MCB BANK LIMITED - SRI LANKA BRANCH

FINANCIAL STATEMENTS
31 DECEMBER 2024

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INDEPENDENT AUDITOR'S REPORT

To the Head Office 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 2024, and the income statement, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information.

In our opinion, the accompanying financial statements give a true and fair view of the financial position of the Branch as at 31 December 2024, and of its financial performance and its cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Basis for Opinion

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

Other Matter

The financial statements of the branch for the year ended 31 December 2023 were audited by another firm of auditors whose report, dated 28 March 2024 expressed an unmodified opinion on those statements.

Other Information

Branch Management is responsible for the other information. The other information comprises the information included in the supplemental Basel III disclosures but does not include the financial statements and our auditor's report thereon.

Our opinion on the financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit, or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

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Responsibilities of the Branch Management and Those Charged with Governance for the Financial Statements

Branch 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 Branch 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, Branch management is responsible for assessing the Branch'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 Branch management either intends to liquidate the Branch or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Branch'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.

As part of an audit in accordance with SLAuSs, we exercise professional judgement and maintain professional scepticism 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 Branch's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by Branch management.

- Conclude on the appropriateness of Branch 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 Branch'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 Branch to cease to continue as a going concern.

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- 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 the Branch Management 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 legal and other regulatory requirements

Requirements of section 39 of the Banking Act No 30 of 1988 (as amended by Banking Act No.24 of 2024)

We have obtained all the information and explanations that were required for the audit. As far as appears from our examination, in our opinion, proper accounting records have been kept by the Bank.

In our opinion the disclosures made in the accompanying financial statements are in accordance with the requirements of Circular No. 05 of 2024 issued by Central Bank of Sri Lanka.

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CHARTERED ACCOUNTANTS

COLOMBO

28 February 2025

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Colombo

MCB BANK LIMITED - SRI LANKA BRANCH

INCOME STATEMENT

FOR THE YEAR ENDED 31 DECEMBER

(All amounts are in Sri Lankan Rupees unless otherwise stated)

	Note	2024	2023
Interest income		2,635,778,601	4,139,378,624
Interest expenses		(1,081,327,283)	(1,373,373,692)
Net interest income	7	1,554,451,318	2,766,004,932
Fee and commission income		111,379,909	99,330,933
Fee and commission expense		(27,118,791)	(25,606,678)
Net fee and commission income	8	84,261,118	73,724,255
Net gain/(loss) from trading		45,067	47,025
Net fair value gains/(losses) from financial instruments at fair value through profit or loss		-	-
Net gains/(losses) from derecognition of financial assets		-	-
Other operating income	9	201,221,224	441,134,291
Total operating income		1,839,978,727	3,280,910,503
Impairment reversal/(charges)	10	190,477,091	(315,203,842)
Net operating income		2,030,455,818	2,965,706,661
Personnel expenses	11	(469,625,469)	(485,157,734)
Depreciation and amortization expenses	20,21	(88,876,627)	(84,750,068)
Other expenses	12	(503,808,068)	(444,756,836)
Operating profit before VAT & SSCL on financial services		968,145,654	1,951,042,023
Value Added Tax (VAT) on financial services		(217,652,153)	(367,566,216)
Social Security Contribution Levy (SSCL) on financial services		(29,845,422)	(51,762,041)
Operating profit after VAT & SSCL on financial services		720,648,079	1,531,713,766
Income Tax expenses	13	(337,737,838)	(554,970,203)
Profit for the year		**382,910,240**	**976,743,563**
Profit attributable to:			
Equity holders of the parent		382,910,240	976,743,563
Non-controlling interests		-	-

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 10 through 64 form an integral part of the financial statements.

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MCB BANK LIMITED - SRI LANKA BRANCH

STATEMENT OF COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER

(All amounts are in Sri Lankan Rupees unless otherwise stated)

	Note	2024	2023
Profit/(loss) for the year		**382,910,240**	**976,743,563**
Items that will be reclassified to income statement			
Exchange differences on translation of foreign operations		(154,186,732)	(232,915,163)
Net gains/(losses) on cash flow hedges		-	-
Net gains/(losses) on investments in debt instruments measured at fair value through other comprehensive income		(61,029,116)	84,499,449
Share of profits of associates and joint ventures		-	-
Debt instruments at fair value through other comprehensive income		-	-
Others (specify)		-	-
Less: Tax expense/ (reversal) relating to items that will be reclassified to income statement		15,849,057	(22,890,156)
Items that will not be reclassified to income statement			
Change in fair value on investments in equity instruments designated at fair value through other comprehensive income		-	-
Change in fair value attributable to change in the Bank's own credit risk on financial liabilities designated at fair value through profit or loss		-	-
Re-measurement of post-employment benefit obligations	27	(11,265,169)	(12,414,453)
Changes in revaluation surplus		-	-
Share of profits of associates and joint ventures		-	-
Others (specify)		-	-
Less: Tax expense relating to items that will not be reclassified to income statement		3,445,375	3,724,336
Other comprehensive income for the year, net of taxes		**(207,186,586)**	**(179,995,987)**
Total comprehensive income for the year		**175,723,654**	**796,747,576**
Attributable to:			
Equity holders of the parent		175,723,654	796,747,576
Non-controlling interests		-	-

Figures in brackets indicate deductions.

The Accounting policies and notes on pages 10 through 64 form an integral part of the financial statements.

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MCB BANK LIMITED - SRI LANKA BRANCH

STATEMENT OF FINANCIAL POSITION

AS AT 31 DECEMBER

(All amounts are in Sri Lankan Rupees unless otherwise stated)

	Note	2024	2023
ASSETS			
Cash and cash equivalents	14	380,321,626	284,369,614
Balances with Central Bank	15	585,401,484	1,077,674,807
Placements with banks	16	2,625,754,727	4,160,046,900
Derivative financial instruments	17	157,351	-
Financial assets recognized at fair value through profit or loss			
-measured at fair value		-	-
-designated at fair value		-	-
Financial assets at amortised cost			
-Loans and advances	18	9,839,910,074	9,546,297,171
-Debt and other instruments	19	-	-
Financial assets measured at fair value through other comprehensive income	19	11,695,234,943	12,933,559,995
Investments in subsidiaries		-	-
Investments in associates and joint ventures		-	-
Property, plant and equipment	20	267,710,772	289,460,523
Investment properties		-	-
Right-of-use assets	20	134,742,551	145,887,312
Intangible assets	21	23,414,910	31,943,809
Deferred tax assets	26	170,390,499	208,383,389
Current tax asset		-	-
Other assets	22	89,538,977	124,231,178
Total assets		**25,812,577,914**	**28,801,854,698**
LIABILITIES			
Due to banks	23	450,098,630	-
Derivative financial instruments	17	-	-
Financial liabilities recognized at fair value through profit or loss			
-measured at fair value		-	-
-designated at fair value		-	-
Financial liabilities at amortised cost			
-due to depositors	24	15,828,135,982	16,713,312,089
-due to debt securities holders		-	-
-due to other borrowers	25	6,485,468	1,901,503,296
Debt securities issued		-	-
Retirement benefit obligations	27	81,669,873	79,585,935
Current tax liabilities		86,077,621	321,312,227
Deferred tax liabilities		-	-
Other provisions	28	33,376,619	43,342,504
Other liabilities	29	826,835,679	930,252,477
Due to subsidiaries		-	-
Total liabilities		**17,312,679,872**	**19,989,308,528**
EQUITY			
Assigned capital	30	3,969,508,163	3,969,508,163
Statutory reserve fund	31	349,142,309	329,996,797
Retained earnings		3,137,618,432	3,270,111,104
Other reserves	32	1,043,629,138	1,242,930,106
Total equity		**8,499,898,042**	**8,812,546,170**
Total equity and liabilities		**25,812,577,914**	**28,801,854,698**
Commitments and contingencies	33	10,062,149,137	8,134,554,561
Memorandum Information			
Number of Employees		115	116
Number of Branches		05	05

Note: *Amounts stated are net of impairment and depreciation.*

The financial statements have been prepared in compliance with the requirements of the Central Bank of Sri Lanka regulations and guidelines. The Management is responsible for the preparation and presentation of these financial statements.

Approved and signed for and on behalf of the Management by:

Thushara Perera	Bandula Herath	Tahir Riaz
Department Head - Financial Control	*Assistant General Manager*	*Country General Manager*

The Accounting policies and notes on pages 10 through 64 form an integral part of the financial statements.

28 February 2025

Colombo

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Colombo

MCB BANK LIMITED - SRI LANKA BRANCH

STATEMENT OF CHANGES IN EQUITY

AS AT 31 DECEMBER

(All amounts are in Sri Lankan Rupees unless otherwise stated)

	Assigned capital	Statutory reserve fund	Revaluation reserve	OCI reserve	Retained earnings	Foreign currency translation reserve	Total
Balance as at 1 January 2023	3,969,508,163	281,159,619	141,798,700	5,739,251	3,020,592,412	1,266,698,025	8,685,496,170
Profit/(loss) for the year (net of tax)	-	-	-	-	976,743,563	-	976,743,563
Other comprehensive income (net of tax)	-	-	-	61,609,293	(8,690,117)	(232,915,163)	(179,995,987)
Total comprehensive income for the year	-	-	-	61,609,293	968,053,446	(232,915,163)	796,747,576
Transactions with equity holders recognised directly in equity							
Increase of assigned capital	-	-	-	-	-	-	-
Share options exercised	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-
Rights issue	-	-	-	-	-	-	-
Transfers to statutory reserve during the period	-	48,837,178	-	-	(48,837,178)	-	-
Dividends to equity holders	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	(669,697,576)	-	(669,697,576)
Total transactions with equity holders	-	48,837,178	-	-	(718,534,754)	-	(669,697,576)
Balance as at 31 December 2023	**3,969,508,163**	**329,996,797**	**141,798,700**	**67,348,544**	**3,270,111,104**	**1,033,782,862**	**8,812,546,170**
Balance as at 1 January 2024	3,969,508,163	329,996,797	141,798,700	67,348,544	3,270,111,104	1,033,782,862	8,812,546,170
Profit/(loss) for the year (net of tax)	-	-	-	-	382,910,240	-	382,910,240
Other comprehensive income (net of tax)	-	-	65,824	(45,180,060)	(7,885,618)	(154,186,732)	(207,186,586)
Total comprehensive income for the year	-	-	65,824	(45,180,060)	375,024,622	(154,186,732)	175,723,654
Transactions with equity Holders recognised directly in equity							
Increase of assigned capital	-	-	-	-	-	-	-
Share options exercised	-	-	-	-	-	-	-
Bonus issue	-	-	-	-	-	-	-
Rights issue	-	-	-	-	-	-	-
Transfers to statutory reserve	-	19,145,512	-	-	(19,145,512)	-	-
Dividends to equity holders	-	-	-	-	-	-	-
Profit transferred to head office	-	-	-	-	(488,371,782)	-	(488,371,782)
Total transactions with equity holders	**-**	**19,145,512**	**-**	**-**	**(507,517,294)**	**-**	**(488,371,782)**
Balance as at 31 December 2024	**3,969,508,163**	**349,142,309**	**141,864,524**	**22,168,484**	**3,137,618,432**	**879,596,130**	**8,499,898,042**

The Accounting policies and notes on pages 10 through 64 form an integral part of the financial statements.

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MCB BANK LIMITED - SRI LANKA BRANCH

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER

(All amounts are in Sri Lankan Rupees unless otherwise stated)

	Note	2024	2023
Cash flows from operating activities			
Interest receipts		2,639,919,970	4,195,052,466
Interest payments		(1,147,322,217)	(1,340,820,073)
Net commission receipts		84,261,118	73,724,255
Cash payments from other operating activities		201,221,224	440,875,058
Cash payments to employees and suppliers		(1,056,160,540)	(1,197,638,328)
Operating profit before changes in operating assets and liabilities (Note A)		721,919,555	2,171,193,378
Increase/ (decrease) in operating assets			
Balances with Central Bank of Sri Lanka		492,273,323	340,943,202
Proceed from maturity of other placements with banks		1,529,212,995	2,173,502,186
Financial assets at amortised cost – loans & advances		(111,887,789)	667,008,505
Other short term assets		34,534,850	(27,302,904)
Increase/(decrease) in operating liabilities			
Financial liabilities at amortised cost – due to depositors		(820,585,839)	972,933,763
Financial liabilities at amortised cost – due to debt securities holders		-	-
Financial liabilities at amortised cost – due to other borrowers		(1,443,514,532)	1,900,000,000
Other liabilities		(418,581,827)	(672,622,177)
Net cash generated from operating activities before income tax		**(16,629,264)**	**7,525,655,953**
Income tax paid		(534,913,730)	(605,044,903)
Net cash (used in) / from operating activities		**(551,542,994)**	**6,920,611,050**
Cash flows from investing activities			
Proceeds from the sale and maturity of financial investments		1,192,868,894	(6,170,497,164)
Purchase of property, plant and equipment		(13,408,810)	(2,072,224)
Net purchase of intangible assets		(9,417,425)	(20,407,049)
Net cash flow from acquisition of investment in subsidiaries, associates and joint ventures		-	-
Net cash flow from disposal of subsidiaries, associates and joint ventures		-	-
Dividends received from investment in subsidiaries and associates		-	-
Proceeds from sale of property, plant and equipment		-	890,647
Net cash flows generated from / (used in) investing activities		**1,170,042,659**	**(6,192,085,790)**
Cash flow from financing activities			
Net proceeds from the issue of ordinary share capital		-	-
Net proceeds from the issue of other equity instruments		-	-
Net proceeds from the issue of subordinated debt		-	-
Repayment of subordinated debt		-	-
Interest paid on subordinated debt		-	-
Dividend paid to non-controlling interest		-	-
Dividend paid to shareholders of the parent company		-	-
Dividend paid to holders of other equity instruments		-	-
Capital infusion from Head Office		-	-
Profit repatriations to Head Office		(488,371,782)	(669,697,576)
Payments of lease obligations		(32,765,789)	(31,198,269)
Decrease of securities sold under repurchase agreement		-	-
Net cash generated from /(used in) financing activities		**(521,137,571)**	**(700,895,845)**
Net increase in cash and cash equivalents		97,362,094	27,629,415
Net foreign exchange difference		(1,410,082)	(3,829,899)
Cash and cash equivalents at the beginning of the year		284,369,614	260,570,098
Cash and cash equivalents at the end of the year	14	**380,321,626**	**284,369,614**
Reconciliation of cash and cash equivalents			
Cash and cash equivalents	14	380,321,626	284,369,614
		380,321,626	**284,369,614**

The Accounting policies and notes on pages 10 through 64 form an integral part of the financial statements.

