |                 |                | 16.61P         | Level 3              | 1,750                | -                 | 1,750         | 1,750             | -                                | -             | -            | -                 | -             |
| No. 385/1, Kotte Road, Pitakotte. (Note.29.3)                                       | 1               | 2,896          | 19.01P         | Level 3              | 2,958                | 1,730             | 4,688         | -                 | 951                              | 3,737         | 53,000       | -                 | 53,000        |
| No. 116/4,116/7,116/26, 116/27,116/29 1st Cross Street, Colombo 11.                 |                 |                | 12.35P         | Level 3              | 1,249                | -                 | 1,249         | 1,249             | -                                | -             | -            | -                 | -             |
| No. 102 & 104, Dam Street, Colombo 12. (Note.29.3)                                  | 1               | 20,368         | 1R-10.7P       | Level 3              | 17,970               | 11,989            | 29,959        | -                 | 8,006                            | 21,953        | 188,000      | -                 | 188,000       |
| Kumbuththukuliya watte, Bangadeniya Road, Puttalam.                                 |                 |                | 2.0A           | Level 3              | 600                  | -                 | 600           | 600               | -                                | -             | -            | -                 | -             |
| Mirissawelawatta hena, Thekkawatta, Dambadeniya.                                    |                 |                | 1A-OR-28.00P   | Level 3              | 162                  | -                 | 162           | 162               | -                                | -             | -            | -                 | -             |
| Fingara town & country Club, No.50/21, Old Kesbewa Road, Boralesgamuwa. (Note.29.3) | 1               |                | 2A-1R-4.35P    | Level 3              | 65,604               | 44,396            | 110,000       | -                 | 30,892                           | 79,108        | 200,191      | 119,809           | 320,000       |
|   |                 |                |                |                      | 90,293               | 58,115            | 148,408       | 3,761             | 39,849                           | 104,798       | 441,191      | 119,809           | 561,000       |

## 29.3

| 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<br>(Sri Lanka), Chartered<br>valuer(MRICS UK) | No 385/1, Kotte Road, Pallegama,<br>Embilipitiya.                         | <b>Market Comparable Method</b><br>Price per perch       | LKR.3,000,000/- P.P.                       |
|  | No 102 & 104, Dam Street, Colombo 12.                                     | <b>Market Comparable Method</b><br>Price per square foot | LKR.100/-                                  |
|  |   | Depreciation rate  | 25%  |
|  |   | Capitalizing rate  | 7%   |
|  | Fingara town & country Club, no.50/21,<br>Old Kesbewa Road, Boralesgamuwa | <b>Market Comparable Method</b><br>Price per square foot | LKR.160/-                                  |
|  |   | Depreciation rate  | 40%  |
|  |   | Capitalizing rate  | 8%   |

#### Valuation techniques and sensitivity of the fair value measurement of the investment properties of the Group

Description of the above valuation techniques together with narrative descriptions on sensitivity of the fair value measurement to changes in significant unobservable inputs are tabulated below:

| Valuation Technique   | Significant unobservable valuation inputs ( ranges of each property are given in the table above)  | Sensitivity of the fair value measurements to inputs   |
|---|--|--|
| This method considers the selling price of a similar property within a reasonably recent period of time in determining the fair value of the property being revalued. This involves evaluation of recent active market prices of similar assets, making appropriate adjustments for differences in size, nature, location and condition of specific property. In this process, outlier transactions, indicative of particularly motivated buyers or sellers are too compensated for since the price may not adequately reflect the fair market value. | <ul style="list-style-type: none"> <li>* Price per perch for land</li> <li>* Price per square foot for building</li> <li>* Depreciation rate for building</li> </ul> | <p>Estimated fair value would increase/ (decrease) if;</p> <ul style="list-style-type: none"> <li>* Price per perch of land would (increase/decrease)</li> <li>* Price per square foot for building would increase/(decrease)</li> <li>* Depreciation rate for building would increase/(decrease)</li> </ul> |

The Company has started the negotiations with the Officers of Urban Development Authority (UDA) requesting an approval to assign the lease hold rights to the tenants without condominium approval and upon obtaining approval from UDA to negotiate with the other tenants to recover our dues of the Dam Street Property.

### 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.

### 30.1 Company

|                                       | Freehold Land<br>Rs.'000 | Freehold Buildings<br>Rs.'000 | Motor Vehicles<br>Rs.'000 | Leasehold Vehicles<br>Rs.'000 | Computer Equipment<br>Rs.'000 | Office Equipment & Furniture<br>Rs.'000 | Right -of -use Assets<br>Rs.'000 | Total<br>Rs.'000 |
|---------------------------------------|--------------------------|-------------------------------|---------------------------|-------------------------------|-------------------------------|---|----------------------------------|------------------|
| <b>Cost</b>                           |                          |                               |                           |                               |                               |   |                                  |                  |
| <b>Balance as at 01 January 2022</b>  | 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)         |
| <b>Balance as at 31 December 2022</b> | 14,000                   | -                             | 118,950                   | -                             | 319,864                       | 405,236                                 | 726,428                          | 1,584,478        |
| Additions during the year             | -                        | -                             | -                         | -                             | 6,925                         | 20,512                                  | 301,901                          | 329,338          |
| Disposals during the year             | -                        | -                             | -                         | -                             | (3,259)                       | (13,845)                                | (358,263)                        | (375,367)        |
| <b>Balance as at 31 December 2023</b> | 14,000                   | -                             | 118,950                   | -                             | 323,530                       | 411,903                                 | 670,066                          | 1,538,449        |
| <b>Accumulated Depreciation</b>       |                          |                               |                           |                               |                               |   |                                  |                  |
| <b>Balance as at 01 January 2022</b>  | -                        | -                             | 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)         |
| <b>Balance as at 31 December 2022</b> | -                        | -                             | 104,812                   | -                             | 261,166                       | 235,652                                 | 478,179                          | 1,079,809        |
| Charge for the year                   | -                        | -                             | 10,220                    | -                             | 26,458                        | 32,136                                  | 159,529                          | 228,343          |
| On disposals                          | -                        | -                             | -                         | -                             | (3,113)                       | (12,434)                                | (339,592)                        | (355,139)        |
| <b>Balance as at 31 December 2023</b> | -                        | -                             | 115,032                   | -                             | 284,510                       | 255,355                                 | 298,116                          | 953,013          |
| <b>Net book value</b>                 |                          |                               |                           |                               |                               |   |                                  |                  |
| <b>As at 31 December 2022</b>         |                          |                               |                           |                               |                               |   |                                  | 504,669          |
| <b>As at 31 December 2023</b>         |                          |                               |                           |                               |                               |   |                                  | 585,436          |

### 30.2 Group

|                                       | Freehold Land<br>Rs.'000 | Freehold Buildings<br>Rs.'000 | Motor Vehicles<br>Rs.'000 | Leasehold Vehicles<br>Rs.'000 | Computer Equipment<br>Rs.'000 | Office Equipment & Furniture<br>Rs.'000 | Right -of -use Assets<br>Rs.'000 | Total<br>Rs.'000 |
|---------------------------------------|--------------------------|-------------------------------|---------------------------|-------------------------------|-------------------------------|---|----------------------------------|------------------|
| <b>Cost</b>                           |                          |                               |                           |                               |                               |   |                                  |                  |
| <b>Balance as at 01 January 2022</b>  | 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)         |
| <b>Balance as at 31 December 2022</b> | 14,000                   | -                             | 119,188                   | -                             | 389,556                       | 516,628                                 | 873,204                          | 1,912,576        |
| Additions during the year             | -                        | -                             | -                         | -                             | 22,051                        | 21,161                                  | 301,901                          | 345,113          |
| Disposals during the year             | -                        | -                             | -                         | -                             | (3,259)                       | (13,845)                                | (358,263)                        | (375,367)        |
| <b>Balance as at 31 December 2023</b> | 14,000                   | -                             | 119,188                   | -                             | 408,348                       | 523,944                                 | 816,842                          | 1,882,322        |
| <b>Accumulated Depreciation</b>       |                          |                               |                           |                               |                               |   |                                  |                  |
| <b>Balance as at 01 January 2022</b>  | -                        | -                             | 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)         |
| <b>Balance as at 31 December 2022</b> | -                        | -                             | 105,051                   | -                             | 322,821                       | 320,111                                 | 529,813                          | 1,277,796        |
| Charge for the year                   | -                        | -                             | 10,220                    | -                             | 31,278                        | 39,613                                  | 182,857                          | 263,968          |
| On disposals                          | -                        | -                             | -                         | -                             | (3,113)                       | (12,434)                                | (339,592)                        | (355,139)        |
| <b>Balance as at 31 December 2023</b> | -                        | -                             | 115,271                   | -                             | 350,986                       | 347,290                                 | 373,078                          | 1,186,625        |
| <b>Net book value</b>                 |                          |                               |                           |                               |                               |   |                                  |                  |
| <b>As at 31 December 2022</b>         |                          |                               |                           |                               |                               |   |                                  | 634,780          |
| <b>As at 31 December 2023</b>         |                          |                               |                           |                               |                               |   |                                  | 695,697          |

## Notes to the Financial Statements (Contd.)

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

#### Information on the Freehold Land and Buildings of the Company

| Location            | Name of the Professional Valuer   | Method of Valuation            | Date of Valuation* | Extent (Perches) | Revalued Amounts Land Rs.'000 | Net Book Value Land Rs.'000 | As a % of Total NBV |
|---------------------|---|--------------------------------|--------------------|------------------|-------------------------------|-----------------------------|---------------------|
| Kurunduwatta, Ekala | Mr. S. A. M. A. Perera<br>F.I.V (Sri Lanka),<br>Chartered valuer<br>(MRICSuk) | Market<br>Comparable<br>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           |                 |
|---------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                 | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Motor vehicles                  | 74,094          | 66,512          | 74,332          | 66,512          |
| Computer equipments             | 220,025         | 215,137         | 278,159         | 273,340         |
| Equipment, furniture & fittings | 93,486          | 91,091          | 103,882         | 157,508         |
| <b>Total</b>                    | <b>387,605</b>  | <b>372,740</b>  | <b>456,373</b>  | <b>497,360</b>  |

#### Temporarily Idle Property and Equipment

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

#### Property and Equipment Retired from Active Use

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

## 31. INTANGIBLE ASSETS

### ACCOUNTING POLICY

#### Basis of Recognition

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

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

#### Subsequent Expenditure

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

#### Useful Economic Lives

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

#### Derecognition

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

### 31.1 Company

|  | Computer Software<br>Rs.'000 | Total<br>Rs.'000 |
|--|------------------------------|------------------|
| <b>Cost</b>                                |                              |                  |
| <b>Balance as at 01 January 2022</b>       | 301,444                      | 301,444          |
| Additions and improvements during the year | 11,681                       | 11,681           |
| <b>Balance as at 31 December 2022</b>      | 313,125                      | 313,125          |
| Additions and improvements during the year | 2,041                        | 2,041            |
| Adjustment due to verification             | (25,240)                     | (25,240)         |
| <b>Balance as at 31 December 2023</b>      | <b>289,926</b>               | <b>289,926</b>   |
| <b>Accumulated amortisation</b>            |                              |                  |
| <b>Balance as at 01 January 2022</b>       | 172,866                      | 172,866          |
| Amortisation for the year                  | 37,051                       | 37,051           |
| <b>Balance as at 31 December 2022</b>      | 209,917                      | 209,917          |
| Amortisation for the year                  | 38,132                       | 38,132           |
| Adjustment due to verification             | (25,240)                     | (25,240)         |
| <b>Balance as at 31 December 2023</b>      | <b>222,809</b>               | <b>222,809</b>   |
| <b>Net book value</b>                      |                              |                  |
| <b>As at 31 December 2022</b>              |                              | 103,208          |
| <b>As at 31 December 2023</b>              |                              | 67,117           |

## Notes to the Financial Statements (Contd.)

### 31. INTANGIBLE ASSETS (Contd.)

#### 31.2 Group

|  | Computer Software<br>Rs.'000 | Goodwill<br>Rs.'000 | Total<br>Rs.'000 |
|--|------------------------------|---------------------|------------------|
| <b>Cost</b>                                    |                              |                     |                  |
| <b>Balance as at 01 January 2022</b>           | 349,635                      | 18,193              | 367,828          |
| Additions and improvements during the year     | 14,937                       | -                   | 14,937           |
| <b>Balance as at 31 December 2022</b>          | 364,572                      | 18,193              | 382,765          |
| Additions and improvements during the year     | 2,041                        | -                   | 2,041            |
| Adjustment due to verification                 | (25,240)                     | -                   | (25,240)         |
| <b>Balance as at 31 December 2023</b>          | <b>341,373</b>               | <b>18,193</b>       | <b>359,566</b>   |
| <b>Accumulated amortisation and impairment</b> |                              |                     |                  |
| <b>Balance as at 01 January 2022</b>           | 221,058                      | 18,193              | 239,251          |
| Amortisation for the year                      | 37,118                       | -                   | 37,118           |
| <b>Balance as at 31 December 2022</b>          | 258,176                      | 18,193              | 276,369          |
| Amortisation for the year                      | 38,946                       | -                   | 38,946           |
| Adjustment due to verification                 | (25,240)                     | -                   | (25,240)         |
| <b>Balance as at 31 December 2023</b>          | <b>271,882</b>               | <b>18,193</b>       | <b>290,075</b>   |
| <b>Net book value</b>                          |                              |                     |                  |
| <b>As at 31 December 2022</b>                  |                              |                     | 106,396          |
| <b>As at 31 December 2023</b>                  |                              |                     | <b>69,491</b>    |

#### 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           |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
|                   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Computer Software | 12,542          | 31,047          | 84,732          | 41,443          |

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 & prepayment and other receivables.

| As at 31 December                      | Company         |                 | Group           |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Other receivables                      | 46,389          | 48,958          | 39,770          | 63,921          |
| Advances and pre payments              | 137,860         | 135,357         | 166,448         | 173,495         |
| Other accounts                         | 15,797          | 22,134          | 49,161          | 41,507          |
| Reinsurance assets-insurance contracts | -               | -               | 142,520         | 158,580         |
| Insurance receivables                  | -               | -               | 141,816         | 135,029         |
|  | 200,046         | 206,449         | 539,715         | 572,532         |
| Less : Allowance for impairment losses | 49,168          | 43,292          | 49,168          | 43,292          |
| <b>Total</b>                           | <b>150,878</b>  | <b>163,157</b>  | <b>490,547</b>  | <b>529,240</b>  |

### 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           |                 |
|------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                    | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Bank overdraft                     | 36,895          | 152,060         | 39,928          | 161,277         |
| Reverse repurchase agreements      | -               | 252,060         | -               | 252,060         |
| Bank borrowings - Short-term loans | 2,563,075       | 2,389,466       | 2,563,075       | 2,389,466       |
| Bank borrowings - Long-term loans  | -               | 132,367         | -               | 132,367         |
|                                    | 2,599,970       | 2,925,953       | 2,603,003       | 2,935,170       |

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

| As at 31 December | Company         |                 | Group           |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
|                   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Dues to banks     | 36,895          | 152,060         | 39,928          | 161,277         |
|                   | 36,895          | 152,060         | 39,928          | 161,277         |

## Notes to the Financial Statements (Contd.)

### 33. DUE TO BANKS (Contd.)

#### 33.2 Contractual Maturity Analysis of Reverse Repurchase and Other Bank Loans - 2023

|                                    | Company/Group              |                        |                         |                  |
|------------------------------------|----------------------------|------------------------|-------------------------|------------------|
|                                    | Within one year<br>Rs.'000 | 1 - 5 Years<br>Rs.'000 | Over 5 years<br>Rs.'000 | Total<br>Rs.'000 |
| Bank borrowings - Short-term loans | 2,563,075                  | -                      | -                       | 2,563,075        |
|                                    | 2,563,075                  | -                      | -                       | 2,563,075        |

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

|                                    | Company/Group              |                        |                         |                  |
|------------------------------------|----------------------------|------------------------|-------------------------|------------------|
|                                    | Within one year<br>Rs.'000 | 1 - 5 Years<br>Rs.'000 | Over 5 years<br>Rs.'000 | Total<br>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          |
| <b>Total</b>                       | 2,641,526                  | 132,367                | -                       | 2,773,893        |

### 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           |                 |
|-------------------|-----------------|-----------------|-----------------|-----------------|
|                   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Savings deposits  | 965,142         | 764,165         | 961,578         | 764,165         |
| Time deposits     | 24,478,977      | 22,760,444      | 24,284,290      | 22,590,328      |
| <b>Total</b>      | 25,444,119      | 23,524,609      | 25,245,868      | 23,354,493      |

### 34.1 Contractual Maturity Analysis of Customer Deposits

|                  | 2023                       |                           |                            |                   |
|------------------|----------------------------|---------------------------|----------------------------|-------------------|
|                  | Within one year<br>Rs.'000 | 1 - 5<br>Years<br>Rs.'000 | Over<br>5 years<br>Rs.'000 | Total<br>Rs.'000  |
| <b>Company</b>   |                            |                           |                            |                   |
| Savings deposits | 627,247                    | 270,345                   | 67,550                     | 965,142           |
| Time deposits    | 19,261,374                 | 5,217,523                 | 81                         | 24,478,977        |
| <b>Total</b>     | <b>19,888,621</b>          | <b>5,487,868</b>          | <b>67,631</b>              | <b>25,444,119</b> |
| <b>Group</b>     |                            |                           |                            |                   |
| Savings deposits | 623,683                    | 270,345                   | 67,550                     | 961,578           |
| Time deposits    | 19,151,431                 | 5,132,779                 | 81                         | 24,284,290        |
| <b>Total</b>     | <b>19,775,114</b>          | <b>5,403,124</b>          | <b>67,631</b>              | <b>25,245,868</b> |

### 34.2 Contractual Maturity Analysis of Customer Deposits

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

### 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           |                 |
|-------------------|------|-----------------|-----------------|-----------------|-----------------|
|                   |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Debentures        | 35.1 | 741,030         | 69,082          | 741,030         | 69,082          |
|                   |      | 741,030         | 69,082          | 741,030         | 69,082          |

## Notes to the Financial Statements (Contd.)

### 35. DEBT ISSUED AND BORROWED FUNDS AT AMORTISED COST (Contd.)

#### 35.1 Debentures- 2023

| ISIN No.                | Interest Rate |                        |                                | Colombo Stock Exchange Listing | Security | Interest Payable Frequency | Allotment Date | Term of Redemption | Face Value     | Company/ Group   |
|-------------------------|---------------|------------------------|--------------------------------|--------------------------------|----------|----------------------------|----------------|--------------------|----------------|------------------|
|                         | Coupon Rate   | Effective Annual Yield | Comparable Government Security |                                |          |                            |                |                    |                | Value as at 2023 |
| <b>Fixed Rate</b>       |               |                        |                                |                                |          |                            |                |                    |                |                  |
| LK0186D25001            | 29.50%        | 24.00%                 | 27.60%                         | listed                         | Nil      | Annually                   | 16-Nov-22      | 15-Nov-27          | 23,990         | 22,894           |
| LK0186D25027            | 28.00%        | 24.88%                 | 27.60%                         | listed                         | Nil      | Bi Annually                | 16-Nov-22      | 15-Nov-27          | 32,880         | 31,441           |
| LK0186D25084            | 29.50%        | 29.50%                 | 25.24%                         | listed                         | Nil      | Annually                   | 10-Apr-23      | 09-Apr-28          | 276,660        | 315,719          |
| LK0186D25092            | 28.00%        | 29.96%                 | 25.24%                         | listed                         | Nil      | Bi Annually                | 10-Apr-23      | 09-Apr-28          | 255,140        | 254,239          |
| LK0186D25100            | 30.00%        | 24.57%                 | 25.24%                         | listed                         | Nil      | At Maturity                | 10-Apr-23      | 09-Apr-28          | 91,030         | 106,834          |
| <b>Floating Rate</b>    |               |                        |                                |                                |          |                            |                |                    |                |                  |
| LK0186D25019            | 40.00%        | 32.93%                 | 27.60%                         | listed                         | Nil      | Quarterly                  | 16-Nov-22      | 15-Nov-27          | 10,830         | 9,903            |
| <b>Total debentures</b> |               |                        |                                |                                |          |                            |                |                    | <b>690,530</b> | <b>741,030</b>   |

#### 35.2 Debentures - 2022

| ISIN No.                | Interest Rate |                        |                                | Colombo Stock Exchange Listing | Security | Interest Payable Frequency | Allotment Date | Term of Redemption | Face Value    | Company/ Group   |
|-------------------------|---------------|------------------------|--------------------------------|--------------------------------|----------|----------------------------|----------------|--------------------|---------------|------------------|
|                         | Coupon Rate   | Effective Annual Yield | Comparable Government Security |                                |          |                            |                |                    |               | Value as at 2022 |
| <b>Fixed Rate</b>       |               |                        |                                |                                |          |                            |                |                    |               |                  |
| 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           |
| <b>Floating Rate</b>    |               |                        |                                |                                |          |                            |                |                    |               |                  |
| LK0186D25019            | 29.50%        | 32.93%                 | 27.60%                         | listed                         | Nil      | Quarterly                  | 16-Nov-22      | 15-Nov-27          | 10,830        | 11,080           |
| <b>Total debentures</b> |               |                        |                                |                                |          |                            |                |                    | <b>67,700</b> | <b>69,082</b>    |

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

|                      | 2023                       |                        |                         |                  | 2022                       |                        |                         |                  |
|----------------------|----------------------------|------------------------|-------------------------|------------------|----------------------------|------------------------|-------------------------|------------------|
|                      | Within one year<br>Rs.'000 | 1 - 5 Years<br>Rs.'000 | Over 5 years<br>Rs.'000 | Total<br>Rs.'000 | Within one year<br>Rs.'000 | 1 - 5 Years<br>Rs.'000 | Over 5 years<br>Rs.'000 | Total<br>Rs.'000 |
| Unsecured debentures | -                          | -                      | 741,030                 | 741,030          | -                          | 69,082                 | -                       | 69,082           |

Outstanding number of debentures as at 31 December 2023 consisted of 690,530 unsecured redeemable debentures of Rs. 100/- each issued by the Company.

The Company has not repurchased any of its own debt during the year. (2022: Nil)

The Company has not had any default of principal, interest or other breaches with regard to all liabilities during 2023 and 2022.

Debenture issue proceeds utilization as at 31st December 2023.

| No.   | Objective as per the prospectus LKR   | Amount allocated as per prospectus | 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                 | 100%                   | -  |
| 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).  | 67,700,000                         | 16-Nov-22           | 67,700,000                             | 100%                | 54,160,000                 | 80%                    | Discounting of the amount counted as capital by 1/5 each proceeding years till maturity. |
| Issue of listed, unsecured, subordinated redeemable Debentures amounting LKR 622.83 Mn during the year 2023 |   |                                    |                     |  |                     |                            |                        |  |
| 3.  | The funds raised through this Debenture issue utilized to meet the regulatory capital requirements of the company (tier II) and also to reduce the maturity mismatch by increasing the medium term fund base to match the medium to long term lending portfolio of the company. | 622,830,000                        | 10-Apr-23           | 622,830,000                            | 100%                | 622,830,000                | 622,830,000            | -  |

## Notes to the Financial Statements (Contd.)

### 36. INSURANCE CONTRACT LIABILITIES

#### ACCOUNTING POLICY

##### 36.1 Valuation of life insurance fund

The valuation of life Insurance fund as at 31st 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           |                 |
|---------------------------------------|--------|-----------------|-----------------|
|                                       |        | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Balance as at 1 January</b>        |        | 356,208         | 317,645         |
| Increase in life fund                 |        | -               | -               |
|                                       |        | 356,208         | 317,645         |
| Fair value reserve                    |        | -               | -               |
| Life fund balance as at 31st December | 36.1.2 | 356,208         | 317,645         |
| Unclaimed benefits                    |        | 36,822          | 37,545          |
| <b>Balance as at 31 December</b>      |        | 393,030         | 355,190         |

#### 36.1.2 Life insurance fund

The movement of Life insurance fund is as follows;

|  |  |          |          |
|--|--|----------|----------|
| Balance as at 1st January                        |  | 317,645  | 393,865  |
| Increase/(Decrease) in life fund                 |  | 57,026   | (83,302) |
|  |  | 374,671  | 310,563  |
| Movement of AFS reserve transferred to life fund |  | (18,807) | 6,815    |
| Actuarial gain on defined benefit plan           |  | 344      | 267      |
|  |  | 356,208  | 317,645  |

#### 36.2 ACCOUNTING POLICY

##### Liability adequacy test (LAT)

A Liability Adequacy Test ("LAT") for non life contract liability was carried out by Mr. Sivaraman Kumar for and on behalf of NMG Financial Services Consulting Pvt Limited as at 31st December 2019 as required by SLFRS 4 - Insurance Contracts.

