

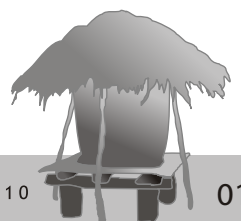
ANNUAL REPORT 2010



Savings Bank
ஒநிரீகீரீதீ லஃகூல
MBSL சேமிப்பு வங்கி

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Chairman's Statement



It is my pleasure and privilege to address you and reflect on a year that ensured our financial stability. With great determination, our team surmounted most obstacles and placed the bank on a firm footing for the future.

I'm proud to announce that in 2010, we achieved success in several important areas. We significantly expanded our Savings Base and the Lending Business. Our Gross Deposits exceeded Rs.1 Billion. All these achievements reflect the trust and confidence our Customers have continued to place in us.

I must also mention that we met all the stipulated requirements of the Central Bank of Sri Lanka. We also succeeded in reducing our Non-Performing Advances (NPA) and curtailed our expenses.

All this demonstrates that our strategy of consolidation and steady progress is paying off.

We continued to lay emphasis on delivering a good customer service, which we believe will drive our future growth.

There has been a remarkable turnaround since the Merchant Bank of Sri Lanka PLC (MBSL) took over our Bank as the Managing Agent in early 2009. The Merchant Bank of Sri Lanka PLC eventually made a substantial investment in the shares of the Bank and our Bank became one of its subsidiaries with a new name and a new Board of Directors. Today, we derive much strength and stability from Merchant Bank of Sri Lanka PLC, a leading merchant bank in the country, as well as its parent, the Bank of Ceylon, which is a reputed institution in the country with a history of over 70 years.

During the year under review, I succeeded in my task of ensuring that the interests of our shareholders were safeguarded. This was done with the support of my fellow Board Members, the Senior Management and Staff Members of the Bank. With great energy and dedication, they helped us overcome the challenges we faced.

Now that the liquidity crisis has been overcome, we can look ahead to the future with a renewed sense of purpose. We have a clear strategy in mind. We will expand our existing businesses and identify emerging market opportunities.

We will position our Bank to take advantage of the great opportunities opening up in the post-war scenario. We can now be optimistic and broaden our scope of business as we are in a financially stable position.

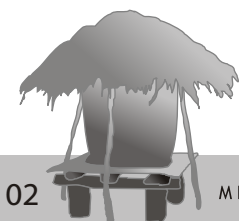
I wish to thank our valued Shareholders for having faith and supporting us throughout. In fact, during the latter part of the year, FlyBrunei Sdn. Bhd. of Malaysia made a significant investment in shares of the Bank. We thank them for having placed confidence in our Bank.

I must also thank the new Board of Directors appointed in June this year. They are professionals with much experience and expertise, and possess a good understanding of prudent management. I also appreciate the contributions of the previous Board Members. They strived hard to bring financial stability to our Bank and steered us past a most difficult period.

I also wish to thank our Customers, who have continued to stand by us. They will benefit greatly from a superior service as the Bank surges forward into the future with greater confidence.

I must also place on record my sincere appreciation to our Shareholders, Customers and other Stakeholders, for their dedication and perseverance did much to ensure our growth. Finally, I must thank our Chief Executive Officer, the Management Team and the Staff at all levels, whose great determination and commitment has contributed towards the continuous success of the Bank.


M.R. Shah
Chairman



Chief Executive Officer's Review



Despite volatile economic and financial conditions that prevailed both locally and internationally, our Bank was able to stand its ground and come to a stable footing on the path to success with courage and resilience.

During the year under review, the Bank transformed the way it engaged in business in many aspects. Through the changes that were effected, the Bank not only increased its savings and lending foundations but also achieved a notable level of financial stability that is reflected in the financial statements appended to this report.

As a bank and a responsible organization of our country, our Bank has always been focusing on inculcating the savings habit of our society, beginning with the younger generation. In the long term we believe that this will have a tremendous beneficial impact on the national economy as a whole.

Looking back at our performance in the financial year under review, we concentrated on increasing our low cost savings base which in fact grew by over 60%, from Rs.222 million in 2009 to Rs.356 million in 2010. The minor savings base rose by over 26%, from Rs.108 million in 2009 to Rs.137 million in 2010.

Term Deposits increased by Rs. 26 million to Rs. 1.412 billion. Our gross deposits collection that consisted of savings, minor savings and term deposits exceeded Rs.1 billion in 2010. This was a notable achievement which reflects the growing confidence placed on us by the public.

Lending was another aspect of the Bank which we were concentrating in growing. Even though there was a significant increase in lending activities in the market, the Bank focused on only the highest quality advances by adopting prudent lending policies and improved recovery procedures. These measures enabled the reduction of the Bank's non-performing advances (NPA) by over Rs.27 million in 2010, which is a 15.8% reduction in the gross NPA base. The gross NPA ratio was reduced from 12.6% to 10% during the year 2010 and the net NPA ratio also was reduced from 10.65% in 2009 to 7.86% in 2010.

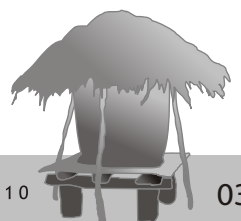
In 2009, our total gross lending amounted to Rs.473 million. However, in 2010 the figure rose to Rs.942 million and the lending base stood at Rs.1.415 billion at the end of 2010. Our main strategy adopted for this growth is the speedy process in granting facilities and also the offering of flexible payment terms beneficial to our customers.

On another positive note, I must mention that our net interest income rose by over 45% from Rs.63.8 million to Rs.93 million, even though the interest income was reduced by 9.4% mainly due to the reduction of interest rates in new advances. Our operating income too grew by Rs.12.6 million to Rs.152.38 million, a growth of 9%.

The Bank adopted stringent cost control measures during the year which proved to be successful, whereby we were able to cut our expenses by over 11%, from Rs.195.16 million in 2009 to Rs.173.32 million in 2010.

I am also pleased to place on record the success of the Rights Issue of shares of the Bank in October 2010 which enabled us to raise a sum of Rs.182.5 million, which increased the total equity to Rs. 227.7 million in 2010, and wish to thank our shareholders for the trust and confidence shown by further investing in our Bank.

Strategically speaking, our process of consolidation has placed the Bank on a firm footing for the future. In fact, during the year under review, the Bank was not only able to meet but to exceed the regulatory requirements laid down by the Central Bank with regard to liquidity and capital adequacy. The capital adequacy ratios, Tier I, Tier II, which were below the required levels in 2009, reached 13.59% in Tier I and 14.17% in Tier II, much higher than the required levels of 5% and 10% respectively at the end of the year.



Chief Executive Officer's Review *contd....*

At MBSL Savings Bank, we place great importance in providing a superior customer service. This too is a key factor in our success. We have 12 fully functioning extension offices spread across the island in major towns and cities. This network provides a reliable source for customers to perform their banking activities conveniently. We have also focused on offering greater flexibility and faster service in all activities undertaken by the Bank. The Bank has started revamping and restructuring all offices in order to enhance customer accessibility and convenience and to offer a superior service to our loyal customers. As the first step, during the year we upgraded and relocated our Kotahena Extension Office to a strategic location.

