

MCB BANK LIMITED – SRI LANKA BRANCH

FINANCIAL STATEMENTS

31 DECEMBER 2021

SPF/UM/TW

INDEPENDENT AUDITORS' REPORT TO THE MANAGEMENT OF MCB BANK LIMITED - SRI LANKA BRANCH

Report on the audit of the financial statements

Opinion

We have audited the financial statements of MCB Bank Limited - Sri Lanka Branch ("The Branch"), which comprise the statement of financial position as at 31 December 2021, and the statement of profit or loss and statement of comprehensive income, statement of changes in equity and, cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2021 and of its financial performance and its cash flows for the period 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.

Responsibilities of management and those charged with governance for the financial statements

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

In preparing the financial statements, management is responsible for assessing the 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.

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Partners: H M A Jayasinghe FCA FCMA, R N de Saram ACA FCMA, Ms. N A De Silva FCA, W R H De Silva FCA ACMA, Ms. Y A De Silva FCA, Ms. K R M Fernando FCA ACMA, N Y R L Fernando ACA, W K B S P Fernando FCA FCMA, Ms. L K H L Fonseka FCA, D N Gamage ACA ACMA, A P A Gunasekera FCA FCMA, A Herath FCA, D K Hulangamuwa FCA FCMA LLB (London), Ms. A A Ludowyke FCA FCMA, Ms. G G S Manatunga FCA, A A J R Perera ACA ACMA, Ms. P V K N Sajjewanani FCA N M Sulaiman ACA ACMA, B E Wijesuriya FCA FCMA, C A Yalagala ACA ACMA

Principals: G B Goudian ACMA, Ms. P S Paranavitane ACMA LLB (Colombo), T P M Ruberu FCMA FCCA

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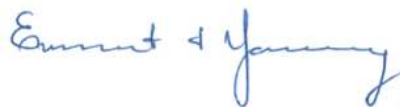
As part of an audit in accordance with SLAuSs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- ▶ identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- ▶ obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Bank's internal control.
- ▶ evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by management.
- ▶ conclude on the appropriateness of management's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Bank's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Bank to cease to continue as a going concern.
- ▶ evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

Report on other legal and regulatory requirements

As required by section 163 (2) of the Companies Act No. 07 of 2007, we have obtained all the information and explanations that were required for the audit and, as far as appears from our examination, proper accounting records have been kept by the Branch.



30 March 2022
Colombo

MCB Bank Limited - Sri Lanka Branch

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
Interest Income		1,419,856,238	2,131,669,610
Interest Expenses		(596,753,867)	(1,098,007,995)
Net Interest Income	7	<u>823,102,371</u>	<u>1,033,661,615</u>
Net Fee and Commission Income	8	93,058,355	98,491,744
Other Operating Income	9	<u>162,506,827</u>	<u>127,673,368</u>
Total Operating Income		1,078,667,553	1,259,826,727
Impairment Losses on Financial Assets	10	<u>(250,778,149)</u>	<u>(110,842,862)</u>
Net Operating Income		827,889,404	1,148,983,865
Personnel Expenses	11	(308,278,336)	(318,833,847)
Depreciation of Property, Plant, Equipment and Right-of-Use Assets	21	(82,842,557)	(91,902,576)
Amortisation of Intangible Assets	22	(15,225,816)	(19,279,519)
Other Operating Expenses	12	<u>(309,824,042)</u>	<u>(301,057,823)</u>
Operating Profit Before Value Added Tax on Financial Services, Nation Building Tax and Debt Repayment Levy		111,718,653	417,910,099
Value Added Tax on Financial Services, Nation Building Tax and Debt Repayment Levy		<u>(58,111,682)</u>	<u>(101,988,393)</u>
Profit Before Income Tax		53,606,971	315,921,706
Tax Expenses	13	<u>(5,920,814)</u>	<u>(109,226,627)</u>
Profit for the Year		<u>47,686,157</u>	<u>206,695,079</u>
Other Comprehensive Income, Net of Tax			
Other Comprehensive Income not to be Reclassified to Profit or Loss in Subsequent Periods:			
Remeasurements of Defined Benefit Liability / (Asset)	29.1	12,700,668	14,688,470
Deferred Tax Effect on Actuarial Gain / (Loss)		(3,048,160)	(4,112,772)
Surplus From Revaluation of Property, Plant and Equipment		-	-
Deferred Tax Effect on Above Surplus From Revaluation of Property, Plant and Equipment		3,837,793	-
Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Periods:			
Foreign Currency Translation Reserve			
Gain/(Loss) on Translation of FCBU		64,136,747	42,510,396
Net Change In Fair Value - Financial Assets At FVOCI (Net of Tax)		(20,971,619)	6,546,360
Other Comprehensive Income for the Year, net of Tax		<u>56,655,428</u>	<u>59,632,454</u>
Total Comprehensive Income for the Year		<u>104,341,586</u>	<u>266,327,533</u>

The Accounting Policies and Notes on pages 08 through 62 form an integral part of the Financial Statements.



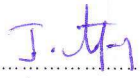
MCB Bank Limited - Sri Lanka Branch

STATEMENT OF FINANCIAL POSITION

As at 31 December 2021

	Note	2021 Rs.	2020 Rs.
ASSETS			
Cash and Cash Equivalents	14	220,254,283	289,328,106
Balances with Central Banks	15	866,540,769	743,866,255
Placements with Banks	16	2,674,179,880	3,016,632,723
Derivative Financial Instruments	17	-	42,373,872
Financial assets at amortised cost			
Loans and Advances to customers	18	12,385,467,298	15,201,987,841
Debt and other financial instruments	19	815,028,024	3,627,390,767
Investment securities at FVOCI	20	8,637,800,416	8,724,870,818
Property, Plant and Equipment	21	195,573,634	220,096,766
Right-of-Use assets	21	233,130,644	272,484,640
Intangible Assets	22	31,945,410	30,909,924
Deferred tax assets	27	21,811,877	10,411,530
Current Tax Asset		50,332,424	-
Other Assets	23	90,520,904	91,963,833
Total Assets		26,222,585,563	32,272,317,075
LIABILITIES			
Due to Banks	24	1,497,684,900	2,571,043,848
Derivative Financial Instruments	17	6,152,498	6,702,043
Deposits from customers	25	16,344,311,061	21,559,913,545
Other Borrowings	26	162,811,620	153,670,266
Current Tax Liabilities		-	53,674,788
Other Liabilities	28,29	1,231,017,419	1,110,992,590
Total Liabilities		19,241,977,498	25,455,997,079
EQUITY			
Assigned Capital	30	3,969,508,163	3,969,508,163
Statutory Reserve Fund	31	244,905,159	242,520,851
Retained Earnings		2,319,471,340	2,233,455,501
Other Reserves		446,723,403	370,835,481
Total Equity		6,980,608,066	6,816,319,996
Total Equity and Liabilities		26,222,585,563	32,272,317,075
Commitments and Contingencies	32	7,731,208,021	24,637,147,066

We certify that these Financial Statements are in compliance with the requirements of the Companies Act No. 07 of 2007.



 Apiramy Jeyarajah
 Department Head - Finance

The Management is responsible for these Financial Statements. Signed for and on behalf of the Management by:



 Bandula Herath
 Assistant General Manager



 Tahir Riaz
 Country General Manager

The Accounting Policies and Notes on pages 08 through 62 form an integral part of the Financial Statements.

30 March 2022
 Colombo



MCB Bank Limited - Sri Lanka Branch
STATEMENT OF CHANGES IN EQUITY

As at 31 December 2021

	Assigned capital Rs.	Statutory Reserve Fund Rs.	Revaluation Reserve Rs.	Fair value Reserve Rs.	Retained Earnings Rs.	Foreign currency translation reserve Rs.	Total Rs.
Balance as at 1 January 2020	3,969,508,163	232,186,097	69,079,976	11,210,601	2,026,519,478	241,488,148	6,549,992,463
Net Profit for the year	-	-	-	-	206,695,079	-	206,695,079
Other comprehensive income	-	-	-	9,092,167	14,688,470	42,510,396	66,291,033
Deferred Tax effect on other comprehensive income	-	-	-	(2,545,807)	(4,112,772)	-	(6,658,579)
Total comprehensive income for the year	-	-	-	6,546,360	217,270,778	42,510,396	266,327,533
Transactions with Equity Holders recognized directly in Equity							
Transfers to Statutory Reserve	-	10,334,754	-	-	(10,334,754)	-	-
Profit transferred to head office	-	-	-	-	-	-	-
Total transactions with equity holders	-	10,334,754	-	-	(10,334,754)	-	-
Balance as at 31 December 2020	3,969,508,163	242,520,851	69,079,976	17,756,961	2,233,455,501	283,998,544	6,816,319,996
Change in the foreign exchange reserve	-	-	-	-	-	28,885,002	28,885,002
Income Tax adjustment related to prior year	-	-	-	-	31,061,481.96	-	31,061,482
Balance as at 1 January 2021	3,969,508,163	242,520,851	69,079,976	17,756,961	2,264,516,983	312,883,546	6,876,266,480
Net Profit for the year	-	-	-	-	47,686,157	-	47,686,157
Other comprehensive income	-	-	-	(28,892,259)	12,700,668	64,136,747	47,945,156
Deferred Tax effect on other comprehensive income	-	-	-	3,837,793	(3,048,160)	-	8,710,272
Total comprehensive income for the year	-	-	3,837,793	(20,971,619)	57,338,665	64,136,747	104,341,586
Transactions with Equity Holders recognized directly in Equity							
Transfers to Statutory Reserve	-	2,384,308	-	-	(2,384,308)	-	-
Profit transferred to head office	-	-	-	-	-	-	-
Total transactions with equity holders	-	2,384,308	-	-	(2,384,308)	-	-
Balance as at 31 December 2021	3,969,508,163	244,905,159	72,917,769	(3,214,658)	2,319,471,340	377,020,292	6,980,608,066

The Accounting Policies and Notes on pages 08 through 62 form an integral part of the Financial Statements.



STATEMENT OF CASH FLOWS

As at 31 December 2021

	2021 Rs.	2020 Rs.
Cash Flows From Operating Activities		
Interest and commission receipts	1,564,354,161	1,921,304,643
Interest payments	(1,137,981,769)	(783,017,223)
Cash payments from other operating activities	162,494,328	122,318,061
Cash payments to employees and suppliers	(666,555,375)	(623,879,186)
Operating profit before changes in Operating Assets and Liabilities (Note A)	(77,688,654)	636,726,295
Increase in Operating Assets		
Funds Advanced to Customers	2,509,190,206	6,109,408,468
Other Short term Assets	83,170,797	(76,300,472)
Increase/(Decrease) in Operating Liabilities		
Deposits from customers	(5,114,485,580)	(189,876,103)
Other Liabilities	52,722,896	(131,955,278)
Net Cash Generated from Operations	(2,547,090,336)	6,348,002,910
Income Tax Paid	(80,663,649)	(136,041,886)
Net Cash flows generated from / (used in) Operating Activities	(2,627,753,985)	6,211,961,024
Cash Flows from Investing Activities		
Net proceeds from maturity and purchase of Financial Investments	2,858,644,382	(5,542,615,327)
Proceed from maturity of other Placements with Banks	379,076,636	(1,721,175,891)
Purchase of Property, Plant and Equipment and Intangible assets	(32,403,474)	(61,033,489)
Payments of lease obligations	(34,645,186)	(38,167,265)
Proceeds from Sale of Property, Plant and Equipment	12,499	8,324,598
Net Cash Flows generated from / (used in) Investing Activities	3,170,684,858	(7,354,667,373)
Cash flow from Financing Activities		
Capital Infusion from Head Office	-	-
Profit repatriation/HO expenses to Head Office	-	(108,531,508)
Increase/(Decrease) of borrowings	(489,330,182)	736,594,935
Net cash generated from /(used in) financing Activities	(489,330,182)	628,063,427
Net Increase in Cash and Cash Equivalents	53,600,691	(514,642,922)
Cash and Cash Equivalents at the Beginning of the year	1,033,194,361	1,547,837,283
Cash and Cash Equivalents at the End of the year (Note 14 & 15)	1,086,795,052	1,033,194,361
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	220,254,283	289,328,106
Balances with Central Banks	866,540,769	743,866,255
	1,086,795,052	1,033,194,361

The Accounting Policies and Notes on pages 08 through 62 form an integral part of the Financial Statements.



STATEMENT OF CASH FLOWS

Year ended 31 December 2021

	Note	2021 Rs.	2020 Rs.
Note A			
Reconciliation of operating profit before changes in operating assets and liabilities			
Profit before Income Tax Expense		53,606,971	315,921,706
<i>Adjustments for :</i>			
Impairment charges for loans and other losses	10	250,778,149	110,842,862
Amortisation of intangible assets	22	15,225,816	19,279,519
Depreciation of Property, Plant, Equipment and Right-of-Use Assets	21	82,842,557	91,902,576
Provision on Head Office expenses			
Profit on sale of Property, Plant and Equipment	9	(12,499)	(5,355,307)
Loss/ (Gain) on sale of securities		-	-
Provision for employee benefit	11	9,658,685	16,796,274
Payment for employee benefit	29.1	(23,211,980)	(5,911,600)
Accrual for interest receivable		51,439,569	(332,033,421)
Accrual for interest payable		(571,507,895)	314,990,772
Operating profit before changes in operating assets and liabilities		<u>(131,180,627)</u>	<u>526,433,381</u>

The Accounting Policies and Notes on pages 08 through 62 form an integral part of the Financial Statements.



1. CORPORATE INFORMATION

1.1 General

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.

1.2 Principal Activities

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.

1.3 Date of Authorisation of Issue

The Financial Statements of MCB Bank Limited-Sri Lanka Branch for the year ended 31 December 2021 were authorised for issue in accordance with a resolution of the management on 30 March 2022.



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.

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.

2.3 Comparative Information

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

2.4 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.

2.5 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.

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 4.3 - Recognition, classification and measurement of financial instruments
- Note 4.3.9 - Impairment of financial instruments: key assumptions used in estimating recoverable cash flow
- Note 4.3.9 - Selection and approval of models used to measure ECL
- Note 4.3.9 - Identification, measurement and assessment of impairment of financial instruments
- Note 4.11 - 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.C.

2.6 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 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.

3.2 Recognition of Interest income and expense

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.

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



3.3 Fees and commission income and expense

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.

3.4 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.

3.5 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).

3.6 Taxation 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.

3.6.1 Current taxation

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.

3.6.2 Deferred taxation

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.