The IBNR provision, together with the Case Reserves held by the Company, is expected to be adequate at a 50th percentile of confidence, to meet the future liabilities in respect of the Company's incurred claims obligations as at 31 December 2019, in many but not all scenarios of future experience. The UPR provision of LKR 69,202,787 set by the Company, net of reinsurance, is adequate in relation to the unexpired risks of MBSL Insurance Co Ltd as at 31 December 2019, in many but not all scenarios of future experience. As such, there is no premium deficiency to be recognised by the Company.

### Insurance Contract Liabilities-Non Life

| As at 31 December                                    | Group           |                 |
|--|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Provision for reported claims by policy holders      | 373,695         | 363,604         |
| Provision for claims IBNR                            | 41,497          | 44,414          |
| <b>Outstanding Claims provision</b>                  | <b>415,192</b>  | <b>408,018</b>  |
| Provision for Unearned Premiums                      | 256,536         | 235,211         |
| <b>Total Non life insurance contract liabilities</b> | <b>671,728</b>  | <b>643,229</b>  |

### 37. CURRENT TAX LIABILITIES

#### ACCOUNTING POLICY

The Group and the Company are subject to income taxes. Significant judgment is required to determine the total provision for current, deferred and other taxes. Uncertainties exist, with respect to the interpretation of the applicability of laws, at the time of the preparation of these Financial Statements.

Current tax assets are recognised at historical values less impairment. Income tax liabilities are recorded at the amounts expected to be paid.

The Group and Company recognised assets and liabilities for current deferred and other taxes based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters are different from the amounts that were initially recorded, such differences will impact the income, deferred tax amounts in the period in which the determination is made.

#### 37.1 Current tax liabilities/(receivables)

| As at 31 December                             | Company         |                 | Group           |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Current tax liabilities                       | 30,055          | 49,029          | 30,055          | 49,029          |
| <b>Balance at 01 January</b>                  | <b>49,029</b>   | <b>178,898</b>  | <b>49,029</b>   | <b>178,898</b>  |
| Current tax based on profit for the year      | 50,124          | 940             | 50,124          | 940             |
| Other (reversal)/charge including settlements | (940)           | (36,009)        | (940)           | (36,009)        |
| WHT movement for the year                     | (1,258)         | -               | (1,258)         | -               |
| Payment of tax                                | (66,900)        | (94,800)        | (66,900)        | (94,800)        |
| <b>Balance as at 31 December</b>              | <b>30,055</b>   | <b>49,029</b>   | <b>30,055</b>   | <b>49,029</b>   |

#### 37.2 Withholding Tax (WHT) and Advance Income Tax (AIT)

WHT has been reinstated in accordance with Sections 84 and 85 of the Inland Revenue Act No. 24 of 2017 and the amendments thereto (No. 10 of 2021 and No. 45 of 2022). As a result, starting on January 1, 2023, 5% will be applied to service fees for persons that exceed Rs. 100,000, 10% to rent for anyone that exceeds Rs. 100,000, 5% to any amount of interest, and 15% to dividends. On the income tax payment, this WHT deduction can be claimed as a tax credit.

## Notes to the Financial Statements (Contd.)

### 38. DEFERRED TAX LIABILITIES

#### ACCOUNTING POLICY

Deferred tax is provided on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax liabilities are recognised for all taxable temporary differences and deferred tax assets are recognised for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carry forward of unused tax credits and unused tax losses can be utilised.

The carrying amount of deferred tax assets is reviewed at each reporting date and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at each reporting date and are recognised to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the year when the asset is realised or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the reporting date.

Current tax and deferred tax relating to items recognised directly in equity are also recognised in equity and not in the Statement of Profit or Loss.

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           |                 |
|----------------------------|------|-----------------|-----------------|-----------------|-----------------|
|                            |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Net deferred tax asset     | 38.1 | (54,951)        | (33,824)        | (64,355)        | (42,893)        |
| Net deferred tax liability | 38.1 | -               | -               | -               | -               |
|                            |      | (54,951)        | (33,824)        | (64,355)        | (42,893)        |

#### 38.1 Deferred Tax Movement

|  | Accelerated Depreciation<br>for Tax Purposes |                  | Provision<br>for Loan<br>Losses | Retirement<br>Benefit<br>Obligation | Tax<br>Losses on<br>Operation | Right of<br>Use Assets | T-Bond &<br>Bills | Total     |
|--|--|------------------|---------------------------------|-------------------------------------|-------------------------------|------------------------|-------------------|-----------|
|  | Property,<br>Plant &<br>Equipment            | Leased<br>Assets |                                 |                                     |                               |                        |                   |           |
| <b>Company</b>                         |  |                  |                                 |                                     |                               |                        |                   |           |
| <b>Balance as at 01 January 2022</b>   | 54,737                                       | 145,287          | (36,502)                        | (77,025)                            | -                             | (8,196)                | -                 | 78,301    |
| Due to rate reduction                  | -  | -                | -                               | -                                   | -                             | -                      | -                 | -         |
| Due to change in temporary differences | 9,858  | (87,461)         | (29,021)                        | (21,450)                            | -                             | 1,836                  | -                 | (126,238) |
| <b>Other comprehensive income</b>      |  |                  |                                 |                                     |                               |                        |                   |           |
| Due to change in temporary differences | -  | -                | -                               | 14,113                              | -                             | -                      | -                 | 14,113    |
| <b>Balance as at 31 December 2022</b>  | 64,595                                       | 57,826           | (65,523)                        | (84,362)                            | -                             | (6,360)                | -                 | (33,824)  |
| <b>Company</b>                         |  |                  |                                 |                                     |                               |                        |                   |           |
| <b>Balance as at 01 January 2023</b>   | 64,595                                       | 57,826           | (65,523)                        | (84,362)                            | -                             | (6,360)                | -                 | (33,824)  |
| Due to rate increase/(decrease)        | -  | -                | -                               | -                                   | -                             | -                      | -                 | -         |
| Due to change in temporary differences | (10,741)                                     | (47,271)         | 63,202                          | (2,987)                             | -                             | (4,368)                | -                 | (2,165)   |
| <b>Other comprehensive income</b>      |  |                  |                                 |                                     |                               |                        |                   |           |
| Due to change in temporary differences | -  | -                | -                               | (18,962)                            | -                             | -                      | -                 | (18,962)  |
| <b>Balance as at 31 December 2023</b>  | 53,854                                       | 10,555           | (2,321)                         | (106,311)                           | -                             | (10,728)               | -                 | (54,951)  |

|  | 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 |                           |                               |                         |                     |                |           |
| <b>Group</b>                           |   |               |                           |                               |                         |                     |                |           |
| <b>Balance as at 01 January 2022</b>   | 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) |
| <b>Other comprehensive income</b>      |   |               |                           |                               |                         |                     |                |           |
| Due to rate increase/(decrease)        | -   | -             | -                         | -                             | -                       | -                   | (2)            | (2)       |
| Due to change in temporary differences | -   | -             | -                         | 14,114                        | -                       | -                   | (9)            | 14,104    |
| <b>Balance as at 31 December 2022</b>  | 63,564                                    | 57,824        | (65,524)                  | (87,540)                      | -                       | (11,188)            | (29)           | (42,893)  |
| <b>Balance as at 01 January 2023</b>   |   |               |                           |                               |                         |                     |                |           |
| Due to rate reduction                  | -   | -             | -                         | -                             | -                       | -                   | -              | -         |
| Due to change in temporary differences | (7,970)                                   | (47,271)      | 63,202                    | (3,415)                       | -                       | (5,702)             | (1,344)        | (2,500)   |
| <b>Other comprehensive income</b>      |   |               |                           |                               |                         |                     |                |           |
| Due to change in temporary differences | -   | -             | -                         | (18,962)                      | -                       | -                   | -              | (18,962)  |
| <b>Balance as at 31 December 2023</b>  | 55,594                                    | 10,553        | (2,322)                   | (109,917)                     | -                       | (16,890)            | (1,373)        | (64,355)  |

### 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            |                  |
|----------------------------------|------|-----------------|-----------------|------------------|------------------|
|                                  |      | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| Accrued expenses                 |      | 77,323          | 109,442         | 84,336           | 112,857          |
| Lease liability                  | 39.1 | 373,742         | 246,832         | 466,100          | 358,637          |
| Payable to employees & suppliers |      | 146,852         | 147,941         | 194,236          | 249,274          |
| Insurance payable                |      | -               | -               | 161,730          | 91,855           |
| Other liabilities                |      | 260,991         | 182,146         | 499,608          | 402,563          |
| <b>Total</b>                     |      | <b>858,908</b>  | <b>686,361</b>  | <b>1,406,010</b> | <b>1,215,186</b> |

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

| As at 31 December        | Company         |                 | Group           |                 |
|--------------------------|-----------------|-----------------|-----------------|-----------------|
|                          | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Operating Lease</b>   |                 |                 |                 |                 |
| Balance as at 01 January | 246,832         | 334,980         | 358,637         | 450,324         |
| Additions/(disposals)    | 272,850         | 68,389          | 272,850         | 78,522          |
| Accretion of interest    | 59,012          | 39,951          | 73,073          | 55,968          |
| Payments                 | (204,952)       | (196,488)       | (238,460)       | (226,741)       |
| <b>Finance Lease</b>     |                 |                 |                 |                 |
| Within 12 months         | -               | -               | -               | 564             |
| <b>Total</b>             | <b>373,742</b>  | <b>246,832</b>  | <b>466,100</b>  | <b>358,637</b>  |

The maturity analysis of lease liabilities are disclosed in Note 47.6.1.

## Notes to the Financial Statements (Contd.)

### 39. OTHER LIABILITIES (Contd.)

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

##### Sensitivity discount rates

1% increase/(decrease) in discount rate as at 31st December 2023 would have (decreased)/increased the lease liability by approximately Rs. 9.6 Mn with a similar (decrease)/increase in the right-of-used asset (2022 it was Rs. 3.061 Mn). Had the Company (decreased)/increased the discount rate by 1%, The Company's profit before tax for the year would have increased/(decreased) by approximately LKR Rs. 3.45 Mn (2022 it Was 3.25 Mn).

The Group had total cash outflows for leases of Rs 271.40 Mn (2022: Rs 256.15 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 below,

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           |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Balance as at 01 January</b>  | 281,203         | 320,935         | 292,326         | 332,724         |
| Expense recognised during the year   | 72,052          | 61,641          | 75,604          | 64,341          |
| Payment made during the year   | (62,094)        | (54,328)        | (64,778)        | (55,707)        |
| Actuarial (gains)/losses recognised in the Statement of Other Comprehensive Income | 63,207          | (47,045)        | 63,551          | (49,032)        |
| <b>Balance as at 31 December</b>   | <b>354,368</b>  | <b>281,203</b>  | <b>366,703</b>  | <b>292,326</b>  |

#### 40.1 Expense Recognised in the Statement of Profit or Loss

|   |               |               |               |               |
|---|---------------|---------------|---------------|---------------|
| Current service cost                      | 20,029        | 24,733        | 21,474        | 26,187        |
| Interest cost                             | 52,023        | 36,908        | 54,131        | 38,154        |
| <b>Expense recognised during the year</b> | <b>72,052</b> | <b>61,641</b> | <b>75,604</b> | <b>64,341</b> |

An actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2023 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'.

|                                | Company                    |                            |
|--------------------------------|----------------------------|----------------------------|
|                                | 2023                       | 2022                       |
| <b>Financial Assumptions</b>   |                            |                            |
| Discount rate                  | 14.00%                     | 18.50%                     |
| <b>Demographic Assumptions</b> |                            |                            |
| Mortality                      | A 1967/70 Mortality Table  | A 1967/70 Mortality Table  |
| Disability                     | 10% of the Mortality Table | 10% of the Mortality Table |
| Retirement age                 | refer note 40.2 below      | refer note 40.2 below      |

**40.2** 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.

Expected average working life of the active participants is 5.91 years as of 31 December 2023 (7.25 years as of 31 December 2022).

#### 40.3 Sensitivity of Assumptions Employed in Actuarial Valuation

The following table demonstrates the sensitivity to a reasonably possible change in the key assumptions employed with all other variables held constant in the employment benefit liability measurement.

The sensitivity of the Statement of Profit or Loss and Statement of Financial Position is the effect of the assumed changes in discount rate on the profit or loss and employment benefit obligation for the year.

| 2023                                 |  |  |  |
|--------------------------------------|--|--|--|
| 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<br>Rs. Mn | Sensitivity Effect on Employment Benefit Obligation Increase / (Decrease) in the Liability<br>Rs. Mn |
| 1%                                   |  | (13.21)  | (13.21)  |
| (1%)                                 |  | 14.32  | 14.32  |
|                                      | 1%                                       | 15.74  | 15.74  |
|                                      | (1%)                                     | (14.69)  | (14.69)  |

## Notes to the Financial Statements (Contd.)

### 40.3 Sensitivity of Assumptions Employed in Actuarial Valuation (Contd.)

#### Maturity Profile of the Defined benefit Obligation

|                           | Company         |                 | Group           |                 |
|---------------------------|-----------------|-----------------|-----------------|-----------------|
|                           | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Within the next 12 months | 82,478          | 57,736          | 83,176          | 57,736          |
| Between 1-2 years         | 88,476          | 89,788          | 99,795          | 90,365          |
| Between 2-5 years         | 78,012          | 58,248          | 78,012          | 68,265          |
| Between 5-10 years        | 80,132          | 56,646          | 80,192          | 56,941          |
| Beyond 10 years           | 25,270          | 18,785          | 25,529          | 19,018          |
| <b>Total</b>              | <b>354,368</b>  | <b>281,203</b>  | <b>366,703</b>  | <b>292,326</b>  |

### 41. STATED CAPITAL

| As at 31 December                     | Company         |                 | Group           |                 |
|---------------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                       | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Issued and fully paid ordinary shares | 4,276,448       | 4,276,448       | 4,276,448       | 4,276,448       |
|                                       | 4,276,448       | 4,276,448       | 4,276,448       | 4,276,448       |

| As at 31 December      | Company                  |                          | Group                    |                          |
|------------------------|--------------------------|--------------------------|--------------------------|--------------------------|
|                        | 2023<br>No. of<br>Shares | 2022<br>No. of<br>Shares | 2023<br>No. of<br>Shares | 2022<br>No. of<br>Shares |
| No. of shares in issue | 524,539,637              | 524,539,637              | 524,539,637              | 524,539,637              |
|                        | 524,539,637              | 524,539,637              | 524,539,637              | 524,539,637              |

### 42. RESERVES

#### 42.1 Statutory Reserves

| As at 31 December                | Company         |                 | Group           |                 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Balance as at 01 January</b>  | <b>339,996</b>  | <b>339,996</b>  | <b>339,996</b>  | <b>339,996</b>  |
| Add: Transfers during the year   | 4,178           | -               | 4,178           | -               |
| <b>Balance as at 31 December</b> | <b>344,174</b>  | <b>339,996</b>  | <b>344,174</b>  | <b>339,996</b>  |

Statutory reserve represents the reserve fund of the Company created in terms of the Finance Companies (Capital Funds) Direction No. 01 of 2003 issued by the Central Bank of Sri Lanka.

## 42.2 Retained Earnings

| As at 31 December   | Company            |                  | Group              |                  |
|---|--------------------|------------------|--------------------|------------------|
|   | 2023<br>Rs.'000    | 2022<br>Rs.'000  | 2023<br>Rs.'000    | 2022<br>Rs.'000  |
| <b>Balance as at 01 January</b>                                 | (944,964)          | (427,847)        | (594,119)          | (251,498)        |
| Add: Profit/(loss) for the year                                 | 20,888             | (495,608)        | (82,098)           | (325,059)        |
| Other comprehensive income                                      | (44,245)           | 32,932           | (44,490)           | 34,478           |
| Transfers to regulatory loss allowance reserve                  | (317,149)          | (54,441)         | (317,149)          | (54,441)         |
| Prior year adjustment made to share of associate company profit | -                  | -                | -                  | 2,401            |
| Transfers to statutory reserves                                 | (4,178)            | -                | (4,178)            | -                |
| <b>Balance as at 31 December</b>                                | <b>(1,289,648)</b> | <b>(944,964)</b> | <b>(1,042,034)</b> | <b>(594,119)</b> |

## 42.3 RLA reserve

| As at 31 December                | Company         |                 | Group           |                 |
|----------------------------------|-----------------|-----------------|-----------------|-----------------|
|                                  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Balance as at 01 January</b>  | 54,441          | -               | 54,441          | -               |
| Transfers during the year        | 317,149         | 54,441          | 317,149         | 54,441          |
| <b>Balance as at 31 December</b> | <b>371,590</b>  | <b>54,441</b>   | <b>371,590</b>  | <b>54,441</b>   |

## 42.4 OCI RESERVE

| As at 31 December  | Company         |                 | Group           |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>Balance as at 01 January</b>                                    | (30,377)        | (19,642)        | (34,502)        | (23,860)        |
| Add: Gains/(losses) on remeasuring financial investments at FVTOCI | (1,515)         | (10,735)        | 895             | (10,642)        |
| <b>Balance as at 31 December</b>                                   | <b>(31,892)</b> | <b>(30,377)</b> | <b>(33,607)</b> | <b>(34,502)</b> |

## 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. 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 and were directors of the Company as at 31 December 2023.

## Notes to the Financial Statements (Contd.)

### 43. RELATED PARTY DISCLOSURE (Contd.)

#### 43.c Transactions with Key Management Personnel and their Close Family Members

##### Remuneration to Key Management Personnel

| For the year ended 31 December                  | Company         |                 | Group           |                 |
|---|-----------------|-----------------|-----------------|-----------------|
|   | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| <b>(a) Remuneration to Board of Directors</b>   |                 |                 |                 |                 |
| Short term employees benefits                   | 4,663           | 4,364           | 8,463           | 14,739          |
|   | 4,663           | 4,364           | 8,463           | 14,739          |
| <b>(b) Remuneration to Corporate Management</b> |                 |                 |                 |                 |
| Short term employees benefits                   | 102,361         | 94,973          | -               | -               |
| Post employment benefits                        | 13,267          | 2,441           | -               | -               |
|   | 115,628         | 97,414          | -               | -               |

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

|   | Board of Directors |                 | Corporate Management |                 |
|---|--------------------|-----------------|----------------------|-----------------|
|   | 2023<br>Rs.'000    | 2022<br>Rs.'000 | 2023<br>Rs.'000      | 2022<br>Rs.'000 |
| <b>(a) Items in the Statement of Financial Position</b> |                    |                 |                      |                 |
| <b>Company</b>  |                    |                 |                      |                 |
| Assets - Loan and receivables                           | -                  | -               | 12,949               | 12,662          |
| Liabilities - Due to customers                          | -                  | -               | 11,256               | 7,277           |
| <b>Group</b>  |                    |                 |                      |                 |
| Assets - Loan and receivables                           | 54,599             | 65,668          | -                    | -               |
| Liabilities - Due to customers                          | 26                 | 30              | 12,975               | 4,713           |
| <b>(b) Items in the Statement of Profit or Loss</b>     |                    |                 |                      |                 |
| <b>Company</b>  |                    |                 |                      |                 |
| Interest income   | -                  | -               | 339                  | 732             |
| Interest expense  | 6                  | -               | 1,881                | 806             |
| <b>Group</b>  |                    |                 |                      |                 |
| Interest income   | 1,060              | 10,268          | -                    | -               |
| Interest expense  | 1                  | 3               | 1,890                | 359             |

In addition to the above, the Company has also provided company maintained vehicles to the Chairman, Chief Executive officer and four 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 |      |
|-----------------------------|---------|------|
|                             | 2023    | 2022 |
| 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.

| Company   | Nature of Transactions  | Income/(Expenses) Recognised During the Year |                 | Assets/(Liabilities) as at 31 December |                 | Net Accomodation as a % of capital funds as at 31.12.2023 | Net Accomodation as a % of capital funds as at 31.12.2022 |
|---|---|--|-----------------|--|-----------------|---|---|
|   |   | 2023<br>Rs.'000                              | 2022<br>Rs.'000 | 2023<br>Rs.'000                        | 2022<br>Rs.'000 |   |   |
| <b>Transactions with parent company</b>                 |   |  |                 |  |                 |   |   |
| Bank of Ceylon  | Money market loan   | (167,385)                                    | (417,915)       | (1,155,125)                            | (1,454,037)     | -   | -   |
|   | Debenture   | -  | (37,882)        | -                                      | -               | -   | -   |
|   | Current accounts  | (832)  | (1,346)         | 391,839                                | 126,087         | -   | -   |
|   | Overdue interest  | (6,887)                                      | (8,848)         | (35,131)                               | (121,461)       | -   | -   |
|   | Investments in repo   | 64   | 8,294           | -                                      | 100,242         | -   | -   |
|   | Term loan obtained  | (12,074)                                     | (48,336)        | -                                      | (132,366)       | -   | -   |
| <b>Transactions with subsidiary</b>                     |   |  |                 |  |                 |   |   |
| MBSL Insurance Company Limited                          | Loans granted   | -  | 23,282          | -                                      | 55,429          | -   | 1.66%   |
|   | Impairment charge/(reversal) on loans granted                               | (1,920)                                      | 2,577           | -                                      | 1,920           | -   | -   |
|   | Fixed deposits and savings  | (38,048)                                     | (23,637)        | (198,251)                              | (170,116)       | -   | -   |
|   | Insurance agency commission   | 12,983                                       | 17,772          | -                                      | -               | -   | -   |
|   | Service charges income  | 1,929  | -               | -                                      | -               | -   | -   |
|   | Insurance expenses  | (21,136)                                     | (23,992)        | -                                      | -               | -   | -   |
|   | Loans granted to Key management personnel of MBSL Insurance Company Limited | 1,060  | 10,268          | -                                      | 65,668          | 1.64%   | 1.57%   |
| <b>Transactions with associate</b>                      |   |  |                 |  |                 |   |   |
| Lanka Securities (Pvt) Ltd                              | Loans granted   | -  | 11              | -                                      | -               | -   | 0.007%  |
|   | Dividend received   | 24,633                                       | -               | -                                      | -               | -   | -   |
| <b>Transactions with other companies</b>                |   |  |                 |  |                 |   |   |
| BOC Property Development and Management Company Limited | Debenture   | (2,378)                                      | (477)           | (10,202)                               | (10,477)        | -   | -   |
|   | Rent paid   | (94,771)                                     | (109,945)       | -                                      | -               | -   | -   |
| Transnational Lanka Records Solutions (Pvt) Ltd         | Electricity, water, office maintenance                                      | (21,127)                                     | (12,467)        | (2,592)                                | (883)           | -   | -   |
|   | Storage charges   | (2,729,015)                                  | (2,828,323)     | -                                      | -               | -   | -   |
| Records Solutions (Pvt) Ltd                             | Backup media transport & vaulting   | (232,163)                                    | (253,671)       | -                                      | -               | -   | -   |