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MCB BANK LIMITED - SRI LANKA BRANCH

STATEMENT OF CASH FLOW

FOR THE YEAR ENDED 31 DECEMBER

(All amounts are in Sri Lankan Rupees unless otherwise stated)

	Note	2024	2023
Note A			
Reconciliation of operating profit before changes in operating assets and liabilities			
Profit before income tax expense		720,648,079	1,531,713,766
Adjustments for :			
Impairment charges/ (reversal) for loans and other losses	10	(190,477,091)	315,203,842
Amortisation of intangible assets	21	17,946,324	14,763,263
Depreciation of property, plant, equipment and Right-of-use assets	20	70,930,303	69,986,805
Provision on Head Office expenses		143,000,000	133,000,000
Profit on sale of property, plant and equipment	9	-	(259,233)
Loss/ (gain) on sale of securities		(45,067)	(47,025)
Provision for employee benefit	27.1	15,437,444	16,626,733
Amortisation of prepaid employee benefits		6,333,129	1,977,766
Accrual for interest receivable		4,141,369	55,673,842
Accrual for interest payable		(65,994,935)	32,553,619
Operating profit before changes in operating assets and liabilities		**721,919,555**	**2,171,193,378**

The Accounting policies and notes on pages 10 through 64 form an integral part of the financial statements.

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MCB BANK LIMITED - SRI LANKA BRANCH

NOTES TO THE FINANCIAL STATEMENTS 2024

(All amounts are in Sri Lankan Rupees unless otherwise stated)

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, granting loans and advances, 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 2024 were authorised for issue in accordance with a resolution of the management on 28 February 2025.

2 Basis of preparation

2.1 Statement of compliance

The Financial Statements of the Bank which comprise the Income Statement, Statement of Comprehensive Income, Statement of Financial Position, 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 for Domestic Banking Unit and United State Dollars as its functional currency for Foreign Currency Banking Unit books. 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.

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2 Basis of preparation (contd)

2.5 Use of estimates and judgments (contd)

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
- 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 27 - Employee retirement benefits; and
- Note 26 - 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 34.b.

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 Material accounting policies

3.1 Foreign Currency - Foreign currency transactions

The Bank uses Sri Lankan Rupees as their functional currency for Domestic Banking Unit and United State Dollars as its functional currency for Foreign Currency Banking Unit books. All exchange differences resulting from translation of functional currency balances to presentation currency are recognised in the equity through other comprehensive income.

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.

3.2 Recognition of Interest income and expense

Interest income and expense are recognized in profit or loss using the effective interest rate 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.

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MCB BANK LIMITED - SRI LANKA BRANCH

NOTES TO THE FINANCIAL STATEMENTS 2024 (CONTD)

3 Material accounting policies (contd)

3.2 Recognition of Interest income and expense (contd)

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.

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3 Significant accounting policies (contd)

3.6 Taxation expense (contd)

Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, and they relate to taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

4 Assets and liabilities and basis of measurement

4.1 Cash and cash equivalents

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

4.2 Statutory deposit with Central Banks

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

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;
- 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.

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4 Assets and liabilities and basis of measurement (contd)

4.3 Financial assets and financial liabilities (contd)

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
- 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.

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4 Assets and liabilities and basis of measurement (contd)

4.3 Financial assets and financial liabilities (contd)

4.3.2 Financial assets (contd)

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

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; and
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.

4 Assets and liabilities and basis of measurement (contd)

4.3 Financial assets and financial liabilities (contd)

4.3.4 Fair value measurement (contd)

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 derecognized) and the sum of.

- the consideration received (including any new asset obtained less any new liability assumed) and
- 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.

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4 Assets and liabilities and basis of measurement (contd)

4.3 Financial assets and financial liabilities (contd)

4.3.7 Derecognition (cont.)

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

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.

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4 Assets and liabilities and basis of measurement (contd)

4.3 Financial assets and financial liabilities (contd)

4.3.9 Identification, measurement and assessment of impairment of financial assets (contd)

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 Income statement.

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.

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4 Assets and liabilities and basis of measurement (contd)

4.3 Financial assets and financial liabilities (contd)

4.3.9 Identification, measurement and assessment of impairment of financial assets (contd)

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 34. 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 income statement. 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 assessed at inception and as per the Regulatory requirements.

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.

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4 Assets and liabilities and basis of measurement (contd)

4.6 Derivative Financial Instruments

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

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

4.7 Repurchase and reverse repurchase agreements

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

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

Remaining term to maturity of the eligible security	Minimum haircut (%)
Up to 1 year	4
More than 1 year up to 3 years	6
More than 3 years up to 5 years	8
More than 5 years up to 8 years	10
More than 8 years	12

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.

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4 Assets and liabilities and basis of measurement (contd)

4.9 Property, Plant and Equipment (contd)

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.al 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 and fittings	-	10 years at 10% per annum
Motor vehicles	-	20% per annum (subject to 20% residual value)

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4 Assets and liabilities and basis of measurement (contd)

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 (3) 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 Assets and liabilities and basis of measurement (contd)

4.12 Right-of-Use assets

At the inception of a contract, the Company evaluates whether it constitutes or includes a lease. A contract is considered a lease if it grants the right to control the use of an identified asset for a specified period in exchange for consideration. This assessment is based on the lease definition under SLFRS 16.

Upon lease commencement, the Company recognizes both a right-of-use asset and a corresponding lease liability. The initial measurement of the right-of-use asset is based on cost, which includes:

- The initial lease liability amount, adjusted for any lease payments made at or before the commencement dat
- Any directly attributable initial costs,
- An estimate of costs to dismantle, remove, or restore the underlying asset or site,
- Less any lease incentives received.

The right-of-use asset is subsequently depreciated on a straight-line basis from the commencement date until the end of the lease term, unless ownership transfers to the Company at the end of the lease term or the asset's cost reflects an intention to exercise a purchase option. In such cases, depreciation is based on the useful life of the underlying asset, aligned with property and equipment policies. Additionally, the right-of-use asset is subject to impairment reviews and adjusted for specific remeasurements of the lease liability when necessary.

The lease liability is initially measured at the present value of unpaid lease payments, discounted using either the interest rate implicit in the lease or, if not readily determinable, the Company's incremental borrowing rate—typically used as the discount rate. The lease liability measurement includes:

- Fixed payments, including in-substance fixed payments,
- Variable lease payments linked to an index or rate, initially measured at the commencement date,
- Expected amounts payable under residual value guarantees,
- Purchase option prices if the Company is reasonably certain to exercise them,
- Lease payments in renewal periods if the Company is reasonably certain to extend the lease, and
- Penalties for early termination, unless early termination is unlikely.

Subsequently, the lease liability is measured at amortized cost using the effective interest method. It is remeasured when:

- Future lease payments change due to variations in an index or rate;
- The estimated residual value guarantee payable is adjusted;
- The Company revises its assessment of exercising purchase, extension, or termination options; or
- There is a change in in-substance fixed lease payments.

When the lease liability is remeasured, a corresponding adjustment is made to the right-of-use asset. If the right-of-use asset has been fully reduced, the adjustment is recorded in profit or loss.

4.12.1 Short-Term leases and low-value asset leases

The Company has elected not to recognize right-of-use assets and lease liabilities for short-term leases and leases of low-value assets, such as IT equipment. Instead, lease payments for these agreements are recognized as an expense on a straight-line basis over the lease term.

4.12.2 Presentation

In accordance with SLFRS 16, right-of-use assets are either presented separately on the Statement of Financial Position or disclosed in the Notes. Lease liabilities follow a similar treatment. The Company has opted to present right-of-use assets separately, while lease liabilities are disclosed under Note 20.a(II).

Depreciation and interest expenses are presented separately in the Income Statement. In the Cash Flow Statement, principal repayments on lease liabilities are classified under financing activities, while interest payments are recorded under operating activities.

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4 Assets and liabilities and basis of measurement (contd)

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 27 to the financial statements.

The liability is not externally funded.

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

Provision has been made for retirement gratuities from the first year of service for all employees in conformity with the LKAS 19. However, under the payment of Gratuity Act No. 12 of 1983, the liability to an employee arises only on completion of 5 years of continued service. Retirement age of the employees shall be considered as per the Act No. 28 of 2021.

4.13.2 Defined contribution plan

4.13.2.1 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.

4.13.2.2 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.

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4 Assets and liabilities and basis of measurement (contd)

4.17 Capital commitments and contingencies

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

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

4.18 Cash flow statement

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

4.19 Regulatory provisions

Deposit insurance scheme

In terms of the Banking Act Direction No 2 of 2021"Insurance of Deposit Liabilities" issued on 28th August 2021 and subsequent amendments there to all Licensed Commercial Banks are required to insure their deposit liabilities in the Deposit Insurance Scheme operated by the Monetary Board in terms of Sri Lanka Deposit Insurance Scheme Regulations. Deposits to be insured include demand, time and savings deposit liabilities inclusive of interest accrued and exclude the following;

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

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

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

Crop insurance levy

In terms of the Finance Act No. 12 of 2013 all institutions under the purview of Banking Act No. 30 of 1988, Finance Business Act No. 42 of 2011 and Regulation of insurance Industry Act No. 43 of 2000 are required to pay 1% of the profit after tax as Crop Insurance Levy to the National Insurance Trust Fund effective from 1st April 2013.

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4 Assets and liabilities and basis of measurement (contd)

4.20 Other taxes

Value Added Tax on Financial Services (VAT on FS)
VAT on financial services Is calculated in accordance with Value Added Tax (VAT), Act No 14 of 2002 and subsequent amendments thereto, the base for the computation of value added tax on financial services is the accounting profit before VAT and income tax adjusted for the economic depreciation and emoluments payable to employees including cash benefits non-cash benefits & provisions relating to terminal benefits.

Social Security Contribution Levy (SSCL)
Social Security Contribution Levy shall be paid by any person carrying on the business of supplying financial services, on the liable turnover specified in the Second Schedule or the Social Security Contribution Levy Act No 25 of 2022, at the rate of 2.5% with effect from 1st October 2022. SSCL is payable on 100% of the value addition attributable to financial services The value addition attributable to financial services shall be computed for the payment of SSCL on the business of supplying financial services by applying the attributable method referred to in Chapter IIIA of the Value Added Tax Act No. 14 of 2002.

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 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 the acceptable level.

The Bank, at local level has its Risk Management structure in place to monitor the Bank wide risks. 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; and
- Integrated Risk Management Committee (IRMC) which monitors the overall risk composition 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 Sri Lanka (CRO) reporting functionally to the Group Head Risk Management Group, who in turn reports to Risk Management and Portfolio Review Committee of the Board, and CRO administratively reports 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.

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5 Financial risk management (contd)

5.2 Risk Management Framework (contd)

The CRO performs following critical functions:

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

The financial year 2024 was another challenging year for financial services industry., MCB focused on controlling variables to create value for stakeholders through economic cycles. The bank recognized the need to recalibrate growth aspirations and preserve portfolio quality to avoid volatility. Despite moderately adverse conditions, MCB maintained support for its customers and responded to the banking sector's role in reviving the economy by strengthening risk management capabilities.

The bank took tactical steps to ensure stability, including preserving asset quality, optimizing costs, and maintaining profitability. It established a Portfolio Management Unit to support customers, minimize credit deterioration, and recover from moratorium cases during the pandemic. The bank also repurposed its portfolio to more efficient lending and enhanced fee-based income, focusing on the export sector.

MCB proactively managed impairments, increasing charges to address credit risks and ensure capital adequacy, which stood at 62.04% against regularity threshold of 12.5%. It also managed foreign currency and Rupee liquidity effectively, maintaining a Statutory Liquid Asset Ratio of 95%.

While macroeconomic pressures persist, MCB plans to focus on maintaining financial stability and capital-efficient lending. The bank is optimistic about long-term prospects, believing that successful IMF negotiations, debt restructuring, and reforms will lead to economic recovery further.

Stress testing

The Bank conduct regular stress tests as preemptive measure to effectively eliminate excessive losses due to unanticipated or overly volatile market conditions. In this regards, a complete stress test is undertaken for all major risk categories identified during the annual ICAAP review. In addition, quarterly stress tests are also conducted for accrual and price risks and daily stress tests are conducted for liquidity risk. The annual ICAAP begins with a probable severe macroeconomic stress scenario forecasting, impacts on the Sri Lanka's credit portfolio in full. The finalized ICAAP is filed with the CBSL within five months from the close of the financial year.

In addition to conducting stress tests, the Bank adopts a risk-based approach to effectively mitigate and manage the risks associated with its portfolio. Furthermore, internal risk ratings are reviewed on an annual basis, and customers may be subject to downgrades or reclassification based on their updated ratings while would be done based on CBSL guidelines.

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 behavior, its likelihood of default and the Bank's future risk mitigation procedures, which could include reduction or cancellation of the facilities, obtaining additional collateral etc.

5 Financial risk management (contd)

5.3 Credit risk

Credit risk arises from dealing 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;
- Portfolio management unit /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 problematic credits and Non-Performing facilities. 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 in 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.

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5 Financial risk management (contd)

5.4 Impairment assessment (contd)

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 Credit portfolio is made up of the following categories:

- 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 B+ 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
- 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 or reliability is doubtful;
- 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 cove
- 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 for two consecutive years; and
- Erosion in net-worth by more than 25% as compared to the previous year.

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5 Financial risk management (contd)

5.4 Impairment assessment (contd)

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

- **Probability of default (PD)** - PD estimates are estimates at a certain date, which are calculated based on statistical models, and assessed using various categories based on homogeneous characteristics of exposures. These statistical models are based on internally compiled data comprising both quantitative and qualitative factors. Bank forecast PD by incorporating forward looking economic variable (GDP).

- **Loss Given Default (LGD)** - LGD is the magnitude of the likely loss if there is a default. The Bank estimates LGD parameters based on regulatory rates issued by CBSL due to lack of historical data.

- **Exposures at Default (EAD)** - EAD represents the expected exposure in the event of a default. The Bank derives the EAD from the current exposure to the counterparty and potential changes to the current amount allowed under the contract including amortization. The EAD of a financial asset is its gross carrying amount.

