

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

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

2014

2013

7. Net Interest Income

Interest Income

Placement with banks

21,322,784 63,095,233

Loans and receivables to customers

792,172,282 1,045,230,806

Financial investments - Held to maturity

60,288,424 32,625,396

Financial investments - Available-for-sale (Note 7.a)

296,537,025 213,082,676

Total Interest Income

1,170,320,515 1,354,034,111

Interest Expenses

Banks and other borrowings

53,363,949 47,921,905

Customers

391,550,040 378,703,457

Securities sold under repurchase agreements (Note 7.a)

6,075,332 8,490,366

Total Interest Expenses

450,989,321 435,115,728

Net Interest Income

719,331,194 918,918,383

7.a Net Interest Income from Sri Lanka Government Securities

Interest Income

296,537,025 213,082,676

Interest Expenses

6,075,332 8,490,366

290,461,693 204,592,310

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

Accordingly, net interest income earned from secondary market transactions in Government securities for the year by the bank has been grossed up in the financial statements and resulting notional tax credit amounted to Rs.23.69 Mn (2013 : Rs. 17.94 Mn)

8. Net Fee and Commission Income

Fee and commission income (Note 8.1)

79,743,535 81,509,743

Net fee and commission income

79,743,535 81,509,743

8.1 Comprising;

Loans

1,366,377 1,586,125

Trade and remittances

66,156,811 62,605,826

Deposits

2,431,222 8,602,496

Guarantees

9,789,125 8,715,296

Fee and Commission Income

79,743,535 81,509,743

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2014

2013

9. Other Operating Income (net)

Gain on Revaluation of Foreign Exchange	(5,698,964)	(92,250,395)
Dividends on Available For Sale equity securities	267,390	211,500
Charges Recovered	22,570,576	25,807,695
Fair value change of derivatives	7,699,130	(3,492,129)
Others	11,665,926	2,089,657
Other Operating Income (net)	36,504,058	(67,633,672)

10. Impairment Charges for Loans and Other Losses

Charge from individual impairment (Note 19.c)	54,097,877	39,466,166
Charge from collective impairment (Note 19.c)	5,216,932	3,077,679
	59,314,809	42,543,845

11. Personnel expenses

Salary and Bonus	184,896,336	165,003,611
Contribution to Employees' Provident Fund	11,625,800	10,509,834
Contribution to Employees' Trust Fund	2,749,709	2,604,911
Provision for Defined Benefit Obligations (Note 28.1.a)	9,798,791	8,311,817
Amortization of Prepaid Employee Benefits	4,521,678	4,571,997
	213,592,314	191,002,170

12. Other Expenses

Auditors' Remuneration - Audit	1,039,316	1,000,000
Auditors' Remuneration - Non Audit	495,000	485,000
Professional and Legal Expenses	879,748	1,830,570
Depreciation of Property, Plant and Equipment	22,804,298	20,373,953
Amortisation of Intangible Assets	9,944,906	21,835,938
Office Administration and Establishment Expenses	195,856,779	181,352,850
	231,020,047	226,878,311

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13. Income Tax Expense

13.a Current Tax Expense

Current tax on profit for the year
Over provision for the previous year

84,355,417	128,683,758
(5,478,418)	(8,804,246)

<u>78,876,999</u>	<u>119,879,512</u>
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Deferred Tax Expenses

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

2,223,942	3,668,094
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<u>2,223,942</u>	<u>3,668,094</u>
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Total Income Tax Expense

<u>81,100,941</u>	<u>123,547,606</u>
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13.b Reconciliation From Profit/(Loss) Before Tax to Current Income Tax Expense

Accounting profit Before Tax

Exempt Income

Disallowable Expenses

Allowable Expenses

Adjusted Profit/(Loss) From Trade

272,409,832	401,120,220
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(27,876,454)	(32,082,062)
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256,041,137	312,284,048
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(199,305,169)	(221,737,354)
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<u>301,269,347</u>	<u>459,584,852</u>
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Interest Income Considered Separately

-	-
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Total Statutory Income

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

301,269,347	459,584,852
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Taxable Profit

-	-
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Statutory Income Tax Rate

301,269,347	459,584,852
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Current Income Tax Expense

28%	28%
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<u>84,355,417</u>	<u>128,683,758</u>
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13.c Reconciliation of effective tax rate

For the year ended 31st December

	2014 %	2014 Rs.	2013 %	2013 Rs.
Profit before income tax	100.00%	272,409,832	100.00%	401,120,220
Tax using the corporate tax rate	28.00%	76,274,753	28.00%	112,313,662
Disallowable expenses	26.32%	71,691,518	21.80%	87,439,533
Allowable expenses	-20.49%	(55,805,447)	-15.48%	(62,086,460)
Tax exempt income	-2.87%	(7,805,407)	-2.24%	(8,982,977)
Current tax on profits for the year [Note 13 (a)]	30.97%	84,355,417	32.08%	128,683,758
(Over) / under provision in prior years	-2.01%	(5,478,418)	-2.19%	(8,804,246)
Current tax on profits for the year	28.96%	78,876,999	29.89%	119,879,512
Charge to deferred tax liability on temporary differences	0.85%	2,303,251	0.94%	3,772,450
Recognition of deferred tax asset on temporary differences	-0.03%	(79,309)	-0.03%	(104,356)
Total income tax expense	29.77%	81,100,941	30.80%	123,547,606

