

MCB BANK LIMITED – SRI LANKA BRANCH

FINANCIAL STATEMENTS

31 DECEMBER 2020



Ernst & Young
Chartered Accountants
201 De Saram Place
P.O. Box 101
Colombo 10
Sri Lanka

Tel : +94 11 2463500
Fax Gen : +94 11 2697369
Tax : +94 11 5578180
eysl@lk.ey.com
ey.com

SPF/UM/DM

**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 2020, 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 2020 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.

(Contd...2/)

Partners: W R H Fernando FCA FCMA R N de Saram ACA FCMA Ms. N A De Silva FCA Ms. Y A De Silva FCA W R H De Silva ACA ACMA W K B S P Fernando FCA FCMA
Ms. K R M Fernando FCA ACMA Ms. L K H L Fonseka FCA A P A Gunasekera FCA FCMA A Herath FCA D K Hulangamuwa FCA FCMA LLB (Lond) H M A Jayasinghe FCA FCMA
Ms. A A Ludowyke FCA FCMA Ms. G G S Manatunga FCA A A J R Perera ACA ACMA Ms. P V K N Sajeewani FCA N M Sulaiman ACA ACMA B E Wijesuriya FCA FCMA
Principals: G B Goudian ACMA 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 2021
Colombo

STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2020

	Note	2020 Rs.	2019 Rs.
Interest Income		2,131,669,610	3,080,382,886
Interest Expenses		(1,098,007,995)	(1,556,813,618)
Net Interest Income	7	<u>1,033,661,615</u>	<u>1,523,569,268</u>
Fee and Commission Income	8	121,668,454	138,888,167
Other Operating Income	9	<u>127,673,368</u>	<u>(72,225,026)</u>
Total Operating Income		1,283,003,437	1,590,232,409
Impairment Losses on Financial Assets	10	<u>(110,842,862)</u>	<u>(71,357,342)</u>
Net Operating Income		<u>1,172,160,575</u>	<u>1,518,875,067</u>
Personnel Expenses	11	(318,833,847)	(321,163,705)
Depreciation of Property, Plant, Equipment and Right-of-Use Assets	21	(91,902,576)	(95,847,240)
Amortisation of Intangible Assets	22	(19,279,519)	(20,444,036)
Other Operating Expenses	12	<u>(324,234,533)</u>	<u>(380,498,256)</u>
Operating Profit Before Value Added Tax on Financial Services, Nation Building Tax and Debt Repayment Levy		417,910,099	700,921,830
Value Added Tax on Financial Services, Nation Building Tax and Debt Repayment Levy		(101,988,393)	(212,951,640)
Profit Before Income Tax		<u>315,921,706</u>	<u>487,970,190</u>
Tax Expenses	13	<u>(109,226,627)</u>	<u>(128,045,471)</u>
Profit for the Year		<u>206,695,079</u>	<u>359,924,719</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	14,688,470	2,780,779
Deferred Tax Effect on Actuarial Gain / (Loss)		(4,112,772)	(778,618)
Surplus From Revaluation of Property, Plant and Equipment		-	15,560,682
Deferred Tax Effect on Above Surplus From Revaluation of Property, Plant and Equipment		-	(4,357,070)
Other Comprehensive Income to be Reclassified to Profit or Loss in Subsequent Periods:			
Foreign Currency Translation Reserve			
Gain/(Loss) on Translation of FCBU		42,510,396	(7,441,985)
Net Change In Fair Value - Financial Assets At FVOCI (Net of Tax)		6,546,360	18,464,071
Other Comprehensive Income for the Year, net of Tax		<u>59,632,454</u>	<u>24,227,859</u>
Total Comprehensive Income for the Year		<u>266,327,533</u>	<u>384,152,578</u>

The Accounting Policies and Notes on pages 08 through 61 form an integral part of the Financial Statements.

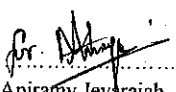


STATEMENT OF FINANCIAL POSITION

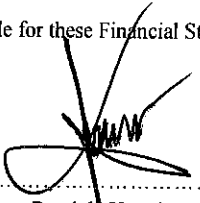
As at 31 December 2020

	Note	2020 Rs.	2019 Rs.
ASSETS			
Cash and Cash Equivalents	14	289,328,106	267,190,334
Balances with Central Banks	15	743,866,255	1,280,646,949
Placements with Banks	16	3,016,632,723	1,295,306,147
Derivative Financial Instruments	17	42,373,872	-
Financial assets at amortised cost			
Loans and Advances to customers	18	15,201,987,841	21,089,578,777
Debt and other financial instruments	19	3,627,390,767	2,284,430,790
Investment securities at FVOCI	20	8,724,870,818	4,292,836,583
Property, Plant and Equipment	21	220,096,766	238,513,082
Right-of-Use assets	21	272,484,640	216,781,378
Intangible Assets	22	30,909,924	28,414,661
Deferred tax assets	27	10,411,530	-
Other Assets	23	91,963,833	113,740,495
Total Assets		32,272,317,075	31,107,439,196
LIABILITIES			
Due to Banks	24	2,571,043,848	1,273,593,063
Derivative Financial Instruments	17	6,702,043	143,396,348
Deposits from customers	25	21,559,913,545	22,045,607,438
Other Borrowings	26	153,670,266	142,968,473
Current Tax Liabilities		53,674,788	54,478,535
Deferred Tax Liabilities	27	-	15,599,981
Provisions	28	13,387,424	12,489,295
Other Liabilities	29	1,097,605,166	869,313,599
Total Liabilities		25,455,997,079	24,557,446,732
EQUITY			
Assigned Capital	30	3,969,508,163	3,969,508,163
Statutory Reserve Fund	31	242,520,851	232,186,097
Retained Earnings		2,233,455,501	2,026,519,479
Other Reserves		370,835,481	321,778,725
Total Equity		6,816,319,996	6,549,992,464
Total Equity and Liabilities		32,272,317,075	31,107,439,196
Commitments and Contingencies	32	24,637,147,066	14,777,058,959

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


 Aali Shafi
 Country General Manager

The Accounting Policies and Notes on pages 08 through 61 form an integral part of the Financial Statements.

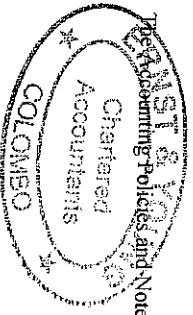


MCB Bank Limited - Sri Lanka Branch

STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2020

	Assigned capital	Statutory Reserve Fund	Revaluation Reserve	Fair value Reserve	Retained Earnings	Foreign currency translation reserve	Total
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1 January 2019	3,969,508,163	214,189,861	57,876,364	(7,253,470)	1,904,456,565	248,930,133	6,387,707,616
Net Profit for the year	-	-	-	-	359,924,719	-	359,924,719
Other comprehensive income	-	-	15,560,682	25,644,543	2,780,779	(7,441,985)	36,544,019
Deferred Tax effect on other comprehensive income	-	-	(4,357,070)	(7,180,472)	(778,618)	-	(12,316,160)
Total comprehensive income for the year	-	-	11,203,612	18,464,071	361,926,880	(7,441,985)	384,152,578
Transactions with Equity Holders recognized directly in Equity							
Transfers to Statutory Reserve	-	17,996,236	-	-	(17,996,236)	-	-
Profit transferred to head office	-	-	-	-	(221,867,731)	-	(221,867,731)
Total transactions with equity holders	-	17,996,236	-	-	(239,863,967)	-	(221,867,731)
Balance as at 31 December 2019	3,969,508,163	232,186,097	69,079,976	11,210,601	2,026,519,478	241,488,148	6,549,992,463
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



The Accounting Policies and Notes on pages 08 through 61 form an integral part of the Financial Statements.

MCB Bank Limited - Sri Lanka Branch

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

	2020 Rs.	2019 Rs.
Cash Flows From Operating Activities		
Interest and commission receipts	1,921,304,643	2,992,608,089
Interest payments	(783,017,223)	(1,611,538,048)
Cash payments from other operating activities	122,318,061	(74,574,434)
Cash payments to employees and suppliers	(623,879,186)	(901,696,189)
Operating profit before changes in Operating Assets and Liabilities (Note A)	636,726,295	404,799,418
Increase in Operating Assets		
Funds Advanced to Customers	6,109,408,468	212,351,715
Other Short term Assets	(76,300,472)	297,152,436
Increase/(Decrease) in Operating Liabilities		
Deposits from customers	(189,876,103)	167,605,086
Other Liabilities	(131,955,278)	(162,741,441)
Net Cash Generated from Operations	6,348,002,910	919,167,214
Income Tax Paid	(136,041,886)	(170,735,999)
Net Cash flows generated from / (used in) Operating Activities	6,211,961,024	748,431,215
Cash Flows from Investing Activities		
Net proceeds from maturity and purchase of Financial Investments	(5,542,615,327)	(1,222,913,368)
Proceed from maturity of other Placements with Banks	(1,721,175,891)	(538,674,186)
Purchase of Property, Plant and Equipment and Intangible assets	(61,033,489)	(46,114,775)
Payments of lease obligations	(38,167,265)	(14,579,846)
Proceeds from Sale of Property, Plant and Equipment	8,324,598	4,138,016
Net Cash Flows generated from / (used in) Investing Activities	(7,354,667,373)	(1,818,144,159)
Cash flow from Financing Activities		
Capital Infusion from Head Office	-	-
Profit repatriation/HO expenses to Head Office	(108,531,508)	(221,867,731)
Increase/(Decrease) of borrowings	736,594,935	596,594,143
Net cash generated from / (used in) financing Activities	628,063,427	374,726,412
Net Increase in Cash and Cash Equivalents	(514,642,922)	(694,986,532)
Cash and Cash Equivalents at the Beginning of the year	1,547,837,283	2,242,823,815
Cash and Cash Equivalents at the End of the year (Note 14)	1,033,194,361	1,547,837,283
Reconciliation of cash and cash equivalents		
Cash and cash equivalents	289,328,106	267,190,334
Balances with Central Banks	743,866,255	1,280,646,949
	1,033,194,361	1,547,837,283

The Accounting Policies and Notes on pages 08 through 61 form an integral part of the Financial Statements.