**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 |              |
|---------------------------|----------------|-----------------------------|-------------------|-----------------|--|-----------|----------------------|--------------|
|                           |                |                             | 2023<br>Rs.'000   | 2022<br>Rs.'000 | 2023<br>%                                | 2022<br>% | 2023                 | 2022         |
| Bank of Ceylon            | Parent Company | Money market loans obtained | 8,946,667         | 5,660,000       | 117%                                     | 86%       | Normal terms         | Normal terms |
|                           |                | Investments in repo         | 185,000           | 13,515,500      | 2%                                       | 206%      | Normal terms         | Normal terms |

## Notes to the Financial Statements (Contd.)

### 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. 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.

## Group

| As at 31 December   | Leasing          |                  | Loans and Receivables |                   | Corporate Advisory & Capital Markets |                  | Insurance        |                  | Eliminations/ Other |                    | Total             |                   |
|---|------------------|------------------|-----------------------|-------------------|--------------------------------------|------------------|------------------|------------------|---------------------|--------------------|-------------------|-------------------|
|   | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000       | 2022<br>Rs.'000   | 2023<br>Rs.'000                      | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000     | 2022<br>Rs.'000    | 2023<br>Rs.'000   | 2022<br>Rs.'000   |
| <b>Revenue from external customers</b>  |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
| Interest and similar income   | 1,703,257        | 2,273,989        | 2,589,853             | 2,765,935         | 626,036                              | 798,703          | 393,972          | 253,693          | 1,601,929           | 612,455            | 6,915,047         | 6,704,775         |
| Interest and similar expenses   | 1,291,634        | 1,503,379        | 1,639,601             | 1,772,005         | 336,843                              | 462,748          | 16,876           | (7,620)          | 1,612,532           | 957,552            | 4,897,486         | 4,688,064         |
| <b>Net interest income</b>  | <b>411,623</b>   | <b>770,610</b>   | <b>950,252</b>        | <b>993,930</b>    | <b>289,193</b>                       | <b>335,955</b>   | <b>377,096</b>   | <b>261,313</b>   | <b>(10,603)</b>     | <b>(345,097)</b>   | <b>2,017,561</b>  | <b>2,016,711</b>  |
| <b>Net fee and commission income</b>  |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
|   | 55,379           | 71,569           | 38,723                | 25,985            | 300                                  | 1,195            | 46,986           | 25,477           | 12,133              | 11,203             | 153,521           | 135,429           |
| Insurance premium income  | -                | -                | -                     | -                 | -                                    | -                | 494,462          | 381,735          | -                   | -                  | 494,462           | 381,735           |
| Net claims and benefits   | -                | -                | -                     | -                 | -                                    | -                | (503,761)        | (323,862)        | -                   | -                  | (503,761)         | (323,862)         |
| Net gain/(loss) on financial instruments at fair value through profit or loss | -                | -                | -                     | -                 | -                                    | -                | -                | -                | 561,446             | (139,460)          | 561,446           | (139,460)         |
| Real estate profit  | -                | -                | 19,576                | 28,533            | -                                    | -                | -                | -                | -                   | -                  | 19,576            | 28,533            |
| Other income  | 17,972           | 23,217           | 13,411                | 16,679            | 16,438                               | (129,999)        | 20,829           | 98,623           | 140,229             | 163,382            | 208,878           | 171,902           |
| <b>Total operating income</b>   | <b>484,974</b>   | <b>865,396</b>   | <b>1,021,962</b>      | <b>1,065,127</b>  | <b>305,931</b>                       | <b>207,151</b>   | <b>435,612</b>   | <b>443,286</b>   | <b>703,205</b>      | <b>(309,972)</b>   | <b>2,951,684</b>  | <b>2,270,987</b>  |
| Impairment (charges)/reversal for loans and other losses                      |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
|   | 300,324          | 677,007          | 31,276                | 269,720           | (255,668)                            | (343,799)        | -                | -                | (50,838)            | (586,424)          | 25,094            | 16,504            |
| <b>Net operating income</b>   | <b>785,298</b>   | <b>1,542,403</b> | <b>1,053,238</b>      | <b>1,334,847</b>  | <b>50,263</b>                        | <b>(136,648)</b> | <b>435,612</b>   | <b>443,286</b>   | <b>652,367</b>      | <b>(896,396)</b>   | <b>2,976,778</b>  | <b>2,287,492</b>  |
| Personnel expenses  | 341,311          | 426,862          | 433,261               | 503,134           | 16,270                               | 14,337           | 201,457          | 193,806          | 498,848             | 388,934            | 1,491,147         | 1,527,073         |
| Depreciation and amortisation   | 72,214           | 84,977           | 91,668                | 100,161           | 1,263                                | 275              | 36,438           | 33,203           | 107,725             | 80,007             | 309,308           | 298,623           |
| Other operating expenses  | 195,683          | 211,526          | 248,401               | 249,321           | 57,018                               | 65,109           | 203,933          | 187,511          | 238,314             | 134,727            | 943,349           | 848,194           |
| <b>Segment result</b>   | <b>176,090</b>   | <b>819,038</b>   | <b>279,908</b>        | <b>482,231</b>    | <b>(24,288)</b>                      | <b>(216,369)</b> | <b>(6,216)</b>   | <b>28,766</b>    | <b>(192,520)</b>    | <b>(1,500,064)</b> | <b>232,974</b>    | <b>(386,398)</b>  |
| <b>Profit/(loss) before VAT on financial services</b>                         |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
|   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    | 232,974           | (386,398)         |
| Taxes on financial services   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    | (292,911)         | (127,978)         |
| Share of associate company's profit/(loss) before tax                         |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    | 29,182            | 56,131            |
| <b>Profit/(Loss) before income tax</b>  |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
|   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    | (30,755)          | (458,245)         |
| Income tax expense/(reversal)   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    | (55,106)          | 148,757           |
| <b>Profit/(Loss) for the year</b>   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    | <b>(85,861)</b>   | <b>(309,488)</b>  |
| <b>Assets</b>   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
| <b>Capital expenditures</b>   |                  |                  |                       |                   |                                      |                  |                  |                  |                     |                    |                   |                   |
| Property, equipment and right-of-use assets                                   | 7,261            | 10,929           | 9,217                 | 14,101            | 1,894                                | 3,456            | 15,775           | 15,161           | 9,065               | 9,565              | 43,212            | 53,212            |
| Intangible assets   | 540              | 4,290            | 686                   | 5,535             | 141                                  | 1,357            | -                | -                | 674                 | 3,755              | 2,041             | 14,937            |
| <b>Total segment assets</b>   | <b>7,801,022</b> | <b>9,503,684</b> | <b>9,658,898</b>      | <b>12,261,999</b> | <b>2,147,795</b>                     | <b>3,005,477</b> | <b>242,056</b>   | <b>307,577</b>   | <b>16,084,079</b>   | <b>8,317,937</b>   | <b>35,812,850</b> | <b>33,396,674</b> |
| <b>Total segment liabilities</b>  | <b>7,946,910</b> | <b>8,389,098</b> | <b>10,087,811</b>     | <b>10,823,920</b> | <b>2,072,459</b>                     | <b>2,652,997</b> | <b>1,627,228</b> | <b>1,603,009</b> | <b>9,723,019</b>    | <b>5,444,681</b>   | <b>31,457,427</b> | <b>28,913,705</b> |

## Notes to the Financial Statements (Contd.)

### 45. FINANCIAL REPORTING BY SEGMENT (Contd.)

#### Group

| As at 31 December   | Western<br>Rs.'000 | Central<br>Rs.'000 | Southern<br>Rs.'000 | North<br>Western<br>Rs.'000 | Uva<br>Rs.'000 | North<br>Central<br>Rs.'000 | Sabaragamuwa<br>Rs.'000 | Eastern<br>Rs.'000 | Northern<br>Rs.'000 | 2023<br>Rs.'000   |
|---|--------------------|--------------------|---------------------|-----------------------------|----------------|-----------------------------|-------------------------|--------------------|---------------------|-------------------|
| <b>Revenue from external customers</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
| Interest and similar income   | 4,440,663          | 378,039            | 524,124             | 542,005                     | 122,373        | 192,959                     | 142,119                 | 226,699            | 346,066             | 6,915,047         |
| Interest and similar expenses   | 3,654,310          | 421,309            | 243,052             | 277,933                     | 28,193         | 38,630                      | 40,871                  | 77,954             | 115,234             | 4,897,486         |
| <b>Net interest income</b>  | <b>786,353</b>     | <b>(43,270)</b>    | <b>281,072</b>      | <b>264,072</b>              | <b>94,180</b>  | <b>154,329</b>              | <b>101,248</b>          | <b>148,745</b>     | <b>230,832</b>      | <b>2,017,561</b>  |
| <b>Net fee and commission income</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 87,996             | 10,344             | 16,479              | 13,887                      | 4,670          | 7,128                       | 3,649                   | 5,062              | 4,306               | 153,521           |
| Net gain/(loss) on financial instruments at fair value through profit or loss |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 561,446            | -                  | -                   | -                           | -              | -                           | -                       | -                  | -                   | 561,446           |
| Real estate profit  | 19,577             | -                  | -                   | -                           | -              | -                           | -                       | -                  | -                   | 19,577            |
| Other income  | 179,019            | 5,028              | 1,746               | 4,354                       | 436            | 1,671                       | 357                     | 3,554              | 3,414               | 199,579           |
| <b>Total operating income</b>   | <b>1,634,391</b>   | <b>(27,898)</b>    | <b>299,297</b>      | <b>282,313</b>              | <b>99,286</b>  | <b>163,128</b>              | <b>105,254</b>          | <b>157,361</b>     | <b>238,552</b>      | <b>2,951,684</b>  |
| Allowance for impairment losses charge for loans and other assets             |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 28,149             | (10,836)           | 448                 | 7,279                       | 1,337          | 526                         | 764                     | (3,197)            | 624                 | 25,094            |
| <b>Net operating income</b>   | <b>1,662,540</b>   | <b>(38,734)</b>    | <b>299,745</b>      | <b>289,592</b>              | <b>100,623</b> | <b>163,654</b>              | <b>106,018</b>          | <b>154,164</b>     | <b>239,176</b>      | <b>2,976,778</b>  |
| Personnel expenses  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 1,124,651          | 62,872             | 91,548              | 68,815                      | 19,703         | 34,426                      | 22,394                  | 36,995             | 29,743              | 1,491,147         |
| Depreciation and amortisation   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 292,161            | 2,030              | 4,091               | 3,982                       | 1,076          | 1,694                       | 1,093                   | 1,423              | 1,758               | 309,308           |
| Other operating expenses  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 706,956            | 36,426             | 58,231              | 48,993                      | 11,905         | 19,876                      | 14,157                  | 20,682             | 26,123              | 943,349           |
| <b>Segment result</b>   | <b>(461,228)</b>   | <b>(140,062)</b>   | <b>145,875</b>      | <b>167,802</b>              | <b>67,939</b>  | <b>107,658</b>              | <b>68,374</b>           | <b>95,064</b>      | <b>181,552</b>      | <b>232,974</b>    |
| <b>Profit/(loss) before VAT on financial services</b>                         |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | 232,974           |
| Taxes on financial services   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | (292,911)         |
| Share of associate company's profit/(loss) before tax                         |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | 29,182            |
| <b>Profit/(Loss) before income tax</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | (30,755)          |
| Income tax expense/ (reversal)  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | (55,106)          |
| <b>Profit/(Loss) for the year</b>   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | (85,861)          |
| <b>Assets</b>   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
| <b>Capital expenditures</b>   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
| Property, equipment and right-of-use assets                                   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 38,919             | 512                | 1,020               | 965                         | 287            | 406                         | 300                     | 385                | 418                 | 43,212            |
| Intangible assets   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 2,041              | -                  | -                   | -                           | -              | -                           | -                       | -                  | -                   | 2,041             |
| <b>Total segment assets</b>   | <b>27,212,518</b>  | <b>1,506,561</b>   | <b>1,758,778</b>    | <b>1,836,617</b>            | <b>506,275</b> | <b>665,557</b>              | <b>526,758</b>          | <b>800,123</b>     | <b>999,663</b>      | <b>35,812,850</b> |
| <b>Total segment liabilities</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 24,131,062         | 2,328,574          | 1,222,611           | 1,856,166                   | 194,719        | 281,016                     | 235,416                 | 494,814            | 713,049             | 31,457,427        |

## Group

| As at 31 December   | Western<br>Rs.'000 | Central<br>Rs.'000 | Southern<br>Rs.'000 | North<br>Western<br>Rs.'000 | Uva<br>Rs.'000 | North<br>Central<br>Rs.'000 | Sabaragamuwa<br>Rs.'000 | Eastern<br>Rs.'000 | Northern<br>Rs.'000 | 2022<br>Rs.'000   |
|---|--------------------|--------------------|---------------------|-----------------------------|----------------|-----------------------------|-------------------------|--------------------|---------------------|-------------------|
| <b>Revenue from external customers</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
| Interest and similar income   | 3,767,373          | 453,465            | 613,418             | 649,175                     | 143,076        | 238,931                     | 184,669                 | 278,775            | 375,893             | 6,704,775         |
| Interest and similar expenses   | 3,745,780          | 334,292            | 173,229             | 239,699                     | 17,351         | 25,722                      | 26,696                  | 44,879             | 80,416              | 4,688,063         |
| <b>Net interest income</b>  | <b>21,593</b>      | <b>119,173</b>     | <b>440,189</b>      | <b>409,476</b>              | <b>125,725</b> | <b>213,209</b>              | <b>157,973</b>          | <b>233,896</b>     | <b>295,477</b>      | <b>2,016,711</b>  |
| <b>Net fee and commission income</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 62,429             | 11,758             | 15,923              | 18,928                      | 4,698          | 8,688                       | 4,323                   | 4,909              | 3,773               | 135,429           |
| Net gain/(loss) on financial instruments at fair value through profit or loss |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | (139,460)          | -                  | -                   | -                           | -              | -                           | -                       | -                  | -                   | (139,460)         |
| Real estate profit  | 28,532             | -                  | -                   | -                           | -              | -                           | -                       | -                  | -                   | 28,532            |
| Other income  | 201,471            | 2,944              | 4,624               | 14,086                      | 1,102          | 5,243                       | 145                     | 131                | 30                  | 229,776           |
| <b>Total operating income</b>   | <b>174,565</b>     | <b>133,875</b>     | <b>460,736</b>      | <b>442,490</b>              | <b>131,525</b> | <b>227,140</b>              | <b>162,441</b>          | <b>238,936</b>     | <b>299,280</b>      | <b>2,270,988</b>  |
| Allowance for impairment losses charge for loans and other assets             |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | (2,936)            | (1,141)            | 981                 | (3,406)                     | 2,052          | 13,035                      | (5,981)                 | 11,516             | 2,384               | 16,504            |
| <b>Net operating income</b>   | <b>171,629</b>     | <b>132,734</b>     | <b>461,717</b>      | <b>439,084</b>              | <b>133,577</b> | <b>240,175</b>              | <b>156,460</b>          | <b>250,452</b>     | <b>301,664</b>      | <b>2,287,492</b>  |
| Personnel expenses  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 1,134,557          | 70,920             | 96,370              | 78,374                      | 18,545         | 34,184                      | 24,676                  | 39,593             | 29,854              | 1,527,073         |
| Depreciation and amortisation   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 278,689            | 2,317              | 4,892               | 4,551                       | 1,176          | 2,035                       | 1,305                   | 1,719              | 1,939               | 298,623           |
| Other operating expenses  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 637,007            | 34,475             | 52,714              | 41,443                      | 10,499         | 16,913                      | 13,778                  | 18,649             | 22,716              | 848,194           |
| <b>Segment result</b>   | <b>(1,878,624)</b> | <b>25,022</b>      | <b>307,741</b>      | <b>314,716</b>              | <b>103,357</b> | <b>187,043</b>              | <b>116,701</b>          | <b>190,491</b>     | <b>247,155</b>      | <b>(386,398)</b>  |
| <b>Profit/(loss) before VAT on financial services</b>                         |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | (386,398)         |
| Taxes on financial services   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | (127,978)         |
| Share of associate company's profit/(loss) before tax                         |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | 56,131            |
| <b>Profit/(Loss) before income tax</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     | <b>(458,245)</b>  |
| Income tax expense/(reversal)   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   |                    |                    |                     |                             |                |                             |                         |                    |                     | 148,757           |
| <b>Profit/(Loss) for the year</b>   |                    |                    |                     |                             |                |                             |                         |                    |                     | <b>(309,488)</b>  |
| <b>Assets</b>   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
| <b>Capital expenditures</b>   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
| Property, equipment and right-of-use assets                                   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 44,140             | 386                | 1,385               | 2,798                       | 1,798          | 578                         | 647                     | 797                | 683                 | 53,212            |
| Intangible assets   |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | 14,938             | -                  | -                   | -                           | -              | -                           | -                       | -                  | -                   | 14,938            |
| <b>Total segment assets</b>   | <b>22,019,124</b>  | <b>1,810,687</b>   | <b>2,459,319</b>    | <b>2,405,942</b>            | <b>534,300</b> | <b>901,996</b>              | <b>750,323</b>          | <b>1,080,688</b>   | <b>1,434,295</b>    | <b>33,396,674</b> |
| <b>Total segment liabilities</b>  |                    |                    |                     |                             |                |                             |                         |                    |                     |                   |
|   | <b>22,035,902</b>  | <b>2,445,315</b>   | <b>1,062,947</b>    | <b>1,752,515</b>            | <b>150,201</b> | <b>231,169</b>              | <b>221,832</b>          | <b>385,642</b>     | <b>628,182</b>      | <b>28,913,705</b> |

## Notes to the Financial Statements (Contd.)

### 46. 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           |                 |
|--|-----------------|-----------------|-----------------|-----------------|
|  | 2023<br>Rs.'000 | 2022<br>Rs.'000 | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Financial guarantees & claims to the customers | 42,093          | 103,938         | 128,909         | 131,377         |
|  | 42,093          | 103,938         | 128,909         | 131,377         |

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 29th February, 2024 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<br>28/02/2024  | 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 28/05/2024 | 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 LKR LKR 50,761,866.10 made by the Plaintiff to MBSL and a further sum of LKR 50 Mn as damages 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 25/04/2024 | Refund of the advance payment of LKR 50,761,866.10 together with interest at the rate of 14% per annum on the said sum from 27/07/2012 until the Decree and legal interest from the date of the Decree until payment in full and a further sum of LKR 50 Mn as damages. |
| 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. | Withdrawn on 10/01/2024     | 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 decremental payment in full.   |

| No. | Action / Case No.              | Purpose / Cause of Action  | Status as at 28/02/2024  | 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. On a complaint made by the Plaintiff a Criminal action is also instituted against the 1st Defendant in the HC Colombo bearing Case No. 1060/2002.                 | Written Submission on 19/03/2024. Connected Criminal action bearing No. HC Colombo 1060/2002 is also in the Trial stage. | Sum of LKR 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 LKR3,841,000/- for their equity investment in MBSL . This case has been subsequently transferred to Commercial High Court.   | Further Trial on 13/05/2024  | LKR 3,841,600   |
| 6   | 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 18/03/2024  | LKR 9,000,000   |
| 7   | CHC/381/17/MR                  | The Plaintiff is seeking inter alia, damages from MBSL amounting to a sum of LKR 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).  | Written Submission on 13/03/2024   | LKR 9,000,000 together with the legal interest there on from 23rd Aug. 2017 up to the Decree and the legal interest thereof up to the date of payment in full.. |
| 8   | DLM/151/19 DC - Colombo        | This action is filed against MBSL by the previous owner of the property based on constructive trust. The subject property had been transferred to MCSL prior to the merger by the previous owner in settlement of the dues of facilities granted by MCSL to the customer with a subsequent Buy Back Agreement and upon entering into lease agreement with the previous owner.                                  | Further Trial on 27/05/2024  | LKR 1,000,000,000 and interest on the same from September 2019 and interest on the Decreed amount until payment in full..                                       |
| 9   | 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 03/04/2024.   | LKR 400,000   |
| 10  | CA/TAX/43/2019 Court of Appeal | An appeal against the determination dated 2nd September 2019 delivered by the Tax Appeals Commission holding that the reversal of provision made for related party receivable should not be made liable for VAT on Financial Services.   | To be mentioned on 07/05/2024  | VAT on LKR 95,000,000   |
| 11  | 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.   | Trial 04/06/2024   | LKR 1,834,336.64  |

## Notes to the Financial Statements (Contd.)

### 46. CONTINGENT LIABILITIES AND COMMITMENTS (Contd.)

#### 46.1 Group

Contingencies and commitments of MBSL Insurance Company Limited.

##### 46.1.1 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.

##### 46.1.2 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           |                 |
|--------------------|-----------------|-----------------|
|                    | 2023<br>Rs.'000 | 2022<br>Rs.'000 |
| Bond claims        | 62,157          | 20,040          |
| Insurance claims   | 24,659          | 7,399           |
| Third party claims | 558,043         | 536,238         |
| <b>Total</b>       | <b>644,859</b>  | <b>563,677</b>  |

No provision has been made in the financial statements for a performance bond insurance claim amounting to Rs. 293,932,500 intimated in the year 2016. The performance bond was issued on behalf of a contractor, for a period of three years (from 1st November 2013 to 1st November 2016) annually renewable. However, the premium for the final year had not been settled by the contractor and the policy has been cancelled on 12th January 2016. The cancellation has been informed to the claimant in writing. On 1st September 2016, the claimant has called on the performance bond informing that the contractor has failed to perform as per the agreement entered with the claimant. There is a probability that the claimant would initiate legal action against MBSL Insurance Company Limited. However, the opinion of the directors in consultation with the company lawyers is that the claimant has no legal right to claim under the performance bond as it was cancelled by MBSL Insurance Company Limited for the non-settlement of premium and this was informed to the claimant several months before the claimant made the claim.

### 47. 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.

### 47.1 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.

### 47.2 Movement of the total allowance for expected credit losses during the period

| For the year ended 31 December 2023 | Note | Company          |                  | Group            |                  |
|-------------------------------------|------|------------------|------------------|------------------|------------------|
|                                     |      | 2023<br>Rs.'000  | 2022<br>Rs.'000  | 2023<br>Rs.'000  | 2022<br>Rs.'000  |
| Balance as at 01st January          |      | 2,659,485        | 2,742,217        | 2,659,485        | 2,742,217        |
| Net charge for the year             | 12.  | (33,759)         | (21,561)         | (33,759)         | (21,561)         |
| <b>Balance as at 31st December</b>  |      | <b>2,625,726</b> | <b>2,720,656</b> | <b>2,625,726</b> | <b>2,720,656</b> |

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.2 Movement of the total allowance for expected credit losses during the period (Contd.)