3.6.3 IFRIC Interpretation 23 “Uncertainty over Income Tax Treatment”

The Interpretation addresses the accounting for income taxes when tax treatments involve uncertainty that affects the application of LKAS 12 Income Taxes. It does not apply to taxes or levies outside the scope of LKAS 12, nor does it specifically include requirements relating to interest and penalties associated within certain tax treatments. The Interpretation specifically addresses the following whether an entity considers uncertain tax treatments separately.

- The assumptions an entity makes about the examination of tax treatments by taxation authorities
- How an entity determines taxable profit (tax loss), tax bases, unused tax losses, unused tax credits and tax rates
- How an entity considers changes in facts and circumstances

The Bank determines whether to consider each uncertain tax treatment separately or together with one or more other uncertain tax treatments and uses the approach that better predicts the resolution of the uncertainty.

The Bank applies significant judgment in identifying uncertainties over income tax treatments. Since the Bank operates in a complex environment, it assessed whether the interpretation had an impact on its Financial Statements. Upon adoption of the interpretation, the Bank considered whether it has any uncertain tax positions, particularly those relating to exempt income. Based on the past history, the taxation authorities may challenge those tax treatments. However, the interpretation did not have a significant impact on the Financial Statements of the Bank.

Except for the changes mentioned above, the Bank has consistently applied the accounting policies for all periods presented in these Financial Statements.

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

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.

4.3.2 Classification

4.3.2.1 Financial Assets

On initial recognition, a financial asset is classified as measured at Amortised cost, Fair Value through Other Comprehensive Income (FVOCI) or Fair Value through Profit or Loss (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.

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 transaction 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

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.

No reclassifications during the year.

4.3.7 Derecognition

Financial assets

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

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

The Bank applies a three-stage approach to measuring Expected Credit Losses (ECLs) for the following categories of financial assets that are not measured at fair value through profit or loss:

Debt Instruments

Instruments measured at Amortised Cost and Fair Value through Other Comprehensive Income;
Financing and Receivables commitments; and
Financial Guarantee Contracts

ECL is not recognised on equity instruments.

Financial Assets migrate through the following three stages based on the change in credit risk since initial recognition:

Stage 1: 12-months ECL

For exposures where there has not been a significant increase in credit risk since initial recognition and that are not credit impaired upon origination, the portion of the lifetime ECL associated with the probability of default events occurring within the next 12 months is recognised.

Bank determines 12 month ECL from customers who are not significantly credit deteriorated (i.e. less than 30 days past due)

Stage 2: Lifetime ECL – not Credit Impaired

For exposures where there has been a significant increase in credit risk since initial recognition but are not credit impaired, a lifetime ECL (i.e. reflecting the remaining lifetime of the Financial Asset) is recognised.

In being consistent with the policies of the Bank, significant deterioration is measured through the rebuttable presumption of 30 days past due in line with the requirements of the standard.

Stage 3: Lifetime ECL – Credit Impaired

Exposures 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. For exposures that have become credit impaired, a lifetime ECL is recognised and Financing Income is calculated by applying the Effective Rate to the amortised cost (net of provision) rather than the gross carrying amount.

Determining the Stage for Impairment

At each reporting date, the Bank assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Bank considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.



An exposure will migrate through the ECL stages as asset quality deteriorates. If, in a subsequent period, asset quality improves and also reverses any previously assessed significant increase in credit risk since origination, then the provision for impairment loss reverts from lifetime ECL to 12-months ECL. Exposures that have not deteriorated significantly since origination, or where the deterioration remains within the Bank's investment grade criteria, or which are less than 30 days past due, are considered to have a low credit risk. The provision for impairment loss for these Financial Assets is based on a 12-months ECL. When an asset is uncollectible, it is written off against the related provision. Such assets are written off after all the necessary procedures have been completed and the amount of the loss has been determined. Subsequent recoveries of amounts previously written off reduce the amount of the expense in the Statement of Profit or Loss.

The Bank assesses whether the credit risk on an exposure has increased significantly on an individual or collective basis. For the purposes of a collective evaluation of impairment, Financial Instruments are grouped on the basis of shared credit risk characteristics, taking into account instrument type, credit risk ratings, date of initial recognition, remaining term to maturity, industry, geographical location of the borrower and other relevant factors.

Measurement of ECLs

ECLs are derived from unbiased and probability-weighted estimates of expected loss, and are measured as follows:

Financial Assets that are not credit-impaired at the reporting date: as the present value of all cash shortfalls over the expected life of the Financial Asset discounted by the effective rate. The cash shortfall is the difference between the cash flows due to the Bank 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 discounted by the effective rate.

Undrawn 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.

Financial Guarantee Contracts: as the expected payments to reimburse the holder less any amounts that the Bank expects to recover.

For further details on how the Bank calculates ECLs including the use of forward looking information, refer to the Credit quality of Financial Assets section in Note 33. For details on the effect of modifications of Financing and Receivables on the measurement of ECL refer to note on Provision for expected credit loss.

ECLs are recognised using a provision for impairment loss account in Statement of Profit and Loss. The Bank recognises the provision charge in Statement of Profit or Loss, with the corresponding amount recognised in other Comprehensive Income, with no reduction in the carrying amount of the asset in the Statement of Financial Position.

The mechanics of the ECL calculations are outlined below and the key elements are, as follows.

PD : The Probability of Default is an estimate of the likelihood of default over a given time horizon. A default may only happen at a certain time over the assessed period, if the facility has not been previously derecognised and is still in the portfolio.

EAD : The Exposure at Default is an estimate of the exposure at a future default date, taking into account expected changes in the exposure after the reporting date, including repayments of capital and financing income, whether scheduled by contract or otherwise, expected draw downs on committed facilities, and accrued financing income from missed payments.



LGD : The Loss Given Default is an estimate of the loss arising in the case where a default occurs at a given time. It is based on the difference between the contractual cash flows due and those that the Bank would expect to receive, including the realisation of any collateral.

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.

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.

The bank shall obtain a minimum haircut on top of principle plus interest of the security as specified below in accordance with CBSL guidelines No.01 of 2019

Remaining term to maturity of the eligible security	Minimum haircut (%)
Up to 1 year	4.0
More than 1 year up to 3 years	6.0
More than 3 years up to 5 years	8.0
More than 5 years up to 8 years	10.0
More than 8 years	12.0

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 Right-of-Use assets

SLFRS 16 supersedes LKAS 17 Leases, IFRIC 4 Determining whether an Arrangement contains a Lease, SIC-15 Operating Leases-Incentives and SIC-27 Evaluating the Substance of Transactions Involving the Legal Form of a Lease. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise most leases on the Statement of Financial Position.

Lessor accounting under SLFRS 16 is substantially unchanged from LKAS 17. Lessors will continue to classify leases as either operating or finance leases using similar principles as in LKAS 17. Therefore, SLFRS 16 did not have an impact for leases where the Bank is the lessor.

The Bank has lease contracts for various branches. Before the adoption of SLFRS 16, the Bank classified each of its leases (as lessee) at the inception date as either a finance lease or an operating lease.

Upon adoption of SLFRS 16, the Bank applied a single recognition and measurement approach for all leases except for short-term leases and leases of low-value assets. The standard provides specific transition requirements and practical expedients, which have been applied by the Bank.

The Bank also applied the available practical expedients wherein it:

- ▶ Used a single discount rate to a portfolio of leases with reasonably similar characteristics
- ▶ Relied on its assessment of whether leases are onerous immediately before the date of initial application
- ▶ Applied the short-term leases exemptions to leases with lease term that ends within 12 months of the date of initial application
- ▶ Excluded the initial direct costs from the measurement of the right-of-use asset at the date of initial application
- ▶ Used hindsight in determining the lease term where the contract contained options to extend or terminate the lease.



4.13 Employee benefits

4.13.1 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. Retirement age of the employees shall be considered as per the Act No. 28 of 2021.

4.13.2 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.

4.14 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.

4.15 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.

4.16 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.



4.17 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.

4.18 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.

4.19 Regulatory Provisions

Deposit Insurance Scheme

In terms of the Banking Act Direction No 2 of 2021 “Insurance of Deposit Liabilities” issued on 28th August 2021 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. Deposits to be insured include demand, time and savings deposit liabilities inclusive of interest accrued and exclude the following;

- Deposit liabilities to member institutions
- Deposit liabilities maintained individually or jointly with any other party, by Directors, Key Management Personnel, other related parties, excluding shareholders as defined in Banking Act Direction, No. 11 of 2007 on Corporate Governance for Licensed Commercial Banks.
- Deposit liabilities maintained either individually or jointly with any other party, by former Directors or Key Management Personnel of the respective Member Institution.
- Deposits falling within the meaning of abandoned property in terms of the Banking Act, amounts of which have been transferred to the Central Bank of Sri Lanka in terms of the relevant Directions issued by the Monetary Board.
- Vostro accounts of entities in the member institution’s group entity.
- Deposit liabilities at overseas branches.
- Promissory notes.

In the case of foreign currency deposit liabilities, the daily indicative exchange rates issued by the International Operations Department of the Central Bank of Sri Lanka, shall be used to convert the foreign currency liabilities into local currency.

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. FINANCIAL RISK MANAGEMENT

5.1 Introduction and Overview

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

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

5.2 Risk Management Framework

The Bank executes its risk strategy and undertakes controlled risk-taking activities within in line with the Global Risk Management Policy and 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

The Country and the World collectively faced a year of extraordinary and unprecedented challenges in the midst of the COVID-19 Pandemic. The outbreak of the COVID-19 pandemic during the year presented an array of challenges to the banking sector and the overall economy. The Banking sector was also called upon to play a leading role in reviving the economy and supporting businesses through the crisis which in turn compelled banks to strengthen risk management capabilities to ensure stability and resilience.

All Committees in the bank , thus, in addition to carrying out its duties under the normal scope of work devoted special attention to reviewing the risks and mitigants associated with the impact of COVID-19 on various activities of the Bank. The key areas of focus in this regard are under each category of risk ,highlighting and main focus on reviewed the portfolio quality of the Bank, rapid risk reviews on stressed sectors and country risk reports reviewed the key implications of COVID-19, key areas of impact, assessment of categorizing industries/sectors based on the severity of impact, reviewed the impact of regulatory relief measures such as

loan moratoriums under the COVID-19 Relief scheme and proactive measures taken by the Bank to mitigate risk of future defaults, formed a portfolio management team to assist and monitor respective portfolios including NPLs , Watch listed clients and identify early warning signals independently. In operational risk aspect timely actions taken against the major concerns identified due to COVID-19 by implementing initiatives to safeguard health and safety of staff and customers, tightening measures against potential cyber risk/threats and arranging shift, split, roster and work from home options for critical and non-critical functions ensuring the business continuity. Market and liquidity risk perspective, reviewed and forecasted the Bank's liquidity position taking in to account the Central Bank's accommodative monetary policy stance and its effects under different scenarios. Reviewed and approved Annual Review of Internal Capital Adequacy Assessment Process (ICAAP) Document for 2020 considering the long term strategy of the Bank which was revisited during the second quarter of 2020 considering the impact of COVID-19 on the operating environment of the Bank. The COVID-19 impact on risk levels of each material risk of the Bank and the mitigants in place were critically reviewed as part of the ICAAP review.

Risk Mitigation

The Bank obtains various types of collateral and establishes maximum prudential limits as part of its overall risk management/mitigation. Details such as nature of the collateral that could be accepted required security margin, realizable value of the collateral, etc are clearly defined in the credit Policy of the Bank and any deviations require specific approval from the Management. However, respective approving authorities would take into account the availability of securities only as the secondary source of payment. The Bank's product offering includes a variety of corporate and SME facilities, in which the Bank has the right to cancel and/or reduce the facilities within a short period of time. Also very strict guidelines were issued on accommodating excesses ,one-offs , allowing temperately accommodations deteriorating existing security margins etc. The Bank does not limit its exposure to credit losses to the contractual notice period, but, instead calculates ECL over a period that reflects the Bank's expectations of the customer behaviour, its likelihood of default and the Bank's future risk mitigation procedures, which could include reducing or cancelling the facilities, taking additional collateral etc.

5.3 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.

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.

5.4 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 amortized 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 recognized.

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 recognized.

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

The methodology used in the Expected Credit Loss is explained in Note 4.3.9. to Financial Statements. As explained in the said note, the Bank has made allowances for overlays where required to address the uncertainties and potential implications.

Management Assessment of Impairment Provisioning for Financial Assets

The impact of Covid-19 has necessitated changes to the existing approach of computing ECL for the financing portfolio of the Bank. The Management has adopted prudent measures under multiple scenario analysis by applying a higher weightage to the worst case scenario with a corresponding decrease in the base case category after taking into consideration the changes in the macro-environment indicators which have deteriorated due to the current crisis.

The Bank analysed its portfolio based on sectors and special emphasis has been placed on those risk elevated sectors i.e *tourism & leisure, apparel and textile, construction, Gas, retail and consumer* which are most susceptible to the effects of Covid-19 by establishing additional credit buffers to withstand any adverse impact to the cash flow generating ability of such customers. Based on potential risk, the Bank proactively downgraded customers in such sectors from Stage 1 to Stage 2 when computing ECL, significantly enhancing the impairment provision by LKR 63.9 Mn on Gas sector and tourism & leisure sector of LKR 16 Mn . The above measures led to the increase in the Economic Factor Adjustment and thereby an increase in impairment charge of financial assets for the financial year ended 31 December 2021.

The Management is of the view that sufficient buffers are in place to effectively mitigate any risks arising from potential credit losses. The Bank continues to review its portfolio of individual and collective impaired accounts with recoveries being constantly followed up by designated staff members. The Bank is well aware of the ongoing pandemic hit to the economy and other downward market conditions affecting customers.



5.4.1 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

5.4.2 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 2021			
	Gross Loans & Advances	Fair Value of Security	Net Exposure
Against Individually Impaired			
Immovable Property	960,861,757	860,000,000	100,861,757
Deposits	134,281,307	-	134,281,307
Others	61,915,916	-	61,915,916
Unsecured (Covered with loan agreement)	73,939,608	-	73,939,608
Total against individually impaired (A)	1,230,998,587	860,000,000	370,998,588
Against Collectively Impaired			
Immovable Property	2,214,184,921	4,398,474,449	-
Deposits	2,223,137,776	2,376,686,570	-
Others	3,149,873,319	-	3,149,873,319
Unsecured (Covered with loan agreement)	4,406,177,423	-	4,406,177,423
Total against collectively impaired (B)	11,993,373,439	6,775,161,019	7,556,050,742
Total (A+B)	13,224,372,026	6,998,621,938	8,606,005,829
Leases	15,643,416	-	15,643,416
Grand Total	13,240,015,443	6,998,621,938	8,621,649,245

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.