MCB Bank Limited - Sri Lanka Branch

STATEMENT OF CASH FLOWS

Year ended 31 December 2020

Note A	Note	2020 Rs.	2019 Rs.
Reconciliation of operating profit before changes in operating assets and liabilities			
Profit before Income Tax Expense		315,921,706	487,970,190
<i>Adjustments for :</i>			
Impairment charges for loans and other losses	10	110,842,862	71,357,342
Amortisation of intangible assets	22	19,279,519	20,444,036
Depreciation of Property, Plant, Equipment and Right-of-Use Assets	21	91,902,576	95,847,240
Provision on Head Office expenses			-
Profit on sale of Property, Plant and Equipment	9	(5,355,307)	(2,349,408)
Loss/ (Gain) on sale of securities		-	-
Provision for employee benefit	11	16,796,274	17,607,895
Payment for employee benefit	29.1	(5,911,600)	(4,690,483)
Accrual for interest receivable		(332,033,421)	(226,662,964)
Accrual for interest payable		314,990,772	(54,724,430)
Operating profit before changes in operating assets and liabilities		<u>526,433,381</u>	<u>404,799,418</u>

The Accounting Policies and Notes on pages 08 through 61 form an integral part of the Financial Statements.



MCB Bank Limited – Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

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 2020 were authorised for issue in accordance with a resolution of the management on 30 March 2021.



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.

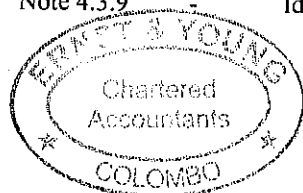
2.5 Use of Estimates and Judgments

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.

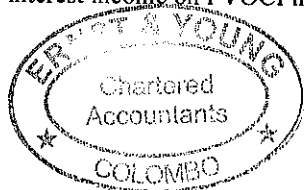
3.2 Recognition of Interest income and expense

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.

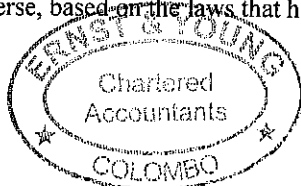
Provision for taxation is based on the profit for the year adjusted for taxation purposes in accordance with the provisions of the Inland Revenue Act No. 24 of 2017 and the amendments thereto at the rates specified in Note 13.

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

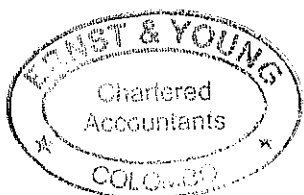
ECL is not recognised on equity instruments.

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.

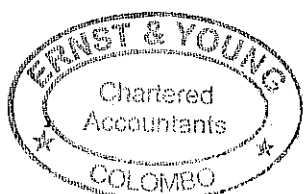
Measurement of ECLs

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.

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.

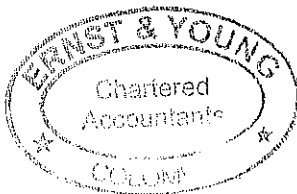
4.10.1 Basis of Recognition

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.

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



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

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

5. 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:

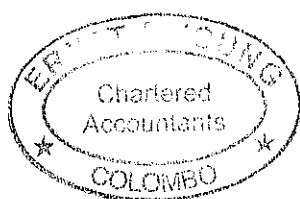
- Corporate
- Consumer
- SME
- Investment in other debt instruments

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 amortisation. 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.

Additionally, the Bank has further reduced future economic growth rates by way of management overlay to increase the buffer for expected credit losses and absorb any shocks from the external environment. The Bank also 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, 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. 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 2020.

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.

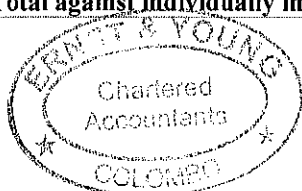
5.4.1 Concentration of Credit Risk

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 2020			
	Gross Loans & Advances	Fair Value of Security	Net Exposure
Against Individually Impaired			
Immovable Property	1,010,019,672	880,500,000	129,519,672
Deposits	-	-	-
Others	12,754,617	-	12,754,617
Unsecured (Covered with loan agreement)	130,026,892	-	130,026,892
Total against individually impaired (A)	1,152,801,181	880,500,000	272,301,181



Against Collectively Impaired			
Immovable Property	3,966,262,091	6,882,899,900	(2,916,637,809)
Deposits	4,212,563,823	5,112,460,347	(899,896,525)
Others	4,446,288,583	91,995,850	4,354,292,733
Unsecured (Covered with loan agreement)	2,048,097,347	-	2,048,097,347
Total against collectively impaired (B)	14,673,211,843	12,087,356,097	2,585,855,746
Total (A+B)	15,826,013,024	12,967,856,097	2,858,156,927
Leases	32,137,688	63,468,500	(31,330,812)
Grand Total	15,858,150,713	13,031,324,597	2,826,826,116

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 60% of the total advances of Bank is secured against immovable property and cash deposits held with the Bank respectively. Further 28% of the loans are secured against other securities including movable property, etc. Approximately 76% 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.

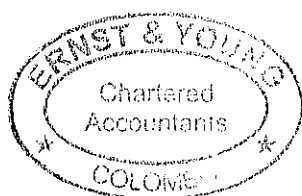
Middle office monitors the treasury operating limits, including; open position limits, dealer limits, counter party limits, etc., which are regularly reviewed and updated as per the prevailing business requirements, and regulatory guidelines.

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



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	2020		
	Carrying Amount	Trading Portfolios	Non Trading Portfolios
Assets subject to Market Risk			
Trading Assets			
Derivative Financial Instruments	2,275,140,119	-	-
Loans & advances to Customers	15,201,987,841	-	15,201,987,841
Financial Instruments - FVOCI	8,724,870,818	-	8,724,870,818
Financial Investments – amortised cost	3,627,390,767	-	3,627,390,767
Liabilities subject to market risk			
Derivative Financial Instruments	2,239,468,290	-	2,239,468,290
Deposits from customers	21,559,913,545	-	21,559,913,545
Borrowings	2,571,043,848	-	2,571,043,848
Other Borrowings	153,670,266	-	153,670,266

5.5.1 Interest Rate Sensitivity on interest bearing assets and liabilities

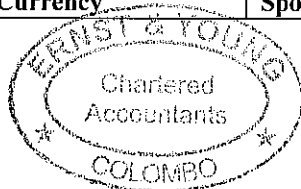
The table below depicts the interest rate sensitivity based on the interest rate sensitive positions as at 31st December 2020. In its cumulative position up to 12 month time bucket, Bank carries an asset sensitive position. This asset sensitive position will vary for each time bucket up to 12 months 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
	Rs.000'	Rs.000'	Rs.000'	Rs.000'
Total interest-bearing assets	14,014,666	3,511,904	4,445,576	5,551,273
Total interest-bearing liabilities	11,573,583	4,123,883	3,628,078	2,149,922
Net interest-bearing assets (liabilities)	2,441,082	(611,979)	817,498	3,401,351
Cumulative Gap	2,441,082	1,829,103	2,646,601	6,047,952
Assumed change in interest rates	1%	1%	1%	1%
Impact	24,410,823	(6,119,788)	8,174,978	34,013,505
Net impact on NII if interest rates increase				60,479,517
Net impact on NII if interest rates decline				(60,479,517)

MCB Bank possesses interest rate sensitive assets of Rs 27.52 Bn and rate sensitive liabilities for Rs 21.47 Bn. Currently the impact from the interest rate fluctuations of 1% + or (1%) is moderate at Rs 60.47 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 2020

Currency	Spot	Forward	Net Open	Overall position
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	Net	Net	Position	in LKR
AUD	-	-	-	-
EUR	(924)	-	(924)	(213,892)
GBP	(558)	-	(558)	(143,086)
HKD	(4,730)	-	(4,730)	(114,838)
JPY	(245,584)	-	(245,584)	(448,117)
CNY	(5,534)	-	(5,534)	(159,558)
SGD	(1,189)	-	(1,189)	(169,343)
SAR	(114,988)	-	(114,988)	(5,768,952)
USD	1,232,004	(294,427)	937,577	176,498,801
Total Exposure	169,481,014	169,481,014	169,481,014	169,481,014
Total capital funds as per the latest Audited Financial Statements (Capital base as at 31st December 2020)				6,738,025,096
Total exposure as a % of total capital funds as per the latest audited financial statements				-2.51%

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 2020, 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 2020

Position as at 31st December 2020	Amount
Net exposure – USD	1,194,725
Overall exposure in LKR	224,906,950
Exchange rate (USD/LKR)	188.25
Effect on income statement (LKR)	
If Exchange rate appreciates by 1%	2,249,069.50
If Exchange rates appreciates by 3%	6,747,208
If exchange rate appreciates by 5%	11,245,347.49

5.5.4 Liquidity Risk



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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.