##### 47.2.1 Sensitive Analysis

*Impact of the measurement of the Company's allowance for expected credit losses for the year 2023.*

| As at 31 December  | Sensitivity effect on Statement of Financial Position<br>[Increase/(Decrease) in impairment provision] |                   |                   |                 | Sensitivity effect<br>on income<br>statement<br>Rs.000 |
|--|--|-------------------|-------------------|-----------------|--|
|  | Stage 1<br>Rs.000  | Stage 2<br>Rs.000 | Stage 3<br>Rs.000 | Total<br>Rs.000 |  |
| <b>Change in Probability of Default (PD)</b>                         |  |                   |                   |                 |  |
| Increase existing PD by 10% across all age buckets                   | 47,447   | 23,828            | -                 | 71,275          | 71,275   |
| Decrease existing PD by 10% across all age buckets                   | (42,997)   | (23,828)          | -                 | (66,825)        | (66,825)   |
| <b>Change in Loss Given Default (LGD)</b>                            |  |                   |                   |                 |  |
| 1% increase  | 7,814  | 9,453             | 36,023            | 53,290          | 53,290   |
| 1% decrease  | (7,814)  | (9,453)           | (36,023)          | (53,290)        | (53,290)   |
| <b>Change in Economic Factor Adjustment (EFA)</b>                    |  |                   |                   |                 |  |
| Worse case 5% increase, best case 5% decrease,<br>base case constant | 939  | 855               | -                 | 1,794           | 1,794  |
| Worse case 5% decrease, best case 5% increase,<br>base case constant | (957)  | (856)             | -                 | (1,813)         | (1,813)  |

*47.2.2 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<br>[Increase/(Decrease) in impairment provision] |                   |                   |                 | Sensitivity effect<br>on income<br>statement<br>Rs.000 |
|--|--|-------------------|-------------------|-----------------|--|
|  | Stage 1<br>Rs.000  | Stage 2<br>Rs.000 | Stage 3<br>Rs.000 | Total<br>Rs.000 |  |
| <b>Change in Probability of Default (PD)</b>                         |  |                   |                   |                 |  |
| 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)  |
| <b>Change in Loss Given Default (LGD)</b>                            |  |                   |                   |                 |  |
| 1% increase  | 20,340   | 28,341            | 49,111            | 97,792          | 97,792   |
| 1% decrease  | (8,995)  | (17,645)          | (40,897)          | (67,537)        | (67,537)   |
| <b>Change in Economic Factor Adjustment (EFA)</b>                    |  |                   |                   |                 |  |
| Worse case 5% increase, best case 5% decrease,<br>base case constant | 629  | 1,216             | -                 | 1,845           | 1,845  |
| Worse case 5% decrease, best case 5% increase, base case<br>constant | (655)  | (1,221)           | -                 | (1,876)         | (1,876)  |

##### 47.2.3 Overview of rescheduled/restructured loans and advances

An analysis rescheduled/restructured loans and advances of the Company, amounting to Rs. 691 Mn which are in stage 3 along with the impairment for ECL is as follows:

It is raised Rs. 72 Mn as impairment charge as at 31st December 2023. This does not include individually significant impaired loans and advances for which ECLs have been derived by discounting future cash flows of such loans.

#### 47.2.4 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.

47.2.5 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.

|  | 2023                                       |                         |
|--|--|-------------------------|
|  | Maximum Exposure to Credit Risk<br>Rs.'000 | Net Exposure<br>Rs.'000 |
| <b>Financial Assets</b>  |  |                         |
| Cash and cash equivalents  | 720,397                                    | 452,112                 |
| Placements with banks & financial institutions                         | 574,588                                    | 574,588                 |
| Financial investments at fair value through profit or loss             | 8,161,368                                  | 8,161,368               |
| Loans & receivables at amortised cost                                  | 21,714,200                                 | 1,493,182               |
| Financial investments at fair value through other comprehensive income | 14,348                                     | 14,348                  |
| Financial investments at amortised cost                                | 3,727,940                                  | 3,727,940               |
| <b>Total</b>   | <b>34,912,841</b>                          | <b>14,423,538</b>       |

|  | 2022                                       |                         |
|--|--|-------------------------|
|  | Maximum Exposure to Credit Risk<br>Rs.'000 | Net Exposure<br>Rs.'000 |
| <b>Financial Assets</b>  |  |                         |
| 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                  |
| Other Assets   | 4,307,394                                  | 4,307,394               |
| <b>Total</b>   | <b>32,628,691</b>                          | <b>6,989,665</b>        |

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.3 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 31st December | 2023                       |                              |                                  | 2022                       |                              |                                  |
|---------------------|----------------------------|------------------------------|----------------------------------|----------------------------|------------------------------|----------------------------------|
|                     | Carrying Amount<br>Rs.'000 | Market Risk Measurement      |                                  | Carrying Amount<br>Rs.'000 | Market Risk Measurement      |                                  |
|                     |                            | Trading Portfolio<br>Rs.'000 | Non-trading Portfolio<br>Rs.'000 |                            | Trading Portfolio<br>Rs.'000 | Non-trading Portfolio<br>Rs.'000 |
| Treasury bills      | 234,720                    | -                            | 234,720                          | 2,910,161                  | 2,910,161                    | -                                |
| Treasury bonds      | 3,493,220                  | 7,807,122                    | 3,493,220                        | 1,397,233                  | 1,397,233                    | -                                |

#### 47.3.1 Equity Risk

A summary of the VaR position of the Bank's trading equity goldings as at 31st December 2023 and during the period is as follows:

| As at 31 December                        | 2023    | 2022    |
|--|---------|---------|
| Equity Portfolio Market Value (LKR' Mn)  | 354     | 288     |
| Value at risk (%)                        | (3.30)  | (5.97)  |
| Maximum possible loss of value (LKR' Mn) | (11.69) | (17.16) |

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.

#### 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<br>5% | Scenario 2<br>10% | Scenario 3<br>15% |
| 2023              | 354.25   | (16.28)          | (32.56)           | (48.84)           |
| 2022              | 287.51   | (13.56)          | (27.13)           | (40.69)           |

The table above illustrates the sensitivity to a reasonably plausible alteration in quoted equity indices (ASPI), while maintaining all other variables constant on the Company's Statement of Profit or Loss. As of December 31, 2023, the All Share Price Index of the Colombo Stock Exchange was recorded at 10,654.16. Scenarios have been considered for a 5%, 10%, and 15% decrease from the year-end index.

#### 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.

#### 47.3.2 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 31st December 2023 and 31st December 2022 to a reasonable possible change (increase) 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(+/-) | 2023     | 2022  |
|-----------------------------|----------|-------|
| 2%                          | (105.10) | 37.7  |
| 4%                          | (210.20) | 75.5  |
| 6%                          | (315.30) | 113.2 |

#### Assumptions

- \* Repricing Gap Model is used to calculate the interest rate impact.
- \* Changes in interest rates will equally impact to RSA & RSL.

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.3 Market Risk (Contd.)

47.3.3 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<br>03 months<br>Rs.'000 | 3 - 12<br>months<br>Rs.'000 | 1-3<br>years<br>Rs.'000 | 3-5<br>years<br>Rs.'000 | More than<br>5 years<br>Rs.'000 | Non-Interest<br>bearing<br>Rs.'000 | 2023<br>Total<br>Rs.'000 |
|--|-------------------------------|-----------------------------|-------------------------|-------------------------|---------------------------------|------------------------------------|--------------------------|
| Cash and cash equivalents  | 720,397                       | -                           | -                       | -                       | -                               | -                                  | 720,397                  |
| Placements with banks & financial institutions                         | -                             | 406,925                     | 167,663                 | -                       | -                               | -                                  | 574,588                  |
| Financial investments at fair value through profit or loss             | 354,247                       | 212,614                     | 2,241,809               | 4,896,453               | 456,245                         | -                                  | 8,161,368                |
| Loans & receivables at amortised cost                                  | 5,571,781                     | 3,484,393                   | 519,779                 | 4,528,424               | 4,950,338                       | -                                  | 19,054,715               |
| Financial investments at fair value through other comprehensive income | 13,750                        | -                           | -                       | -                       | 598                             | -                                  | 14,348                   |
| Financial investments at amortised cost                                | 103,390                       | 2,781,092                   | 335,621                 | 507,837                 | -                               | -                                  | 3,727,940                |
| Financial other assets   | -                             | 9,041                       | -                       | -                       | 61,027                          | -                                  | 70,068                   |
| Non financial assets   | -                             | -                           | -                       | -                       | -                               | 1,375,698                          | 1,375,698                |
| <b>Total assets</b>  | <b>6,763,564</b>              | <b>6,894,064</b>            | <b>3,264,872</b>        | <b>9,932,715</b>        | <b>5,468,208</b>                | <b>1,375,698</b>                   | <b>33,699,122</b>        |
| Due to banks   | 2,599,970                     | -                           | -                       | -                       | -                               | -                                  | 2,599,970                |
| Due to customers at amortised cost                                     | 6,019,157                     | 13,869,464                  | 1,763,509               | 3,724,359               | 67,630                          | -                                  | 25,444,119               |
| Debt issued and borrowed funds at amortised cost                       | -                             | -                           | -                       | 741,030                 | -                               | -                                  | 741,030                  |
| Other financial liabilities  | 151,273                       | -                           | -                       | -                       | -                               | -                                  | 151,273                  |
| Non financial liabilities  | -                             | -                           | -                       | -                       | -                               | 1,092,058                          | 1,092,058                |
| <b>Total liabilities</b>   | <b>8,770,400</b>              | <b>13,869,464</b>           | <b>1,763,509</b>        | <b>4,465,389</b>        | <b>67,630</b>                   | <b>1,092,058</b>                   | <b>30,028,450</b>        |

#### 47.3.4

|  | Up to<br>03 months<br>Rs.'000 | 3 - 12<br>months<br>Rs.'000 | 1-3<br>years<br>Rs.'000 | 3-5<br>years<br>Rs.'000 | More than<br>5 years<br>Rs.'000 | Non-Interest<br>bearing<br>Rs.'000 | 2022<br>Total<br>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                          | -                                  | 66,230                   |
| Non financial assets   | -                             | -                           | -                       | -                       | -                               | 1,279,076                          | 1,279,076                |
| <b>Total assets</b>  | <b>8,668,090</b>              | <b>7,081,010</b>            | <b>1,409,213</b>        | <b>5,744,342</b>        | <b>7,050,048</b>                | <b>1,279,076</b>                   | <b>31,231,779</b>        |
| 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                  |
| <b>Total liabilities</b>   | <b>4,873,714</b>              | <b>14,776,781</b>           | <b>3,030,717</b>        | <b>3,927,074</b>        | <b>53,585</b>                   | <b>874,366</b>                     | <b>27,536,237</b>        |

#### 47.3.5 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                                | 2023  | 2022  |
|--|-------|-------|
| Market Value of Pawning Portfolio (LKR' Mn)      | 5,587 | 8,597 |
| Portfolio Balance (Pawning) (LKR' Mn)            | 3,978 | 5,666 |
| Loan to Value (LTV) Ratio                        | 71%   | 66%   |
| <b>Market Price Scenario &amp; Impact on LTV</b> |       |       |
| -10%   | 79%   | 73%   |
| -20%   | 89%   | 82%   |
| -30%   | 102%  | 94%   |

#### 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.

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.4 Industry Analysis Risk Concentration

##### 47.4.1 The Company's concentrations of risk are managed by industry sector.

| As at 31 December   | Financials<br>Rs.'000 | Agriculture<br>Rs.'000 | Manufacturing<br>Rs.'000 |
|---|-----------------------|------------------------|--------------------------|
| <b>Financial assets</b>   |                       |                        |                          |
| Cash and cash equivalents   | 720,397               | -                      | -                        |
| Placements with banks & financial institutions                                | 574,588               | -                      | -                        |
| <b>Financial investments at fair value through profit or loss</b>             |                       |                        |                          |
| Equity securities - Quoted  | 36,854                | 41,502                 | 24,743                   |
| Government securities   | 7,807,122             | -                      | -                        |
| Loans & receivables at amortised cost   | 3,120,493             | 1,614,844              | 1,996,764                |
| <b>Financial investments at fair value through other comprehensive income</b> | -                     |                        |                          |
| Equity securities - Quoted  | -                     | -                      | -                        |
| Equity securities - Unquoted  | 598                   | -                      | -                        |
| Financial investments at amortised cost                                       | 3,727,940             | -                      | -                        |
| Other assets  | 70,068                | -                      | -                        |
| <b>Total financial assets as at 31 December 2023</b>                          | <b>16,058,060</b>     | <b>1,656,346</b>       | <b>2,021,507</b>         |
| <b>Total financial assets as at 31 December 2022</b>                          | <b>8,942,401</b>      | <b>2,249,839</b>       | <b>2,378,894</b>         |

##### 47.4.2 The Group's concentrations of risk are managed by industry sector.

| As at 31 December   | Financials<br>Rs.'000 | Agriculture<br>Rs.'000 | Manufacturing<br>Rs.'000 |
|---|-----------------------|------------------------|--------------------------|
| <b>Financial assets</b>   |                       |                        |                          |
| Cash and cash equivalents   | 871,126               | -                      | -                        |
| Placements with banks & financial institutions                                | 645,823               | -                      | -                        |
| <b>Financial investments at fair value through profit or loss</b>             |                       |                        |                          |
| Equity securities - Quoted  | 37,462                | 41,501                 | 28,567                   |
| Government securities   | 7,807,122             | -                      | -                        |
| Loans & receivables at amortised cost   | 3,120,493             | 1,614,844              | 1,996,764                |
| <b>Financial investments at fair value through other comprehensive income</b> |                       |                        |                          |
| Government securities   | 86,459                | -                      | -                        |
| Equity securities - Quoted  | -                     | -                      | -                        |
| Equity securities - Unquoted  | 598                   | -                      | -                        |
| Unit trust  | -                     | -                      | -                        |
| Financial investments at amortised cost                                       | 5,304,189             | -                      | -                        |
| Other assets  | -                     | -                      | -                        |
| <b>Total financial assets as at 31 December 2023</b>                          | <b>17,873,272</b>     | <b>1,656,345</b>       | <b>2,025,331</b>         |
| <b>Total financial assets as at 31 December 2022</b>                          | <b>11,451,906</b>     | <b>3,059,702</b>       | <b>2,364,434</b>         |

|  | Tourism<br>Rs.'000 | Transportation<br>Rs.'000 | Construction<br>Rs.'000 | Trade<br>Rs.'000 | Services<br>Rs.'000 | Consumption<br>Rs.'000 | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|--|--------------------|---------------------------|-------------------------|------------------|---------------------|------------------------|--------------------------|--------------------------|
|  | -                  | -                         | -                       | -                | -                   | -                      | 720,397                  | 748,724                  |
|  | -                  | -                         | -                       | -                | -                   | -                      | 574,588                  | 103,682                  |
|  | -                  | -                         | 140,189                 | 27,302           | 78,499              | 5,157                  | 354,246                  | 287,510                  |
|  | -                  | -                         | -                       | -                | -                   | -                      | 7,807,122                | -                        |
|  | 526,885            | 2,439,990                 | 1,725,646               | 2,657,948        | 733,697             | 6,897,933              | 21,714,200               | 27,165,518               |
|  | -                  | -                         | 13,750                  | -                | -                   | -                      | 13,750                   | 15,000                   |
|  | -                  | -                         | -                       | -                | -                   | -                      | 598                      | 863                      |
|  | -                  | -                         | -                       | -                | -                   | -                      | 3,727,940                | 4,307,394                |
|  | -                  | -                         | -                       | -                | -                   | -                      | 70,068                   | 66,230                   |
|  | 526,885            | 2,439,990                 | 1,879,585               | 2,685,250        | 812,196             | 6,903,091              | 34,982,909               |                          |
|  | 482,080            | 2,533,917                 | 1,656,307               | 3,504,867        | 930,676             | 10,015,940             |                          | 32,694,921               |

|  | Tourism<br>Rs.'000 | Transportation<br>Rs.'000 | Construction<br>Rs.'000 | Trade<br>Rs.'000 | Services<br>Rs.'000 | Consumption<br>Rs.'000 | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|--|--------------------|---------------------------|-------------------------|------------------|---------------------|------------------------|--------------------------|--------------------------|
|  | -                  | -                         | -                       | -                | -                   | -                      | 871,126                  | 944,784                  |
|  | -                  | -                         | -                       | -                | -                   | -                      | 645,823                  | 137,162                  |
|  | -                  | -                         | 144,317                 | 27,302           | 78,499              | 5,158                  | 362,806                  | 293,847                  |
|  | -                  | -                         | -                       | -                | -                   | -                      | 7,807,122                | -                        |
|  | 526,885            | 2,439,990                 | 1,725,646               | 2,657,948        | 738,944             | 6,897,933              | 21,719,447               | 27,113,067               |
|  | -                  | -                         | -                       | -                | -                   | -                      | 86,459                   | -                        |
|  | -                  | -                         | 13,750                  | -                | -                   | -                      | 13,750                   | 15,000                   |
|  | -                  | -                         | -                       | -                | -                   | -                      | 598                      | 863                      |
|  | 18,414             | -                         | -                       | -                | -                   | -                      | 18,414                   | 62,288                   |
|  | -                  | -                         | -                       | -                | -                   | -                      | 5,304,189                | 5,883,995                |
|  | -                  | -                         | -                       | -                | -                   | -                      | 70,068                   | 66,230                   |
|  | 615,367            | 2,439,990                 | 1,883,713               | 2,685,250        | 817,443             | 6,903,091              | 36,899,802               |                          |
|  | 610,598            | 2,533,917                 | 3,294,051               | 3,853,712        | 1,686,995           | 10,031,436             |                          | 34,517,236               |

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.5 Geographical Analysis

The following table presents the distribution of financial assets of the Company & Group by geographical segment, allocated based on the location in which the financial assets and liabilities are recorded for the year ended 31 December 2023 together with comparative figures for the year ended 31 December 2022.

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

| As at 31 December   | Western<br>Rs.'000 | Central<br>Rs.'000 | Southern<br>Rs.'000 | North<br>Western<br>Rs.'000 | Uva<br>Rs.'000 | North<br>Central<br>Rs.'000 |  |
|---|--------------------|--------------------|---------------------|-----------------------------|----------------|-----------------------------|--|
| <b>Financial assets</b>   |                    |                    |                     |                             |                |                             |  |
| Cash and cash equivalents   | 580,469            | 19,528             | 39,983              | 27,002                      | 9,400          | 7,313                       |  |
| Placements with banks & financial institutions                                | 574,588            | -                  | -                   | -                           | -              | -                           |  |
| <b>Financial investments at fair value through profit or loss</b>             |                    |                    |                     |                             |                |                             |  |
| Equity securities - Quoted  | 354,246            | -                  | -                   | -                           | -              | -                           |  |
| Government securities   | 7,807,122          | -                  | -                   | -                           | -              | -                           |  |
| Loans & receivables at amortised cost   | 12,096,881         | 1,697,518          | 2,040,523           | 2,113,392                   | 526,745        | 796,432                     |  |
| <b>Financial investments at fair value through other comprehensive income</b> |                    |                    |                     |                             |                |                             |  |
| Government securities   | -                  | -                  | -                   | -                           | -              | -                           |  |
| Equity securities - Quoted  | 13,750             | -                  | -                   | -                           | -              | -                           |  |
| Equity securities - Unquoted  | 598                | -                  | -                   | -                           | -              | -                           |  |
| Financial investments at amortised cost                                       | 3,727,940          | -                  | -                   | -                           | -              | -                           |  |
| Other assets  | 70,068             | -                  | -                   | -                           | -              | -                           |  |
| <b>Total financial assets as at 31 December 2023</b>                          | <b>25,225,661</b>  | <b>1,717,046</b>   | <b>2,080,506</b>    | <b>2,140,394</b>            | <b>536,145</b> | <b>803,745</b>              |  |
| <b>Total financial assets as at 31 December 2022</b>                          | <b>20,167,137</b>  | <b>2,017,565</b>   | <b>2,778,699</b>    | <b>2,716,814</b>            | <b>564,463</b> | <b>1,037,807</b>            |  |

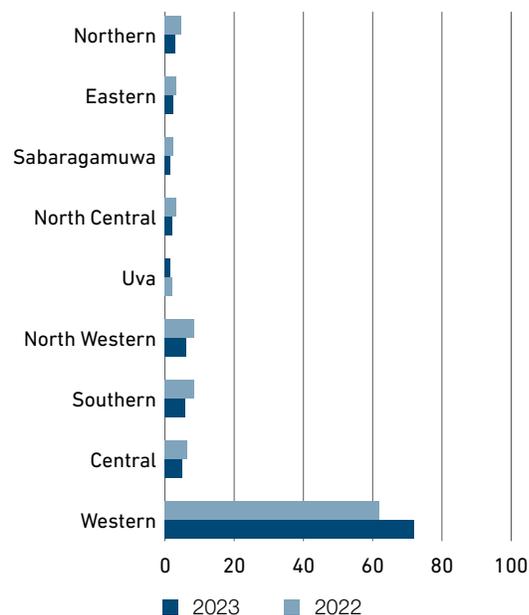
##### 47.5.2 The Group's concentrations of risk are managed by geographical segment.

| As at 31 December   | Western<br>Rs.'000 | Central<br>Rs.'000 | Southern<br>Rs.'000 | North<br>Western<br>Rs.'000 | Uva<br>Rs.'000 | North<br>Central<br>Rs.'000 |  |
|---|--------------------|--------------------|---------------------|-----------------------------|----------------|-----------------------------|--|
| <b>Financial assets</b>   |                    |                    |                     |                             |                |                             |  |
| Cash and cash equivalents   | 731,198            | 19,528             | 39,983              | 27,002                      | 9,400          | 7,313                       |  |
| Placements with banks & financial institutions                                | 645,823            | -                  | -                   | -                           | -              | -                           |  |
| <b>Financial investments at fair value through profit or loss</b>             |                    |                    |                     |                             |                |                             |  |
| Equity securities - Quoted  | 362,805            | -                  | -                   | -                           | -              | -                           |  |
| Government securities   | 7,807,122          | -                  | -                   | -                           | -              | -                           |  |
| Loans & receivables at amortised cost   | 12,102,127         | 1,697,518          | 2,040,523           | 2,113,392                   | 526,745        | 796,432                     |  |
| <b>Financial investments at fair value through other comprehensive income</b> |                    |                    |                     |                             |                |                             |  |
| Government securities   | 86,459             | -                  | -                   | -                           | -              | -                           |  |
| Equity securities - Quoted  | 13,750             | -                  | -                   | -                           | -              | -                           |  |
| Equity securities - Unquoted  | 598                | -                  | -                   | -                           | -              | -                           |  |
| Unit trust  | 18,414             | -                  | -                   | -                           | -              | -                           |  |
| Financial investments at amortised cost                                       | 5,304,189          | -                  | -                   | -                           | -              | -                           |  |
| Other assets  | 70,068             | -                  | -                   | -                           | -              | -                           |  |
| <b>Total financial assets as at 31 December 2023</b>                          | <b>27,142,553</b>  | <b>1,717,046</b>   | <b>2,080,506</b>    | <b>2,140,394</b>            | <b>536,145</b> | <b>803,745</b>              |  |
| <b>Total financial assets as at 31 December 2022</b>                          | <b>21,989,452</b>  | <b>2,017,565</b>   | <b>2,778,699</b>    | <b>2,716,814</b>            | <b>564,463</b> | <b>1,037,807</b>            |  |

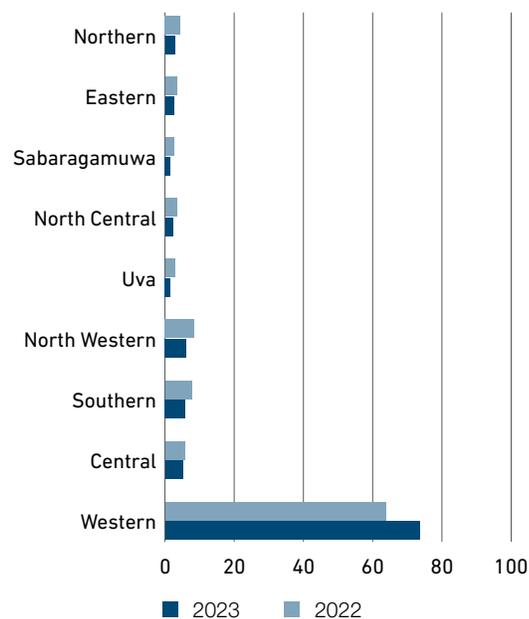
|  | Sabaragamuwa<br>Rs.'000 | Eastern<br>Rs.'000 | Northern<br>Rs.'000 | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|--|-------------------------|--------------------|---------------------|--------------------------|--------------------------|
|  | 10,509                  | 13,414             | 12,779              | 720,397                  | 748,724                  |
|  | -                       | -                  | -                   | 574,588                  | 103,682                  |
|  | -                       | -                  | -                   | 354,246                  | 287,510                  |
|  | -                       | -                  | -                   | 7,807,122                | -                        |
|  | 566,260                 | 836,405            | 1,040,044           | 21,714,200               | 27,165,518               |
|  | -                       | -                  | -                   | -                        | -                        |
|  | -                       | -                  | -                   | 13,750                   | 15,000                   |
|  | -                       | -                  | -                   | 598                      | 863                      |
|  | -                       | -                  | -                   | 3,727,940                | 4,307,394                |
|  | -                       | -                  | -                   | 70,068                   | 66,230                   |
|  | 576,769                 | 849,819            | 1,052,824           | 34,982,908               | -                        |
|  | 801,145                 | 1,126,162          | 1,485,129           |                          | 32,694,921               |

|  | Sabaragamuwa<br>Rs.'000 | Eastern<br>Rs.'000 | Northern<br>Rs.'000 | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|--|-------------------------|--------------------|---------------------|--------------------------|--------------------------|
|  | 10,509                  | 13,414             | 12,779              | 871,126                  | 944,784                  |
|  | -                       | -                  | -                   | 645,823                  | 137,162                  |
|  | -                       | -                  | -                   | 362,805                  | 293,847                  |
|  | -                       | -                  | -                   | 7,807,122                | -                        |
|  | 566,260                 | 836,405            | 1,040,044           | 21,719,446               | 27,113,067               |
|  | -                       | -                  | -                   | 86,459                   | -                        |
|  | -                       | -                  | -                   | 13,750                   | 15,000                   |
|  | -                       | -                  | -                   | 598                      | 863                      |
|  | -                       | -                  | -                   | 18,414                   | 62,288                   |
|  | -                       | -                  | -                   | 5,304,189                | 5,883,995                |
|  | -                       | -                  | -                   | 70,068                   | 66,230                   |
|  | 576,769                 | 849,819            | 1,052,824           | 36,899,801               |                          |
|  | 801,145                 | 1,126,162          | 1,485,129           |                          | 34,517,236               |

#### Company



#### Group



## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.6 Liquidity Risk

Liquidity risk is the possibility of losses arising from fluctuations in Group's ability to sell or dispose the assets and settle the liabilities.