Approximately 42% of the total advances of Bank is secured against immovable property and cash deposits held with the Bank respectively. Further 24% of the loans are secured against other securities including movable property, etc. Approximately 89% of stage 3 advances of the Bank are secured against immovable property and cash deposits held within the Bank.

5.5 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.



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 mark to 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 table shows the assets which are exposed to market risk in the Banking book.

	2021		
	Carrying Amount	Trading Portfolios	Non Trading Portfolios
Assets subject to Market Risk			
Trading Assets	-	-	-
Derivative Financial Instruments	-	-	-
Loans & advances to Customers	12,385,467,298	-	12,385,467,298
Financial Instruments - FVOCI	815,028,024	-	815,028,024
Financial Investments – amortised cost	8,637,800,416	-	8,637,800,416
Liabilities subject to market risk			
Derivative Financial Instruments	6,152,498	-	6,152,498
Deposits from customers	16,344,302,977	-	16,344,302,977
Borrowings	-	-	-
Other Borrowings	162,811,620	-	162,811,620

5.5.1 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 2020. 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. 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 60.48 Mn in its Net Interest Income (NII) while in case of interest rate increase the Bank would enhance its Net interest income by LKR 60.48 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	13,352,334,456	8,251,503,791	1,386,805,222	523,168,304
Total interest-bearing liabilities	8,599,719,344	3,338,833,808	1,301,203,079	1,612,390,057
Net interest-bearing assets (liabilities)	4,752,615,111	4,912,669,983	85,602,143	-1,089,221,753
Cumulative Gap	4,752,615,111	9,665,285,095	9,750,887,238	8,661,665,485



Parameter	0 to 1 Month	Over 1- up to 3 Months	Over 3- up to 6 Months	Over 6 – up to 12 Months
Assumed change in interest rates	1%	1%	1%	1%
Impact	47,526,151	49,126,700	856,021	-10,892,218
Net impact on NII if interest rates increase				86,616,655
Net impact on NII if interest rates decline				-86,616,655

MCB Bank possesses interest rate sensitive assets of Rs 23.52 Bn and rate sensitive liabilities for Rs 14.85 Bn. Currently the impact from the interest rate fluctuations of 1% + or (1%) is moderate at Rs 86.62 Mn. In the backdrop of declining market interest rate trend, the Bank stand to enjoy better core business spreads specially with cost of funding moving down with reprising effect coming into play whereas lending rates are mostly fixed for longer tenure.

5.5.2 Foreign exchange position as of 31 December 2021

Currency	Spot	Forward	Net Open	Overall position
	Net	Net	Position	in LKR
AUD	-	-	-	-
EUR	25,611	-	25,611	5,840,280
GBP	6,692	-	6,692	1,820,268
HKD	(4,730)	-	(4,730)	(122,217)
JPY	(169,362)	-	(169,362)	(296,519)
CNY	(11,128)	-	(11,128)	(351,746)
SGD	(4,648)	-	(4,648)	(692,789)
SAR	(114,988)	-	(114,988)	(6,170,260)
USD	4,751,303	(925,000)	3,826,303	771,000,042
Total Exposure				771,027,059
Total capital funds as per the latest Audited Financial Statements (Capital base as at 31st December 2021)				6,857,156,614
Total exposure as a % of total capital funds as per the latest audited financial statements				11.24%

5.5.3 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 2021, 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 2021

Position as at 31st December 2021	Amount
Net exposure – USD	3,826,437
Overall exposure in LKR	771,027,059
Exchange rate (USD/LKR)	201.50
Effect on income statement (LKR)	
If Exchange rate appreciates by 1%	7,710,271
If Exchange rates appreciates by 3%	23,130,812
If exchange rate appreciates by 5%	38,551,353

5.5.4 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.

Net liquid assets to deposits from customers	2021	2020
	%	%
At 31 December	76.07%	59.74%
Average for the year	68.07%	49.09%
Maximum for the year	86.19%	64.39%
Minimum for the year	57.25%	32.74%

The Bank monitors the following liquidity ratios to assess funding requirements.

	2021	2020
Advances to Deposit Ratio		
Average for the Year ended	83.19%	90.51%
Minimum for the Year ended	75.57%	72.34%
Maximum for the Year ended	94.17%	103.13%
As at	79.22%	72.34%

	2021	2020
Statutory Liquid Asset Ratio		
Average for the Year ended	58.91%	47.05%
Minimum for the Year ended	46.58%	32.36%
Maximum for the Year ended	70.19%	64.20%
As at	70.19%	64.20%



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 are 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 100% as of 31st December 2020. However, "Extraordinary regulatory measures to provide Liquidity to licensed Banks amidst COVID-19 Outbreak" issued by Governor of Central Bank Sri Lanka, permit licensed banks to operate maintaining a Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR) at 90%, in this exceptional circumstances and, with enhanced supervision and frequent reporting up to 30th June 2021.

As of 31st December 2021, Bank reported all currency LCR ratio of 258% and NSFR as 189% which remain comfortably above the CBSL's requirements.

The Bank maintained liquidity levels well above the required regulatory levels throughout the year. Further as against a lowered statutory liquidity asset requirement by the balance sheet date, the Bank maintained liquid assets well above the regulatory limit, in order to cater to any urgent needs of customers and to provide flexibility to the bank to pursue strategic priorities.

The maturity profile of undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2021 has been disclosed in Note 34 (iii).

5.6 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.



5.7 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.

5.7.1 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.

- (a) Rs. 3 Billion by 31st December 2011
- (b) Rs. 4 Billion by 31st December 2013
- (c) 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.

5.7.2 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 III framework in respect of regulatory capital. As per the 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 7.00%, Total Tier 1 Including capital conservation buffer of 8.50% and Total capital ratio of 12.50%.

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 2021, Bank reported a Common Equity Tier 1 capital (CET1) including capital conservation buffer of 45.83%, Total Tier 1 including capital conservation buffer of 45.83% and Total Capital Ratio of 46.99% which remain comfortably above the CBSL’s capital requirements

Item	Amount (Rs.)
Common Equity Tier 1 Capital	6,689,022
Total Tier 1 Capital	6,689,022
Total Capital	6,857,157
Total Risk Weighted Amount	14,593,799
Risk Weighted Amount for Credit Risk	12,222,381
Risk Weighted Amount for Market Risk	778,661
Risk Weighted Amount for Operational Risk	1,592,758
Common Equity Tier 1 Capital Ratio	45.83
Total Tier 1 Capital Ratio	45.83
Total Capital Ratio	46.99



6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

The following new accounting standards and amendments/improvements to existing standards which have been issued by the Institute of Chartered Accountants of Sri Lanka (CASL) are not effective as at 31st December 2021.

The new and amended standards that are issued, but not yet effective to the date of issuance of these financial statements are disclosed below. Management is in the process of assessing the probable impacts from the below not yet effective standards:

(a) Amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets : Onerous Contracts – Costs of Fulfilling a Contract

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to LKAS 37 Provisions, Contingent Liabilities and Contingent Assets (LKAS 37) to specify which costs an entity needs to include when assessing whether a contract is onerous or loss-making

The amendments apply a “directly related cost approach”. The costs that relate directly to a contract to provide goods or services include both incremental costs and an allocation of costs directly related to contract activities. General and administrative costs do not relate directly to a contract and are excluded unless they are explicitly chargeable to the counterparty under the contract

The amendments are effective for annual reporting periods beginning on or after 1 January 2022. Earlier application is permitted.

(b) Amendments to LKAS 16 Property, Plant & Equipment: Proceeds before Intended Use

In 25 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued LKAS 16 Property, Plant and Equipment — Proceeds before Intended Use, which prohibits entities deducting from the cost of an item of property, plant and equipment, any proceeds from selling items produced while bringing that asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Instead, an entity recognizes the proceeds from selling such items, and the costs of producing those items, in profit or loss.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 and must be applied retrospectively to items of property, plant and equipment made available for use on or after the beginning of the earliest period presented when the entity first applies the amendment.

(c) Amendments to SLFRS 3 Business Combinations: Updating a reference to conceptual framework

In 23 March 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 3 Business Combinations - Updating a Reference to the Conceptual Framework. The amendments are intended to replace a reference to the Framework for the Preparation and Presentation of Financial Statements, issued in 1989, with a reference to the Conceptual Framework for Financial Reporting issued in March 2018 without significantly changing its requirements.

An exception was also added to the recognition principle of SLFRS 3 to avoid the issue of potential ‘day 2’ gains or losses arising for liabilities and contingent liabilities that would be within the scope of LKAS 37 or IFRIC 21 Levies, if incurred separately.

At the same time, it was decided to clarify existing guidance in SLFRS 3 for contingent assets that would not be affected by replacing the reference to the Framework for the Preparation and Presentation of Financial Statements.

The amendments are effective for annual reporting periods beginning on or after 1 January 2022 and apply prospectively.



(d) SLFRS 9 Financial Instruments – Fees in the '10 per cent' test for derecognition of financial liabilities

As part of its 2018-2020 annual improvements to SLFRS standards process, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued an amendment to SLFRS 9 Financial Instruments (SLFRS 9). The amendment clarifies the fees that an entity includes when assessing whether the terms of a new or modified financial liability are substantially different from the terms of the original financial liability. These fees include only those paid or received between the borrower and the lender, including fees paid or received by either the borrower or lender on the other's behalf. An entity applies the amendment to financial liabilities that are modified or exchanged on or after the beginning of the annual reporting period in which the entity first applies the amendment.

The amendment is effective for annual reporting periods beginning on or after 1 January 2022 with earlier adoption permitted.

(e) Amendments to SLFRS 16 Leases: Covid-19-Related Rent Concessions beyond 30 June 2021

In 4 December 2020, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued Covid-19-Related Rent Concessions - amendment to SLFRS 16 Leases. The amendments provide relief to lessees from applying SLFRS 16 guidance on lease modification accounting for rent concessions arising as a direct consequence of the Covid-19 pandemic. As a practical expedient, a lessee may elect not to assess whether a Covid-19 related rent concession from a lessor is a lease modification. A lessee that makes this election accounts for any change in lease payments resulting from the Covid-19 related rent concession the same way it would account for the change under SLFRS 16, if the change were not a lease modification.

The amendment was intended to apply until 30 June 2021, but as the impact of the Covid-19 pandemic is continuing, in 28 June 2021, CA Sri Lanka extended the period of application of the practical expedient to 30 June 2022. The amendment applies to annual reporting periods beginning on or after 1 April 2021.

(f) Amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 - Interest Rate Benchmark Reform Phase 1 and 2

IBOR reform Phase 1

In 15 January 2021, the Institute of Chartered Accountants of Sri Lanka (CA Sri Lanka) issued amendments to SLFRS 9, LKAS 39 and SLFRS 7 due to Interest Rate Benchmark Reform (Phase 1). A summary of Phase 1 amendments are as follows:

- Highly Probable Requirement: According to SLFRS 9 and LKAS 39, when a forecast transaction is designated as a hedged item, that transaction must be highly probable to occur. By the Phase 1 amendments, when determining whether a forecast transaction is highly probable, an entity shall assume that the interest rate benchmark on which the hedged cashflows are based is not altered as a result of the reform.

- Prospective assessments: A hedging relationship qualifies for hedge accounting only if there is an economic relationship between the hedged item and the hedging instrument (described in SLFRS 9) or the hedge is expected to be highly effective in achieving off-setting (described in LKAS 39). An entity must demonstrate such prospective assessments on a regular basis. By the Phase 1 amendments, when performing prospective assessments, an entity shall assume that the interest rate benchmark on which the hedged item, hedged risk and/or hedging instrument are based is not altered as a result of the interest rate benchmark reform.

- LKAS 39 retrospective assessment: To apply hedge accounting under LKAS 39, an entity must demonstrate that the actual results of the hedge are within a range of 80% - 125%. This requirement is commonly known as the 'LKAS 39 retrospective assessment'. By the Phase 1 amendments, an entity is not required to undertake the LKAS 39 retrospective assessment for hedging relationships directly affected by the reform. However, the entity must comply with all other LKAS 39 hedge accounting requirements, including the prospective assessment.



- Separately identifiable risk components: While there are some differences between SLFRS 9 and LKAS 39 regarding designation of risk components, both Standards require a risk component (or a portion) to be separately identifiable to be eligible for hedge accounting. An entity may designate an item in its entirety or a component of an item as a hedged item in a hedging relationship. SLFRS 9 and LKAS 39 require the component to be separately identifiable to qualify as a hedged item. By the Phase 1 amendments, for hedges of non-contractually specified benchmark component of interest rate risk, an entity shall apply the separately identifiable requirement only at the inception of such hedging relationships.

IBOR reform Phase 2

In addition to Phase 1 amendments, CA Sri Lanka also issued amendments to SLFRS 9, LKAS 39, SLFRS 7, SLFRS 4 and SLFRS 16 due to Interest Rate Benchmark Reform. The Phase 2 amendments provide temporary reliefs which address the financial reporting effects when an interbank offered rate (IBOR) is replaced with an alternative nearly risk-free interest rate (RFR). The amendments include the following practical expedients

- A practical expedient to require contractual changes, or changes to cash flows that are directly required by the reform, to be treated as changes to a floating interest rate, equivalent to a movement in a market rate of interest.
- Permit changes required by IBOR reform to be made to hedge designations and hedge documentation without the hedging relationship being discontinued.
- Provide temporary relief to entities from having to meet the separately identifiable requirement when an RFR instrument is designated as a hedge of a risk component

The effective date of both IBOR reform Phase 1 and Phase 2 amendments is for annual reporting periods beginning on or after 1 January 2021 in the Sri Lankan context.