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2014

14. Cash and cash equivalents

Local currency in hand

Foreign currency in hand

150,228,535

117,258,193

1,001,021

2,515,603

151,229,556

119,773,796

15. Balances with Central Banks

Statutory balances with central banks

Central bank of Sri Lanka

725,588,294

338,427,709

Non Statutory balances with central banks

Central bank of Sri Lanka

46,006,318

79,014,107

771,594,612

417,441,816

As required by provisions of Section 93 of the Monetary Law Act, a cash balance is maintained with the Central Bank of Sri Lanka as explained in Note 3.9. The minimum cash reserve requirement on Rupee deposit liabilities was 6% as at 31 December 2014.

16. Placements with Banks

Placement with local banks

Placement with foreign banks

Total placement with banks

501,371,485

204,042,489

397,006,797

494,671,734

898,378,282

698,714,223

17. Derivative Financial Instruments

Asset

Liability

Currency swaps

5,353,378

-

Forward foreign exchange contracts

1,146,209

546,287

6,499,587

546,287

As at 31 December 2013

Currency swaps

Asset

Liability

1,450,047

11,753,442

Forward foreign exchange contracts

2,203,027

1,408,086

3,653,074

13,161,528

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

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	2014	2013
18. Customer Loans and Receivables		
Gross loans and receivables	10,538,413,774	9,062,885,858
Less: Individual impairment (Note 18.c)	159,905,191	110,695,321
Collective impairment (Note 18.c)	42,423,196	37,171,768
Net loans and receivables	<u>10,336,085,387</u>	<u>8,915,018,769</u>
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		
Trade finance	4,368,679,527	4,349,879,082
Lease rentals receivable (Note 20.b.i)	2,469,746,459	2,014,749,951
Staff loans	142,028,293	137,164,213
Term loans	112,363,899	96,231,914
Short-term	660,862,695	653,407,801
Long-term	2,747,100,976	1,709,637,529
Reverse repo agreements	37,631,925	101,815,368
Others	-	-
	<u>10,538,413,774</u>	<u>9,062,885,858</u>
Concentration by Currency		
Sri Lankan Rupee	9,056,783,245	8,302,201,211
United States Dollar	1,481,630,529	760,684,647
	<u>10,538,413,774</u>	<u>9,062,885,858</u>
Concentration by Industry		
Agriculture and fishing	1,120,096,771	1,456,853,737
Manufacturing	1,570,181,172	586,539,642
Tourism	19,545,534	-
Transport	1,233,567	87,538,269
Traders	6,344,195,020	3,702,999,809
Others	741,567,421	2,466,580,545
Services	741,594,289	762,373,856
	<u>10,538,413,774</u>	<u>9,062,885,858</u>
18.b within one year from the reporting date		
Deposit of rentals	86,571,948	84,651,201
Unearned income	(325,003)	-
	<u>(13,543,684)</u>	<u>(12,332,647)</u>
	<u>72,703,261</u>	<u>72,318,554</u>
After one year but before five years from reporting date		
Deposit of rentals	82,549,297	77,735,206
Unearned income	(309,901)	(1,248,366)
	<u>(12,914,363)</u>	<u>(11,641,181)</u>
	<u>69,325,033</u>	<u>64,845,659</u>
There were no lease receivables beyond five years	-	-
Total lease rental receivables	<u>142,028,294</u>	<u>137,164,213</u>