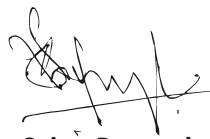
Looking at the future, we intend to upgrade our IT system to provide a faster, more efficient service. We are now in a position to initiate new marketing strategies to expand our reach and take advantage of the emerging opportunities. We intend to expand our operations and are in the process of seeking approval from the Central Bank of Sri Lanka to convert our extension offices to fully fledged branches and to refurbish and if necessary to relocate to strategic locations to provide our customers greater convenience and a superior service. We will widen our scope of business taking into consideration our overall strategic objectives. In fact, serious consideration is being made on venturing into the trade finance and corporate lending businesses on a selective basis in the near future, whilst keeping an eye out for other potential areas of development. All this will be towards achieving our vision of becoming the most preferred Savings Bank in the country.

Our Bank is now in a position to look forward to prosperous times ahead. I am confident that we will continue to make steady progress by expanding our low cost savings base and increasing our term deposits whilst achieving a sustainable growth in our lending portfolio. Indeed, we are moving towards achieving a secure level of financial stability.

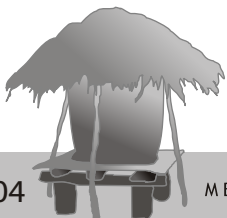
In achieving the above results, our Team at MBSL Savings Bank stood courageously and loyally with the Bank, and helped to steer past the difficult period.

In conclusion, I wish to thank our valued Shareholders for their unwavering faith, and our loyal Customers for continuing to place their trust and confidence in us. I must also thank the Board of Directors comprising of eminent professionals spearheaded by our Chairman Mr. M.R. Shah for their continuous support and guidance.

Finally, I thank my Team for their steadfast belief and loyalty. Our success today is largely due to the experience, expertise, dynamism, dedication and team spirit shown by you.



Sujam Ratnayake
Chief Executive Officer



Corporate Governance

MBSL Savings Bank Limited (which was previously known as Ceylinco Savings Bank Limited) was managed by the Merchant Bank of Sri Lanka PLC in early 2009 and on the 08th day of June, 2009 the name of the Bank, Ceylinco Savings Bank Limited was changed to MBSL Savings Bank Limited on the approval granted by the Department of the Registrar of Companies and on the approval of the Central Bank of Sri Lanka effected with the concurrence of the Shareholders of the Bank.

The Board of MBSL Savings Bank Limited comprised of the Chairman and Seven (07) Directors during the first half of the Financial Year 2010 and the Board of the Bank was reconstituted in June, 2010 and at the end of the year 2010 the Board comprised of the Chairman and Eight (08) Directors.

At the last Annual General Meeting held on the 04th of June 2010, the Chairman, Mr. M.R. Shah and the Directors namely, Dr. Ranjith Bandara and Mr. M.S.S. Paramananda were appointed to the Board on being nominated on a resolution passed by the Merchant Bank of Sri Lanka PLC replacing the following Members of the Board of MBSL Savings Bank Limited.

1. Mr. Janaka Ratnayake (Resigned w. e. f. 12/05/2010)
2. Mr. Lakshman Perera (Replaced by the Annual General Meeting held on 04/06/2010)
3. Mr. Ranjith Siriwardena (Replaced by the Annual General Meeting held on 04/06/2010)
4. Mr. Imtiyaz Nulair (Resigned w. e. f. 03/06/2010)

Consequent to the said Annual General Meeting of the Bank the Director, Dr. S.T.S. De Silva was appointed as an Independent and Non Executive Director to the Board of Directors of MBSL Savings Bank Limited and the Director, Capt. Nithiabala Balasingam was also appointed as a Nominee Director of Flybrunei Sdn. Bhd. on the said Company having invested in 9.99% of the Ordinary Voting Shares of the Bank in September, 2010, in addition to the other Directors of the Bank namely, Dr. T. Senthilvel, Mr. B.R.S.T. Edirisinghe and Five (5) Directors nominated by the Merchant Bank of Sri Lanka PLC which holds 68.03% of the Ordinary Voting Shares of MBSL Savings Bank Limited namely Mr. M.R. Shah, Mr. Gamini Karunathilake, Mr. P. G. Rupasinghe, Dr. Ranjith Bandara and Mr. M.S.S. Paramananda.

At the end of the financial year 2010, the Members of the Board of MBSL Savings Bank Limited consisted of the following Directors.

1. Mr. M.R. Shah (appointed w. e. f. 03/06/2010)
2. Dr. T. Senthilvel
3. Mr. B.R.S.T. Edirisinghe
4. Mr. Gamini Karunathilake
5. Mr. P. G. Rupasinghe
6. Dr. Ranjith Bandara (appointed w. e. f. 03/06/2010)
7. Mr. M.S.S. Paramananda (appointed w. e. f. 03/06/2010)
8. Dr. S.T.S. De Silva (appointed w. e. f. 27/08/2010)
9. Capt. Nithiabala Balasingam (appointed as a Nominee Director of Flybrunei Sdn. Bhd. of Malaysia w. e. f. 23/12/2010)

The Board of Directors of MBSL Savings Bank Limited consists of Non Executive Directors with Three (3) Directors namely, Dr. T. Senthilvel, Mr. B.R.S.T. Edirisinghe and Dr. S.T.S. De Silva being classified as Independent and Non Executive Directors while the other Members of the Board of Directors of MBSL Savings Bank Limited namely, the Chairman, Mr. M.R. Shah and the Directors Mr. Gamini Karunathilake, Mr. P. G. Rupasinghe, Dr. Ranjith Bandara and Mr. M.S.S. Paramananda (Nominee Directors of Merchant Bank of Sri Lanka PLC) and Capt. Nithiabala Balasingam (Nominee Director of Flybrunei Sdn. Bhd. of Malaysia) have been considered as Non Executive and Non Independent Directors of the Board of Directors of MBSL Savings Bank Limited.

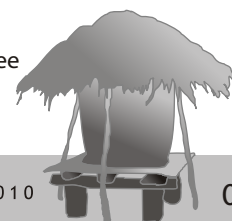
Board Meetings

The Board of Directors met thirteen (13) times during the financial year ended 31st December, 2010 and the respective attendance at these meetings are given below.

Name	Meetings	Attendance	Excused
Mr. Janaka Ratnayake (resigned w. e. f. 12/05/2010)	04	04	-
Mr. M.R. Shah (appointed w. e. f. 03/06/2010)	09	09	-
Mr. Gamini Karunathilake	13	10	03
Dr. T. Senthilvel	13	07	06
Mr. B.R.S.T. Edirisinghe	13	08	05
Mr. Lakshman Perera (Replaced by the AGM held on 04/06/2010)	04	04	-
Mr. P. G. Rupasinghe	13	13	-
Mr. Imtiyaz Nulair (Resigned w. e. f. 03/06/2010)	04	04	-
Mr. Ranjith Siriwardena (Replaced at the AGM held on 04/06/2010)	04	04	-
Dr. Ranjith Bandara (appointed w. e. f. 03/06/2010)	09	07	02
Mr. M.S.S. Paramananda (appointed w. e. f. 03/06/2010)	09	09	-
Dr. S.T.S. De Silva (appointed w. e. f. 27.08.2010)	05	05	-
Capt. Nithiabala Balasingam (appointed as a Nominee Director of Ms. Flybrunei Sdn. Bhd. of Malaysia w. e. f. 23/12/2010)	-	-	-

In June 2010 the Board of Directors of the Bank re-constituted all sub-committees of the Board and appointed five (5) Board sub-committees in compliance with the direction on Corporate Governance for Licensed Specialized Banks bearing No 12 of 2007 issued by the Central Bank of Sri Lanka (CBSL) which are as follows.