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

Management assessment of impairment provisioning for financial assets

The impacts of economic crisis has necessitated changes to the existing approach of computing ECL for the financing portfolio of the Bank. The Management has adopted prudent measures to consider multiple economic factors such as GDP growth rate, interest rate, exchange rate, unemployment rate and inflation rate to account for the changes in the macro environment indicators which have deteriorated due to the current economic crisis and to cater impacts of post revival conditions.

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 pertaining to individual and collective impaired accounts with recoveries being constantly followed up by designated staff members while adhering to regulatory guidelines and wellbeing of customers.

5.4.1 Concentration risk

In order to mitigate the concentration risk, MCB regularly reviews its portfolio concentration across the various industrial sectors, borrower groups, collateral assigned and borrower categories. 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 focuses on collateralized lending, which enables the Bank in mitigating its risk on credit portfolio. The collateral comes in various forms as stipulated in Credit Hand Book of the Bank. The fair value of collaterals is generally assessed, at a minimum, at inception and based on the Bank's annual reporting schedules. 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.

Collateral would include loans secured by immovable property, real estate, 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

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MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS 2024 (CONTD)

5 Financial risk management (contd)

5.4 Impairment assessment (contd)

5.4.2 Fair value of collateral held against loans and advances to customers (contd)

As at 31 December 2024	Gross Loans & Advances	Fair Value of Security	Net Exposure
Against Individually Impaired			
Immovable property	741,680,159	155,735,911	585,944,248
Deposits	-	-	-
Others	125,223,942	139,946,405	-
Unsecured (Covered with loan agreement)	76,215,569	17,684	76,197,885
Total against individually impaired (A)	9,431,196,710	295,700,000	662,142,133
Against collectively Impaired			
Immovable property	1,456,817,002	5,794,647,374	-
Deposits	2,274,367,778	1,754,112,126	520,255,652
Others	3,995,010,343	2,214,706,687	1,780,303,656
Unsecured (Covered with loan agreement)	2,546,386,501	-	2,546,386,501
Total against collectively impaired (B)	10,272,581,624	9,763,466,187	4,846,945,809
Total (A+B)	**11,215,701,294**	**10,059,166,187**	**5,529,146,412**
Leases	-	-	-
Grand total	**11,215,701,294**	**10,059,166,187**	**5,529,146,412**

Approximately 40% of the total advances of Bank is secured against immovable property and cash deposits held with the Bank respectively. Further 37% of the loans are secured against other securities including movable property, etc. Approximately 79% of stage 3 advances of the Bank are secured against immovable property and cash deposits held within the Bank.

Similarly, in year 2023 figures are as fallows.

As at 31 December 2023	Gross Loans & Advances	Fair Value of Security	Net Exposure
Against Individually Impaired			
Immovable property	772,169,359	924,247,857	-
Deposits	29,184,634	36,000,000	-
Others	139,218,909	81,422,774	57,796,135
Unsecured (Covered with loan agreement)	104,482,161	103,629,369	852,792
Total against individually impaired (A)	1,045,055,063	1,145,300,000	58,648,927
Against collectively Impaired			
Immovable property	1,994,862,657	4,246,720,175	-
Deposits	2,236,223,959	2,291,228,507	-
Others	3,709,581,436	97,042,705	3,612,538,731
Unsecured (Covered with loan agreement)	2,115,281,912	3,552,120	2,111,729,792
Total against collectively impaired (B)	10,055,949,964	6,638,543,507	5,724,268,523
Total (A+B)	**11,101,005,027**	**7,783,843,507**	**5,782,917,450**
Leases	1,594,570	-	1,594,570
Grand total	**11,102,599,597**	**7,783,843,507**	**5,784,512,020**

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MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS 2024 (CONTD)

5 Financial risk management (contd)

5.4 Impairment assessment (contd)

5.4.2 Fair value of collateral held against loans and advances to customers (contd)

Approximately 45% of the total advances of Bank is secured against immovable property and cash deposits held with the Bank respectively. Further 34% of the loans are secured against other securities including movable property, etc. Approximately 77% 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.

Treasury Middle office within the Risk Management Department monitors the treasury operating limits, including but not limited to; Net Open Position Limits, dealer limits, counter party limits, stop loss limits etc., which are regularly reviewed and updated as per the prevailing business requirements, industry best practices, regulatory guidelines and Bank's internal policies and procedures.

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 and PVBP (Price Value of a Basis Point) numbers.

Value at Risk (VaR) : which measures maximum potential loss at 99% confidence level over 1 day holding period based on the day's outstanding risk positions across the entire marked to market exposure.

Bank exposes to Foreign exchange due 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 on foreign exchange portfolio conducted as per CBSL requirements is a regular feature of the foreign exchange risk management.

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5 Financial risk management (contd)

5.5 Market risk (contd)

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

2024	Carrying amount	Trading portfolios	Non trading portfolios
Assets subject to market risk			
Trading assets	-	-	-
Derivative financial instruments	157,351	-	157,351
Loans and advances to customers	9,839,910,074	-	9,839,910,074
Financial instruments - FVOCI	11,695,234,943	-	11,695,234,943
Financial investments – amortised cost	-	-	-
Placements with Banks	2,625,754,727	-	2,625,754,727
Liabilities subject to market risk			
Derivative financial instruments	-	-	-
Deposits from customers	15,828,135,982	-	15,828,135,982
Borrowings	450,098,630	-	450,098,630
Other borrowings	6,485,468	-	6,485,468

2023	Carrying amount	Trading portfolios	Non trading portfolios
Assets subject to market risk			
Trading assets	-	-	-
Derivative financial instruments	-	-	-
Loans and advances to customers	9,546,297,171	-	9,546,297,171
Financial instruments - FVOCI	12,933,559,995	-	12,933,559,995
Financial investments – amortised cost	-	-	-
Placements with Banks	4,160,046,900	-	4,160,046,900
Liabilities subject to market risk			
Derivative financial instruments	-	-	-
Deposits from customers	16,713,312,089	-	16,713,312,089
Borrowings	-	-	-
Other borrowings	1,901,503,296	-	1,901,503,296

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 2024. 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 105 Mn in its Net Interest Income (NII) while in case of interest rate increase the Bank would enhance its Net interest income by LKR 105 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.

5 Financial risk management (contd)

5.5 Market risk (contd)

5.5.1 Interest rate sensitivity on interest bearing assets and liabilities (contd)

Parameter	0 to 1 Month	Over 1- up to 3 Months	Over 3- up to 6 Months	Over 6 – up to 12 Months	Total
Total interest-bearing as:	5,450,560,849	13,238,215,973	1,428,476,447	2,799,510,156	22,916,763,425
Total interest -bearing liabilities	4,900,219,263	2,761,972,858	1,362,550,057	3,372,358,779	12,397,100,956
Net interest -bearing assets (liabilities)	550,341,586	10,476,243,116	65,926,390	-572,848,623	10,519,662,469
Cumulative gap	550,341,586	11,026,584,702	11,092,511,092	10,519,662,469	33,189,099,849
Assumed change in interest rates	1%	1%	1%	1%	
Impact	5,503,416	104,762,431	659,264	(5,728,486)	105,196,625
Net impact on NII if interest rates increase					105,196,625
Net impact on NII if interest rates decline					(105,196,625)

MCB Bank possesses one year interest rate sensitive assets of LKR 23 Bn and rate sensitive liabilities for LKR 12 Bn. Currently the impact from the interest rate fluctuations of 1% + or (1%) is moderate at LKR 105 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.

Similarly, in year 2023 figures are as fallows.

Parameter	0 to 1 Month	Over 1- up to 3 Months	Over 3- up to 6 Months	Over 6 – up to 12 Months	Total
Total interest-bearing as:	8,465,131,960	10,710,804,993	2,772,741,009	1,130,964,988	23,079,642,950
Total interest -bearing liabilities	3,412,494,687	3,465,085,167	1,251,845,086	3,624,999,412	11,754,424,352
Net interest -bearing assets (liabilities)	5,052,637,273	7,245,719,827	1,520,895,923	(2,494,034,424)	11,325,218,599
Cumulative gap	5,052,637,273	12,298,357,100	13,819,253,022	11,325,218,598	42,495,465,993
Assumed change in interest rates	1%	1%	1%	1%	
Impact	50,526,373	72,457,198	15,208,959	(24,940,344)	113,252,186
Net impact on NII if interest rates increase					113,252,186
Net impact on NII if interest rates decline					(113,252,186)

one year interest rate sensitive assets of LKR 23 Bn and rate sensitive liabilities for Rs 11.75 Bn. Currently the impact from the interest rate fluctuations of 1% + or (1%) is moderate at LKR 113.2 Mn.

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NOTES TO THE FINANCIAL STATEMENTS 2024 (CONTD)

5 Financial risk management (contd)

5.5 Market risk (contd)

5.5.2 Foreign exchange position as of 31 December 2024

Currency	Spot Net	Forward Net	Net Open Position	Exchange Rate	Overall position in LKR
AUD	-	-	-	-	-
EUR	19,925	-	19,925	305.42	6,085,597
GBP	3,978	-	3,978	368.10	1,464,405
HKD	(4,730)	-	(4,730)	37.76	(178,595)
JPY	(235,174)	-	(235,174)	1.87	(439,775)
CNY	-	-	-	-	-
SGD	(10,631)	-	(10,631)	215.37	(2,289,633)
SAR	(106,962)	-	(106,962)	78.10	(8,353,745)
USD	(233,007)	(26,500)	(259,507)	293.31	(76,115,945)
Total Exposure					**(79,828,115)**
Total capital funds as per the latest Audited Financial Statements (Capital base as at 31st December 2024)					**8,561,683,253**
Total exposure as a % of total capital funds as per the latest audited financial statements					**0.93%**

Similarly, in year 2023 figures are as fallows;

Currency	Spot Net	Forward Net	Net Open Position	Exchange Rate	Overall position in LKR
AUD	-	-	-	-	-
EUR	10,224	-	10,224	358.02	3,660,396
GBP	1,281	-	1,281	411.93	527,682
HKD	(4,730)	-	(4,730)	41.48	(196,190)
JPY	(133,790)	-	(133,790)	2.28	(305,041)
CNY	-	-	-	-	-
SGD	(5,416)	-	(5,416)	245.40	(1,329,086)
SAR	(118,377)	-	(118,377)	86.40	(10,227,773)
USD	(171,848)	-	(171,848)	324.00	(55,678,752)
Total Exposure					**(63,548,764)**
Total capital funds as per the latest Audited Financial Statements (Capital base as at 31st Decembe					**8,289,277,417**
Total exposure as a % of total capital funds as per the latest audited financial statements					**0.77%**

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 2024, bank carried USD net open "Short" position. The bank will be exposed to exchange rate risk in case, LKR appreciate 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.

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5 Financial risk management (contd)

5.5 Market risk (contd)

5.5.3 Forex risk in Net Open Position (NOP)(contd)

Sensitivity Analysis for the Exchange Rate Risk Exposure as at 31st December 2024

Position as at 31 December 2024	**Amount**
Net exposure – USD	(245,663)
Overall exposure in LKR	(72,055,353)
Exchange rate (USD/LKR)	293.31
Effect on income statement (LKR)	
If Exchange rate appreciates by 1%	(720,554)
If Exchange rates appreciates by 3%	(2,161,661)
If exchange rate appreciates by 5%	(3,602,768)

The bank has a net USD liability position of 245,663 USD, with a total exposure of (72.06 million LKR) at the current exchange rate of 293 USD/LKR. If the LKR appreciates, the bank incurs a negative impact on the income statement. A 1% appreciation (exchange rate decrease) results in a 720K LKR loss, while a 5% appreciation leads to a 3.6M LKR loss, highlighting the bank's exposure to foreign exchange risk.

Similarly, in year 2023 figures are as follows.

Position as at 31 December 2023	**Amount**
Net exposure – USD	(196,140)
Overall exposure in LKR	(63,549,470)
Exchange rate (USD/LKR)	324.00
Effect on income statement (LKR)	
If Exchange rate appreciates by 1%	(635,495)
If Exchange rates appreciates by 3%	(1,906,484)
If exchange rate appreciates by 5%	(3,177,473)

5.5.4 Liquidity risk

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

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

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

	2024	**2023**
Net liquid assets to deposits from customers		
As at 31 December	91.55%	98.11%
Average for the year	98.85%	105.73%
Maximum for the year	108.79%	122.11%
Minimum for the year	88.25%	89.35%

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

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NOTES TO THE FINANCIAL STATEMENTS 2024 (CONTD)

5 Financial risk management (contd)

5.5 Market risk (contd)

5.5.4 Liquidity risk (contd)

Advances to Deposit Ratio	**2024**	**2023**
Average for the Year ended	70.71%	65.75%
Minimum for the Year ended	55.83%	49.55%
Maximum for the Year ended	83.60%	79.51%
As at 31 December	69.76%	65.68%

Statutory Liquid Asset Ratio	**2024**	**2023**
Average for the Year ended	84.77%	91.85%
Minimum for the Year ended	74.43%	69.76%
Maximum for the Year ended	97.42%	102.73%
As at 31 December	83.36%	94.59%

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% and Net Stable Funding ratio of 100%. Accordingly, as of 31st December 2024, Bank reported all currency LCR ratio of 929% and Net Stable Funding Ration (NSFR) as 240% which remain comfortably above the CBSL's minimum 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 2024 has been disclosed in Note 35 (iii).

5.6 Operational risk

Operational Risk is the risk of a loss resulting from an inadequacy or a failure applicable 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 avoid 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
- 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 risks faced, and the adequacy of controls and procedures to address the risks identified.
- requirements for the reporting of operational losses and proposed remedial actions.

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5 Financial risk management (contd)

5.6 Operational risk (contd)

- 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.

Further in terms of governance frame work for Banks overseas Operations, issued by the State Bank of Pakistan, MCB Pakistan is required to plough back at least 50% of their overseas annual profit after tax. Accordingly, MCB Sri Lanka needs to repatriate 50% of the audited Profit After Tax to MCB Pakistan.

5.7.1 Statutory minimum capital requirement and capital management

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

(a) Rs. 3 Billion by 31 December 2011
(b) Rs. 4 Billion by 31 December 2013
(c) Rs. 5 Billion by 31 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 as stipulated by CBSL.

The Bank manages its capital considering regulatory capital requirements. 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 LKR.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 Business Impact Analysis (BIA).

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5 Financial risk management (contd)

5.7 Capital management (contd)

5.7.1 Statutory minimum capital requirement and capital management (contd)

As of 31st December 2024, Bank reported a Common Equity Tier 1 capital (CET1) including capital conservation buffer of 61.10%, Total Tier 1 including capital conservation buffer of 61.10% and Total Capital Ratio of 62.04% which remain comfortably above the CBSL's capital requirements.