Group believes that effective management of liquidity risk is vital for continuing Group's operations successful. Accordingly, Merchant Bank of Sri Lanka & Finance PLC has implemented the Board Approved Liquidity Risk Management Policy and established an Assets and Liability Committee (ALCO). Merchant Bank of Sri Lanka & Finance PLC uses ratios and maturity gap analysis to identify the liquidity risk of the Group.

#### Maturity Analysis

The table below summarises the maturity portfolio of the undiscounted cash flows of the Group's financial assets and liabilities as at 31 December 2023.

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.

#### 47.6.1 Company

|  | On Demand<br>Rs.'000 | Up to 03 months<br>Rs.'000 | 3 - 12 months<br>Rs.'000 | 1-3 years<br>Rs.'000 | 3-5 years<br>Rs.'000 | More than 5 years<br>Rs.'000 | 2023 Total<br>Rs.'000 | 2022 Total<br>Rs.'000 |
|--|----------------------|----------------------------|--------------------------|----------------------|----------------------|------------------------------|-----------------------|-----------------------|
| <b>Assets</b>  |                      |                            |                          |                      |                      |                              |                       |                       |
| <b>Financial assets</b>  |                      |                            |                          |                      |                      |                              |                       |                       |
| Cash and cash equivalents  | 720,397              | -                          | -                        | -                    | -                    | -                            | 720,397               | 748,724               |
| Placements with banks & financial institutions                         | -                    | -                          | 406,925                  | 167,663              | -                    | -                            | 574,588               | 103,682               |
| Financial investments at fair value through profit or loss             | -                    | 354,247                    | 212,614                  | 2,241,809            | 4,896,453            | 456,245                      | 8,161,368             | 287,510               |
| Loans & receivables at amortised cost                                  | 3,299,235            | 2,272,546                  | 3,484,393                | 519,779              | 4,528,424            | 4,950,338                    | 19,054,715            | 24,423,300            |
| Financial investments at fair value through other comprehensive income | -                    | 13,750                     | -                        | -                    | -                    | 598                          | 14,348                | 15,863                |
| Financial investments at amortised cost                                | -                    | 103,390                    | 2,781,092                | 335,621              | 507,837              | -                            | 3,727,940             | 4,307,394             |
| Financial other assets   | -                    | -                          | 9,041                    | -                    | -                    | 61,027                       | 70,068                | 66,231                |
| <b>Total financial assets as at 31 December 2023</b>                   | <b>4,019,632</b>     | <b>2,743,933</b>           | <b>6,894,065</b>         | <b>3,264,872</b>     | <b>9,932,714</b>     | <b>5,468,208</b>             | <b>32,323,424</b>     |                       |
| <b>Total financial assets as at 31 December 2022</b>                   | <b>4,937,229</b>     | <b>3,730,862</b>           | <b>7,081,010</b>         | <b>1,409,213</b>     | <b>5,744,342</b>     | <b>7,050,048</b>             |                       | <b>29,952,704</b>     |
| <b>Non financial assets</b>  |                      |                            |                          |                      |                      |                              |                       |                       |
| Real estate stock  | -                    | -                          | 58,158                   | -                    | -                    | -                            | 58,158                | 96,937                |
| Investment in associate company  | -                    | -                          | -                        | -                    | -                    | 81,084                       | 81,084                | 81,084                |
| Investment in subsidiary   | -                    | -                          | -                        | -                    | -                    | 352,696                      | 352,696               | 257,631               |
| Investment properties  | -                    | -                          | -                        | -                    | -                    | 95,446                       | 95,446                | 104,798               |
| Property, equipment and right-of-use assets                            | -                    | -                          | -                        | -                    | -                    | 585,436                      | 585,436               | 504,669               |
| Intangible assets  | -                    | -                          | -                        | -                    | -                    | 67,117                       | 67,117                | 103,208               |
| Deferred tax assets  | -                    | -                          | -                        | -                    | -                    | 54,951                       | 54,951                | 33,824                |
| Other assets   | -                    | -                          | 34,704                   | 46,106               | -                    | -                            | 80,810                | 96,926                |
| <b>Total non-financial assets as at 31 December 2023</b>               | <b>-</b>             | <b>-</b>                   | <b>92,862</b>            | <b>46,106</b>        | <b>-</b>             | <b>1,236,730</b>             | <b>1,375,698</b>      |                       |
| <b>Total non-financial assets as at 31 December 2022</b>               | <b>-</b>             | <b>-</b>                   | <b>124,932</b>           | <b>68,930</b>        | <b>-</b>             | <b>1,085,214</b>             |                       | <b>1,279,077</b>      |
| <b>Total assets as at 31 December 2023</b>                             | <b>4,019,632</b>     | <b>2,743,933</b>           | <b>6,986,927</b>         | <b>3,310,978</b>     | <b>9,932,714</b>     | <b>6,704,938</b>             | <b>33,699,122</b>     |                       |
| <b>Total assets as at 31 December 2022</b>                             | <b>4,937,229</b>     | <b>3,730,862</b>           | <b>7,205,942</b>         | <b>1,478,144</b>     | <b>5,744,342</b>     | <b>8,135,262</b>             |                       | <b>31,231,781</b>     |

|   | On Demand<br>Rs.'000 | Up to 03 months<br>Rs.'000 | 3 - 12 months<br>Rs.'000 | 1-3 years<br>Rs.'000 | 3-5 years<br>Rs.'000 | More than 5 years<br>Rs.'000 | 2023 Total<br>Rs.'000 | 2022 Total<br>Rs.'000 |
|---|----------------------|----------------------------|--------------------------|----------------------|----------------------|------------------------------|-----------------------|-----------------------|
| <b>Financial liabilities</b>                                  |                      |                            |                          |                      |                      |                              |                       |                       |
| Due to banks  | 541,907              | 2,058,063                  | -                        | -                    | -                    | -                            | 2,599,970             | 2,925,953             |
| Due to customers at amortised cost                            | 561,949              | 5,457,208                  | 13,869,464               | 1,763,509            | 3,724,359            | 67,630                       | 25,444,119            | 23,524,609            |
| Debt issued and borrowed funds at amortised cost              | -                    | -                          | -                        | -                    | 741,030              | -                            | 741,030               | 69,082                |
| Other financial liabilities                                   | -                    | 151,273                    | -                        | -                    | -                    | -                            | 151,273               | 142,227               |
| <b>Total financial liabilities as at 31 December 2023</b>     | <b>1,103,856</b>     | <b>7,666,544</b>           | <b>13,869,464</b>        | <b>1,763,509</b>     | <b>4,465,389</b>     | <b>67,630</b>                | <b>28,936,392</b>     |                       |
| <b>Total financial liabilities as at 31 December 2022</b>     | <b>2,071,244</b>     | <b>2,802,470</b>           | <b>14,776,781</b>        | <b>3,030,717</b>     | <b>3,927,074</b>     | <b>53,585</b>                |                       | <b>26,661,871</b>     |
| <b>Non financial liabilities</b>                              |                      |                            |                          |                      |                      |                              |                       |                       |
| Current tax liabilities                                       | -                    | -                          | 30,055                   | -                    | -                    | -                            | 30,055                | 49,029                |
| Deferred tax liabilities                                      | -                    | -                          | -                        | -                    | -                    | -                            | -                     | -                     |
| Lease liability   | -                    | 45,896                     | 128,432                  | 144,309              | 49,899               | 5,206                        | 373,742               | 246,832               |
| Other liabilities   | -                    | 333,893                    | -                        | -                    | -                    | -                            | 333,893               | 297,302               |
| Retirement benefits obligations                               | -                    | -                          | -                        | -                    | -                    | 354,368                      | 354,368               | 281,203               |
| <b>Total non-financial liabilities as at 31 December 2023</b> | <b>-</b>             | <b>379,789</b>             | <b>158,487</b>           | <b>144,309</b>       | <b>49,899</b>        | <b>359,574</b>               | <b>1,092,058</b>      |                       |
| <b>Total non-financial liabilities as at 31 December 2022</b> | <b>-</b>             | <b>318,155</b>             | <b>102,745</b>           | <b>108,055</b>       | <b>57,880</b>        | <b>287,531</b>               |                       | <b>874,366</b>        |
| <b>Total liabilities as at 31 December 2023</b>               | <b>1,103,856</b>     | <b>8,046,333</b>           | <b>14,027,951</b>        | <b>1,907,818</b>     | <b>4,515,288</b>     | <b>427,204</b>               | <b>30,028,450</b>     |                       |
| <b>Total liabilities as at 31 December 2022</b>               | <b>2,071,244</b>     | <b>3,120,625</b>           | <b>14,879,526</b>        | <b>3,138,773</b>     | <b>3,984,954</b>     | <b>341,116</b>               |                       | <b>27,536,237</b>     |
| <b>Equity</b>   |                      |                            |                          |                      |                      |                              |                       |                       |
| Stated capital  | -                    | -                          | -                        | -                    | -                    | 4,276,448                    | 4,276,448             | 4,276,448             |
| Retained earnings   | -                    | -                          | -                        | -                    | -                    | (1,289,648)                  | (1,289,648)           | (944,964)             |
| RLA reserve   | -                    | -                          | 371,590                  | -                    | -                    | -                            | 371,590               | 54,441                |
| OCI reserve   | -                    | (31,892)                   | -                        | -                    | -                    | -                            | (31,892)              | (30,377)              |
| Statutory reserves  | -                    | -                          | -                        | -                    | -                    | 344,174                      | 344,174               | 339,996               |
| <b>Total equity as at 31 December 2023</b>                    | <b>-</b>             | <b>(31,892)</b>            | <b>371,590</b>           | <b>-</b>             | <b>-</b>             | <b>3,330,974</b>             | <b>3,670,672</b>      |                       |
| <b>Total equity as at 31 December 2022</b>                    | <b>-</b>             | <b>(30,377)</b>            | <b>54,441</b>            | <b>-</b>             | <b>-</b>             | <b>3,671,480</b>             |                       | <b>3,695,544</b>      |
| <b>Total liabilities and equity as at 31 December 2023</b>    | <b>1,103,856</b>     | <b>8,014,441</b>           | <b>14,399,541</b>        | <b>1,907,818</b>     | <b>4,515,288</b>     | <b>3,758,178</b>             | <b>33,699,122</b>     |                       |
| <b>Total liabilities and equity as at 31 December 2022</b>    | <b>2,071,244</b>     | <b>3,090,248</b>           | <b>14,933,967</b>        | <b>3,138,773</b>     | <b>3,984,954</b>     | <b>4,012,596</b>             |                       | <b>31,231,781</b>     |

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.6 Liquidity Risk (Contd.)

##### 47.6.2 Group

|  | On Demand<br>Rs.'000 | Up to<br>03 months<br>Rs.'000 | 3 - 12<br>months<br>Rs.'000 | 1-3<br>years<br>Rs.'000 | 3-5<br>years<br>Rs.'000 | More than<br>5 years<br>Rs.'000 | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|--|----------------------|-------------------------------|-----------------------------|-------------------------|-------------------------|---------------------------------|--------------------------|--------------------------|
| <b>Assets</b>  |                      |                               |                             |                         |                         |                                 |                          |                          |
| <b>Financial assets</b>  |                      |                               |                             |                         |                         |                                 |                          |                          |
| Cash and cash equivalents  | 814,240              | -                             | 56,886                      | -                       | -                       | -                               | 871,126                  | 944,784                  |
| Placements with banks & financial institutions                         | -                    | 71,234                        | 406,925                     | 167,663                 | -                       | -                               | 645,822                  | 137,161                  |
| Financial investments at fair value through profit or loss             | -                    | 8,169,927                     | -                           | -                       | -                       | -                               | 8,169,927                | 293,847                  |
| Loans & receivables at amortised cost                                  | 3,299,235            | 2,277,793                     | 3,484,393                   | 519,779                 | 4,528,424               | 4,950,338                       | 19,059,962               | 24,370,850               |
| Financial investments at fair value through other comprehensive income | -                    | 13,750                        | 18,414                      | -                       | 86,459                  | 598                             | 119,221                  | 78,150                   |
| Financial investments at amortised cost                                | -                    | 103,390                       | 3,914,721                   | 607,802                 | 507,837                 | 170,440                         | 5,304,190                | 5,883,995                |
| Financial other assets   | -                    | -                             | 9,041                       | -                       | -                       | 61,027                          | 70,068                   | 66,231                   |
| <b>Total financial assets as at 31 December 2023</b>                   | <b>4,113,475</b>     | <b>10,636,094</b>             | <b>7,890,380</b>            | <b>1,295,244</b>        | <b>5,122,720</b>        | <b>5,182,403</b>                | <b>34,240,316</b>        |                          |
| <b>Total financial assets as at 31 December 2022</b>                   | <b>5,021,712</b>     | <b>3,773,656</b>              | <b>8,333,074</b>            | <b>1,681,394</b>        | <b>5,744,342</b>        | <b>7,220,839</b>                |                          | <b>31,775,018</b>        |
| <b>Non financial assets</b>  |                      |                               |                             |                         |                         |                                 |                          |                          |
| Real estate stock  | -                    | -                             | 58,158                      | -                       | -                       | -                               | 58,158                   | 96,937                   |
| Investment in associate company  | -                    | -                             | -                           | -                       | -                       | 168,908                         | 168,908                  | 172,842                  |
| Investment properties  | -                    | -                             | -                           | -                       | -                       | 95,446                          | 95,446                   | 104,798                  |
| Property, equipment and right-of-use assets                            | -                    | -                             | -                           | -                       | -                       | 695,697                         | 695,697                  | 634,780                  |
| Intangible assets  | -                    | -                             | -                           | -                       | -                       | 69,491                          | 69,491                   | 106,396                  |
| Deferred tax assets  | -                    | -                             | -                           | -                       | -                       | 64,355                          | 64,355                   | 42,893                   |
| Other assets   | -                    | 339,672                       | 34,704                      | 46,103                  | -                       | -                               | 420,479                  | 463,010                  |
| <b>Total non-financial assets as at 31 December 2023</b>               | <b>-</b>             | <b>339,672</b>                | <b>92,862</b>               | <b>46,103</b>           | <b>-</b>                | <b>1,093,897</b>                | <b>1,572,534</b>         |                          |
| <b>Total non-financial assets as at 31 December 2022</b>               | <b>-</b>             | <b>366,085</b>                | <b>124,933</b>              | <b>68,929</b>           | <b>-</b>                | <b>1,061,708</b>                |                          | <b>1,621,656</b>         |
| <b>Total assets as at 31 December 2023</b>                             | <b>4,113,475</b>     | <b>10,975,766</b>             | <b>7,983,241</b>            | <b>1,341,347</b>        | <b>5,122,720</b>        | <b>6,276,299</b>                | <b>35,812,850</b>        |                          |
| <b>Total assets as at 31 December 2022</b>                             | <b>5,021,712</b>     | <b>4,139,741</b>              | <b>8,458,007</b>            | <b>1,750,324</b>        | <b>5,744,342</b>        | <b>8,282,548</b>                |                          | <b>33,396,674</b>        |
| <b>Financial liabilities</b>   |                      |                               |                             |                         |                         |                                 |                          |                          |
| Due to banks   | 541,907              | 2,061,096                     | -                           | -                       | -                       | -                               | 2,603,003                | 2,935,170                |
| Due to customers at amortised cost                                     | 561,949              | 5,457,208                     | 13,671,213                  | 1,763,509               | 3,724,359               | 67,630                          | 25,245,868               | 23,354,493               |
| Debt issued and borrowed funds at amortised cost                       | -                    | -                             | -                           | -                       | 741,030                 | -                               | 741,030                  | 69,082                   |
| Other financial liabilities  | -                    | 151,274                       | -                           | -                       | -                       | -                               | 151,274                  | 142,226                  |
| <b>Total financial liabilities as at 31 December 2023</b>              | <b>1,103,856</b>     | <b>7,669,578</b>              | <b>13,671,213</b>           | <b>1,763,509</b>        | <b>4,465,389</b>        | <b>67,630</b>                   | <b>28,741,175</b>        |                          |
| <b>Total financial liabilities as at 31 December 2022</b>              | <b>2,071,244</b>     | <b>2,811,686</b>              | <b>14,606,665</b>           | <b>3,030,717</b>        | <b>3,927,074</b>        | <b>53,585</b>                   |                          | <b>26,500,971</b>        |
| <b>Non financial liabilities</b>                                       |                      |                               |                             |                         |                         |                                 |                          |                          |
| Insurance contract liabilities-life                                    | -                    | -                             | 393,030                     | -                       | -                       | -                               | 393,030                  | 355,190                  |
| Insurance contract liabilities-non life                                | -                    | -                             | 671,728                     | -                       | -                       | -                               | 671,728                  | 643,229                  |
| Current tax liabilities  | -                    | -                             | 30,055                      | -                       | -                       | -                               | 30,055                   | 49,029                   |
| Deferred tax liabilities   | -                    | -                             | -                           | -                       | -                       | -                               | -                        | -                        |
| Lease liability  | -                    | 45,896                        | 151,913                     | 144,309                 | 118,775                 | 5,207                           | 466,100                  | 358,636                  |
| Other liabilities  | -                    | 462,001                       | 101,962                     | 38,792                  | 5,373                   | 180,508                         | 788,636                  | 714,323                  |
| Retirement benefits obligations  | -                    | -                             | -                           | -                       | -                       | 366,703                         | 366,703                  | 292,327                  |
| <b>Total non-financial liabilities as at 31 December 2023</b>          | <b>-</b>             | <b>507,897</b>                | <b>1,348,688</b>            | <b>183,101</b>          | <b>124,148</b>          | <b>552,418</b>                  | <b>2,716,252</b>         |                          |
| <b>Total non-financial liabilities as at 31 December 2022</b>          | <b>-</b>             | <b>453,772</b>                | <b>1,217,812</b>            | <b>198,177</b>          | <b>100,512</b>          | <b>442,459</b>                  |                          | <b>2,412,733</b>         |
| <b>Total liabilities as at 31 December 2023</b>                        | <b>1,103,856</b>     | <b>8,177,474</b>              | <b>15,019,901</b>           | <b>1,946,609</b>        | <b>4,589,538</b>        | <b>620,048</b>                  | <b>31,457,427</b>        |                          |
| <b>Total liabilities as at 31 December 2022</b>                        | <b>2,071,244</b>     | <b>3,265,458</b>              | <b>15,824,476</b>           | <b>3,228,895</b>        | <b>4,027,585</b>        | <b>496,044</b>                  |                          | <b>28,913,704</b>        |

|  | On Demand<br>Rs.'000 | Up to 03 months<br>Rs.'000 | 3 - 12 months<br>Rs.'000 | 1-3 years<br>Rs.'000 | 3-5 years<br>Rs.'000 | More than 5 years<br>Rs.'000 | 2023 Total<br>Rs.'000 | 2022 Total<br>Rs.'000 |
|--|----------------------|----------------------------|--------------------------|----------------------|----------------------|------------------------------|-----------------------|-----------------------|
| <b>Equity</b>  |                      |                            |                          |                      |                      |                              |                       |                       |
| Stated capital   | -                    | -                          | -                        | -                    | -                    | 4,276,448                    | 4,276,448             | 4,276,448             |
| Retained earnings  | -                    | -                          | -                        | -                    | -                    | (1,042,034)                  | (1,042,034)           | (594,119)             |
| RLA reserve  | -                    | -                          | 371,590                  | -                    | -                    | -                            | 371,590               | 54,441                |
| OCI reserve  | -                    | (31,892)                   | -                        | -                    | -                    | (1,715)                      | (33,607)              | (34,502)              |
| Statutory reserves   | -                    | -                          | -                        | -                    | -                    | 344,174                      | 344,174               | 339,996               |
| Non controlling interests                                  | -                    | -                          | -                        | -                    | -                    | 438,852                      | 438,852               | 440,705               |
| <b>Total equity as at 31 December 2023</b>                 | -                    | (31,892)                   | 371,590                  | -                    | -                    | 4,015,725                    | 4,355,423             |                       |
| <b>Total equity as at 31 December 2022</b>                 | -                    | (30,377)                   | 54,441                   | -                    | -                    | 4,458,906                    |                       | 4,482,969             |
| <b>Total liabilities and equity as at 31 December 2023</b> | 1,103,856            | 8,145,582                  | 15,391,491               | 1,946,609            | 4,589,538            | 4,635,773                    | 35,812,850            |                       |
| <b>Total liabilities and equity as at 31 December 2022</b> | 2,071,244            | 3,235,081                  | 15,878,917               | 3,228,895            | 4,027,585            | 4,954,950                    |                       | 33,396,674            |

#### 47.7 Contractual Maturities of Undiscounted Cash Flows of Financial Assets & Financial Liabilities

The table below summarizes the maturity profile of the undiscounted cash flows of the Company's financial assets and liabilities as at 31 December 2023.