The requirements under phase 1 amendments have to be applied retrospectively. However, the reliefs only apply to hedging relationships that existed at the beginning of the reporting period in which an entity first applies those requirements or were designated thereafter, and to the amount accumulated in the cash flow hedge reserve that existed at the beginning of the reporting period in which an entity first applies those requirements. It follows that it is not possible to apply the reliefs retrospectively to hedge relationships that were not previously designated as such

The requirements under phase 2 amendments have to be applied retrospectively. Hedge relationships are not designated retrospectively. However, discontinued hedging relationships must be reinstated if, and only if,

- The hedging relationship was discontinued solely due to changes required by the Reform, and, therefore, the entity would not have been required to discontinue that hedging relationship if the Phase 2 Amendments had been applied at that time And
- At the date of initial application of the Phase 2 Amendments, that discontinued hedge relationship continues to meet all the qualifying criteria for hedge accounting, after taking account of the Phase 2 Amendment



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

7. NET INTEREST INCOME	2021 Rs.	2020 Rs.
Interest Income		
Placement with banks	67,735,559	51,361,914
Loans and advances to customers	835,270,348	1,468,612,702
Financial assets at amortised cost	89,539,819	182,646,740
Financial assets at FVOCI (Note 7.a)	427,310,512	429,048,254
Total Interest Income	1,419,856,238	2,131,669,610
Interest Expenses		
Banks and other borrowings	32,756,799	71,655,061
Deposits from Customers	522,862,064	989,102,301
Interest expense on lease liability (Note 21.b.ii)	30,279,993	30,396,062
Securities sold under repurchase agreements (Note 7.a)	10,855,011	6,854,571
Total Interest Expenses	596,753,867	1,098,007,995
Net Interest Income	823,102,371	1,033,661,615
7.a Net Interest Income from Sri Lanka Government Securities		
Interest Income	427,310,512	429,048,254
Interest Expenses	10,855,011	6,854,571
	416,455,501	422,193,683
8. NET FEE AND COMMISSION INCOME		
	2021 Rs.	2020 Rs.
Fee and commission income	110,620,411	121,668,454
Fee and commission Expense	17,562,056	23,176,710
Fee and commission income	93,058,355	98,491,744
8.1 Comprising:		
Loans	435,154	651,216
Trade and remittances	78,185,826	96,593,547
Deposits	2,762,558	3,417,566
Guarantees	29,236,873	21,006,125
Fee and Commission Income	110,620,411	121,668,454
Loans	249,463	368,692
Trade and remittances	7,088,613	7,157,528
Deposits	10,223,980	15,650,490
Fee and Commission Expense	17,562,056	23,176,710
9. OTHER OPERATING INCOME		
	2021 Rs.	2020 Rs.
Gain / (loss) on revaluation of foreign exchange *	108,708,433	42,208,987
Dividends on financial assets at FVOCI	1,999,000	960,000
Profit on sale of Property, plant and equipment	12,499	5,355,307
Charges recovered	23,582,629	27,621,677
Fair value change of derivatives	517,928	19,890,934
Overseas Rebate - Overdrawn Nostro	25,869,838	29,756,392
Others	1,816,500	1,880,071
Other Operating Income	162,506,827	127,673,368

* Income from dealing in foreign currencies includes SWAP Gain / (cost) incurred from buying and selling two currencies at two different maturities amounting to LKR 0.618 Mn (Year 2020 - 72.93 Mn)



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

10. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS	2021 Rs.	2020 Rs.
Financial assets at amortised cost - Loans and advances		
Stage 1	36,835,647	(62,992,037)
Stage 2	49,491,149	49,491,149
Stage 3	186,264,882	111,959,841
Financial assets at amortised cost - debt instruments		
Stage 1	(16,356,320)	11,485,781
Stage 2	-	-
Stage 3	-	-
Contingent liabilities and commitments		
Stage 1	(5,480,789)	1,194,866
Stage 2	23,580	(296,738)
Stage 3	-	-
Total	250,778,149	110,842,862
11. PERSONNEL EXPENSES	2021 Rs.	2020 Rs.
Salary and Bonus	277,864,807	278,483,281
Contribution to Employees' Provident Fund	16,808,892	17,221,040
Contribution to Employees' Trust Fund	3,963,395	4,094,474
Expenses on Defined Benefit Obligations (Note 29.1)	9,658,685	16,796,274
Amortization of Prepaid Employee Benefits	(17,443)	2,238,778
	308,278,336	318,833,847
12. OTHER EXPENSES	2021 Rs.	2020 Rs.
Auditors' Remuneration - Audit	1,861,272	1,311,554
Auditors' Remuneration - Non Audit	661,122	1,901,989
Professional and Legal Expenses	3,423,562	1,892,392
Head office Expenses	98,427,896	94,131,751
Office Administration and Establishment Expenses	205,450,190	201,820,138
	309,824,042	301,057,823



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

13. INCOME TAX EXPENSE	2021 Rs.	2020 Rs.
13.a Current Tax Expense		
Current tax on profit for the year	31,677,267	130,313,082
Under/(Over) provision for the previous year	(23,066,379)	11,583,636
	8,610,888	141,896,718
Deferred Tax Expenses		
Deferred tax assets recognized/(reversal) during the year (Note 27)	(2,690,074)	(32,670,090)
	(2,690,074)	(32,670,090)
Total Income Tax Expense	5,920,814	109,226,627
13.b Reconciliation From Profit/(Loss) Before Tax to Current Income Tax Expense		
Accounting profit Before Tax	53,606,971	315,921,706
Exempt Income	-	-
Disallowable Expenses	543,928,555	395,211,365
Allowable Expenses	(465,546,915)	(245,729,209)
Adjusted Profit/(Loss) From Trade	131,988,611	465,403,863
Total Statutory Income	131,988,611	465,403,863
Less: Tax Losses Set-Off (Up to a Limit of 35% of Total Statutory Income)	-	-
Taxable Profit	131,988,611	465,403,863
Statutory Income Tax Rate	24.00%	28.00%
Current Income Tax Expense	31,677,267	130,313,082

13.c Reconciliation of effective tax rate

For the year ended 31st December	2021 Rs.	2021 Rs.	2020 Rs.
	24.00%	28.00%	28.00%
Profit before income tax	53,606,971	53,606,971	315,921,706
Tax using the corporate tax rate	12,865,673	15,009,952	88,458,078
Disallowable expenses	130,542,853	152,299,995	110,659,182
Allowable expenses	(111,731,260)	(130,353,136)	(68,804,179)
Tax exempt income	-	-	-
Current tax on profits for the year [Note 13 (a)]	31,677,267	36,956,811	130,313,082
(Over) / under provision in prior years	(23,066,379)	(23,066,379)	11,583,636
Current tax on profits for the year	8,610,888	13,890,432	141,896,718
Charge to deferred tax liability on temporary differences	(4,461,814)	(591,641)	(8,838,918)
Recognition of deferred tax asset on temporary differences	1,771,740	9,229,320	(23,831,173)
Total income tax expense	5,920,814	22,528,112	109,226,627
Effective tax rate	11.04%	42.02%	34.57%

Change of the Income Tax rate from 28% to 24% and other amendments

The Bank applied the revised rate of 24% and other amendments in line with the Inland Revenue Amendment Act No.10 of 2021 to calculate the income tax and deferred tax assets/ liabilities as at 31 December 2021. Although these amendments were effective from 01 January 2020, both income tax and deferred tax assets/ liabilities for the comparative period have been calculated at the rate of 28% and other amendments were not considered on the basis that they were not legally enacted in 2020.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

14. CASH AND CASH EQUIVALENTS	2021 Rs.	2020 Rs.
Cash and cash equivalents		
Local currency in hand	220,244,611	285,762,271
Foreign currency in hand	9,672	3,565,835
	<u>220,254,283</u>	<u>289,328,106</u>

15. BALANCES WITH CENTRAL BANKS	2021 Rs.	2020 Rs.
Statutory balances with central banks		
Central bank of Sri Lanka	817,534,039	568,844,621
Non Statutory balances with central banks		
Central bank of Sri Lanka	49,006,730	175,021,634
	<u>866,540,769</u>	<u>743,866,255</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 4% as at 31 December 2021

16. PLACEMENTS WITH BANKS	2021 Rs.	2020 Rs.
Placement with local banks	2,045,873,108	2,000,249,315
Placement with foreign banks	628,306,772	1,016,383,408
Total placement with banks	<u>2,674,179,880</u>	<u>3,016,632,723</u>

17. DERIVATIVE FINANCIAL INSTRUMENTS		
<i>As at 31 December 2021</i>	Asset	Liability
Currency swaps	-	-
Forward foreign exchange contracts	-	6,152,498
	<u>-</u>	<u>6,152,498</u>
<i>As at 31 December 2020</i>		
Currency swaps	31,695,645	6,702,043
Forward foreign exchange contracts	10,678,227	-
	<u>42,373,872</u>	<u>6,702,043</u>

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



18. LOANS AND ADVANCES TO CUSTOMERS	2021 Rs.	2020 Rs.
Gross loans and advances (Note 18.a)	13,240,015,443	15,858,150,713
Stage 1	10,220,612,586	13,217,642,144
Stage 2	1,788,404,270	1,487,707,388
Stage 3	1,230,998,587	1,152,801,181
Less: Accumulated impairment	854,548,145	656,162,872
Stage 1	83,584,540	112,982,727
Stage 2	175,187,544	58,829,469
Stage 3	595,776,061	484,350,676
Net loans and advances	12,385,467,298	15,201,987,841

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

Overdrafts	3,087,230,510	3,314,907,053
Trade finance	2,999,501,984	2,228,914,681
Lease rentals receivable (Note 18.b)	15,643,416	35,759,195
Staff loans	112,604,370	103,921,889
Term loans	4,459,167,098	2,568,250,409
Short-term	2,565,868,065	7,606,397,486
	13,240,015,443	15,858,150,713

Concentration by Currency

Sri Lankan Rupee	11,553,357,829	13,876,849,217
United States Dollar	1,686,657,614	1,913,957,424
European Euro	-	67,344,072
Great Britain Pound	-	-
Others (Please specify)	-	-
	13,240,015,443	15,858,150,713

Concentration by Industry

Agriculture and fishing	1,828,989,732	1,816,519,163
Manufacturing	1,220,424,055	1,095,524,817
Tourism	140,016,918	219,174,653
Transport	117,768,652	280,277,232
Construction	306,049,737	343,765,065
Traders	6,562,119,128	5,825,034,495
Others	1,980,801,079	4,145,277,894
Services	1,083,846,142	2,132,577,394
	13,240,015,443	15,858,150,713

18.b Lease rental receivables

<i>Within one year from the reporting date</i>	3,389,398	15,774,090
Unearned income	(183,007)	(1,513,076)
	3,206,391	14,261,014
<i>After one year but before five years from reporting date</i>	15,614,952	26,851,915
Unearned income	(3,177,928)	(5,353,734)
	12,437,025	21,498,181
Total lease rental receivables	15,643,416	35,759,195



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

18. LOANS AND ADVANCES TO CUSTOMERS (Contd...)

	2021 Rs.	2020 Rs.
18.c Movements in Impairment charges during the year		
As at 1 January	656,162,872	558,851,880
Charge/(Write back) to statement of Profit / loss	266,503,696	98,458,953
Write-off/(Recoveries) during the year	(16,842,425)	-
Reversal of Interest in suspense	(61,786,161)	-
Exchange movement	10,510,164	(1,147,961)
As at 31 December	854,548,145	656,162,872

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

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2021	112,982,727	58,829,469	484,350,676	656,162,872
Charge/(Write back) to statement of Profit / write-off/Recoveries during the year	(33,339,540)	110,270,093	189,573,142	266,503,696
Reversal of Interest in suspense	-	-	(16,842,425)	(16,842,425)
Exchange movement	-	-	(61,786,161)	(61,786,161)
	3,941,353	6,087,982	480,829	10,510,164
As at 31 December 2021	83,584,540	175,187,544	595,776,061	854,548,145

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2020	177,001,926	9,338,320	372,511,634	558,851,880
Charge/(Write back) to statement of Profit / write-off/Recoveries during the year	(62,992,037)	49,491,149	111,959,841	98,458,953
Reversal of Interest in suspense	-	-	-	-
Exchange movement	(1,027,162)	-	(120,799)	(1,147,961)
As at 31 December 2020	112,982,727	58,829,469	484,350,676	656,162,872

Concentration by Product

As at 31 December 2021	Gross amount	Impairment allowance	Carrying amount
Overdrafts	3,087,230,510	130,539,440	2,956,691,070
Trade finance	2,999,501,984	142,289,232	2,857,212,752
Lease rentals receivable	15,643,416	405,332	15,238,084
Staff loans	112,604,370	819,539	111,784,831
Term loans	4,459,167,098	551,204,521	3,907,962,577
Short-term	2,565,868,065	23,386,917	2,542,481,148
	13,240,015,443	848,644,982	12,391,370,461

As at 31 December 2020	Gross amount	Impairment allowance	Carrying amount
Overdrafts	3,314,907,053	115,859,140	3,199,047,913
Trade finance	2,228,914,681	175,887,518	2,053,027,163
Lease rentals receivable	35,759,195	3,824,395	31,934,800
Staff loans	103,921,889	-	103,921,889
Term loans	2,568,250,409	335,763,949	2,232,486,459
Short-term	7,606,397,486	24,827,869	7,581,569,618
	15,858,150,713	656,162,872	15,201,987,841



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

18. LOANS AND ADVANCES TO CUSTOMERS (Contd...)

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	2021 Rs.	2020 Rs.
Stage 1	10,220,612,586	13,217,642,144
Stage 2	1,788,404,270	1,487,707,388
Stage 3	1,230,998,587	1,152,801,181
	13,240,015,443	15,858,150,713

18.d.ii Stage 3

Gross Amount	1,230,998,587	1,152,801,181
Allowance for Impairment	(595,776,061)	(484,350,676)
Carrying Amount	635,222,526	668,450,505

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

Secured by Movable Assets	58,345,689	-
Secured by Immovable Assets	960,861,757	1,007,101,282
Secured by Cash	134,281,307	-
Other Securities	3,570,227	12,754,617
Clean	73,939,608	132,945,281
	1,230,998,587	1,152,801,181

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

Stage 1	10,220,612,586	13,217,642,144
Stage 2	1,788,404,270	1,487,707,388
	12,009,016,856	14,705,349,532
Allowance for Impairment	(258,772,084)	(171,812,196)
	11,750,244,772	14,533,537,336

18.d.iv Sensitivity analysis on Stage 1 and 2

	Stage 1	Stage 2
LGD 1% increase	2,405,843	3,684,464
1% decrease	(2,638,632)	(3,684,464)
PD 1% increase	34,631,335	6,328,065
1% decrease	(33,811,796)	(6,328,065)

18.d.v Stage wise movement in provision for impairment during the year (Under SLFRS 9)

	Stage 1	Stage 2	Stage 3
As at 1 January 2021	112,982,727	58,829,469	484,350,676
Stage 1 -2	(1,565,131)	16,710,837	-
Stage 1 -3	(5,544,144)	-	57,104,856
Stage 2-1	167,934	(830,846)	-
Stage 2 -3	15,048	(15,048)	54,320,529
Net impairment charge for the year	(22,471,894)	100,493,131	-
As at 31 December 2021	83,584,540	175,187,544	595,776,061



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

19. DEBT AND OTHER FINANCIAL INSTRUMENTS AT AMORTISED COST

	Year of Maturity	2021 Rs.	2020 Rs.
Debt and other financial instruments			
Sri Lanka Development Bond	2021-22	821,077,249	3,649,796,312
(Less): Impairment charges		(6,049,225)	(22,405,545)
Net debt and other financial instruments		815,028,024	3,627,390,767

	2021 Rs.	2020 Rs.
Reconciliation for debt investments at amortised cost		
As at 1 January	3,627,390,767	2,284,430,790
Movement during the year	(2,796,006,423)	1,354,445,758
(Charge)/Write back to statement of Profit / loss	(16,356,320)	(11,485,781)
As at 31 December	815,028,024	3,627,390,767

Movements in Impairment Charges during the Year

	2021 Rs.	2020 Rs.
Stage 1		
As at 1 January	22,405,545	10,919,764
Charge/(Write back) to income statement	(16,356,320)	11,485,781
As at 31 December	6,049,225	22,405,545

20. INVESTMENT SECURITIES AT FVOCI

	2021 Rs.	2020 Rs.
Sri Lanka Government Securities (Note 20.1)	8,634,770,416	8,721,840,818
Unquoted Equity securities (Note 20.2)	3,030,000	3,030,000
Net investment securities at FVOCI	8,637,800,416	8,724,870,818

Assets Pledged as Securities

Government Treasury Bills amounting to Rs.134,880,385/- (2020 : Rs.105,487,355/-) are pledged as securities against the borrowings under Repurchase Agreements as at Reporting Date.