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	Individual Impairment	Collective Impairment	Total Impairment
18. Loans and Receivables to other Customers (Continued)			
18.c Movements in Individual and Collective Impairment Charges during the Year			
As at 1 st January 2013			
Charge/(Write back) to income statement	71,226,556	34,044,383	105,270,939
write-off during the year	40,714,999	3,077,679	43,792,678
Exchange movement	(1,248,833)	-	(1,248,833)
As at 31 st December 2013	2,599	49,706	52,305
	<u>110,695,321</u>	<u>37,171,768</u>	<u>147,867,089</u>
As at 1 st January 2014	110,695,321	37,171,768	147,867,089
Charge/(Write back) to income statement	54,097,877	5,216,932	59,314,809
write-off/(Recoveries) during the year	(4,889,200)	-	(4,889,200)
Exchange movement	1,194	34,496	35,690
As at 31 st December 2014	<u>159,905,192</u>	<u>42,423,196</u>	<u>202,328,388</u>
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 generally are not updated except when a loan is individually assessed as impaired.			
18.d.i Gross loans and receivables			
Individually Significant Impaired Loans and Advances		252,690,100	257,456,228
Individually Significant Unimpaired Loans and Advances		9,642,474,383	8,262,192,429
Individually Non Significant Unimpaired Loans and Advances		643,249,291	543,237,201
		<u>10,538,413,774</u>	<u>9,062,885,858</u>
18.d.ii Individually Impaired Loans and Advances			
Gross Amount		252,690,100	250,363,228
Allowance for Impairment		(159,905,191)	(110,695,321)
Carrying Amount		<u>92,784,909</u>	<u>139,667,907</u>
Collateral wise analysis of Individually Impaired Loans and Advances (Gross)			
Secured by Movable Assets		7,580,337	79,814,295
Secured by Immovable Assets		161,799,703	92,123,437
Secured by Cash		-	7,093,000
Clean		83,310,060	78,425,496
		<u>252,690,100</u>	<u>257,456,228</u>
Individually Significant Unimpaired			
Gross Amount		9,642,474,383	8,262,192,429
Collateral wise analysis of Individually Significant Unimpaired Loans and Advances			
Secured by Movable Assets		2,599,327,199	1,712,668,024
Secured by Immovable Assets		2,608,371,958	1,760,160,049
Secured by Cash		1,318,818,179	2,198,633,012
Other Securities		822,254,869	1,283,032,264
Clean		2,293,702,178	1,307,699,080
		<u>9,642,474,383</u>	<u>8,262,192,429</u>
18.d.iii Collectively Impaired Loans and Advances			
Gross Amount		643,249,291	543,237,201
18.d.iv Total Balance assessed under collective impairment			
Individually Significant but not impaired		9,642,474,383	8,262,192,429
Collectively assessed for impairment		643,249,291	543,237,201
		10,285,723,674	8,805,429,630
Allowance for Impairment		(42,423,196)	(37,171,768)
		<u>10,243,300,478</u>	<u>8,768,257,862</u>

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		2014	2013
19. Financial Investments-Available-for-Sale			
Sri Lanka Government Securities		2,407,110,409	2,156,115,468
Unquoted Equity securities		2,030,000	2,030,000
Net Available-for-sale Investments		<u>2,409,140,409</u>	<u>2,158,145,468</u>
Assets Pledged as Securities			
Government Treasury Bills amounting to Rs. 77,770,151/- (2013 : Rs. 82,753,284/-) are pledged as securities against the borrowings under Repurchase Agreements as at Reporting Date.			
19.1 Government of Sri Lanka - Treasury Bills			
Face value			
Amortized cost		2,465,000,000	2,220,000,000
Market value		2,400,050,008	2,137,202,244
Maturity		2,407,110,409	2,156,115,468
		2014	2013
19.2 Unquoted equity securities			
	No. of shares		
Lanka Clear (Pvt) Ltd	100,000	1,000,000	1,000,000
Credit Information Bureau of Sri Lanka	300	30,000	30,000
Lanka Financial Services Bureau Limited	100,000	1,000,000	1,000,000
		<u>2,030,000</u>	<u>2,030,000</u>
20. Financial Investments- Held-to-Maturity			
	Date of Maturity		
Sri Lanka Development Bond	27-Mar-16	806,272,262	798,543,015
Quoted Debenture			
<u>Bank of Ceylon</u>			
Unsecured Redeemable Debentures of Rs 100/- each	8-Dec-16	251,190,138	251,703,014
<u>Sampath Bank</u>			
Unsecured Redeemable Debentures of Rs 100/- each	31-Dec-18	73,291,458	64,633,720
<u>NDB Bank</u>			
Unsecured Redeemable Debentures of Rs 100/- each	18-Dec-18	71,192,882	62,783,040
<u>Richard Peiris & Company PLC</u>			
Unsecured Redeemable Debentures of Rs 100/- each	12-May-17	44,691,483	-
<u>Siyapatha Finance Ltd</u>			
Unsecured Redeemable Debentures of Rs 100/- each	24-Dec-19	100,024,384	-
Commercial Paper			
Singer Sri Lanka	20-Mar-15	265,242,950	-
		<u>1,611,905,557</u>	<u>1,177,662,789</u>

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21. Property, Plant and Equipment

