

**MCB BANK LIMITED – SRI LANKA BRANCH
FINANCIAL STATEMENTS
FOR THE YEAR ENDED
31 DECEMBER 2018**



KPMG
(Chartered Accountants)
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INDEPENDENT AUDITOR'S REPORT

TO THE MANAGEMENT OF MCB BANK LIMITED – SRI LANKA BRANCH

Report on the Audit of the Financial Statements

Opinion

We have audited the accompanying financial statements of MCB Bank Limited – Sri Lanka Branch (“the Bank”) which comprise the statement of financial position as at December 31, 2018, and the statements of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including a summary of significant accounting policies and other explanatory information set out on pages 3 to 59.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Bank as at December 31, 2018, and of its financial performance and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

We conducted our audit in accordance with Sri Lanka Auditing Standards (SLAuSs). Our responsibilities under those standards are further described in the *Auditor's Responsibilities for the Audit of the Financial Statements* section of our report. We are independent of the Bank in accordance with the Code of Ethics issued by CA Sri Lanka (Code of Ethics) and we have fulfilled our other ethical responsibilities in accordance with the Code of Ethics. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Other Information

Management is responsible for the other information. The other information comprises the information on BASEL III disclosures included on pages 60 to 76 after the financial statements. Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

Responsibilities of Management for the Financial Statements

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

KPMG, a Sri Lankan partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative (“KPMG International”), a Swiss entity.

M.R. Mihular FCA	P.Y.S. Perera FCA	C.P. Jayatilake FCA
T.J.S. Rajakarier FCA	W.W.J.C. Perera FCA	Ms. S. Joseph FCA
Ms. S.M.B. Jayasekara ACA	W.K.D.C. Abeyaratne FCA	S.T.D.L. Perera FCA
G.A.U. Karunaratne FCA	R.M.D.B. Rajapakse FCA	Ms. B.K.D.T.N. Rodrigo FCA
R.H. Rajan FCA	M.N.M. Sharneel ACA	Ms. C.T.K.N. Perera ACA

Principals - S.R.I. Perera FCMA(UK), LLB, Attorney-at-Law, H.S. Goonewardene ACA

In preparing the financial statements, management is responsible for assessing the Bank'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 Bank or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Bank's financial reporting process.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are 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 our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with SLAuSs 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.

A further description of the auditor's responsibilities for the audit of the financial statements is located at Sri Lanka Accounting and Auditing Standards website at: <http://slaasc.com/auditing/auditorsresponsibility.php>. This description forms part of our auditor's report.



CHARTERED ACCOUNTANTS

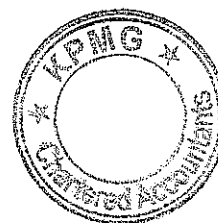
Colombo

29 March 2019

MCB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

<i>For the year ended 31 December</i>		2018	2017
<i>All amounts in Sri Lankan Rupees</i>			
	Note		
Interest Income		2,820,852,782	2,611,729,936
Interest Expenses		(1,356,590,589)	(1,216,619,735)
Net Interest Income	7	1,464,262,193	1,395,110,201
Fee and Commission Income	8	125,338,772	126,357,870
Other Operating Income	9	30,544,143	99,018,288
Total Operating Income		1,620,145,108	1,620,486,359
Impairment losses on financial instruments	10	(160,153,505)	(142,651,780)
Net Operating Income		1,459,991,603	1,477,834,579
Personnel Expenses	11	(297,406,549)	(283,256,405)
Other Expenses	12	(383,367,772)	(304,195,280)
Operating Profit Before Value Added Tax		779,217,282	890,382,894
Taxes on Financial Services		(173,885,081)	(178,173,496)
Profit Before Income Tax		605,332,201	712,209,398
Tax Expense	13	(161,596,739)	(208,522,813)
Profit for the Year		443,735,462	503,686,585
Other Comprehensive Income, Net of Tax			
Items that will not be classified to profit or loss			
Remeasurements of defined benefit liability / (asset)	29.1	(1,365,056)	(4,069,069)
Deferred Tax effect on actuarial gain / (loss)		382,216	270,918
Surplus from revaluation of Property, plant & equipment		-	22,638,878
Deferred Tax effect on above Surplus from revaluation of Property, plant & equipment		-	(6,338,888)
Items that are or may be reclassified subsequently to profit or loss			
Foreign currency translation reserve		148,835,206	14,217,006
Gain/(Loss) on translation of FCBU		(17,742,334)	-
Net change in fair value - financial assets at FVOCI (Net of tax)		-	8,041,740
Net change in fair value - Available-for-Sale Financial Assets (Net of tax)		130,110,032	34,760,585
Other Comprehensive Income for the Year, net of Tax		130,110,032	34,760,585
Total Comprehensive Income for the Year		573,845,494	538,447,171

The notes to the financial statements are an integral part of these financial statements.

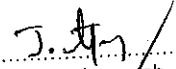


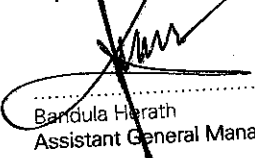
MCB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF FINANCIAL POSITION

		2018	2017
<i>As at 31 December</i>			
<i>All amounts in Sri Lankan Rupees</i>			
	Note		
ASSETS			
Cash and Cash Equivalents	14	221,411,580	197,471,794
Balances with Central Banks	15	2,021,412,235	2,112,481,798
Placements with Banks	16	752,542,104	873,777,231
Derivative Financial Instruments	17	284,487,963	1,503,642
Financial assets at amortised cost			20,239,109,921
Loans and Advances to customers	18	21,134,247,864	1,746,095,812
Debt and other financial instruments / Held to maturity	19	2,227,310,758	3,251,973,694
Investment securities at FVOCI / Available for sale	20	3,146,982,276	245,167,884
Property, Plant and Equipment	21	267,217,082	47,391,656
Intangible Assets	22	29,991,215	115,762,283
Other Assets	23	126,404,968	
Total Assets		<u>30,212,008,045</u>	<u>28,830,735,715</u>
LIABILITIES			
Due to Banks	24	734,417,926	3,337,142,730
Derivative Financial Instruments	17	2,426,947	87,163,711
Deposits from customers	25	21,925,420,544	18,670,299,972
Other Borrowings	26	83,532,380	99,175,221
Current Tax Liabilities		98,101,222	106,453,518
Deferred Tax Liabilities	27	14,667,822	37,360,954
Provisions	28	13,153,261	-
Other Liabilities	29	952,580,326	465,589,327
Total Liabilities		<u>23,824,300,428</u>	<u>22,803,185,433</u>
EQUITY			
Assigned Capital	30	3,969,508,163	3,969,508,163
Statutory Reserve Fund	31	214,189,861	192,003,088
Retained Earnings		1,904,456,566	1,697,578,877
Other Reserves		299,553,027	168,460,154
Total Equity		<u>6,387,707,617</u>	<u>6,027,550,282</u>
Total Equity and Liabilities		<u>30,212,008,045</u>	<u>28,830,735,715</u>
Commitments and Contingencies	32	17,363,201,409	16,096,713,583

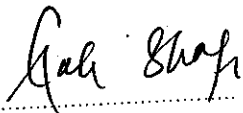
The notes to the financial statements are an integral part of these financial statements.

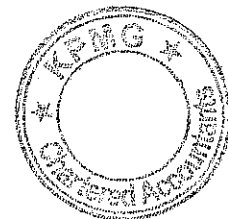
The Management is responsible for the preparation and presentation of these financial statements.
Signed for and on behalf of the Management by:


Apiramy Jeyarajah
Department Head - Finance


Bandula Herath
Assistant General Manager

29 March 2019
Colombo


Aali Shafi
Country General Manager



MCB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF CHANGES IN EQUITY
All amounts in Sri Lankan Rupees

	Assigned capital	Reserve Fund	Revaluation reserves	Fair value Reserve	Retained Earnings	Foreign currency translation reserve	Total
Balance as at 1 st January 2017	3,969,508,163	166,818,759	41,576,374	2,447,124	1,372,159,109	85,877,921	5,638,387,450
Net Profit for the year	-	-	-	-	503,686,585	-	503,686,585
Other comprehensive income	-	-	22,638,878	11,169,083	(4,069,069)	14,217,006	43,955,898
Deferred Tax effect on other comprehensive income	-	-	(6,338,888)	(3,127,343)	270,918	-	(9,195,313)
Total comprehensive income for the year	-	-	16,299,990	8,041,740	499,888,434	14,217,006	538,447,170
Transactions with Equity Holders recognized directly in Equity	-	25,184,329	-	-	(25,184,329)	-	(149,284,338)
Transfers to Statutory Reserve	-	-	-	-	(149,284,338)	-	(149,284,338)
Profit transferred to head office	-	25,184,329	-	-	(174,468,667)	-	-
Total transactions with equity holders	-	25,184,329	-	-	(174,468,667)	-	-
Balance as at 31 st December 2017	3,969,508,163	192,003,088	57,876,364	10,488,864	1,697,578,876	100,094,927	6,027,550,282
Adjustments on initial application of SLFRS 9, Net of deferred tax	-	-	-	-	(42,434,721)	-	(42,434,721)
Balance as at 1 st January 2018	3,969,508,163	192,003,088	57,876,364	10,488,864	1,655,144,155	100,094,927	5,985,115,561
Net Profit for the year	-	-	-	(24,642,131)	443,735,462	-	443,735,462
Other comprehensive income	-	-	-	(1,365,056)	(1,365,056)	148,835,206	122,828,019
Deferred Tax effect on other comprehensive income	-	-	-	6,899,797	382,216	-	7,282,013
Total comprehensive income for the year	-	-	-	(17,742,334)	442,752,622	148,835,206	573,845,494
Transactions with Equity Holders recognized directly in Equity	-	22,186,773	-	-	(22,186,773)	-	(171,253,439)
Transfers to Statutory Reserve	-	-	-	-	(171,253,439)	-	(171,253,439)
Profit transferred to head office	-	22,186,773	-	-	(193,440,212)	-	-
Total transactions with equity holders	-	22,186,773	-	-	(193,440,212)	-	-
Balance as at 31 st December 2018	3,969,508,163	214,189,861	57,876,364	(7,253,470)	1,904,456,566	248,930,133	6,387,707,617

The notes to the financial statements are an integral part of these financial statements

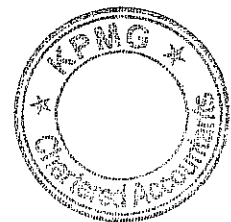


MCB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF CASHFLOWS

For the year ended 31 December
All amounts in Sri Lankan Rupees

	2018	2017
Cash Flows From Operating Activities	2,928,527,428	2,664,311,998
Interest and commission receipts	(1,255,354,635)	(934,781,020)
Interest payments	24,569,254	61,793,309
Cash payments from other operating activities	(763,347,573)	(707,032,442)
Cash payments to employees and suppliers	934,394,474	1,084,291,845
Operating profit before changes in Operating Assets and Liabilities (Note A)		
Increase in Operating Assets	91,069,563	(529,620,998)
Deposits held for Regulatory or Monetary Control Purposes	(1,053,286,779)	(4,894,342,976)
Funds Advanced to Customers	(293,627,006)	32,858,715
Other Short term Assets		
Increase/(Decrease) in Operating Liabilities	3,133,630,764	4,212,072,620
Deposits from customers	543,901,178	(41,222,010)
Other Liabilities	3,356,082,194	(135,962,804)
Net Cash Generated from Operations		
	(190,965,722)	(212,045,417)
Income Tax Paid		
	3,165,116,472	(348,008,221)
Net Cash flows generated from / (used in) Operating Activities		
Cash Flows from Investing Activities	(407,136,225)	(947,351,790)
Net proceeds from maturity and purchase of Financial Investments	119,347,978	691,133,552
Proceed from maturity of other Placements with Banks	(87,797,786)	(140,198,304)
Purchase of Property, Plant and Equipment	3,776,578	136,035
Proceeds from Sale of Property, Plant and Equipment	(371,809,456)	(396,280,507)
Net Cash Flows generated from / (used in) Investing Activities		
Cash flow from Financing Activities		
Capital Infusion from Head Office	(171,253,439)	(149,284,338)
Profit repatriation to Head Office	(2,598,113,791)	887,569,461
Increase/(Decrease) of borrowings	(2,769,367,230)	738,285,123
Net cash generated from / (used in) financing Activities		
	23,939,786	(6,003,604)
Net Increase in Cash and Cash Equivalents	197,471,794	203,475,398
Cash and Cash Equivalents at the Beginning of the year	221,411,580	197,471,794
Cash and Cash Equivalents at the End of the year (Note 14)		
	221,411,580	197,471,794
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	221,411,580	197,471,794

The notes to the financial statements are an integral part of these financial statements.



MCB BANK LIMITED - SRI LANKA BRANCH
STATEMENT OF CASHFLOWS

For the year ended 31 December
All amounts in Sri Lankan Rupees

	2018	2017
Note A		
Reconciliation of operating profit before changes in operating assets and liabilities		
Profit before Income Tax Expense	605,332,201	712,209,398
<i>Adjustments for :</i>		
Impairment charges for loans and other losses	160,153,505	142,651,780
Amortisation of intangible assets	21,710,031	14,464,509
Depreciation of Property, Plant and Equipment	59,240,688	39,491,361
Profit on sale of Property, Plant and Equipment	(5,974,889)	(117,159)
Loss/ (Gain) on sale of securities	-	(37,107,820)
Provision for employee benefit	15,612,208	14,326,165
Payment for employee benefit	(5,251,099)	(9,689,296)
Accrual for interest benefit	(17,664,126)	(73,775,808)
Accrual for interest receivable	101,235,954	281,838,715
Accrual for interest payable		
Operating profit before changes in operating assets and liabilities	<u>934,394,474</u>	<u>1,084,291,845</u>

The notes to the financial statements are an integral part of these financial statements.



1 REPORTING ENTITY

MCB Bank Limited-Sri Lanka Branch (the "Bank") is a foreign branch of MCB Bank Limited, incorporated in Pakistan and commenced its business in 1994. The bank was approved to carry out both domestic and off-shore banking under the Banking Act 30 of 1988 and amendments thereto. The registered office of the bank is located at No.8, Leyden Bastian Road, York Arcade Building, Colombo 01.

1.1 Principal Activities and Nature of Operations

Principal activities of the Bank continued to be banking and related activities such as accepting deposits, corporate and retail banking, off shore banking, foreign currency operations, trade services, etc.

There have been no significant changes to these principal activities during the financial year.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

The Financial Statements of the Bank which comprise the Statement of Financial Position, Statement of Profit or Loss & Other Comprehensive Income, Statement of Changes in Equity, Statement of Cash Flows and Notes thereto have been prepared in accordance with Sri Lanka Accounting Standards (LKASs and SLFRSs) laid down by the Institute of Chartered Accountants of Sri Lanka and Banking Act No.30 of 1988 and subsequent amendments thereto.

The Bank's Financial Statements were authorized for issue by the management in accordance with the resolution of the management on 29 March 2019.

2.2 Basis of Measurement

The Financial Statements have been prepared on the historical cost basis and applied consistently, with no adjustments being made for inflationary factors affecting the Financial Statements, except for the following;

- Derivative financial instruments are measured at fair value;
- Financial assets classified as FVOCI are measured at fair value;
- Freehold land and buildings (Condominium) are measured at cost at the time of acquisition and subsequently at revalued amounts which are the fair values at the date of revaluation;
- Measurement of defined benefit obligations based on key actuarial assumptions.

This is the first set of the Financial Statements in which SLFRS 9 – "Financial Instruments" and SLFRS 15 – "Revenue from Contracts with Customers" have been applied. Changes to significant accounting policies are described in Note 3.

2.3 Functional and Presentation Currency

Financial Statements are presented in Sri Lankan Rupees, which is the Bank's functional currency. All amounts have been rounded to the nearest Rupee, except when otherwise indicated.

2.4 Use of Estimates and Judgments

The preparation of the Financial Statements in conformity with Sri Lanka Accounting Standards requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expense. Actual amount may defer from these estimates.



MCB BANK LIMITED – SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised and in any future periods affected.

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

- Note 3.10 - Recognition, classification and measurement of financial instruments
- Note 3.10.9 - Impairment of financial instruments: key assumptions used in estimating recoverable cash flow
- Note 3.10.9 - Selection and approval of models used to measure ECL
- Note 3.10.9 - Identification, measurement and assessment of impairment of financial instruments
- Note 3.15 - Impairment of non-financial assets
- Note 29.1 - Employee retirement benefits
- Note 27 - Deferred taxation

An analysis of financial instruments measured at fair value as at the end of the reporting period, by the level of the fair value hierarchy is given in Note 33.

2.5 Materiality and aggregation

Each material class of similar items is presented separately in the Financial Statements. Items of dissimilar nature or function are presented separately unless they are immaterial.

3 SIGNIFICANT ACCOUNTING POLICIES

3.1 CHANGES IN ACCOUNTING POLICIES

The Bank has initially adopted SLFRS 9 and SLFRS 15 from 1st January 2018. Due to the transition method chosen by the Bank in applying SLFRS 9 comparative information throughout these Financial Statements has not been restated to reflect its requirements. The adoption of SLFRS 15 did not impact the timing or amount of fee and commission income from contracts with customers and the related assets and liabilities recognized by the Bank. Accordingly the impact on the comparative information is limited to new disclosure requirements. The effect of initially applying these standards is mainly attributed to the following:

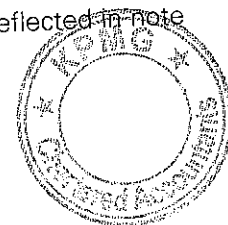
- An increase in impairment losses recognised on financial assets
- Additional disclosures related to SLFRS 9
- Additional disclosures related to SLFRS 15

The impact on classification and measurement of Financial Assets due to the adoption of SLFRS 9 is disclosed in Note 33 B. Except for the changes below, the Bank has consistently applied the accounting policies as set out in pages 8 to 36 to all periods presented in these Financial Statements.

3.1.1 SLFRS 9 – “Financial Instruments”

SLFRS 9 sets out requirements for recognising and measuring financial assets, financial liabilities and some contracts to buy or sell non-financial items. This standard replaces LKAS 39 “Financial Instruments: Recognition and Measurement”. The requirements of SLFRS 9 represent a significant change from LKAS 39. The new standard brings fundamental changes to the accounting for financial assets and to certain aspects of the accounting for financial liabilities.

The key changes to the Bank’s accounting policies resulting from its adoption of SLFRS 9 are reflected in note 33 B.



Classification of financial assets and financial liabilities

SLFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). SLFRS 9 classification is generally based on the business model in which a financial asset is managed and its contractual cash flows. The standard eliminates the previous LKAS 39 categories of held-to-maturity, loans and receivables and available-for-sale.

SLFRS 9 largely retains the existing requirements in LKAS 39 for the classification of financial liabilities. However, although under LKAS 39 all fair value changes of liabilities designated under the fair value option were recognised in profit or loss, under SLFRS 9 fair value changes are generally presented as follows:

- the amount of change in the fair value that is attributable to changes in the credit risk of the liability is presented in OCI; and
- the remaining amount of change in the fair value is presented in profit or loss.
- For an explanation of how the bank classifies financial liabilities under SLFRS 9, see (Note 33).

Impairment of financial assets

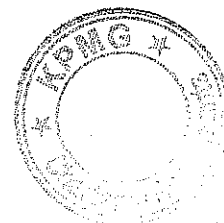
SLFRS 9 replaces the 'incurred loss' model in LKAS 39 with an 'expected credit loss' (ECL) model. The new impairment model applies to financial assets measured at amortised cost, contract assets and debt investments at FVOCI, but not to investments in equity instruments. Under SLFRS 9, credit losses are recognised earlier than under LKAS 39.

Transition

Changes in accounting policies resulting from the adoption of SLFRS 9 have been applied retrospectively, except as described below:

- The Bank used the exemption not to restate comparatives. Differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of SLFRS 9 are recognised in retained earnings and reserves as at 1st January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of SLFRS 9 and therefore is not comparable to the information presented for 2018 under SLFRS 9.
- The following assessments have been made on the basis of the facts and circumstances that existed at the date of initial application:
 - The determination of the business model within which a financial asset is held.
 - The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL.
 - The designation of certain investments in equity instruments not held for trading as at FVOCI.
 - For financial liabilities designated as at FVTPL, the determination of whether presenting the effects of changes in the financial liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss.
 - If a debt security had low credit risk at the date of initial application of SLFRS 9, then the Bank has assumed that credit risk on the asset had not increased significantly since its initial recognition.

The information and details on the changes and implications resulting from the adoption of SLFRS 9 is given in note 4.9.