20.1 Government of Sri Lanka - Treasury Bills

Face value	8,700,000,000	8,912,799,000
Amortized cost	8,639,000,181	8,697,178,371
Market value	8,634,770,416	8,721,840,818
Maturity	2022	2021

20.2 Unquoted equity securities

	2021		2020	
	No. of shares		No. of shares	
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Credit Information Bureau of Sri Lanka	300	30,000	300	30,000
Lanka Financial Services Bureau Limited	200,000	2,000,000	200,000	2,000,000
		3,030,000		3,030,000



21. PROPERTY, PLANT AND EQUIPMENT

	Freehold Land and Buildings Rs.	Leasehold Properties Rs.	Computer Hardware Rs.	Office Equipment Rs.	Furniture and Fittings Rs.	Motor Vehicles Rs.	Total Rs.
Cost							
Balance as at 1 January 2020	115,000,000	121,621,450	151,664,720	39,122,336	34,374,312	46,771,500	508,554,318
Transfers	-	-	-	19,244	(19,244)	-	-
Additions during the Period	-	4,589,865	6,733,000	5,236,604	1,400,895	21,298,000	39,258,365
Revaluation surplus	-	-	-	-	-	-	-
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-
Disposals during the Year	-	(32,524,000)	-	(4,703,319)	(4,483,000)	(14,850,000)	(56,560,319)
Balance as at 31 December 2020	115,000,000	93,687,315	158,397,720	39,674,865	31,272,963	53,219,500	491,252,363
Balance as at 1 January 2021	115,000,000	93,687,315	158,397,720	39,674,865	31,272,963	53,219,500	491,252,363
Transfers	-	-	-	-	-	-	-
Additions during the Period	-	162,566	15,794,170	1,325,152	2,697,839.62	-	19,979,728
Revaluation surplus	-	-	-	-	-	-	-
Revaluation adjustment on accumulated depreciation	-	-	-	-	-	-	-
Disposals during the Year	-	-	(125,000)	-	-	-	(125,000)
Balance as at 31 December 2021	115,000,000	93,849,881	174,066,890	41,000,017	33,970,803	53,220,080	511,107,671
Accumulated Depreciation							
Balance as at 1 January 2020	-	94,228,627	111,385,943	26,198,852	18,214,454	20,013,360	270,041,236
Transfers	-	-	-	130,005	(130,005)	-	-
Charge for the Year	2,875,000	19,230,296	18,738,023	3,149,975	2,450,464	8,261,974	54,705,732
Depreciation on revaluation	-	-	-	-	-	-	-
Disposals during the Year	-	(32,524,593)	-	(4,703,276)	(4,483,159)	(11,880,000)	(53,591,028)
Balance as at 31 December 2020	2,875,000	80,934,330	130,123,966	24,775,556	16,051,754	16,395,334	271,155,940
Balance as at 1 January 2021	2,875,000	80,934,330	130,123,966	24,775,556	16,051,754	16,395,334	271,155,940
Transfers	-	-	-	-	-	-	-
Charge for the Year	2,875,000	10,898,683	16,669,732	2,776,601	2,767,869	8,515,212	44,503,097
Depreciation on revaluation	-	-	-	-	-	-	-
Disposals during the Year	-	-	(125,000)	-	-	-	(125,000)
Balance as at 31 December 2021	5,750,000	91,833,013	146,668,698	27,552,157	18,819,623	24,910,546	315,534,037
Carrying Value							
As at 31 December 2020	112,125,000	12,752,985	28,273,754	14,899,309	15,221,209	36,824,166	220,096,423
As at 31 December 2021	109,250,000	2,016,868	27,398,192	13,447,860	15,151,180	28,309,534	195,573,634

(a) The cost of fully depreciated assets still in use in the Company as at 31st December 2021 was Rs. 236,314,386/- (2020 - Rs. 150,114,423.83/-)

(b) Land and Building (Condominium)

Property at Pettah	Address	Extent	Date of valuation	Market value
	No : 235, Fifth Cross Street , Colombo	3591 sq.ft	29 November 2019	115,000,000

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;

Land & Building (Condominium)	Amount
Cost	19,055,187
Accumulated depreciation	11,909,492
Net book value	7,145,695

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.

Property, Plant and Equipment	Level 1 (Rs.)	Level 2 (Rs.)	Level 3 (Rs.)	Total (Rs.)
Freehold Land and Buildings	-	-	115,000,000	115,000,000



MCB Bank Limited - Sri Lanka Branch
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21. PROPERTY, PLANT AND EQUIPMENT (Contd...)

21.b Right-of-Use assets

i	Right-of-use assets related to leased branches and office premises are as below,	2021	2020
		Rs.	Rs.
	Cost		
	Balance at 01 January	271,470,104	309,681,484
	Additions during the year	-	-
	Disposals during the Year	-	-
	Balance at 31 December	<u>271,470,104</u>	<u>309,681,484</u>
	Accumulated depreciation		
	Balance at 01 January	-	-
	Charge for the year	(38,339,460)	(37,196,844)
	Disposals during the Year	-	-
	Balance as at 31 December	<u>233,130,644</u>	<u>272,484,640</u>

ii Lease liability against right of use asset

Set out below are the carrying amounts of lease liabilities during the period in accordance with SLFRS 16:

Lease liabilities as at 1 January	270,764,859	202,201,532
Finance cost on lease liability of right to use assets	30,279,993	30,396,062
Addition	-	92,900,000
Modification	(9,272,174)	-
Payments during the year	(34,645,186)	(38,167,265)
Lease liabilities as at 31 December	<u>257,127,492</u>	<u>270,764,859</u>

Maturity analysis – Contractual undiscounted cash flows

	2021	2020
	Rs.	Rs.
Less than one year	25,474,089	22,007,747
Between one and five years	98,450,716	156,550,083
More than five years	133,202,687	92,207,029
Total undiscounted lease liabilities at 31 December	<u>257,127,492</u>	<u>270,764,859</u>

iii Amounts recognised in profit or loss

Leases under SLFRS 16	2021	2020
	Rs.	Rs.
Depreciation of Right of Use Assets	38,339,460	37,196,844
Finance cost on lease liability of right to use assets	30,279,993	30,396,062
	<u>68,619,453</u>	<u>67,592,906</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

22. INTANGIBLE ASSETS	2021 Rs.	2020 Rs.
Cost		
Balance at 01 st January	187,673,350	165,898,568
Additions during the year	16,261,301	21,774,782
Disposals during the Year	-	-
Balance at 31 st December	<u>203,934,651</u>	<u>187,673,350</u>
Accumulated Amortization		
Balance at 01 st January	156,763,426	137,483,907
Transfers	-	-
Amortization for the year	15,225,816	19,279,519
Disposals during the Year	-	-
Balance at 31 st December	<u>171,989,241</u>	<u>156,763,426</u>
Net Book Value	<u>31,945,410</u>	<u>30,909,924</u>
The cost of fully depreciated assets still in use in the Company as at 31st December 2021 was Rs. 147,031,011.90/- (2020 - Rs 142,721,493.68/-)		
23. OTHER ASSETS		
Deposits and prepayments	21,675,706	22,033,641
Sundry deposits	1,917,658	1,917,658
Prepaid staff benefits	56,433,848	62,916,624
Others	10,493,692	5,095,910
	<u>90,520,904</u>	<u>91,963,833</u>
24. DUE TO BANKS	2021 Rs.	2020 Rs.
Borrowings from foreign banks	1,497,684,900	2,571,043,848
Borrowings from local banks	-	-
	<u>1,497,684,900</u>	<u>2,571,043,848</u>
25. DEPOSITS FROM CUSTOMERS	2021 Rs.	2020 Rs.
Total Deposits from customers	16,344,311,061	22,045,607,438
	<u>16,344,311,061</u>	<u>22,045,607,438</u>
a. Product wise analysis of deposits from customers		
Demand deposits (current accounts)	2,404,509,350	2,072,011,070
Savings deposits	4,870,252,245	6,462,846,776
Fixed deposits	8,348,885,325	12,179,328,107
Certificate of deposits	-	133,659,445
Call deposits	5,328,357	5,178,356
Margin deposits	254,237,756	213,534,046
Other deposits	461,098,028	493,355,745
	<u>16,344,311,061</u>	<u>22,045,607,438</u>
b. Currency wise analysis of deposits from customers		
Sri Lanka rupee	12,187,446,815	15,905,095,961
United States dollar	4,129,435,475	4,846,611,500
Great Britain pound	16,978,599	67,739,870
Euro	10,302,359	1,226,024,205
Others	139,727	135,902
	<u>16,344,302,975</u>	<u>22,045,607,438</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

26. OTHER BORROWINGS	2021 Rs.	2020 Rs.
Securities sold under repurchase agreements	120,347,681	94,929,602
Refinance borrowings	42,463,939	58,740,664
	162,811,620	153,670,266

27. DEFERRED TAX	Asset		Liability		Net	
	31.12.2021 Rs.	31.12.2020 Rs.	31.12.2021 Rs.	31.12.2020 Rs.	31.12.2021 Rs.	31.12.2020 Rs.
Property, Plant and Equipment	-	-	19,718,620	24,655,427	19,718,620	24,655,427
Revaluation Gain	-	-	23,026,755	26,864,548	23,026,755	26,864,548
Asset under Finance Leases	-	-	3,502,420	3,027,428	3,502,420	3,027,428
Asset under SLFRS 16 Leases	4,210,508	4,454,068	-	-	(4,210,508)	(4,454,068)
Allowance for loss on FVOCI investment securities	-	-	(1,015,155)	6,905,485	(1,015,155)	6,905,485
Employee Benefit obligation	17,310,709	27,546,824	-	-	(17,310,709)	(27,546,824)
Allowance for loan losses	45,523,301	39,863,526	-	-	(45,523,301)	(39,863,526)
	67,044,517	71,864,418	45,232,640	61,452,887	(21,811,877)	(10,411,530)

27.1 Reconciliation of Deferred Tax 2021	Balance 1 Jan Rs.	Recognised in Profit or Loss Rs.	Recognised in Equity Rs.	Balance 31 Dec Rs.
Liability				
Property, Plant and Equipment	24,655,427	(4,936,806)	-	19,718,620
Revaluation Gain	26,864,548	-	(3,837,793)	23,026,755
Asset under Finance Leases	3,027,428	474,992	-	3,502,420
FVOCI Reserve	6,905,485	-	(7,920,640)	(1,015,155)
	61,452,887	(4,461,814)	(11,758,433)	45,232,640
Assets				
Employee Benefit obligation	27,546,824	(7,187,955)	(3,048,160)	17,310,709
Allowance for loss on FVOCI investment securities	6,273,553	(4,821,739)	-	1,451,814
Allowance for loan losses	33,589,973	10,481,514	-	44,071,487
Asset under SLFRS 16 Leases	4,454,068	(243,560)	-	4,210,508
	71,864,418	(1,771,740)	(3,048,160)	67,044,517
Total	(10,411,530)	(2,690,074)	(8,710,272)	(21,811,877)

2020	Balance 1 Jan Rs.	Recognised in Profit or Loss Rs.	Recognised in Equity Rs.	Balance 31 Dec Rs.
Liability				
Property, Plant and Equipment	24,319,305	336,122	-	24,655,427
Revaluation Gain	26,864,548	-	-	26,864,548
Asset under Finance Leases	12,202,467	(9,175,039)	-	3,027,428
FVOCI Reserve	4,359,678	-	2,545,807	6,905,485
	67,745,998	(8,838,918)	2,545,807	61,452,887
Assets				
Employee Benefit obligation	28,611,916	3,047,680	(4,112,772)	27,546,824
Allowance for loss on FVOCI investment securities	3,057,534	3,216,018	-	6,273,553
Allowance for loan losses	23,540,542	10,049,431	-	33,589,973
Asset under SLFRS 16 Leases	(3,063,976)	7,518,043	-	4,454,068
	52,146,017	23,831,173	(4,112,772)	71,864,418
	15,599,981	(32,670,090)	6,658,579	(10,411,530)

Reconciliation of Deferred Tax on rate change 2021	Deferred tax at 24% Rs.	Deferred tax at 28% Rs.	Impact on Income Statement Rs.
Liability			
Property, Plant and Equipment	19,718,620	23,005,057	(3,286,437)
Revaluation Gain	23,026,755	26,864,548	(3,837,793)
Asset under Finance Leases	3,502,420	4,086,157	(583,737)
FVOCI Reserve	(1,015,155)	(1,184,348)	169,193
	45,232,640	52,771,414	(7,538,773)
Assets			
Employee Benefit obligation	17,310,709	20,195,827	(2,885,118)
Allowance for loss on FVOCI investment securities	1,451,814	1,693,783	(241,969)
Allowance for loan losses	44,071,487	49,712,100	(5,640,613)
Asset under SLFRS 16 Leases	4,210,508	4,912,259	(701,751)
	67,044,517	76,513,969	(9,469,451)
Total	(21,811,877)	(23,742,555)	1,930,678



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Year ended 31 December 2021

28. OTHER LIABILITIES	2021 Rs.	2020 Rs.
Sundry creditors	10,967,692	12,392,785
Provisions (Note 29)	7,930,214	13,387,424
Defined Benefit Obligation (Note 29.1)	72,127,953	98,381,620
Cheques sent on Clearing	559,843,551	478,571,857
Pay order issued	60,606,505	56,926,038
Other payables	262,414,012	180,568,007
Lease liability (Note 21.b.ii)	257,127,492	270,764,859
	<u>1,231,017,419</u>	<u>1,110,992,590</u>