	Freehold Land and Buildings	Leasehold Properties	Computer Hardware and Software	Office Equipment	Furniture and Fittings	Motor Vehicles	Total
Cost							
Balance as at 1 st January 2013	43,074,740	36,142,203	76,049,159	32,717,485	25,733,666	44,821,108	258,538,361
Additions during the Period	156,075	24,382,675	7,484,440	5,266,489	1,251,736	-	38,541,415
Balance as at 31 st December 2013	43,230,815	60,524,878	83,533,599	37,983,974	26,985,402	44,821,108	297,079,776
Balance as at 1 st January 2014	43,230,815	60,524,878	83,533,599	37,983,974	26,985,402	44,821,108	297,079,776
Additions during the Period	-	15,657,179	5,494,141	5,771,176	1,848,594	14,850,000	43,621,090
Revaluation Adjustment	39,769,185	-	-	-	-	-	39,769,185
Balance as at 31 st December 2014	83,000,000	76,182,057	89,027,740	43,755,150	28,833,996	59,671,108	380,470,051
Accumulated Depreciation							
Balance as at 1 st January 2013	16,747,669	18,589,391	54,726,143	25,537,614	17,819,419	27,347,563	160,767,799
Charge for the Year	1,228,110	1,877,803	8,136,265	1,142,388	849,490	7,139,897	20,373,953
Balance as at 31 st December 2013	17,975,779	20,467,194	62,862,408	26,680,002	18,668,909	34,487,460	181,141,752
Balance as at 1 st January 2014	17,975,779	20,467,194	62,862,408	26,680,002	18,668,909	34,487,460	181,141,752
Charge for the Year	2,075,000	4,726,596	8,761,000	2,600,027	980,129	3,661,546	22,804,298
Revaluation Adjustment	(17,975,779)	-	-	-	-	-	(17,975,779)
Balance as at 31 st December 2014	2,075,000	25,193,790	71,623,408	29,280,029	19,649,038	38,149,006	185,970,271
Carrying Value							
As at 31 st December 2013	25,255,036	40,057,684	20,671,191	11,303,972	8,316,493	10,333,648	115,938,024
As at 31 st December 2014	80,925,000	50,988,267	17,404,332	14,475,121	9,184,958	21,522,102	194,499,780

(a) The cost of fully depreciated assets still in use in the Company as at 31st December 2014 was Rs. 104,598,938/- (2013 - Rs. 99,535,491/-)

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(b) Land and Building (Condominium) Property at Pettah	No : 255, Fifth Cross Street , Colombo	Address	Extent 3591 sq.ft	Date of valuation 24th December 2013	Market value 83,000,000
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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.

Fair value Hierarchy

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

2014	Level 1	Level 2	Level 3	Total
Property, Plant and Equipment	-	-	83,000,000	83,000,000

2013

Property, Plant and Equipment

The fair value measurement has categorised as level 3 fair value based on the inputs to the valuation techniques used.

Valuation technique and significant unobservable inputs

The following table shows the valuation techniques used in measuring the fair value of Land and Building (Condominium), as well as the significant unobservable input used.

Location	Valuation techniques	Significant unobservable inputs	Range - Weighted average
Property at Pettah	Open market method	The area is popularly known for wholesale business & similar property values were used. Input used ; Price per square feet	Unit 1 - Rs. 65 p.m and Unit 5,6,&7 Rs. 185 p.m

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

	2014
Cost	Land & Building (Condominium)
Accumulated depreciation	43,230,815
Net book value	19,210,969
	<u>24,019,846</u>

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22. Intangible Assets		
Cost		
balance at 01 st January		55,398,379
Additions during the year	72,370,905	
balance at 31 st December	<u>7,710,867</u>	<u>16,972,526</u>
	<u>80,081,772</u>	<u>72,370,905</u>
Accumulated Amortization		
Balance at 01 st January		32,191,350
Amortization for the year	54,027,288	
Balance at 31 st December	<u>9,944,906</u>	<u>21,835,938</u>
	<u>63,972,194</u>	<u>54,027,288</u>
Net Book Value	<u>16,109,578</u>	<u>18,343,617</u>
23. Other Assets		
Deposits and prepayments		
Sundry debtors	45,324,145	32,103,014
Prepaid staff benefits	2,493,658	2,493,658
Others	64,641,152	58,746,529
	<u>7,124,480</u>	<u>8,465,215</u>
	<u>119,583,435</u>	<u>101,808,416</u>
24. Due to Banks		
Borrowings from foreign banks		
Borrowings from local banks	1,638,563,677	1,318,567,181
	<u>925,960,000</u>	<u>261,960,000</u>
	<u>2,564,523,677</u>	<u>1,580,527,181</u>
25. Customer Deposits		
Total Customer Deposits	8,669,858,884	7,445,894,516
	<u>8,669,858,884</u>	<u>7,445,894,516</u>
a. Product wise analysis of due to other customers		
Demand deposits (current accounts)		
Savings deposits	1,537,059,233	1,228,306,157
Fixed deposits	2,229,009,493	1,652,903,261
Certificate of Deposits	4,304,616,870	3,736,416,725
Call Deposits	254,843,817	339,543,691
Margin Deposits	122,584,608	43,335,188
Other deposits	104,746,865	210,805,341
	<u>116,997,998</u>	<u>234,584,153</u>
	<u>8,669,858,884</u>	<u>7,445,894,516</u>
b. Currency wise analysis of due to other customers		
Sri Lanka rupee		
United State dollar	7,495,218,756	5,969,674,758
Great Britain pound	997,882,926	940,000,985
Others	41,442,782	43,315,744
	<u>135,314,420</u>	<u>492,903,029</u>
	<u>8,669,858,884</u>	<u>7,445,894,516</u>