Impact of adopting SLFRS 9 - "Financial Instruments"

The impact of this change in accounting policy as at 1st January 2018 has been to decrease retained earnings by Rs.42,434,721 net of tax.

Note 33B summarizes the impact of transition to SLFRS 9 - "Financial Instruments" on reserves and retained earnings as at 1st January 2018.

Classification of financial assets and financial liabilities on the date of initial application of SLFRS 9 - "Financial Instruments"

Note 33B depicts the original measurement categories under LKAS 39 - "Financial Instruments: Recognition and Measurement" and the new measurement categories under SLFRS 9 - "Financial Instruments" along with their carrying amounts for each class of the Bank's financial assets and financial liabilities as at 1st January 2018.

3.1.2 SLFRS 15 – "Revenue from Contracts with Customers"

SLFRS 15 establishes a comprehensive framework for determining whether, how much and when revenue is recognised. It replaced LKAS 18 Revenue, LKAS 11 Construction Contracts and related interpretations.

The Group initially applied SLFRS 15 on 1 January 2018 retrospectively in accordance with LKAS 8 without any practical expedients. The timing or amount of the Group's fee and commission income from contracts with customers was not impacted by the adoption of SLFRS 15. The impact of SLFRS 15 was limited to the new disclosure requirements

3.2 Foreign Currency - Foreign currency transactions

Transactions in foreign currencies are translated into the respective functional currency of the Bank at the spot exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the spot exchange rate at that date.

Non-monetary assets and liabilities that are measured at fair value in a foreign currency are translated into the functional currency at the spot exchange rate at the date on which the fair value is determined. Non-monetary items that are measured based on historical cost in a foreign currency are translated using the spot exchange rate at the date of the transaction. Forward foreign exchange contracts and currency swaps are valued at the forward market rate ruling on the date of the Statement of Financial Position.

The Bank uses Sri Lankan Rupees as their measurement currency for Domestic Banking Unit and United State Dollars as their measurement currency for Foreign Currency Banking Unit books. All exchange differences resulting from translation in accordance with the above are recognised in the equity through other comprehensive income.

3.3 Interest

Interest income and expense are recognized in profit or loss using the effective interest method. The effective interest rate is the rate that exactly discounts the estimated future cash payments and receipts through the expected life of the financial asset or liability (or, where appropriate, a shorter period) to the carrying amount of the financial asset or liability. When calculating the effective interest rate, the Bank estimates future cash flows considering all contractual terms of the financial instrument, but not future credit losses.

The calculation of the effective interest rate includes all transaction costs and fees and points paid or received that are an integral part of the effective interest rate. Transaction costs include incremental costs that are directly attributable to the acquisition or issue of a financial asset or liability.



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Interest income and expense presented in profit or loss include;

- interest on financial assets and financial liabilities measured at amortised cost calculated on an effective interest basis;
- interest income on FVOCI investment securities calculated on an effective interest basis is also included in interest income.

3.4 Fees and commissions

Fees and commission income and expense that are integral to the effective interest rate on financial asset or liability are included in the measurement of the effective interest rate.

Other fees and commission income, including account servicing fees, Trade fees are recognized as the related services are performed. When a loan commitment is not expected to result in the draw-down of a loan, the related loan commitment fees are recognized on a straight-line basis over the commitment period. Other fees and commission expense relate mainly to transaction and service fees, which are expensed as the services are received.

3.5 Dividend Income

Dividend income is recognised in profit or loss on an accrual basis when the Bank's right to receive the dividend is established. This is usually on the ex-dividend date for quoted equity securities.

3.6 Lease Income

The excess of aggregate lease rentals receivable over the cost of the leased assets constitutes the total unearned lease income at the commencement of a lease. The unearned lease income is taken into income over the term of the lease commencing with the month in which the leases executed in proportion to the declining receivable balance (i.e. in a manner that reflects a constant periodic rate of return on capital outstanding).

3.7 Tax Expense

Tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

I. Current tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax payable in respect of previous years.

Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 13.

II. Deferred tax

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes.

Deferred tax assets are recognised for unused tax losses, unused tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be used. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.



Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4 Assets and Liabilities and Basis of Measurement

4.1 Cash and Cash Equivalents

Cash and cash equivalents include notes and coins on hand, unrestricted balances held with central banks and highly liquid financial assets with original maturities of three months or less from the date of acquisition that are subject to an insignificant risk of changes in their fair value, and are used by the Bank in the management of its short-term commitments.

4.2 Statutory Deposit with Central Banks

The Monetary Law Act requires that all Commercial Banks operating in Sri Lanka maintain reserves against all deposit liabilities denominated in Sri Lankan Rupees. The details of reserve requirements are given in Note 15 to the financial statements.

4.3 Financial Assets and Financial Liabilities

4.3.1 Initial Recognition and Measurement

Policy Applicable from 1 January 2018

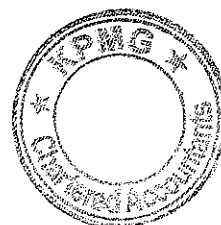
The Bank initially recognizes loans and advances, deposits, debt securities issued and subordinated liabilities on the date at which they are originated. All other financial assets and liabilities (including assets and liabilities designated at fair value through profit or loss) are initially recognized on the trade date at which the Bank becomes a party to the contractual provisions of the instrument.

A financial asset or financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

Policy Applicable up to 31 December 2017

The Bank initially recognises all financial assets and liabilities on becoming party to the contractual provisions of the instruments. However, for financial assets/liabilities held at fair value through profit or loss any changes in fair value from the trade date to settlement date is accounted in the Statement of Income while for available-for-sale financial assets any changes in fair value from the trade date to settlement date is accounted in the Statement of Other Comprehensive Income. A financial asset or a financial liability is measured initially at fair value plus, for an item not at fair value through profit or loss, transaction costs that are directly attributable to its acquisition or issue.

All financial assets and liabilities are initially recognised, except for regular way purchase, on the trade date and any regular way transactions are recognised on the settlement date which was established by the regulator or the market conventions



4.3.2 Classification

4.3.2.1 Financial Assets

Policy Applicable from 1 January 2018

On initial recognition, a financial asset is classified as measured at amortised cost, FVOCI or FVTPL. A financial asset is 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.

A debt instrument is measured at FVOCI only if it meets both of the following conditions and is not designated as 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.

On initial recognition of an equity investment that is not held for trading, the Bank may irrevocably elect to present subsequent changes in fair value in OCI. This election is made on an investment-by-investment basis.

All other financial assets are classified and measured at FVTPL.

In addition, on initial recognition, the Bank may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or at FVOCI as at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

Business model assessment

The Bank makes an assessment of the objective of a business model in which an asset is held at a portfolio level because this best reflects the way the business is managed and information is provided to management. The information considered includes

- the stated policies and objectives for the portfolio and the operation of those policies in practice. In particular, whether management's strategy focuses on earning contractual interest revenue, maintaining a particular interest rate profile, matching the duration of the financial assets to the duration of the liabilities that are funding those assets or realising cash flows through the sale of the assets;
- how the performance of the portfolio is evaluated and reported to the Bank's management;
- the risks that affect the performance of the business model (and the financial assets held within that business model) and how those risks are managed;
- how managers of the business are compensated – e.g. whether compensation is based on the fair value of the assets managed or the contractual cash flows collected; and
- the frequency, volume and timing of sales in prior periods, the reasons for such sales and its expectations about future sales activity. However, information about sales activity is not considered in isolation, but as part of

an overall assessment of how the Bank's stated objective for managing the financial assets is achieved and how cash flows are realised.

Financial assets that are held for trading or managed and whose performance is evaluated on a fair value basis are measured at FVTPL because they are neither held to collect contractual cash flows nor held both to collect contractual cash flows and to sell financial assets.

Assessment whether contractual cash flows are solely payments of principal and interest (SPPI)

For the purposes of this assessment, 'principal' is defined as the fair value of the financial asset on initial recognition. "Interest" is defined as consideration for the time value of money and for the credit risk associated with the principal amount outstanding during a particular period of time and for other basic lending risks and costs (e.g. liquidity risk and administrative costs), as well as profit margin.

In assessing whether the contractual cash flows are solely payments of principal and interest, the Bank considers the contractual terms of the instrument. This includes assessing whether the financial asset contains a contractual term that could change the timing or amount of contractual cash flows such that it would not meet this condition. In making the assessment, the Bank considers:

- contingent events that would change the amount and timing of cash flows;
- leverage features;
- prepayment and extension terms;
- terms that limit the Bank's claim to cash flows from specified assets (e.g. non-recourse asset arrangements); and
- features that modify consideration of the time value of money – e.g. periodical reset of interest rates.

Policy Applicable upto 31 December 2017

The Bank classified its financial assets into one of the following categories.

- Held for Trading
- Loans and receivables
- Held to maturity investments
- Available for sale financial assets

Held for trading financial assets

Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term.

Loans and Receivables from customers

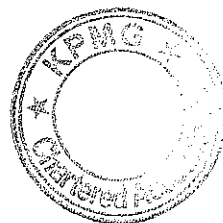
Loans and advances' are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and that the Bank does not intend to sell immediately or in the near term.

Loans and advances to banks are classified as loans and receivables. Loans and advances to customers in the Bank include:

- those classified as loans and receivables;
- finance lease receivables.

Loans and advances are initially measured at fair value plus incremental direct transaction costs, and subsequently measured at their amortised cost using the effective interest method.

Loans and advances also include finance lease receivables in which the Bank is the lessor.



Held-to-Maturity Financial Assets

Held-to-maturity investments' are non-derivative assets with fixed or determinable payments and fixed maturity that the Bank has the positive intent and ability to hold to maturity, and which are not designated as at fair value through profit or loss or as available-for-sale.

Held-to-maturity investments are carried at amortised cost using the effective interest method, less any impairment losses. A sale or reclassification of a more than insignificant amount of held-to-maturity investments would result in the reclassification of all held-to-maturity investments as available-for-sale, and would prevent the Bank from classifying investment securities as held-to-maturity for the current and the following two financial years. However, sales and reclassifications in any of the following circumstances would not trigger a reclassification:

- sales or reclassifications that are so close to maturity that changes in the market rate of interest would not have a significant effect on the financial asset's fair value;
- sales or reclassifications after the Bank has collected substantially all of the asset's original principal; and
- sales or reclassifications those are attributable to non-recurring isolated events beyond the Bank's control that could not have been reasonably anticipated.

Available for Sale Financial Assets

Available-for-sale investments are non-derivative investments that were designated as available-for-sale or are not classified as another category of financial assets. Available-for-sale investments are carried at fair value after initial recognition.

Interest income on Available-for-sale financial assets is recognised in profit or loss using the effective interest method. Dividend income is recognised in profit or loss when the Bank becomes entitled to the dividend. Foreign exchange gains or losses on Available-for-sale debt security investments are recognised in profit or loss.

Other fair value changes are recognised directly in equity through Other Comprehensive Income in the Available-for-sale Reserve until the investment is sold or impaired, whereupon the cumulative gains and losses previously recognised in Other Comprehensive Income are reclassified to profit or loss as a reclassification adjustment. The losses arising from impairment of such investments are recognised in profit or loss and removed from the Available-for-sale Reserve.

4.3.2.2 Financial Liabilities

The Bank initially recognises all financial liabilities on the date that they are originated and classifies its financial liabilities as measured at amortised cost or fair value through profit or loss.

4.3.2.3 Financial assets and financial liabilities at Fair Value through Profit or Loss

A financial asset or a financial liability is classified as fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition.

The Bank has not designated any financial asset/liability upon initial recognition at fair through profit or loss as at the reporting date.

4.3.3 Amortised Cost Measurement

The amortised cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.



4.3.4 Fair Value Measurement

SLFRS 13 defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transactions between market participants at the measurement date.

A Fair value measurement requires an entity to determine all the following

1. the particular asset or liability that is the subject of the measurement
2. for a non-financial asset, the valuation premise that is appropriate for the measurement (consistently with its highest and best use).
3. the principal (or most advantageous) market for the asset or liability.
4. the valuation technique(s) appropriate for the measurement, considering the availability of data with which to develop inputs that represent the assumptions that market participants would use when pricing the asset or liability and the level of the fair value hierarchy within which the inputs are categorized.

Fair value is a market-based measurement, not an entity-specific measurement. For some assets and liabilities, observable market transactions or market information might be available. For other assets and liabilities, observable market transactions and market information might not be available. However, the objective of a fair value measurement in both cases is the same to estimate the price at which an orderly transaction to sell the asset or to transfer the liability would take place between market participants at the measurement date under current market conditions (i.e. an exit price at the measurement date from the perspective of a market participant that holds the asset or owes the liability).

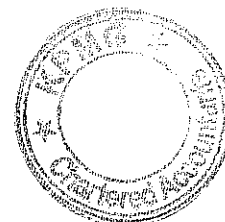
When a price for an identical asset or liability is not observable, an entity measures fair value using another valuation technique that maximizes the use of relevant observable inputs and minimizes the use of unobservable inputs. Because fair value is a market-based measurement, it is measured using the assumptions that market participants would use when pricing the asset or liability, including assumptions about risk. As a result, an entity's intention to hold an asset or to settle or otherwise fulfill a liability is not relevant when measuring fair value.

When an asset is acquired or a liability is assumed in an exchange transaction for that asset or liability, the transaction price is the price paid to acquire the asset or received to assume the liability (an entry price). In contrast, the fair value of the asset or liability is the price that would be received to sell the asset or paid to transfer the liability (an exit price).

4.3.5 Determining Fair Values

The determination of fair value for financial assets and liabilities for which there is no observable market price requires the use of valuation techniques. For financial instruments that trade infrequently and have little price transparency, fair value is less objective, and requires varying degrees of judgment depending on liquidity, concentration, uncertainty of market factors, pricing assumption and other risks affecting the specific instrument.

- Level 1 - Fair value measurements using quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - Fair value measurements using inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e.as prices) or indirectly (i.e. derived from prices); and
- Level 3 - Fair value measurements using inputs for the asset or liability that are not based on observable market data (i.e. unobservable inputs).



4.3.6 Reclassifications

Policy Applicable from 1 January 2018

Financial assets are not reclassified subsequent to their initial recognition, except in the period after the Bank changes its business model for managing financial assets.

Policy Applicable up to 31 December 2017

Reclassifications of financial assets, other than as set out below, or of financial liabilities between measurements categories are not permitted following initial recognition.

A non-derivative financial asset Held for Trading that would have met the definition of Loans and Receivables (if the financial asset had not been required to be classified as held for trading at initial recognition) may be reclassified out of the Fair Value through Profit or Loss category, if the entity has the intention and ability to hold the financial asset for the foreseeable future or until maturity.

Financial assets are transferred out of the Available-for-sale category to the Loan and Receivables category where they would have met the definition of a Loan and Receivable at the date of reclassification and the Bank has the intent and ability to hold the assets for the foreseeable future or until maturity.

Held-to-maturity assets are reclassified to the Available-for-sale category if the portfolio becomes tainted following the sale of other than an insignificant amount of Held-to-maturity assets prior to their maturity. Financial assets are reclassified at their fair value on the date of reclassification. For financial assets reclassified out of the Available-for-sale category into Loans and Receivables, any gain or loss on those assets recognised in Shareholders' Equity prior to the date of reclassification is amortised to profit or loss over the remaining life of the financial asset, using the effective interest method.

4.3.7 Derecognition

Financial assets

Policy Applicable both from and before 1 January 2018

The Bank derecognises a financial asset when the contractual rights to the cash flows from the financial asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all of the risks and rewards of ownership of the financial asset are transferred or in which the Bank neither transfers nor retains substantially all of the risks and rewards of ownership and it does not retain control of the financial asset.

On derecognition of a financial asset, the difference between the carrying amount of the asset (or the carrying amount allocated to the portion of the asset derecognised) and the sum of

- (i) the consideration received (including any new asset obtained less any new liability assumed) and
- (ii) any cumulative gain or loss that had been recognised in Other Comprehensive Income is recognised in profit or loss. Any interest in transferred financial assets that qualify for derecognition that is created or retained by the Bank is recognised as a separate asset or liability.

The Bank enters into transactions whereby it transfers assets recognised on its statement of financial position, but retains either all or substantially all of the risks and rewards of the transferred assets or a portion of them. In such cases, the transferred assets are not derecognised. Examples of such transactions are securities lending and sale and repurchase transactions.



When assets are sold to a third party with a concurrent total rate of return swap on the transferred assets, the transaction is accounted for as a secured financing transaction similar to sale and repurchase transactions because the Bank retains all or substantially all of the risks and rewards of ownership of such assets.

In transactions in which the Bank neither retains nor transfers substantially all of the risks and rewards of ownership of a financial asset and it retains control over the asset, the Bank continues to recognise the asset to the extent of its continuing involvement, determined by the extent to which it is exposed to changes in the value of the transferred asset.

In certain transactions, the Bank retains the obligation to service the transferred financial asset for a fee. The transferred asset is derecognised if it meets the derecognition criteria. An asset or liability is recognised for the servicing contract if the servicing fee is more than adequate (asset) or is less than adequate (liability) for performing the servicing.

Financial liabilities

The Bank derecognises a financial liability when its contractual obligations are discharged or cancelled, or expire.

Where 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 derecognition 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, including any non-cash assets transferred or liabilities assumed is recognised in profit or loss.

4.3.8 Offsetting

Policy applicable both from and before 1 January 2018

Financial assets and financial liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Bank currently has a legally enforceable right to set off the amounts and it intends either to settle them on a net basis or to realise the asset and settle the liability simultaneously.

4.3.9 Identification, Measurement and Assessment of Impairment of Financial Assets

Policy applicable from 1 January 2018

The Bank recognises loss allowance using expected Credit losses (ECL) on loans and receivables to customers and other financial assets measured at amortised cost model using dual measurement approach which the loss allowance is measured as either 12-month expected credit losses or lifetime expected credit losses.

ECL are a probability-weighted estimate of credit losses. They are measured as follows:

- Financial assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls (i.e. the difference between the cash flows due to the entity in accordance with the contract and the cash flows that the Bank expects to receive);
- Financial assets that are credit-impaired at the reporting date: as the difference between the gross carrying amount and the present value of estimated future cash flows;
- Undrawn loan commitments: as the present value of the difference between the contractual cash flows that are due to the Bank if the commitment is drawn down and the cash flows that the Bank expects to receive; and
- Financial guarantee contracts: the expected payments to reimburse the holder less any amounts that the Bank expects to recover.



Collective assessment

This includes all loans and advances of smaller value where there is no evidence of impairment and those individually assessed for which no evidence of impairment has been specifically identified on an individual basis.

These loans and advances are grouped together as per Basel Guidelines and product level according to their credit risk characteristics for the purpose of calculating an estimated collective impairment.

In making an assessment of whether an investment in sovereign debt is credit-impaired, the Bank considers the following factors.

- The market's assessment of creditworthiness as reflected in the bond yields.
- The rating agencies' assessments of creditworthiness.
- The country's ability to access the capital markets for new debt issuance.
- The probability of debt being restructured, resulting in holders suffering losses through voluntary or mandatory debt forgiveness.
- The international support mechanisms in place to provide the necessary support as 'lender of last resort' to that country, as well as the intention, reflected in public statements, of governments and agencies to use those mechanisms. This includes an assessment of the depth of those mechanisms and, irrespective of the political intent, whether there is the capacity to fulfill the required criteria.

Presentation of allowance for ECL in the statement of financial position

Loss allowances for ECL are presented in the statement of financial position as follows:

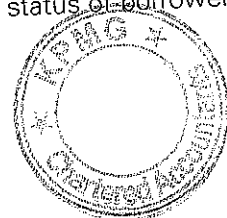
- Financial assets measured at amortised cost: as a deduction from the gross carrying amount of the assets;
- Loan commitments and financial guarantee contracts: generally, as a provision;
- Debt instruments measured at FVOCI: no loss allowance is recognised in the statement of financial position because the carrying amount of these assets is their fair value. However, the loss allowance is disclosed and is recognised in the fair value reserve.

Policy applicable up to 31 December 2017

At each reporting date, the Bank assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired. A financial asset or a group of financial assets is 'impaired' when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s) and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired includes:

- significant financial difficulty of the borrower or issuer;
- default or delinquency by a borrower;
- the restructuring of a loan or advance by the Bank on terms that the Bank would not consider otherwise;
- indications that a borrower or issuer will enter bankruptcy;
- the disappearance of an active market for a security; or
- observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the Bank, or economic conditions that correlate with defaults in the group.



In addition, for an investment in an equity security, a significant or prolonged decline in its fair value below its cost is objective evidence of impairment.