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<br>Rs.'000 | 3 - 12 months<br>Rs.'000 | 1-3 years<br>Rs.'000 | 3-5 years<br>Rs.'000 | More than 5 years<br>Rs.'000 | 2023 Total<br>Rs.'000 | 2022 Total<br>Rs.'000 |
|--|----------------------------|--------------------------|----------------------|----------------------|------------------------------|-----------------------|-----------------------|
| <b>Financial assets</b>  |                            |                          |                      |                      |                              |                       |                       |
| Cash and cash equivalents  | -                          | 720,397                  | -                    | -                    | -                            | 720,397               | 749,500               |
| Placements with banks & financial institutions                         | -                          | 481,092                  | 220,196              | -                    | -                            | 701,288               | 113,941               |
| Financial investments at fair value through profit or loss             | -                          | 1,202,459                | 1,339,525            | 6,035,062            | 252,783                      | 8,829,829             | 287,510               |
| Loans & receivables at amortised cost                                  | 11,622,845                 | 5,011,609                | 7,022,210            | 1,005,049            | 54,611                       | 24,716,324            | 26,196,945            |
| Financial investments at fair value through other comprehensive income | -                          | 14,348                   | -                    | -                    | -                            | 14,348                | 15,863                |
| Financial investments at amortised cost                                | 1,687,807                  | 665,248                  | 464,259              | 939,823              | -                            | 3,757,137             | 5,265,711             |
| Financial other assets   | -                          | 9,041                    | -                    | -                    | 61,027                       | 70,068                | 66,230                |
| <b>Total financial assets as at 31 December 2023</b>                   | 13,310,652                 | 8,104,194                | 9,046,190            | 7,979,934            | 368,421                      | 38,809,391            |                       |
| <b>Total financial assets as at 31 December 2022</b>                   | 10,398,966                 | 11,807,878               | 5,809,845            | 3,432,719            | 1,246,292                    |                       | 32,695,700            |
| <b>Financial liabilities</b>   |                            |                          |                      |                      |                              |                       |                       |
| Due to banks   | 2,578,595                  | -                        | -                    | -                    | -                            | 2,578,595             | 2,944,422             |
| Due to customers at amortised cost                                     | 6,818,275                  | 15,420,022               | 3,270,647            | 4,468,805            | 351                          | 29,978,100            | 29,174,100            |
| Debt issued and borrowed funds at amortised cost                       | -                          | -                        | -                    | 1,610,319            | -                            | 1,610,319             | 151,804               |
| Other financial liabilities  | 151,273                    | -                        | -                    | -                    | -                            | 151,273               | 142,227               |
| <b>Total financial liabilities as at 31 December 2023</b>              | 9,548,143                  | 15,420,022               | 3,270,647            | 6,079,124            | 351                          | 34,318,287            |                       |
| <b>Total financial liabilities as at 31 December 2022</b>              | 8,507,127                  | 13,994,044               | 4,639,835            | 5,271,116            | 431                          |                       | 32,412,553            |

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

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

| Group  | Up to<br>03 months<br>Rs.'000 | 3 - 12<br>months<br>Rs.'000 | 1-3<br>years<br>Rs.'000 | 3-5<br>years<br>Rs.'000 | More than<br>5 years<br>Rs.'000 | 2023<br>Total<br>Rs.'000 | 2022<br>Total<br>Rs.'000 |
|--|-------------------------------|-----------------------------|-------------------------|-------------------------|---------------------------------|--------------------------|--------------------------|
| <b>Financial assets</b>  |                               |                             |                         |                         |                                 |                          |                          |
| Cash and cash equivalents  | -                             | 814,240                     | 56,886                  | -                       | -                               | 871,126                  | 944,784                  |
| Placements with banks & financial institutions                         | 71,234                        | 481,092                     | 220,196                 | -                       | -                               | 772,522                  | 147,420                  |
| Financial investments at fair value through profit or loss             | -                             | 9,018,140                   | 1,339,525               | 6,035,062               | 252,783                         | 16,645,510               | 293,847                  |
| Loans & receivables at amortised cost                                  | 11,628,091                    | 5,011,609                   | 7,022,210               | 1,005,049               | 54,611                          | 24,721,570               | 26,144,495               |
| Financial investments at fair value through other comprehensive income | -                             | 14,348                      | -                       | -                       | -                               | 14,348                   | 15,863                   |
| Financial investments at amortised cost                                | 1,687,807                     | 1,798,877                   | 736,440                 | 939,823                 | 170,440                         | 5,333,387                | 6,842,312                |
| Financial other assets   | -                             | 9,041                       | -                       | -                       | 61,027                          | 70,068                   | 66,230                   |
| <b>Total financial assets as at 31 December 2023</b>                   | <b>13,387,132</b>             | <b>17,147,346</b>           | <b>9,375,257</b>        | <b>7,979,934</b>        | <b>538,861</b>                  | <b>48,428,530</b>        |                          |
| <b>Total financial assets as at 31 December 2022</b>                   | <b>10,435,424</b>             | <b>12,976,122</b>           | <b>6,193,604</b>        | <b>3,432,719</b>        | <b>1,417,083</b>                |                          | <b>34,454,952</b>        |
| <b>Financial liabilities</b>   |                               |                             |                         |                         |                                 |                          |                          |
| Due to banks   | 2,581,628                     | -                           | -                       | -                       | -                               | 2,581,628                | 2,953,639                |
| Due to customers at amortised cost                                     | 6,818,275                     | 15,221,772                  | 3,270,647               | 4,468,805               | 351                             | 29,779,849               | 29,003,984               |
| Debt issued and borrowed funds at amortised cost                       | -                             | -                           | -                       | 1,610,319               | -                               | 1,610,319                | 151,804                  |
| Other financial liabilities  | 151,273                       | -                           | -                       | -                       | -                               | 151,273                  | 142,227                  |
| <b>Total financial liabilities as at 31 December 2023</b>              | <b>9,551,176</b>              | <b>15,221,772</b>           | <b>3,270,647</b>        | <b>6,079,124</b>        | <b>351</b>                      | <b>34,123,070</b>        |                          |
| <b>Total financial liabilities as at 31 December 2022</b>              | <b>8,516,344</b>              | <b>13,823,928</b>           | <b>4,639,835</b>        | <b>5,271,116</b>        | <b>431</b>                      |                          | <b>32,251,654</b>        |

#### 47.8 Insurance risk

The principal risk the company faces under insurance contracts is that the actual claims and benefit payments or the timing thereof, may differ from expectations. This is influenced by the frequency of claims, severity of claims, actual benefits paid and subsequent development of long-term claims. Therefore, the objective of the company is to ensure that sufficient reserves are available to cover these liabilities.

The risk exposure is mitigated by diversification across a large portfolio of insurance contracts, by careful selection and implementation of underwriting strategies and by use of reinsurance arrangements. Reinsurance ceded is placed on both a proportional and non-proportional basis. The majority of proportional reinsurance is quota-share reinsurance, which is taken out to reduce the overall exposure of the company to certain classes of business. Non-proportional reinsurance is primarily excess-of-loss reinsurance designed to mitigate the company's net exposure to catastrophe losses.

MBSL Insurance Company Ltd (MBSLI), the subsidiary of the Company, operates both Life and General Insurance businesses. Major risks of Life Insurance business are:

##### 47.8.1 Life insurance contracts

Life insurance contracts offered by the company include term assurance, endowment plans, annuity plans and group plans. Endowment and term assurance are conventional regular or single premium products where lump sum benefits are payable on death, maturity or in some cases, permanent total disability whichever happens earlier. Endowment products acquire a surrender value upon completion of three years.

The main risks that the company is exposed to under Life Insurance Contracts are as follows:

**Mortality risk** - risk of loss arising due to policy holders' death experience being different from expected.

**Morbidity risk** - risk of loss arising due to policy holders' health experience being different from expected.

**Longevity risk** - risk of loss arising due to the annuitant living longer than expected.

**Investment return risk** - risk of loss arising from actual returns being different from expected.

**Expense risk** - risk of loss arising from the expense experience being different from expected.

**Policy holder decision risk** - risk of loss arising due to policy holders' experiences (lapses and surrenders) being different from expected.

Prudent underwriting, the use of medical screening in order to ensure that pricing takes account of current health conditions and family medical history, detailed claims handling procedures, underwriting limits to enforce appropriate risk selection criteria, actively managing and promptly pursuing claims in order to reduce its exposure to unpredictable future developments are some of the strategies, policies and procedures adopted by MBSLI to mitigate the above risks.

The most prominent risks of the General Insurance business include:

★ **Risk of perils**

Climate leading to natural disasters, behavioral trends of people due to changing life styles and technology improvements.

★ **Risk of fraud**

Risk of loss arising due to fraudulent claims.

★ **Inflation risk**

Actual cash outflow being greater than the expected outflow of a policy, due to the general inflation during the time taken from the inception of a policy to claim settlement.

★ **Currency risk**

Actual cash outflow being greater than the expected outflow of a policy, due to the currency depreciation during the time taken from the inception of a policy to claim settlement.

★ **Reinsurance risk**

The Company has to guard against any risk of default from reinsurers, risk of non-acceptance of a claim and risk of withdrawal.

★ **Credit risk**

Risk of non-payment, mainly arising from financial assets such financial investments, premium receivables from policyholders, receivables from reinsurers.

Diversification across a large portfolio of insurance contracts and geographical areas, strict claim review policies to assess claims, actively managing and promptly pursuing claims, imposing maximum claim amounts on certain contracts, routine review of all outstanding reinsurance receivables to ensure all dues are collected or set of against payables on time, confining reinsurance partnerships to globally trusted and stable reinsurance companies are key measures implemented to reduce the risks mentioned.

#### 47.8 Maturity of the Group's Contingent Liabilities and Commitments

The table below shows the contractual expiry by maturity of the Group's contingent liabilities and commitments.

For issued guarantees to customers the maximum amount of the guarantees is allocated to the earliest period in which the guarantee could be called.

|   | 2023                    |                                  |                             |                         |                         |                            |                | Total<br>2023<br>Rs.'000 | Total<br>2022<br>Rs.'000 |
|---|-------------------------|----------------------------------|-----------------------------|-------------------------|-------------------------|----------------------------|----------------|--------------------------|--------------------------|
|   | On<br>Demand<br>Rs.'000 | Less than<br>3 Months<br>Rs.'000 | 3 - 12<br>Months<br>Rs.'000 | 1-3<br>Years<br>Rs.'000 | 3-5<br>Years<br>Rs.'000 | Over 5<br>Years<br>Rs.'000 |                |                          |                          |
| <b>Company</b>  |                         |                                  |                             |                         |                         |                            |                |                          |                          |
| Financial guarantees & claims to the customers                        | 10,000                  | 3,500                            | 28,593                      | -                       | -                       | -                          | 42,093         | 103,938                  |                          |
| <b>Total Commitments and Contingencies as at<br/>31 December 2023</b> | <b>10,000</b>           | <b>3,500</b>                     | <b>28,593</b>               | <b>-</b>                | <b>-</b>                | <b>-</b>                   | <b>42,093</b>  |                          |                          |
| <b>Total Commitments and Contingencies as at<br/>31 December 2022</b> | <b>-</b>                | <b>3,500</b>                     | <b>99,563</b>               | <b>875</b>              | <b>-</b>                | <b>-</b>                   |                | <b>103,938</b>           |                          |
| <b>Group</b>  |                         |                                  |                             |                         |                         |                            |                |                          |                          |
| Financial guarantees & claims to the customers                        | 10,000                  | 3,500                            | 28,593                      | 86,816                  | -                       | -                          | 128,909        | 131,377                  |                          |
| <b>Total Commitments and Contingencies as at<br/>31 December 2023</b> | <b>10,000</b>           | <b>3,500</b>                     | <b>28,593</b>               | <b>86,816</b>           | <b>-</b>                | <b>-</b>                   | <b>128,909</b> |                          |                          |
| <b>Total Commitments and Contingencies as at<br/>31 December 2022</b> | <b>-</b>                | <b>3,500</b>                     | <b>127,002</b>              | <b>875</b>              | <b>-</b>                | <b>-</b>                   |                | <b>131,377</b>           |                          |

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

## Notes to the Financial Statements (Contd.)

### 47. RISK MANAGEMENT (Contd.)

#### 47.9 Operational Risk

Operational risk refers to the risk that risk of loss resulting from inadequate or failed internal processes, people and systems or from external events. Operational risk includes legal risk, but excludes strategic and reputational risk. Group's integrated risk management committee and risk management division has taken necessary actions to identify and manage the company operational risk prudently and effectively.

The Company recognises that operational risk is inherent in all business activities and can bring unprecedented losses or damages to its business through direct or indirect financial loss, brand or reputational damage, customer dissatisfaction, legal or regulatory penalties if such risks are not objectively managed.

### 48. 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.

#### 48.1 Capital Adequacy Ratio (CAR)

Central Bank of Sri Lanka introduced Finance Business Act Direction No 03 of 2018 with effect from 1st July 2018 and accordingly the Licensed Finance Companies in Sri Lanka need to maintain a minimum Tier 1 Capital and Total Capital Ratios (CAR) as shown in table below.

|                | 31-December-2023 |              | 31-December-2022 |              |
|----------------|------------------|--------------|------------------|--------------|
|                | Required Ratio   | Actual Ratio | Required Ratio   | Actual Ratio |
| Tier 1 Capital | 8.50             | 13.60        | 8.50             | 11.33        |
| Total Capital  | 12.50            | 16.75        | 12.50            | 12.01        |

The Company has been comply with the Total capital requirement by April 2023. The caps has been removed by CBSL immediately after the Total capital requirements is complied.

To meet the total capital requirement, MBSL management decided to issue debentures worth LKR 500 million, with an option for an additional issuance of LKR 500 million debentures, aiming to raise a total of Rupees One Billion (LKR 1.0 Billion). MBSL successfully collected LKR 622,830,000 from this debenture issue, which opened on March 29, 2023, and the Debentures were allocated on April 10, 2023.

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# Quarterly Analysis

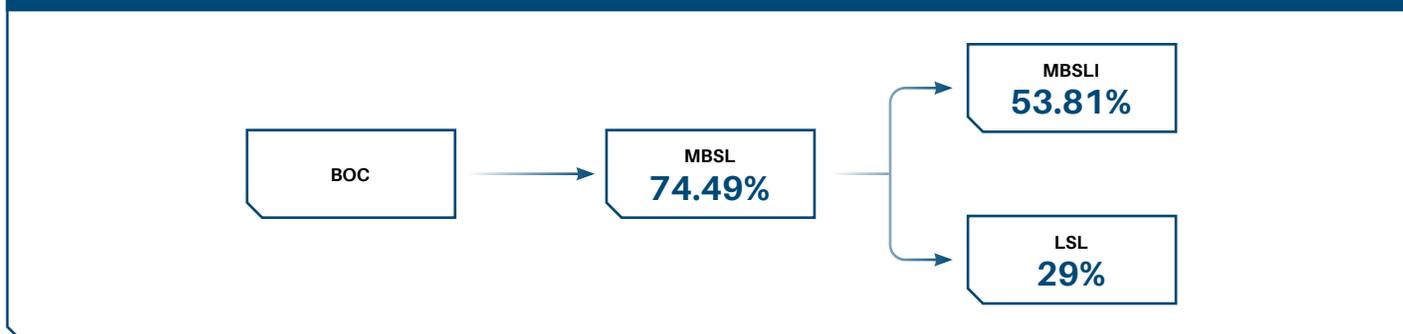
| Statement of Profit or Loss<br>for the quarter ended                                      | 2023                   |                         |                    |                     | 2022                   |                         |                    |                     |
|---|------------------------|-------------------------|--------------------|---------------------|------------------------|-------------------------|--------------------|---------------------|
|   | 31 December<br>Rs.'000 | 30 September<br>Rs.'000 | 30 June<br>Rs.'000 | 31 March<br>Rs.'000 | 31 December<br>Rs.'000 | 30 September<br>Rs.'000 | 30 June<br>Rs.'000 | 31 March<br>Rs.'000 |
| Net interest income   | 476,831                | 465,033                 | 367,803            | 330,798             | 310,679                | 226,205                 | 437,209            | 781,305             |
| Net fee and commission income   | 29,570                 | 26,741                  | 11,774             | 38,451              | 28,632                 | 25,531                  | 25,933             | 29,856              |
| Net trading income  | 991                    | 4,588                   | 151                | 6,488               | 1,144                  | 16,083                  | 1,933              | (16,906)            |
| Net gain/(loss) on financial instruments<br>at fair value through profit or loss          | 50,598                 | 398,941                 | 98,864             | 10,820              | (59,249)               | 97,333                  | (54,835)           | (115,378)           |
| Other operating income  | 84,469                 | 100,135                 | 27,085             | 12,503              | 27,450                 | 20,838                  | 18,127             | 25,814              |
| <b>Total operating income</b>   | <b>642,459</b>         | <b>995,438</b>          | <b>505,677</b>     | <b>399,060</b>      | <b>308,655</b>         | <b>385,989</b>          | <b>428,367</b>     | <b>704,691</b>      |
| Less : Impairment charges from loans<br>and other losses                                  | (43,599)               | (78,274)                | 36,861             | 59,918              | (106,635)              | (104,927)               | 240,939            | (45,882)            |
| <b>Net operating income</b>   | <b>686,058</b>         | <b>1,073,712</b>        | <b>468,816</b>     | <b>339,142</b>      | <b>415,290</b>         | <b>490,917</b>          | <b>187,428</b>     | <b>750,573</b>      |
| Less : Total operating expense  | 619,185                | 565,135                 | 546,722            | 571,103             | 568,842                | 538,121                 | 624,175            | 528,231             |
| <b>Profit/(loss) from operations</b>  | <b>66,873</b>          | <b>508,577</b>          | <b>(77,906)</b>    | <b>(231,961)</b>    | <b>(153,552)</b>       | <b>(47,205)</b>         | <b>(436,747)</b>   | <b>222,342</b>      |
| Less : Impairment charge/(reversal) from<br>investment in group companies                 | (95,065)               | -                       | -                  | -                   | -                      | (8,429)                 | (105,345)          | -                   |
| <b>Profit/(loss) from operations<br/>after impairment from subsidiary<br/>investments</b> | <b>161,938</b>         | <b>508,577</b>          | <b>(77,906)</b>    | <b>(231,961)</b>    | <b>(153,552)</b>       | <b>(55,633)</b>         | <b>(542,092)</b>   | <b>222,342</b>      |
| Less : Taxes on financial services  | 79,450                 | 127,334                 | 34,483             | 14,468              | 41,225                 | 24,399                  | (19,281)           | 81,635              |
| Social Security<br>Contribution Levy (SSCL)   | 11,233                 | 17,467                  | 5,679              | 2,140               | -                      | -                       | -                  | -                   |
| <b>Profit before income tax</b>   | <b>71,255</b>          | <b>363,776</b>          | <b>(118,068)</b>   | <b>(248,569)</b>    | <b>(194,777)</b>       | <b>(80,033)</b>         | <b>(522,811)</b>   | <b>140,707</b>      |
| Less : Income tax<br>expense/(reversal)   | (4,763)                | 146,542                 | (18,836)           | (75,951)            | (120,062)              | (43,436)                | (46,115)           | 48,307              |
| <b>Profit/(loss) for the period</b>   | <b>76,018</b>          | <b>217,234</b>          | <b>(99,232)</b>    | <b>(172,618)</b>    | <b>(74,715)</b>        | <b>(36,596)</b>         | <b>(476,696)</b>   | <b>92,400</b>       |
| <b>Statement of Comprehensive Income</b>  |                        |                         |                    |                     |                        |                         |                    |                     |
| Other comprehensive income for the<br>period, net of tax                                  | (45,728)               | (32)                    | -                  | -                   | (35,240)               | (41,321)                | 105,121            | (6,365)             |
| <b>Total comprehensive income for the<br/>period, net of tax</b>                          | <b>30,290</b>          | <b>217,202</b>          | <b>(99,232)</b>    | <b>(172,618)</b>    | <b>(109,955)</b>       | <b>(77,917)</b>         | <b>(371,575)</b>   | <b>86,035</b>       |

| Statement of Financial Position       | 2023                   |                         |                    |                     | 2022                   |                         |                    |                     |
|---------------------------------------|------------------------|-------------------------|--------------------|---------------------|------------------------|-------------------------|--------------------|---------------------|
|                                       | 31 December<br>Rs.'000 | 30 September<br>Rs.'000 | 30 June<br>Rs.'000 | 31 March<br>Rs.'000 | 31 December<br>Rs.'000 | 30 September<br>Rs.'000 | 30 June<br>Rs.'000 | 31 March<br>Rs.'000 |
| Total assets                          | 33,699,530             | 34,104,181              | 29,317,954         | 29,492,946          | 31,231,781             | 35,266,382              | 35,545,792         | 35,258,936          |
| Loans & receivables at amortised cost | 19,054,715             | 19,654,433              | 20,293,279         | 21,889,517          | 24,423,300             | 28,672,857              | 28,670,913         | 29,772,518          |
| Due to customers at amortised cost    | 25,444,119             | 24,863,377              | 22,319,701         | 23,724,910          | 23,524,609             | 25,778,274              | 25,714,787         | 20,944,756          |
| Total equity                          | 3,671,187              | 3,640,895               | 3,423,694          | 3,522,926           | 3,695,543              | 3,805,499               | 3,883,415          | 4,254,990           |

| Regulatory Liquidity as at               | 2023                   |                         |                    |                     | 2022                   |                         |                    |                     |
|--|------------------------|-------------------------|--------------------|---------------------|------------------------|-------------------------|--------------------|---------------------|
|  | 31 December<br>Rs.'000 | 30 September<br>Rs.'000 | 30 June<br>Rs.'000 | 31 March<br>Rs.'000 | 31 December<br>Rs.'000 | 30 September<br>Rs.'000 | 30 June<br>Rs.'000 | 31 March<br>Rs.'000 |
| Required minimum amount of liquid assets | 2,859,509              | 2,881,380               | 2,405,852          | 2,479,883           | 2,636,887              | 2,950,391               | 2,978,764          | 2,659,948           |
| Available total liquid assets            | 3,257,794              | 3,530,673               | 3,084,491          | 3,697,985           | 3,485,014              | 3,369,755               | 3,558,813          | 2,896,596           |
| Statutory liquid asset ratio             | 12.80%                 | 14.20%                  | 13.82%             | 15.59%              | 13.41%                 | 11.58%                  | 12.11%             | 11.08%              |

# Shareholder Information

The Shareholding Structure of MBSL



## PUBLIC HOLDINGS

|                            | 2023          |              | 2022          |              |
|----------------------------|---------------|--------------|---------------|--------------|
|                            | 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 | 10,926        | 99.97%       | 11,133        | 99.97%       |

|           | 2023          |              |
|-----------|---------------|--------------|
|           | No. of shares | % of holding |
| Residents | 522,305,243   | 99.57%       |
| Foreign   | 2,234,394     | 0.43%        |

## DISTRIBUTION OF ORDINARY SHARES

|                      | As at 31 December 2023 |                       |               |  | As at 31 December 2022 |                       |               |  |
|----------------------|------------------------|-----------------------|---------------|--|------------------------|-----------------------|---------------|--|
|                      | 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) |
| 1 to 1,000           | 8,918                  | 81.60%                | 1,480,185     | 0.28%                                      | 9,006                  | 80.87%                | 1,541,194     | 0.29%                                      |
| 1,001 to 10,000      | 1,472                  | 13.47%                | 5,233,972     | 1.00%                                      | 1,540                  | 13.83%                | 5,543,315     | 1.06%                                      |
| 10,001 to 100,000    | 439                    | 4.02%                 | 14,153,096    | 2.70%                                      | 489                    | 4.39%                 | 15,693,504    | 2.99%                                      |
| 100,001 to 1,000,000 | 89                     | 0.81%                 | 27,611,460    | 5.26%                                      | 88                     | 0.79%                 | 23,241,073    | 4.43%                                      |
| over 1,000,000       | 11                     | 0.10%                 | 476,060,924   | 90.76%                                     | 13                     | 0.12%                 | 478,520,551   | 91.23%                                     |
| Total                | 10,929                 | 100.00%               | 524,539,637   | 100.00%                                    | 11,136                 | 100.00%               | 524,539,637   | 100.00%                                    |