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26. Other borrowings

Securities sold under repurchase agreements
Refinance borrowings

2014	2013
77,770,151	82,753,284
63,341,565	307,477
141,111,716	83,060,761

27. Deferred Tax

	Asset		Liability		Net	
	31.12.2014	31.12.2013	31.12.2014	31.12.2013	31.12.2014	31.12.2013
Property, Plant and Equipment	-	-	23,840,177	16,910,420	23,840,177	16,910,420
Revaluation Gain	-	-	16,168,590	-	16,168,590	-
Asset under Finance Leases	-	-	179,154	3,050,084	179,154	3,050,084
Available for Sale Reserve	-	-	1,976,912	-	1,976,912	-
Employee Benefit obligation	14,936,156	13,573,887	-	-	14,936,156	13,573,887
Allowance for loan losses	291,089	211,780	-	-	291,089	211,780
	15,227,245	13,785,667	42,164,833	19,960,504	26,937,588	6,174,837

27.2 Reconciliation of Deferred Tax

	Balance 1 st Jan 2014	Recognised in Profit or Loss	Recognised in OCI	Balance 31 st Dec 2014
Liability				
Property, Plant and Equipment	16,910,420	6,929,757	-	23,840,177
Revaluation Gain	-	-	16,168,590	16,168,590
Asset under Finance Leases	3,050,084	(2,870,930)	-	179,154
Available for Sale Reserve	-	-	1,976,912	1,976,912
	19,960,504	4,058,827	18,145,502	42,164,833
Asset				
Employee Benefit obligation	13,573,887	1,755,575	(393,307)	14,936,156
Allowance for loan losses	211,780	79,309	-	291,089
	13,785,667	1,834,884	(393,307)	15,227,245
	6,174,837	2,223,942	18,538,809	26,937,588

27.3 Reconciliation of Deferred Tax

	Balance 01 st Jan 2013	Recognised in Profit or Loss	Recognised in OCI	Balance 31 st Dec 2013
Assets				
Property, Plant & Equipment	15,065,965	6,939,594	-	22,005,559
Asset under finance leases	6,262,910	(3,212,826)	-	3,050,084
Other assets	(4,531,272)	(563,867)	-	(5,095,139)
	16,797,603	3,162,901	-	19,960,504
Liability				
Employee Benefits	12,278,462	609,549	(1,904,974)	13,573,887
Allowance for loan losses	107,424	(104,356)	-	211,780
	12,385,886	505,193	(1,904,974)	13,785,667
	4,411,717	3,668,094	(1,904,974)	6,174,837

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28. Other Liabilities

Sundry creditors	3,547,017	3,371,065
Defined Benefit Obligation (Note 28.1.a)	53,343,413	48,478,169
Cheques sent on Clearing	422,122,108	224,172,523
Pay order issued	172,508,093	43,558,836
Other payables	73,342,209	63,042,264
	724,862,840	382,622,857

28.1.a Defined Benefit Obligation

Opening defined benefit obligation	48,478,169	43,851,651
Movement in the present value of employee benefit liability:		
Interest cost	5,332,599	4,823,682
Current service cost	4,466,192	3,488,135
Gratuity paid during the year	(3,528,880)	(7,741,129)
Actuarial (gain) /losses	(1,404,667)	4,055,830
Balance as at 31 December	53,343,413	48,478,169
The expense recognised in the income statement		
Interest cost	5,332,599	4,823,682
Current service cost	4,466,192	3,488,135
	9,798,791	8,311,817
Recognised in other comprehensive income		
Net actuarial (gain)/loss recognised immediately	(1,404,667)	4,055,830
	(1,404,667)	4,055,830

Principal actuarial assumptions at the reporting date, are as follows

Discount rate at 31 December		
Future salary increases	10%	11%
	8%	8%

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 sensitivity of the material subsidiaries to a 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.

2014	Effect on charge to the statement of profit or loss and other comprehensive income		Effect on employee benefit obligation	
	Increase	Decrease	Increase	Decrease
Discount rate (change by 1%)	(2,441,117)	2,678,948	(50,902,296)	56,022,361
Salary increment rate (change by 1%)	2,971,518	(2,748,269)	56,314,931	(50,595,144)

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29. Assigned Capital

Opening Balance		
Transferred during the year	3,395,800,820	3,017,269,165
Closing Balance	-	378,531,655
	<u>3,395,800,820</u>	<u>3,395,800,820</u>

30. Reserves

30.1 Statutory Reserve Fund

Opening balance at 01 st January	120,269,675	106,391,044
Transfer during the period	9,565,445	13,878,631
Closing balance at 31 st December	<u>129,835,120</u>	<u>120,269,675</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 full fill 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.