Impairment of financial assets carried at amortised cost

The Bank considers evidence of impairment for loans and advances and held-to-maturity investment securities at both a specific asset and a collective level. All individually significant loans and advances and held-to-maturity investment securities are assessed for specific impairment. Those found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and advances and held-to-maturity investment securities that are not individually significant are collectively assessed for impairment by grouping together loans and advances and held-to-maturity investment securities with similar risk characteristics

In assessing collective impairment, the Bank uses statistical modeling of historical trends of the probability of default, the timing of recoveries and the amount of loss incurred, and makes an adjustment if current economic and credit conditions are such that the actual losses are likely to be greater or lesser than is suggested by historical trends. Default rates, loss rates and the expected timing of future recoveries are regularly benchmarked against actual outcomes to ensure that they remain appropriate.

Impairment losses on assets measured at amortised cost are calculated as the difference between the carrying amount and the present value of estimated future cash flows discounted at the asset's original effective interest rate.

If the terms of a financial asset are renegotiated or modified or an existing financial asset is replaced with a new one due to financial difficulties of the borrower, then an assessment is made of whether the financial asset should be derecognised. If the cash flows of the renegotiated asset are substantially different, then the contractual rights to cash flows from the original financial asset are deemed to have expired. In this case, the original financial asset is derecognised and the new financial asset is recognised at fair value. The impairment loss before an expected restructuring is measured as follows.

- If the expected restructuring will not result in derecognition of the existing asset, then the estimated cash flows arising from the modified financial asset are included in the measurement of the existing asset based on their expected timing and amounts discounted at the original effective interest rate of the existing financial asset.
- If the expected restructuring will result in derecognition of the existing asset, then the expected fair value of the new asset is treated as the final cash flow from the existing financial asset at the time of its derecognition. This amount is discounted from the expected date of derecognition to the reporting date using the original effective interest rate of the existing financial asset.

Impairment losses are recognised in profit or loss and reflected in an allowance account against loans and receivables or held-to-maturity investment securities. Interest on the impaired assets continues to be recognised through the unwinding of the discount. If an event occurring after the impairment was recognised causes the amount of impairment loss to decrease, then the decrease in impairment loss is reversed through profit or loss.

Impairment losses on available-for-sale investment securities are recognised by reclassifying the losses accumulated in the fair value reserve in equity to profit or loss. The cumulative loss that is reclassified from equity to profit or loss is the difference between the acquisition cost, net of any principal repayment and amortisation, and the current fair value, less any impairment loss previously recognised in profit or loss. Changes in impairment attributable to application of the effective interest method are reflected as a component of interest income.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases and the increase can be related objectively to an event occurring after the impairment loss was recognised, then the impairment loss is reversed through profit or loss; otherwise, any increase in fair value is recognised through Other



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Comprehensive Income. Any subsequent recovery in the fair value of an impaired available-for-sale equity security is always recognised in Other Comprehensive Income.

The Bank writes off certain loans and advances and investment securities when they are determined to be uncollectible.

4.4 Rescheduled loans

Loans whose original terms have been modified including those subject to forbearance strategies are considered rescheduled loans. If the renegotiations are on terms that are not consistent with those readily available on the market, this provides objective evidence of impairment. Once terms have been renegotiated, any impairment is measured using the original effective interest rate as calculated before the modification of terms and the loan/advance is no longer considered past due. Management continually reviews renegotiated loans and advances to ensure that all criteria are met and the future payments are likely to occur.

4.5 Collateral Valuation

The Bank seeks to use collateral, where possible, to mitigate its risks on financial assets. The collateral comes in various forms such as cash, securities, letters of credit/guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collateral is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedule.

Non-financial collateral such as real estate is valued by an external, independent valuation company, having appropriate recognised professional qualifications and recent experience in the location and category of property being valued.

4.6 Derivative Financial Instruments

Derivatives are financial instruments that derive their value in response to changes in interest rates, financial instrument prices, commodity prices, foreign exchange rates, credit risk and indices. Derivatives are categorized as trading unless they are designated as hedging instruments. Bank uses derivatives such as forward exchange contracts and swaps. Bank has not designated any derivatives as hedging instruments and has not followed hedge accounting as at the reporting date.

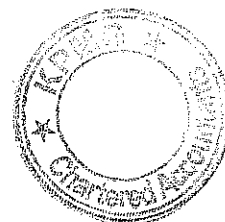
All derivatives are initially recognised and subsequently measured at fair value, with all revaluation gains or losses recognised in profit and loss. All derivatives are carried as assets when fair value is positive and as liabilities when fair value is negative. Fair value is determined using the forward market rates ruling on the reporting date.

4.7 Repurchase and reverse repurchase agreements

Securities sold subject to repurchase agreements (repos) remain on the Statement of Financial Position; the counterparty liability is included under borrowings. Securities purchased under agreements to resell (reverse repos) are recorded as loans and advances to other banks or customers, as appropriate.

4.8 Finance Leases

Assets leased to customers which transfer substantially all the risks and rewards associated with ownership other than legal title, are classified as finance leases. Leasing balances are stated in the Statement of Financial Position after deduction of unearned lease income and the impairment for rentals doubtful of recovery. Amounts receivable under finance leases are classified as Lease Receivables and presented within loans and receivables to other customers in the Statement of Financial Position.



4.9 Property, Plant and Equipment

Property, plant and equipment are tangible items that are held for use in the production or supply of goods or services, for rental to others or for administrative purposes and are expected to be used during more than one period.

4.9.1 Basis of Recognition

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

4.9.2 Measurement

An item of property, plant 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, replace part of, or service 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 the site on which they are located. Purchased software that is integral to the functionality of the related equipment is capitalised as part of computer equipment.

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

4.9.3 Cost Model

The Bank applies cost model to property, plant and equipment except for freehold land and buildings and records at cost of purchase or construction together with any incidental expenses thereon less accumulated depreciation and any accumulated impairment losses.

4.9.4 Revaluation Model

The Bank applies the revaluation model to the entire class of freehold land and buildings. Such properties are carried at a revalued amount, being their fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses. Freehold land and buildings of the Bank are revalued every three years on a roll over basis to ensure that the carrying amounts do not differ materially from the fair values at the reporting date. On revaluation of an asset, any increase in the carrying amount is recognised in Other Comprehensive Income and accumulated in equity, under capital reserve or used to reverse a previous revaluation decrease relating to the same asset, which was charged to profit or loss. In this circumstance, the increase is recognised as income to the extent of the previous write down. Any decrease in the carrying amount is recognised as an expense in the Income Statement or debited in the Other Comprehensive Income to the extent of any credit balance existing in the capital reserve in respect of that asset. The decrease recognised in Other Comprehensive Income reduces the amount accumulated in equity under capital reserves. Any balance remaining in the revaluation reserve in respect of an asset is transferred directly to Retained Earnings on retirement or disposal of the asset.

4.9.5 Subsequent Costs

The subsequent cost of replacing a component of an item of property, plant and equipment is recognised in the carrying amount of the item if it is probable that the future economic benefits embodied within that part will flow to the Bank and its cost can be reliably measured. The costs of day to day servicing of property, plant and equipment are charged to profit or loss as incurred. Costs incurred in using or redeploying an item is not included under carrying amount of an item.



4.9.6 Derecognition

The carrying amount of an item of property, plant and equipment is derecognised on disposal or when no future economic benefits are expected from its use or disposal. The gain or loss arising from the de-recognition of an item of property, plant and equipment which is calculated as the difference between the carrying amount and the net disposal proceeds is included in profit or loss when the item is derecognised.

4.9.7 Depreciation

The Bank provides depreciation from the month the assets are available for use while no depreciation is charged in the month in which the assets are disposed-off at the following rates on a straight line basis over the periods appropriate to the estimated useful lives based on the pattern in which the asset's future economic benefits are expected to be consumed by the Bank. Depreciation of an asset ceases at the earlier of the date that the asset is classified as held for sale or the date that the asset is derecognised. Leased assets are depreciated over the shorter of the lease term and their useful lives unless it is reasonably certain that the Bank will obtain ownership by the end of the lease term.

The estimated useful lives are as follows:

Straight-Line Basis

Freehold building	-	40 years at 2.5% per annum
Leasehold Properties	-	3 years at 33.33% per annum
Computer Hardware	-	4 years at 25% per annum
Office Equipment	-	10 years at 10% per annum
Furniture & Fittings	-	10 years at 10% per annum
Motor Vehicles	-	20% per annum (subject to 20% residual value)

4.10 Intangible asset

An intangible asset is an identifiable non-monetary asset without physical substance held for use in the production or supply of goods or services, for rental to others or for administrative purposes.

4.10.1 Basis of Recognition

An intangible asset is recognised if it is probable that the future economic benefits that are attributable to the asset will flow to the entity and the cost of the assets can be measured reliably. An intangible asset is initially measured at cost. The cost of intangible assets acquired in a business combination is the fair value as at the date of acquisition.

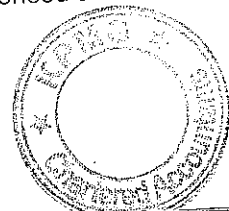
The Bank's intangible assets include the value of computer software.

Software

All computer software costs incurred, licensed for use by the Bank, which are not integrally related to associated hardware, which can be clearly identified, reliably measured and it's probable that they will lead to future economic benefits, are included in the Statement of Financial Position under the category Intangible Assets and carried at cost less accumulated amortisation and any accumulated impairment losses.

4.10.2 Subsequent Expenditure

Expenditure incurred on software is capitalised only when it is probable that this expenditure will enable the asset to generate future economic benefits in excess of its originally assessed standard of performance and this expenditure can be measured and attributed to the asset reliably. All other expenditure is expensed as incurred.



4.10.3 Amortisation

Intangible assets are amortised on a straight line basis in profit or loss from the date when the asset is available for use, over the best estimate of its useful economic life based on a pattern in which the asset's economic benefits are consumed by the Bank. The estimated useful life of software is three years. Amortisation methods, useful lives and residual values are reviewed at each reporting date and adjusted if appropriate.

4.11 Impairment of Non-Financial Assets

At each reporting date, the Bank reviews the carrying amounts of its non-financial assets (other than deferred tax assets) to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For impairment testing, assets are grouped together into the smallest group of assets that generates cash inflows from continuing use that is largely independent of the cash inflows of other assets or CGUs. Goodwill arising from a business combination is allocated to CGUs or groups of CGUs that are expected to benefit from the synergies of the combination.

The 'recoverable amount' of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 'Value in use' is based on the estimated future cash flows, 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 or CGU.

An impairment loss is recognised if the carrying amount of an asset or CGU exceeds its recoverable amount.

Impairment losses are recognised in profit or loss. They are allocated first to reduce the carrying amount of any goodwill allocated to the CGU, and then to reduce the carrying amounts of the other assets in the CGU on a pro rata basis.

An impairment loss in respect of goodwill is not reversed. For other assets, an impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortisation, if no impairment loss had been recognised.

4.12 Employee benefits

4.12.1 Defined benefit pension plan

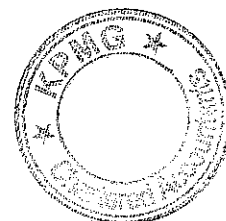
A defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the statement of financial position in respect of the defined benefit plan is the present value of defined benefit obligation as at the reporting date. The defined benefit obligation is calculated annually by independent actuaries using Projected Unit Credit Method (PUC) as recommended by LKAS 19 - "Employees Benefits".

The assumptions based on which the results of the valuation were determined are included in note 29 to the Financial Statements.

The liability is not externally funded.

The Bank recognizes all actuarial gains and losses arising from defined benefit plan in Other Comprehensive Income and expenses related to defined benefit plans in staff expenses in profit or loss.

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19. However under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service.



4.12.2 Defined contribution Plan

Employees' provident fund

All employees of the Bank are members of the MCB Bank Limited Sri Lanka Branch Staff Provident Fund to which the Bank and employees contributes 12% and 8% of such employees' basic salary and allowances respectively.

Employees' Trust Fund

The Bank contributes 3% of the salary of each employee to the Employees' Trust Fund.

4.13 Deposits from Customers

Deposits from customers include non-interest bearing deposits, saving deposits, term deposits, and deposits payable at call and certificate of deposits. They are stated in the Statement of Financial Position at amounts payable. Interest paid/payable on these deposits is charged to profit or loss.

4.14 Borrowings

Borrowings include refinance borrowings, call money borrowings, and borrowings from financial institutions and are shown at the gross value of the outstanding balance. Interest paid/payable on these deposits is charged to profit or loss.

4.15 Provisions

A provision is recognised if, as a result of a past event, the Bank has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. The amount recognised is the best estimate of the consideration required to settle the present obligation at the reporting date, taking in to 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.

4.16 Capital commitments and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by occurrence or non-occurrence uncertain future events not wholly within the control of the Bank or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not accounted in the Statement of Financial Position but are disclosed unless they are remote.

'Financial guarantees' are contracts that require the Bank to make specified payments to reimburse the holder for a loss that it incurs because a specified debtor fails to make payment when it is due in accordance with the terms of a debt instrument.

4.17 Cash Flow Statement

The Cash Flow Statement has been prepared using the "Direct Method" of preparing Cash Flows in accordance with the Sri Lanka Accounting Standard 07-Statement of Cash Flows.



4.18 Regulatory Provisions

Deposit Insurance Scheme

In terms of the Banking Act Direction No 5 of 2010 "Insurance of Deposit Liabilities" issued on 27th September 2010 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations No 1 of 2010 issued under Sections 32A to 32E of the Monetary Law Act with effect from 1st October 2010. The said scheme was renamed as the "Sri Lanka Deposit Insurance and Liquidity Support Scheme" as per the Sri Lanka Deposit Insurance and Liquidity Support Scheme Regulation No 1 of 2013. Deposits to be insured include demand, time and savings deposit liabilities and exclude the following;

- deposit liabilities to member institutions
- deposit liabilities to Government of Sri Lanka
- deposit liabilities to Directors, key management personnel and other related parties as defined in Banking Act Direction No 11 of 2007 on Corporate Governance of Licensed Commercial Banks
- deposit liabilities held as collateral against any accommodation granted deposit liabilities falling within the meaning of abandoned property in terms of the Banking Act and dormant deposits in terms of the Finance Companies Act funds of which have been transferred to Central Bank of Sri Lanka

Licensed Commercial Banks are required to pay a premium of 0.10% on eligible deposit liabilities if the Bank maintains a capital adequacy ratio of 14% or above as at the end of the immediately preceding financial year and a premium of 0.125% on eligible deposit liabilities for all other Licensed Commercial Banks calculated on the total amount of eligible deposits as at the end of the quarter within a period of 15 days from the end of the quarter.

5 New Accounting Standards issued but not yet effective as at Reporting date

The Institute of Chartered Accountants of Sri Lanka has issued the following new Sri Lanka Accounting Standards. However these standards have not been applied in preparing these financial statements.

Accounting standard	Summary of the requirements	Possible impact on Financial Statements
SLFRS 16 – "Leases"	<p>SLFRS 16 eliminates the current dual accounting model for lessees which distinguishes between On-Balance Sheet finance leases and Off-Balance Sheet operating leases. Instead there will be a single On-Balance Sheet accounting model that is similar to current finance lease accounting.</p> <p>SLFRS 16 is effective for annual reporting periods beginning on or after January 1, 2019.</p>	Bank has not assessed the impact yet, however, the Bank does not expect significant impact on its Financial Statements resulting from the application of SLFRS 16.



6 Financial Risk Management

6.1 Introduction and Overview

The Bank has exposure to the following risks from financial instruments:

- Credit Risk
- Market Risk
- Liquidity Risk
- Operational Risk

6.2 Risk Management Framework

The Bank executes its risk strategy and undertakes controlled risk-taking activities within its risk management framework. This framework combines core policies, procedures and process design with broad oversight and is supported by risk monitoring across the Bank. This framework is based on prudent risk identification, measurement, management and monitoring process which are closely aligned with the activities of the Bank so as to ensure that risks are kept within an acceptable level.

The Bank, at local level has its Risk Management structure in place to monitor the Bank wide risk. For this purpose the Bank has constituted the following Committees:

- Asset and Liability Management Committee (ALCO) which monitors the Asset Liability Structure and management of market risk of the Bank.
- Credit Committee (CC) which monitors the credit risk of the Bank.
- Integrated Risk Management Committee (IRMC) which monitors the overall risk of the Bank.

These committees are established to assist the Board of Directors, its relevant committees and senior management at head office, i.e. head office ALCO, Risk Management and Portfolio Review Committee (RM and PRC), Management Committee (MC), Management Committee of Risk who are responsible to ensure the formulation and implementation of a comprehensive risk management framework.

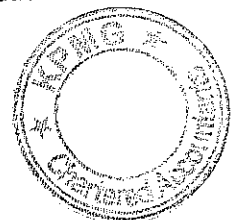
The risk management function in Sri Lanka is headed by a designated Chief Risk Officer (CRO) reporting functionally to the Group Head Risk Management, who in turn reports to Risk Management and Portfolio Review Committee of the Board, and administratively to the Country General Manager. The role of the CRO is both as a strategic partner to the business units advising them on risk issues and on the best ways to identify and manage these risks.

The CRO performs following critical functions:

- Integrated risk management
- Credit risk management
- Market and liquidity risk management
- Operational risk management

6.3 Credit Risk

Credit risk arises from dealings with individuals, corporate borrowers, financial institutions, sovereigns etc. The Bank is exposed to credit risk through its lending and investment activities. It also stems from both on and off-Balance Sheet activities. Credit risk makes up the largest part of the Bank's exposure. The Purpose of the credit risk function is to identify measure, manage, monitor and mitigate credit risk. Organizational structure of this function ensures pre and post-facto management of credit risk. There is a clear segregation of duties between transaction originators, credit administration and the risk function.



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The credit risk management framework of the Bank encompasses the following:

- Reviewing the credit policies and procedures in line with the risk management policy and international best practices;
- Use of comprehensive credit appraisal process structured towards analyzing pertinent information at macro and micro levels.
- Delegated approval/ review authority assigned to officers/ executives with the necessary experience, judgment and integrity to properly evaluate the risks and rewards involved in the credit transactions.
- A hindsight review process to ensure the checks and balances has been instituted to ensure consistent application of the Bank's credit policies.
- Monitoring of credits with deteriorating credit ratings and inclusion of those advances on a watch-list that is regularly reviewed by senior management.
- Centralized credit administration unit to support the extension and monitoring of credit by the business units.
- Segregation of duties by independent units to carryout Credit approval, Risk Management, Credit administration, Credit review functions.
- Measurement and monitoring of credit risk at the counterparty level by using internal risk rating models.
- Development and adaptation of risk measurement techniques/models to suit the regulatory and industry requirements.
- Centralized Credit Administration unit to manage Problem credits and Non Performing Advances. This unit is responsible for all aspects of an overdue facility, follow up of rescheduled facilities, monitoring the value of the applicable collateral and liquidation, scrutiny of legal documents and liaising with the customer until all recovery matters are finalized.

6.3.1 Impairment Assessment

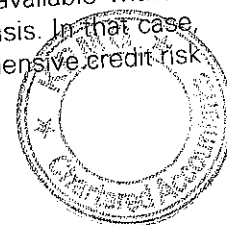
For accounting purposes, the Bank uses an expected credit loss model for the recognition of losses on impaired financial assets. The Bank applies three-stage approach to measuring expected credit losses (ECL) on Loans and receivables and other financial assets measured at amortised cost. Assets migrate through the following three stages based on the change in credit quality since initial recognition.

Stage 1: 12 months ECL for exposures where there has not been a significant increase in credit risk since initial recognition, the portion of the lifetime ECL associated with the probability of default events occurring within next 12 months is recognised.

Stage 2: Lifetime ECL – not credit impaired for credit exposures where there has been a significant increase in credit risk since initial recognition but that are not credit impaired, a lifetime ECL is recognised.

Stage 3: Lifetime ECL – credit impaired Financial assets are assessed as credit impaired when one or more events that have a detrimental impact on the estimated future cash flows of that asset have occurred.

In some circumstances Bank does not have reasonable and supportable information that is available without undue cost or effort to measure lifetime expected credit losses on an individual instrument basis. In that case, life time expected credit losses shall be recognized on a collective basis that considers comprehensive credit risk



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information. This comprehensive credit risk information must incorporate not only past due information but also all relevant credit information, including forward-looking macroeconomic information, in order to approximate the result of recognizing lifetime expected credit losses when there has been a significant increase in credit risk since initial recognition on an individual instrument level.

The assessment of whether credit risk on a financial asset has increased significantly will be one of the critical judgments used in impairment model prescribed in SLFRS 9 – “Financial Instruments” which uses combination of both qualitative factors and backstop based on delinquency. The Bank will compare the risk of default at the assessment date with the risk of default at initial recognition. This assessment is to be carried out at each assessment date.