1. Audit Committee
2. Corporate Governance Committee
3. Remuneration and Human Resources Committee
4. Integrated Risk Management Committee
5. Nomination Committee



Corporate Governance *contd....*

Audit Committee

The Audit Committee met eleven (11) times during the financial year ended 31st December, 2010 and the respective attendance at these meetings are given below.

Name	Meetings	Attendance	Excused
Mr. Ranjith Siriwardena (ceased to be a Director consequent to the AGM held on 04/06/2010)	05	05	-
Mr. M.S.S. Paramananda (Appointed to the Committee as the Chairperson w.e.f. 23/06/2010)	06	06	-
Dr. T. Senthilverl	11	07	04
Mr. B.R.S.T. Edirisinghe	11	07	04
Mr. P.G. Rupasinghe (ceased to be a Member of the Committee w.e.f. 23/06/2010)	05	05	-
Mr. Lakshman Perera (ceased to be a Director consequent to the AGM held on 04/06/2010)	05	05	-

The Audit Committee of the Bank presently comprises of Three (3) Committee Members namely the Chairperson, Mr. M.S.S. Paramananda with the other Members being Dr. T. Senthilverl and Mr. B.R.S.T. Edirisinghe. During the financial year ended 31st December 2010 the Member Mr. P.G. Rupasinghe ceased to be a Member of the Committee from the 23rd of June, 2010 while Mr. Ranjith Siriwardena and Mr. Lakshman Perera ceased to be Members of the Board of Directors of the Bank.

Activities of the Audit Committee

- Review and provide special attention to the adequacy of procedures and effectiveness of the internal controls, recommend corrective action whenever necessary.
- Review and recommend to the Board of Directors with regard to the implementation of policies, authority limits and strategies.
- Review and monitor the integrity of the annual and quarterly financial statements prior to submission to the Board of Directors.
- Review the internal audit manual and program, and the results of the internal audit process, and where necessary ensure that appropriate actions are taken on recommendations of the Internal Audit Department. Accordingly, the Committee reviews the internal audit reports related to extension offices and other operational areas of the Bank submitted by the Internal Audit Department of the Bank.
- Review and assure taking of corrective action highlighted on the Management Letter sent by the External Auditors and provide status reports to the Board of Directors.
- Monitor compliance with requirements laid down by the regulatory authorities.

Corporate Governance Committee

The current Corporate Governance Committee was appointed on the 23rd of June, 2010 and is chaired by Dr. Ranjith Bandara with the other Members being Mr. M.R. Shah, Dr. T. Senthilverl and Mr. Gamini Karunathilake who have been appointed to review the effectiveness and extent of compliance with Corporate Governance practices by the Bank. During the financial year ended 31st December 2010 the Chairperson Mr. Janaka Ratnayake and Member Mr. Lakshman Perera ceased to be Members of the said Committee.

Remuneration and Human Resources Committee

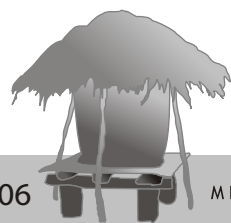
The Remuneration and Human Resources Committee of the Bank presently comprises of three (3) Committee Members namely the Chairperson, Mr. M.R. Shah with the other Members being Dr. T. Senthilverl and Mr. B.R.S.T. Edirisinghe. During the financial year ended 31st December 2010 the Chairperson Mr. Janaka Ratnayake and Members, Mr. Gamini Karunathilake and Mr. Imtiyaz Nulair ceased to be Members of the said Committee of the Bank.

Integrated Risk Management Committee

The Integrated Risk Management Committee met two (02) times during the financial year ended 31st December, 2010 and the attendance at these meetings is given below.

Name	Meetings	Attendance	Excused
Mr. Janaka Ratnayake (Resigned w.e.f. 12/05/2010)	00	00	-
Mr. M.R. Shah (Appointed to the Committee as the Chairperson w.e.f. 23/06/2010)	02	02	-
Dr. Ranjith Bandara (Appointed to the Committee as a Member w.e.f. 23/06/2010)	02	02	-
Mr. Gamini Karunathilake (Appointed to the Committee as a Member w.e.f. 23/06/2010)	02	02	-
Mr. P.G. Rupasinghe (ceased to be a Member of the Committee w.e.f. 23/06/2010)	02	02	-
Mr. Lakshman Perera (ceased to be a Director consequent to the AGM held on 04/06/2010)	00	00	-

The Integrated Risk Management Committee of the Bank presently comprises of four (4) Committee Members namely the Chairperson, Mr. M.R. Shah with the other Members being Dr. Ranjith Bandara, Mr. Gamini Karunathilake and Mr. P.G. Rupasinghe. During the financial year ended 31st December 2010 the Chairperson Mr. Janaka Ratnayake and the Member Mr. Lakshman Perera ceased to be Members of the said Committee.



Corporate Governance *contd....*

Nomination Committee

The Nomination Committee of the Bank presently comprises of Three (3) Committee Members namely the Chairperson, Mr. M.R. Shah with the other Members being Dr. Ranjith Bandara and Dr. T. Senthilverl. During the financial year ended 31st December 2010 the Chairperson Mr. Janaka Ratnayake ceased to be a Member of the said Committee while the Member Dr. Ranjith Bandara was re-appointed as a Member with effect from the 23rd of June, 2010.

Going concern principle

The Directors are satisfied that the Bank has sufficient resources to continue in operation in the foreseeable future. Going concern principle has been adopted by the Company in preparing the financial statements.

The Board sub-committees of the Bank appointed are endeavoured to

- Monitor the integrity of the annual and monthly financial statements;
- Strengthening internal control systems, risk management and audit systems;
- Enhancing the image of the Bank;
- Re-organization of the Bank;
- Providing strategic directions by formulating and implementing new innovative plans for the Bank;
- Implementation of sound credit policies and ensuring high credit quality;
- Adopting corporate governance best practices;
- Rationalization of administrative and personnel expenses;
- Reviewing human resources and procurement policies.

The Board of Directors of the Bank is assigned with the responsibility of directing and controlling the activities of the Bank with the view of adding value to its Shareholders.

The Chairman as the Head of the Board of Directors ensures that all Members of the Board of Directors are in a position to control completely and strongly the affairs of the Bank, and are fully committed to fulfil the obligations towards the Shareholders and are responsible for securing good corporate governance practices.

Chairman and Chief Executive Officer – Division of Responsibilities

The Chairman and the Chief Executive Officer (CEO) positions are held by two (2) individuals with no relationship to each other.

The Board has delegated the day to day management functions of the Bank to the Chief Executive Officer (CEO). The performance of the Bank is reviewed at the Board Meetings and Audit Committee Meetings scheduled to be held every month. In addition, the Senior Management headed by the Chief Executive Officer meets to monitor performance and deal with operational issues with the other Board appointed Sub-Committee Meetings being held when required.

The Chief Executive Officer (CEO) heads the Senior Management Team of the Bank, and reports to the Chairman and the Board of Directors of the Bank. The CEO also chairs the Asset and Liability (ALCO), Credit and Treasury Committees of the Bank.

The Chairman of the Bank is a Nominee Director of the Merchant Bank of Sri Lanka PLC which holds 68.03% of the shares of the Bank and is not considered as an independent Director and the Board of Directors of the Bank have designated Director, Dr. S.T.S. De Silva as the Senior Director of the Bank to advise and guide the Chairman on matters of the Bank and take decisions to ensure greater independence element as section 3(5)(ii) of the Banking Direction No 12 of 2007 requires a Non Executive and Independent Director to be appointed as a Senior Director of the Bank if the Chairman is not independent.