Item	Amount
Common equity tier 1 capital	7,908,312,245
Total Tier 1 capital	7,908,312,245
Total capital	8,030,521,262
Total risk weighted amount	12,943,916,777
Risk weighted amount for credit risk	9,776,721,332
Risk weighted amount for market risk	79,605,355
Risk weighted amount for operational risk	3,087,590,090
Common equity tier 1 capital ratio	61.10
Total Tier 1 capital ratio	61.10
Total capital ratio	62.04

As of 31st December 2023, Bank reported a Common Equity Tier 1 capital (CET1) including capital conservation buffer of 53.79%, Total Tier 1 including capital conservation buffer of 53.79% and Total Capital Ratio of 54.66% which remain comfortably above the CBSL's capital requirements.

Item	Amount
Common equity tier 1 capital	8,180,485,855
Total Tier 1 capital	8,180,485,855
Total capital	8,313,163,874
Total risk weighted amount	15,208,282,370
Risk weighted amount for credit risk	10,614,241,570
Risk weighted amount for market risk	67,737,458
Risk weighted amount for operational risk	4,526,303,342
Common equity tier 1 capital ratio	53.79
Total Tier 1 capital ratio	53.79
Total capital ratio	54.66

5.8 Environmental and Social Risk Management (ESRM) Guidelines & Climate Risk Management

5.8.1 Environmental and Social Risk Management (ESRM)

The Bank is committed in managing environmental and social risks as part of its responsible banking and sustainable development goals. We assess and mitigate potential risks related to our business activities, lending, and investments, ensuring that environmental and social factors, including climate change and community impacts, are integral to decision-making. The Bank has implemented robust risk management policies to ensure compliance with regulations and international standards. By promoting sustainability, we aim to minimize negative impacts and support initiatives that foster long-term environmental and social well-being. Our approach continues to evolve in alignment with global best practices and local regulatory requirements.

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5 Financial risk management (contd)

5.8 Environmental and Social Risk Management (ESRM) Guidelines & Climate Risk Management (cont.)

5.8.2 Climate risk management

In recognition of the growing importance of environmental sustainability, the Bank has taken proactive steps to integrate climate risk management into its overall risk framework. As part of our commitment to responsible banking, we are continually assessing and managing the potential risks associated with climate change that may impact our operations, portfolio, and stakeholders.

This includes identifying physical and transition risks related to climate change, evaluating their potential impact on our business, and implementing strategies to mitigate and adapt to these risks. The Bank is actively working towards enhancing its climate-related disclosures in line with global best practices and regulatory requirements.

By focusing on sustainable practices, the Bank seeks to contribute to the global efforts of combating climate change, while ensuring that we maintain long-term resilience and stability in the face of evolving environmental challenges. Our approach to climate risk management is continuously evolving, with a commitment to aligning with global standards and supporting the transition to a low-carbon economy.

6 New and revised IFRS Accounting Standards in issue but not yet effective

The following new accounting standards and interpretations are issued by IASB but not yet adopted by CA Sri Lanka.

a) Amendments to IAS 21 The Effects of Changes in Foreign Exchange Rates - Lack of Exchangeability

The amendments specify how to assess whether a currency is exchangeable, and how to determine the exchange rate when it is not.

The amendments state that a currency is exchangeable into another currency when an entity is able to obtain the other currency within a time frame that allows for a normal administrative delay and through a market or exchange mechanism in which an exchange transaction would create enforceable rights and obligations.

An entity assesses whether a currency is exchangeable into another currency at a measurement date and for a specified purpose. If an entity is able to obtain no more than an insignificant amount of the other currency at the measurement date for the specified purpose, the currency is not exchangeable into the other currency.

The assessment of whether a currency is exchangeable into another currency depends on an entity's ability to obtain the other currency and not on its intention or decision to do so.

When a currency is not exchangeable into another currency at a measurement date, an entity is required to estimate the spot exchange rate at that date. An entity's objective in estimating the spot exchange rate is to reflect the rate at which an orderly exchange transaction would take place at the measurement date between market participants under prevailing economic conditions.

The amendments do not specify how an entity estimates the spot exchange rate to meet that objective. An entity can use an observable exchange rate without adjustment or another estimation technique.

The amendments are effective for annual reporting periods beginning on or after 1 January 2025, with earlier application permitted. An entity is not permitted to apply the amendments retrospectively. Instead, an entity is required to apply the specific transition provisions included in the amendments.
The above standard does not have an impact on the Bank's financial statements.

6 New and revised IFRS Accounting Standards in issue but not yet effective (contd)

b) Amendments to IFRS 9 and IFRS 7 - Classification and Measurement of Financial Instruments

These amendments clarify the requirements for the timing of recognition and derecognition of some financial assets and liabilities, with a new exception for some financial liabilities settled through an electronic cash transfer system. These amendments further clarify and add further guidance for assessing whether a financial asset meets the solely payments of principal and interest (SPPI) criterion.

These amendments add new disclosures for certain instruments with contractual terms that can change cash flows (such as some instruments with features linked to the achievement of environment, social and governance (ESG) targets); and make updates to the disclosures for equity instruments designated at Fair Value through Other Comprehensive Income (FVOCI).

The amendments are effective for annual reporting periods beginning on or after 1 January 2026, with earlier application permitted.

The above standard does not have a material impact on the Bank's financial statements.

c) IFRS 18 Presentation and Disclosures in Financial Statements

IFRS 18 replaces IAS 1, carrying forward many of the requirements in IAS 1 unchanged and complementing them with new requirements. In addition, some IAS 1 paragraphs have been moved to IAS 8 and IFRS 7.

IFRS 18 introduces new requirements to:

- present specified categories and defined subtotals in the Income statement.
- provide disclosures on management-defined performance measures (MPMs) in the notes to the financial sta
- improve aggregation and disaggregation.

An entity is required to apply IFRS 18 for annual reporting periods beginning on or after 1 January 2027, with earlier application permitted. The amendments to IAS 7 and IAS 33, as well as the revised IAS 8 and IFRS 7, become effective when an entity applies IFRS 18. IFRS 18 requires retrospective application with specific transition provisions.

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED 31 DECEMBER

7. Net interest income

	2024	2023
Interest income		
Placement with banks	189,638,366	339,366,301
Loans and advances to customers	978,723,306	1,410,401,590
Financial assets at amortised cost	10,988,529	21,662,114
Financial assets at FVOCI [Note 7(a)]	1,456,428,400	2,367,948,619
Total interest income	**2,635,778,601**	**4,139,378,624**
Interest expenses		
Banks and other borrowings	(26,069,295)	(16,584,384)
Deposits from customers	(949,597,540)	(1,290,335,835)
Interest expense on lease liability [Note 21.b(ii)]	(24,095,013)	(22,224,903)
Securities sold under repurchase agreements [Note 7(a)]	(81,565,435)	(44,228,570)
Total interest expenses	**(1,081,327,283)**	**(1,373,373,692)**
Net interest income	**1,554,451,318**	**2,766,004,932**

(a) Net interest income from Sri Lanka Government Securities

Interest income	1,456,428,400	2,367,948,619
Interest expenses	(81,565,435)	(44,228,570)
	1,537,993,835	**2,323,720,049**

8. Net fee and commission income

	2024	2023
Fee and commission income	111,379,909	99,330,933
Fee and commission expense	(27,118,791)	(25,606,678)
Net fee and commission income	**84,261,118**	**73,724,255**

8.1 Comprising;

	2024	2023
Loans	149,412	214,594
Trade and remittances	82,138,831	78,748,310
Deposits	8,673,921	7,296,324
Guarantees	20,417,745	13,071,705
Fee and commission income	**111,379,909**	**99,330,933**
Loans	(338,573)	(306,116)
Trade and remittances	(13,894,073)	(10,978,268)
Deposits	(12,886,147)	(14,322,294)
Fee and commission expense	**(27,118,791)**	**(25,606,678)**

9. Other operating income

	2024	2023
Gain on revaluation of foreign exchange	112,470,168	351,949,589
Dividends on financial assets at FVOCI	2,976,200	1,594,100
Profit on sale of Property, plant and equipment	-	259,233
Charges recovered	43,763,146	43,290,531
Overseas rebate - overdrawn Nostro	38,428,931	39,715,964
Others	3,582,779	4,324,874
Other operating income	**201,221,224**	**441,134,291**

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
FOR THE YEAR ENDED 31 DECEMBER

10. Impairment losses/ (reversal) on financial instruments

	2024	2023
Financial assets at amortised cost - Loans and advances		
Stage 1	82,392,878	(73,033,365)
Stage 2	137,466,336	(304,296,841)
Stage 3	(39,348,008)	74,510,876
Financial assets at amortised cost - debt instruments		
Stage 1	-	-
Stage 2	-	-
Stage 3	-	-
Contingent liabilities and commitments		
Stage 1	5,216,144	(7,985,695)
Stage 2	4,749,741	(4,398,817)
Stage 3	-	-
Total	**190,477,091**	**(315,203,842)**

11. Personnel expenses

	2024	2023
Salary and bonus	422,583,014	442,834,562
Contribution to Employees' Provident Fund	20,391,089	19,172,841
Contribution to Employees' Trust Fund	4,880,793	4,545,832
Expenses on Defined Benefit Obligations [Note 27]	15,437,444	16,626,733
Amortization of prepaid employee benefits	6,333,129	1,977,766
	469,625,469	**485,157,734**

12. Other expenses

	2024	2023
Auditors' remuneration - Audit	4,602,000	3,643,992
Auditors' remuneration - Non audit	884,447	1,028,039
Professional and legal expenses	13,309,707	6,232,450
Head office expenses	143,000,000	133,000,000
Office administration and establishment expenses	342,011,914	300,852,355
	503,808,068	**444,756,836**

13. Income tax expense

	2024	2023
(a) Current tax expense		
Current tax on profit for the year	201,564,403	646,484,476
Under/(over) provision for the previous year	78,886,115	5,872,497
	280,450,518	**652,356,973**
Deferred tax expenses		
Deferred tax assets recognized/(reversal) during the year [Note 26]	57,287,320	(97,386,770)
	57,287,320	**(97,386,770)**
Total income tax expense	**337,737,838**	**554,970,203**

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FOR THE YEAR ENDED/ AS AT 31 DECEMBER

13. Income tax expense (cont.)

	2024	2023
(b) Reconciliation from profit/(loss) before tax to current income tax expense		
Accounting profit before tax	720,648,079	1,531,713,766
Disallowable expenses	712,567,796	933,971,773
Allowable expenses	(761,334,534)	(310,737,287)
Adjusted profit/(loss) from trade	**671,881,341**	**2,154,948,252**
Total statutory income	671,881,341	2,154,948,252
Less: Tax losses Set-Off (Up to a Limit of 35% of Total Statutory Income)	-	-
Taxable profit	671,881,341	2,154,948,252
Statutory income tax rate	30%	30%
Current income tax expense	**201,564,403**	**646,484,476**

	2024	2023
c) Reconciliation between current tax expenses and the accounting profit		
Accounting profit before taxation	720,648,079	1,531,713,766
Tax at the applicable tax rate of 30%	216,194,424	459,514,130
Tax effect from expenses not deductible for tax purpose	213,770,339	280,191,532
Tax effect from allowable deductions and income not subject to tax	(228,400,360)	(93,221,186)
Subtotal	**201,564,402**	**646,484,476**
Over/Under provision in previous years	78,886,115	5,872,497
Deferred tax reversal	57,287,320	(97,386,770)
Total Tax Expense	**337,737,837**	**554,970,202**

14. Cash and cash equivalents

	2024	2023
Local currency in hand	358,620,126	269,632,061
Foreign currency in hand	21,701,500	14,737,553
	380,321,626	**284,369,614**

15. Balances with central banks

	2024	2023
Statutory balances with central banks		
Central bank of Sri Lanka	485,380,880	677,378,104
Non Statutory balances with central banks		
Central bank of Sri Lanka	100,020,604	400,296,703
	585,401,484	**1,077,674,807**

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 2% as at 31 December 2024.

16. Placements with banks

	2024	2023
Placement with local banks	505,753,423	709,906,850
Placement with foreign banks	2,120,001,304	3,450,140,050
Total placement with banks	**2,625,754,727**	**4,160,046,900**

17. Derivative financial instruments

	Asset	Liability
As at 31 December 2024		
Currency swaps	-	-
Forward foreign exchange contracts	157,351	-
	157,351	-
As at 31 December 2023		
Currency swaps	-	-
Forward foreign exchange contracts	-	-
	-	-

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

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AS AT 31 DECEMBER

18. Loans and advances to customers

	2024	2023
Gross loans and advances [Note 18.a]	**11,215,701,294**	**11,102,599,597**
Stage 1	9,013,803,316	8,744,191,816
Stage 2	1,258,778,307	1,313,352,718
Stage 3	943,119,671	1,045,055,063
Less: Accumulated impairment (Note 18.C)	**(1,375,791,220)**	**(1,556,302,426)**
Stage 1	(252,396,470)	(381,035,968)
Stage 2	(456,043,949)	(547,263,665)
Stage 3	(667,350,801)	(628,002,793)
Net loans and advances	**9,839,910,074**	**9,546,297,171**

Qualitative Explanation of Changes in Impairment Provision

The Bank has made adequate loss allowances in response to changes in the gross carrying amount of loans and advances during the period. Key factors contributing to these changes include delayed or inconsistent repayments, restructured facilities, and adverse financial trends observed in certain clients. Additionally, macroeconomic factors such as exchange rate fluctuations and industry-specific risks have been considered, impacting the recoverable amounts.

(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.

	2024	2023
Concentration by Product		
Overdrafts	3,064,104,051	3,140,079,786
Trade finance	843,076,106	1,532,633,039
Lease rentals receivable [Note 18(b)]	-	1,594,570
Credit cards	-	-
Pawning	-	-
Staff loans	121,181,556	122,464,023
Term loans	216,213,388	118,832,588
Short-term loans	6,971,126,193	6,186,995,591
	11,215,701,294	**11,102,599,597**
Concentration by Currency		
Sri Lankan Rupee	9,151,802,258	8,452,744,660
United States Dollar	2,063,899,036	2,649,854,937
	11,215,701,294	**11,102,599,597**

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
AS AT 31 DECEMBER

18. Loans and advances to customers

(a) Concentration of credit risk (cont.)