The Bank’s portfolio is made up of the following asset classes:

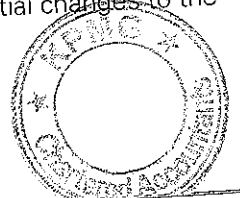
- Corporate
- Consumer
- SME
- Investment in other debt instruments

For the purpose of calculating life time expected losses, as a minimum, if one or more of the following factors/conditions are met, it shall be considered as a significant increase in credit risk:

- When contractual payments of a customer are more than 30 days past due
- When the risk rating of a customer or an instrument has been downgraded to BB by an external credit rating agency. In the event of no external credit rating is available, Bank will map its internal credit risk ratings with the ratings issued by the external credit assessment institutions (ECAI), as per the Basel III guidelines.
- When reasonable and supportable forecasts of future economic conditions directly affect the performance of a customer/group of customers, portfolios or instruments.
- When a significant change in the geographical locations of a customer or natural catastrophes that directly impact the performance of a customer/group of customers or an instrument.
- When the value of collateral significantly reduces.
- When a customer is subject to litigation that may significantly affect the performance.
- Frequent changes in the senior management of an institutional customer
- Delay in the commencement of business operations/projects by more than one year.
- Modification of terms resulting in concessions, including extensions, deferment of payments, waiver of covenants etc.
- When the customer is deceased/insolvent.
- When the bank is unable to contact or find the customer.
- A fall of 50% or more in the turnover or profit before tax of the customer as compared to the previous year.
- Erosion in net-worth by more than 25% as compared to the previous year.

The key inputs used for measurement of ECL are likely to be the term structures of the following variables:

- Probability of default- PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Bank forecast PD by incorporating forward looking economic variable (GDP).
- Loss Given Default (LGD) - LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on regulatory rates issued by CBSL due to lack of historical data.
- Exposures at Default (EAD) - EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the



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current amount allowed under the contract including amortisation. The EAD of a financial asset is its gross carrying amount.

6.3.2 Concentration of Credit Risk

In order to mitigate the credit risk, MCB regularly reviews its portfolio concentration across the various industrial sectors. Sector wise credit exposures are provided in the Note 18 to the financial statements.

6.3.3 Fair Value of Collateral held Against Loans and Advances to Customers

Bank seeks to use collateral, where possible to mitigate its risk on financial assets. The collateral comes in various forms such as cash, securities, letter of credits, /guarantees, real estate, receivables, inventories, other non-financial assets and credit enhancements such as netting arrangements. The fair value of collaterals is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedules.

As at 31 December 2018	Gross Loans & Advances	Fair Value of Security
Against Individually Impaired		
Immovable Property	994,045,202	1,168,750,000
Deposits	150,770,355	149,900,000
Others	125,034,904	208,055,481
Unsecured (Covered with loan agreement)	95,180,070	-
Total against individually impaired (A)	1,365,030,531	
Against Collectively Impaired		
Immovable Property	4,697,988,363	8,201,038,660
Deposits	4,921,856,112	5,952,208,671
Others	7,477,680,789	4,882,292,571
Unsecured (Covered with loan agreement)	3,074,097,138	-
Total against collectively impaired (B)	20,171,622,401	
Total (A+B)	21,536,652,933	
Leases	95,819,084	328,789,679
Grand Total	21,632,472,017	

The Bank usually obtains appraisals of collateral on a frequent basis as the current value of the collateral may be an input to the impairment measurement.

Others include loans secured by movable equipment and machinery, vehicle mortgages, inventory and book debts, shares, demand promissory notes / personal guarantees, corporate guarantees, trust certificates, negative pledge/ agreement to mortgage / undertaking to mortgage, insurance policy and power of attorney.

6.4 Market Risk

Market Risk is the risk of financial losses resulting from unfavorable changes in underlying market factors, including interest rates, foreign exchange rates, equity prices, commodity prices and market volatility.

Middle office monitors the treasury operating limits, including; open position limits, dealer limits, counter party limits, etc., which are regularly reviewed and updated as per the prevailing business requirements, and regulatory guidelines.



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The Bank measures and manages market risk by using conventional methods i.e. notional amounts, sensitivity and combinations of various limits. The Bank also uses VaR (Value at Risk) technique for market risk assessment of positions assumed by its treasury. In-house and vendor based solutions are used for calculating market value of positions and generating VaR (value at risk) and PVBP (Price Value of a Basis Point) numbers.

Foreign exchange risk exposes the Bank to changes in the values of current holdings and future cash flows denominated in currencies other than the home currency due to the exchange rate fluctuation and volatility. The core objective of foreign exchange risk management is to ensure that the foreign exchange exposure of the Bank remains within defined risk parameters and insulates the Bank against undue losses that may arise due to volatile movements in foreign exchange rates or interest rates.

Limit structure to manage foreign exchange risk is in place. Net open position and gap limits on different tenors in major currencies are established and monitored on a regular basis. Stress testing of foreign exchange portfolio as per CBSL requirements is a regular feature of the foreign exchange risk management.

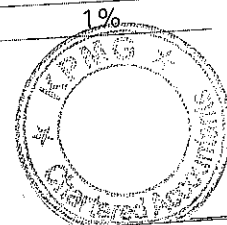
Following graph shows the assets which are exposed to market risk in the Banking book.

	2018		
	Carrying Amount	Trading Portfolios	Non Trading Portfolios
Assets subject to Market Risk			
Trading Assets	-	-	-
Derivative Financial Instruments	284,487,963	-	284,487,963
Loans & advances to Customers	21,134,247,864	-	21,134,247,864
Financial Instruments - FVOCI	2,227,310,758	-	2,227,310,758
Financial Investments – amortised cost	3,146,982,276	-	3,146,982,276
Liabilities subject to market risk			
Derivative Financial Instruments	2,426,947	-	2,426,947
Deposits from customers	21,925,420,544	-	21,925,420,544
Borrowings	734,417,926	-	734,417,926
Other Borrowings	83,532,380	-	83,532,380

6.4.1 Interest Rate Sensitivity on interest bearing assets and liabilities

The table below depicts the interest rate sensitivity based on the interest rate sensitive positions as at 31st December 2018. In its cumulative position up to 12 month time bucket, Bank carries an asset sensitive position. This asset sensitive position will vary for each time bucket up to 12 months period in which during the time bucket of over 1 – up to 3 months, the Bank would experience assets sensitive position of LKR 3.6 Mn. The interest rate sensitivity of the Bank indicates that in case of an interest rate decline, the Bank would tend to experience a loss of LKR 36.25 Mn in its Net Interest Income (NII) while in case of interest rate increase the Bank would enhance its Net interest income by LKR 36.25 Mn. This interest rate risk exposure is quantified based on the assumed change in the interest rates for each time period given in the table shown below.

Parameter	0 to 1 Month	Over 1- up to 3 Months	Over 3- up to 6 Months	Over 6 – up to 12 Months
Total interest bearing assets	11,361,006,525	7,271,007,795	3,203,117,692	1,104,071,627
Total interest bearing liabilities	10,206,621,321	3,667,804,936	1,384,909,570	4,054,821,744
Net interest bearing assets (liabilities)	1,154,385,204	3,603,202,859	1,818,208,122	(2,950,750,117)
Cumulative Gap	1,154,385,204	4,757,588,063	6,575,796,185	3,625,046,068
Assumed change in interest rates	1%	1%	1%	1%



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Impact	11,543,852	36,032,029	18,182,081	(29,507,501)
Net impact on NII if interest rates increase				36,250,461
Net impact on NII if interest rates decline				(36,250,461)

6.4.2 Foreign exchange position as of 31 December 2018

Currency	Spot	Forward	Net Open	Overall position
	Net	Net	Position	in LKR
AUD	(2,090)		(2,090)	(271,714)
EUR	1,185		1,185	248,365
GBP	(565)		(565)	(131,449)
HKD	(4,730)		(4,730)	(110,723)
JPY	(647,107)		(647,107)	(1,073,809)
CNY	(4,056)		(4,056)	(108,098)
SGD	(1,095)		(1,095)	(146,900)
SAR	(100,758)		(100,758)	(4,923,011)
USD	(1,356,121)	(755)	(1,356,876)	(248,715,334)
Total Exposure				(255,232,674)
Total capital funds as per the latest Audited Financial Statements (Capital base as at 31st December 2018)				5,725,334,266
Total exposure as a % of total capital funds as per the latest audited financial statements				4.46%

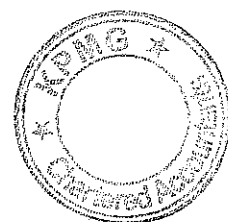
6.4.3 Forex Risk in Net Open Position (NOP)

The table indicates the exchange rate risk exposure based on its net open position to different currencies. As of 31st December 2018, bank carried USD net open "Short" position. The bank will be exposed to exchange rate risk in case, LKR appreciates against USD. The sensitivity analysis on this exposure at deferent shock levels is presented below.

A sensitivity analysis of foreign currency net open position was carried out applying shock level increase of 1%, 3% and 5% level on the current exchange rate and the impact on USD equivalent NOP and the impact on income statement is as follows.

Sensitivity Analysis for the Exchange Rate Risk Exposure as at 31st December 2018

Position as at 31st December 2018	Amount
Net exposure – USD	(1,392,431)
Overall exposure in LKR	(255,232,674)
Exchange rate (USD/LKR)	183.30
Effect on income statement (LKR)	
If Exchange rate appreciates by 1%	(2,552,327)
If Exchange rates appreciates by 3%	(7,656,980)
If exchange rate appreciates by 5%	(12,761,634)



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6.4.4 Liquidity Risk

To manage the liquidity, which represents the Bank's ability to fund assets and meet obligations as they become due, the Bank's asset-liability mismatches are monitored by preparing the asset liability statements on a regular basis enabling the senior management to take appropriate measures.

ALCO, headed by the Country General Manager, monitors and manages the Bank's overall assets and liabilities structure through constant monitoring, and implementing corrective actions through various banking products and mechanisms such as the management of advances, deposits and investment portfolios.

A net liquidity asset to deposits from customers is depicted below.

	2018 %	2017 %
Net liquid assets to deposits from customers		
At 31 December	25.84%	30.38%
Average for the year	29.66%	34.20%
Maximum for the year	31.77%	42.65%
Minimum for the year	25.06%	30.38%

The Bank monitors the following liquidity ratios to assess funding requirements

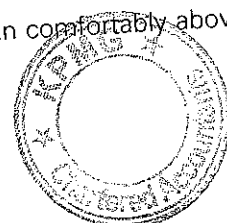
	2018	2017
Advances to Deposit Ratio		
Average for the Year ended	113.92%	117.44%
Minimum for the Year ended	100.59%	110.86%
Maximum for the Year ended	123.91%	125.00%
As at	100.49%	110.90%
Statutory Liquid Asset Ratio		
Average for the Year ended	24.68%	27.75%
Minimum for the Year ended	20.98%	24.27%
Maximum for the Year ended	30.30%	36.85%
As at	24.09%	25.02%

Liquid assets include Cash and Short term Funds, Bills purchased and short term Investments. Liabilities to external stakeholders include deposits, borrowing and other liabilities.

To manage the Liquidity Risk arising from Financial Liabilities, the Bank holds liquid assets comprising Cash and Cash Equivalents and Government treasury bills for which there is an active and liquid market. These assets can be readily sold to meet liquidity requirements.

Banks are required to comply with the provisions of the Basel III framework with a view to promote the short-term resilience of a bank's liquidity risk profile through the introduction of the Liquidity Coverage Ratio (LCR) of 90% as of 31st December 2018.

As of 31st December 2018, Bank reported all currency LCR ratio of 110.39% which remain comfortably above the CBSL's requirements.



6.5 Operational Risk

Operational Risk is the risk of a loss resulting from an inadequacy or a failure ascribable to people, processes, technology or external events. Currently the Bank is reporting operational risk capital charge under Basic Indicator Approach (BIA).

The Bank's objective is to manage operational risk so as to balance the avoidance of financial losses and damage to the Bank's reputation with overall cost effectiveness and to avoid control procedures that restrict initiative and creativity.

The primary responsibility for the development and implementation of controls to address operational risk is assigned to senior management within each business unit. This responsibility is supported by the development of overall Bank's standards for the management of operational risk in the following areas:

- requirements for appropriate segregation of duties, including the independent authorization of transactions
- requirements for the reconciliation and monitoring of the transaction
- compliance with regulatory and other legal requirements
- documentation of controls and procedures
- requirements for the periodic assessment of operational risk faced, and the adequacy of controls and procedures to address the risks identified
- requirements for the reporting of operational losses and proposed remedial action
- development of contingency plans
- training and professional development
- ethical and business standard, and
- risk mitigation, including insurance where this is effective.

Compliance with Bank's standards is supported by a program of periodic reviews undertaken by Internal Audit.

The results of Internal Audit reviews are discussed with the management of the business unit to which they relate, with summaries submitted to the senior management of the Bank.

6.6 Capital Management

The main objectives of managing bank's capital are as follows:

- maintain sufficient capital to meet minimum regulatory capital requirement.
- hold sufficient capital to support banks risk appetite
- allocate capital to business to support the bank's strategic objectives.

6.6.1 Statutory minimum capital requirement and capital management

As required by the circular issued by Central Bank of Sri Lanka on "Enhancement of Minimum Capital Requirement of Banks" the Bank was required to increase its capital as follows in the interest of a strong and sound banking system.

- Rs. 3 Billion by 31st December 2011
- Rs. 4 Billion by 31st December 2013
- Rs. 5 Billion by 31st December 2015

The Bank achieved the target Core Capital of Rs.3 Bn. by 31st December 2011, Rs.4 Bn. by 31st December 2013 and Rs. 5 Bn by 31st December 2015.



MCB BANK LIMITED – SRI LANKA BRANCH
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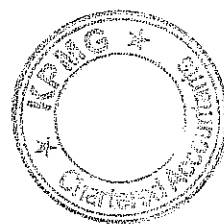
6.6.2 Regulatory Capital

The Bank manages its capital considering regulatory capital requirements. The Central Bank of Sri Lanka (CBSL) sets and monitors capital requirements for licensed banks in Sri Lanka based on the Basel Framework. Thus the Bank's operations are directly supervised by the CBSL and the Bank is required to comply with the Provisions of the Basel II framework in respect of regulatory capital. Commercial banks in Sri Lanka need to maintain a Total Capital Adequacy Ratio (CAR) of 10% and a Core Tier 1 Capital Ratio of at least 5%. Basel III framework in respect of regulatory capital, Commercial banks in Sri Lanka with Asset less than Rs.500 Billion, need to maintain a Common Equity Tier 1 capital (CET1) including capital conservation buffer of 6.375%, Total Tier 1 Including capital conservation buffer of 7.875% and Total capital ratio of 11.875%. (As of 31st December 2018).

The Bank computes CAR as a ratio of its capital to its risk weighted assets. Calculations of the risk weightings defined under credit risk and market risk are based on the standardized approach whereas operational risk is computed by using the basic indicator approach.

As of 31st December 2018, Bank reported a Common Equity Tier 1 capital (CET1) including capital conservation buffer of 30.09%, Total Tier 1 including capital conservation buffer of 30.14% and Total Capital Ratio of 27.78% which remain comfortably above the CBSL's capital requirements.

Item	Amount (Rs.)
Common Equity Tier 1 Capital	6,212,531,926
Total Tier 1 Capital	6,212,531,926
Total Capital	5,726,342,246
Total Risk Weighted Amount	20,614,412,372
Risk Weighted Amount for Credit Risk	18,550,162,539
Risk Weighted Amount for Market Risk	268,927,409
Risk Weighted Amount for Operational Risk	1,795,322,424
Common Equity Tier 1 Capital Ratio	30.14
Total Tier 1 Capital Ratio	30.14
Total Capital Ratio	27.78



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7. Net Interest Income

Interest Income	63,376,187	73,645,361
Placement with banks	2,344,710,212	2,063,687,627
Loans and advances to customers	150,884,445	-
Financial assets at amortised cost - Debt instruments	261,881,938	-
Financial assets at FVOCI (Note 7.a)	-	247,515,888
Financial investments - Held to maturity	-	226,881,060
Financial investments - Available-for-sale (Note 7.a)	-	-
Total Interest Income	2,820,852,782	2,611,729,936

Interest Expenses

Banks and other borrowings	100,997,155	82,702,097
Deposits from Customers	1,247,671,260	1,122,742,010
Securities sold under repurchase agreements (Note 7.a)	7,922,174	11,175,628
Total Interest Expenses	1,356,590,589	1,216,619,735

Net Interest Income

	1,464,262,193	1,395,110,201
--	----------------------	----------------------

7.a Net Interest Income from Sri Lanka Government Securities

Interest Income	333,394,396	226,881,060
Interest Expenses	7,922,174	11,175,628
	325,472,222	215,705,432

According to section 137 of the Inland Revenue Act No. 10 of 2006, a company which derives interest income from secondary market transactions in Government securities is entitled to a notional tax credit (being the one ninth of the net interest income) provided such interest income forms a part of the statutory income of the company for that year of assessment.

However, as per the provision of the Inland Revenue Act No. 24 of 2017 effective from April 1, 2018, interest income from Government Securities are excluded from withholding tax. Hence, notional tax credit hitherto claimed by the Bank was discontinued from April 1, 2018 with implementation of Inland Revenue Act No. 24 of 2017.

Accordingly, net interest income earned from secondary market transactions in Government securities for the year by the bank has been grossed up in the financial statements and resulting notional tax credit amounted to Rs. 6.661 Mn (2017 : Rs. 30.763 Mn)

8. Net Fee and Commission Income

Fee and commission income (Note 8.1)
Net fee and commission income

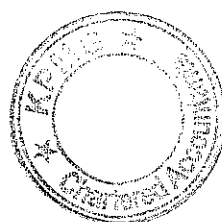
	<u>125,338,772</u>	<u>126,357,870</u>
	<u>125,338,772</u>	<u>126,357,870</u>

8.1

Comprising:

Loans
Trade and remittances
Deposits
Guarantees
Fee and Commission Income

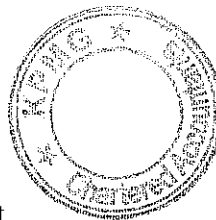
	1,220,711	1,389,593
	99,476,252	101,982,612
	3,082,682	2,935,101
	21,559,127	20,050,564
	<u>125,338,772</u>	<u>126,357,870</u>



MCB BANK LIMITED - SRI LANKA BRANCH
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	2018	2017
9. Other Operating Income		
Gain / (loss) on revaluation of foreign exchange *	(23,571,614)	2,954,549
Dividends on financial assets at FVOCI	920,200	-
Available For Sale equity securities	-	823,500
Gain / (Loss) on sale of securities	-	37,107,820
Profit on sale of Property, plant and equipment	5,974,889	117,159
Charges recovered	34,374,130	30,734,025
Fair value change of derivatives	(17,847,563)	6,806,459
Bad debt recovered	-	5,000,000
Overseas Rebate - Overdrawn Nostro	28,530,987	14,394,949
Others	2,163,114	1,079,827
Other Operating Income	30,544,143	99,018,288
* Income from dealing in foreign currencies includes swap cost incurred from buying and selling two currencies at two different maturities amounting to LKR 173.79 Mn (Year 2017 - LKR 95.56 Mn)		
10. Impairment losses on financial instruments		
Financial assets at amortised cost - Loans and advances	16,648,399	-
Stage 1	51,301,300	-
Stage 2	89,836,491	-
Stage 3	-	149,928,724
Charge from Loans and receivables - individual impairment	-	(7,276,944)
Charge from Loans and receivables - collective impairment	-	-
Financial assets at amortised cost - debt instruments	98,364	-
Stage 1	-	-
Stage 2	-	-
Stage 3	-	-
Contingent liabilities and commitments	(519,860)	-
Stage 1	2,788,811	-
Stage 2	-	-
Stage 3	-	-
Total	160,153,505	142,651,780
11. Personnel expenses		
Salary and Bonus	262,569,599	246,673,353
Contribution to Employees' Provident Fund	17,017,361	15,738,058
Contribution to Employees' Trust Fund	4,064,262	3,754,816
Provision for Defined Benefit Obligations (Note 29.1)	15,612,208	14,326,165
Amortization of Prepaid Employee Benefits	(1,856,881)	2,764,013
	297,406,549	283,256,405
12. Other Expenses		
Auditors' Remuneration - Audit	1,841,400	1,568,000
Auditors' Remuneration - Non Audit	2,340,750	1,233,560
Professional and Legal Expenses	2,767,725	3,217,776
Depreciation of Property, Plant and Equipment	59,240,688	39,491,361
Amortisation of Intangible Assets	21,710,031	14,464,509
Office Administration and Establishment Expenses	295,467,178	244,220,074
	383,367,772	304,195,280