	2020 %	2019 %
Net liquid assets to deposits from customers	5.5.5	5.5.6
At 31 December	59.74%	32.76%
Average for the year	49.09%	30.59%
Maximum for the year	64.39%	33.85%
Minimum for the year	32.74%	24.66%

The Bank monitors the following liquidity ratios to assess funding requirements

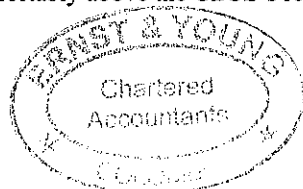
	2020	2019
Advances to Deposit Ratio		
Average for the Year ended	90.51%	100.66%
Minimum for the Year ended	72.34%	95.44%
Maximum for the Year ended	103.13%	106.96%
As at	72.34%	98.78%
Statutory Liquid Asset Ratio		
Average for the Year ended	47.05%	29.82%
Minimum for the Year ended	32.36%	23.81%
Maximum for the Year ended	64.20%	33.68%
As at	64.20%	33.29%

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 2020, Bank reported all currency LCR ratio of 337% and NSFR as 177% 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 2020 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



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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 2020, Bank reported a Common Equity Tier 1 capital (CET1) including capital conservation buffer of 37.75%, Total Tier 1 including capital conservation buffer of 37.75% and Total Capital Ratio of 38.56% which remain comfortably above the CBSL’s capital requirements

Item	Amount (Rs.)
Common Equity Tier 1 Capital	6,595,628
Total Tier 1 Capital	6,595,628
Total Capital	6,738,025
Total Risk Weighted Amount	17,472,352
Risk Weighted Amount for Credit Risk	15,433,493
Risk Weighted Amount for Market Risk	231,925
Risk Weighted Amount for Operational Risk	1,806,934
Common Equity Tier 1 Capital Ratio	37.75
Total Tier 1 Capital Ratio	37.75
Total Capital Ratio	38.56



6. STANDARDS ISSUED BUT NOT YET EFFECTIVE

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) SLFRS 17 - Insurance Contracts

SLFRS 17 is a comprehensive new accounting standard for insurance contracts covering recognition and measurement, presentation and disclosure. Once effective, SLFRS 17 will replace IFRS 4 Insurance Contracts (SLFRS 4). SLFRS 17 applies to all types of insurance contracts (i.e., life, non-life, direct insurance and re-insurance), regardless of the type of entities that issue them, as well as to certain guarantees and financial instruments with discretionary participation features.

SLFRS 17 is effective for annual reporting periods beginning on or after 01 January 2023.

The Bank does not have a material impact from the above standard.

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

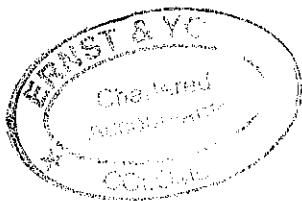
The amendments to SLFRS 9 & LKAS 39 provide a number of reliefs, which apply to all hedging relationships that are directly affected by interest rate benchmark reform. A hedging relationship is affected if the reform gives rise to uncertainty about the timing and/or amount of benchmark-based cash flows of the hedged item or the hedging instrument.

Interbank Offered Rate Reforms Phase 2 include number of reliefs and additional disclosures. Amendments supports companies in applying SLFRS when changes are made to contractual cashflows or hedging relationships because of the reform.

These amendments to various standards are effective for the annual reporting periods beginning on or after 01 January 2021.

(c) Amendments to SLFRS 16 - COVID – 19 Related Rent Concessions

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.

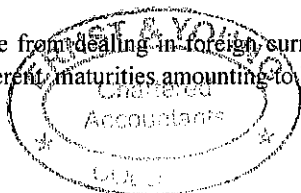


NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

7.	NET INTEREST INCOME	2020 Rs.	2019 Rs.
	Interest Income		
	Placement with banks	51,361,914	39,959,576
	Loans and advances to customers	1,468,612,702	2,501,999,768
	Financial assets at amortised cost	182,646,740	166,974,560
	Financial assets at FVOCI (Note 7.a)	429,048,254	371,448,982
	Total Interest Income	2,131,669,610	3,080,382,886
	Interest Expenses		
	Banks and other borrowings	71,655,061	51,089,743
	Deposits from Customers	989,102,301	1,467,053,239
	Interest expense on lease liability (Note 21.b.ii)	30,396,062	29,992,096
	Securities sold under repurchase agreements (Note 7.a)	6,854,571	8,678,540
	Total Interest Expenses	1,098,007,995	1,556,813,618
	Net Interest Income	1,033,661,615	1,523,569,268
7.a	Net Interest Income from Sri Lanka Government Securities		
	Interest Income	429,048,254	371,448,982
	Interest Expenses	6,854,571	8,678,540
		422,193,683	362,770,442
8.	FEE AND COMMISSION INCOME	2020 Rs.	2019 Rs.
	Fee and commission income (Note 8.1)	121,668,454	138,888,167
	Fee and commission income	121,668,454	138,888,167
8.1	Comprising:		
	Loans	651,216	1,003,749
	Trade and remittances	96,593,547	114,435,593
	Deposits	3,417,566	5,124,104
	Guarantees	21,006,125	18,324,721
	Fee and Commission Income	121,668,454	138,888,167
9.	OTHER OPERATING INCOME	2020 Rs.	2019 Rs.
	Gain / (loss) on revaluation of foreign exchange *	42,208,987	(122,879,603)
	Dividends on financial assets at FVOCI	960,000	1,148,100
	Profit on sale of Property, plant and equipment	5,355,307	2,349,408
	Charges recovered	27,621,677	39,861,027
	Fair value change of derivatives	19,890,934	(31,133,365)
	Overseas Rebate - Overdrawn Nostro	29,756,392	36,575,237
	Others	1,880,071	1,854,170
	Other Operating Income	127,673,368	(72,225,026)

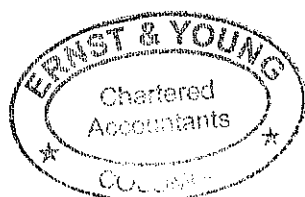
* Income from dealing in foreign currencies includes SWAP cost incurred from buying and selling two currencies at two different maturities amounting to LKR 72.93 Mn (Year 2019 - 206.39 Mn)



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

10. IMPAIRMENT LOSSES ON FINANCIAL INSTRUMENTS	2020 Rs.	2019 Rs.
Financial assets at amortised cost - Loans and advances		
Stage 1	(62,992,037)	74,705,024
Stage 2	49,491,149	(41,962,980)
Stage 3	111,959,841	31,451,328
Financial assets at amortised cost - debt instruments		
Stage 1	11,485,781	7,827,935
Stage 2	-	-
Stage 3	-	-
Contingent liabilities and commitments		
Stage 1	1,194,866	1,828,109
Stage 2	(296,738)	(2,492,074)
Stage 3	-	-
Total	110,842,862	71,357,342
11. PERSONNEL EXPENSES	2020 Rs.	2019 Rs.
Salary and Bonus	278,483,281	275,691,754
Contribution to Employees' Provident Fund	17,221,040	18,009,650
Contribution to Employees' Trust Fund	4,094,474	4,302,135
Provision for Defined Benefit Obligations (Note 29.1)	16,796,274	17,607,895
Amortization of Prepaid Employee Benefits	2,238,778	5,552,271
	318,833,847	321,163,705
12. OTHER EXPENSES	2020 Rs.	2019 Rs.
Auditors' Remuneration - Audit	1,311,554	1,666,420
Auditors' Remuneration - Non Audit	1,901,989	1,901,989
Professional and Legal Expenses	1,892,392	3,807,146
Head office Expenses	94,131,751	108,531,508
Office Administration and Establishment Expenses	224,996,848	264,591,194
	324,234,533	380,498,256



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

13. INCOME TAX EXPENSE	2020 Rs.	2019 Rs.
13.a Current Tax Expense		
Current tax on profit for the year	130,313,082	174,187,391
Under/(Over) provision for the previous year	11,583,636	(34,757,918)
	<u>141,896,718</u>	<u>139,429,473</u>
Deferred Tax Expenses		
Deferred tax assets recognized/(reversal) during the year (Note 27)	(32,670,090)	(11,384,002)
	<u>(32,670,090)</u>	<u>(11,384,002)</u>
Total Income Tax Expense	<u>109,226,627</u>	<u>128,045,471</u>
13.b Reconciliation From Profit/(Loss) Before Tax to Current Income Tax Expense		
Accounting profit Before Tax	315,921,706	487,970,190
Exempt Income	-	-
Disallowable Expenses	395,211,365	545,367,184
Allowable Expenses	(245,729,209)	(411,239,669)
Adjusted Profit/(Loss) From Trade	<u>465,403,863</u>	<u>622,097,705</u>
Total Statutory Income	465,403,863	622,097,705
Less: Tax Losses Set-Off (Up to a Limit of 35% of Total Statutory Income)	-	-
Taxable Profit	<u>465,403,863</u>	<u>622,097,705</u>
Statutory Income Tax Rate	28.00%	28.00%
Current Income Tax Expense	<u>130,313,082</u>	<u>174,187,357</u>
13.c Reconciliation of effective tax rate		
For the year ended 31st December	2020 Rs.	2019 Rs.
Profit before income tax	315,921,706	487,970,190
Tax using the corporate tax rate	88,458,078	136,631,653
Disallowable expenses	110,659,182	152,702,812
Allowable expenses	(68,804,179)	(115,147,107)
Tax exempt income	-	-
Current tax on profits for the year [Note 13 (a)]	130,313,082	174,187,391
(Over) / under provision in prior years	11,583,636	(34,757,918)
Current tax on profits for the year	141,896,718	139,429,473
Charge to deferred tax liability on temporary differences	(8,838,918)	(6,536,063)
Recognition of deferred tax asset on temporary differences	(23,831,173)	(4,847,939)
Total income tax expense	109,226,627	128,045,471



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

Year ended 31 December 2020

14. CASH AND CASH EQUIVALENTS	2020 Rs.	2019 Rs.
Cash and cash equivalents		
Local currency in hand	285,762,271	258,331,160
Foreign currency in hand	3,565,835	8,859,174
	289,328,106	267,190,334

15. BALANCES WITH CENTRAL BANKS	2020 Rs.	2019 Rs.
Statutory balances with central banks		
Central bank of Sri Lanka	568,844,621	1,035,599,834
Non Statutory balances with central banks		
Central bank of Sri Lanka	175,021,634	245,047,115
	743,866,255	1,280,646,949