Accountability and Audit

The Board of Directors is vested with the responsibility of ensuring the preparation and presentation of the financial statements in accordance with the Sri Lanka Accounting Standards while ensuring the proper disclosure of financial information.

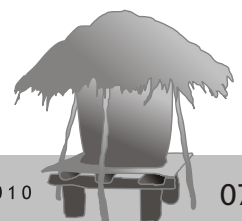
An efficient internal control system is maintained under the supervision and guidance of the Board of Directors in order to ensure the accounting records are correct and sufficient. Accordingly, the Board reviews and approves the financial statements and reports and oversees the establishment and maintenance of control processes and procedures to ensure accuracy, integrity and clarity in financial and other disclosures.

Internal Control System

A sound system of internal control is in practice to manage the risk of failure to achieve the business objectives and the Board has the overall responsibility over the internal control systems.

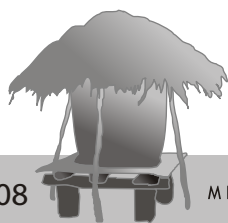
Compliance

The Bank has an effective process in place to ensure compliance with applicable laws and regulations pertaining to the banking industry including the Prevention of Money Laundering Act No 05 of 2006 and related Acts, Companies Act No 07 of 2007, Banking Act No 30 of 1988 as amended and other related regulations. The Bank submits monthly Compliance Reports to the Board of Directors on recommendation of the Audit Committee. Further, the Compliance Department of the Bank ensures that Compliance Reports are submitted to the Central Bank of Sri Lanka confirming the status of the Bank's compliance on statutory requirements and regulations.



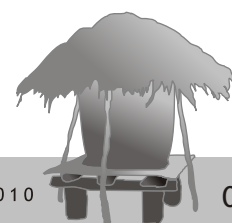
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
3 (1)	The responsibilities of the board	Reference
3 (1)(i)	Procedures to be carried out to ensure the board have strengthened the safety and soundness of the bank.	
a.	Check the board approval of the bank's strategic objectives and corporate values. Check whether the bank has communicated the bank's strategic objectives and corporate values throughout the bank.	Complied with. The Board approved two (2) Year Business Plan is in place & communicated to the relevant Staff Members.
b.	Check the board approval of the overall business strategy of the bank. Check that the overall business strategy includes the overall risk policy, risk management procedures and mechanisms and they are documented. Check that the overall business strategy contains measurable goals, for at least the next three years.	Risk management processes are being formulated and same will be documented. Complied with. The Board approved two (2) Year Business Plan is in place to meet the said requirement.
c.	Check that the appropriate systems to manage the risks identified by the board are prudent and are properly implemented.	Complied with. Processes in place.
d.	Check that the board has approved and implemented a policy of communication with all stakeholders, including depositors, creditors, share-holders and borrowers;	Complied with. With regard to the Shareholders, process in place. Policies for other Stakeholders to be implemented.
e.	Check that the board has reviewed the adequacy and the integrity of the bank's internal control systems and management information systems;	Complied with. The Board appointed Audit Committee reviews Bank's internal control systems and reports to the Board.
f.	Check that the board has identified and designated key management personnel, as defined in the Sri Lanka Accounting Standards, who are in a position to: (i) significantly influence policy; (ii) direct activities; and (iii) exercise control over business activities, operations and risk management;	Complied with. Key Management Personnel identified as the Board of Directors and disclosed in the Annual Report Page No 52.
g.	Check that the board has defined the areas of authority and key responsibilities for the board directors themselves and for key management personnel	Complied with. The Board shares its responsibilities as a whole. Further the Sub-Committees have been constituted to manage the activities of the Bank with Sub-Committee having its own responsibilities and authority.
h.	Check that the board has exercised appropriate oversight of the affairs of the bank by key management personnel, that is consistent with board policy;	Complied with. Based on the experience and skill, the Board Members are assigned to various Sub-Committees. The Board has overall responsibility



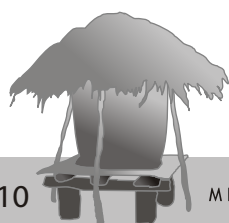
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
3 (1)	The responsibilities of the board	Reference
	i. Check that the board has periodically assessed the effectiveness of the board directors' own governance practices, including: (i) the selection, nomination and election of directors and key management personnel; (ii) the management of conflicts of interests; and (iii) the determination of weaknesses and implementation of changes where necessary.	Complied with. Directors active participation and non attendance etc are discussed at Board Meetings and Sub-Committee Meetings.
	j. Check that the board has a succession plan for key management personnel.	Complied with. Majority of Board Members were appointed by the Parent Company which has over 50% controlling interest of the Bank.
	k. Check that the board has scheduled regular meetings with the key management personnel to review policies, establish communication lines and monitor progress towards corporate objectives.	Complied with. The Board and Audit Committee Meetings are held monthly. The CEO attends these meetings with the Management Team attending by invitation when necessary.
	l. Check that the board has taken measures and processes in place to understand the regulatory environment and that the bank maintains a relationship with regulators.	Complied with. The Compliance Officer submits monthly Compliance Reports to the Audit Committee /Board. Further, the Company Secretary advises the Board with regard to regulatory matters.
	m. Check that the board has a process in place for hiring and oversight of external auditors	Complied with.
3 (1) (ii)	Check that the board has appointed the chairman and the Chief Executive Officer (CEO). Check that the functions and responsibilities of the chairman and the CEO are in line with Direction 3(5) of these Directions.	Complied with. The Chairman and CEO have been appointed by the Board.
3 (1) (iii)	Check that the board has met regularly and held board meetings at least twelve times a year at approximately monthly intervals.	Complied with. The Board has met monthly. Special Board Meetings are held as when necessary.
3 (1) (iv)	Check that the board has a procedure in place to enable all directors to include matters and proposals in the agenda for regular board meetings where such matters and proposals relate to the promotion of business and the management of risks of the bank.	Complied with. Agenda, Draft Board Minutes and Board Papers are circulated in advance enabling Directors to submit their views, proposals and observations.
3 (1) (v)	Check that the board has given notice of at least 7 days for a regular board meeting to provide all directors an opportunity to attend and for all other board meetings, notice has been given.	Complied with. The Schedule of Board Meetings for the year is given at the beginning of the year while relevant papers are forwarded to Directors in advance prior to the Meeting.