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2018 2017

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13. Income Tax Expense

13.a Current Tax Expense

Current tax on profit for the year
Under/(Over) provision for the previous year

198,039,852	209,590,420
(22,326,222)	(3,926,262)
<u>175,713,630</u>	<u>205,664,158</u>

Deferred Tax Expenses

Deferred tax assets recognized/(reversal) during the year (Note 27)

(14,116,891)	2,858,655
<u>(14,116,891)</u>	<u>2,858,655</u>

Total Income Tax Expense

<u>161,596,739</u>	<u>208,522,813</u>
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13.b Reconciliation From Profit/(Loss) Before Tax to Current Income Tax Expense

Accounting profit Before Tax

Exempt Income

Disallowable Expenses

Allowable Expenses

Adjusted Profit/(Loss) From Trade

605,332,201	712,209,398
-	(73,717,230)
579,442,810	405,416,423
(477,489,827)	(295,371,375)
<u>707,285,185</u>	<u>748,537,216</u>

707,285,185	748,537,216
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Total Statutory Income

Less: Tax Losses Set-Off (Up to a Limit of 35% of Total Statutory Income)

Taxable Profit

Statutory Income Tax Rate

Current Income Tax Expense

-	-
<u>707,285,185</u>	<u>748,537,216</u>
28.00%	28.00%
<u>198,039,852</u>	<u>209,590,420</u>

13.c Reconciliation of effective tax rate

For the year ended 31st December

Profit before income tax

Tax using the corporate tax rate

Disallowable expenses

Allowable expenses

Tax exempt income

Current tax on profits for the year [Note 13 (a)]

(Over) / under provision in prior years

Current tax on profits for the year

Charge to deferred tax liability on temporary differences

Recognition of deferred tax asset on temporary differences

Total income tax expense

	2018 %	2018 Rs.	2017 %	2017 Rs.
Profit before income tax	100.00%	605,332,201	100.00%	712,209,398
Tax using the corporate tax rate	28.00%	169,493,016	28.00%	199,418,631
Disallowable expenses	26.80%	162,243,987	15.94%	113,516,598
Allowable expenses	-22.09%	(133,697,151)	-11.61%	(82,703,985)
Tax exempt income	0.00%	-	-2.90%	(20,640,824)
Current tax on profits for the year [Note 13 (a)]	32.72%	198,039,852	29.43%	209,590,420
(Over) / under provision in prior years	-3.69%	(22,326,222)	-0.55%	(3,926,262)
Current tax on profits for the year	29.03%	175,713,630	28.88%	205,664,158
Charge to deferred tax liability on temporary differences	1.99%	12,029,510	0.73%	5,174,259
Recognition of deferred tax asset on temporary differences	-4.32%	(26,146,401)	-0.33%	(2,315,604)
Total income tax expense	26.70%	161,596,739	29.28%	208,522,813



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14. Cash and cash equivalents

Local currency in hand
Foreign currency in hand

214,914,448	195,522,359
6,497,132	1,949,435
<u>221,411,580</u>	<u>197,471,794</u>

15. Balances with Central Banks

Statutory balances with central banks
Central bank of Sri Lanka

1,936,393,554	1,251,967,925
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Non Statutory balances with central banks
Central bank of Sri Lanka

85,018,681	860,513,873
<u>2,021,412,235</u>	<u>2,112,481,798</u>

As required by provisions of Section 93 of the Monetary Law Act and amendments there to, a cash balance is maintained with the Central Bank of Sri Lanka as explained in Note 4.2. The minimum cash reserve requirement on Rupee deposit liabilities was 6% as at 31 December 2018.

16. Placements with Banks

Placement with local banks
Placement with foreign banks
Total placement with banks

400,098,630	741,985,780
352,443,474	131,791,451
<u>752,542,104</u>	<u>873,777,231</u>

17. Derivative Financial Instruments

As at 31 December 2018

Currency swaps
Forward foreign exchange contracts

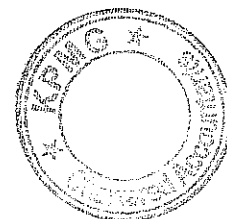
Asset	Liability
282,369,805	390,548
2,118,158	2,036,399
<u>284,487,963</u>	<u>2,426,947</u>

As at 31 December 2017

Currency swaps
Forward foreign exchange contracts

Asset	Liability
1,499,865	87,163,711
3,777	-
<u>1,503,642</u>	<u>87,163,711</u>

The Bank's exposure under derivative contracts is closely monitored as part of the overall management of the Bank's market risk.



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18. Loans and advances to customers	21,632,472,017	20,668,741,355
Gross loans and advances (Note 18.a)	19,922,840,768	-
Stage 1	340,979,211	-
Stage 2	1,368,652,038	-
Stage 3		
	498,224,153	429,631,434
Less: Accumulated impairment	102,322,400	-
Stage 1	51,301,300	-
Stage 2	344,600,453	-
Stage 3	-	375,472,031
Individual impairment	-	54,159,403
Collective impairment	-	-
Total loans and advances	21,134,247,864	20,239,109,921

18.a Concentration of Credit Risk

The Bank monitors concentrations of credit risk by product, currency and industry. An analysis of concentrations of credit risk from loans and advances as at the reporting date is shown below.

Concentration by Product	5,444,717,223	6,080,806,211
Overdrafts	4,289,708,700	4,126,477,446
Trade finance	95,819,085	134,208,570
Lease rentals receivable (Note 18.b)	110,320,396	104,336,336
Staff loans	2,317,524,578	1,537,137,341
Term loans	9,374,382,035	8,685,775,451
Short-term	<u>21,632,472,017</u>	<u>20,668,741,355</u>

Concentration by Currency

Sri Lankan Rupee	18,832,690,188	16,016,446,042
United States Dollar	2,799,781,829	4,314,077,554
European Euro	-	338,217,759
	<u>21,632,472,017</u>	<u>20,668,741,355</u>

Concentration by Industry

Agriculture and fishing	2,336,814,066	2,087,403,651
Manufacturing	3,240,493,634	1,504,102,897
Tourism	163,496,629	190,833,160
Transport	61,971,687	3,624,363
Construction	541,981,677	197,798,325
Traders	8,925,515,309	9,321,867,521
Others	261,574,580	1,954,134,576
Services	6,100,624,435	5,408,976,862
	<u>21,632,472,017</u>	<u>20,668,741,355</u>



18.b Lease rental receivables

Within one year from the reporting date

Deposit of rentals

Unearned income

	51,658,453	16,371,952
	(7,007,592)	(901,120)
	<u>44,650,861</u>	<u>15,470,832</u>

After one year but before five years from reporting date

Deposit of rentals

Unearned income

	62,486,223	143,325,003
	(11,317,999)	(48,146)
	<u>51,168,224</u>	<u>(24,539,119)</u>
		<u>118,737,738</u>

There were no lease receivables beyond five years

Total lease rental receivables

	<u>95,819,085</u>	<u>134,208,570</u>
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	2018	2017
18. Loans and advances to Customers (Continued)		
18.c Movements in Impairment charges during the year	429,631,434	288,349,645
As at 1 st January	29,851,175	-
Adjustment on initial application of SLFRS 9	459,482,609	288,349,645
Adjusted balance as at 1 st January	157,786,190	142,651,780
Charge/(Write back) to statement of Profit / loss	-	(1,392,068)
write-off/(Recoveries) during the year	(120,735,210)	-
Reversal of Interest in suspense	1,690,564	22,077
Exchange movement	498,224,153	429,631,434
As at 31 st December		

Movement in provision for impairment during the year (Under SLFRS 9)

	Stage 1	Stage 2	Stage 3	Total
As at 1 st January 2018	84,010,578	-	375,472,031	459,482,609
Charge/(Write back) to statement of Profit / loss	16,648,399	51,301,300	89,836,491	157,786,190
write-off/(Recoveries) during the year	-	-	-	-
Reversal of Interest in suspense	-	-	(120,735,210)	(120,735,210)
Exchange movement	1,663,423	-	27,141	1,690,564
As at 31 st December 2018	102,322,400	51,301,300	344,600,453	498,224,153

Movement in provision for individual and collective impairment during the year (Under LKAS 39)

	Individual Impairment	Collective Impairment	Total Impairment
As at 1 st January 2017	226,932,500	61,417,145	288,349,645
Charge/(Write back) to statement of Profit / loss	149,928,724	(7,276,944)	142,651,780
write-off/(Recoveries) during the year	(1,392,068)	-	(1,392,068)
Exchange movement	2,875	19,202	22,077
As at 31 st December 2017	375,472,031	54,159,403	429,631,434

Concentration by Product
As at 31st December 2018

	Gross amount	Impairment allowance	Carrying amount
Overdrafts	5,444,717,223	150,463,760	5,294,253,463
Lease rentals receivable (Note 18.b)	95,819,085	3,942,819	91,876,266
Trade finance	4,289,708,700	70,166,407	4,219,542,293
Staff loans	110,320,396	876,898	109,443,498
Term loans	2,317,524,578	228,420,267	2,089,104,311
Short-term	9,374,382,035	44,354,002	9,330,028,033
	21,632,472,017	498,224,153	21,134,247,864

As at 31st December 2017

	Gross amount	Impairment allowance	Carrying amount
Overdrafts	6,080,806,211	193,523,075	5,887,283,136
Lease rentals receivable (Note 18.b)	4,126,477,446	14,399,493	4,112,077,953
Trade finance	134,208,570	522,559	133,686,011
Staff loans	104,336,336	651,629	103,684,707
Term loans	1,537,137,341	140,926,349	1,396,210,992
Short-term	8,685,775,451	79,608,329	8,606,167,122
	20,668,741,355	429,631,434	20,239,109,921



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18. Loans and advances to Customers (Continued)

18.d Collateral wise analysis of Loans and Advances to Customers

The Bank holds collateral against Loans and Advances to Other Customers in the form of mortgage interests over property, other registered securities over assets, and guarantees. Estimates of fair value are based on the value of collateral assessed at the time of lending, and updated on a frequent basis.

18.d.i Gross loans and advances to customers

Stage 1	19,922,840,768	-
Stage 2	340,979,211	-
Stage 3	1,368,652,038	-
Individually Impaired Loans and Advances	-	1,069,454,068
Individually Significant Unimpaired Loans and Advances	-	18,512,349,264
Individually Non Significant Loans and Advances	-	1,086,938,023
	<u>21,632,472,017</u>	<u>20,668,741,355</u>

18.d.ii Stage 3 / Individually Impaired loans and advances to customers

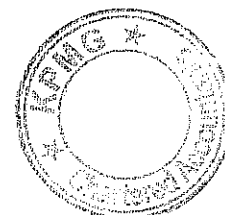
Gross Amount	1,368,652,038	1,069,454,068
Allowance for Impairment	(344,600,453)	(375,472,031)
Carrying Amount	<u>1,024,051,585</u>	<u>693,982,037</u>

Collateral wise analysis of Stage 3 / Individually Impaired Loans and Advances (Gross)

Secured by Movable Assets	121,654,023	119,636,574
Secured by Immovable Assets	994,045,202	811,943,981
Secured by Cash	150,770,355	55,357,128
Other Securities	3,380,881	6,479,669
Clean	98,801,577	76,036,716
	<u>1,368,652,038</u>	<u>1,069,454,068</u>

18.d.iii Total Balance assessed under stage 1 and 2 / collective impairment

Individually Significant but not impaired	-	18,512,349,264
Stage 1	19,922,840,768	-
Stage 2	340,979,211	-
Collectively assessed for impairment	-	1,086,938,023
	<u>20,263,819,979</u>	<u>19,599,287,287</u>
Allowance for Impairment	(153,623,700)	(54,159,403)
	<u>20,110,196,279</u>	<u>19,545,127,884</u>



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19 Debt and other financial instruments at amortised cost / Held to maturity	Date of Maturity	2018	2017
Debt and other financial instruments	2019/20	1,223,667,312	-
Sri Lanka Development Bond	2019	342,950,483	-
Sri Lanka Government Securities		663,784,792	-
Quoted Debenture		-	936,695,784
Held to maturity		-	809,400,028
Sri Lanka Development Bond		-	-
Quoted Debenture		(3,091,829)	-
(Less): Impairment charges		-	-
Net debt and other financial instruments		2,227,310,758	1,746,095,812

Quoted Debenture			73,294,648
<u>Sampath Bank</u>		-	71,195,978
Unsecured Redeemable Debentures of Rs 100/- each	31-Dec-18		
<u>NDB Bank</u>		-	108,926,560
Unsecured Redeemable Debentures of Rs 100/- each	18-Dec-18		
<u>Siyapatha Finance Ltd</u>		108,926,560	196,970,727
Unsecured Redeemable Debentures of Rs 100/- each	24-Dec-19		
<u>NDB Bank</u>		196,970,727	359,012,115
Unsecured Redeemable Debentures of Rs 100/- each	24-Jun-20		
<u>Bank of Ceylon</u>		357,887,505	663,784,792
Unsecured Redeemable Debentures of Rs 100/- each	5-Oct-20		
		<u>663,784,792</u>	<u>809,400,028</u>

Reconciliation for debt investments at amortised cost

	2018	2017
As at 1 st January	1,746,095,812	1,746,095,812
Adjustment on initial application of SLFRS 9	(2,993,465)	-
Adjusted balance as at 1 st January	1,743,102,347	1,746,095,812
Movement during the year	484,306,775	-
(Charge)/Write back to statement of Profit / loss	(98,364)	-
As at 31 st December	<u>2,227,310,758</u>	<u>1,746,095,812</u>

Movements in Impairment Charges during the Year

Stage 1

As at 1st January (Note 33)
Charge/(Write back) to income statement
write-off/(Recoveries) during the year
Exchange movement
As at 31st December



	2018	2017
	2,993,465	-
	98,364	2,993,465
	-	-
	-	-
	<u>3,091,829</u>	<u>2,993,465</u>

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2018

2017

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20 Investment securities at FVOCI / Available for sale

Investment securities at FVOCI
 Sri Lanka Government Securities
 Unquoted Equity securities

3,144,952,276
 2,030,000

-

-

Available for sale
 Sri Lanka Government Securities
 Unquoted Equity securities

- 3,249,943,694
 - 2,030,000

(Less): Impairment charges

3,146,982,276

3,251,973,694

Net investment securities at FVOCI

Assets Pledged as Securities

Government Treasury Bills amounting to Rs.81,567,507/- (2017 : Rs. 79,451,980/-) are pledged as securities against the borrowings under Repurchase Agreements as at Reporting Date.

20.1 Government of Sri Lanka - Treasury Bills

Face value
 Amortized cost
 Market value
 Maturity

3,273,333,000
 3,155,026,540
 3,144,952,276
 2019

3,325,000,000
 3,235,375,827
 3,249,943,694
 2018

20.2 Unquoted equity securities

No. of
 shares

Lanka Clear (Private) Limited
 Credit Information Bureau of Sri Lanka
 Lanka Financial Services Bureau Limited

100,000
 300
 100,000

1,000,000
 30,000
 1,000,000
2,030,000

1,000,000
 30,000
 1,000,000
2,030,000



ICB BANK LIMITED - SRI LANKA BRANCH
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21. Property, Plant and Equipment

	Freehold Land and Buildings	Leasehold Properties	Computer Hardware and Software	Office Equipment	Furniture and Fittings	Motor Vehicles	Total
Cost							
Balance as at 1st January 2017	83,702,600	78,779,888	95,391,954	45,877,653	29,154,934	32,434,253	365,341,282
Additions during the Period	23,650,440	30,653,901	50,592,523	4,002,138	7,698,254	271,500	116,868,756
Disposals during the Year	-	(9,350,053)	(3,103,388)	(15,147,956)	(11,118,589)	(93,322)	(38,813,308)
Balance as at 31st December 2017	<u>107,353,040</u>	<u>100,083,736</u>	<u>142,881,089</u>	<u>34,731,835</u>	<u>25,734,599</u>	<u>32,612,431</u>	<u>443,396,730</u>
Balance as at 1st January 2018	107,353,040	100,083,736	142,881,089	34,731,835	25,734,599	32,612,431	443,396,730
Transfers	-	(2,100,500)	-	-	2,100,500	-	83,488,196
Additions during the Period	-	32,524,421	9,078,286	4,409,745	5,825,744	31,650,000	(26,087,895)
Disposals during the Year	-	-	(15,096,962)	-	-	(10,990,933)	-
Balance as at 31st December 2018	<u>107,353,040</u>	<u>130,507,657</u>	<u>136,862,413</u>	<u>39,141,580</u>	<u>33,660,843</u>	<u>53,271,498</u>	<u>500,797,031</u>
Accumulated Depreciation							
Balance as at 1st January 2017	6,341,484	35,516,241	87,624,680	33,394,397	22,444,282	19,041,590	204,362,674
Transfers	-	843,484	-	(385,738)	(947,013)	-	(489,267)
Charge for the Year	2,545,955	19,156,360	9,389,011	3,131,954	2,689,782	2,578,293	39,491,355
Depreciation on revaluation	(6,341,484)	-	-	-	-	-	(6,341,484)
Disposals during the Year	-	(9,350,036)	(3,103,363)	(15,147,853)	(11,118,524)	(74,656)	(38,794,432)
Balance as at 31st December 2017	<u>2,545,955</u>	<u>46,166,049</u>	<u>93,910,328</u>	<u>20,992,760</u>	<u>13,068,527</u>	<u>21,545,227</u>	<u>198,228,846</u>
Balance as at 1st January 2018	2,545,955	46,166,049	93,910,328	20,992,760	13,068,527	21,545,227	198,228,846
Transfers	-	(134,308)	-	-	134,308	-	-
Charge for the Year	2,683,824	30,307,025	15,710,082	2,858,678	2,307,640	5,373,439	59,240,688
Disposals during the Year	-	-	(15,096,838)	-	-	(8,792,746)	(23,889,584)
Balance as at 31st December 2018	<u>5,229,779</u>	<u>76,338,766</u>	<u>94,523,572</u>	<u>23,851,438</u>	<u>15,510,475</u>	<u>18,125,920</u>	<u>233,579,950</u>
Carrying Value							
As at 31st December 2017	<u>104,807,085</u>	<u>53,917,687</u>	<u>48,970,761</u>	<u>13,739,075</u>	<u>12,666,072</u>	<u>11,067,204</u>	<u>245,167,884</u>
As at 31st December 2018	<u>102,123,261</u>	<u>54,168,891</u>	<u>42,338,841</u>	<u>15,290,142</u>	<u>18,150,369</u>	<u>35,145,578</u>	<u>267,217,082</u>

- (a) The cost of fully depreciated assets still in use in the Bank as at 31st December 2018 was Rs. 187,737,703/- (2017 - Rs. 176,165,121/-)
- (b) Land and Building (Condominium) Address
Property at Pettah No : 235, Fifth Cross Street, Colombo
- The Open Market value is intended to mean the best price at which an interest in a property might reasonably be expected to be sold in the private treaty as at the date of valuation, assuming,
- The property is prime and most suitable for high rise development.
 - Located in a prime commercial area.

If building were stated at historical cost, the carrying amounts would have been as follows:

	Amount
Land & Building (Condominium)	83,702,600
Cost	8,434,043
Accumulated depreciation	<u>75,268,557</u>
Net book value	

Fair value Hierarchy

The table below analyse non financial instruments measured at fair value at the end of the prior reporting period, by the level of the fair value hierarchy.