29. PROVISIONS	2021 Rs.	2020 Rs.
Loan commitment issued	7,795,486	9,197,271
Financial guarantee issued	134,728	4,190,152
	<u>7,930,214</u>	<u>13,387,424</u>

Movements in Impairment charges during the year

	Loan commitment		Financial Guarantee	
	2021	2020	2021	2020
As at 1 January				
Adjustment on initial application of SLFRS 9	9,197,271	10,398,051	4,190,152	2,091,244
Adjusted balance as at 1 January	9,197,271	10,398,051	4,190,152	2,091,244
Charge/(Write back) to statement of Profit / loss	(1,401,785)	(1,200,780)	(4,055,424)	2,098,908
write-off/(Recoveries) during the year	-	-	-	-
Exchange movement	-	-	-	-
As at 31 December	<u>7,795,486</u>	<u>9,197,271</u>	<u>134,728</u>	<u>4,190,152</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 January 2021	9,197,271	-	4,190,152	-	13,387,424
Charge/(Write back) to statement of Profit / loss	(1,401,786)	1	(4,079,004)	23,580	(5,457,210)
Write-off/(Recoveries) during the year	-	-	-	-	-
Exchange movement	-	-	-	-	-
As at 31 December 2021	<u>7,795,485</u>	<u>1</u>	<u>111,148</u>	<u>23,580</u>	<u>7,930,214</u>
Total		<u>7,795,486</u>		<u>134,728</u>	<u>7,930,214</u>
As at 1 January 2020	10,388,705	9,346	1,803,852	287,392	12,489,295
Charge/(Write back) to statement of Profit / loss	(1,191,434)	(9,346)	2,386,300	(287,392)	898,129
Write-off/(Recoveries) during the year	-	-	-	-	-
Exchange movement	-	-	-	-	-
As at 31 December 2020	<u>9,197,271</u>	<u>-</u>	<u>4,190,152</u>	<u>-</u>	<u>13,387,424</u>
Total		<u>9,197,271</u>		<u>4,190,152</u>	<u>13,387,424</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

29. PROVISIONS (Contd...)

29.1 Defined Benefit Obligation	2021 Rs.	2020 Rs.
Opening defined benefit obligation	98,381,620	102,185,416
Movement in the present value of employee benefit liability:		
Interest cost	5,062,180	10,033,390
Current service cost	7,870,530	6,762,884
Past service cost	(3,274,025)	
Gratuity paid during the year	(23,211,980)	(5,911,600)
Actuarial (gain) /losses	(12,700,668)	(14,688,470)
Balance as at 31 December	<u>72,127,953</u>	<u>98,381,620</u>
The expense recognised in the income statement		
Interest cost	5,062,180	10,033,390
Current service cost	7,870,530	6,762,884
Past service cost	(3,274,025)	-
	<u>9,658,685</u>	<u>16,796,274</u>
Recognised in other comprehensive income		
Actuarial (gain)/loss recognised	(12,700,668)	(14,688,470)
	<u>(12,700,668)</u>	<u>(14,688,470)</u>

The Retirement Benefit Plan of the Bank was amended due to the increase in retirement age enacted by the Minimum Retirement Age of Workers Act No. 28 of 2021 and the relating impact has been accounted through the income statement (past service cost).

Principal actuarial assumptions at the reporting date, are as follows.

Discount rate at 31 December	11.21%	8%
Future salary increases	8%	8%
Staff Turnover rate	12%	9%
Disability rate (of morality table)	10%	10%
Retirement age 55 years		

An independent Actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2021 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.

2021	Change In Assumption		
	Percentage	Increase	Decrease
Discount rate (change by)	1%	(3,347,802)	4,079,001
Salary increment rate (change by)	1%	3,664,739	(3,779,885)
2020	Change In Assumption		
	Percentage	Increase	Decrease
Discount rate (change by)	1%	(4,169,431)	4,999,553
Salary increment rate (change by)	1%	9,525,221	(1,099,053)



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

29. PROVISIONS (Contd...)

Information about maturity profile of the Defined Benefit Obligation (DBO)

Information about maturity profile of the Defined Benefit Obligation are as below,

	2021 Rs.	2020 Rs.
Within the next 12 months	9,667,972	25,582,741
Between 1 and 2 years	19,889,275	17,754,095
Between 3 and 5 years	12,541,654	26,111,206
Beyond 5 years	30,029,052	28,933,578
Total	72,127,953	98,381,620
Weighted average duration of defined benefit obligation (years)	5.36	4.76

30. ASSIGNED CAPITAL

	2021 Rs.	2020 Rs.
Opening Balance	3,969,508,163	3,969,508,163
Capital Infusion during the year	-	-
Closing Balance	<u><u>3,969,508,163</u></u>	<u><u>3,969,508,163</u></u>

31. RESERVES

	2021 Rs.	2020 Rs.
Statutory Reserve Fund		
Opening balance at 01 January	242,520,851	232,186,097
Transfer during the period	2,384,308	10,334,754
Closing balance at 31 December	<u><u>244,905,159</u></u>	<u><u>242,520,851</u></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.

	Rs.	Rs.
Commitments		
Commitment for unutilised credit facilities (Note 28)	4,447,078,505	5,233,291,517
Lease commitments	-	-
Other commitments on forwards and swaps	184,907,500	8,076,554,700
Repossessed properties	664,650,000	664,650,000
	<u><u>5,296,636,005</u></u>	<u><u>13,974,496,217</u></u>
Contingencies		
Acceptance (Note 28)	218,579,368	3,625,988,612
Documentary credits (Note 28)	47,173,779	2,508,250,237
Guarantees	643,992,055	1,651,474,000
Bills sent for collection	1,524,826,815	2,876,938,000
	<u><u>2,434,572,017</u></u>	<u><u>10,662,650,849</u></u>
	<u><u>7,731,208,021</u></u>	<u><u>24,637,147,066</u></u>



33. FINANCIAL ASSETS AND LIABILITIES

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 2021

ASSETS	Note	FVTPL Rs.	FVOCI Rs.	Amortised cost Rs.	Total Rs.
Cash and Cash Equivalents	14	-	-	220,254,283	220,254,283
Balances with Central Banks	15	-	-	866,540,769	866,540,769
Placement with Banks	16	-	-	2,674,179,880	2,674,179,880
Derivative Financial Instruments	17	-	-	-	-
Loans and Advances to customers	18	-	-	12,385,467,298	12,385,467,298
Debt and other financial instrument	19	-	-	815,028,024	815,028,024
Investment securities - Measured at	20	-	8,637,800,416	-	8,637,800,416
Total Financial Assets		-	8,637,800,416	16,961,470,254	25,599,270,670

LIABILITIES		FVTPL Rs.	Amortised cost Rs.	Total Rs.
Due to Banks	24	-	1,497,684,900	1,497,684,900
Derivative Financial Instruments	17	6,152,498	-	6,152,498
Deposits from customers	25	-	16,344,311,061	16,344,311,061
Other Borrowings	26	-	162,811,620	162,811,620
Total Financial Liabilities		6,152,498	18,004,807,581	18,010,960,079

As at 31 December 2020

ASSETS		FVTPL Rs.	FVOCI Rs.	Amortised cost Rs.	Total Rs.
Cash and Cash Equivalents	14	-	-	289,328,106	289,328,106
Balances with Central Banks	15	-	-	743,866,255	743,866,255
Placement with Banks	16	-	-	3,016,632,723	3,016,632,723
Derivative Financial Instruments	17	42,373,872	-	-	42,373,872
Loans and Advances to customers	18	-	-	15,201,987,841	15,201,987,841
Debt and other financial instrument	19	-	-	3,627,390,767	3,627,390,767
Investment securities - Measured at	20	-	8,724,870,818	-	8,724,870,818
Total Financial Assets		42,373,872	8,724,870,818	22,879,205,692	31,646,450,381

LIABILITIES		FVTPL Rs.	Amortised cost Rs.	Total Rs.
Due to Banks	24	-	2,571,043,848	2,571,043,848
Derivative Financial Instruments	17	6,702,043	-	6,702,043
Deposits from customers	25	-	21,559,913,545	21,559,913,545
Other Borrowings	26	-	153,670,266	153,670,266
Total Financial Liabilities		6,702,043	24,284,627,659	24,291,329,702

* Unquoted equity investments of Rs. 3,030,000 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.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

33. FINANCIAL ASSETS AND LIABILITIES (Contd...)

33.b 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.

31 December 2021	Level 1	Level 2	Level 3	Total
Financial Assets	Rs.	Rs.	Rs.	Rs.
Derivative financial instruments				
Currency swaps	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
	-	-	-	-
Investment securities at FVOCI				
Government of Sri Lanka treasury bills	8,637,800,416	-	-	8,637,800,416
	8,637,800,416	-	-	8,637,800,416
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	-	-	-
Forward foreign exchange contracts	-	6,152,498	-	6,152,498
	-	6,152,498	-	6,152,498
31 December 2020				
Financial Assets				
Derivative financial instruments				
Currency swaps	-	31,695,645	-	31,695,645
Forward foreign exchange contracts	-	10,678,227	-	10,678,227
	-	42,373,872	-	42,373,872
Investment securities at FVOCI				
Government of Sri Lanka treasury bills	8,724,870,818	-	-	8,724,870,818
	8,724,870,818	-	-	8,724,870,818
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	6,702,043	-	6,702,043
Forward foreign exchange contracts	-	-	-	-
	-	6,702,043	-	6,702,043



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

33. FINANCIAL ASSETS AND LIABILITIES (Contd...)

33.c 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	2021	
	Carrying amount Rs.	Fair value Rs.
Assets		
Cash and Cash Equivalents	220,254,283	220,254,283
Balances with Central Banks	866,540,769	866,540,769
Placements with Banks	2,674,179,880	2,674,179,880
Loans and receivables to customers	12,385,467,298	10,211,857,776
Debt and Other Financial Instruments at Amortised Cost	815,028,024	815,028,024
Liabilities		
Due to Banks	1,497,684,900	1,497,684,900
Due to Other Customers	16,344,311,061	16,344,311,061
Other Borrowings	162,811,620	162,811,620

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 72% 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 2021 was Rs 3,178.77 Mn and 15.63 Mn as against its carrying value which amounted to Rs 1,008.75 Mn and Rs 12.87 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.



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

34. (f) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

(a) An analysis of the total assets of the Bank as at 31 December 2021 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount Rs.	Derivative Financial Instruments Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Unallocated Rs.	Total as at 31/12/2021 Rs.
Interest bearing assets									
Balances with central banks	49,006,730	-	49,006,730	-	-	-	-	-	49,006,730
Placement with banks	2,045,873,108	-	2,045,873,108	-	-	-	-	-	2,045,873,108
Loans and receivables to other customers	12,385,467,298	-	10,053,071,987	1,909,973,526	274,763,829	70,121,425	77,536,532	-	12,385,467,298
Debt investments at amortised cost	815,028,024	-	815,028,024	-	-	-	-	-	815,028,024
Investment securities at FVOCI	8,634,770,416	-	8,634,770,416	-	-	-	-	-	8,634,770,416
Non Interest bearing assets									
Cash and cash equivalents	220,254,283	-	220,254,283	-	-	-	-	-	220,254,283
Balances with central banks	817,534,039	-	817,534,039	-	-	-	-	-	817,534,039
Placement with banks	628,306,772	-	628,306,772	-	-	-	-	-	628,306,772
Derivative financial instrument	-	-	-	-	-	-	-	-	-
Investment securities at FVOCI	3,030,000	-	-	-	-	-	3,030,000	-	3,030,000
Property, plant and equipment	195,573,634	-	-	-	-	-	195,573,634	-	195,573,634
Right of use assets	233,130,644	-	-	-	-	-	233,130,644	-	233,130,644
Intangible assets	31,945,410	-	-	-	-	-	31,945,410	-	31,945,410
Deferred tax Assets	21,811,877	-	-	21,811,877	-	-	-	-	21,811,877
Current Tax Asset	50,332,424	-	-	50,332,424	-	-	-	-	50,332,424
Other assets	90,520,904	-	90,520,904	-	-	-	-	-	90,520,904
Total Assets	26,222,585,563	0	23,354,366,262	1,982,117,827	274,763,829	70,121,425	80,566,532	460,649,688	26,222,585,563
Interest bearing liabilities									
Due to banks	1,497,684,900	-	1,497,684,900	-	-	-	-	-	1,497,684,900
Derivative financial instrument	6,152,498	6,152,498	-	-	-	-	-	-	6,152,498
Due to other customers	13,224,465,927	-	10,319,268,346	2,876,128,527	29,069,055	-	-	-	13,224,465,927
Other borrowings	120,347,681	-	120,347,681	-	-	-	-	-	120,347,681
Lease liability against right of use asset	257,127,492.00	-	1,252,226	37,464,609	56,161,825	81,859,608	80,389,223	-	257,127,492
Non Interest bearing liabilities									
Due to other customers	3,119,845,134	-	3,119,845,134	-	-	-	-	-	3,119,845,134
Other borrowings	42,463,939	-	42,463,939	-	-	-	-	-	42,463,939
Current tax liabilities	-	-	-	-	-	-	-	-	-
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Provisions	7,930,214	-	7,930,214	-	-	-	-	-	7,930,214
Other liabilities	965,959,713	-	965,959,713	-	-	-	-	-	965,959,713
	19,241,977,497	6,152,498	16,074,752,152	2,913,593,136	85,230,880	81,859,608	80,389,223	-	19,241,977,497
Interest rates sensitivity Gap	6,980,608,066	(6,152,498)	7,279,614,111	(931,475,309)	189,532,948	(11,738,184)	177,309	460,649,688	6,980,608,066
Financial Guarantees	643,992,055		231,089,914	410,552,141	2,350,000				643,992,055