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 5% as at 31 December 2020

16. PLACEMENTS WITH BANKS	2020 Rs.	2019 Rs.
Placement with local banks	2,000,249,315	667,188,487
Placement with foreign banks	1,016,383,408	628,117,660
Total placement with banks	3,016,632,723	1,295,306,147

17. DERIVATIVE FINANCIAL INSTRUMENTS		
<i>As at 31 December 2020</i>	Asset	Liability
Currency swaps	31,695,645	6,702,043
Forward foreign exchange contracts	10,678,227	-
	42,373,872	6,702,043
<i>As at 31 December 2019</i>		
Currency swaps	-	143,396,348
Forward foreign exchange contracts	-	-
	-	143,396,348

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



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

18. LOANS AND ADVANCES TO CUSTOMERS	2020 Rs.	2019 Rs.
Gross loans and advances (Note 18.a)	15,858,150,713	21,648,430,657
Stage 1	13,217,642,144	20,145,546,918
Stage 2	1,487,707,388	369,489,309
Stage 3	1,152,801,181	1,133,394,430
Less: Accumulated impairment	656,162,872	558,851,880
Stage 1	112,982,727	177,001,926
Stage 2	58,829,469	9,338,320
Stage 3	484,350,676	372,511,634
Net loans and advances	15,201,987,841	21,089,578,777

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	3,314,907,053	4,726,678,693
Trade finance	2,228,914,681	5,089,420,670
Lease rentals receivable (Note 18.b)	35,759,195	72,853,745
Staff loans	103,921,889	125,764,119
Term loans	2,568,250,409	2,708,807,007
Short-term	7,606,397,486	8,924,906,423
	15,858,150,713	21,648,430,657

Concentration by Currency

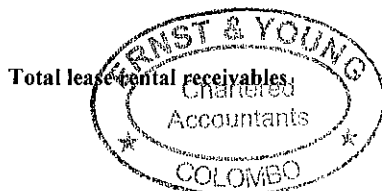
Sri Lankan Rupee	13,876,849,217	18,363,012,638
United States Dollar	1,913,957,424	3,151,194,330
European Euro	67,344,072	134,223,689
Great Britain Pound	-	-
Others (Please specify)	-	-
	15,858,150,713	21,648,430,657

Concentration by Industry

Agriculture and fishing	1,816,519,163	2,245,184,590
Manufacturing	1,095,524,817	994,008,989
Tourism	219,174,653	137,486,618
Transport	280,277,232	5,315,568
Construction	343,765,065	174,391,045
Traders	5,825,034,495	10,100,645,597
Others	4,145,277,894	2,411,456,086
Services	2,132,577,394	5,579,942,164
	15,858,150,713	21,648,430,657

18.b Lease rental receivables

<i>Within one year from the reporting date</i>	15,774,090	6,588,290
Unearned income	(1,513,076)	(222,691)
	14,261,014	6,365,599
<i>After one year but before five years from reporting date</i>	26,851,915	80,943,929
Unearned income	(5,353,734)	(14,455,783)
	21,498,181	66,488,146
Total lease rental receivables	35,759,195	72,853,745



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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

	2020 Rs.	2019 Rs.
18.c Movements in Impairment charges during the year		
As at 1 January	558,851,880	498,224,153
Charge/(Write back) to statement of Profit / loss	98,458,953	64,193,372
write-off/(Recoveries) during the year	-	(3,538,494)
Reversal of Interest in suspense	-	-
Exchange movement	(1,147,961)	(27,151)
As at 31 December	<u>656,162,872</u>	<u>558,851,880</u>

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

	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	<u>112,982,727</u>	<u>58,829,469</u>	<u>484,350,676</u>	<u>656,162,872</u>

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2019	102,322,400	51,301,300	344,600,453	498,224,153
Charge/(Write back) to statement of Profit / write-off/Recoveries during the year	74,705,024	(41,962,980)	31,451,328	64,193,372
Reversal of Interest in suspense	-	-	(3,538,494)	(3,538,494)
Exchange movement	(25,498)	-	(1,653)	(27,151)
As at 31 December 2019	<u>177,001,926</u>	<u>9,338,320</u>	<u>372,511,634</u>	<u>558,851,880</u>

Concentration by Product

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
	<u>15,858,150,713</u>	<u>656,162,872</u>	<u>15,201,987,841</u>

As at 31 December 2019	Gross amount	Impairment allowance	Carrying amount
Overdrafts	4,776,139,133	110,763,686	4,665,375,447
Trade finance	5,089,488,428	185,409,874	4,904,078,554
Lease rentals receivable	72,853,745	4,030,054	68,823,691
Staff loans	125,697,652	944,004	124,753,648
Term loans	2,715,413,533	31,028,704	2,684,384,829
Short-term	8,868,838,166	226,675,558	8,642,162,608
	<u>21,648,430,657</u>	<u>558,851,880</u>	<u>21,089,578,777</u>

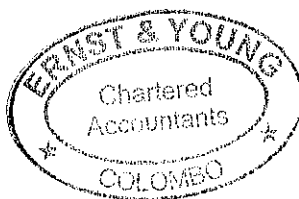


18. LOANS AND ADVANCES TO CUSTOMERS (Contd...)

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	2020	2019
	Rs.	Rs.
Stage 1	13,217,642,144	20,145,546,918
Stage 2	1,487,707,388	369,489,309
Stage 3	1,152,801,181	1,133,394,430
	<u>15,858,150,713</u>	<u>21,648,430,657</u>
18.d.ii Stage 3		
Gross Amount	1,152,801,181	1,133,394,430
Allowance for Impairment	(484,350,676)	(372,511,634)
Carrying Amount	<u>668,450,505</u>	<u>760,882,796</u>
Collateral wise analysis of Stage 3 Loans and Advances (Gross)		
Secured by Movable Assets	-	-
Secured by Immovable Assets	1,007,101,282	1,003,269,430
Secured by Cash	-	-
Other Securities	12,754,617	11,917,538
Clean	132,945,281	118,207,462
	<u>1,152,801,181</u>	<u>1,133,394,430</u>
18.d.iii Total Balance assessed under stage 1 and 2		
Stage 1	13,217,642,144	20,145,546,918
Stage 2	1,487,707,388	369,489,309
	<u>14,705,349,532</u>	<u>20,515,036,227</u>
Allowance for Impairment	(171,812,196)	(186,340,246)
	<u>14,533,537,336</u>	<u>20,328,695,981</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

19. DEBT AND OTHER FINANCIAL INSTRUMENTS AT AMORTISED COST

	Year of Maturity	2020 Rs.	2019 Rs.
Debt and other financial instruments			
Sri Lanka Development Bond	2021-22	3,649,796,312	1,392,052,779
Sri Lanka Government Securities	2021-22	-	349,109,720
Quoted Debenture		-	554,188,055
(Less): Impairment charges		(22,405,545)	(10,919,764)
Net debt and other financial instruments		3,627,390,767	2,284,430,790
Quoted Debenture			
<u>NDB Bank</u>			
Unsecured Redeemable Debentures of Rs 100/- each	24-Jun-20	-	197,092,779
<u>Bank of Ceylon</u>			
Unsecured Redeemable Debentures of Rs 100/- each	5-Oct-20	-	357,095,276
		-	554,188,055
Reconciliation for debt investments at amortised cost		2020 Rs.	2019 Rs.
As at 1 January		2,284,430,790	2,284,430,790
Movement during the year		1,354,445,758	7,827,935
(Charge)/Write back to statement of Profit / loss		(11,485,781)	(7,827,935)
Exchange movement		-	-
As at 31 December		3,627,390,767	2,284,430,790
Movements in Impairment Charges during the Year		2020 Rs.	2019 Rs.
Stage 1			
As at 1 January		10,919,764	3,091,829
Charge/(Write back) to income statement		11,485,781	7,827,935
write-off/(Recoveries) during the year		-	-
Exchange movement		-	-
As at 31 December		22,405,545	10,919,764



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

20. INVESTMENT SECURITIES AT FVOCI	2020 Rs.	2019 Rs.
Sri Lanka Government Securities (Note 20.1)	8,721,840,818	4,289,806,583
Unquoted Equity securities (Note 20.2)	3,030,000	3,030,000
(Less): Impairment charges	-	-
Net investment securities at FVOCI	<u>8,724,870,818</u>	<u>4,292,836,583</u>

Assets Pledged as Securities

Government Treasury Bills amounting to Rs.94,929,602/- (2019 : Rs.89,494,331/-) are pledged as securities against the borrowings under Repurchase Agreements as at Reporting Date.