	Level 1 (Rs.)	Level 2 (Rs.)	Level 3 (Rs.)	Total (Rs.)
Property, Plant and Equipment			100,000,000	100,000,000



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	2018	2017
22. Intangible Assets		
Cost	142,721,496	103,583,833
Balance at 01 st January	4,309,590	39,137,663
Additions during the year	-	-
Disposals during the Year	-	-
Balance at 31 st December	<u>147,031,086</u>	<u>142,721,496</u>
Accumulated Amortization	95,329,840	80,865,331
Balance at 01 st January	-	-
Transfers	21,710,031	14,464,509
Amortization for the year	-	-
Disposals during the Year	<u>117,039,871</u>	<u>95,329,840</u>
Balance at 31 st December	<u>29,991,215</u>	<u>47,391,656</u>
Net Book Value		
23. Other Assets		
Deposits and prepayments	50,676,920	42,952,379
Sundry deposits	1,916,658	1,881,658
Prepaid staff benefits	69,545,915	65,951,656
Others	4,265,475	4,976,590
	<u>126,404,968</u>	<u>115,762,283</u>
24. Due to Banks		
Borrowings from foreign banks	734,417,926	2,827,825,607
Borrowings from local banks	-	509,317,123
	<u>734,417,926</u>	<u>3,337,142,730</u>
25. Deposits from customers		
Total Deposits from customers	<u>21,925,420,544</u>	<u>18,670,299,972</u>
a. Product wise analysis of deposits from customers		
Demand deposits (current accounts)	2,401,920,384	2,366,738,844
Savings deposits	2,937,475,289	2,479,396,337
Fixed deposits	14,188,646,945	12,958,259,654
Certificate of deposits	369,718,593	228,353,967
Call deposits	1,066,978,066	24,852,464
Margin deposits	595,611,270	296,509,010
Other deposits	365,069,997	316,189,696
	<u>21,925,420,544</u>	<u>18,670,299,972</u>
b. Currency wise analysis of deposits from customers		
Sri Lanka rupee	15,533,705,998	14,246,775,041
United States dollar	5,144,032,086	4,091,402,378
Great Britain pound	21,485,975	41,687,296
Euro	1,223,535,584	155,787,344
Others	2,660,901	134,647,913
	<u>21,925,420,544</u>	<u>18,670,299,972</u>



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	2018	2017
26. Other borrowings		
Securities sold under repurchase agreements	81,567,507	79,451,980
Refinance borrowings	1,964,873	19,723,241
	<u>83,532,380</u>	<u>99,175,221</u>

27. Deferred Tax	Asset		Liability		Net	
	31.12.2018	31.12.2017	31.12.2018	31.12.2017	31.12.2018	31.12.2017
Property, Plant and Equipment	-	-	37,053,138	24,347,327	37,053,138	24,347,327
Revaluation Gain	-	-	22,507,478	22,507,478	22,507,478	22,507,478
Asset under Finance Leases	-	-	9,068,673	9,744,974	9,068,673	9,744,974
Available for Sale Reserve	2,820,794	-	-	4,079,003	(2,820,794)	4,079,003
Employee Benefit obligation	25,773,660	22,490,333	-	-	(25,773,660)	(22,490,333)
Allowance for loan losses	25,367,013	827,494	-	-	(25,367,013)	(827,494)
	<u>53,961,467</u>	<u>23,317,827</u>	<u>68,629,289</u>	<u>60,678,782</u>	<u>14,667,822</u>	<u>37,360,955</u>

27.1 Reconciliation of Deferred Tax 2018	Balance 1 st Jan	Recognised in Profit or Loss	Recognised in Equity	Balance 31st Dec
Liability				
Property, Plant and Equipment	24,347,327	12,705,811	-	37,053,138
Revaluation Gain	22,507,478	-	-	22,507,478
Asset under Finance Leases	9,744,974	(676,301)	-	9,068,673
	<u>56,599,779</u>	<u>12,029,510</u>	-	<u>68,629,289</u>
Assets				
Available for Sale Reserve	(4,079,003)	-	6,899,797	2,820,794
Employee Benefit obligation	22,490,333	2,901,111	382,216	25,773,660
Allowance for loss on investment securities	-	865,712	-	865,712
Allowance for loan losses	827,494	22,379,578	-	23,207,072
	<u>19,238,824</u>	<u>26,146,401</u>	<u>7,282,013</u>	<u>52,667,238</u>
Allowance for loan losses SLFRS 9 first day impact	1,294,229	-	-	1,294,229
Adjusted deferred tax assets	<u>20,533,053</u>	<u>26,146,401</u>	<u>7,282,013</u>	<u>53,961,467</u>
Total	<u>36,066,726</u>	<u>(14,116,891)</u>	<u>(7,282,013)</u>	<u>14,667,822</u>

2017

	Balance 01 st Jan	Recognised in Profit or Loss	Recognised in Equity	Balance 31st Dec
Liability				
Property, Plant & Equipment	22,338,502	2,008,825	-	24,347,327
Revaluation Gain	16,168,590	-	6,338,888	22,507,478
Asset under finance leases	6,579,540	3,165,434	-	9,744,974
Available for Sale Reserve	951,660	-	3,127,343	4,079,003
	<u>46,038,292</u>	<u>5,174,259</u>	<u>9,466,231</u>	<u>60,678,782</u>
Assets				
Employee Benefits	20,052,670	2,166,745	270,918	22,490,333
Allowance for loan losses	678,635	148,859	-	827,494
	<u>20,731,305</u>	<u>2,315,604</u>	<u>270,918</u>	<u>23,317,827</u>
	<u>25,306,987</u>	<u>2,858,655</u>	<u>9,195,313</u>	<u>37,360,955</u>



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	2018	2017
28. Provisions		
Loan commitment issued	9,139,192	-
Financial guarantee issued	4,014,069	-
	<u>13,153,261</u>	<u>-</u>

Movements in Impairment charges during the year

	Loan commitment		Financial Guarantee	
	2018	2017	2018	2017
As at 1 st January	9,426,744	-	1,457,566	-
Adjustment on initial application of SLFRS 9	9,426,744	-	1,457,566	-
Adjusted balance as at 1 st January	(287,552)	-	2,556,503	-
Charge/(Write back) to statement of Profit / loss	-	-	-	-
write-off/(Recoveries) during the year	-	-	-	-
Exchange movement	-	-	-	-
As at 31 st December	<u>9,139,192</u>	<u>-</u>	<u>4,014,069</u>	<u>-</u>

Movement in provision for impairment during the year (Under SLFRS 9)

	Loan commitment		Financial Guarantee		Total
	Stage 1	Stage 2	Stage 1	Stage 2	
As at 1 st January 2018	9,426,744	-	1,457,566	-	10,884,310
Charge/(Write back) to statement of Profit / loss	(287,571)	19	(232,290)	2,788,793	2,268,951
write-off/(Recoveries) during the year	-	-	-	-	-
Exchange movement	-	-	-	-	-
As at 31 st December 2018	<u>9,139,173</u>	<u>19</u>	<u>1,225,276</u>	<u>2,788,793</u>	<u>13,153,261</u>
	<u>9,139,192</u>			<u>4,014,069</u>	<u>13,153,261</u>

Total



MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

2018

2017

As at 31 December
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29. Other Liabilities

Sundry creditors	9,016,205	7,655,347
Defined Benefit Obligation (Note 29.1)	92,048,784	80,322,618
Cheques sent on Clearing	654,883,337	216,407,118
Pay order issued	80,509,221	70,026,807
Other payables	116,122,779	91,177,437
	<u>952,580,326</u>	<u>465,589,327</u>

29.1 Defined Benefit Obligation

Opening defined benefit obligation	80,322,618	71,616,680
------------------------------------	------------	------------

Movement in the present value of employee benefit liability:

Interest cost	8,835,488	7,877,835
Current service cost	6,776,720	6,448,330
Gratuity paid during the year	(5,251,099)	(9,689,296)
Actuarial (gain) /losses	1,365,056	4,069,069
Balance as at 31 December	<u>92,048,784</u>	<u>80,322,618</u>

The expense recognised in the income statement

Interest cost	8,835,488	7,877,835
Current service cost	6,776,720	6,448,330
	<u>15,612,208</u>	<u>14,326,165</u>

Recognised in other comprehensive income
Actuarial (gain)/loss recognised

	1,365,056	4,069,069
	<u>1,365,056</u>	<u>4,069,069</u>

Principal actuarial assumptions at the reporting date, are as follows

Discount rate at 31 December	11%	11%
Future salary increases	12%	10%

An independent Actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2018 by Actuarial Management Consultants (Private) Limited, a firm of professional actuaries. Assumptions regarding future mortality are based on 1967/70 mortality table issued by the Institute of Actuaries, London. At present, no plan assets are held to finance the retirement benefit obligation.

Sensitivity analysis

The following table demonstrates the reasonable 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 other comprehensive income statement of financial position, is the effect of the assumed changes in discount rate and salary increment rate as depicted below.

2018

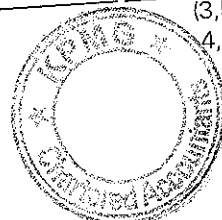
Discount rate (change by)
Salary increment rate (change by)

Percentage	Change In Assumption	
	Increase	Decrease
1%	(4,097,784)	4,497,716
1%	4,821,216	(4,471,784)

2017

Discount rate (change by)
Salary increment rate (change by)

Percentage	Change In Assumption	
	Increase	Decrease
1%	(3,563,033)	3,901,206
1%	4,207,159	(3,906,946)



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30. Assigned Capital	3,969,508,163	3,969,508,163
Opening Balance	-	-
Capital Infusion during the year	<u>3,969,508,163</u>	<u>3,969,508,163</u>
Closing Balance		

31. Reserves

Statutory Reserve Fund

Opening balance at 01 st January	192,003,088	166,818,759
Transfer during the period	<u>22,186,773</u>	<u>25,184,329</u>
Closing balance at 31 st December	<u>214,189,861</u>	<u>192,003,088</u>

The Statutory Reserve Fund is maintained as required by the section 20 (1) of the Banking Act No. 30 of 1988. Bank appropriated 5% of the profit after tax to fulfill the minimum requirement under section 20(1) and the balance in the Statutory Reserve fund will be used only for the purposes specified in the section 20(2) of the Banking Act No 30. of 1988.

32. Commitments and Contingencies

In the normal course of business the bank makes various commitments and incurs certain contingent liabilities with legal recourse to its customers. No material losses are anticipated as a result of these transactions.

Commitments

Commitment for unutilised credit facilities	4,458,597,957	4,071,550,471
Lease commitments (Note 32.1)	167,322,770	161,216,749
Other commitments on forwards and swaps	<u>5,296,329,828</u>	<u>2,875,217,433</u>
	<u>9,922,250,555</u>	<u>7,107,984,653</u>

Contingencies

Acceptance	2,449,879,082	2,494,849,255
Documentary credits	2,110,008,395	3,475,585,405
Guarantees	918,607,937	1,584,043,891
Bills sent for collection	<u>1,962,455,440</u>	<u>1,434,250,379</u>
	<u>7,440,950,854</u>	<u>8,988,728,930</u>
	<u>17,363,201,409</u>	<u>16,096,713,583</u>

32.1 Lease commitments

Operating lease rentals are payable as follows.

Not later than one year	47,519,998	44,032,163
Later than one year and not later than five years	<u>119,802,772</u>	<u>117,184,586</u>
	<u>167,322,770</u>	<u>161,216,749</u>



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As at 31st December,
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33. Financial Assets and Liabilities

33. Classification of Financial Assets and Liabilities by Measurement Basis

The following table provides a reconciliation between line items in the statement of financial position and categories of financial instruments.

Classification of Financial Assets and Liabilities by Measurement Basis as per SLFRS 9 - Financial Instruments

33.A As at 31 December 2018

	Note	FVTPL	FVOCI	Amortised cost	Total
ASSETS					
Cash and Cash Equivalents	14	-	-	221,411,580	221,411,580
Balances with Central Banks	15	-	-	2,021,412,235	2,021,412,235
Placement with Banks	16	-	-	752,542,104	752,542,104
Derivative Financial Instruments	17	284,487,963	-	-	284,487,963
Financial assets at amortised cost					
Loans and Advances to customers	18	-	-	21,134,247,864	21,134,247,864
Debt and other financial instrument	19	-	-	2,227,310,758	2,227,310,758
Investment securities - Measured at FVOCI*	20	-	3,146,982,276	-	3,146,982,276
Total Financial Assets		<u>284,487,963</u>	<u>3,146,982,276</u>	<u>26,356,924,541</u>	<u>29,788,394,780</u>
LIABILITIES					
Due to Banks	24	-	2,426,947	734,417,926	734,417,926
Derivative Financial Instruments	17	-	-	21,925,420,544	21,925,420,544
Deposits from customers	25	-	-	83,532,380	83,532,380
Other Borrowings	26	-	-	22,743,370,850	22,743,370,850
Total Financial Liabilities				<u>22,745,797,797</u>	<u>22,745,797,797</u>

Classification of Financial Assets and Liabilities by Measurement Basis as per LKAS 32 and 39 - Financial Instruments Recognition and Measurement

As at 31 December 2017

	Available for sale	Fair Value through profit or loss	Held to Maturity	Loans and Receivable	Total
ASSETS					
Cash and Cash Equivalents	14	-	-	197,471,794	197,471,794
Balances with Central Banks	15	-	-	2,112,481,798	2,112,481,798
Placement with Banks	16	-	-	873,777,231	873,777,231
Derivative Financial Instruments	17	1,503,642	-	-	1,503,642
Loans and Advances to customers	18	-	-	20,239,109,921	20,239,109,921
Investments Held to maturity	19	-	1,746,095,812	-	1,746,095,812
Investments Available for sale *	20	3,251,973,694	-	-	3,251,973,694
Total Financial Assets		<u>3,251,973,694</u>	<u>1,746,095,812</u>	<u>23,422,840,744</u>	<u>28,420,383,892</u>
LIABILITIES					
Due to Banks	24	-	-	3,337,142,730	3,337,142,730
Derivative Financial Instruments	17	-	87,163,711	-	87,163,711
Deposits from customers	25	-	-	18,670,299,972	18,670,299,972
Other Borrowings	26	-	-	99,175,221	99,175,221
Total Financial Liabilities				<u>22,106,617,923</u>	<u>22,193,781,634</u>

* Unquoted equity investments of Rs. 2,030,000 are stated at cost as it was impractical to compute the market value due to unavailability of market information. However, Management has determined the impact as immaterial as it was less than 0.01 % of the total assets.



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33. Financial Assets and Liabilities

33 B Classification of financial assets and financial liabilities on the date of initial application of SLFRS 9

The following table reconciles the carrying amounts under LKAS 39 to the carrying amounts under SLFRS 9 on transition to SLFRS 9 on 1 January 2018.

	Original classification Under LKAS 39	New classification Under SLFRS 9	Original carrying amount Under LKAS 39	Remeasurement	New carrying amount Under SLFRS 9
ASSETS					
Cash and Cash Equivalents	Loans and receivables	Amortised cost	197,471,794	-	197,471,794
Balances with Central Banks	Loans and receivables	Amortised cost	2,112,481,798	-	2,112,481,798
Placement with Banks	Loans and receivables	Amortised cost	873,777,231	-	873,777,231
Derivative Financial Instruments	FVTPL	FVTPL	1,503,642	-	1,503,642
Financial assets at amortised cost					
Loans and Advances to customers	Loans and receivables	Amortised cost	20,239,109,921	(29,851,175)	20,209,258,746
Debt and other financial instruments	Held to maturity	Amortised cost	1,746,095,812	(2,993,465)	1,743,102,347
Investment securities - Measured at fair value	Available for sale	FVOCI	3,251,973,694	-	3,251,973,694
Total Financial Assets			28,422,413,892	(32,844,640)	28,389,569,252
LIABILITIES					
Due to Banks	Amortised cost	Amortised cost	3,337,142,730	-	3,337,142,730
Derivative Financial Instruments	FVTPL	FVTPL	87,163,711	-	87,163,711
Deposits from customers	Amortised cost	Amortised cost	18,670,299,972	-	18,670,299,972
Provisions	Amortised cost	Amortised cost	-	10,884,310	10,884,310
Other Borrowings	Amortised cost	Amortised cost	99,175,221	-	99,175,221
Deferred tax Liabilities	Amortised cost	Amortised cost	37,360,954	(1,294,229)	36,066,725
Total Financial Liabilities	N/A	N/A	22,193,781,634	9,590,081	22,204,665,944
TOTAL				(42,434,721)	

The following table reconciles:

- the closing impairment allowance for financial assets under LKAS 39 and provisions for loan commitments and financial guarantee contracts under LKAS 37 Provisions, Contingent Liabilities and contingent Assets as at 31 December 2017; to
- the opening ECL allowance determined under SLFRS 9 as of 1 January 2018.

	Original carrying amount Under LKAS 39	Remeasurement	New carrying amount Under SLFRS 9
Impairment allowance for loans and receivables as per LKAS 39/ Financial assets at amortised cost as per SLFRS 9 (Note 18.C)	429,631,434	29,851,175	459,482,609
Impairment allowance for held to maturity as per LKAS 39/ Financial assets at amortised cost as per SLFRS 9 (Note 19)	-	2,993,465	2,993,465
Loan commitments and other financial guarantees (Note 28)	-	10,884,310	10,884,310
	429,631,434	43,728,950	473,360,384



MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

33.C Fair value hierarchy for assets carried at fair value

The table below analyses financial investments measured at fair value at the end of the reporting period, by the level of the fair value hierarchy.

	Level 1	Level 2	Level 3	Total
31 December 2018				
Financial Assets				
Derivative financial instruments	-	282,369,805	-	282,369,805
Currency swaps	-	2,118,158	-	2,118,158
Forward foreign exchange contracts	-	284,487,963	-	284,487,963
Investment securities at FVOCI	3,144,952,276	-	-	3,144,952,276
Government of Sri Lanka treasury bills	3,144,952,276	-	-	3,144,952,276
Financial Liabilities				
Derivative financial instruments	-	390,548	-	390,548
Currency swaps	-	2,036,399	-	2,036,399
Forward foreign exchange contracts	-	2,426,947	-	2,426,947
31 December 2017				
Financial Assets				
Derivative financial instruments	-	1,499,865	-	1,499,865
Currency swaps	-	3,777	-	3,777
Forward foreign exchange contracts	-	1,503,642	-	1,503,642
Financial Investments available for sale	3,249,943,694	-	-	3,249,943,694
Government of Sri Lanka treasury bills	3,249,943,694	-	-	3,249,943,694
Financial Liabilities				
Derivative financial instruments	-	87,163,711	-	87,163,711
Currency swaps	-	-	-	-
Forward foreign exchange contracts	-	87,163,711	-	87,163,711



MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

33.D Fair value of Financial Instruments carried at amortised cost

Set out below is a comparison, by class, of the carrying amounts and fair values of the bank's financial assets and liabilities that are not carried at the fair value in the financial statements. The fair values in the table below may be different from the actual amounts that will be received/paid on the settlement or maturity of the financial instrument. For certain instruments, the fair value may be determined using assumptions for which no observable prices are available.

As at 31 December	2018	
	Carrying amount Rs.	Fair value Rs.
Assets		
Cash and Cash Equivalents	221,411,580	221,411,580
Balances with Central Banks	2,021,412,235	2,021,412,235
Placements with Banks	752,542,104	752,542,104
Loans and receivables to customers	21,134,247,864	21,134,247,864
Debt and other financial instruments at amortised cost / Held to maturity	2,227,310,758	2,227,310,758
Liabilities		
Due to Banks	734,417,926	734,417,926
Due to Other Customers	21,925,420,544	21,925,420,544
Other Borrowings	83,532,380	83,532,380

Given below is the basis adopted by the Bank in order to establish the fair values of the financial instruments which are shown above.

Cash and cash equivalents, balances with central banks and placements with banks

The carrying amounts of cash and cash equivalents, balances with central banks and placements with banks approximate their fair value as those are short-term in nature. These balances have a contractual remaining maturity of less than three months from the reporting date.

Loans and advances to other customers

More than 78% of the total portfolio of loans and advances to other customers have a remaining contractual maturity of less than one year.

The fair value of loans and advances to other customers with a residual maturity of less than one year generally approximates the carrying value, subject to any significant movement in credit spreads.

The estimated fair value of loans and advances with a residual maturity of more than one year is the present value of future cash flows expected to be received from such loans and advances calculated based on interest rates at the reporting date for similar types of loans and advances. Such loans include both fixed and floating rate loans. Majority of the floating rate loans can be re priced either quarterly or semi annually while for fixed rate loans, the loan contract allows the Bank to change the contracted rate if there is a material difference between the contracted rate and the market interest rate.

The Bank calculated the fair value of the term loans and leasing portfolio with a fixed interest rate and that will have a maturity of more than 12 months from the reporting date. Fair value of term loans and leasing portfolio as at 31st December 2018 was Rs 2,586.3 Mn and 47.3 Mn as against its carrying value which amounted to Rs 2,961.8 Mn and 51.1 Mn respectively.

Debt investments at amortised cost

Financial asset at amortised cost - Debt and other financial instrument include investments in Sri Lanka Development Bonds and debentures.

All Sri Lanka Development Bonds are variable rate instruments where repricing happens semi annually. Thus, the carrying value of these bonds approximate to their fair value as at the reporting date. The carrying value of debentures also approximate to their fair value at reporting date.

Due to Banks

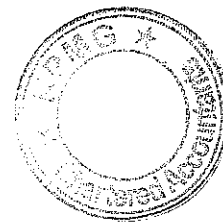
All amounts due to other banks as at the reporting date have a remaining contractual maturity of less than three months. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Due to other customers

Almost 100% of the customer deposits are either repayable on demand or have a remaining contractual maturity of one year or less. Customer deposits with a contractual maturity of more than one year are subject to pre mature upliftment. Amounts paid to customers in the event of pre mature upliftment would not be materially different to its carrying value as at date. Therefore fair value of customer deposits approximates to their carrying value as at the reporting date.