MCB Bank Limited - Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

34. (ii) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

(a) An analysis of the total assets of the Bank as at 31 December 2020 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount Rs.	Derivative Financial Instruments Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Unallocated Rs.	Total as at 31/12/2020 Rs.
Interest bearing assets									
Balances with central banks	175,021,634	-	175,021,634	-	-	-	-	-	175,021,634
Placement with banks	2,000,249,315	-	2,000,249,315	-	-	-	-	-	2,000,249,315
Loans and receivables to other customers	15,201,987,841	-	11,149,694,569	2,790,759,808	1,096,810,297	90,709,905	74,013,261	-	15,201,987,841
Debt investments at amortised cost	3,627,390,767	-	2,307,958,458	377,893,545	941,538,764	-	-	-	3,627,390,767
Investment securities at FVOCI	8,721,840,818	-	1,893,645,740	6,828,195,078	-	-	-	-	8,721,840,818
Non Interest bearing assets									
Cash and cash equivalents	289,328,106	-	289,328,106	-	-	-	-	-	289,328,106
Balances with central banks	568,844,621	-	568,844,621	-	-	-	-	-	568,844,621
Placement with banks	1,016,383,408	-	1,016,383,408	-	-	-	-	-	1,016,383,408
Derivative financial instrument	2,275,140,119	2,275,140,119	-	-	-	-	-	-	2,275,140,119
Investment securities at FVOCI	3,030,000	-	-	-	-	-	3,030,000	-	3,030,000
Property, plant and equipment	220,096,766	-	-	-	-	-	-	220,096,766	220,096,766
Right of use assets	272,484,640	-	-	-	-	-	-	272,484,640	272,484,640
Intangible assets	30,909,924	-	-	-	-	-	-	30,909,924	30,909,924
Other assets	10,411,530	-	-	10,411,530	-	-	-	-	10,411,530
Total Assets	34,505,083,322	2,275,140,119	19,493,089,684	10,007,259,961	2,038,349,061	90,709,905	77,043,261	523,491,330	34,505,083,322
Interest bearing liabilities									
Due to banks	2,571,043,848	-	2,571,043,848	-	-	-	-	-	2,571,043,848
Derivative financial instrument	2,239,468,290	2,239,468,290	-	-	-	-	-	-	2,239,468,290
Due to other customers	18,781,012,684	-	13,030,390,528	5,745,021,406	2,000,000	3,600,749	-	-	18,781,012,684
Other borrowings	94,929,602	-	94,929,602	-	-	-	-	-	94,929,602
Lease liability against right of use asset	270,764,859.00	-	1,102,289	32,978,733	49,437,213	72,058,037	115,188,588	-	270,764,859
Non Interest bearing liabilities									
Due to other customers	2,778,900,861	-	2,778,900,861	-	-	-	-	-	2,778,900,861
Other borrowings	58,740,664	-	58,740,664	-	-	-	-	-	58,740,664
Current tax liabilities	53,674,788	-	-	53,674,788	-	-	-	-	53,674,788
Deferred tax liabilities	-	-	-	-	-	-	-	-	-
Provisions	13,387,423	-	13,387,423	-	-	-	-	-	13,387,423
Other liabilities	826,840,306	-	826,840,306	-	-	-	-	-	826,840,306
	27,688,763,325	2,239,468,290	19,375,335,522	5,831,674,927	51,437,213	75,658,786	115,188,588	-	27,688,763,325
Interest rates sensitivity Gap	6,816,319,997	35,671,829	117,754,162	4,175,585,034	1,986,911,848	15,051,119	(38,145,326)	523,491,330	6,816,319,997
Financial Guarantees	1,651,474,000		1,648,091,500	3,382,500					1,651,474,000



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd...)

34. (iii) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

(a) The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2021.

	Carrying Amount Rs.	Derivative Financial Instruments Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Unallocated Rs.	Total as at 31/12/2021 Rs.
Interest bearing assets									
Balances with central banks	49,006,730	-	49,006,730	-	-	-	-	-	49,006,730
Placement with banks	2,045,873,108	-	2,045,873,108	-	-	-	-	-	2,045,873,108
Loans and receivables to other customers	19,932,889,726	-	11,235,605,722.29	1,967,214,157	6,540,365,103	96,306,107	93,398,637	-	19,932,889,726
Debt investments at amortised cost	815,028,024	-	815,028,024.00	-	-	-	-	-	815,028,024
Investment securities at FVOCI	8,634,770,416	-	4,587,197,166.00	4,047,573,250	-	-	-	-	8,634,770,416
Non Interest bearing assets									
Cash and cash equivalents	220,254,283	-	220,254,283	-	-	-	-	-	220,254,283
Balances with central banks	817,534,039	-	817,534,039	-	-	-	-	-	817,534,039
Placement with banks	628,306,772	-	628,306,772	-	-	-	-	-	628,306,772
Derivative financial instrument	-	-	-	-	-	-	-	-	-
Investment securities at FVOCI	3,030,000	-	-	-	-	3,030,000	-	-	3,030,000
Property, plant and equipment	195,573,634	-	-	-	-	-	195,573,634	-	195,573,634
Right of use assets	233,130,644	-	-	-	-	-	233,130,644	-	233,130,644
Intangible assets	31,945,410	-	-	-	-	-	31,945,410	-	31,945,410
Deferred tax Assets	21,811,877	-	21,811,877	-	-	-	-	-	21,811,877
Current Tax Asset	50,332,424	-	50,332,424	-	-	-	-	-	50,332,424
Other assets	90,520,904	-	90,520,904	-	-	-	-	-	90,520,904
Total Assets	33,770,007,991	-	20,489,326,748	6,086,931,708	6,540,365,103	96,306,107	96,428,637	460,649,688	33,770,007,991
Interest bearing liabilities									
Due to banks	1,497,684,900	-	1,497,684,900	-	-	-	-	-	1,497,684,900
Derivative financial instrument	6,152,498	6,152,498	-	-	-	-	-	-	6,152,498
Due to other customers	13,443,848,774	-	10,413,758,389.20	2,998,631,673	31,458,712	-	-	-	13,443,848,774
Other borrowings	120,347,681	-	120,347,681	-	-	-	-	-	120,347,681
Lease liability against right of use asset	257,127,492	-	1,252,226	37,464,609	56,161,825	81,859,608	80,389,223	-	257,127,492
Non Interest bearing liabilities									
Due to other customers	3,119,845,134	-	3,119,845,134	-	-	-	-	-	3,119,845,134
Other borrowings	42,463,939	-	42,463,939	-	-	-	-	-	42,463,939
Current tax liabilities	-	-	-	-	-	-	-	-	-
Provisions	7,930,214	-	7,930,214	-	-	-	-	-	7,930,214
Other liabilities	965,959,713	-	965,959,713	-	-	-	-	-	965,959,713
	19,461,360,344	6,152,498	16,169,242,195	3,036,096,282	87,620,537	81,859,608	80,389,223	-	19,461,360,344
Interest rates sensitivity Gap	14,308,647,646	(6,152,498)	4,320,084,553	3,050,835,426	6,452,744,566	14,446,499	16,039,413	460,649,688	14,308,647,646

MCB Bank Limited - Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

34. MATURITY ANALYSIS OF ASSETS AND LIABILITIES (Contd...)

34. (iv) Analysis of Financial Assets and Liabilities by Remaining Contractual Maturities

(a) The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2020

	Carrying Amount Rs.	Derivative Financial Instruments Rs.	Up to 3 Months Rs.	3 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Unallocated Rs.	Total as at 31/12/2020 Rs.
Interest bearing assets									
Balances with central banks	175,021,634	-	175,021,634	-	-	-	-	-	175,021,634
Placement with banks	2,000,249,315	-	2,000,249,315	-	-	-	-	-	2,000,249,315
Loans and receivables to other customers	23,209,159,646	-	12,817,160,399,09	8,919,578,937	1,287,660,070	98,789,880	85,970,360	-	23,209,159,646
Debt investments at amortised cost	3,627,390,767	-	2,307,958,457,70	377,893,545	941,538,764	-	-	-	3,627,390,767
Investment securities at FVOCI	8,721,840,818	-	1,893,645,740,29	6,828,195,078	-	-	-	-	8,721,840,818
Non Interest bearing assets									
Cash and cash equivalents	289,328,106	-	289,328,106	-	-	-	-	-	289,328,106
Balances with central banks	568,844,621	-	568,844,621	-	-	-	-	-	568,844,621
Placement with banks	1,016,383,408	-	1,016,383,408	-	-	-	-	-	1,016,383,408
Derivative financial instrument	2,275,140,119	2,275,140,119	-	-	-	-	-	-	2,275,140,119
Investment securities at FVOCI	3,030,000	-	-	-	-	3,030,000	-	-	3,030,000
Property, plant and equipment	220,096,766	-	-	-	-	-	220,096,766	-	220,096,766
Right of use assets	272,484,640	-	-	-	-	-	272,484,640	-	272,484,640
Intangible assets	30,909,924	-	-	-	-	-	30,909,924	-	30,909,924
Deferred tax Assets	10,411,530	-	-	10,411,530	-	-	-	-	10,411,530
Other assets	91,963,833	-	91,963,833	-	-	-	-	-	91,963,833
Total Assets	42,512,255,128	2,275,140,119	21,160,555,514	16,136,079,090	2,229,198,834	98,789,880	89,000,360	523,491,330	42,512,255,128
Interest bearing liabilities									
Due to banks	2,571,043,848	-	2,571,043,848	-	-	-	-	-	2,571,043,848
Derivative financial instrument	2,239,468,290	2,239,468,290	-	-	-	-	-	-	2,239,468,290
Due to other customers	19,146,735,367	-	13,187,517,645,82	5,952,297,291	2,381,562	4,538,868	-	-	19,146,735,367
Other borrowings	94,929,602	-	94,929,602	-	-	-	-	-	94,929,602
Lease liability against right of use asset	270,764,859	-	1,102,289	32,978,733	49,437,213	72,058,037	115,188,588	-	270,764,859
Non Interest bearing liabilities									
Due to other customers	2,778,900,861	-	2,778,900,861	-	-	-	-	-	2,778,900,861
Other borrowings	58,740,664	-	58,740,664	-	-	-	-	-	58,740,664
Current tax liabilities	53,674,788	-	53,674,788	-	-	-	-	-	53,674,788
Provisions	13,387,423	-	13,387,423	-	-	-	-	-	13,387,423
Other liabilities	826,840,306	-	826,840,306	-	-	-	-	-	826,840,306
Total Liabilities	28,054,486,008	2,239,468,290	19,532,462,639	6,038,950,812	51,818,774	76,596,905	115,188,588	-	28,054,486,008
Interest rates sensitivity Gap	14,457,769,119	35,671,829	1,628,092,875	10,097,128,278	2,177,380,060	22,192,975	(26,188,228)	523,491,330	14,457,769,119



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2021

35. RELATED PARTY DISCLOSURES

The Bank carries out transactions in the ordinary course of its business on an arm's length basis at commercial rates 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.

35.1.a Compensation of KMPs

	2021 Rs.	2020 Rs.
Short term employment benefits	84,989,557	73,277,855
Post employment benefits	3,490,196	3,242,347
	88,479,753	76,520,202

35.1.b Transactions with KMPs

Statement of Financial Position items

Assets

Loans & advances

1,985,138 3,882,716

Liabilities

Deposits

4,220,164 12,478,734

35.1.c Direct & Indirect Accommodation

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

0.03% 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	2021 Rs.	2020 Rs.
MCB Pakistan	Overseas borrowing	-	-
	Vostro balances	208,972,720	256,254,322
	Nostro balance	6,142,179	(34,971,223)
	HO Expenses payable	194,677,896	96,250,000
	Interest expense	-	-
	HO Expenses	98,427,896	94,131,751
MCB Bahrain	Overseas borrowing	-	-
	Nostro Balance	241,603	225,716
	Deposit	404,285,082	377,691,912
	Interest expense	80,322,390	19,273,325
MCB Leasing CJSC Azerbaijan	Lending	405,909,602	379,253,265
	Deposit	-	-
	Interest Income	23,146,863	26,362,888
	Interest expense	-	-
MCB Dubai	Overseas borrowing	-	565,405,737
	Interest expense	-	13,148,131
	Nostro Balance	-	824,902

35.2.b Direct and Indirect Accommodation

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

6% 6%

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	2021	2020
MCB Bank Sri Lanka Branch	Deposits	119,385,872	150,963,155
Staff Provident fund	Repurchase agreements	120,347,681	94,929,602
	Interest expenses	9,497,047	18,292,777
	Contribution made	16,808,892	17,221,040



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 except below.

Management has decided to rightsizing of branch network to ensure operational efficiency and cost savings.

1) Galle branch was closed for operation on 18th January 2022 after obtaining all necessary approvals.

2) Kattankudy branch is in the process of closure during the year 2022

36.1 Comparative Information

The comparative information is re- classified wherever necessary to confirm with the current year's classification for 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.

38. GOING CONCERN

The Management of the Bank has made an assessment of its ability to continue as a going concern after considering the impact of Covid-19 and is satisfied that it has the resources to continue in business for the foreseeable future. Furthermore, the Management is not aware of any material uncertainties that may cast significant doubt upon the Bank's ability to continue as a going concern. Therefore, the Financial Statements continue to be prepared on the going concern basis.