	2024	2023
Concentration by industry		
Agriculture and fishing	2,541,090,015	2,032,490,272
Manufacturing	1,151,610,955	1,411,480,314
Tourism	-	-
Transport	861,340,502	451,711,312
Construction	382,905,270	238,060,788
Traders	2,262,227,253	3,651,115,233
Others	575,975,310	610,445,820
Services	3,440,551,989	2,707,295,858
	11,215,701,294	**11,102,599,597**

(b) Lease rental receivables

	2024	2023
Within one year from the reporting date	-	1,687,345
Deposit of rentals	-	-
Unearned income	-	(92,775)
	-	**1,594,570**
After one year but before five years from reporting date	-	-
Deposit of rentals	-	-
Unearned income	-	-
	-	-
There were no lease receivables beyond five years	-	-
Total lease rental receivables	-	**1,594,570**

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18. Loans and advances to customers (cont.)

(c) Movements in Impairment charges during the year	2024	2023
As at 1 January	1,556,302,426	1,253,483,095
Charge/(write back) to statement of profit / loss	(180,511,206)	302,819,331
Write-off/(recoveries) during the year	-	-
As at 31 December	**1,375,791,220**	**1,556,302,426**

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

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2024	381,035,968	547,263,665	628,002,793	1,556,302,426
Charge / (write back) to statement of profit / loss	(128,639,498)	(91,219,716)	39,348,008	(180,511,206)
As at 31 December 2024	**252,396,470**	**456,043,949**	**667,350,801**	**1,375,791,220**

	Stage 1	Stage 2	Stage 3	Total
As at 1 January 2023	322,765,482	228,203,945	702,513,668	1,253,483,095
Charge / (write back) to statement of profit / loss	58,270,486	319,059,720	(74,510,875)	302,819,331
As at 31 December 2023	**381,035,968**	**547,263,665**	**628,002,793**	**1,556,302,426**

Concentration by product

As at 31 December 2024	Gross amount	Impairment allowance	Carrying amount
Overdrafts	3,064,104,051	(336,465,262)	2,727,638,789
Trade finance	843,076,106	(198,611,073)	644,465,032
Lease rentals receivable	-	-	-
Staff loans	121,181,556	(3,285,396)	117,896,160
Term loans	216,213,388	(7,482,424)	208,730,963
Short-term	6,971,126,193	(829,947,063)	6,141,179,131
	11,215,701,294	**(1,375,791,220)**	**9,839,910,074**

As at 31 December 2023	Gross amount	Impairment allowance	Carrying amount
Overdrafts	3,140,079,786	(319,824,395)	2,820,255,391
Trade finance	1,532,633,039	(279,305,915)	1,253,327,124
Lease rentals receivable	1,594,570	(85,983)	1,508,587
Staff loans	122,464,023	(3,343,696)	119,120,327
Term loans	118,832,588	(6,649,028)	112,183,560
Short-term	6,186,995,591	(947,093,409)	5,239,902,182
	11,102,599,597	**(1,556,302,428)**	**9,546,297,171**

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18. Loans and advances to customers (cont.)

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.

(i) Gross loans and advances to customers

	2024	2023
Stage 1	9,013,803,316	8,744,191,816
Stage 2	1,258,778,307	1,313,352,718
Stage 3	943,119,671	1,045,055,063
	11,215,701,294	**11,102,599,597**

(ii) Stage 3

	2024	2023
Gross amount	943,119,671	1,045,055,063
Allowance for impairment	(667,350,801)	(628,002,793)
Carrying amount	**275,768,870**	**417,052,270**

Collateral wise analysis of Stage 3 loans and advances (Gross)

	2024	2023
Secured by movable assets	65,729,113	65,523,608
Secured by immovable assets	741,680,159	748,609,121
Secured by cash	-	29,184,634
Other securities	59,494,830	3,873,403
Clean	76,215,569	197,864,297
	943,119,671	**1,045,055,063**

(iii) Total Balance assessed under stage 1 and 2

	2024	2023
Stage 1	9,013,803,316	8,744,191,816
Stage 2	1,258,778,307	1,313,352,718
	10,272,581,623	10,057,544,534
Allowance for Impairment	(708,440,419)	(928,299,633)
	9,564,141,204	**9,129,244,901**

(iv) Sensitivity analysis on Stage 1 and 2

		2024	2023
LGD	1% increase	4,012,986	3,457,013
	1% decrease	(4,562,753)	(3,457,013)
PD	1% increase	4,648,972	3,451,185
	1% decrease	(4,647,151)	(3,451,185)
EFA	1% increase	4,557,024	3,451,185
	1% decrease	(4,557,024)	(3,451,185)

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18. Loans and advances to customers (cont.)

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

	Stage 1	Stage 2	Stage 3
As at 1 January 2024	381,035,968	547,263,664	628,002,792
Stage 1 -2	23,175,294	(23,175,294)	
Stage 1 -3	-	-	-
Stage 2-1	-	-	
Stage 2 -3	-	-	-
Net impairment charge for the year	(151,814,792)	(68,044,421)	39,348,009
As at 31 December 2024	**252,396,470**	**456,043,949**	**667,350,801**

	Stage 1	Stage 2	Stage 3
As at 1 January 2023	322,765,482	228,203,945	702,513,669
Stage 1 -2	(141,733,328)	141,733,328	
Stage 1 -3	-	-	-
Stage 2-1	46,332,004	(46,332,004)	
Stage 2 -3	-	-	3,163,296
Net impairment charge for the year	153,671,810	223,658,396	(77,674,172)
As at 31 December 2023	**381,035,968**	**547,263,665**	**628,002,793**

19. Investment securities at FVOCI

	2024	2023
Sri Lanka Government Securities [Note 19.1]	11,692,204,943	12,930,529,995
Unquoted Equity securities [Note 19.2]	3,030,000	3,030,000
Net investment securities at FVOCI	**11,695,234,943**	**12,933,559,995**

Assets pledged as securities

19.1 Government of Sri Lanka - Treasury bills

Face value	11,964,730,000	13,263,531,000
Amortized cost	11,664,304,402	12,846,030,546
Market value	11,692,204,943	12,930,529,995
Maturity	As at 2025	As at 2024

19.2 Unquoted equity securities

	2024		2023	
	No. of shares	Value	No. of shares	Value
Lanka Clear (Private) Limited	100,000	1,000,000	100,000	1,000,000
Credit Information Bureau of Sri Lanka	300	30,000	300	30,000
Lanka Financial Services Bureau Limited	200,000	2,000,000	200,000	2,000,000
		3,030,000		**3,030,000**

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20. Property, plant and equipment

	Freehold Land and Buildings	Leasehold Properties	Computer Hardware	Office Equipment	Furniture and Fittings	Motor Vehicles	Total
Cost							
Balance as at 1 January 2023	213,000,000	94,571,558	223,491,897	34,072,048	29,506,457	53,220,080	**647,862,040**
Transfers	-	(615,132)	(22,992,185)	223,050	392,082	-	**(22,992,185)**
Additions during the period	-	60,000	1,452,609	-	559,616	-	**2,072,225**
Revaluation surplus	-	-	-	-	-	-	-
Disposals during the Year	-	(10,266,102)	(14,966,048)	(5,764,594)	(2,944,905)	-	**(33,941,649)**
Balance as at 31 December 2023	**213,000,000**	**83,750,324**	**186,986,273**	**28,530,504**	**27,513,250**	**53,220,080**	**593,000,431**
Balance as at 1 January 2024	213,000,000	83,750,324	186,986,273	28,530,504	27,513,250	53,220,080	**593,000,431**
Transfers	-	-	-	-	-	-	-
Additions during the period	-	1,070,840	4,617,222	5,991,717	1,729,031	-	**13,408,810**
depreciation	-	-	-	-	-	-	-
Disposals during the Year	-	-	-	-	-	-	-
Balance as at 31 December 2024	**213,000,000**	**84,821,164**	**191,603,495**	**34,522,221**	**29,242,281**	**53,220,080**	**606,409,241**
Accumulated Depreciation							
Balance as at 1 January 2023	-	88,056,190	155,567,176	24,690,128	18,315,891	33,396,799	**320,021,184**
Transfers	-	(497,797)	(22,992,163)	35,316	462,481	-	**(22,992,163)**
Charge for the Year	5,325,000	2,876,212	22,180,525	1,883,928	2,037,684	5,517,773	**39,821,122**
Disposals during the Year	-	(10,255,433)	(14,965,935)	(5,658,457)	(7,430,410)	-	**(33,310,235)**
Balance as at 31 December 2023	**5,325,000**	**80,179,172**	**139,784,603**	**20,950,915**	**18,385,646**	**38,914,572**	**303,539,908**
Balance as at 1 January 2024	5,325,000	80,179,172	139,784,603	20,950,915	18,385,646	38,914,572	**303,539,908**
Transfers	-	-	-	-	-	-	-
Charge for the Year	5,325,000	2,845,363	19,597,023	2,066,109	1,917,294	3,407,772	**35,158,561**
Balance as at 31 December 2024	**10,650,000**	**83,024,535**	**159,381,626**	**23,017,024**	**20,302,940**	**42,322,344**	**338,698,469**
Carrying Value							
As at 31 December 2023	**207,675,000**	**3,571,152**	**47,201,670**	**7,579,589**	**9,127,604**	**14,305,508**	**289,460,523**
As at 31 December 2024	**202,350,000**	**1,796,629**	**32,221,869**	**11,505,197**	**8,939,341**	**10,897,736**	**267,710,772**

(a) The cost of fully depreciated assets still in use in the Company as at 31st December 2024 was Rs. 439,970,250/- (2023 - Rs. 402,960,267/-).

(b) **Land and building (condominium)**

	Address	Extent	Date of valuation	Market value
Property at Pettah	No : 235, Fifth Cross Street , Colombo	3591 sq.ft	26 December 2022	213,000,000

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,

a). The property is prime and most suitable for high rise development.
b). 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	14,291,692
Net book value	**4,763,495**

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	-	-	213,000,000	213,000,000

The Bank determined the fair value of its property using the Income Capitalization Method, based on estimated rental income. Key inputs include a net annual rent of LKR 9.6 million and a capitalization rate of 4.5% (Y.P factor 22.22). the valuation incorporates significant unobservable inputs and was conducted by an independent valuer using market-based assumptions.

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20. Property, plant and equipment (cont.)

20.a Right-of-Use assets

i Right-of-use assets related to leased branches and office premises are as below,

	2024	2023
Cost		
Balance at 01 January	145,887,312	186,417,605
Additions during the year	24,626,981	-
Disposals during the Year	-	(10,364,610)
Balance at 31 December	**170,514,293**	**176,052,995**
Accumulated depreciation		
Charge for the year	(35,771,742)	(30,165,683)
Balance as at 31 December	**134,742,551**	**145,887,312**

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:

	2024	2023
Lease liabilities as at 1 January	169,265,131	209,592,351
Finance cost on lease liability of right to use assets	24,095,013	22,224,903
Adjustment	41,739,269	(9,128,951)
Payments during the year	(56,860,802)	(53,423,172)
Lease liabilities as at 31 December	**178,238,611**	**169,265,131**

Maturity analysis – Contractual discounted cash flows	2024	2023
Less than one year	46,991,678	28,513,461
Between one and five years	131,246,933	133,311,165
More than five years	-	7,440,505
Total discounted lease liabilities at 31 December	**178,238,611**	**169,265,131**

iii **Amounts recognised in profit or loss**

Leases under SLFRS 16	2024	2023
Depreciation of right of use assets	35,771,742	30,165,683
Finance cost on lease liability of right to use assets	24,095,013	22,224,903
	59,866,755	**52,390,586**

iv **Lease Cash Outflows**

	2024	2023
Payments on lease liabilities	(32,765,789)	(31,198,269)
Finance cost on lease liabilities	(24,095,013)	(22,224,903)
Total Cash Outflows for Leases	**(56,860,802)**	**(53,423,172)**

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21. Intangible assets

	2024	2023
Cost		
Balance at 1 January	259,915,685	216,516,451
Transfers	-	22,992,185
Additions during the year	9,417,425	20,407,049
Balance at 31 December	**269,333,110**	**259,915,685**
Accumulated amortization		
Balance at 1 January	227,971,876	190,216,449
Transfers	-	22,992,164
Amortization for the year	17,946,324	14,763,263
Disposals during the Year	-	-
Balance at 31 December	**245,918,200**	**227,971,876**
Net book value	**23,414,910**	**31,943,809**

The cost of fully depreciated assets still in use in the Company as at 31st December 2024 was Rs. 226,926,834/- (2023 - Rs 182,106,045/=).