Other Borrowings

Other borrowings mainly consist of securities sold under repurchase agreements which have a remaining contractual maturity of less than three months. Accordingly, carrying value of these borrowings would not be materially different to their fair values as at the reporting date.



MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2018

34 (i) Maturity Analysis of Assets and Liabilities

(a) An analysis of the total assets of the Bank as at 31st December 2018 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount	Derivative Financial Instruments	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unallocated	Total as at 31/12/2018
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest bearing assets									
Placement with banks	400,098,630	-	400,098,630	-	-	-	-	-	400,098,630
Loans and receivables to other customers	21,134,247,864	-	14,478,267,601	3,243,432,606	2,152,783,528	865,255,183	394,508,946	-	21,134,247,864
Debt investments at amortised cost	2,227,310,758	-	941,355,155	731,097,371	554,858,232	-	-	-	2,227,310,758
Investment securities at FVOCI	3,144,952,276	-	2,812,292,934	332,659,342	-	-	-	-	3,144,952,276
Non Interest bearing assets									
Cash and cash equivalents	221,411,580	-	221,411,580	-	-	-	-	-	221,411,580
Balances with central banks	2,021,412,235	-	2,021,412,235	-	-	-	-	-	2,021,412,235
Placement with banks	352,443,474	-	352,443,474	-	-	-	-	-	352,443,474
Derivative financial instrument	284,487,963	284,487,963	-	-	-	-	2,030,000	-	284,487,963
Investment securities at FVOCI	2,030,000	-	-	-	-	-	-	267,217,082	267,217,082
Property, plant and equipment	267,217,082	-	-	-	-	-	-	29,991,215	267,217,082
Intangible assets	29,991,215	-	-	-	-	-	-	-	29,991,215
Other assets	126,404,968	-	126,404,968	-	-	-	-	-	126,404,968
Total Assets	30,212,008,045	284,487,963	21,353,686,577	4,307,189,319	2,707,641,760	865,255,183	396,538,946	297,208,297	30,212,008,045
Interest bearing liabilities									
Due to banks	734,417,926	-	734,417,926	-	-	-	-	-	734,417,926
Derivative financial instrument	2,426,947	2,426,947	-	-	-	-	-	-	2,426,947
Due to other customers	18,562,818,893	-	13,056,475,951	5,439,731,314	58,035,864	8,575,764	-	-	18,562,818,893
Other borrowings	83,532,380	-	83,532,380	-	-	-	-	-	83,532,380
Non Interest bearing liabilities									
Due to other customers	3,362,601,651	-	3,362,601,651	-	-	-	-	-	3,362,601,651
Current tax liabilities	98,101,222	-	-	98,101,222	-	-	-	-	98,101,222
Deferred tax liabilities	14,667,822	-	-	14,667,822	-	-	-	-	14,667,822
Provisions	13,153,261	-	13,153,261	-	-	-	-	-	13,153,261
Other liabilities	952,580,326	-	952,580,326	-	-	-	-	-	952,580,326
Total Liabilities	23,824,300,428	2,426,947	18,202,761,495	5,552,500,358	58,035,864	8,575,764	-	-	23,824,300,428
Interest rates sensitivity Gap	6,387,707,617	282,061,016	3,150,925,082	(1,245,311,039)	2,649,605,896	856,679,419	396,538,946	297,208,297	6,387,707,617



MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

As at 31st December 2017

34 (ii) Maturity Analysis of Assets and Liabilities

(a) An analysis of the total assets of the Bank as at 31st December 2017 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount	Derivative Financial Instruments	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unallocated	Total as at 31/12/2017
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest bearing assets									
Placement with banks	741,985,780	-	741,985,780	-	-	-	-	-	741,985,780
Loans and receivables to other customers	20,239,109,921	-	13,625,043,674	3,946,184,036	1,956,792,355	636,908,914	74,180,942	-	20,239,109,921
Financial investments - Available-for-sale	3,249,943,694	-	906,078,613	2,343,865,081	-	-	-	-	3,249,943,694
Financial investments - Loans and Receivables	1,746,095,812	-	936,695,784	144,490,626	664,909,402	-	-	-	1,746,095,812
Non Interest bearing assets									
Cash and cash equivalents	197,471,794	-	197,471,794	-	-	-	-	-	197,471,794
Balances with central banks	2,112,481,798	-	2,112,481,798	-	-	-	-	-	2,112,481,798
Placement with banks	131,791,451	-	131,791,451	-	-	-	2,030,000	-	131,791,451
Derivative financial instrument	1,503,642	1,503,642	-	-	-	-	-	-	1,503,642
Financial investments - Available-for-sale	2,030,000	-	-	-	-	-	-	-	2,030,000
Property, plant and equipment	245,167,884	-	-	-	-	-	-	-	245,167,884
Intangible assets	47,391,656	-	-	-	-	-	-	-	47,391,656
Other assets	115,762,283	-	115,762,283	-	-	-	-	-	115,762,283
Total Assets	28,830,735,715	1,503,642	18,767,311,177	6,434,539,743	2,621,701,757	636,908,914	76,210,942	292,559,540	28,830,735,715
Interest bearing liabilities									
Due to banks	3,337,142,730	-	3,337,142,730	-	-	-	-	-	3,337,142,730
Derivative financial instrument	87,163,711	87,163,711	-	-	-	-	-	-	87,163,711
Due to other customers	15,690,862,422	-	11,330,106,921	4,295,434,379	29,010,049	36,311,073	-	-	15,690,862,422
Other borrowings	99,175,221	-	99,175,221	-	-	-	-	-	99,175,221
Non Interest bearing liabilities									
Current tax liabilities	2,979,437,550	-	2,979,437,550	-	-	-	-	-	2,979,437,550
Deferred tax liabilities	106,453,518	-	-	106,453,518	-	-	-	-	106,453,518
Other liabilities	37,360,954	-	-	37,360,954	-	-	-	-	37,360,954
	465,589,327	-	465,589,327	-	-	-	-	-	465,589,327
Total Liabilities	22,803,185,433	87,163,711	18,211,451,748	4,439,248,851	29,010,049	36,311,073	-	-	22,803,185,433
Interest rates sensitivity Gap	6,027,550,282	(85,660,069)	555,859,429	1,995,290,892	2,582,691,708	600,597,841	76,210,942	292,559,540	6,027,550,282



ACB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

As at 31 December
All amounts in Sri Lankan Rupees

35 Related Party Disclosures

The Bank carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standards No 24 on "Related Party Disclosures" (LKAS 24), the details of which are reported below.

35.1 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standards No 24 on "Related Party Disclosures" (LKAS 24), Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly, the Senior Managers of the Bank have been classified as KMPs of the Bank.

	2018	2017
35.1.a Compensation of KMPs		
Short term employment benefits	87,237,439	74,301,188
Post employment benefits	4,790,509	4,648,940
	<u>92,027,948</u>	<u>78,950,128</u>

35.1.b Transactions with KMPs

Statement of Financial Position items

	2018	2017
Assets		
Loans & advances	11,797,896	6,749,845
Liabilities		
Deposits	14,420,257	4,589,234

35.1.c Direct & Indirect Accommodation

Direct & indirect accommodation as % of the Bank's regulatory capital

	2018	2017
	0.18%	0.11%

35.2 Transactions with Other Related Parties

In addition to transactions with key management, the bank enters into transactions with entities with significant influence over the bank. The following table shows the outstanding balance and the corresponding interest during the year.

35.2.a Related Parties	Nature of the transaction	2018 Rs.	2017 Rs.
MCB Pakistan	Overseas borrowing	-	-
	Vostro balances	105,141,714	41,755,657
	Nostro balance	22,270,461	12,649,826
	Interest expense	-	14,638,212
MCB Bahrain	Overseas borrowing	-	768,750,000
	Nostro Balance	1,136,280	953,099
	Deposit	484,292,719	406,207,500
	Interest expense	22,840,964	18,171,281
MCB Leasing CJSC Azerbaijan	Lending	490,326,953	408,219,279
	Deposit	2,384,322	5,096,659
	Interest Income	41,121,609	2,751,748
	Interest expense	-	-

35.2.b Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's regulatory capital

	2018	2017
	0%	0%

The above mentioned outstanding balances arose from the ordinary course of business. The interest charged to and by related parties are at normal commercial rates.

35.3 Transactions with Post Employment Benefit of the Bank

Name of the Related Party	Nature of the transaction	2018	2017
MCB Bank Sri Lanka Branch Staff Provident fund	Deposits	90,619,601	85,461,436
	Repurchase agreements	75,000,000	77,650,397
	Interest expenses	16,298,891	16,349,602
	Contribution made	16,257,048	15,019,264



MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2018

36 Events Occurring after the Reporting Date

All material events after the reporting date have been considered and where appropriate adjustments or disclosures have been made in the respective Notes to the Financial Statements.

36.1 Comparative Information

The comparative information is re-classified wherever necessary to confirm with the current year's classification in order to provide a better presentation.

37 Litigations & Claims

In the opinion of the Management, there are no pending litigations against the company that will have a material impact on the reported financial results or the future operations of the company.



MCB BANK LIMITED - SRI LANKA BRANCH
Basel III - Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 1

Key Regulatory Ratios - Capital and Liquidity

Selected Performance Indicators	Sri Lanka Operation	
	As of 31.12.2018	As of 31.12.2017
Regulatory Capital (LKR 000)		
Common Equity Tier 1 Capital	6,212,532	5,893,670
Tier 1 Capital	6,212,532	5,893,670
Total Capital	5,726,342	5,260,698
Regulatory Capital Ratio (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 6.375%)	30.14	35.12
Tier 1 Capital Ratio (Minimum Requirement - 7.875%)	30.14	35.12
Total Capital Ratio (Minimum Requirement - 11.875%)	27.78	31.34
Regulatory Liquidity		
Statutory Liquid Assets (LKR 000)	5,533,780	5,705,135
Statutory Liquid Assets Ratio % -Minimum requirement 20%	23.1	25.0
Domestic Banking Unit (%)	32.3	25.4
Off Shore Banking Unit (%)	106.0	169.6
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 2018-90%, 2017 -80%)	110.4	237.2
Liquidity Coverage Ratio (%) - All currencies (Minimum Requirement - 2018-90%, 2017 -80%)		

MCB BANK LIMITED - SRI LANKA BRANCH
Basel III - Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 2

Basel III Computation of Capital Ratio

Item	Amount (LKR '000)	
	2018	2017
Common Equity Tier 1 (CET1) Capital after Adjustments	6,212,532	5,893,670
Common Equity Tier 1 (CET1) Capital	6,242,523	5,941,061
Equity Capital (Stated Capital)/Assigned Capital	3,969,508	3,969,508
Reserve Fund	214,190	192,003
Published Retained Earnings/(Accumulated Retained Losses)	1,916,721	1,713,200
Published Accumulated Other Comprehensive Income (OCI)	142,105	66,350
General and other Disclosed Reserves	-	-
Unpublished Current Year's Profit/Loss and Gains reflected in OCI	-	-
Ordinary Shares issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	29,991	47,392
Total Adjustments to CET1 Capital	29,991	47,392
Goodwill (net)	-	-
Intangible Assets (net)	-	-
Others (specify)	-	-
Additional Tier 1 (AT1) Capital after Adjustments	-	-
Additional Tier 1 (AT1) Capital	-	-
Qualifying Additional Tier 1 Capital Instruments	-	-
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to AT1 Capital	-	-
Investment in Own Shares	(486,190)	(632,972)
Others (specify)	81,685	65,461
Tier 2 Capital after Adjustments	-	-
Tier 2 Capital	-	-
Qualifying Tier 2 Capital Instruments	81,685	65,461
Revaluation Gains	-	-
Loan Loss Provisions	567,875	698,433
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	6,212,532	5,893,670
Others (specify)	6,212,532	5,893,670
CET1 Capital	5,726,342	5,260,698
Total Tier 1 Capital	-	-
Total Capital	-	-
Item	Amount (LKR '000)	
	2018	2017
Total Risk Weighted Assets (RWA)	20,614,412	16,759,159
RWAs for Credit Risk	18,550,163	15,105,380
RWAs for Market Risk	268,927	21,272
RWAs for Operational Risk	1,795,322	1,632,508
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	30.14	35.17
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	30.14	35.17
Total Tier 1 Capital Ratio (%)	27.78	31.39
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	-	-
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-

MCB BANK LIMITED - SRI LANKA BRANCH

Basel III - Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 4

Basel III Computation of Liquidity Coverage Ratio - All Currencies

Item	Amount (LKR '000)			
	2018		2017	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	4,286,839	4,286,839	3,584,385	3,584,385
Total Adjusted Level 1A Assets	4,286,839	4,286,839	3,584,385	3,584,385
Level 1 Assets	-	-	-	-
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	29,412,979	9,359,066	29,821,146	8,452,331
Total Cash Outflows	7,979,599	797,960	7,739,848	1,547,970
Deposits	11,586,918	7,706,351	10,157,261	6,351,117
Unsecured Wholesale Funding	-	-	-	-
Secured Funding Transactions	9,806,182	814,475	11,923,825	2,654,033
Funding Obligations	40,280	40,280	213	213
Additional Requirements	8,875,944	6,602,073	10,493,281	6,366,708
Total Cash Inflows	-	-	-	-
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	8,753,642	6,600,297	10,492,846	6,366,273
Other Inflows by Counterparty which are Maturing within 30 Days	-	-	-	-
Operational Deposits	122,301	122,301	435	435
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		110.39		169.63

MCB BANK LIMITED - SRI LANKA BRANCH

Basel III - Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 5

Basel III Main Features of Regulatory Capital Instruments

Description of the Capital Instrument	Assigned Capital
Issuer	MCB Bank Pakistan
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	Pakistan
Governing Law(s) of the Instrument	N/A
Original Date of Issuance	N/A
Par Value of Instrument	Perpetual
Perpetual or Dated	N/A
Original Maturity Date, if Applicable	LKR 3,969,508
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	Equity
Accounting Classification (Equity/Liability)	
Issuer Call subject to Prior Supervisory Approval	N/A
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A
Subsequent Call Dates, if Applicable	
Coupons/Dividends	N/A
Fixed or Floating Dividend/Coupon	N/A
Coupon Rate and any Related Index	N/A
Non-Cumulative or Cumulative	
Convertible or Non-Convertible	N/A
If Convertible, Conversion Trigger (s)	N/A
If Convertible, Fully or Partially	N/A
If Convertible, Mandatory or Optional	N/A
If Convertible, Conversion Rate	

Disclosure 6

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

The Bank prepares the strategic plan covering a period of 5 years on a rolling basis by taking in to account of the Capital Adequacy Ratio (CAR). The bank carefully analyses the CAR against increases in risk weighted assets in line with the budget expansion and business volumes.

Currently the Bank is adequately capitalized and its capital adequacy ratio (CAR) is well above the minimum regulatory requirements. Bank has a well-diversified assets portfolio which neither overly exposed to any counterparty nor to any sector. Further, the bank will deliberate on strategically curtailing risk weighted assets expansion, if required.

The bank always strive to achieve the reasonable profit growth in line with the banking industry average and the repatriation of profit to Pakistan is based on the minimum requirement set by the State Bank of Pakistan. Part of the profit generated is retained for the future business expansion. Capital generated through retained profit over the years could be considered as one of the primary source of capital to the Bank.

Disclosure 7

Basel III Credit Risk under Standardised Approach –Credit Risk Exposures and Credit Risk Mitigation (CRM) Effects

As at 31st December 2018	Exposures before Credit Conversion Factor (CCF) and CRM		Exposures post CCF and CRM		RWA and RWA Density (%)	
	On - Balance Sheet Amount	Off -Balance Sheet Amount	On - Balance Sheet Amount	Off -Balance Sheet Amount	RWA	RWA Density (%)
	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	LKR '000
Claims on Central Government and CBSL	6,709,245	-	6,709,245	-	240,134	3.58
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	2,030	-	2,030	-	2,030	100.00
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	729,037	4,884,223	729,037	97,684	413,309	49.99
Claims on Financial Institutions	5,392,499	31,882	2,832,499	15,941	1,569,727	55.11
Claims on Corporates	8,885,336	4,850,903	7,532,540	1,359,584	8,823,460	99.23
Retail Claims	662,181	94,389	408,328	28,077	410,296	94.02
Claims Secured by Residential Property	1,446,040	26,439	1,403,310	9,595	1,378,403	97.56
Claims Secured by Commercial Real Estate	3,955,474	1,131,080	3,322,576	282,752	3,605,328	100.00
Non-Performing Assets (NPAs)	1,037,806	-	1,037,806	-	1,298,767	125.15
Higher-risk Categories	62,125	-	62,125	-	155,313	250.00
Cash Items and Other Assets	874,807	-	874,807	-	653,396	74.69
Total	29,756,580	11,018,916	24,914,303	1,793,633	18,550,163	69.46

MCB BANK LIMITED - SRI LANKA BRANCH
 Basel III - Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 8

Credit Risk under Standardised Approach: Exposures by Asset Classes and Risk Weights

Description	Amount in LKR '000 (Post CCF & CRW)							Total Credit Exposures Amount
	0%	20%	50%	75%	100%	150%	>150%	
Asset Classes								
Claims on Central Government and Central Bank of Sri Lanka	5,508,577	1,200,668	-	-	-	-	-	2,030
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	2,030	-	-	-
Claims on Public Sector Entities	-	-	-	-	302,395	-	-	826,721
Claims on Official Entities and Multilateral Development Banks	-	504,164	20,162	-	506,268	-	-	2,848,440
Claims on Banks Exposures	-	398,757	1,983,415	-	8,754,797	-	-	8,892,124
Claims on Financial Institutions	-	-	137,327	-	331,969	-	-	436,405
Claims on Corporates	-	-	-	104,436	1,343,902	-	-	1,412,905
Retail Claims	-	-	69,003	-	3,605,328	-	-	3,605,328
Claims Secured by Residential Property	-	-	-	114	515,657	522,035	-	62,125
Claims Secured by Commercial Real Estate	-	-	-	-	-	-	-	874,807
Non-Performing Assets (NPAs)	221,411	-	-	-	653,396	-	-	874,807
Higher-risk Categories	5,729,988	2,063,589	2,210,021	104,436	16,015,742	522,035	62,125	26,707,935
Cash Items and Other Assets	-	-	-	-	-	-	-	-
Total	-	-	-	-	-	-	-	-

Disclosure 9

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR '000) as at 31st December 2018
(a) RWA for Interest Rate Risk	-
General Interest Rate Risk	-
(i) Net Long or Short Position	-
(ii) Horizontal Disallowance	-
(iii) Vertical Disallowance	-
(iv) Options	-
Specific Interest Rate Risk	-
(b) RWA for Equity	-
(i) General Equity Risk	31,935
(ii) Specific Equity Risk	268,927
(c) RWA for Foreign Exchange & Gold	-
Capital Charge for Market Risk (a) + (b) + (c) * CAR	-

MCB BANK LIMITED - SRI LANKA BRANCH

Basel III - Disclosures under Pillar 3 as per the Banking Act Direction Number 01 of 2016

Disclosure 10

Operational Risk under Basic Indicator Approach/The Standardised Approach/The Alternative Standardised Approach

Business Lines (20.5.1.4.0.0)	Capital Charge Factor	Fixed Factor 'm' (20.5.1.6.0.0)	Gross Income (LKR '000) as at 31st		
			1st Year	2nd Year	3rd Year
			1,248,409	1,540,203	1,485,965
The Basic Indicator Approach	15%		-	-	-
The Standardised Approach			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Retail Banking	12%		-	-	-
Commercial Banking	15%		-	-	-
The Alternative Standardised Approach			-	-	-
Sub Total	18%		-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Sub Total	12%	0.035	-	-	-
Retail Banking	15%	0.035	-	-	-
Commercial Banking			-	-	-
Capital Charges for Operational Risk (LKR'000)		1,795,322			
The Basic Indicator Approach		-			
The Standardised Approach		-			
The Alternative Standardised Approach		-			
Risk Weighted Amount for Operational Risk (LKR'000)		213,729			
The Basic Indicator Approach		-			
The Standardised Approach		-			
The Alternative Standardised Approach		-			

Disclosure 11

Differences between Accounting and Regulatory Scopes and Mapping of Financial Statement Categories with Regulatory Risk Categories – Bank Only