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 at 31.12.2021	As at 31.12.2020
Regulatory Capital (LKR 000)		
Common Equity Tier 1 Capital	6,689,022	6,595,628
Tier 1 Capital	6,689,022	6,595,628
Total Capital	6,857,157	6,738,025
Regulatory Capital Ratio (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00%)	45.83	37.75
Tier 1 Capital Ratio (Minimum Requirement - 8.50%)	45.83	37.75
Total Capital Ratio (Minimum Requirement -12.50%)	46.99	38.56
Regulatory Liquidity		
Statutory Liquid Assets (LKR 000)	12,349,959	14,640,812
Statutory Liquid Assets Ratio % -Minimum requirement 20%		
Domestic Banking Unit (%)	70.2	64.2
Off Shore Banking Unit (%)	69.5	63.0
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 90%)	312.00	599.00
Liquidity Coverage Ratio (%) - All currencies (Minimum Requirement - 90%)	258.65	337.54

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)	
	As at 31.12.2021	As at 31.12.2020
Common Equity Tier 1 (CET1) Capital after Adjustments	6,689,022	6,595,628
Common Equity Tier 1 (CET1) Capital	6,720,968	6,626,538
Equity Capital (Stated Capital)/Assigned Capital	3,969,508	3,969,508
Reserve Fund	244,959	242,521
Published Retained Earnings/(Accumulated Retained Losses)	2,282,217	2,233,456
Published Accumulated Other Comprehensive Income (OCI)	224,283	181,053
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	-	-
Total Adjustments to CET1 Capital	31,945	30,910
Goodwill (net)	-	-
Intangible Assets (net)	31,945	30,910
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	-	-
Others (specify)	-	-
Tier 2 Capital after Adjustments	168,134	142,397
Tier 2 Capital	168,134	142,397
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	168,134	142,397
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	-	-
Others (specify)	-	-
CET1 Capital	6,689,022	6,595,628
Total Tier 1 Capital	6,689,022	6,595,628
Total Capital	6,857,157	6,738,025

Item	Amount (LKR '000)	
	As at 31.12.2021	As at 31.12.2020
Total Risk Weighted Assets (RWA)	14,593,799	17,472,352
RWAs for Credit Risk	12,222,381	15,433,493
RWAs for Market Risk	778,661	231,925
RWAs for Operational Risk	1,592,758	1,806,934
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	45.83	37.75
of which: Capital Conservation Buffer (%)		
of which: Countercyclical Buffer (%)		

of which: Capital Surcharge on D-SIBs (%)		
Total Tier 1 Capital Ratio (%)	45.83	37.75
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	46.99	38.56
of which: Capital Conservation Buffer (%)		
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		

Template 3

Computation of Leverage Ratio

Item	Amount (LKR '000)	
	As at 31.12.2021	As at 31.12.2020
Tier 1 Capital	6,689,022	6,568,409
Total Exposures	27,079,268	45,799,746
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	26,193,921	32,097,050
Derivative Exposures	244,411	11,512,726
Securities Financing Transaction Exposures	-	-
Other Off-Balance Sheet Exposures	608,991	2,159,060
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	24.70%	14.34%

MCB BANK LIMITED - SRI LANKA BRANCH

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

Disclosure 4

Baell III Computation of Liquidity Coverage Ratio - All Currencies

Item	Amount (LKR '000)			
	As at 31.12.2021		As at 31.12.2020	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	9,077,030	9,077,030	9,187,864	9,187,864
Total Adjusted Level 1A Assets	9,077,030	9,077,030	9,187,864	9,187,864
Level 1 Assets	9,077,030	9,077,030	9,187,864	9,187,864
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	21,692,230	6,497,325	33,486,141	9,909,027
Deposits	6,886,145	688,615	8,737,300	873,730
Unsecured Wholesale Funding	9,409,091	5,326,717	12,448,526	8,030,885
Secured Funding Transactions	-	-	-	-
Contingent Funding Obligations	5,396,994	481,994	12,293,671	997,768
Additional Requirements	-	-	6,644	6,644
Total Cash Inflows	4,873,969	2,987,900	10,185,832	7,187,015
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	4,872,489	2,986,420	10,165,638	7,166,821
Operational Deposits	-	-	-	-
Other Cash Inflows	1,480	1,480	20,194	20,194
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) *		258.65		337.54
100				

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 as at 31.12.2021
Issuer	MCB Bank Pakistan
Unique Identifier (e.g., ISIN or Bloomberg Identifier for Private Placement)	
Governing Law(s) of the Instrument	Pakistan
Original Date of Issuance	N/A
Par Value of Instrument	N/A
Perpetual or Dated	Perpetual
Original Maturity Date, if Applicable	N/A
Amount Recognised in Regulatory Capital (in LKR '000 as at the Reporting Date)	LKR 3,969,508
Accounting Classification (Equity/Liability)	Equity
Issuer Call subject to Prior Supervisory Approval	
Optional Call Date, Contingent Call Dates and Redemption Amount (LKR '000)	N/A
Subsequent Call Dates, if Applicable	N/A
Coupons/Dividends	
Fixed or Floating Dividend/Coupon	N/A
Coupon Rate and any Related Index	N/A
Non-Cumulative or Cumulative	N/A
Convertible or Non-Convertible	
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	N/A

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

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 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 is 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.

MCB BANK LIMITED - SRI LANKA BRANCH

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

Disclosure 7

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

As at 31.12.2021	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	10,290,461	-	10,289,322	-	78,964	0.77
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	3,030	-	3,030	-	3,030	100.00
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	2,630,923	184,908	2,630,923	3,698	1,385,363	52.58
Claims on Financial Institutions	1,083,846	40,900	1,083,846	20,450	572,569	51.85
Claims on Corporates	6,363,041	370,176	4,962,423	341,845	5,304,267	100.00
Retail Claims	260,044	1,500	63,233	750	61,354	95.89
Claims Secured by Residential Property	1,024,550	10,000	1,024,550	5,000	988,616	96.02
Claims Secured by Commercial Real Estate	2,907,733	484,625	2,680,483	240,947	2,921,429	100.00
Non-Performing Assets (NPAs)	586,144	-	586,144	-	611,164	104.27
Higher-risk Categories	-	-	-	-	-	#DIV/0!
Cash Items and Other Assets	515,879	-	515,879	-	295,624	57.30
Total	25,665,650	1,092,109	23,839,831	612,689	12,222,381	49.98

MCB BANK LIMITED - SRI LANKA BRANCH
 Based 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 & CRM)						Total Credit Exposures Amount
	0%	20%	50%	75%	100%	150%	
Asset Classes	9,499,678	789,644	-	-	-	-	10,289,322
Claims on Central Government and Central Bank of Sri Lanka	-	-	-	-	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-	-
Claims on Public Sector Entities	-	-	-	-	3,030	-	3,030
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-	-
Claims on Banks Exposures	-	809,698	1,203,000	-	621,923	-	2,634,621
Claims on Financial Institutions	-	-	1,063,455	-	40,841	-	1,104,296
Claims on Corporates	-	-	-	-	5,304,267	-	5,304,267
Retail Claims	-	-	-	10,513	53,470	-	63,983
Claims Secured by Residential Property	-	-	62,974	-	966,575	-	1,029,550
Claims Secured by Commercial Real Estate	-	-	-	-	2,921,429	-	2,921,429
Non-Performing Assets (NPAs)	-	-	4,063	-	527,978	54,103	586,144
Higher-risk Categories	-	-	-	-	-	-	-
Cash Items and Other Assets	220,255	-	-	-	295,624	-	515,879
Total	9,719,933	1,599,342	2,333,493	10,513	10,735,138	54,103	24,452,521

Disclosure 9

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) as at 31st December 2020		RWA Amount (LKR' 000) as at 31st December 2021	
	December 2020	31st December 2020	December 2021	31st December 2021
(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	-	-	-	-
(ii) Specific Equity Risk	-	-	-	-
(c) RWA for Foreign Exchange & Gold	97,333	28,991	97,333	28,991
Capital Charge for Market Risk ((a) + (b) + (c)) * CAR	97,333	28,991	97,333	28,991

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 31.12.2021		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		1,620,223	1,283,003	1,078,668
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			-	-	-
Corporate Finance	18%		-	-	-
Trading and Sales	18%		-	-	-
Payment and Settlement	18%		-	-	-
Agency Services	15%		-	-	-
Asset Management	12%		-	-	-
Retail Brokerage	12%		-	-	-
Sub Total			-	-	-
Retail Banking	12%	0.035			
Commercial Banking	15%	0.035			
Capital Charges for Operational Risk (LKR'000)					
The Basic Indicator Approach	1,592,758				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	199,095				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

MCB BANK LIMITED - SRI LANKA BRANCH

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

Disclosure 11

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

As at 31.12.2021	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
Assets	26,222,586	26,054,024	23,791,489	-	2,268,918
Cash and Cash Equivalents	220,254	220,255	220,255		
Balances with Central Banks	866,541	866,534	866,534		
Placements with Banks	2,674,180	2,637,307	2,637,307		6,384
Derivative Financial Instruments	-	-	-		
Other Financial Assets Held-For- Trading	-	-	-		
Financial Assets Designated at Fair Value through Profit or Loss	-	-	-	-	-
Loans and Receivables to Banks	-	-	-		
Loans and Receivables to Other Customers	12,385,467	12,560,185	10,329,596		2,230,589
Financial Investments - Available- For Sale	8,637,800	8,633,144	8,633,144		
Financial Investments - Held-To- Maturity	815,028	809,030	809,030		-
Investments in Subsidiaries	-	-	-		
Investments in Associates and Joint Ventures	-	-	-		
Property, Plant and Equipment	195,574	195,573.59	195,574		
Right-of-Use assets	233,131	-	-		
Investment Properties	-	-	-		
Goodwill and Intangible Assets	31,945	31,945	-		31,945
Deferred Tax Assets	21,812	-	-		
Other Assets	140,853	100,050	100,050		
Liabilities	19,241,977	18,964,365	-	-	-
Due to Banks	1,497,685	2,511,493			
Derivative Financial Instruments	6,152	-			
Other Financial Liabilities Held-For-Trading					
Financial Liabilities Designated at Fair Value Through Profit or Loss					
Due to Other Customers	16,344,311	15,266,700			
Other Borrowings	162,812	118,000			
Debt Securities Issued	-	-			
Current Tax Liabilities	-	24,998			
Deferred Tax Liabilities	-	(10,412)			
Other Liabilities	1,231,017	1,053,586			
Due to Subsidiaries	-	-			
Subordinated Term Debts	-	-			
Off-Balance Sheet Liabilities	7,731,208	7,731,209	608,991	3,698	-
Guarantees	643,992	643,992	76,315		
Performance Bonds	-	-	281,504		
Letters of Credit	47,174	47,174	9,435		
Other Contingent Items	1,743,406	403,487	43,716	3,698	
Undrawn Loan Commitments	4,447,079	4,447,079	198,022		
Other Commitments	849,558	2,189,477			
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET1	4,214,413	6,519,976			
of which Amount Eligible for AT1	-	-			
Retained Earnings	2,319,471	71,149			
Accumulated Other Comprehensive Income	373,806	429,456			
Other Reserves	72,918	69,080			
Total Shareholders' Equity	6,980,608	7,089,660	-	-	-

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".

As per SLFRS 16, the Bank recognises a lease liability for leases previously classified as operating leases. Accordingly, the Bank measures the lease liability at the present value of the remaining lease payments, discounted using the Incremental Borrowing Rate (IBR). In addition, the Bank recognises right-of-use asset at an amount equal to the lease liability, on a lease-by-lease basis, adjusted by the amount of any prepaid or accrued lease payments relating to that lease. However as per regulatory reporting, the Bank charges the operating lease rentals as expense to profit or loss on an accrual basis.

Disclosure 13

Bank Risk Management Approach

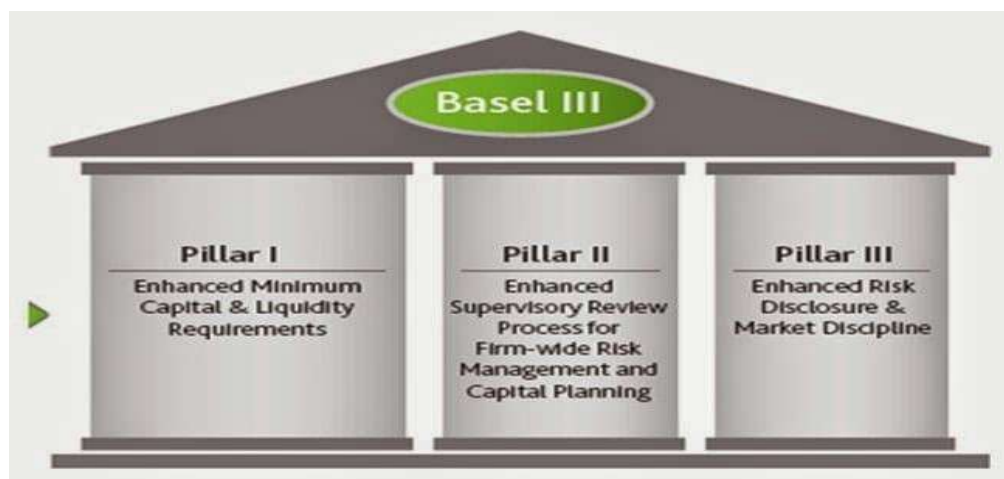
The management of MCB Bank Limited - Sri Lanka Branch actively drives the risk management framework wherein it provides an active approach in dealing with factors that influence the financial standing of the Bank. With the valuable guidance of management, the Bank has a proactive approach to generate 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 a prudent amount, minus any reduction for impairment. Hence, the amortisation

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.

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;

Disclosure 13

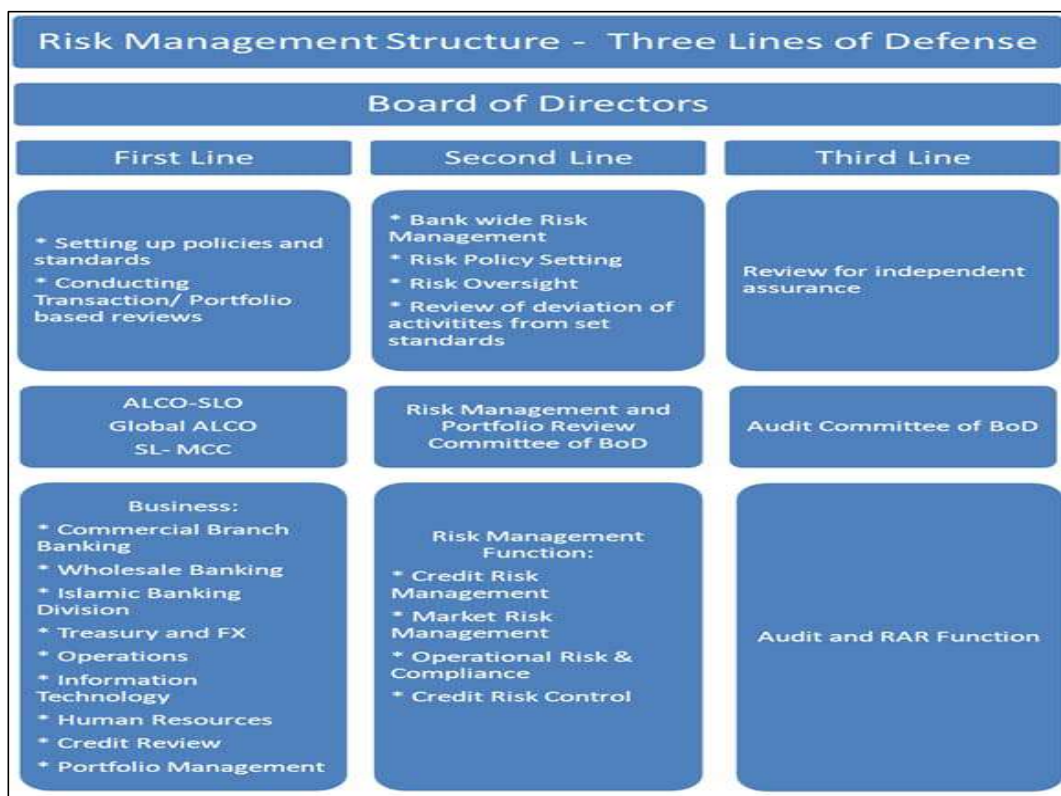
- To establish common principles, standards for the management and control of all risks and to inform behavior across the Bank.
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders.
- To provide clear accountability and responsibility for 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 stake holders.



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.

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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.

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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.

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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.

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

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.