20.1 Government of Sri Lanka - Treasury Bills

Face value	8,912,799,000	4,400,000,000
Amortized cost	8,697,178,371	4,274,269,563
Market value	8,721,840,818	4,289,806,583
Maturity	2020	2019

20.2 Unquoted equity securities

	2020		2019	
	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
		<u>3,030,000</u>		<u>3,030,000</u>



MCB Bank Limited - Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 December 2020

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 2019	107,353,040	130,507,657	136,862,413	39,141,580	33,660,843	53,271,498	500,797,031
Transfers	-	-	-	130,005	(130,005)	-	-
Additions during the Period	-	517,000	14,802,307	731,320	843,474	-	16,894,101
Revaluation surplus	15,560,682	-	-	-	-	-	15,560,682
Revaluation adjustment on accumulated depreciation	(7,913,722)	-	-	-	-	-	(7,913,722)
Disposals during the Year	-	(9,403,207)	-	(880,569)	-	(6,499,998)	(16,783,774)
Balance as at 31 December 2019	115,000,000	121,621,450	151,664,720	39,122,336	34,374,312	46,771,500	508,554,318
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	-	-	-	-	-	-	-
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	93,686,631	158,398,383	39,655,621	31,291,991	53,220,080	491,252,706
Accumulated Depreciation							
Balance as at 1 January 2019	5,229,779	76,338,766	94,523,572	23,851,438	15,510,475	18,125,920	233,579,950
Transfers	-	-	-	130,005	(130,005)	-	-
Charge for the Year	2,683,943	26,981,418	16,862,371	2,921,019	2,833,985	7,087,440	59,370,175
Depreciation on revaluation	(7,913,722)	-	-	-	-	-	(7,913,722)
Disposals during the Year	-	(9,091,556)	-	(703,610)	-	(5,200,000)	(14,995,166)
Balance as at 31 December 2019	-	94,228,627	111,385,943	26,198,852	18,214,454	20,013,360	270,041,236
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
Carrying Value							
As at 31 December 2019	115,000,000	27,392,823	40,278,777	12,923,484	16,159,858	26,758,140	238,513,082
As at 31 December 2020	112,125,000	12,752,301	28,274,417	14,880,065	15,240,237	36,824,746	220,096,766

(a) The cost of fully depreciated assets still in use in the Company as at 31st December 2020 was Rs. 150,114,423.83/- (2019 - Rs. 156,311,652.61/-)

(b) **Land and Building (Condominium)**

	Address	Extent	Date of valuation	Market value
Property at Pettah	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.

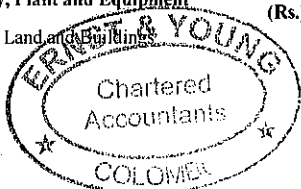
If building were stated at historical cost, the carrying amounts would have been as follows:

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



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,	2020	2019
	Rs.	Rs.
Cost		
Balance at 01 January	309,681,484	253,258,443
Additions during the year	-	-
Disposals during the Year	-	-
Balance at 31 December	<u>309,681,484</u>	<u>253,258,443</u>
Accumulated depreciation		
Balance at 01 January	-	-
Charge for the year	(37,196,844)	(36,477,065)
Disposals during the Year	-	-
Balance as at 31 December	<u>272,484,640</u>	<u>216,781,378</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 2019 recognised under SLFRS 16	202,201,532	227,735,828
Finance cost on lease liability of right to use assets	30,396,062	29,992,096
Payments during the year	38,167,265	55,526,392
Lease liabilities as at 31 December 2020	<u>270,764,859</u>	<u>202,201,532</u>

Maturity analysis – Contractual undiscounted cash flows

	2020	2019
	Rs.	Rs.
Less than one year	22,007,747	32,978,733
Between one and five years	156,550,083	174,650,276
More than five years	92,207,029	26,448,967
Total undiscounted lease liabilities at 31 December	<u>270,764,859</u>	<u>202,201,532</u>

iii Amounts recognised in profit or loss

Leases under SLFRS 16	2020	2019
	Rs.	Rs.
Depreciation of Right of Use Assets	37,196,844	36,477,065
Finance cost on lease liability of right to use assets	30,396,062	29,992,096
	<u>67,592,906</u>	<u>66,469,161</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

22. INTANGIBLE ASSETS	2020 Rs.	2019 Rs.
Cost		
Balance at 01 st January	165,898,568	147,031,086
Additions during the year	21,774,782	18,867,482
Disposals during the Year	-	-
Balance at 31 st December	<u>187,673,350</u>	<u>165,898,568</u>
Accumulated Amortization		
Balance at 01 st January	137,483,907	117,039,871
Transfers	-	-
Amortization for the year	19,279,519	20,444,036
Disposals during the Year	-	-
Balance at 31 st December	<u>156,763,426</u>	<u>137,483,907</u>
Net Book Value	<u>30,909,924</u>	<u>28,414,661</u>

The cost of fully depreciated assets still in use in the Company as at 31st December 2020 was Rs. 142,721,493.68/- (2019 - Rs. 103,583,830.39/-)

23. OTHER ASSETS		
Deposits and prepayments	22,033,641	36,649,059
Sundry deposits	1,917,658	1,121,658
Prepaid staff benefits	62,916,624	71,690,154
Others	5,095,910	4,279,624
	<u>91,963,833</u>	<u>113,740,495</u>

24. DUE TO BANKS	2020 Rs.	2019 Rs.
Borrowings from foreign banks	2,571,043,848	1,273,593,063
Borrowings from local banks	-	-
	<u>2,571,043,848</u>	<u>1,273,593,063</u>

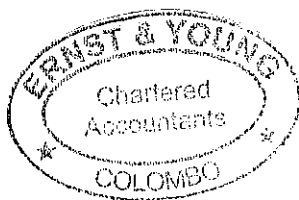
25. DEPOSITS FROM CUSTOMERS	2020 Rs.	2019 Rs.
Total Deposits from customers	21,559,913,545	22,045,607,438
	<u>21,559,913,545</u>	<u>22,045,607,438</u>

a. Product wise analysis of deposits from customers

Demand deposits (current accounts)	2,072,011,070	2,032,134,844
Savings deposits	6,462,846,776	3,823,306,239
Fixed deposits	12,179,328,107	15,447,689,155
Certificate of deposits	133,659,445	207,682,631
Call deposits	5,178,356	29,415,169
Margin deposits	213,534,046	159,948,353
Other deposits	493,355,745	345,431,047
	<u>21,559,913,545</u>	<u>22,045,607,438</u>

b. Currency wise analysis of deposits from customers

Sri Lanka rupee	16,254,820,604	15,905,095,961
United States dollar	5,190,670,642	4,846,611,500
Great Britain pound	29,804,713	67,739,870
Euro	84,472,969	1,226,024,205
Others	144,616	135,902
	<u>21,559,913,545</u>	<u>22,045,607,438</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

26. OTHER BORROWINGS	2020 Rs.	2019 Rs.
Securities sold under repurchase agreements	94,929,602	89,494,331
Refinance borrowings	58,740,664	53,474,142
	153,670,266	142,968,473

27. DEFERRED TAX	Asset		Liability		Net	
	31.12.2020	31.12.2019	31.12.2020	31.12.2019	31.12.2020	31.12.2019
Property, Plant and Equipment	-	-	24,655,427	24,319,305	24,655,427	24,319,305
Revaluation Gain	-	-	26,864,548	26,864,548	26,864,548	26,864,548
Asset under Finance Leases	-	-	3,027,428	12,202,467	3,027,428	12,202,467
Asset under SLFRS 16 Leases	4,454,068	-	-	3,063,976	(4,454,068)	12,202,467
Allowance for loss on FVOCI investment securities	-	-	6,905,485	4,359,678	6,905,485	4,359,678
Employee Benefit obligation	27,546,824	28,611,916	-	-	(27,546,824)	(28,611,916)
Allowance for loan losses	39,863,526	26,598,077	-	-	(39,863,526)	(26,598,077)
	71,864,418	55,209,993	61,452,887	70,809,974	(10,411,530)	15,599,981

27.1 Reconciliation of Deferred Tax 2020	Balance 1 Jan	Recognised in Profit or Loss	Recognised in Equity	Balance 31 Dec
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
Total	15,599,981	(32,670,090)	6,658,579	(10,411,530)
2019				
	Balance 1 Jan	Recognised in Profit or Loss	Recognised in Equity	Balance 31 Dec
Liability				
Property, Plant and Equipment	37,053,138	(12,733,833)	-	24,319,305
Revaluation Gain	22,507,478	-	4,357,070	26,864,548
Asset under Finance Leases	9,068,673	3,133,794	-	12,202,467
Asset under SLFRS 16 Leases	-	3,063,976	-	3,063,976
	68,629,289	(6,536,063)	4,357,070	66,450,296
Assets				
FVOCI Reserve	2,820,794	-	(7,180,472)	(4,359,678)
Employee Benefit obligation	25,773,660	3,616,875	(778,619)	28,611,916
Allowance for loss on FVOCI investment securities	1,703,882	1,353,652	-	3,057,534
Allowance for loan losses	23,663,131	(122,589)	-	23,540,542
	53,961,467	4,847,939	(7,959,091)	50,850,315
	14,667,822	(11,384,002)	12,316,161	15,599,981



MCB Bank Limited - Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
Year ended 31 December 2020

28. PROVISIONS

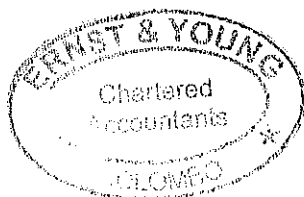
	2020 Rs.	2019 Rs.
Loan commitment issued	9,197,271	10,398,051
Financial guarantee issued	4,190,152	2,091,244
	13,387,424	12,489,295

Movements in Impairment charges during the year

	Loan commitment		Financial Guarantee	
	2020	2019	2020	2019
As at 1 January				
Adjustment on initial application of SLFRS 9	10,398,051	9,139,192	2,091,244	4,014,069
Adjusted balance as at 1 January	10,398,051	9,139,192	2,091,244	4,014,069
Charge/(Write back) to statement of Profit / loss write-off/(Recoveries) during the year	(1,200,780)	1,258,859	2,098,908	(1,922,825)
Exchange movement	-	-	-	-
As at 31 December	9,197,271	10,398,051	4,190,152	2,091,244

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 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	9,197,271	-	4,190,152	-	13,387,424
Total		9,197,271		4,190,152	13,387,424
As at 1 January 2019	9,139,173	19	1,225,276	2,788,793	13,153,261
Charge/(Write back) to statement of Profit / loss	1,249,532	9,327	578,576	(2,501,401)	(663,966)
write-off/(Recoveries) during the year	-	-	-	-	-
Exchange movement	-	-	-	-	-
As at 31 December 2019	10,388,705	9,346	1,803,852	287,392	12,489,295
Total		10,398,051		2,091,244	12,489,295