As at 31st December 2018

	Bank				
	a	b	c	d	e
	Carrying Value as Reported In Published Financial Statements	Carrying Value as under the Scope of Regulatory Reporting	Subject to Credit Risk Framework	Subject to Market Risk Framework	Not subject to Capital Requirements or Subject to Deduction from Capital
LKR '000	LKR '000	LKR '000	LKR '000	LKR '000	
	30,212,008	30,269,476	25,397,208	-	5,463,550
Assets					
Cash and Cash Equivalents	221,412	221,411	221,411	-	-
Balances with Central Banks	2,021,412	2,021,394	2,021,394	-	23,407
Placements with Banks	752,542	752,444	752,444	-	-
Derivative Financial Instruments	284,488	-	-	-	-
Other Financial Assets Held-For- Trading	-	-	-	-	-
Financial Assets Designated at Fair Value through Profit or Loss	312,243	312,243	312,243	-	4,842,277
Loans and Receivables to Banks	20,822,007	20,958,716	16,116,439	-	-
Loans and Receivables to Other Customers	3,146,982	3,143,985	3,143,985	-	567,875
Financial Investments - Available- For Sale	2,227,311	2,175,896	2,175,896	-	-
Financial Investments - Held-To- Maturity	-	-	-	-	-
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates and Joint Ventures	267,217	267,217	267,217	-	-
Property, Plant and Equipment	-	-	-	-	29,991
Investment Properties	29,991	29,991	-	-	-
Goodwill and Intangible Assets	-	-	-	-	-
Deferred Tax Assets	126,403	386,179	386,179	-	-
Other Assets	23,833,317	23,833,798	-	-	-
Liabilities	4,227,465	4,103,519	-	-	-
Due to Banks	2,427	-	-	-	-
Derivative Financial Instruments	-	-	-	-	-
Other Financial Liabilities Held-For-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	18,432,373	18,044,709	-	-	-
Due to Other Customers	83,532	76,870	-	-	-
Other Borrowings	-	-	-	-	-
Debt Securities Issued	98,101	135,275	-	-	-
Current Tax Liabilities	23,684	37,361	-	-	-
Deferred Tax Liabilities	965,734	1,436,064	-	-	-
Other Liabilities	-	-	-	-	-
Due to Subsidiaries	-	-	-	-	98,614
Subordinated Term Debts	17,363,201	17,195,876	1,695,018	-	-
Off-Balance Sheet Liabilities	807,820	807,819	163,689	-	-
Guarantees	110,788	110,788	157,105	-	-
Performance Bonds	2,110,008	2,110,008	422,002	-	-
Letters of Credit	7,746,209	7,746,208	489,976	-	98,614
Other Contingent Items	4,458,598	4,458,598	462,247	-	-
Undrawn Loan Commitments	2,129,778	1,962,455	-	-	-
Other Commitments	-	-	-	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital	5,655,369	5,903,354	-	-	-
of which Amount Eligible for CET1	-	-	-	-	-
of which Amount Eligible for AT1	423,769	434,029	-	-	-
Retained Earnings	241,677	40,416	-	-	-
Accumulated Other Comprehensive Income	57,876	57,879	-	-	-
Other Reserves	-	-	-	-	-
Total Shareholders' Equity	6,378,691	6,435,677			

Disclosure 12

Explanations of Differences between Accounting and Regulatory Exposure Amounts

Under SLFRS 9: "Financial Instruments: Recognition & Measurement", the Bank assesses the impairment of loans and advances individually or collectively based on the principles of "expected credit loss" (Refer Note 3.1) model which is expected to take into account future trends in the economy. However, the regulatory provision made on loans and advances under the Direction No. 03 of 2008 on "Classification of loans and advances, Income Recognition and Provisioning" (and subsequent amendments thereof) issued by the CBSL are "time/delinquency base". Further, under SLFRS 9, other debt financial assets not held at FVTPL, together with loan commitments and other off balance sheet exposures such as financial guarantees and letter of credits, are subject to impairment provision, whereas no such regulatory provision is required for those financial assets as per CBSL direction. As a result, SLFRS 9 recognises higher provisions compared to CBSL guidelines.

Financial investments and financial liabilities (other than FVTPL) are carried at "cost" for regulatory reporting purposes while they are classified as "Financial assets measured at fair value through other comprehensive income" carried at fair value or Financial assets/liabilities at amortised cost under the SLFRS 9. The "Fair value" is defined as the best estimate of the price that would be received to sell an asset or be paid to transfer a liability in an orderly transaction between market participants at the measurement date. A variety of valuation techniques combined with the range of plausible market parameters at a given point in time may still generate unexpected uncertainty beyond fair value. An "amortised cost" of a financial asset or financial liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortisation using the EIR method of any difference between the initial amount recognised and the maturity amount, minus any reduction for impairment. Hence, the amortised cost of financial investments and financial liabilities under SLFRS 9 is different to the carrying value for regulatory reporting which is the "cost".

Disclosure 13

Bank Risk Management Approach

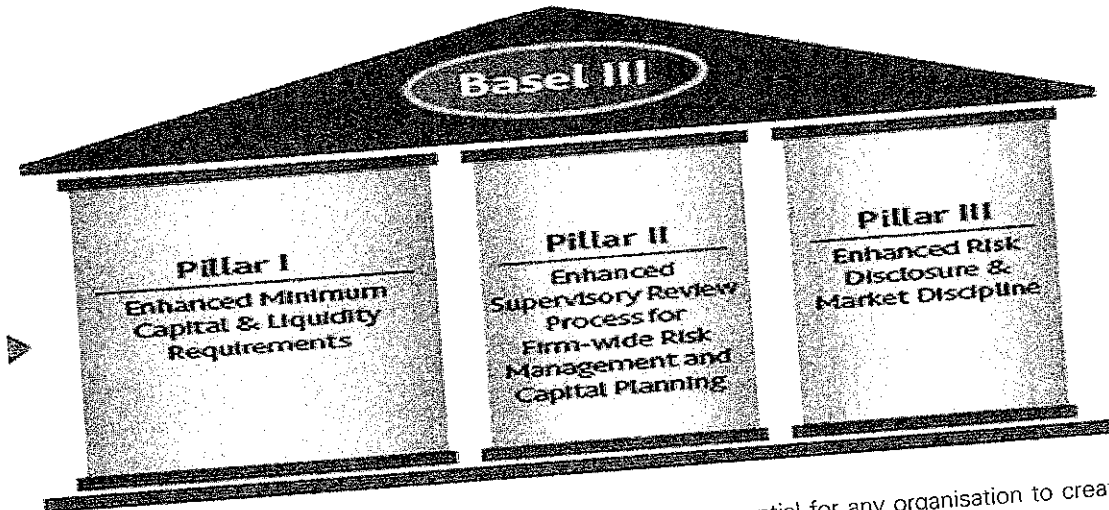
The management of MCB Bank Limited - Sri Lanka Branch actively drives the risk management framework wherein it provides an active approach in dealing with factors that influence the financial standing of the Bank. With the valuable guidance of management, the Bank has a proactive approach to generate recurrent earnings and to maximize shareholder's value by achieving an appropriate trade-off between risk and returns. All Effective Risk Management Framework along-with Robust Risk Governance Structure, Strong Capital & Liquidity Position and Good Quality of Credit Portfolio, remains a cornerstone to accomplish vision of the Bank.

Empowerment and independence are the basic principles in risk management and it is implemented as a fundamental part of management's vision. Independence of areas that are responsible for measuring, analyzing, controlling and monitoring risk from the frontline risk takers (i.e. business soliciting groups) is ensured within the bank.

The management and its Risk Management & Portfolio Review Committee have ensured formulation and implementation of a comprehensive Risk Management Framework. Under managements' guidance, the Bank executed risk strategy and continued to undertake controlled risk-taking activities within the risk management framework; combining core policies, procedures and process design with active portfolio management. The Risk Management Framework requires strong integrated risk management practices in key strategic, capital and financial planning processes and day-to-day business processes across the organization, with a goal to ensure that risks are appropriately considered, evaluated and responded to in a timely manner.

Disclosure 13

FINANCIAL STABILITY THROUGH RISK MANAGEMENT



A clear understanding of risks surrounding the business activities is essential for any organisation to create sustainable stakeholder value through executing its strategies. It is therefore, essential to reinforce the overall strategy of an organisation with a prudent risk management strategy so that the opportunities could be optimised while minimising the effects of down-side risks. Banks which are responsible for the vital role of financial intermediation in the economy should be more committed to managing their risks in a prudent and transparent manner compared to a normal business organisation. Accordingly, Basel Committee on Banking Supervision has formulated broad supervisory standards and guidelines to inculcate industry best practices across the banking institutions through 'Basel Accords' (Basel II, the second of the Basel Accords which has been extended by Basel III). While Basel Accord encourages convergence towards common approaches and standards, the ultimate purpose of these rules is to create financial stability and resilience in financial sector institutions.

MCB BANK LIMITED - SRI LANKA BRANCH APPROACH

MCB Bank Limited, Sri Lanka operation has also been identified Risk Management as the forefront of the future banking business. Accordingly in line with bank's global procedures and practices, the bank has developed a robust Risk Management Framework for its Sri Lanka operation as well.

Disclosure 13

INTEGRATED RISK MANAGEMENT COMMITTEE

Integrated Risk Management Committee of MCB Bank limited Sri Lanka operates as the forefront of bank's Risk Management functions.

Risk Management functions are underpinned by a comprehensive, Integrated Risk Management Policy, which is constantly evolving and enhancing to remain relevant and most effective. The policy which is approved by the Board spells out the Bank's approach to Risk Management. The policy sets out the process of identifying, measuring, monitoring and controlling the different types of risks and the risk governance structure in place. The main objectives of the framework are;

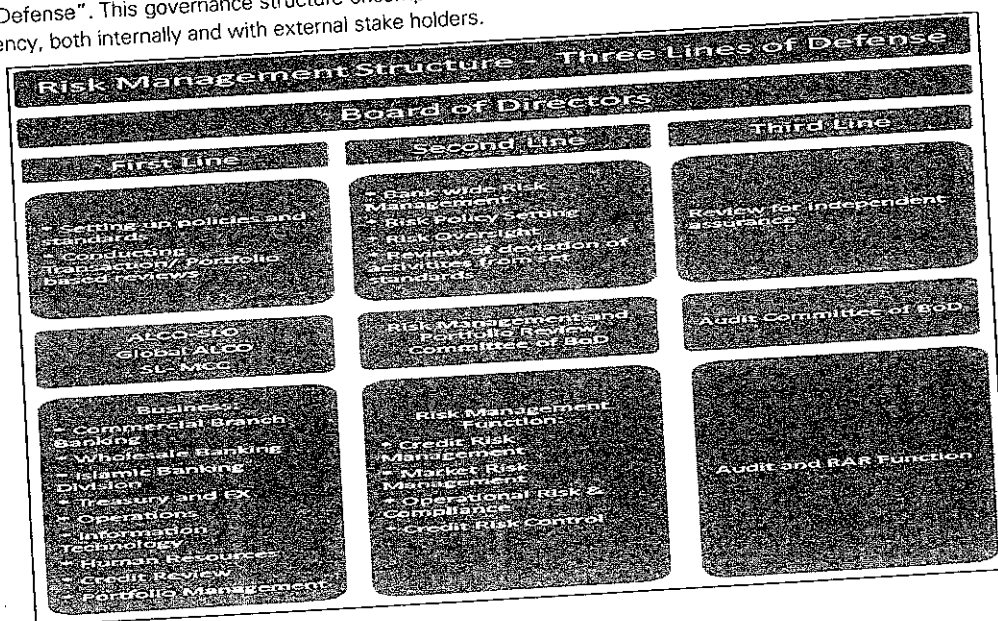
- To establish common principles, standards for the management and control of all risks and to inform behavior across the Bank.
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders.
- To provide clear accountability and responsibility for Risk Management.
- To ensure consistency throughout the Bank in Risk Management
- Define the Bank's risk appetite and align its portfolios and business strategy accordingly.
- Optimize risk return decisions.
- Maintain/manage the Bank's capital adequacy and liquidity position.
- Further strengthen governance, controls and accountability across the organization

In addition to the main risks (viz. Credit Risk, Market Risk and Operational Risk), the Bank has considered several other risks which are material to it. These additional risk categories include, Liquidity Risk, Interest Rate Risk in the Banking Book, Compliance Risk, IT Security Risk and Reputational Risk.

RISK GOVERNANCE

THREE LINES OF DEFENSE

MCB Bank limited promotes strong risk governance applied rationally and consistently with strong emphasis on the concept of "Three Lines of Defense". This governance structure encompasses accountability, responsibility, independence, reporting, communications and transparency, both internally and with external stakeholders.



Disclosure 13

RISK APPETITE AND TOLERANCE

Risk appetite is an expression of the amount of risk that the bank is prepared to accept in delivering its promises and meeting the responsibilities to the stakeholders at large. It is inevitable that the Bank will accept risks, hence risk taken within appetite may give rise to expected losses, but these as analyzed and accepted will be sufficiently absorbed by the expected earnings.

The Bank strives to make the integrated risk management function as one of its most critical core competency. Bank relies upon the overall policy framework to ensure the maintenance of consistent high standards in its operations and to encourage the risk decision making process by raising the risk awareness that could hinder the risk and return relationship.

CREDIT RISK

Credit risk refers to the potential loss of interest, capital or value of the collateral due to an obligor's failure to meet the term of a contract or otherwise failing to perform as agreed. Credit risk can arise from both on and off balance sheet activities consisting of contingent liabilities incurred by the Bank and due to the Bank, from counterparties such as letters of credit, letters of guarantee etc. The Bank has adopted stringent credit risk management process to mitigate the risk associated with the loan book by way of following strategic initiatives:

- Credit risk management organization structure incorporating a Credit Risk & Review Unit reporting to Chief Risk Officer (CRO) who in turn reports to the Group Head – Risk Management at Head office level.
- Written policies on credit granting and procedure bank - wide risk management, credit risk management, loan review mechanism and review of such policies on periodically.
- Instructions and guidance to employees in credit chain on annually/quarterly review of credit facilities, credit origination and maintenance procedures and guidelines for portfolio management.
- Established accountability of branch managers, relationship managers and business unit heads for managing risk within risk management framework of the Bank.
- Assignment of borrower risk rating for all general credit facilities.
- Risk based pricing: When a borrower's credit risk increases, the Bank demands a higher credit risk premium by way of increasing the interest rate.
- Established independent Credit Administration Unit to ensure accuracy and maintenance of security documentation of credit facilities and limit setting.
- Established credit risk limits for risk rating and concentration on segment, industry, geography, and personal banking products.
- Independent loan reviews carried out by the Group Audit Department as a special assignment by way of pre and post disbursement examinations of credit papers in order to ensure the quality of the loan book.
- Impairment on the potential delinquents by way of reviewing objective evidence assessments by the business units and adequacy of impairment provisions to absorb credit risk of the lending book.
- A constant stress testing methodology is applied on all significant credit exposures and stress tests are carried out on a regular basis.

Disclosure 13

MARKET RISK

Market risk is the risk associated with movements in market factors, including foreign exchange rates, interest rates, equity prices and commodity prices which have an impact on the Bank's income or the value of its portfolios. Its effective recognition could minimize the potential loss of earnings or economic values arising principally from customer driven transactions and banks relevant investments.

The categories of market risk of the Bank are:

- Interest rate risk
- Foreign exchange risk
- Equity price risk
- Commodity price risk

Market risk exposures arising from the trading book are managed by the Treasury Department whilst the non trading activities relating to market risks are managed through the ALCO (Assets and Liabilities Committee).

The Integrated Risk Management Committee (IRMC) is responsible for policies and other standards for the control of market risk. Market Risk goals are closely monitored by Treasury Middle Office and discussed on a periodic basis for appropriate and timely action.

The Bank measures the risk of losses arising from future potential adverse movements in market rates, prices and volatilities using VaR methodology. VaR, in general, is a quantitative measure of market risk that applies recent historical market conditions to estimate the potential future loss in market value that will not be exceeded in a set time period at a set statistical confidence level. This exercise is carried out by Treasury Middle Office with the help of Bloomberg system. Results are reviewed periodically at the Integrated Risk Management Committee (IRMC) meetings.

Stress testing is an integral part of the market risk management framework and considers both historical market events and forward-looking scenarios. A consistent stress-testing methodology is applied to trading and non-trading books. Regular stress-tests are carried out on liquidity risk (both bank specific and market specific scenarios), foreign exchange risk and equity risk.

LIQUIDITY RISK

Liquidity risk is defined as the risk that the Bank will encounter in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset. It is the policy of the Bank to ensure that adequate liquidity is maintained in all currencies to meet its obligations. This is performed through cash flow management, maintenance of liquidity ratios such as statutory reserve ratio, statutory liquid asset ratio, liquidity coverage ratio and advances to deposit ratio.

Disclosure 13

MANAGING INTEREST RATE RISK

Interest Rate Risk is the risk to the Bank's earnings and capital that arises out of meeting customers' demands for interest rate-related products with various re-pricing profiles and the bank's interest rate mismatch strategy. As interest rates and yield curves change over time, theoretically the Bank may be exposed to a loss in earnings and capital due to the re-pricing structure of all on- and off-balance sheet items. Movements in interest rates can affect the Bank's earnings by changing its net interest income (NII). Changes in interest rates also affect the economic value of the bank's assets, liabilities and off-balance sheet items. An effective risk management process that maintains interest rate risk within prudent levels is essential not only to safety and soundness but also to the Bank's profitability.

ASSETS AND LIABILITIES COMMITTEE (ALCO)

The Bank's exposure is controlled by limits approved by the Board which are monitored by the Assets and Liabilities Committee. ALCO overlooks the management of the Bank's overall liquidity position, and is responsible for Liquidity Risk and Interest Rate Risk Management of the Bank and implementation of liquidity management policies, procedures and practices approved by the management. This is achieved through proper representation of key business heads, frequent ALCO meetings and continuous monitoring of the liquidity position of the Bank through reports submitted by Treasury Middle Office.

OPERATIONAL RISK

Operational Risk is the risk of loss resulting from inadequate or failed Internal Processes, People, and System or from External events.

Operational Risk is relevant to every aspect of the Bank's business and covers a wide spectrum of issues. Losses arising through fraud, unauthorized activities, errors, omissions, inefficiency, and system failure or from other external events fall within the operational risk definition. Bank follows below detailed process to ensure that the Operational Risk is within the tolerance limits

- Loss event data collection

Loss event data are historic and backward looking which provides valuable insights into current operational risk exposures. All staff members are responsible to report risk/ loss events as soon as they perceive or materialize and are responsible to record such risk/ loss events immediately as an actual loss, a potential loss or a near misses.

- Risk & control self-assessment (RCSA)

In a RCSA program, branches and departments takes the ownership of its own risks & controls and assess the risks that may exist in its area. RCSA programs are done on a set frequency to assess the risk areas of the bank and apply controls where necessary.

- Ad-hoc incident reporting

Bank encourages staff to report any operational lapses or potential or actual frauds directly to designated senior management officials as described in the Bank's Whistleblower policy, if the staff member is fearful to route the concerns through the line management. Bank views this method as a useful method of communication to reduce potential losses to a greater extent and proved effective.

- New product, service or process launch

Prior to launching new products, services or processes, the owners must evaluate the risks as per new product policy and then to incorporate sufficient safe guards.

- Staff Training

Internal training sessions are conducted to enhance/inculcate the need of risk reporting for new recruits and refresher training sessions too conducted for existing staff.

Disclosure 13

COMPLIANCE RISK

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, prescribed corporate governance practices, internal policies and procedures, or ethical standards. Compliance risk also arises in situations where the laws or rules governing certain bank products or activities of the bank's clients may be ambiguous or untested. This risk exposes the institution to fines, penalties, payment of damages, and the voiding of contracts. Compliance risk can lead to diminish reputation, limited business opportunities, reduced expansion potential, and an inability to enforce contracts. Bank has identified this risk as a material risk and various internal controls, policies, procedures are in place to manage risk.

REPUTATION RISK

Reputation Risk refers to the potential adverse effects, which can arise from the Bank's reputation being tarnished due to factors such as unethical practices, regulatory actions, subsidiary/ associate company's actions, customer dissatisfaction and complaints, negative/adverse publicity etc. The Bank remains committed to continuously strive to maintain and improve its reputation in all the businesses it operates.

IT RISK

In the wake of increasing financial cyber-crimes, IT Security has become one of the important areas of banking operation. Accordingly a comprehensive IT Security platform has been developed by bank's IT team to guide, monitor and implement necessary processes and procedures specified in the Information Security Policy (ISP) to align with the bank's overall Risk Management Framework. The purpose of the ISP to protect the cyber threats and ensure IT security of the bank.

Disclosure 14

Risk management related to key risk exposures

The quantitative disclosures relating to key risk areas such as credit, market, liquidity, operational and interest rate risk in the banking book are presented and discussed in the Financial risk management report in note 6.