30.2 Investment Fund Account

Opening balance at 01 st January	151,812,439	92,665,464
Transfer during the period	(151,812,439)	59,146,975
Closing balance at 31 st December	<u>-</u>	<u>151,812,439</u>

As proposed in the budget proposals of 2011 every person or partnership who is in the business of banking or financial services is required to establish and operate an Investment Fund Account.

According to the guidelines issued by Central Bank of Sri Lanka, Banks are required to transfer 8% of the profit calculated for the payment of Value Added Tax(VAT) on financial services and 5% profit before tax calculated for payment of income tax to Investment Fund Account.

Operations of the Investment Fund Account ceased with effect from 01/10/2014.

Licensed Commercial Banks shall utilize the funds in the Investment Fund Account in the following manner:

- Invest in long term government securities and/or bonds with maturities not less than seven years.
- Lend on maturities not less than five years at interest rates not exceeding 5 year treasury bond rates plus 2%

30.2.a Utilization of Investment Fund Account

Interest rates	-	12.5%-12.98%
Tenure	-	7 Yrs
Number of Loans granted	-	5
Amount outstanding	-	210,959,414

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31. Commitments and Contingencies

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

Commitments

Commitment for unutilised credit facilities

Lease commitments

4,211,686,718

2,824,296,795

95,716,890

63,849,810

4,307,403,608

2,888,146,605

Contingencies

Acceptance

Documentary credits

Guarantees

Bills sent for collection

Forward exchange contracts

Deposit swaps

942,603,712

750,686,991

1,570,355,878

875,775,661

894,129,833

920,460,350

1,476,537,836

1,088,816,077

573,099,460

551,114,451

1,294,870,500

1,407,125,800

6,751,597,219

5,593,979,330

11,059,000,827

8,482,125,935

32. Lease commitments

Operating lease rentals are payable as follows.

Not later than one year

Later than one year and not later than five years

26,035,500

22,453,500

69,681,390

41,396,310

95,716,890

63,849,810

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NOTES TO THE FINANCIAL STATEMENTS**

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33. Analysis of Financial Assets and Liabilities by Measurement Basis (Continued)

33.b As at 31 December 2013

	Available for sale	Fair Value through profit or loss	Held to Maturity	Loan and Receivable	Total
ASSETS					
Cash and Cash Equivalents	-	-	-	119,773,796	119,773,796
Balances with Central Banks	-	-	-	417,441,816	417,441,816
Placement with Banks	-	-	-	698,714,223	698,714,223
Derivative Financial Instrument	-	3,653,074	-	-	3,653,074
Customer Loans and Receivables	-	-	-	8,915,018,769	8,915,018,769
Financial Investments – Available-for-Sale	2,156,115,468	-	-	-	2,156,115,468
Unquoted equity securities – Available-for-Sale (34.c)	2,030,000	-	-	-	2,030,000
Financial Investments – Held-to-Maturity	-	-	1,177,662,789	-	1,177,662,789
Total Financial Assets	2,158,145,468	3,653,074	1,177,662,789	10,150,948,604	13,490,409,935

LIABILITIES

	Fair Value through profit or loss	Other Financial Liabilities	Total
Due to Banks			
Derivative Financial Instrument	-	1,580,527,181	1,580,527,181
Customer Deposits	13,161,528	-	13,161,528
Other Borrowings	-	7,445,894,516	7,445,894,516
Total Financial Liabilities	13,161,528	9,109,482,458	9,122,643,986

33.c These investments are stated at cost as it was impractical to compute the market value due to unavailability of market information. However, Management has determined the impact as immaterial as it was less than 0.01 % of the total assets.

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33.d 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.

31st December 2014	Level 1	Level 2	Level 3	Total
Financial Assets				
Derivative financial instruments				
Currency swaps	-	5,353,378	-	5,353,378
Forward foreign exchange contracts	-	1,146,209	-	1,146,209
	-	<u>6,499,587</u>	-	<u>6,499,587</u>
Financial Investments available for sale				
Government of Sri Lanka treasury bills	-	2,156,115,468	-	2,156,115,468
	-	<u>2,162,615,055</u>	-	<u>2,162,615,055</u>
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	5,353,378	-	5,353,378
Forward foreign exchange contracts	-	546,287	-	546,287
	-	<u>5,899,665</u>	-	<u>5,899,665</u>
31st December 2013				
Financial Assets				
Derivative financial instruments				
Currency swaps	-	1,450,047	-	1,450,047
Forward foreign exchange contracts	-	2,203,027	-	2,203,027
	-	<u>3,653,074</u>	-	<u>3,653,074</u>
Financial Investments available for sale				
Government of Sri Lanka treasury bills	-	2,156,115,468	-	2,156,115,468
	-	<u>2,156,115,468</u>	-	<u>-</u>
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	11,753,442	-	11,753,442
Forward foreign exchange contracts	-	1,408,086	-	1,408,086
	-	<u>13,161,528</u>	-	<u>13,161,528</u>

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34. Related Party Disclosures

The Bank carries out transactions in the ordinary course of its business with parties who are defined as related parties in Sri Lanka Accounting Standard (LKAS 24) "Related Party Disclosures", the details of which are reported below.