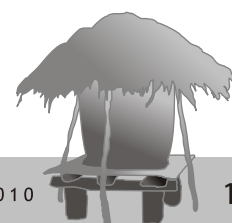
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	The responsibilities of the board	Reference
3 (1) (vi)	Board members have been informed of the relevant provision and company secretary monitors the attendance to ensure compliance.	Complied with. Board Members have been informed of the relevant provisions and the Company Secretary monitors the attendance to ensure compliance.
3 (1) (vii)	Check that the board has appointed a company secretary who satisfies the provisions of Section 43 of the Banking Act No. 30 of 1988, and whose primary responsibilities shall be to handle the secretariat services to the board and shareholder meetings and carry out other functions specified in the statutes and other regulations.	Complied with. The Company Secretary has been duly appointed.
3 (1) (viii)	Check the process to enable all directors to have access to advice and services of the company secretary.	Complied with. A process is in place.
3 (1) (ix)	Check that the company secretary maintains the minutes of board meetings and there is a process for the directors to inspect such minutes.	Complied with. The Company Secretary maintains the Minutes and the Minutes of the previous Board Meeting is adopted at the subsequent Board Meeting.
3 (1) (x)	Check that the minutes of a board meeting contain or refer to the following: (a) a summary of data and information used by the board in its deliberations (b) the matters considered by the board (c) the fact-finding discussions and the issues of contention or dissent which may illustrate whether the board was carrying out its duties with due care and prudence; (d) the matters which indicate compliance with the board's strategies and policies and adherence to relevant laws and regulations; (e) the understanding of the risks to which the bank is exposed and an overview of the risk management measures adopted; and (f) the decisions and board resolutions.	Complied with.
3 (1) (xi)	Check that there are procedures agreed by the board to enable directors, upon reasonable request, to seek independent professional advice in appropriate circumstances, at the bank's expense.	Complied with. The Board Members are allowed to obtain independent professional advice on the concurrence of the Board of Directors when necessary.
3 (1) (xii)	Check that there is a procedure to determine, report, resolve and to take appropriate action relating to directors avoid conflicts of interests, or the appearance of conflicts of interest. Check that a director has abstained from voting on any board resolution in relation to which he/she or any of his/her close relation or a concern in which a director has substantial interest, is interested Check that has he/she been counted in the quorum for the relevant agenda item at the board meeting	Complied with. The Bank follows Directions issued by the Director Bank Supervision with regard to related party transactions and accordingly Directors refrain from Voting on related party transaction and taking part in discussion on issues pertaining to conflict in interest.



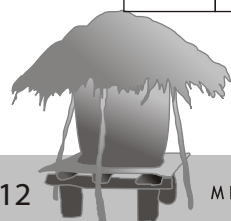
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	The responsibilities of the board	Reference
3 (1) (xiii)	Check that the board has a formal schedule of matters specifically reserved to it for decision to identify the direction and control of the bank is firmly under its authority.	Complied with. There are seven (7) mandatory matters that are included on the Agenda for a Board Meeting.
3 (1) (xiv)	Check that the board has forthwith informed the Director of Bank Supervision of the situation of the bank prior to taking any decision or action, if it considers that the procedures to identify when the bank is, or is likely to be, unable to meet its obligations or is about to become insolvent or is about to suspend payments due to depositors and other creditors	Complied with. The Board is aware of this requirement and such a situation did not arise during this financial year.
3 (1) (xv)	Check that the board has the bank capitalised at levels as required by the Monetary Board.	Complied with. The Bank maintains a capital adequacy ratio above the minimum limit, the Central Bank of Sri Lanka has granted time until 2012 to meet the regulatory capital requirement.
3 (1) (xvi)	Check that the board publishes, in the bank's Annual Report, an annual corporate governance report setting out the compliance with Direction 3 of these Directions.	Complied with. The Board publishes in the Bank's Annual Report, the Corporate Governance Report.
3 (1) (xvii)	Check that the board adopts a scheme of self-assessment to be undertaken by each director annually, and maintains records of such assessments.	Complied with. Affidavits and Declarations are submitted annually before the Annual General Meeting.
3 (2)	The board's Composition	
3 (2) (i)	Check that the board comprise of not less than 7 and not more than 13 directors.	Complied with. The Board constitutes Nine (09) Directors.
3 (2) (ii)	a. Check that the total period of service of a director other than a director who holds the position of CEO, does not exceed nine years.	Complied with. The Company Secretary monitors the Directors Service period. Currently there are no Directors serving for more than Nine (09) years of service.
	b. In the event of any director serving more than 9 years, check that the transitional provisions have been applied with.	Complied with. There were no Directors serving for more than Nine (09) years of service during the financial year ended 31st of December, 2010.
3 (2) (iii)	Check that the number of executive directors, including the CEO does not exceed one-third of the number of directors of the board.	Complied with. The Board consists of Non – Executive Directors.
3 (2) (iv)	Check that the board has at least three independent non-executive directors or one third of the total number of directors, whichever is higher Check if non-executive directors cannot be considered independent if he/she :	Complied with. The Board has three (03) Independent and Non – Executive Directors.



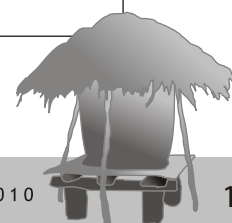
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	The board's Composition	Reference
	a. Holds a direct and indirect shareholdings of more than 1 per cent of the bank;	Complied with.
	b. currently has or had during the period of two years immediately preceding his/her appointment as director, any business transactions with the bank as described in Direction 3(7) hereof, exceeding 10 per cent of the regulatory capital of the bank.	Complied with.
	c. has been employed by the bank during the two year period immediately preceding the appointment as director	Complied with.
	d. has had a close relation; who is a director, CEO, a member of key management personnel, a material shareholder of the bank or another bank. (For this purpose, a "close relation" means the spouse or a financially dependant child)	Complied with.
	e. represents a specific stakeholder of the bank	Complied with.
	f. is an employee or a director or a material shareholder in a company or business organization: <ul style="list-style-type: none"> I. which currently has a transaction with the bank as defined in Direction 3(7) of these Directions, exceeding 10 per cent of the regulatory capital of the bank, or II. in which any of the other directors of the bank are employed or are directors or are material shareholders; or III. in which any of the other directors of the bank have a transaction as defined in Direction 3(7) of these Directions, exceeding 10 per cent of regulatory capital in the bank. 	Complied with.
3 (2) (v)	In the event an alternate director was appointed to represent an independent director, Check the person so appointed meet the criteria that applies to the independent director.	Not applicable.
3 (2) (vi)	Check that the bank has a process for appointing independent directors.	Complied with. Appointment of Independent Directors are considered at Board Meetings.
3 (2) (vii)	Check that the stipulated quorum of the bank includes more than 50% of the directors and out of this quorum more than 50% should include non-executive directors.	Complied with. All Directors are Non – Executive Directors.
3 (2) (viii)	Check that the bank discloses the composition of the board, by category of directors, including the names of the chairman, executive directors, non-executive directors and independent non-executive directors in the annual corporate governance Report	Complied with. Disclosed in Page No.05 of the Annual Report.
3 (2) (ix)	Check the procedure for the appointment of new directors to the board.	Complied with. Appointment of New Directors are considered at Board Meetings.
3 (2) (x)	Check that all directors appointed to fill a casual vacancy be subject to election by shareholders at the first general meeting after their appointment.	Complied with. Two (02) Directors so appointed be subject to election by Shareholders at the next Annual General Meeting.



Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	The board's Composition	Reference
3 (2) (xi)	Check if a director resigns or is removed from office, the board: (a) announce the director's resignation or removal and the reasons for such removal or resignation including but not limited to information relating to the relevant director's disagreement with the bank, if any; and (b) issue a statement confirming whether or not there are any matters that need to be brought to the attention of shareholders.	Complied with. Directors resignations and removals have been communicated to the shareholders at the Annual General Meeting held in 2010 for the financial year ended 31st December, 2009.
3 (2) (xii)	Check if there is a process to identify whether a director or an employee of a bank is appointed, elected or nominated as a director of another bank	Complied with. Directors are required to inform the Board if the Director is appointed, elected or nominated as a Director of another Company.
3 (3)	Criteria to assess the fitness and propriety of directors	
3 (3) (i)	Check that the age of a person who serves as director does not exceed 70 years. (applicable with effect from 01.01.2012)	Complied with. There are no Directors who are over Seventy (70) years. The Company Secretary maintains records of the age of the Directors.
	(A) Check that the transitional provisions have been complied with.	Not applicable.
3 (3) (ii)	Check if a person holds office as a director of more than 20 companies/entities/institutions inclusive of subsidiaries or associate companies of the bank. (applicable with effect from 01.01.2012)	Complied with. Non of the Directors hold directorships in twenty (20) or more Companies or entities.
3 (4)	Management functions delegated by the board	
3 (4) (i)	Check that the delegation arrangements have been approved by the board.	Complied with. The delegation arrangements have been approved by the Board.
3 (4) (ii)	Check that the board has taken responsibility for the matters in 3 (1) (i) even in the instances such actions are delegated	Complied with.
3 (4) (iii)	Check that the board review the delegation processes in place on a periodic basis to ensure that they remain relevant to the needs of the bank.	Complied with. The delegation arrangements are reviewed by the Board based on Business Requirements.
3 (5)	The Chairman and CEO	
3 (5) (i)	Check that the roles of chairman and CEO is separate and not performed by the same individual	Complied with. Roles of the Chairman and CEO are separate functions and not performed by the same individuals.
3 (5) (ii)	Check that the chairman is a non-executive director. In the case where the chairman is not an independent director, check that the board designate an independent director as the senior director with suitably documented terms of reference. Check that the designation of the senior director be disclosed in the bank's Annual Report.	Complied with.



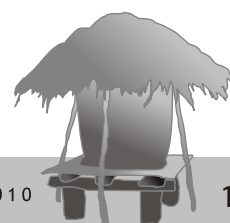
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	The Chairman and CEO	Reference
3 (5) (iii)	Check that the board has a process to identify and disclose in its corporate governance report, which shall be a part of its Annual Report, any relationship [including financial, business, family or other material/relevant relationship(s)], if any between the chairman and the CEO and board members and the nature of any relationships including among members of the board.	Complied with. A process is in place. Affidavits and Declarations of the respective Directors holding office, inclusive of these information are submitted to the Central Bank of Sri Lanka.
3 (5) (iv)	Check that the board has a self evaluation process where the chairman: (a) provides leadership to the board; (b) ensures that the board works effectively and discharges its responsibilities; and (c) ensures that all key and appropriate issues are discussed by the board in a timely manner.	Complied with.
3 (5) (v)	Check that a formal agenda is circulated by the company secretary approved by the chairman.	Complied with. The Company Secretary circulates the formal Agenda prior to the Board Meetings on obtaining approval from the Chairman.
3 (5) (vi)	Check that the chairman ensures, through timely submission that all directors are properly briefed on issues arising at board meetings.	Complied with. The Board Meeting schedule for the year is given at the beginning of the year and the Board Papers are circulated well before the Meeting.
3 (5) (vii)	Check that the board has a self evaluation process that encourages all directors to make a full and active contribution to the board's affairs and the chairman taking the lead to act in the best interest of the bank.	The Chairman encourages at Board Meetings to make an active contribution to the Board affairs.
3 (5) (viii)	Check that the board has a self evaluation process that assesses the contribution of non-executive directors.	Complied with.
3 (5) (ix)	Check that the chairman engages in activities involving direct supervision of key management personnel or any other executive duties whatsoever.	Complied with. The Chairman does not get involved in direct supervision.
3 (5) (x)	Check that there is a process to maintain effective communication with shareholders and that the views of shareholders are communicated to the board.	Complied with. Effective communication with Shareholders is maintained at the Annual General Meetings and Extraordinary General Meetings. All Shareholders have access to the Company Secretary.
3 (5) (xi)	Check that the CEO functions as the apex executive-in-charge of the day-to-day management of the bank's operations and business.	Complied with. The CEO functions as the Apex Executive in charge of the day to day management of the Bank.



Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	The responsibilities of the board	Reference
3 (6)	Board appointed committees	
3 (6) (i)	<p>Check that the bank has established at least four board committees as set out in Directions 3(6)(ii), 3(6)(iii), 3(6)(iv) and 3(6)(v) of these Directions.</p> <p>Check that each board committee report is addressed directly to the board.</p> <p>Check that the board presents in its annual report, a report on each committee on its duties, roles and performance.</p>	Complied with. A process is in place. Affidavits and Declarations of the respective Directors holding office, inclusive of these information are submitted to the Central Bank of Sri Lanka.
3 (6) (ii)	Audit Committee:	
	<p>a. Check that the chairman of the committee is Independent non-executive director and possesses qualifications and related experience.</p>	Complied with, The Board has established an Audit, Nomination, Integrated Risk Management, Remuneration and Human Resources Committees. Board Sub – Committees submit respective Minutes to the Board. The respective Sub - Committee reports are published in this Annual Report on Pages 05 and 06
	<p>b. Check that all members of the committee are non-executive directors.</p>	Complied with. All members of the Audit Committee are Non-Executive Directors.



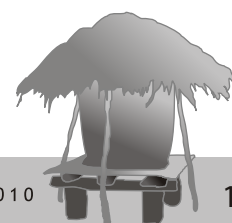
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Relevant Section	Rule	Degree of compliance
	Audit Committee:	Reference
	<p>c. Check that the committee has made recommendations on matters in connection with:</p> <ul style="list-style-type: none"> (i) the appointment of the external auditor for audit services to be provided in compliance with the relevant statutes; (ii) the implementation of the Central Bank guidelines issued to auditors from time to time; (iii) the application of the relevant accounting standards; and (iv) the service period, audit fee and any resignation or dismissal of the auditor; provided that the engagement of the Audit partner shall not exceed five years, and that the particular Audit partner is not re-engaged for the audit before the expiry of three years from the date of the completion of the previous term. 	Complied with.
	<p>d. Check that the committee has obtained representations from the external auditor's on their independence, and that the audit is carried out in accordance with SLAuS.</p>	Complied with. The Committee has obtained representations from the External Auditors on their independence and that the Audit is carried out in accordance with SLAuS.
	<p>e. Check that the committee has implemented a policy on the engagement of an external auditor to provide non-audit services in accordance with relevant regulations.</p>	Complied with. The Bank has a process in obtaining approval from the Board.
	<p>f. Check that the committee has discussed and finalised, the nature and scope of the audit, with the external auditors in accordance with SLAuS before the audit commences.</p>	Complied with. The committee has discussed and finalized, the nature and scope of the audit, with the External Auditors in accordance with SLAuS before the Audit commenced.
	<p>g. Check that the committee has a process to review the financial information of the bank, in order to monitor the integrity of the financial statements of the bank, its annual report, accounts and quarterly reports prepared for disclosure, and a process in place to receive from the CFO the following;</p> <ul style="list-style-type: none"> (i) major judgmental areas; (ii) any changes in accounting policies and practices; (iii) the going concern assumption; and (iv) the compliance with relevant accounting standards and other legal requirements, and; (v) in respect of the annual financial statements the significant adjustments arising from the audit. 	Complied with. Quarterly and Monthly financial statements are presented to the Audit Committee by the Finance Manager.
	<p>h. Check that the committee has met the external auditors relating to any issue in the absence of the executive management with relation to the audit.</p>	Complied with. Issues on Audit are discussed at the audit completion meeting with the participation of the management representatives, Audit Committee and External Auditors.