22. Other assets

	2024	2023
Deposits and prepayments	42,873,551	39,326,729
Sundry deposits	1,921,658	1,921,658
Prepaid staff benefits	36,790,861	39,439,006
Others	7,952,907	43,543,785
	89,538,977	**124,231,178**

23. Due to banks

	2024	2023
Borrowings from foreign banks	450,098,630	-
	450,098,630	-

24. Deposits from customers

	2024	2023
Total deposits from customers	15,828,135,982	16,713,312,089
	15,828,135,982	**16,713,312,089**

a. **Product wise analysis of deposits from customers**

Demand deposits (current accounts)	2,999,779,427	3,173,352,381
Savings deposits	3,293,858,867	5,068,623,569
Fixed deposits	9,352,483,184	8,207,132,359
Call deposits	-	75,039,041
Margin deposits	92,372,266	68,867,122
Other deposits	89,642,238	120,297,617
	15,828,135,982	**16,713,312,089**

b. **Currency wise analysis of deposits from customers**

Sri Lankan rupee	12,922,332,433	12,532,531,944
United States dollar	2,816,431,618	4,135,255,896
Great Britain pound	21,369,560	35,415,262
Euro	11,319,265	10,044,208
Others	56,683,106	64,779
	15,828,135,982	**16,713,312,089**

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25. Other borrowings

	2024	2023
Securities sold under repurchase agreements	-	-
Refinance borrowings	6,485,468	-
	6,485,468	-

26. Deferred tax

	Asset		Liability		Net	
	31.12.2024	31.12.2023	31.12.2024	31.12.2023	31.12.2024	31.12.2023
Property, plant and equipment	-	-	9,485,628	7,177,909	9,485,628	7,177,909
Revaluation gain	-	-	60,705,000	60,770,824	60,705,000	60,770,824
Asset under finance leases	-	-	-	478,371	-	478,371
Allowance for loss on FVOCI investment securities	-	-	9,500,779	25,349,835	9,500,779	25,349,835
Employee benefit obligation	24,500,962	23,875,780	-	-	(24,500,962)	(23,875,780)
Allowance for loan losses	212,532,126	271,271,201	-	-	(212,532,126)	(271,271,201)
Right-of-Use assets	-	-	40,422,765	43,766,194	40,422,765	43,766,194
Lease liability against right of use asset	53,471,583	50,779,540	-	-	(53,471,583)	(50,779,540)
	290,504,671	**345,926,521**	**120,114,172**	**137,543,132**	**(170,390,499)**	**(208,383,389)**

26.1 Reconciliation of Deferred Tax

2024	Balance 01.01.2024	Recognised in profit or loss	Recognised in equity	Balance 31.12.2024
Liability				
Property, plant and equipment	7,177,909	2,307,720	-	9,485,628
Revaluation gain	60,770,824	-	(65,824)	60,705,000
Asset under finance leases	478,371	(478,371)	-	-
FVOCI reserve	25,349,834	-	(15,849,055)	9,500,779
	93,776,938	1,829,349	(15,914,879)	79,691,407
Assets				
Employee benefit obligation	23,875,780	(2,754,369)	3,379,551	24,500,962
Allowance for loss on FVOCI investment securities	-	-	-	-
Allowance for loan losses	271,271,201	(58,739,075)	-	212,532,126
Asset under SLFRS 16 leases	7,013,346	6,035,472	-	13,048,818
	302,160,327	(55,457,971)	3,379,551	250,081,906
Total	(208,383,389)	57,287,320	(19,294,430)	(170,390,499)

2023	Balance 01.01.2023	Recognised in profit or loss	Recognised in equity	Balance 31.12.2023
Liability				
Property, plant and equipment	10,294,444	(3,116,535)	-	7,177,909
Revaluation gain	60,770,824	-	-	60,770,824
Asset under finance leases	1,703,338	(1,224,967)	-	478,371
FVOCI reserve	2,459,679	-	22,890,155	25,349,834
	75,228,285	(4,341,502)	22,890,155	93,776,938
Assets				
Employee benefit obligation	19,057,861	1,093,583	3,724,336	23,875,780
Allowance for loss on FVOCI investment securities	-	-	-	-
Allowance for loan losses	183,292,632	87,978,569	-	271,271,201
Asset under SLFRS 16 Leases	3,040,231	3,973,115	-	7,013,346
	205,390,724	93,045,267	3,724,336	302,160,327
	(130,162,439)	(97,386,769)	19,165,819	(208,383,389)

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27. Defined Benefit Obligation (DBO)

	2024	2023
Opening defined benefit obligation	79,585,935	63,526,205
Movement in the present value of employee benefit liability:		
Interest cost	11,142,031	12,705,241
Current service cost	4,295,413	3,921,492
Gratuity paid during the year	(24,618,675)	(12,981,456)
Actuarial (gain) /losses	11,265,169	12,414,453
Balance as at 31 December	**81,669,873**	**79,585,935**
The expense recognised in the income statement		
Interest cost	11,142,031	12,705,241
Current service cost	4,295,413	3,921,492
	15,437,444	**16,626,733**
Recognised in other comprehensive income		
Actuarial (gain)/loss recognised	11,265,169	12,414,453
	11,265,169	**12,414,453**

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

	2024	2023
Discount rate at 31 December	11%	14%
Future salary increases	10%	9%
Staff turnover rate	22%	21%
Disability rate (of morality table)	10%	10%
Retirement age 60 years		

An independent Actuarial valuation of the retirement benefit obligation was carried out 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 Income statement, statement of comprehensive income and statement of financial position, is the effect of the assumed changes in discount rate and salary increment rate as depicted below.

31 December 2024	Change In Assumption		
	Percentage	Increase	Decrease
Discount rate (change by)	1%	(4,460,653)	447,073
Salary increment rate (change by)	1%	912,053	(4,936,960)

31 December 2023	Change In Assumption		
	Percentage	Increase	Decrease
Discount rate (change by)	1%	(2,376,715)	2,531,011
Salary increment rate (change by)	1%	2,995,991	(2,853,022)

In practice this is unlikely to occur, and changes in some of the assumptions may be correlated. When calculating the sensitivity of the defined benefit obligation to significant actuarial assumptions the same method (present value of the defined benefit obligation calculated with the projected unit credit method at the end of the reporting period) has been applied when calculating the pension liability recognized within the statement of financial position.

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27. Defined benefit obligation (cont.)

Information about maturity profile of the defined benefit obligation	**2024**	**2023**
Information about maturity		
Within the next 12 months	12,216,476	20,528,604
Between 1 and 2 years	20,033,393	20,124,144
Between 3 and 5 years	33,667,045	27,628,348
Beyond 5 years	15,752,959	11,304,840
Total	**81,669,873**	**79,585,936**
Weighted average duration of defined benefit obligation (years)	3.00	3.00

28. Other provisions (Off balance sheet impairment)

	2024	**2023**
Loan commitment issued	29,857,665	43,238,613
Financial guarantee issued	3,518,954	103,891
	33,376,619	**43,342,504**

Movements in Impairment charges during the year

	Loan commitment		**Financial Guarantee**	
	2024	**2023**	**2024**	**2023**
As at 1 January	43,238,613	30,722,589	103,891	235,401
Charge/(write back) to statement of profit / loss	(13,380,948)	12,516,024	3,415,063	(131,510)
As at 31 December	**29,857,665**	**43,238,613**	**3,518,954**	**103,891**

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 2024	37,908,656	5,329,957	64,127	39,764	43,342,504
Charge/(write back) to statement of profit / loss	(8,562,284)	(4,818,664)	3,346,140	68,923	(9,965,885)
As at 31 December 2024	**29,346,372**	**511,293**	**3,410,267**	**108,687**	**33,376,619**
Total		**29,857,665**		**3,518,954**	**33,376,619**
As at 1 January 2023	29,751,685	970,904	235,401	-	30,957,990
Charge/(write back) to statement of profit / loss	8,156,971	4,359,053	(171,274)	39,764	12,384,514
As at 31 December 2023	**37,908,656**	**5,329,957**	**64,127**	**39,764**	**43,342,504**
Total		**43,238,613**		**103,891**	**43,342,504**

29. Other liabilities

	2024	**2023**
Sundry creditors	26,262,432	27,492,732
Cheques sent on clearing	169,685,247	397,323,127
Pay order issued	35,382,753	37,803,329
Other payables [Note 29.a]	417,266,636	298,368,158
Lease liability [Note 21.b.ii]	178,238,611	169,265,131
	826,835,679	**930,252,477**

29.a Other payables include amounts payable for head office expenses, provision for staff bonuses, and other miscellaneous payable balances that have arisen in the ordinary course of the Bank's business.

MCB BANK LIMITED - SRI LANKA BRANCH
NOTES TO THE FINANCIAL STATEMENTS (CONT.)
AS AT 31 DECEMBER

30. Assigned capital

	2024	2023
Opening balance	3,969,508,163	3,969,508,163
Closing balance	**3,969,508,163**	**3,969,508,163**

31. Reserves

	2024	2023
Statutory Reserve Fund		
Opening balance at 01 January	329,996,797	281,159,619
Transfer during the period	19,145,512	48,837,178
Closing balance at 31 December	**349,142,309**	**329,996,797**

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. Other reserves

	2024	2023
Revaluation reserve	141,864,524	141,798,700
Fair value reserve	22,168,484	67,348,544
Foreign currency translation reserve	879,596,130	1,033,782,862
	1,043,629,138	**1,242,930,106**

33. 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.

	2024	2023
Commitments		
Commitment for unutilised credit facilities [Note 28]	4,057,882,216	4,265,366,496
Other commitments on forwards and swaps	394,276,115	-
	4,452,158,331	**4,265,366,496**
Contingencies		
Acceptance [Note 28]	439,729,941	21,563,820
Documentary credits [Note 28]	665,399,294	69,028,524
Guarantees	216,915,572	128,780,984
Bills for collection	4,287,945,999	3,649,814,737
	5,609,990,806	**3,869,188,065**
	10,062,149,137	**8,134,554,561**

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
AS AT 31 DECEMBER

34. 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.

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

As at 31 December 2024

ASSETS	Note	FVTPL	FVOCI	Amortised cost	Total
Cash and cash equivalents	14	-	-	380,321,626	380,321,626
Balances with Central Banks	15	-	-	585,401,484	585,401,484
Placement with banks	16	-	-	2,625,754,727	2,625,754,727
Derivative financial instruments	17	157,351	-	-	157,351
Loans and advances to customers	18	-	-	9,839,910,074	9,839,910,074
Debt and other financial instrument	19	-	-	-	-
Investment securities - Measured at FVOCI*	19	-	11,695,234,943	-	11,695,234,943
Total financial assets		**157,351**	**11,695,234,943**	**13,431,387,911**	**25,126,780,205**

LIABILITIES	Note	FVTPL	Amortised cost	Total
Due to banks	23	-	450,098,630	450,098,630
Deposits from customers	24	-	15,828,135,982	15,828,135,982
Other borrowings	25	-	6,485,468	6,485,468
Total financial liabilities		-	**16,284,720,080**	**16,284,720,080**

As at 31 December 2023

ASSETS	Note	FVTPL	FVOCI	Amortised cost	Total
Cash and cash equivalents	14	-	-	284,369,614	284,369,614
Balances with Central Banks	15	-	-	1,077,674,807	1,077,674,807
Placement with banks	16	-	-	4,160,046,900	4,160,046,900
Loans and advances to customers	18	-	-	9,546,297,171	9,546,297,171
Investment securities - measured at FVOCI*	19	-	12,933,559,995	-	12,933,559,995
Total financial assets		-	**12,933,559,995**	**15,068,388,492**	**28,001,948,487**

LIABILITIES	Note	FVTPL	Amortised cost	Total
Deposits from customers	23	-	16,713,312,089	16,713,312,089
Other borrowings	24	-	1,901,503,296	1,901,503,296
Total financial liabilities		-	**18,614,815,385**	**18,614,815,385**

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
AS AT 31 DECEMBER

34. Financial assets and liabilities (cont.)

(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 2024	Level 1	Level 2	Level 3	Total
Financial Assets				
Investment securities at FVOCI				
Government of Sri Lanka treasury bills	11,695,234,943	-	-	11,695,234,943
Derivative financial instruments	157,351	-	-	157,351
	11,695,392,294	-	-	**11,695,392,294**
31 December 2023				
Financial Assets				
Investment securities at FVOCI				
Government of Sri Lanka treasury bills	12,933,559,995	-	-	12,933,559,995
	12,933,559,995	-	-	**12,933,559,995**

(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	Carrying amount	Fair value
Assets		
Cash and cash equivalents	380,321,626	380,321,626
Balances with Central Banks	585,401,484	585,401,484
Placements with banks	2,625,754,727	2,625,754,727
Loans and receivables to customers	9,839,910,074	9,839,910,074
Liabilities		
Due to banks	450,098,630	450,098,630
Due to other customers	15,828,135,982	15,828,135,982
Other borrowings	6,485,468	6,485,468

As at 31 December	Carrying amount	Fair value
Assets		
Cash and cash equivalents	284,369,614	284,369,614
Balances with Central Banks	1,077,674,807	1,077,674,807
Placements with Banks	4,160,046,900	4,160,046,900
Loans and receivables to customers	9,546,297,171	9,480,326,875
Liabilities		
Due to other customers	16,713,312,089	16,713,312,089
Other borrowings	1,901,503,296	1,901,503,296

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
AS AT 31 DECEMBER

34. Financial assets and liabilities (cont.)

34.c Fair value of financial instruments carried at amortised cost (cont.)

Loans and advances to other customers
More than 86% 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.

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)

AS AT 31 DECEMBER

35. (i) Maturity analysis of assets and liabilities

An analysis of the total assets of the Bank as at 31 December 2024 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount	Derivative Financial Instruments	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unallocated	Total as at 31.12.2024
Interest bearing assets									
Balances with central banks	100,020,604	-	100,020,604	-	-	-	-	-	100,020,604
Placement with banks	505,753,423	-	505,753,423	-	-	-	-	-	505,753,423
Loans and receivables to other customers	9,839,910,074	-	3,492,067,663	5,517,434,256	747,601,075	26,243,185	56,563,896	-	9,839,910,075
Investment securities at FVOCI	11,692,204,943	-	11,680,761,928	11,443,015	-	-	-	-	11,692,204,943
Non Interest bearing assets									
Cash and cash equivalents	380,321,626	-	380,321,626	-	-	-	-	-	380,321,626
Balances with central banks	485,380,880	-	485,380,880	-	-	-	-	-	485,380,880
Placement with banks	2,120,001,304	-	2,120,001,304	-	-	-	-	-	2,120,001,304
Derivative financial instrument	157,351	157,351	-	-	-	-	-	-	157,351
Investment securities at FVOCI	3,030,000	-	-	-	-	-	3,030,000	-	3,030,000
Property, plant and equipment	267,710,772	-	-	-	-	-	-	267,710,772	267,710,772
Right of use assets	134,742,551		-	-	-	-	-	134,742,551	134,742,551
Intangible assets	23,414,910	-	-	-	-	-	-	23,414,910	23,414,910
Deferred tax assets	170,390,499	-	-	-	-	170,390,499	-	-	170,390,499
Other assets	89,538,977	-	22,384,744	55,961,861	11,192,372	-	-	-	89,538,977
Total assets	**25,812,577,914**	**157,351**	**18,786,692,172**	**5,584,839,131**	**758,793,447**	**196,633,684**	**59,593,896**	**425,868,233**	**25,812,577,915**
Interest bearing liabilities									
Due to banks	450,098,630	-	450,098,630	-	-	-	-	-	450,098,630
Due to other customers	12,646,342,051	-	6,266,324,392	4,016,832,910	2,035,930,016	327,254,733	-	-	12,646,342,051
Lease liability against right of use asset	178,238,611	-	10,548,738	35,243,758	83,090,622	49,355,493	-	-	178,238,611
Non Interest bearing liabilities									
Due to other customers	3,181,793,931	-	452,550,342	682,316,996	1,761,464,081	285,462,512	-	-	3,181,793,931
Other borrowings	6,485,468	-	6,485,468	-	-	-	-	-	6,485,468
Current tax liabilities	86,077,621	-	-	86,077,621	-	-	-	-	86,077,621
Provisions	33,376,619	-	-	-	-	33,376,619	-	-	33,376,619
Other liabilities	615,220,449	-	-	-	-	-	-	615,220,449	615,220,449
	17,197,633,380	**-**	**7,186,007,570**	**4,820,471,285**	**3,880,484,719**	**695,449,356**	**-**	**615,220,449**	**17,197,633,380**
Interest rates sensitivity gap	**8,614,944,534**	**157,351**	**11,600,684,602**	**764,367,846**	**(3,121,691,272)**	**(498,815,672)**	**59,593,896**	**(189,352,216)**	**8,614,944,535**
Financial guarantees	**216,915,572**	**-**	**119,411,612**	**92,047,000**	**5,456,960**	**-**	**-**	**-**	**216,915,572**

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)

AS AT 31 DECEMBER

35. (ii) Maturity analysis of assets and liabilities (cont.)