## COMPOSITION OF ORDINARY SHAREHOLDERS

|                         | As at 31 December 2023 |                       |               |  | As at 31 December 2022 |                       |               |  |
|-------------------------|------------------------|-----------------------|---------------|--|------------------------|-----------------------|---------------|--|
|                         | 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     | 10,018                 | 91.66%                | 45,304,572    | 8.64%                                      | 10,207                 | 91.66%                | 45,175,641    | 8.61%                                      |
| - Company               | 864                    | 7.91%                 | 477,000,671   | 90.94%                                     | 881                    | 7.91%                 | 476,368,897   | 90.82%                                     |
| Non Resident-Individual | 43                     | 0.39%                 | 538,586       | 0.10%                                      | 45                     | 0.40%                 | 603,478       | 0.12%                                      |
| - Company               | 4                      | 0.04%                 | 1,695,808     | 0.32%                                      | 3                      | 0.03%                 | 2,391,621     | 0.46%                                      |
| Total                   | 10,929                 | 100.00%               | 524,539,637   | 100.00%                                    | 11,136                 | 100.00%               | 524,539,637   | 100.00%                                    |

## DIRECTOS' SHAREHOLDING

| Names of Directors                              | No.of shares<br>31.12.2023 | As a % of<br>total shares | No.of shares<br>31.12.2022 | As a % of<br>total shares |
|---|----------------------------|---------------------------|----------------------------|---------------------------|
| Adikarige Mervin Anura Perera                   | -                          | -                         | -                          | -                         |
| Nishantha Sampath Punchihewa                    | -                          | -                         | -                          | -                         |
| Mallikachchige Priyanga Ruwan Kumara            | -                          | -                         | -                          | -                         |
| Godakanda Arachchige Jayashantha                | -                          | -                         | -                          | -                         |
| Jayasinghege don Varuna Nayanadarshi Jayasinghe | -                          | -                         | -                          | -                         |
| Rajapaksha Mudiyanseleage Nadira Jeewantha      | -                          | -                         | -                          | -                         |
| Hithanadura Priyal Kithsiri Silva               | -                          | -                         | -                          | -                         |
| Yaddehi Arachchige Jayathilaka                  | -                          | -                         | -                          | -                         |

## CEO'S SHAREHOLDING

|  | No.of shares<br>31.12.2023 | As a % of<br>total shares | No.of shares<br>31.12.2022 | As a % of<br>total shares |
|--|----------------------------|---------------------------|----------------------------|---------------------------|
| Mr. Hapuhinne Karunadipathi Divaratne Wasala Mudiyanseleage Dammika Kumara Hapuhinna | -                          | -                         | -                          | -                         |

## TWENTY LARGEST SHAREHOLDERS

| Shareholder   | As at 31 December 2023 |                         | As at 31 December 2022 |                         |
|---|------------------------|-------------------------|------------------------|-------------------------|
|   | No of<br>Shares        | Percentage<br>holding % | No of<br>Shares        | Percentage<br>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%                   |
| Mr. J A S M Jayawickrama                            | 5,445,926              | 1.04%                   | 4,140,000              | 0.79%                   |
| Hatton National Bank PLC/Dinesh Nagendra Sellamuttu | 5,320,722              | 1.01%                   | 5,320,722              | 1.01%                   |
| 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%                   | 2,039,958              | 0.39%                   |
| Thread Capital (Private) Limited                    | 1,905,000              | 0.36%                   | 1,905,000              | 0.36%                   |
| Amaliya Private Limited                             | 1,317,656              | 0.25%                   | 1,817,656              | 0.35%                   |
| Hatton National Bank PLC/Ravindra Erle Rambukwelle  | 1,140,000              | 0.22%                   | 1,085,000              | 0.21%                   |
| Mr. B.T. Prathapasinghe                             | 1,121,250              | 0.21%                   | 1,121,250              | 0.21%                   |
| Mrs. M. P. R. Silva                                 | 997,000                | 0.19%                   | 1,442,582              | 0.28%                   |
| Mr. N Krishnakumar                                  | 916,028                | 0.17%                   | 440,417                | 0.08%                   |
| Ravi Exports Private Limited                        | 829,118                | 0.16%                   | 850,000                | 0.16%                   |
| Seylan Bank PLC/ A C Senanka                        | 797,835                | 0.15%                   | -                      | -                       |
| Est. of Late Mr. P K C P Samarasinghe (Deceased)    | 784,031                | 0.15%                   | 784,031                | 0.15%                   |
| Sandwave Limited                                    | 768,564                | 0.15%                   | 1,877,971              | 0.36%                   |
| Mr. R C D De Silva                                  | 722,543                | 0.14%                   | -                      | -                       |
| Pobran Investments (Pvt) Ltd                        | 615,639                | 0.12%                   | 418,656                | 0.08%                   |
| Mr. J M S J B P Peiris                              | 606,259                | 0.12%                   | 745,862                | 0.14%                   |
| <b>Total of largest shareholders</b>                | <b>483,097,941</b>     | <b>92.10%</b>           |                        |                         |
| <b>Total of other shareholders</b>                  | <b>41,441,696</b>      |                         |                        |                         |
| <b>Total of all shareholders</b>                    | <b>524,539,637</b>     |                         |                        |                         |

## Shareholder Information (Contd.)

### MARKET SHARE INFORMATION

|  | 2023   | Q4    | Q3     | Q2    | Q1    | 2022   |
|--|--------|-------|--------|-------|-------|--------|
| <b>Share price (Rs.)</b>                   |        |       |        |       |       |        |
| Highest                                    | 6.30   | 5.70  | 6.30   | 3.80  | 4.00  | 9.50   |
| lowest                                     | 3.00   | 4.10  | 3.30   | 3.00  | 3.00  | 2.90   |
| Closing                                    | 4.40   | 4.40  | 5.00   | 3.20  | 3.40  | 3.40   |
| No. of transactions (Mn)                   | 34,470 | 3,633 | 19,176 | 3,280 | 8,380 | 17,177 |
| No. of shares traded                       | 7,894  | 969   | 3,786  | 1,037 | 2,102 | 117    |
| Shares traded to total shares (%)          | 15.05  | 1.85  | 7.22   | 1.98  | 4.01  | 22.35  |
| Turnover (Rs. Mn)                          | 152    | 18    | 94     | 11    | 29    | 874    |
| MBSL turnover to total market turnover (%) | 3.70   | 2.76  | 5.56   | 1.88  | 2.45  | 12.73  |
| No. of days traded - MBSL                  | 242    | 63    | 60     | 57    | 62    | 260    |
| Average daily turnover-CSE (Rs. Mn)        | 1,697  | 1,047 | 2,812  | 1,030 | 1,891 | 2,972  |
| Market capitalisation - CSE (MC) (Rs. Bn)  | 4,249  | 4,249 | 4,537  | 3,901 | 3,904 | 3,847  |
| Market capitalisation - MBSL (MC) (Rs. Bn) | 2      | 2     | 3      | 2     | 2     | 2      |
| MBSL MC to CSE MC (%)                      | 0.05   | 0.05  | 0.06   | 0.04  | 0.05  | 0.05   |
| MBSL market capitalisation ranking         | 174    | 174   | 178    | 201   | 200   | 188    |

# Debenture Information

| Debenture - Market Information                   |                           |                  |                  |                           |                  |                          |                           |                  |                          |                        |                  |                  |
|--|---------------------------|------------------|------------------|---------------------------|------------------|--------------------------|---------------------------|------------------|--------------------------|------------------------|------------------|------------------|
| Type   | 2023                      |                  |                  |                           |                  |                          | 2022                      |                  |                          |                        |                  |                  |
|  | Type A 23<br>APR          | Type B 23<br>APR | Type D 23<br>APR | Type A 22<br>NOV          | Type B 22<br>NOV | Type C 22<br>NOV         | Type A 22<br>NOV          | Type B 22<br>NOV | Type C 22<br>NOV         | Type A 17<br>MAY       | Type B 17<br>MAY | Type C 17<br>MAY |
| Tenure   | 5 Years                   | 5 Years          | 5 Years          | 5 Years                   | 5 Years          | 5 Years                  | 5 Years                   | 5 Years          | 5 Years                  | 5 Years                | 5 Years          | 5 Years          |
| Issue date                                       | 10-Apr-23                 | 10-Apr-23        | 10-Apr-23        | 16-Nov-22                 | 16-Nov-22        | 16-Nov-22                | 16-Nov-22                 | 16-Nov-22        | 16-Nov-22                | 12-May-17              | 12-May-17        | 12-May-17        |
| Maturity date                                    | 10-Apr-28                 | 10-Apr-28        | 10-Apr-28        | 15-Nov-27                 | 15-Nov-27        | 15-Nov-27                | 15-Nov-27                 | 15-Nov-27        | 15-Nov-27                | 03-May-22              | 03-May-22        | 03-May-22        |
| Interest rate                                    | 29.50%                    | 28.00%           | 24.57%           | 24.00%                    | 23.50%           | One year                 | 24.00%                    | 23.50%           | One year                 | 15.00%                 | 14.50%           | 11.47%           |
| Coupon rate (%)                                  | 29.50%                    | 28.00%           | 30.00%           | 24.00%                    | 23.50%           | T Bill rate              | 24.00%                    | 23.50%           | T Bill rate              | 15.00%                 | 14.50%           | 11.47%           |
| Effective annual yield (%)                       | 29.50%                    | 29.96%           | 24.57%           | 24.00%                    | 24.88%           | + 300<br>basis<br>points | 24.00%                    | 24.88%           | + 300<br>basis<br>points | 15.00%                 | 15.03%           | 12.86%           |
| Interest rate comparable government security (%) | 25.24%                    | 25.24%           | 25.24%           | 27.60%                    | 27.60%           | 27.60%                   | 27.60%                    | 27.60%           | 27.60%                   | 11.56%                 | 11.56%           | 11.56%           |
| Frequency of interest payable                    | Annually                  | Bi - annually    | At maturity      | Annually                  | Bi - annually    | Quarterly                | Annually                  | Bi - annually    | Quarterly                | Annually               | Bi - annually    | Bi - annually    |
| Rating   | BBB : Lanka Rating Agency |                  |                  | BBB : Lanka Rating Agency |                  |                          | BBB : Lanka Rating Agency |                  |                          | A- :ICRA Lanka Limited |                  |                  |
| Amount (Rs. Mn)                                  | 276.66                    | 255.14           | 91.03            | 23.99                     | 32.88            | 10.83                    | 23.99                     | 32.88            | 10.83                    | 805.76                 | 1,193.23         | 1.01             |
| ISIN No.   | LK0186D25084              | LK0186D25092     | LK0186D25100     | LK0186D25001              | LK0186D25027     | LK0186D25019             | LK0186D25001              | LK0186D25027     | LK0186D25019             | LK0186D23824           | LK0186D23816     | LK0186D23808     |
| Highest  |                           |                  |                  |                           |                  |                          |                           |                  |                          | 100.61                 |                  |                  |
| Lowest   | HAS                       | HAS              | HAS              | HAS                       | HAS              | HAS                      | HAS                       | HAS              | HAS                      | 100.50                 | HAS              | HAS              |
| Closing  | NOT                       | NOT              | NOT              | NOT                       | NOT              | NOT                      | NOT                       | NOT              | NOT                      | 100.50                 | NOT              | NOT              |
| Current yield (%)                                | BEEN                      | BEEN             | BEEN             | BEEN                      | BEEN             | BEEN                     | BEEN                      | BEEN             | BEEN                     | 15.00%                 | BEEN             | BEEN             |
| YTM (%)  | TRADED                    | TRADED           | TRADED           | TRADED                    | TRADED           | TRADED                   | TRADED                    | TRADED           | TRADED                   | 15.00%                 | TRADED           | TRADED           |

# Decade at a Glance

|  | 2023              | 2022              | 2021              | 2020               | 2019              | 2018              | 2017              | 2016              | 2015              | 2014              |
|--|-------------------|-------------------|-------------------|--------------------|-------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| <b>Operating Results</b>   |                   |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Income   | 7,478,049         | 6,542,592         | 5,971,065         | 5,188,013          | 6,839,015         | 6,549,905         | 6,402,825         | 4,888,155         | 4,216,991         | 4,734,641         |
| Interest expenses  | (4,918,658)       | (4,695,684)       | 2,675,588         | 3,532,790          | 4,331,275         | 3,752,471         | 3,708,808         | 2,709,604         | 2,133,325         | 2,579,431         |
| Net interest income  | 1,640,465         | 1,755,398         | 2,850,367         | 1,417,848          | 2,201,454         | 2,442,466         | 2,448,478         | 2,028,170         | 1,939,834         | 1,805,198         |
| Operating expenses & provisions  | (2,276,881)       | (2,242,865)       | 2,133,875         | 2,518,571          | 2,401,990         | 2,140,150         | 2,465,367         | 1,945,654         | 2,119,094         | 2,101,923         |
| <b>Profit/(loss) before income tax</b>   | <b>67,907</b>     | <b>(656,914)</b>  | <b>812,728</b>    | <b>(1,342,905)</b> | <b>57,194</b>     | <b>446,676</b>    | <b>228,650</b>    | <b>232,897</b>    | <b>(35,428)</b>   | <b>53,287</b>     |
| Income tax on profit (expense)/ reversal   | (47,019)          | 161,306           | (283,684)         | 234,600            | 45,390            | (265,391)         | (127,799)         | (154,247)         | (42,878)          | (83,957)          |
| <b>Profit/(loss) for the year</b>  | <b>20,888</b>     | <b>(495,608)</b>  | <b>529,044</b>    | <b>(1,108,305)</b> | <b>102,584</b>    | <b>181,285</b>    | <b>100,851</b>    | <b>78,650</b>     | <b>(78,306)</b>   | <b>(30,670)</b>   |
| <b>Statement of Financial Position Information</b>                                   |                   |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| <b>Assets</b>  |                   |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Cash & cash equivalents including placements   | 1,294,985         | 852,406           | 1,437,540         | 1,041,852          | 2,832,888         | 965,197           | 1,928,482         | 520,234           | 820,923           | 2,026,901         |
| Reverse repurchase agreement   | -                 | -                 | -                 | -                  | -                 | 1,292,670         | 1,302,748         | 265,687           | 785,965           | 465,211           |
| Financial investments at amortised cost  | 3,727,940         | 4,307,394         | 2,330,716         | 2,242,628          | 2,161,677         | 1,448,104         | 2,046,445         | 3,059,300         | 2,296,177         | 2,060,990         |
| Financial investments at fair value through profit or loss                           | 8,175,716         | 303,373           | -                 | -                  | -                 | -                 | -                 | -                 | -                 | -                 |
| Loans & receivable at amortised cost   | 19,054,715        | 24,423,300        | 28,184,638        | 26,787,036         | 29,262,864        | 30,781,975        | 29,233,023        | 27,109,765        | 23,282,286        | 21,422,320        |
| Investment in associate & subsidiary companies                                       | 433,780           | 338,715           | 452,488           | 468,508            | 925,994           | 160,360           | 102,201           | 158,390           | 391,281           | 597,180           |
| Property & equipment, intangible assets, investment properties and real estate stock | 748,000           | 712,675           | 843,466           | 1,348,377          | 1,490,405         | 711,918           | 671,726           | 470,738           | 403,918           | 373,195           |
| Other assets   | 263,987           | 293,918           | 1,028,611         | 470,808            | 301,288           | 504,202           | 360,582           | 342,640           | 294,000           | 368,127           |
| <b>Total assets</b>  | <b>33,699,122</b> | <b>31,231,781</b> | <b>34,277,459</b> | <b>32,305,209</b>  | <b>36,975,116</b> | <b>35,864,426</b> | <b>35,645,207</b> | <b>31,926,754</b> | <b>28,274,550</b> | <b>27,313,924</b> |
| <b>Liabilities</b>   |                   |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Due to banks   | 2,599,970         | 2,925,953         | 4,116,812         | 5,436,682          | 7,749,021         | 5,869,317         | 123,849           | 201,635           | 258,062           | 200,002           |
| Cash collateral on securities lent and repurchase agreements                         | -                 | -                 | -                 | -                  | -                 | -                 | 437,672           | 401,820           | 416,472           | 442,170           |
| Due to customers   | 25,444,119        | 23,524,609        | 22,267,862        | 21,725,261         | 22,755,930        | 20,831,021        | 21,918,869        | 18,518,419        | 15,846,306        | 11,092,643        |
| Debt issued and borrowed funds   | 741,030           | 69,082            | 2,381,579         | 2,568,829          | 2,466,268         | 5,331,077         | 8,818,862         | 8,722,787         | 7,883,323         | 11,141,793        |
| Other liabilities & deferred taxation  | 1,243,331         | 1,016,593         | 1,342,251         | 1,160,586          | 1,396,109         | 1,308,907         | 1,112,135         | 975,578           | 862,325           | 1,285,893         |
| <b>Total liabilities</b>   | <b>30,028,450</b> | <b>27,536,237</b> | <b>30,108,504</b> | <b>30,891,358</b>  | <b>34,367,328</b> | <b>33,340,322</b> | <b>32,411,387</b> | <b>28,820,239</b> | <b>25,266,488</b> | <b>24,162,501</b> |
| <b>Net assets</b>  | <b>3,670,672</b>  | <b>3,695,544</b>  | <b>4,168,955</b>  | <b>1,467,851</b>   | <b>2,607,788</b>  | <b>2,524,104</b>  | <b>3,233,820</b>  | <b>3,106,515</b>  | <b>3,008,062</b>  | <b>3,151,423</b>  |
| <b>Capital Employed</b>  |                   |                   |                   |                    |                   |                   |                   |                   |                   |                   |
| Stated capital   | 4,276,448         | 4,276,448         | 4,276,448         | 2,124,457          | 2,124,457         | 2,124,457         | 2,124,457         | 2,124,457         | 2,124,457         | 2,124,457         |
| Retained earnings & reserves   | (605,776)         | (580,904)         | (107,493)         | (656,606)          | 483,331           | 399,647           | 1,109,363         | 982,058           | 883,602           | 1,026,965         |

|                                      | 2023   | 2022    | 2021   | 2020    | 2019  | 2018    | 2017  | 2016  | 2015    | 2014    |
|--------------------------------------|--------|---------|--------|---------|-------|---------|-------|-------|---------|---------|
| <b>Investors Ratios</b>              |        |         |        |         |       |         |       |       |         |         |
| Market value of a voting share - Rs. | 4.40   | 3.40    | 5.9    | 7.50    | 9.60  | 9.60    | 13.50 | 13.60 | 15.00   | 17.50   |
| Basic earnings per share - Rs.       | 0.04   | (0.94)  | 2.04   | (6.68)  | 0.62  | 1.09    | 0.60  | 0.50  | (0.47)  | (0.18)  |
| Net assets value per share - Rs.     | 7.00   | 7.05    | 16.08  | 8.85    | 15.72 | 19.33   | 19.50 | 18.73 | 18.13   | 19.00   |
| Price earnings ratio - Times         | 110.49 | (3.60)  | 2.89   | (1.12)  | 15.52 | 8.78    | 22.20 | 28.68 | (31.77) | (94.65) |
| Earning yield - %                    | 0.91   | (27.79) | 34.59  | (89.09) | 6.44  | 11.38   | 4.50  | 3.49  | (3.15)  | (1.06)  |
| <b>Operating Ratios</b>              |        |         |        |         |       |         |       |       |         |         |
| Return on equity - %                 | 0.57   | (12.60) | 18.77  | (54.39) | 4.00  | 6.30    | 3.18  | 2.57  | (2.54)  | (0.97)  |
| Net profit - %                       | 0.28   | (7.58)  | 8.86   | (21.32) | 1.50  | 2.77    | 1.58  | 1.61  | (1.86)  | (0.65)  |
| Return on assets - %                 | 0.06   | (1.51)  | 1.59   | (3.20)  | 0.28  | 0.51    | 0.30  | 0.26  | (0.28)  | (0.11)  |
| Net interest margin - %              | 5.55   | 5.85    | 9.42   | 4.50    | 6.52  | 7.83    | 7.64  | 7.18  | 7.61    | 9.96    |
| Cost to income ratio - %             | 90.54  | 123.62  | 63.23  | 119.72  | 85.51 | 70.70   | 73.10 | 71.89 | 66.89   | 62.05   |
| Income growth - %                    | 14.30  | 9.57    | 15.09  | (24.14) | 4.41  | 2.30    | 30.99 | 15.92 | (10.93) | 86.46   |
| Assets growth - %                    | 7.90   | (8.89)  | 5.77   | (12.48) | 3.10  | 0.62    | 11.65 | 12.92 | 3.52    | 75.91   |
| Net assets growth - %                | (0.67) | (11.36) | 184.02 | (43.71) | 3.32  | (21.95) | 4.10  | 3.27  | (4.55)  | 4.95    |
| <b>Gearing Ratios</b>                |        |         |        |         |       |         |       |       |         |         |
| Debt to equity - Times               | 7.84   | 7.18    | 7.22   | 20.25   | 13.18 | 13.21   | 9.68  | 8.96  | 8.11    | 3.88    |
| Interest cover - Times               | 1.01   | 0.86    | 1.30   | 0.62    | 1.01  | 1.12    | 1.06  | 1.09  | 0.98    | 1.02    |
| <b>Liquidity Ratios</b>              |        |         |        |         |       |         |       |       |         |         |
| Quick ratio - Times                  | -      | -       | -      | -       | -     | -       | 0.77  | 0.66  | 0.76    | 0.88    |
| Liquidity ratio                      | 11.59  | 13.41   | 12.92  | 8.17    | 12.30 | 10.20   | 11.49 | 10.75 | 11.25   | -       |

# Basis of Ratio & Glossary

## " A "

### Accounting Policies

The specific principles, bases, conventions, rules and practices adopted by an entity in preparing and presenting Financial Statements.

### Accrual Basis

Recognising the effects of transactions and other events when they occur without waiting for receipt or payment of cash or its equivalent.

### Actuarial assumptions

An actuarial assumption is an entity's unbiased and mutually compatible best estimates of the demographic and financial variable that will determine the ultimate cost of providing post employment 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.

## " B "

### Bill discounted

A Promissory Note or Bill of Exchange that has been purchased for less than face value, the difference representing interest on the unexpired term of the bill. At maturity, the holder collects the face value of the bill for its own account.

## " 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.

$$\frac{\text{Total Operating cost Without VAT on Financial Services}}{\text{Net Operating Income}} \times 100$$

### Counterparty

The other party (including a bank) with whom a deal is made or closed

### 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

$$\frac{\text{Profit / Loss Attributable to Ordinary Share}}{\text{Number of Ordinary Share}}$$

## Basis of Ratio & Glossary (Contd.)

### Dividend Yield

Dividend per share as a percentage of its market value.

$$\frac{\text{Dividend Per Ordinary Share}}{\text{Market Price Per Share}} \times 100$$

## " E "

### 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.

## Basis of Ratio & Glossary (Contd.)

### 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 "

### Lease

A contract, or part of contract that conveys the right to use as asset (the underline asset) for a period of time in exchange for consideration.

### 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 allowance

The allowance for expected credit losses on financial assets measured at amortised cost, financial assets measured at fair value through other comprehensive income and the provision for expected credit losses on loan commitments and financial guarantee contracts.

### 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.

### Mortgage

A lien on real property used to secure a borrowing.

## " 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

## " O "

### Objective evidence

Information based on facts that can be proved through analysis, measurement, observation and other such means of research.

### 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.

## Basis of Ratio & Glossary (Contd.)

### " 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.

$$\frac{\text{Profit After tax}}{\text{Average Equity}} \times 100$$

#### 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 "

#### Securitisation

This involves the transfer of income producing assets to a vehicle company that finances the purchase through the issue of debt (usually notes of commercial paper).

#### 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

### Treasury bonds (T-Bond)

A long-dated security issued by the Central Bank of Sri Lanka. T-Bonds carry a coupon rate of interest.

## " U "

### Unit Trust

An undertaking formed to invest in securities under the terms of a trust deed.