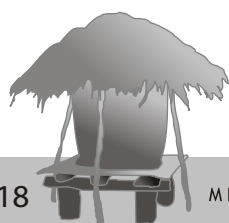
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Relevant Section	Rule	Degree of compliance
	Audit Committee:	Reference
	i. Check that the committee has reviewed the external auditor's management letter and the management's response thereto.	Complied with. The committee has reviewed the External Auditor's Management Letter and has responded thereto.
	j. Check that the committee shall take the following steps with regard to the internal audit function of the bank: I. Review the adequacy of the scope, functions and resources of the internal audit department, and satisfy itself that the department has the necessary authority to carry out its work; II. Review the internal audit program and results of the internal audit process and, where necessary, ensure that appropriate actions are taken on the recommendations of the internal audit department; III. Review any appraisal or assessment of the performance of the head and senior staff members of the internal audit department; IV. Recommend any appointment or termination of the head, senior staff members and outsourced service providers to the internal audit function; V. Check that the committee is appraised of resignations of senior staff members of the internal audit department including the chief internal auditor and any outsourced service providers, and to provide an opportunity to the resigning senior staff members and outsourced service providers to submit reasons for resigning; IV. Check that the internal audit functions independent of the activities it audits.	Complied with. Complied with. Complied with. Performance of the Head of Internal Audit is discussed by the committee. Process to be documented. Not applicable. Not applicable. Complied with.
	k. Check the to determine whether the committee has considered major findings of internal investigations and management's responses thereto.	Complied with. Major findings of internal investigations and management's responses thereto are regularly evaluated by the Audit Committee.
	l. Check whether the committee has had at least two meetings with the external auditors without the executive directors being present.	Complied with.
	m. Check the terms of reference of the committee to ensure that there is; (i) explicit authority to investigate into any matter within its terms of reference; (ii) the resources which it needs to do so; (iii) full access to information; and authority to obtain external professional advice and to invite outsiders with relevant experience to attend, if necessary.	Complied with.



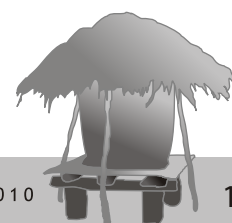
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Relevant Section	Rule	Degree of compliance
	Audit Committee:	Reference
	n. Check that the committee has met, at least four times and maintained minutes.	Complied with. The Committee has met on eleven (11) occasions during the year 2010.
	o. Check that the board has disclosed in the annual report, (i) details of the activities of the audit committee; (ii) the number of audit committee meetings held in the year; and (iii) details of attendance of each individual director at such meetings	Complied with. Page 06 of the Annual Report. Page 06 of the Annual Report. Page 06 of the Annual Report.
	p. Check that the secretary of the committee is the company secretary or the head of the internal audit function.	Complied with. The Company Secretary is the Secretary to the Audit Committee.
	q. Check that the "whistle blower" policy covers the process of dealing with; i) The improprieties in financial reporting, internal control or other matters. ii) In relation to (i) the committee shall ensure that proper arrangements are in place for the fair and independent investigation of such matters, and iii) Appropriate follow-up action.	Complied with.
3 (6) (iii)	Does the following rules apply in relation to the Human Resources and Remuneration Committee:	
	a. Check that the committee has implemented a policy to determine the remuneration (salaries, allowances and other financial payments) relating to directors, CEO and key management personnel of the bank by review of the "Terms of reference" and minutes.	Complied with. Policy to be implemented, issues discussed annually and addressed by the Committee Members.
	b. Check that the goals and targets for the directors, CEO and the key management personnel are documented.	Complied with regard to the CEO and the Corporate Management's Goals.
	c. Check that the committee has considered evaluations of the performance of the CEO and key management personnel against the set targets and goals periodically and determine the basis for revising remuneration, benefits and other payments of performance-based incentives.	Complied with. The set targets are reviewed by the Board on a monthly basis.
	d. Check that the "Terms of reference" provides that the CEO is not present at meetings of the committee, when matters relating to the CEO are being discussed by reviewing the minutes.	Complied with.



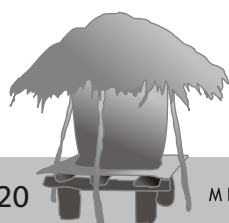
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Relevant Section	Rule	Degree of compliance
	Nomination Committee	Reference
3 (6) (iv)	Does the following rules apply in relation to the Nomination Committee :	
	a. Check that the committee has implemented a procedure to select/appoint new directors, CEO and key management personnel.	Procedure in practice is being documented. Directors ,CEO & Senior Managers appointments are looked at by the Nomination Committee.
	b. Check that the committee has considered and recommended (or not recommended) the re-election of current directors.	The Board of Directors by way of a Circular Resolution and at a Nomination Committee meeting has approved the Nomination for re – election of Directors prior to the AGM in 2010.
	c. Check that the committee has set the criteria such as qualifications, experience and key attributes required for eligibility to be considered for appointment or promotion to the post of CEO, and the key management personnel, by review of job descriptions.	Procedure which is in practice being documented.
	d. Check that the committee has obtained from the directors, CEO and key management personnel signed declarations that they are fit and proper persons to hold office as specified in the criteria given in Direction 3(3) and as set out in the Statutes.	Complied with. Declarations and Affidavits have been obtained.
	e. Check that the committee has considered a formal succession plan for the retiring directors and key management personnel.	A Succession Plan of the Board of Directors is done as and when it is required.
	f. Check that the Committee shall be chaired by an Independent Director and preferably be constituted with a majority of Independent Directors. The CEO may be present at meetings by invitation.	This matter is being looked into as the majority of Directors of the Board being Nominee Directors of Merchant Bank of Sri Lanka PLC. CEO attends meetings by invitation.
3 (6) (v)	Does the following rules apply in relation to the Integrated Risk Management Committee (IRMC) :	
	a. The committee shall consist of at least three non-executive directors, CEO and key management personnel supervising broad risk categories, i.e., credit, market, liquidity, operational and strategic risks and work within the framework of the authority and responsibility assigned to the committee.	Complied with. The Committee consists of three (3) Non – Executive Directors. CEO and Senior Management personnel attend by invitation.
	b. Check that the committee has a process to assess all risks, i.e., credit, market, liquidity, operational and strategic risks to the bank on a monthly basis through appropriate risk indicators and management information. In the case of subsidiary companies and associate companies, risk management shall be done, both on a bank basis and group basis.	Relevant Risks are being assessed by the ALCO Committee.