34.1 Transactions with Key Management Personnel (KMP)

According to Sri Lanka Accounting Standard 24 "Related Party Disclosures", 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 KMP of the Bank.

34.1.a Compensation of KMPs

	2014	2013
Short term employment benefits		
Post employment benefits	62,336,296	56,617,742
	<u>1,137,404</u>	<u>1,035,368</u>
	<u>63,473,900</u>	<u>57,653,110</u>

34.1.b Transactions with KMPs

Statement of Financial Position items

Assets

Loans & advances

Liabilities

Deposits

14,188,614	16,983,293
17,272,258	14,346,885

34.1.c Direct & Indirect Accomodation

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

0.32%	0.41%
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34.2 Transaction with Other Related Parties

In addition to transactions with key management, the bank enters into transactions

34.2.a Group - Related Party

	Nature of the transaction	2014	2013
		Rs.	Rs.
MCB Pakistan	Overseas Borrowing	661,400,000	654,900,000
	Vostro Balances	44,489,838	90,114,739
	Nostro Balance	9,997,490	36,598,584
	Interest expense	18,828,345	22,251,358
MCB Bahrain	Overseas Borrowing	-	261,960,000
	Nostro Balance	31,551	31,241
	Interest expense	887,667	1,667,829

34.2.b Direct and Indirect Accomodation

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

0%	0%
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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.

34.3 Transaction with Post Employment Benefit of the Bank

Name of the Repeated Party	Nature of the transaction	2014	2013
MCB Bank Sri Lanka Branch	Deposits	63,571,599	56,142,570
Staff Provident Fund	Repurchase Agreements	55,000,000	47,000,000
	Interest Expenses	8,135,009	11,810,047
	Contribution made	10,723,041	9,923,067

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NOTES TO THE FINANCIAL STATEMENTS

34.4 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 31st December

	2014	
	Carrying amount Rs.	Fair value Rs.
Assets		
Cash and Cash Equivalents	151,229,556	151,229,556
Balances with Central Banks	771,594,612	771,594,612
Placements with Banks	898,378,232	898,378,232
Loans and receivables to other customers	10,336,085,887	10,348,419,009
Financial Investments – Held to maturity	1,611,905,557	1,611,905,557
Liabilities		
Due to Banks		
Due to Other Customers	2,564,523,677	2,564,523,677
Other Borrowings	8,669,858,884	8,669,858,884
	141,111,716	141,111,716

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 receivables to other customers

More than 94% of the total portfolio of loans and receivables to other customers have a remaining contractual maturity of less than one year.

The fair value of loans and receivables 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 2014 was Rs 602.4 Mn and 142.0 Mn as against its carrying value which amounted to Rs 613.6 Mn and 143.2 Mn respectively.

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Financial Investments - Held to Maturity

Financial investments -Held to maturity include investments in Sri Lanka Development Bonds, debentures and Commercial Papers.

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 and commercial papers 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 less than one year. 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.