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

29. OTHER LIABILITIES	2020 Rs.	2019 Rs.
Sundry creditors	12,392,785	12,523,173
Defined Benefit Obligation (Note 29.1)	98,381,620	102,185,416
Cheques sent on Clearing	478,571,857	298,334,153
Pay order issued	56,926,038	50,344,414
Other payables	180,568,007	203,724,911
Lease liability (Note 21.b.ii)	270,764,859	202,201,532
	1,097,605,166	869,313,599

29.1 Defined Benefit Obligation	2020 Rs.	2019 Rs.
Opening defined benefit obligation	102,185,416	92,048,783
Movement in the present value of employee benefit liability:		
Interest cost	10,033,390	10,125,366
Current service cost	6,762,884	7,482,529
Gratuity paid during the year	(5,911,600)	(4,690,483)
Actuarial (gain) /losses	(14,688,470)	(2,780,779)
Balance as at 31 December	98,381,620	102,185,416

The expense recognised in the income statement

Interest cost	10,033,390	10,125,366
Current service cost	6,762,884	7,482,529
	16,796,274	17,607,895

Recognised in other comprehensive income

Actuarial (gain)/loss recognised	(14,688,470)	(12,917,412)
	(14,688,470)	(12,917,412)

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

Discount rate at 31 December	8%	10%
Future salary increases	8%	11%
Staff Turnover rate	9%	10%
Disability rate (of mortality table)	10%	
Retirement age 55 years		

An independent Actuarial valuation of the retirement benefit obligation was carried out as at 31 December 2020 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.

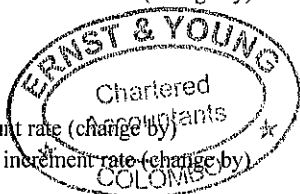
Sensitivity analysis

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.

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)

2019	Change In Assumption		
	Percentage	Increase	Decrease
Discount rate (change by)	1%	(4,491,183)	5,370,073
Salary increment rate (change by)	1%	5,721,425	(4,902,849)



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

29. OTHER LIABILITIES (Contd...)

29.1 Defined Benefit Obligation (Contd...)

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

Information about maturity profile of the Defined Benefit Obligation as of 31 December 2020 are as below,

Within the next 12 months	25,582,741
Between 1 and 2 years	17,754,095
Between 3 and 5 years	26,111,206
Beyond 5 years	28,933,578
Total	98,381,620
Weighted average duration of defined benefit obligation (years)	4.76

30. ASSIGNED CAPITAL

	2020 Rs.	2019 Rs.
Opening Balance	3,969,508,163	3,969,508,163
Capital Infusion during the year	-	-
Closing Balance	<u>3,969,508,163</u>	<u>3,969,508,163</u>

31. RESERVES

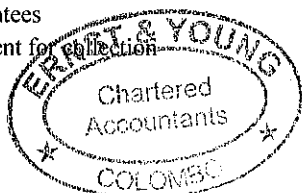
	2020 Rs.	2019 Rs.
Statutory Reserve Fund		
Opening balance at 01 January	249,434,154	232,186,097
Transfer during the period	10,334,754	17,248,057
Closing balance at 31 December	<u>259,768,908</u>	<u>249,434,154</u>

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)	5,233,291,517	3,901,602,674
Lease commitments	-	-
Other commitments on forwards and swaps	8,076,554,700	4,186,146,000
Repossessed properties	664,650,000	664,650,000
	<u>13,974,496,217</u>	<u>8,752,398,674</u>
Contingencies		
Acceptance (Note 28)	3,625,988,612	1,527,865,809
Documentary credits (Note 28)	2,508,250,237	1,997,694,187
Guarantees	1,651,474,000	855,459,240
Bills sent for collection	2,876,938,000	1,643,641,049
	<u>10,662,650,849</u>	<u>6,024,660,285</u>
	<u>24,637,147,066</u>	<u>14,777,058,959</u>



NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

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 2020

ASSETS	Note	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
Financial assets at amortised cost					-
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

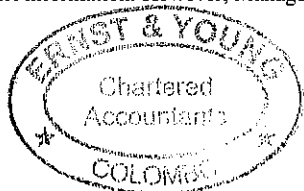
LIABILITIES		FVTPL Rs.	Amortised cost Rs.	Total Rs.
Due to Banks	24	-	2,571,043,848	2,571,043,848
Derivative Financial Instruments	17	6,702,043	-	6,702,043
Deposits from customers	25	-	21,559,913,545	21,559,913,545
Other Borrowings	26	-	153,670,266	153,670,266
Total Financial Liabilities		6,702,043	24,284,627,659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

As at 31 December 2019

ASSETS		FVTPL Rs.	FVOCI Rs.	Amortised cost Rs.	Total Rs.
Cash and Cash Equivalents	14	-	-	267,190,334	267,190,334
Balances with Central Banks	15	-	-	1,280,646,949	1,280,646,949
Placement with Banks	16	-	-	1,295,306,147	1,295,306,147
Derivative Financial Instruments	17	-	-	-	-
Financial assets at amortised cost					-
Loans and Advances to customers	18	-	-	21,089,578,777	21,089,578,777
Debt and other financial instrument	19	-	-	2,284,430,790	2,284,430,790
Investment securities - Measured at	20	-	4,292,836,583	-	4,292,836,583
Total Financial Assets		-	4,292,836,583	26,217,152,997	30,509,989,580

LIABILITIES		FVTPL Rs.	Amortised cost Rs.	Total Rs.
Due to Banks	24	-	1,273,593,063	1,273,593,063
Derivative Financial Instruments	17	143,396,348	-	143,396,348
Deposits from customers	25	-	22,045,607,438	22,045,607,438
Other Borrowings	26	-	142,968,473	142,968,473
Total Financial Liabilities		143,396,348	23,462,168,974	23,605,565,322

* 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 2020

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 2020	Level 1	Level 2	Level 3	Total
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	3,627,390,767	-	-	3,627,390,767
	3,627,390,767	-	-	3,627,390,767
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	6,702,043	-	6,702,043
Forward foreign exchange contracts	-	-	-	-
	-	6,702,043	-	6,702,043
31 December 2019				
Financial Assets				
Derivative financial instruments				
Currency swaps	-	-	-	-
Forward foreign exchange contracts	-	-	-	-
	-	-	-	-
Investment securities at FVOCI				
Government of Sri Lanka treasury bills	4,292,836,583	-	-	4,292,836,583
	4,292,836,583	-	-	4,292,836,583
Financial Liabilities				
Derivative financial instruments				
Currency swaps	-	143,396,348	-	143,396,348
Forward foreign exchange contracts	-	-	-	-
	-	143,396,348	-	143,396,348



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	2020	
	Carrying amount Rs.	Fair value Rs.
Assets		
Cash and Cash Equivalents	289,328,106	289,328,106
Balances with Central Banks	743,866,255	743,866,255
Placements with Banks	3,016,632,723	3,016,632,723
Loans and receivables to customers	15,201,987,841	14,902,361,499
Debt and Other Financial Instruments at Amortised Cost	3,627,390,767	3,627,390,767
Liabilities		
Due to Banks	2,571,043,848	2,571,043,848
Due to Other Customers	21,559,913,545	21,559,913,545
Other Borrowings	153,670,266	153,670,266

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

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

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

Loans and advances to other customers

More than 78.34% 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 2020 was Rs 1,589.4 Mn and 28.69 Mn as against its carrying value which amounted to Rs 1,293.06 Mn and Rs 25.47 Mn respectively.

Debt investments at amortised cost

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

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

Due to Banks

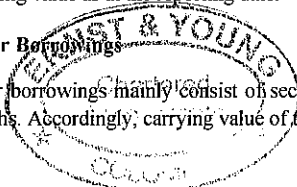
All amounts due to other banks as at the reporting date have a remaining contractual maturity of less than three months. Therefore fair value of amounts due to banks approximate to the carrying value as at the reporting date.

Due to other customers

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

Other Borrowings

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



MCB Bank Limited - Sri Lanka Branch

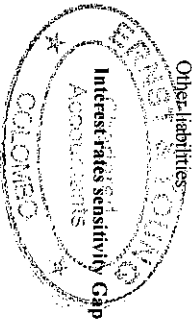
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

34. (i) 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	-	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
Total Liabilities	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



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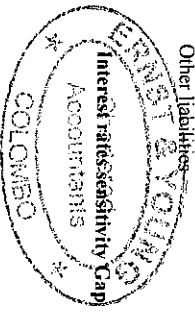
NOTES TO THE FINANCIAL STATEMENTS