An analysis of the total assets of the Bank as at 31 December 2023 based on the remaining period as at the reporting date to the respective contractual maturity dates is given below:

	Carrying Amount	Derivative Financial Instruments	Up to 3 Months	3 to 12 Months	1 to 3 Years	3 to 5 Years	More than 5 Years	Unallocated	Total as at 31.12.2023
Interest bearing assets									
Balances with central banks	400,296,703	-	400,296,703	-	-	-	-	-	400,296,703
Placement with banks	709,906,850	-	709,906,850	-	-	-	-	-	709,906,850
Loans and receivables to other customers	9,546,297,171	-	5,771,675,073	1,259,422,594	2,233,047,798	226,238,861	55,912,845	-	9,546,297,171
Investment securities at FVOCI	12,930,529,995	-	10,850,080,480	2,080,449,515	-	-	-	-	12,930,529,995
Non interest bearing assets									
Cash and cash equivalents	284,369,614	-	284,369,614	-	-	-	-	-	284,369,614
Balances with central banks	677,378,104	-	677,378,104	-	-	-	-	-	677,378,104
Placement with banks	3,450,140,050	-	3,450,140,050	-	-	-	-	-	3,450,140,050
Investment securities at FVOCI	3,030,000	-	-	-	-	-	3,030,000	-	3,030,000
Property, plant and equipment	289,460,523	-	-	-	-	-	-	289,460,523	289,460,523
Right of use assets	145,887,312		-	-	-	-	-	145,887,312	145,887,312
Intangible assets	31,943,809	-	-	-	-	-	-	31,943,809	31,943,809
Deferred tax assets	208,383,389	-	-	-	-	208,383,389	-	-	208,383,389
Other assets	124,231,178	-	124,231,178	-	-	-	-	-	124,231,178
	91,963,833	-	91,963,833	-	-	-	-	-	91,963,833
Total assets	28,893,818,531	-	22,360,041,885	3,339,872,109	2,233,047,798	434,622,250	58,942,845	467,291,644	28,893,818,531
Interest bearing liabilities									
Due to banks	-	-	-	-	-	-	-	-	-
Derivative financial instrument	-	-	-	-	-	-	-	-	-
Due to other customers	13,350,794,969	-	4,855,929,507	4,884,147,237	3,118,652,964	492,065,261	-	-	13,350,794,969
Other borrowings	1,901,503,296	-	1,901,503,296		-	-	-	-	1,901,503,296
Lease liability against right of use asset	169,265,131	-	8,463,257	25,389,770	67,706,052	67,706,052	-	-	169,265,131
Non Interest bearing liabilities									
Due to other customers	3,362,517,120	-	438,343,277	719,000,488	1,900,982,641	304,190,714	-	-	3,362,517,120
Other borrowings	-	-	-	-	-	-	-	-	-
Current tax liabilities	321,312,227	-	-	321,312,227	-	-	-	-	321,312,227
Provisions	43,342,504	-	-	-	-	43,342,504	-	-	43,342,504
Other liabilities	840,573,282	-	840,573,282	-		-	-	-	840,573,282
	19,989,308,529	-	8,044,812,619	5,949,849,722	5,087,341,657	907,304,531	-	-	19,989,308,529
Interest rates sensitivity gap	8,904,510,002	-	14,315,229,266	(2,609,977,613)	(2,854,293,859)	(472,682,281)	58,942,845	467,291,644	8,904,510,002
Financial guarantees	128,780,984	-	28,675,100	95,829,884	1,276,000	3,000,000	-	-	128,780,984

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35. (iii) Analysis of financial assets and liabilities by remaining contractual maturities

The table below summarises the maturity profile of the undiscounted cash flows of the Bank's financial assets and liabilities as at 31 December 2024.

	Within 12 Months	After 12 Months	Total
Interest bearing assets			
Balances with central banks	100,041,208	-	**100,041,208**
Placement with banks	513,111,502	-	**513,111,502**
Loans and receivables to other customers	9,269,340,234	1,031,520,660	**10,300,860,894**
Investment securities at FVOCI	11,995,687,711	-	**11,995,687,711**
Non Interest bearing assets			
Cash and cash equivalents	380,321,626	-	**380,321,626**
Balances with central banks	485,380,880	-	**485,380,880**
Placement with banks	2,120,001,304	-	**2,120,001,304**
Derivative financial instrument	157,351	-	**157,351**
Investment securities at FVOCI	-	3,030,000	**3,030,000**
Property, plant and equipment	-	267,710,772	**267,710,772**
Right of use assets	-	134,742,551	**134,742,551**
Intangible assets	-	23,414,910	**23,414,910**
Deferred tax Assets	170,390,499	-	**170,390,499**
Current Tax Asset	-	-	**-**
Other assets	89,538,977	-	**89,538,977**
Total assets	**25,123,971,292**	**1,460,418,893**	**26,584,390,185**
Interest bearing liabilities			
Due to banks	450,197,260	-	**450,197,260**
Derivative financial instrument	-	-	**-**
Due to other customers	10,504,536,388	2,378,880,447	**12,883,416,835**
Other borrowings	-	-	**-**
Lease liability against right of use asset	54,454,047	146,885,905	**201,339,952**
Non Interest bearing liabilities			
Due to other customers	1,134,867,337	2,046,926,594	**3,181,793,931**
Other borrowings	6,485,468	-	**6,485,468**
Current tax liabilities	86,077,621	-	**86,077,621**
Deferred tax liabilities	-	-	**-**
Provisions	-	33,376,619	**33,376,619**
Other liabilities	-	615,220,449	**615,220,449**
	12,236,618,122	**5,221,290,014**	**17,457,908,136**
Interest rates sensitivity gap	**12,887,353,170**	**(3,760,871,121)**	**9,126,482,049**

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
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36. 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.

36.1 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 Country General Manager, Head of Operations, Head of Treasury, Chief Risk Officer and Department Head of Compliance of the Bank have been classified as KMPs of the Bank, who are also the members of the Management Committee.

(a) Compensation of KMPs	2024	2023
Short term employment benefits	149,164,694	132,162,249
Post employment benefits	4,706,126	4,226,653
	153,870,820	**136,388,902**

(b) Transactions with KMPs

Statement of financial position items

	2024	2023
Assets		
Loans and advances	7,085,134	6,833,077
Liabilities		
Deposits	9,436,818	11,361,089

(c) Direct and indirect accommodation

	2024	2023
Direct and indirect accommodation as % of the Bank's regulatory capital.	0.09%	0.08%

36.2 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.

(a) Related parties	Nature of the transaction	2024	2023
MCB Pakistan	Vostro balances	1,383,734	1,528,519
	Nostro balance	-	-
	HO Expenses payable	272,119,487	129,119,487
	Interest expense	-	-
	HO expenses	143,000,000	133,000,000
MCB Bahrain	Deposit	586,620,000	648,000,000
	Interest expense	57,019,740	59,268,216
MCB Leasing CJSC Azerbaijan	Lending	586,620,000	648,000,000
	Deposit	142,173	213,681
	Interest Income	67,080,153	71,701,413
MCB Dubai	Placement	-	-
	Interest Income	-	6,913,543
	Nostro balance	-	-

36.2.b Direct and indirect accommodation

	2024	2023
Direct and indirect accommodation as a % of the Bank's regulatory capital	7%	11%

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.

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NOTES TO THE FINANCIAL STATEMENTS (CONT.)
AS AT 31 DECEMBER

36. Related party disclosures (cont.)

36.3 Transactions with post employment benefit of the bank

Name of the related party	Nature of the transaction	2024	2023
MCB Bank Sri Lanka Branch	Deposits	15,866,718	49,395,328
Staff Provident fund	Interest expenses	2,848,171	19,239,110
	Contribution made	20,391,089	19,172,841

37. Comparative information

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

38. Litigations and 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.

39. 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 the current economic environment 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.

40. Events occurring after the reporting date

There were no events after the reporting date which requires adjustments or disclosures in the Financial Statements.

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Supplementary Basel III disclosures (unaudited)

Appendix 1

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 31-12-2024	As at 31-12-2023
Regulatory capital (LKR 000)		
Common Equity Tier 1 Capital	7,908,312	8,180,486
Tier 1 Capital	7,908,312	8,180,486
Total Capital	8,030,521	8,313,164
Regulatory Capital Ratio (%)		
Common Equity Tier 1 Capital Ratio (Minimum Requirement - 7.00%)	61.10	53.79
Tier 1 Capital Ratio (Minimum Requirement - 8.50%)	61.10	53.79
Total Capital Ratio (Minimum Requirement -12.50%)	62.04	54.66
Regulatory Liquidity		
Statutory Liquid Assets (**LKR 000)**	14,368,903	17,129,440
Statutory Liquid Assets Ratio % -Minimum requirement 20%		
Total Bank Operations (%)	89.0	95.0
Liquidity Coverage Ratio (%)- Rupee (Minimum Requirement - 100%)	585	410
Liquidity Coverage Ratio (%)- All currencies (Minimum Requirement - 100%)	929	732

Appendix 1 (cont.) / Disclosure 2

MCB BANK LIMITED - SRI LANKA BRANCH

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

Basel III Computation of Capital Ratio

Item	Amount (LKR '000) As at 31-12-2024	Amount (LKR '000) As at 31-12-2023
Common Equity Tier 1 (CET1) Capital after Adjustments	7,908,312	8,180,486
Common Equity Tier 1 (CET1) Capital	8,164,451	8,320,339
Equity Capital (Stated Capital)/Assigned Capital	3,969,508	3,969,508
Reserve Fund	349,142	281,160
Published Retained Earnings/(Accumulated Retained Losses)	3,103,578	3,313,277
Published Accumulated Other Comprehensive Income (OCI)	742,223	756,394
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	**256,139**	**139,853**
Goodwill (net)	-	-
Intangible Assets (net)	23,415	31,944
Others (specify)	232,724	107,909
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	**122,209**	**132,678**
Tier 2 Capital	**122,209**	**132,678**
Qualifying Tier 2 Capital Instruments	-	-
Revaluation Gains	-	-
Loan Loss Provisions	122,209	132,678
Instruments issued by Consolidated Banking and Financial Subsidiaries of the Bank and held by Third Parties	-	-
Total Adjustments to Tier 2	-	-
Investment in Own Shares	-	-
Others (specify)	-	-
CET1 Capital	**7,908,312**	**8,180,486**
Total Tier 1 Capital	**7,908,312**	**8,180,486**
Total Capital	**8,030,521**	**8,313,164**

Item	Amount (LKR '000) As at 31-12-2024	Amount (LKR '000) As at 31-12-2023
Total Risk Weighted Assets (RWA)	**12,943,917**	**15,208,282**
RWAs for Credit Risk	9,776,721	10,614,242
RWAs for Market Risk	79,605	67,737
RWAs for Operational Risk	3,087,590	4,526,303
CET1 Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	61.10	53.79
of which: Capital Conservation Buffer (%)		
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		
Total Tier 1 Capital Ratio (%)	61.10	53.79
Total Capital Ratio (including Capital Conservation Buffer, Countercyclical Capital Buffer & Surcharge on D-SIBs) (%)	62.04	54.66
of which: Capital Conservation Buffer (%)		
of which: Countercyclical Buffer (%)		
of which: Capital Surcharge on D-SIBs (%)		

Appendix 1 (cont.)

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

Disclosure 3

Computation of Leverage Ratio

Item	Amount (LKR '000)	
	As at 31-12-2024	As at 31-12-2023
Tier 1 Capital	7,487,111	7,106,068
Total Exposures	26,636,899	29,201,299
On-Balance Sheet Items (excluding Derivatives and Securities Financing Transactions, but including Collateral)	25,831,822	28,663,187
Derivative Exposures	-	-
Securities Financing Transaction Exposures	-	-
Other Off-Balance Sheet Exposures	781,661	506,168
Basel III Leverage Ratio (%) (Tier 1/Total Exposure)	28.11%	24.33%

Appendix 1 (cont.)

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 31-12-2024		As at 31-12-2023	
	Total Un-weighted Value	Total Weighted Value	Total Un-weighted Value	Total Weighted Value
Total Stock of High-Quality Liquid Assets (HQLA)	12,384,941	12,384,941	11,810,538	11,810,538
Total Adjusted Level 1A Assets	12,384,941	12,384,941	11,810,538	11,810,538
Level 1 Assets	12,384,941	12,384,941	11,810,538	11,810,538
Total Adjusted Level 2A Assets	-	-	-	-
Level 2A Assets	-	-	-	-
Total Adjusted Level 2B Assets	-	-	-	-
Level 2B Assets	-	-	-	-
Total Cash Outflows	**20,832,790**	**5,330,046**	**22,245,226**	**6,456,255**
Deposits	9,368,151	936,815	10,863,700	1,086,370
Unsecured Wholesale Funding	6,103,479	3,921,765	6,814,100	4,825,976
Secured Funding Transactions	-	-	-	-
Contingent Funding Obligations	5,361,160	471,466	4,567,426	543,909
Additional Requirements	-	-	-	-
Total Cash Inflows	**6,322,736**	**4,670,413**	**6,813,307**	**5,039,180**
Maturing Secured Lending Transactions Backed by Collateral	-	-	-	-
Committed Facilities	-	-	-	-
Other Inflows by Counterparty which are Maturing within 30 Days	6,322,736	4,670,413	6,813,307	5,039,180
Operational Deposits	-	-	-	-
Other Cash Inflows	-	-	-	-
Liquidity Coverage Ratio (%) (Stock of High Quality Liquid Assets/Total Net Cash Outflows over the Next 30 Calendar Days) * 100		**929.44**		**731.73**

Appendix 1 (cont.)