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As at 31st December 2014

35 Maturity Analysis of Assets and Liabilities

(a) An analysis of the total assets of the Bank as at 31st December 2014 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount	Derivative Financial Instruments	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unallocated	Total as at 31/12/2014
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest bearing assets									
Placement with banks	501,371,435	-	501,371,435	-	-	-	-	-	501,371,435
Loans and receivables to other customers	10,336,085,387	-	8,990,601,846	758,508,797	372,475,087	153,909,664	60,589,992	-	10,336,085,387
Financial investments - Available-for-sale	2,407,110,409	-	248,324,966	2,158,785,443	-	-	-	-	2,407,110,409
Financial Investments - Loans and Receivables	1,611,905,557	-	265,242,950	251,190,138	995,448,085	100,024,384	-	-	1,611,905,557
Non Interest bearing assets									
Cash and cash equivalents	151,229,556	-	151,229,556	-	-	-	-	-	151,229,556
Balances with central banks	771,594,612	-	771,594,612	-	-	-	-	-	771,594,612
Placement with banks	397,006,797	-	397,006,797	-	-	-	-	-	397,006,797
Derivative financial instrument	6,499,587	6,499,587	-	-	-	-	-	-	6,499,587
Financial investments - Available-for-sale	2,030,000	-	-	-	-	-	2,030,000	-	2,030,000
Property, plant and equipment	194,499,780	-	-	-	-	-	16,109,578	194,499,780	194,499,780
Intangible assets	16,109,578	-	-	-	-	-	-	-	16,109,578
Other assets	119,583,435	-	119,583,435	-	-	-	-	-	119,583,435
Total Assets	16,515,026,133	6,499,587	11,444,955,597	3,168,484,378	1,367,923,172	253,934,048	78,729,570	194,499,780	16,515,026,133
Interest bearing liabilities									
Due to banks	2,564,523,677	-	2,564,523,677	-	-	-	-	-	2,564,523,677
Derivative financial instrument	546,287	546,287	-	-	-	-	-	-	546,287
Due to other customers	6,911,054,788	-	6,751,994,786	125,280,002	33,780,000	-	-	-	6,911,054,788
Other borrowings	141,111,716	-	79,501,716	61,610,000	-	-	-	-	141,111,716
Non Interest bearing liabilities									
Due to other customers	1,758,804,096	-	1,758,804,096	-	-	-	-	-	1,758,804,096
Current tax liabilities	2,091,178	-	-	2,091,178	-	-	-	-	2,091,178
Deferred tax liabilities	26,937,588	-	-	26,937,588	-	-	-	-	26,937,588
Other liabilities	724,862,840	-	594,630,201	-	-	130,232,639	-	-	724,862,840
	12,129,932,170	546,287	11,749,454,476	215,918,769	33,780,000	130,232,639	-	-	12,129,932,171
Interest rates sensitivity Gap	4,385,093,963	5,953,300	(304,498,879)	2,952,565,610	1,334,143,172	123,701,409	78,729,570	194,499,780	4,385,093,962

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As at 31st December 2013

35 Maturity Analysis of Assets and Liabilities

(b) An analysis of the total assets of the Bank as at 31st December 2013 based on the remaining period at the balance sheet date to the respective contractual maturity dates is given below:

	Carrying Amount	Derivative Financial Instruments	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unallocated	Total as at 31/12/2013
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Interest bearing assets									
Placement with banks	204,042,489	-	204,042,489	-	-	-	-	-	204,042,489
Loans and receivables to other customers	8,915,018,769	-	7,788,075,902	837,346,324	172,264,741	55,828,758	61,503,044	-	8,915,018,769
Financial investments - Available-for-sale	2,156,115,468	-	153,719,818	2,002,395,650	-	-	-	-	2,156,115,468
Financial Investments - Loans and Receivables	1,177,662,789	-	-	-	1,048,543,015.00	129,119,774	-	-	1,177,662,789
Non Interest bearing assets									
Cash and cash equivalents	119,773,796	-	119,773,796	-	-	-	-	-	119,773,796
Balances with central banks	417,441,816	-	417,441,816	-	-	-	-	-	417,441,816
Placement with banks	494,671,734	-	494,671,734	-	-	-	-	-	494,671,734
Derivative financial instrument	3,653,074	3,653,074	-	-	-	-	-	-	3,653,074
Financial investments - Available-for-sale	2,030,000	-	-	-	-	-	2,030,000	-	2,030,000
Property, plant and equipment	115,938,024	-	-	-	-	-	-	115,938,024	115,938,024
Intangible assets	18,343,617	-	-	-	-	-	-	-	18,343,617
Other assets	101,808,416	-	101,808,416	-	-	-	18,343,617	-	18,343,617
Total Assets	13,726,499,992	3,653,074	9,279,533,971	2,839,741,974	1,220,807,756	184,948,532	81,876,661	115,938,024	13,726,499,992
Interest bearing liabilities									
Due to banks	1,580,527,181	-	1,580,527,181	-	-	-	-	-	1,580,527,181
Derivative financial instrument	13,161,528	13,161,528	-	-	-	-	-	-	13,161,528
Due to other customers	5,772,198,865	-	4,638,621,443	1,078,805,033	20,778,751	33,993,638	-	-	5,772,198,865
Other borrowings	83,060,761	-	36,060,761	47,000,000	-	-	-	-	83,060,761
Non Interest bearing liabilities									
Due to other customers	1,673,695,651	-	1,673,695,651	-	-	-	-	-	1,673,695,651
Current tax liabilities	50,843,467	-	-	50,843,467	-	-	-	-	50,843,467
Deferred tax liabilities	6,174,837	-	-	6,174,837	-	-	-	-	6,174,837
Other liabilities	382,622,857	-	267,731,359	-	-	-	-	-	382,622,857
	9,562,285,147	13,161,528	8,196,636,395	1,182,823,337	20,778,751	148,885,136	-	-	9,562,285,147
Interest rates sensitivity Gap	4,164,214,845	(9,508,454)	1,082,897,576	1,656,918,637	1,200,029,005	36,063,396	81,876,661	115,938,024	4,164,214,845

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36 Events Occurring after the Reporting Date

No material events have arisen since the reporting date which require adjustment or disclosure in financial statements.

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.