Year ended 31 December 2020

34. (ii) MATURITY ANALYSIS OF ASSETS AND LIABILITIES

(a) An analysis of the total assets of the Bank as at 31st 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 31/12/2019 Rs.
Interest bearing assets									
Balances with central banks	245,047,115	-	245,047,115	-	-	-	-	-	245,047,115
Placement with banks	667,188,487	-	667,188,487	-	-	-	-	-	667,188,487
Loans and receivables to other customers	21,089,578,777	-	16,999,358,939	2,348,293,524	1,402,402,392	248,593,206	90,930,716	-	21,089,578,777
Debt investments at amortised cost	2,284,430,790	-	354,150,134	1,562,912,654	367,368,002	-	-	-	2,284,430,790
Investment securities at FVOCI	4,289,806,583	-	3,058,067,800	1,231,738,783	-	-	-	-	4,289,806,583
Non Interest bearing assets									
Cash and cash equivalents	267,190,334	-	267,190,334	-	-	-	-	-	267,190,334
Balances with central banks	1,035,599,834	-	1,035,599,834	-	-	-	-	-	1,035,599,834
Placement with banks	628,117,660	-	628,117,660	-	-	-	-	-	628,117,660
Derivative financial instrument	-	-	-	-	-	-	-	-	-
Investment securities at FVOCI	3,030,000	-	-	-	-	-	3,030,000	-	3,030,000
Property, plant and equipment	238,513,082	-	-	-	-	-	-	238,513,082	238,513,082
Intangible assets	28,414,661	-	-	-	-	-	-	28,414,661	28,414,661
Other assets	113,740,495	-	113,740,495	-	-	-	-	-	113,740,495
Total Assets	31,107,439,196	-	23,368,460,797	5,142,944,961	1,769,770,394	248,593,206	93,960,716	483,709,121	31,107,439,196
Interest bearing liabilities									
Due to banks	1,273,593,063	-	1,273,593,063	-	-	-	-	-	1,273,593,063
Derivative financial instrument	143,396,348	143,396,348	-	-	-	-	-	-	143,396,348
Due to other customers	19,508,093,194	-	13,387,969,834	6,109,094,525	11,028,835	-	-	-	19,508,093,194
Other borrowings	89,494,331	-	-	89,494,331,00	-	-	-	-	89,494,331
Lease liability against right of use asset	202,201,532	-	1,102,289	21,887,957,63	63,972,181	88,790,137	26,448,967	-	202,201,532
Non Interest bearing liabilities									
Due to other customers	2,537,514,244	-	2,537,514,244	-	-	-	-	-	2,537,514,244
Other borrowings	53,474,142	-	53,474,142	-	-	-	-	-	53,474,142
Current tax liabilities	54,478,535	-	-	54,478,535	-	-	-	-	54,478,535
Deferred tax liabilities	15,599,981	-	-	15,599,981	-	-	-	-	15,599,981
Provisions	12,489,295	-	12,489,295	-	-	-	-	-	12,489,295
Other liabilities	869,313,599	-	869,313,599	-	-	-	-	-	869,313,599
	24,759,648,264	143,396,348	18,135,456,466	6,290,555,330	75,001,016	88,790,137	26,448,967	-	24,759,648,264
	6,347,790,932	(143,396,348)	5,233,604,331	(1,147,610,369)	1,694,769,378	159,803,069	67,511,749	483,709,121	6,347,790,931



MCB Bank Limited - Sri Lanka Branch

NOTES TO THE FINANCIAL STATEMENTS

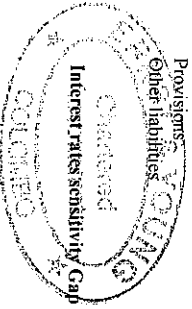
Year ended 31 December 2020

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 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



MCB Bank Limited - Sri Lanka Branch
NOTES TO THE FINANCIAL STATEMENTS
 Year ended 31 December 2020

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

	2020 Rs.	2019 Rs.
Short term employment benefits	73,277,855	82,750,637
Post employment benefits	3,242,347	4,665,420
	<u>76,520,202</u>	<u>87,416,057</u>

35.1.b Transactions with KMPs

Statement of Financial Position items

Assets

Loans & advances 3,882,716 6,649,168

Liabilities

Deposits 12,478,734 38,540,372

35.1.c Direct & Indirect Accommodation

Direct & indirect accommodation as % of the Bank's regulatory capital 0.06% 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

Related Parties	Nature of the transaction	2020	2019
		Rs.	Rs.
MCB Pakistan	Overseas borrowing	-	-
	Vostro balances	256,254,322	166,185,319
	Nostro balance	(34,971,223)	(38,281,955)
	Interest expense	-	-
	HO Expenses	94,131,751	108,531,508
MCB Bahrain	Overseas borrowing	-	-
	Nostro Balance	225,716	1,125,122
	Deposit	377,691,912	481,724,811
	Interest expense	19,273,325	31,097,747
MCB Leasing CJSC Azerbaijan	Lending	379,253,265	484,937,330
	Deposit	-	2,037,539
	Interest Income	26,362,888	37,969,294
	Interest expense	-	-
MCB Dubai	Overseas borrowing	565,405,737	364,754,501
	Interest expense	13,148,131	4,641,570
	Nostro Balance	824,902	3,019,684
PT Bank Maybank Indonesia	Nostro balance	-	16,850,720

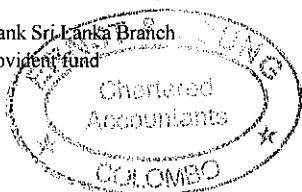
35.2.b Direct and Indirect Accommodation

Direct and indirect accommodation as a % of the Bank's regulatory capital 6% 8%

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	2020	2019
MCB Bank Sri Lanka Branch	Deposits	150,963,155	138,433,809
Staff Provident fund	Repurchase agreements	94,929,602	87,551,320
	Interest expenses	18,292,777	22,026,610
	Contribution made	17,221,040	18,009,650



36. EVENTS OCCURRING AFTER THE REPORTING DATE

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

36.1 Comparative Information

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

36.2 Implementation of proposed changes to the Inland Revenue Act, No. 24 of 2017 - Revision of Income Tax

As instructed by the Ministry of Finance, the Inland Revenue Act has been proposed for changes to the corporate tax rate from 28% to 24% with effective from 01.01.2020. However, the bill has not been enacted as of the reporting date. Hence, the impact to the proposed changes have not been considered in the Income tax and deferred tax computations of the Bank. (Note 27)

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 31.12.2020	As of 31.12.2019
Regulatory Capital (LKR 000)		
Common Equity Tier 1 Capital	6,595,628	6,361,680
Tier 1 Capital	6,595,628	6,361,680
Total Capital	6,738,025	6,077,095
Regulatory Capital Ratio (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00%)	37.75	31.65
Tier 1 Capital Ratio (Minimum Requirement - 8.50%)	37.75	31.65
Total Capital Ratio (Minimum Requirement - 12.50%)	38.56	30.24
Regulatory Liquidity		
Statutory Liquid Assets (LKR 000)	14,640,812	7,772,906
Statutory Liquid Assets Ratio % -Minimum requirement 20%		
Domestic Banking Unit (%)	64.2	33.3
Off Shore Banking Unit (%)	63.0	33.8
Liquidity Coverage Ratio (%) - Rupee (Minimum Requirement - 90%)	599.23	167.00
Liquidity Coverage Ratio (%) - All currencies (Minimum Requirement - 90%)	337.54	187.69

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 31.12.2020	As of 31.12.2019
Common Equity Tier 1 (CET1) Capital after Adjustments	6,595,628	6,361,680
Common Equity Tier 1 (CET1) Capital	6,626,538	6,390,095
Equity Capital (Stated Capital)/Assigned Capital	3,969,508	3,969,508
Reserve Fund	242,521	232,186
Published Retained Earnings/(Accumulated Retained Losses)	2,233,456	2,036,781
Published Accumulated Other Comprehensive Income (OCI)	181,053	151,619
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	30,910	28,415
Goodwill (net)	-	-
Intangible Assets (net)	30,910	28,415
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	142,397	(284,585)
Tier 2 Capital	142,397	181,798
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	142,397	181,798
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	466,383
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	6,595,628	6,361,680
Total Tier 1 Capital	6,595,628	6,361,680
Total Capital	6,738,025	6,077,095

Item	Amount (LKR '000)	
	As at 31.12.2020	As of 31.12.2019
Total Risk Weighted Assets (RWA)	17,472,352	20,097,704
RWAs for Credit Risk	15,433,493	18,098,666
RWAs for Market Risk	231,925	33,005
RWAs for Operational Risk	1,806,934	1,966,033
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	37.75	31.65
of which: Capital Conservation Buffer (%)	-	-
of which: Countercyclical Buffer (%)	-	-
of which: Capital Surcharge on D-SIBs (%)	-	-
Total Tier 1 Capital Ratio (%)	37.75	31.65
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	38.56	30.24
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 31.12.2020	As at 31.12.2019
Tier 1 Capital	6,595,628	6,361,680
Total Exposures	45,799,746	38,345,226
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	32,097,050	30,896,400
Derivative Exposures	11,512,726	5,719,523
Securities Financing Transaction Exposures	-	-
Other Off-Balance Sheet Exposures	2,159,060	1,729,303
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	14.40%	16.59

MCB BANK LIMITED - SRI LANKA BRANCH

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

Disclosure 4

Bael III Computation of Liquidity Coverage Ratio - All Currencies

Item	Amount (LKR '000)			
	As at 31.12.2020		As of 31.12.2019	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	-	9,187,864	5,095,275	5,095,275
Total Adjusted Level 1A Assets	-	9,187,864	5,095,275	5,095,275
Level 1 Assets	-	9,187,864	5,095,275	5,095,275
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	-	9,909,027	26,666,509	8,498,341
Deposits	-	873,730	8,842,451	884,245
Unsecured Wholesale Funding	-	8,030,885	9,647,477	6,773,175
Secured Funding Transactions	-	-	-	-
Contingent Funding Obligations	-	997,768	8,053,980	718,319
Additional Requirements	-	6,644	122,601	122,601
Total Cash Inflows	-	7,187,015	9,899,510	5,783,627
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	-	7,166,821	9,899,510	5,783,627
Operational Deposits	-	-	-	-
Other Cash Inflows	-	20,194	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		337.54		187.69

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 31.12.2020
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

Disclosure 6

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

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

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

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

Disclosure 7

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

As at 31.12.2020	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	13,033,889	-	13,033,889	-	713,944	5.48
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	3,015,333	2,386,302	3,015,333	47,852	1,425,657	46.54
Claims on Financial Institutions	2,169,957	40,900	1,254,957	20,450	703,814	55.18
Claims on Corporates	7,552,159	8,158,873	5,376,684	1,854,624	7,228,393	99.96
Retail Claims	335,853	4,100	99,205	2,050	95,388	94.21
Claims Secured by Residential Property	1,310,770	10,000	1,310,770	5,000	1,284,894	97.65
Claims Secured by Commercial Real Estate	3,032,301	1,129,201	2,628,880	323,630	2,952,510	100.00
Non-Performing Assets (NPAs)	625,692	-	625,692	-	640,263	102.33
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	674,927	-	674,927	-	385,599	57.13
Total	31,753,910	11,729,375	28,023,366	2,253,607	15,433,493	50.97