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 31-12-2024
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)	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

Appendix 1 (cont.)

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

Disclosure 6

Summary Discussion on Adequacy/Meeting Current and Future Capital Requirements

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

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

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

Appendix 1 (cont.)

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

Disclosure 7

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

As at 31-12-2024	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	12,277,606	-	12,277,606	-	-	-
Claims on Foreign Sovereigns and their Central Banks	-	-	-	-	-	-
Claims on Public Sector Entities	3,030	-	3,030		3,030	100.00
Claims on Official Entities and Multilateral Development Banks	-	-	-	-	-	-
Claims on Banks Exposures	2,120,002	-	2,120,002	-	593,212	27.98
Claims on Financial Institutions	2,520,091	23,613	2,520,092	4,723	1,364,095	54.03
Claims on Corporates	5,313,342	1,472,579	5,313,342	670,750	5,461,155	91.26
Retail Claims	92,969	5,000	92,969	2,500	92,171	96.55
Claims Secured by Residential Property	294,822	-	294,822	-	244,891	83.06
Claims Secured by Commercial Real Estate	970,092	267,438	970,092	103,689	1,073,781	100.00
Non-Performing Assets (NPAs)	242,707	-	242,707	-	242,460	99.90
Higher-risk Categories	-	-	-	-	-	-
Cash Items and Other Assets	1,082,249	-	1,082,249	-	701,927	64.86
Total	**24,916,910**	**1,768,630**	**24,916,911**	**781,662**	**9,776,722**	**38.04**

Appendix 1 (cont.)

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 & CRM)							
Asset Classes As at 31-12-2024	0%	20%	50%	75%	100%	150%	>150%	Total Credit Exposures Amount
Claims on Central Government and Central Bank of Sri Lanka	12,277,606	-	-	-	-	-	-	12,277,606
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	-	1,908,487	-	-	211,515	-	-	2,120,002
Claims on Financial Institutions	-	185,442	2,024,732	-	314,641	-	-	2,524,815
Claims on Corporates	-	279,105	599,307	-	5,105,680	-	-	5,984,092
Retail Claims	-	-	-	13,191	82,278	-	-	95,469
Claims Secured by Residential Property	-	-	76,817	-	218,005	-	-	294,822
Claims Secured by Commercial Real Estate	-	-	-	-	1,073,781	-	-	1,073,781
Non-Performing Assets (NPAs)	-	-	494	-	242,213	-	-	242,707
Higher-risk Categories	-	-	-	-	-	-	-	-
Cash Items and Other Assets	380,322	-			701,927			1,082,249
Total	**12,657,928**	**2,373,034**	**2,701,350**	**13,191**	**7,953,070**	-	-	**25,698,573**

Disclosure 9

Market Risk under Standardised Measurement Method

Item	RWA Amount (LKR' 000) As at 31-12-2024	RWA Amount (LKR' 000) As at 31-12-2023
(a) RWA for Interest Rate Risk	-	-
General Interest Rate Risk	-	-
(i) Net Long or Short Position	-	-
(ii) Horizontal Disallowance	-	-
(iiii) 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	9,951	8,467
Capital Charge for Market Risk [(a) + (b) + (c) * CAR	9,951	8,467

Appendix 1 (cont.)

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 31-12-2024		
			1st Year	2nd Year	3rd Year
The Basic Indicator Approach	15%		2,565,333	3,306,517	1,847,126
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	**3,087,592**				
The Standardised Approach	-				
The Alternative Standardised Approach	-				
Risk Weighted Amount for Operational Risk (LKR'000)					
The Basic Indicator Approach	**385,949**				
The Standardised Approach	-				
The Alternative Standardised Approach	-				

Appendix 1 (cont.)

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 31-12-2024	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	**23,106,047**	**23,106,047**	**20,998,648**	-	**2,107,242**
Cash and Cash Equivalents	380,322	380,322	380,322		
Balances with Central Banks	485,381	485,381	485,381		
Placements with Banks	-	-	-		-
Derivative Financial Instruments	157	157			
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	9,819,611	9,819,611	7,735,784		2,083,827
Financial Investments - Available- For Sale	11,695,235	11,695,235	11,695,235		
Financial Investments - Held-To- Maturity	-	-	-		-
Investments in Subsidiaries	-	-	-		
Investments in Associates and Joint Ventures	-	-	-		
Property, Plant and Equipment	384,789	384,789	384,789		
Investment Properties	-	-	-		
Goodwill and Intangible Assets	23,415	23,415	-		23,415
Deferred Tax Assets	-	-	-		
Other Assets	317,137	317,137	317,137		
Liabilities	**17,236,138**	**17,236,138**	-	-	-
Due to Banks	1,896,394	1,896,394			
Derivative Financial Instruments	-	-			
Other Financial Liabilities Held-For-Trading		-			
Financial Liabilities Designated at Fair Value Through Profit or Loss		-			
Due to Other Customers	14,388,326	14,388,326			
Other Borrowings	-	-			
Debt Securities Issued	-	-			
Current Tax Liabilities	57,852	57,852			
Deferred Tax Liabilities	-	-			
Other Liabilities	893,566	893,566			
Due to Subsidiaries	-	-			
Subordinated Term Debts	-	-			
Off-Balance Sheet Liabilities	**10,388,599**	**10,388,599**	**781,661**	-	-
Guarantees	215,925	215,925	86,103		
Performance Bonds	991	991	27,947		
Letters of Credit	665,399	665,399	133,080		
Other Contingent Items	834,006	834,006	87,946	-	
Undrawn Loan Commitments	4,057,882	4,057,882	446,585		
Other Commitments	4,614,396	4,614,396	-		
Shareholders' Equity		-			
Equity Capital (Stated Capital)/Assigned Capital		-			
of which Amount Eligible for CET1	7,081,244	7,081,244			
of which Amount Eligible for AT1	-	-			
Retained Earnings	468,417	468,417			
Accumulated Other Comprehensive Income	24,628	24,628			
Other Reserves	1,021,394	1,021,394			
Total Shareholders' Equity	**8,595,683**	**8,595,683**	-	-	-

Appendix 1 (cont.)

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".

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

Appendix 1 (cont.)

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

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.

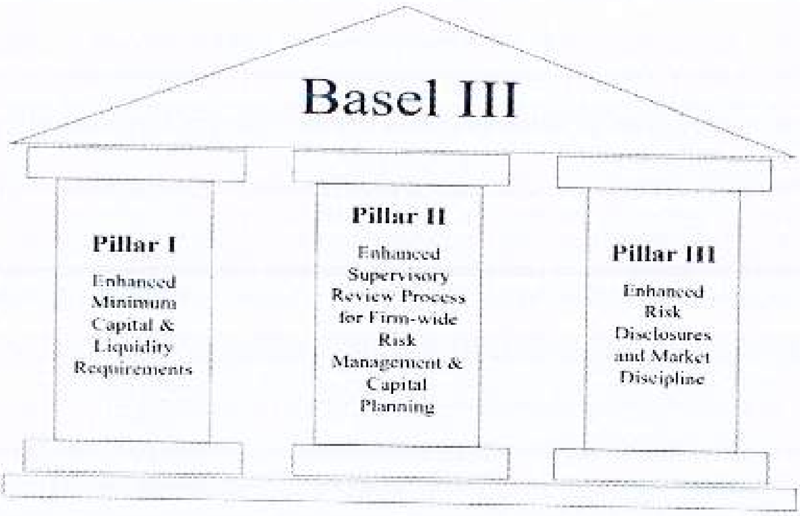
The management and its Risk Management & Portfolio Review Committee have ensured formulation and implementation of a comprehensive Risk Management Framework. Under managements' guidance, the Bank executed risk strategy and continued to undertake controlled risk-taking activities within the risk management 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.

Appendix 1 (cont.)

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

Disclosure 13 (cont.)

FINANCIAL STABILITY THROUGH RISK MANAGEMENT



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

MCB BANK LIMITED - SRI LANKA BRANCH APPROACH

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

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;

Appendix 1 (cont.)

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

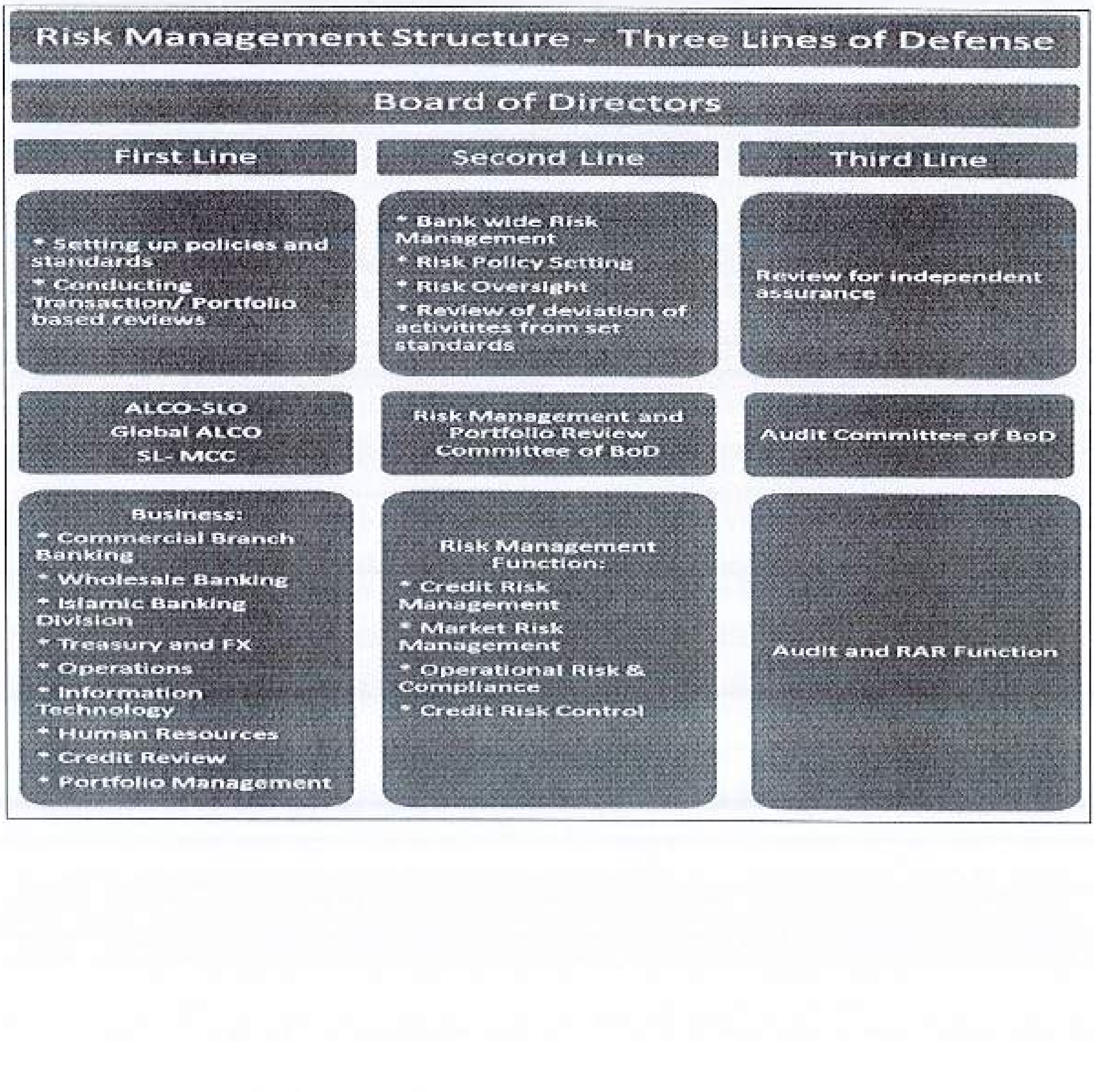
Disclosure 13 (cont.)

- 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, Anti-Money Laundering 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.



Appendix 1 (cont.)

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

Disclosure 13 (cont.)

RISK APPETITE AND TOLERANCE

Risk appetite is an expression of the amount of risk that the bank is prepared to accept in creating value to the stakeholders at large. It is inevitable that the Bank should accept risks, hence risk taken within appetite may give rise to expected losses, and such would be analyzed and 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.
- Well documented policies and procedures on credit granting (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.

Appendix 1 (cont.)

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Disclosure 13 (cont.)

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.

Appendix 1 (cont.)

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Disclosure 13 (cont.)

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 would also be conducted for existing staff.

Appendix 1 (cont.)

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Disclosure 13 (cont.)

COMPLIANCE RISK

Compliance risk is the current and prospective risk to earnings or capital arising from violations of, or nonconformance with, laws, rules, regulations, Money Laundering and terrorist financing, 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.

Appendix 1 (cont.)

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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.

Appendix 2

MCB BANK LTD
SELECTED PERFORMANCE INDICATORS/KEY FINANCIAL DATA
AS AT 31-12-2024

Item	Current Period 31-12-2024	Previous Period 31-12-2023
Regulatory Capital Adequacy (LKR in Millions)		
Common Equity Tier 1	7,908.31	8,180.49
Tier 1 Capital	7,908.31	8,180.49
Total Regulatory Capital	8,030.52	8,313.16
Regulatory Capital Ratios (%)		
Common Equity Tier 1 Capital (%) (Minimum Requirement: 7%)	61.10	53.79
Tier 1 Capital Ratio (%) (Minimum Requirement: 8.50%)	61.10	53.79
Total Capital Ratio (%) (Minimum Requirement: 12.50%)	62.04	54.66
Basel III Leverage Ratio (Minimum Requirement : 3%)	28.11	24.33
Regulatory Liquidity Requirement		
Liquidity Coverage Ratio (%)- (Minimum Requirement : 100%)		
-Rupee (%)	584.71	410.10
-All Currency (%)	929.44	731.73
Net Stable Funding Ratio (%) - (Minimum Requirement : 100%)	239.57	233.70
Assets Quality		
Impaired Loans (Stage 3) to Total Loans, Ratio (%)*	6.17	6.55
Impairment (Stage 3) to Stage 3 Loans, Ratio (%)*	70.76	62.36
Income and Profitability		
Net Interest Margin (%)	5.82	10.73
Return on Assets (before Tax) (%)	1.43	3.79
Return on Equity (%)	4.29	11.09
Cost to Income Ratio (%)	40.04	33.00
Memorandum Information		
Credit Rating	AA- (lka)	-
Number of Employees	115	116
Number of Branches	5	5

* *Including Undrawn Portion of Credit*