## " V "

### Value at risk (VAR)

A risk management methodology that estimates the potential loss arising from adverse movement in market interest or exchange rates over a defined holding period.

### 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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| No. 500/B/C, Negombo Road, Wattala.                                      | 011-4504671  | 011-4504672 | Mr. Lasantha Segera<br><i>Branch Manager</i>  | 076-3946000<br>077-3331313 | lasanthas@mbslbank.com  |
| <b>KOTAHENA BRANCH</b>   |  |             |   |                            |                         |
| No. 295, 2/2, Rathi Tower, Geroge R.De Silva Mw, Kotahena, Colombo - 13. | 011-2388377  | 011-2432088 | Mr. Madushan Abeyrathne<br><i>Branch Manager</i>  | 077-3054317                | madushana@mbslbank.com  |
| <b>KIRIBATHGODA BRANCH</b>   |  |             |   |                            |                         |
| No. 276/A, Nawajeewana Place, Kandy Road, Kiribathgoda.                  | 011-4504678<br>011-4504679<br>011-4324180<br>011-4324182 |             | Mr. Romesh Devathanthri<br>Arachchi<br><i>Branch Manager</i>                                      | 077- 6573623               | romeshd@mbslbank.com    |
| <b>KADAWATHA BRANCH</b>  |  |             |   |                            |                         |
| No. 1246/A, Kandy Road, Kadawatha.                                       | 011-4504920  | 011-2920335 | Mr.Kasun Ekanayaka<br><i>Manager</i>  | 077-3135806                | kasune@mbslbank.com     |
| <b>PANADURA BRANCH</b>   |  |             |   |                            |                         |
| No. 159/2, Galle Road, Panadura.   | 038-4927941  | 038-2236889 | Mr. Ranga Peiris<br><i>Branch Manager</i>   | 076-3328220                | rangap@mbslbank.com     |
| <b>MORATUWA BRANCH</b>   |  |             |   |                            |                         |
| No. 731, Galle Road, Idama, Moratuwa.                                    | 011-4504964  | 011-2642120 | Mr. Chalaka Ariyasinghe<br><i>Manager</i>   | 076-0169033                | chalakaa@mbslbank.com   |
| <b>HEAD OFFICE BRANCH</b>  |  |             |   |                            |                         |
| BOC Merchant Tower, No. 28, St.Michael's Road, Colombo 03.               | 011-4711782  | 011-4711768 | Mr. Chiran Nimanka<br><i>Manager</i>  | 077-9519460                | nimankac@mbslbank.com   |
| <b>HORANA BRANCH</b>   |  |             |   |                            |                         |
| No. 212, Panadura Road, Horana.  | 034-4200101<br>034-4200102                               | 034-2262973 | Mr. Pathum Dassanayake<br><i>Manager</i>  | 077-6720861                | pathumd@mbslbank.com    |
| <b>KALUTHARA BRANCH</b>  |  |             |   |                            |                         |
| No. 426, Galle Road, Kalutara South.                                     | 034 4200105  | 034-2229482 | Mr. Sanuka Janith<br><i>Branch Manager</i>  | 076-1512261                | sanukaj@mbslbank.com    |
| <b>MATHUGAMA BRANCH</b>  |  |             |   |                            |                         |
| No. 92/4, Agalawatta Road, Mathugama                                     | 034-4947811<br>034-4947812                               | 034-2249992 | Mr. Shamal Kumara<br><i>Manager</i>   | 076-9995951                | shamalk@mbslbnak.com    |

| Address  | Telephone                                 | Fax         | Head Of Branch  | Mobile No   | E-Mail                   |
|--|---|-------------|---|-------------|--------------------------|
| <b>ZONE 2 BRANCHES</b>   |   |             | Mr. R M D Shyaman<br>Karunanayaka<br><i>Zonal Manager</i>   | 077-5506573 | shyamank@mbslbank.com    |
| <b>TISSAMAHARAMA BRANCH</b>  |   |             |   |             |                          |
| No.117, Halambagaswala Road, Palliyawatta Junction, Tissamaharama. | 047-2238716                               | 047-2238717 | Mr. Ruchira Sameera<br><i>Manager</i>   | 076-7348744 | ruchiras@mbslbank.com    |
| <b>DENIYAYA BRANCH</b>   |   |             |   |             |                          |
| No.1/153, Hospittle Road, Deniyaya.                                | 041-4935173<br>041-4935174                | 041-2273731 | Mr.Manjula Prasad<br>Krasinghe Arachchige<br><i>Manager</i>                                       | 077-9286365 | manjulak@mbslbank.com    |
| <b>MATARA BRANCH</b>   |   |             |   |             |                          |
| No. 344/F,Anagarika Dharmapala Mawatha, Nupe, Matara.              | 041-4650400<br>041-4650420                | 041-2233886 | Mr.Dharmendra Niwantha<br><i>Manager</i>  | 077-3240887 | dharmendraa@mbslbank.com |
| <b>GALLE BRANCH</b>  |   |             |   |             |                          |
| No. 37, New Street, Gnanobhashatha Mawatha, Galle.                 | 091-4711711<br>091-4 711700               | 091-2234750 | Mr. Mahesh Gunawardhana<br><i>Branch Manager</i>  | 071-7556314 | maheshg@mbslbank.com     |
| <b>AMBALANGODA BRANCH</b>  |   |             |   |             |                          |
| No. 45, Station Road, Ambalangoda.                                 | 091-4943759<br>091-4943765                | 091-2256675 | Mr. Chaminda Kadigamuwa<br><i>Manager</i>   | 077-3240817 | sanjeevac@mbslbank.com   |
| <b>AMBALANTHOTA BRANCH</b>   |   |             |   |             |                          |
| No. 133, Main street, Ambalanthota.                                | 047-4711711<br>047-4711700                | 047-2225610 | Mr. Kishan Keerthi<br><i>Manager</i>  | 077-3240572 | keerthid@mbslbank.com    |
| <b>NUGEGODA BRANCH</b>   |   |             |   |             |                          |
| No.196, High Level Road, Nugegoda.                                 | 011-4504966/7                             | 011-2815535 | Mr. Thusara Muramudali<br><i>Branch Manager</i>   | 077-6720479 | thusaram@mbslbank.com    |
| <b>MAHARAGAMA BRANCH</b>   |   |             |   |             |                          |
| No. 232, Laksiri Building, Highlevel Road, Maharagama.             | 011-4306096<br>011-4306097                | 011-2745451 | Mr. G A D Chanaka Piyumal<br><i>Actg. Branch Manager</i>  | 077-9198752 | piyumalc@mbslbank.com    |
| <b>KOTTAWA BRANCH</b>  |   |             |   |             |                          |
| No. 262/2A, High Level Road, Kottawa.                              | 011-4504962                               | 011-2783389 | Mr. Sampath Gunasekera<br><i>Branch Manager</i>   | 077-6721537 | sampathg@mbslbank.com    |
| <b>MALABE BRANCH</b>   |   |             |   |             |                          |
| No. 390 A, Kaduwela Rd, Malabe.                                    | 011-4498505                               | 011-4498502 | Mr. Chandrasekaran Sanjeev<br><i>Branch Manager</i>   | 077-3240053 | sanjeevc@mbslbank.com    |
| <b>RANGE 02</b>  |   |             |   |             |                          |
| No. 55, Kings Groove, Rajapihilla Road, Kurunegala.                | 037-4711700                               | 037-2224215 | Mr. Saman Pathmadeera<br>Assistant General Manager<br>- Retail & Branch Operations<br>(Range II ) | 077-3219579 | samanp@mbslbank.com      |
| <b>ZONE 03 BRANCHES</b>  |   |             |   |             |                          |
| <b>PUTTALAM BRANCH</b>   |   |             |   |             |                          |
| No.126/B, Kurunagala Road, Puttalam.                               | 032-2267285<br>032-4928795<br>032-4928796 |             | Mr. Neel Kantha<br>Thevarapperuma<br><i>Branch Manager</i>  | 077-2281244 | neelk@mbslbank.com       |

## Contact Information (Contd.)

| Address   | Telephone   | Fax         | Head Of Branch  | Mobile No                  | E-Mail                     |
|---|---|-------------|---|----------------------------|----------------------------|
| <b>DAMBULLA BRANCH</b>                                |   |             |   |                            |                            |
| No. 343/B, Matale Road,<br>Dambulla.                  | 066-4200105/6<br>066-2284204/5  |             | Mr. W G Ajith Premalal<br><i>Actg. Branch Manager</i>     | 077-8747506                | ajithpr@mbslbank.com       |
| <b>VAVUNIYA BRANCH</b>                                |   |             |   |                            |                            |
| No. 104/1, Station Road,<br>Vavuniya.                 | 024-4711711   |             | Mr. Kanesalingam<br>Thusijanthan<br><i>Branch Manager</i> | 077-3241007                | thusijanthank@mbslbank.com |
| <b>NEGOMBO BRANCH</b>                                 |   |             |   |                            |                            |
| No. 329/16, Main Street,<br>Negombo.                  | 031-4200107<br>031-4200108  |             | Mr. Pradeep Kumarage<br><i>Branch Manager</i>             | 077-6722479                | pradeepk@mbslbank.com      |
| <b>KILINOCCHI BRANCH</b>                              |   |             |   |                            |                            |
| No. 30, A9 Road, Karadippokku,<br>Kilinochchi.        | 021-2280078   |             | Mr. Satchithanantham<br>Uganthan<br><i>Branch Manager</i> | 077-6664465                | uganthans@mbslbank.com     |
| <b>HINGURAKGODA BRANCH</b>                            |   |             |   |                            |                            |
| No.17, Air-Port Road,<br>Hingurakgoda.                | 027-4924761<br>027-4924762  |             | Mr. Gayan Wijesinghe<br><i>Branch Manager</i>             | 077-2970205                | Gayanpw@mbslbank.com       |
| <b>WENNAPPUWA BRANCH</b>                              |   |             |   |                            |                            |
| No.177, Samagi Building,<br>Kolinjadiya, Wennappuwa.  | 031-4200109<br>031-4200110  |             | Mr. Dimuth Fernando<br><i>Branch Manager</i>              | 077-4493980                | dimuthf@mbslbank.com       |
| <b>TRINCOMALEE BRANCH</b>                             |   |             |   |                            |                            |
| No. 133, Main Street,<br>Trincomalee.                 | 026-4924788<br>026-4928888  |             | Mr. Shanmugavel<br>Harishangar<br><i>Manager</i>          | 077-5147548                | harishangars@mbslbank.com  |
| <b>KEKIRAWA BRANCH</b>                                |   |             |   |                            |                            |
| No. 24, Yakalla Road, Kekirawa.                       | 025-4928951<br>025-4928952  |             | Mr. Sampath Wijekoon<br><i>Branch Manager</i>             | 077-3240975                | sampathw@mbslbank.com      |
| <b>KURUNEGALA BRANCH</b>                              |   |             |   |                            |                            |
| No. 55, Kings Groove,<br>Rajapihilla Road, Kurunegala | 037-4711711   | 037-2224570 | Mr. Lakmal Jayathunga<br><i>Branch Manager</i>            | 077-3240896                | lakmalj@mbslbank.com       |
| <b>KULIYAPITIYA BRANCH</b>                            |   |             |   |                            |                            |
| No. 413/1/1,<br>Madampe Road, Kuliypitiya.            | 037-4941147<br>(BM)<br>037-4200130<br>037-2281730<br>037-4200131<br>037-4937218/9 | 037-2281731 | Mr. Laahiru Jayasinghe<br><i>Actg. Branch Manager</i>     | 077-5221515                | laahiruj@mbslbank.com      |
| <b>CHILAW BRANCH</b>                                  |   |             |   |                            |                            |
| No. 34, Kurunegala Road,<br>Chilaw.                   | 032-4928790<br>032-4928791  |             | Mr. Nuwan Prasanga<br><i>Manager</i>                      | 077-3973424<br>077-6643542 | nuwanp@mbslbank.com        |
| <b>JAFFNA BRANCH</b>                                  |   |             |   |                            |                            |
| No. 233, Stanley Road, Jaffna.                        | 021-4200141   |             | Mr. Rengasamy Saravanan<br><i>Senior Manager</i>          | 077-6519372                | saravananr@mbslbank.com    |

| Address  | Telephone                                 | Fax         | Head Of Branch   | Mobile No   | E-Mail                   |
|--|---|-------------|--|-------------|--------------------------|
| <b>ANURADHAPURA BRANCH</b>                             |   |             |  |             |                          |
| No. 82, Maithreepala Senanayake Mawatha, Anuradhapura. | 025-2234485<br>025-2221774<br>025-4580507 |             | Mr. Amila W. Mawathawewa<br><i>Manager</i>                     | 077-2519083 | amilaw@mbslbank.com      |
| <b>ZONE 4 BRANCHES</b>                                 |   |             |  |             |                          |
|  |   |             | Mr. Sumith Sanjaya<br><i>Zonal Manager</i>                     | 077-3240329 | sumiths@mbslbank.com     |
| <b>GAMPAHA BRANCH</b>                                  |   |             |  |             |                          |
| No. 390, Colombo Road, Gampaha.                        | 033-4200110<br>033-4200109                |             | Mr. Hasintha Thennakoon<br><i>Branch Manager</i>               | 077-3240011 | Hasinthat@mbslbank.com   |
| <b>KANDY BRANCH - CITY OFFICE</b>                      |   |             |  |             |                          |
| No. 88, "Ceybank House" Dalada Veediya, Kandy.         | 081-2237378<br>081-2237380<br>081-2237379 | 081-2237378 | Mr. Krishantha Bandara<br><i>Manager</i>                       | 077-3241027 | krishanthab@mbslbank.com |
| <b>MONARAGALA BRANCH</b>                               |   |             |  |             |                          |
| No. 280, Wellawaya Road, Monaragala.                   | 055-4929361<br>055-4929362                | 055-2276087 | Mr. Sumith Sanjaya Karunarathne<br><i>Zonal Manager</i>        | 077-3240329 | sumiths@mbslbank.com     |
| <b>KANDY BRANCH</b>                                    |   |             |  |             |                          |
| No. 284, Katugasthota Road, Kandy.                     | 081-2224818/9<br>081-4951786/7            | 081-2213880 | Mr. Asanka Weerasinghe<br><i>Manager</i>                       | 077-3241168 | asankaw@mbslbank.com     |
| <b>RATNAPURA BRANCH</b>                                |   |             |  |             |                          |
| No. 231, Main Street, Rathnapura.                      | 045-4928089<br>045-4928093                |             | Mr. Chinthaka Athukorala<br><i>Manager</i>                     | 077-3241089 | chinthakaa@mbslbank.com  |
| <b>BANDARAWELA BRANCH</b>                              |   |             |  |             |                          |
| No. 11, Thanthiriya, Badulla Road, Bandarawela.        | 057-4926910<br>057-4926911                | 057-2233807 | Mr. Chandana Rathnayake<br><i>Branch Manager</i>               | 077-3240335 | rohanr@mbslbank.com      |
| <b>HATTON BRANCH</b>                                   |   |             |  |             |                          |
| No. 36, Circular Road, Hatton.                         | 051-4924641<br>051-4924642                |             | Mr. L H N Janaka Udayanath Wijethunga<br><i>Branch Manager</i> | 077-6704323 | janakau@mbslbank.com     |
| <b>BATTICALOA BRANCH</b>                               |   |             |  |             |                          |
| No. 28, Bar Road, Batticaloa.                          | 065-4926787<br>065-4926799                |             | Mr. Yogarajah Suluxshan<br><i>Manager</i>                      | 076-0576783 | suluxshany@mbslbank.com  |
| <b>NITTAMBUWA BRANCH</b>                               |   |             |  |             |                          |
| No. 48/3, Kandy Road, Nittambuwa.                      | 033-4937564<br>033-4937565                |             | Mr. Kanchana Costa<br><i>Manager</i>                           | 074-0934308 | KanchanaG@mbslbank.com   |
| <b>AMPARA BRANCH</b>                                   |   |             |  |             |                          |
| No. 6, D S Senanayake Veediya, Ampara.                 | 063-4923540<br>063-4923541                |             | Mr. Roshantha Chaminda<br><i>Manager</i>                       | 077-9359937 | roshanthac@mbslbank.com  |
| <b>AVISSAWELLA BRANCH</b>                              |   |             |  |             |                          |
| No. 89 /1/1, Ratnapura Road, Avissawella.              | 036-4928208<br>036-4928209                |             | Mr. Amal Geekiyanage<br><i>Manager</i>                         | 077-3240384 | amals@mbslbank.com       |



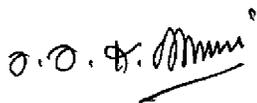


# Notice of Meeting

NOTICE IS HEREBY GIVEN that the Forty Second (42nd) Annual General Meeting of Merchant Bank of Sri Lanka & Finance PLC will be held at the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No. 28, St. Michael's Road, Colombo 3 on 31st May 2024 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 2023 together with the Report of the Auditors thereon.
2. To re-elect Director, Prof. N S Punchihewa who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
3. To re-elect Director, Mr. J D V N Jayasinghe who retires by rotation in terms of Article 86 read with Article 87 of the Articles of Association of the Company.
4. 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.
5. To authorize the Directors to determine donations for the financial year ending 31.12.2024.

By Order of the Board of  
**MERCHANT BANK OF SRI LANKA & FINANCE PLC**



**Theranjeni Attanayake**  
*Company Secretary*

02.05.2024  
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.

# Administrative Details

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 31st May 2024 at 10.00 a.m.
- (b) Board members and other key officials who are essential for the administration of the formalities and conduct of AGM will be physically present in the Board Room of the Company.
- (c) All others including the shareholders will only be able to participate the AGM by virtual means via the designated online platform (Microsoft Teams).

## 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](mailto:dinushar@mbslbank.com) or Fax to No. 0114711742 or post to the address given in the Registration Form to be received by the Company not less than 48 hours prior to the time scheduled for the AGM.

PLEASE NOTE THAT SINCE THE AGM IS TO BE HELD AS A VIRTUAL MEETING, YOU ARE REQUIRED TO PROVIDE A VALID EMAIL ID IN THE REGISTRATION FORM (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](mailto:dinushar@mbslbank.com) or Fax to No.0114711742 or post to the address given in the Registration Form to be received by the Company not less than 48 hours prior to the time scheduled for the AGM .
- (c) The Company will forward to the shareholders who register for the AGM, the AGM meeting log-in information via email in advance of the AGM. In addition, a dedicated telephone line will be made available to assist them in resolving any difficulty they may encounter in using/ accessing the online meeting platform.

Meeting log-in information is authorized only for 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.

## Administrative Details (Contd.)

### 3. SHAREHOLDERS' QUERIES

(a) Shareholders will be given the opportunity to raise any questions or make comments on the resolutions specified in the attached Notice of Meeting during the time allotted for participants to make comments as directed by the Chairman of the meeting. All individuals participating in the AGM remotely through the online platform are required to first identify themselves by providing the name and NIC/ Passport number before raising any questions or making comments.

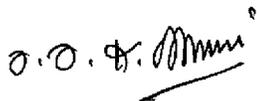
However, if the shareholders wish to raise any queries/questions during the meeting, they are encouraged to forward same via e mail: [dinushar@mbslbank.com](mailto:dinushar@mbslbank.com) or by post to the registered address of the Company at BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3, at least 7 days prior to the meeting, so that the Company Secretary will be able to compile queries and forward same for the attention of the Board of Directors to be discussed at the meeting.

(b) The Shareholders who are unable to participate in the virtual AGM may send their questions on the matters listed in the Notice of Meeting to the e-mail: [dinushar@mbslbank.com](mailto:dinushar@mbslbank.com) or via Fax No. 0114711742 or by post to the Company Secretary, Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 3. The responses from the Board of Directors and the Management to the questions will be forwarded to the shareholders by the Company within 30 working days from the receipt.

4. The Company will proceed to hold the AGM as planned on 31st May 2024 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



**Theranjani Attanayake**  
Company Secretary

02.05.2024  
Colombo

# Registration Form

## ANNUAL GENERAL MEETING

31st May 2024 at 10.00 a.m

At the Board Room (18th Floor) of Merchant Bank of Sri Lanka & Finance PLC, BOC Merchant Tower, No.28 St. Michael's Road, Colombo 03

To: The Company Secretary  
Merchant Bank of Sri Lanka & Finance PLC.  
Bank of Ceylon Merchant Tower,  
No. 28, St. Michael's Road,  
Colombo 03.

|   |  |
|---|--|
| Full Name of the Shareholder<br>(In the event of joint shareholders, please mention the name of primary holder) |  |
| Address of the Shareholder  |  |
| Shareholder's NIC No./Passport No./<br>Company Registration Number  |  |
| Telephone Number  | Mobile:  |
|   | Landline:  |
| E mail Address:   |  |
| Willingness to participate via online   | YES <input type="checkbox"/> NO <input type="checkbox"/> |
| <b>IF A PROXY IS APPOINTED</b>  |  |
| Full Name of the proxy holder   |  |
| Proxy holder's NIC No./Passport No.   |  |
| Telephone Number  | Mobile:  |
|   | Landline:  |
| E mail Address  |  |

.....  
Shareholder's signature

.....  
Date

## Registration Form (Contd.)

### 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](mailto:dinushar@mbslbank.com) or [nimalig@mbslbank.com](mailto: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 should be attached.

# Form of Proxy

I/We.....

of.....

being a shareholder/ shareholders of the Merchant Bank of Sri Lanka & Finance PLC, hereby appoint (Name).....

.....of (Address) ..... 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 31st May 2024 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 Prof. N S PUNCHIHEWA as a Director 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 Mr. J D V N Jayasinghe as a Director 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 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"/> |
| 07. To authorize the Directors to determine donations for the financial year ending 31.12.2024.   | <input type="checkbox"/> | <input type="checkbox"/> |

Signed this.....day of.....Two Thousand and Twenty Four.

.....  
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. In view of the proxy holder if there is 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, a notarial certified copy of 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](http://www.mbslbank.com)

**TAX PAYER IDENTIFICATION NO. :** 124011426

**VAT REGISTRATION NO. :** 124011426-7000

**CENTRAL BANK REGISTRATION NO. :** 050

**FINANCIAL YEAR END :** 31st December

**WEBSITE :** [www.mbslbank.com](http://www.mbslbank.com)

## BOARD OF DIRECTORS :

Mr. 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 & Communications Technology Committee

## CHIEF EXECUTIVE OFFICER :

Mr. Dammika Hapuhinna  
Tel: 4711700 Fax: 4711704  
E-mail: [Dammikah@mbslbank.com](mailto:Dammikah@mbslbank.com)

## COMPANY SECRETARY :

Ms. Theranjani Attanayake  
Tel: 4711708  
E-mail : [theranjania@mbslbank.com](mailto:theranjania@mbslbank.com)

## SUBSIDIARY COMPANY :

MBSL Insurance Company Limited  
No. 519, T B Jayah Mawatha, Colombo - 10  
Tel : 2 304500 Fax: 2 300499  
E-mail : [info@mbslinsurance.lk](mailto:info@mbslinsurance.lk) Web : [www.mbslinsurance.lk](http://www.mbslinsurance.lk)

## ASSOCIATE COMPANY :

Lanka Securities (Pvt.) Ltd  
No. 228/1, Galle Road, Colombo 04  
Tel : 4706757 Fax: 4706767  
E-mail: [info@lankasec.com](mailto:info@lankasec.com) Web : [www.lankasecurities.com](http://www.lankasecurities.com)

**AUDITORS :** The Auditor General

## LAWYERS :

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

**PRINCIPAL BANKER :** Bank of Ceylon



Bank of Ceylon Merchant Tower,  
No. 28, St. Michael's Road, Colombo 03  
Tel. 011 4711711 | Fax. 011 4711742  
[www.mbslbank.com](http://www.mbslbank.com)



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