MCB BANK LIMITED - SRI LANKA BRANCH

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

Disclosure 8

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

Description	Amount in (LKR '000) (Post CCF & GRM)							Total Credit Exposures Amount	
	As at 31.12.2020	0%	20%	50%	75%	100%	150%		>150%
Claims on Central Government and Central Bank of Sri Lanka	9,464,167	3,569,722	-	-	-	-	-	-	13,033,889
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	-	2,044,793	3,388	1,015,004	-	-	-	-	3,063,185
Claims on Financial Institutions	-	-	1,143,185	132,222	-	-	-	-	1,275,407
Claims on Corporates	-	3,644	-	7,227,664	-	-	-	-	7,231,309
Retail Claims	-	-	-	23,468	77,786	-	-	-	101,255
Claims Secured by Residential Property	-	-	-	61,752	1,254,019	-	-	-	1,315,770
Claims Secured by Commercial Real Estate	-	-	-	-	2,952,510	-	-	-	2,952,510
Non-Performing Assets (NPAs)	-	-	-	5,856	584,836	35,000	-	-	625,692
Higher-risk Categories	-	-	-	-	-	-	-	-	-
Cash Items and Other Assets	289,328	-	-	-	-	385,599	-	-	674,927
Total	9,753,495	5,618,159	1,214,181	23,468	13,632,670	35,000	-	-	30,276,973

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 2019
(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	28,991	4,126
Capital Charge for Market Risk (a) + (b) + (c) * CAR	28,991	4,126

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 31.12.2020		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		1,614,110	1,620,223	1,283,003
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			1,806,934		
The Standardised Approach			-		
The Alternative Standardised Approach			-		
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach			225,867		
The Standardised Approach			-		
The Alternative Standardised Approach			-		

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

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

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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 31.12.2020	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	32,272,317	32,097,050	27,956,343	-	4,141,758
Cash and Cash Equivalents	289,328	289,328	289,328	-	-
Balances with Central Banks	743,866	743,845	743,845	-	-
Placements with Banks	3,016,633	3,016,384	3,016,384	-	1,051
Derivative Financial Instruments	42,374	-	-	-	-
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	15,201,988	15,326,223	11,216,426	-	4,109,797
Financial Investments - Available- For Sale	8,724,871	8,720,322	8,720,322	-	-
Financial Investments - Held-To- Maturity	3,627,391	3,584,439	3,584,439	-	-
Investments in Subsidiaries	-	-	-	-	-
Investments in Associates and Joint Ventures	-	-	-	-	-
Property, Plant and Equipment	220,097	220,097.08	220,097	-	-
Right-of-Use assets	272,485	-	-	-	-
Investment Properties	-	-	-	-	-
Goodwill and Intangible Assets	30,910	30,910	-	-	30,910
Deferred Tax Assets	10,412	-	-	-	-
Other Assets	91,964	165,502	165,502	-	-
Liabilities	25,455,997	25,135,673	-	-	-
Due to Banks	2,571,044	3,634,074	-	-	-
Derivative Financial Instruments	6,702	-	-	-	-
Other Financial Liabilities Held-For-Trading	-	-	-	-	-
Financial Liabilities Designated at Fair Value Through Profit or Loss	-	-	-	-	-
Due to Other Customers	21,559,914	20,339,708	-	-	-
Other Borrowings	153,670	90,000	-	-	-
Debt Securities Issued	-	-	-	-	-
Current Tax Liabilities	53,675	22,147	-	-	-
Deferred Tax Liabilities	-	15,600	-	-	-
Other Liabilities	1,110,993	1,034,144	-	-	-
Due to Subsidiaries	-	-	-	-	-
Subordinated Term Debts	-	-	-	-	-
Off-Balance Sheet Liabilities	24,637,147	24,637,148	2,159,060	94,546	-
Guarantees	1,651,474	1,651,474	149,451	-	-
Performance Bonds	-	-	202,462	-	-
Letters of Credit	2,508,250	2,508,250	501,650	-	-
Other Contingent Items	6,502,927	11,702,544	725,198	94,546	-
Undrawn Loan Commitments	5,233,292	5,233,292	580,300	-	-
Other Commitments	8,741,205	3,541,588	-	-	-
Shareholders' Equity					
Equity Capital (Stated Capital)/Assigned Capital					
of which Amount Eligible for CET1	6,228,213.74	6,193,842	-	-	-
of which Amount Eligible for AT1	-	-	-	-	-
Retained Earnings	217,271	298,620	-	-	-
Accumulated Other Comprehensive Income	301,756	399,835	-	-	-
Other Reserves	69,080	69,080	-	-	-
Total Shareholders' Equity	6,816,320	6,961,377	-	-	-

MCB BANK LIMITED - SRI LANKA BRANCH

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

Disclosure 12

Explanations of Differences between Accounting and Regulatory Exposure Amounts

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

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

Disclosure 13

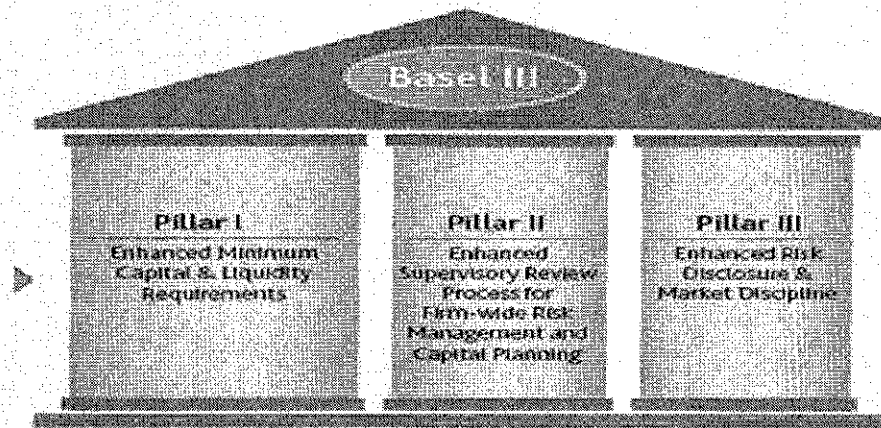
Bank Risk Management Approach

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

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

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

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 creataturity amount, minus any reduction for impairment. Hence, the amortis

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

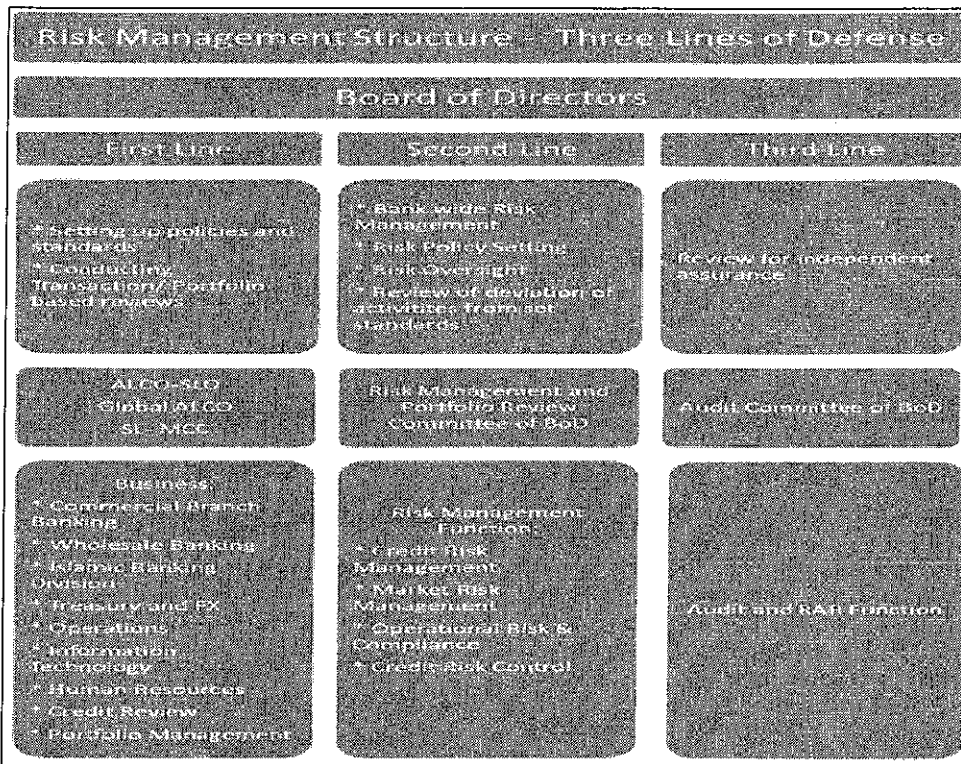
- To establish common principles, standards for the management and control of all risks and to inform behavior across the Bank.
- Provide a shared framework and language to improve awareness of risk management processes among all stakeholders.
- To provide clear accountability and responsibility for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

Disclosure 13

MARKET RISK

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

The categories of market risk of the Bank are:

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

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

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

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

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

LIQUIDITY RISK

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

Disclosure 13

MANAGING INTEREST RATE RISK

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

ASSETS AND LIABILITIES COMMITTEE (ALCO)

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

OPERATIONAL RISK

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

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

- Loss event data collection

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

- Risk & control self-assessment (RCSA)

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

- Ad-hoc incident reporting

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

- New product, service or process launch

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

- Staff Training

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

Disclosure 13

COMPLIANCE RISK

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

REPUTATION RISK

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

IT RISK

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

MCB BANK LIMITED - SRI LANKA BRANCH

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.