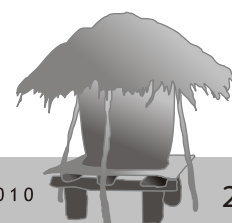
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Relevant Section	Rule	Degree of compliance
	Integrated Risk Management Committee (IRMC)	Reference
	c. Check that the committee has reviewed specific quantitative and qualitative risk limits for all Management level committees such as the credit committee and the asset-liability committees, and report any risk indicators periodically.	Currently the ALCO Committee reviews the reports and as and when necessary reports to the Board.
	d. Check that the committee has reviewed and considered all risk indicators which have gone beyond the specified quantitative and qualitative risk limits.	Procedures are in the process of being reviewed & documented.
	e. Check how many times the committee has met at least quarterly.	Committee has been set up during the last quarter of 2010 and two (2) Meetings were held.
	f. Check that the committee has reviewed and adopted a formal documented disciplinary action procedure with regard to officers responsible for failure to identify specific risks.	Currently action is taken by the Human Resources Department due to the failure to identify specific risks.
	g. Check that the committee submits a risk assessment report within a week of each meeting to the board seeking the board's views, concurrence and/or specific directions.	Reports on all risk areas are being developed for perusal of the Committee.
	h. Check that the committee has establish a compliance function to assess the bank's compliance with laws, regulations, regulatory guidelines, internal controls and approved policies on all areas of business operations and that there is a dedicated compliance officer selected from key management personnel to carry out the compliance function and report to the committee periodically.	Complied with.
3 (7)	Related party transactions	
3 (7) (i)	Check that there is a established and documented process by the board to avoid any conflicts of interest that may arise from any transaction of the bank with any person, and particularly with the following categories of persons who shall be considered as "related parties" for the purposes of this Direction: a. Any of the bank's subsidiary companies; b. Any of the bank's associate companies; c. Any of the directors of the bank; d. Any of the bank's key management personnel; e. A close relation of any of the bank's directors or key management personnel; f. A shareholder owning a material interest in the bank; g. A concern in which any of the bank's directors or a close relation of any of the bank's directors or any of its material shareholders has a substantial interest.	Complied with.



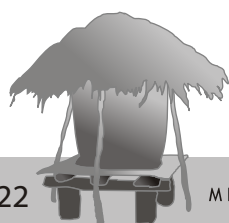
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Relevant Section	Rule	Degree of compliance
	Related party transactions	Reference
3 (7) (ii)	Check that there is a process to identify and report the following types of transactions been identified as transactions with related parties that is covered by this Direction.	
	a. The grant of any type of accommodation, as defined in the Monetary board's Directions on maximum amount of accommodation.	Complied with.
	b. The creation of any liabilities of the bank in the form of deposits, borrowings and investments.	Complied with.
	c. The provision of any services of a financial or non- financial nature provided to the bank or received from the bank.	Complied with.
	d. The creation or maintenance of reporting lines and information flows between the bank and any related parties which may lead to the sharing of potentially proprietary, confidential or otherwise sensitive information that may give benefits to such related Parties	Complied with. Processes are being put in place.
3 (7) (iii)	Does the board have a process to ensure that the bank does not engage in transactions with related parties as defined in Direction 3(7)(i) above, in a manner that would grant such parties "more favourable treatment" than that accorded to other constituents of the bank carrying on the same business.	
	a. Granting of "total net accommodation" to related parties, exceeding a prudent percentage of the bank's regulatory capital, as determined by the board. For purposes of this sub-direction: I. "Accommodation" shall mean accommodation as defined in the Banking Act Directions, No.7 of 2007 on Maximum Amount of Accommodation. II. The "total net accommodation" shall be computed by deducting from the total accommodation, the cash collateral and investments made by such related parties in the bank's share capital and debt instruments with a maturity of 5 years or more.	Complied with. Complied with.
	b. Charging of a lower rate of interest than the bank's best lending rate or paying more than the bank's deposit rate for a comparable transaction with an unrelated comparable counterparty.	Complied with. The Bank treats related parties on the same basis as it would treat unrelated counter parties for all transactions.
	c. Providing of preferential treatment, such as favourable terms, covering trade losses and/or waiving fees/commissions, that extend beyond the terms granted in the normal course of business undertaken with unrelated parties	Complied with. The Bank treats related parties on the same basis as it would treat unrelated parties.



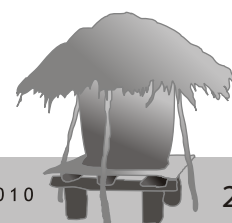
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	Related party transactions	Reference
	d. Providing services to or receiving services from a related-party without an evaluation procedure;	Complied with. Same as above "C"
	e. Maintaining reporting lines and information flows that may lead to sharing potentially proprietary, confidential or otherwise sensitive information with related parties, except as required for the performance of legitimate duties and functions.	Complied with. Oaths of Secrecy are signed by Employees.
3 (7) (iv)	Check that the bank has a process for granting accommodation to any of its directors and key management personnel, and that such accommodation is sanctioned at a meeting of its board of directors, with not less than two-thirds of the number of directors other than the director concerned, voting in favour of such accommodation and that this accommodation be secured by such security as may from time to time be determined by the Monetary board as well	Not applicable.
3 (7) (v)	a. Check that the bank has a process, where any accommodation has been granted by a bank to a person or a close relation of a person or to any concern in which the person has a substantial interest, and such person is subsequently appointed as a director of the bank, that steps have been taken by the bank to obtain the necessary security as may be approved for that purpose by the Monetary board, within one year from the date of appointment of the person as a director	Complied with.
	b. Check where such security is not provided by the period as provided in Direction 3(7)(v)(a) above, has the bank taken steps to recover any amount due on account of any accommodation, together with interest, if any, within the period specified at the time of the grant of accommodation or at the expiry of a period of eighteen months from the date of appointment of such director, whichever is earlier.	Not applicable.
	c. Check that there is a process to identify any director who fails to comply with the above sub-directions be deemed to have vacated the office of director and has the bank disclose such fact to the public	Not applicable.
	d. Check the process in place to ensure clause 3 (7) (v) (c) does not apply to any director who at the time of the grant of the accommodation was an employee of the bank and the accommodation was granted under a scheme applicable to all employee of such bank	Not applicable.
3 (7) (vi)	Check that there is a process in place to identify when the bank grants any accommodation or "more favourable treatment" relating to the waiver of fees and/or commissions to any employee or a close relation of such employee or to any concern in which the employee or close relation has a substantial interest other than on the basis of a scheme	Complied with.



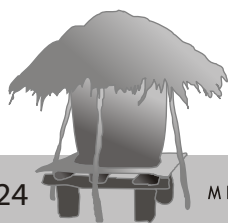
Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	Related party transactions	Reference
	applicable to the employees of such bank or when secured by security as may be approved by the Monetary board in respect of accommodation granted as per Direction 3(7)(v) above.	
3 (7) (vii)	Check that there is a process to obtain prior approval from the Monetary board for any accommodation granted by a bank under Direction 3(7)(v) and 3(7)(vi) above, nor any part of such accommodation, nor any interest due thereon been remitted without the prior approval of the Monetary board and any remission without such approval is void and has no effect	Not applicable.
3 (8)	Disclosures	
3 (8) (i)	Check that the board has disclosed: (a) Annual audited financial statements prepared and published in accordance with the formats prescribed by the supervisory and regulatory authorities and applicable accounting standards, and that such statements published in the newspapers in an abridged form, in Sinhala, Tamil and English. (b) Quarterly financial statements are prepared and published in the newspapers in an abridged form, in Sinhala, Tamil and English.	Complied with. Complied with.
3 (8) (ii)	Check that the board has made the following minimum disclosures in the Annual Report:	
	a. The statement to the effect that the annual audited financial statements have been prepared in line with applicable accounting standards and regulatory requirements, inclusive of specific disclosures.	Complied with. Please refer pages No. 27 and 30 of the Annual Report.
	b. The report by the board on the bank's internal control mechanism that confirms that the financial reporting system has been designed to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of financial statements for external purposes has been done in accordance with relevant accounting principles and regulatory requirements	Complied with. Please refer page No. 25 of the Annual Report.
	c. Check that the board has obtained the external auditor's report on the effectiveness of the internal control mechanism referred to in Direction 3(8)(ii)(b) above.	Complied with. Please refer page No. 25 of the Annual Report.
	d. Details of directors, including names, qualifications, age, experience fulfilling the requirements of the guideline fitness and propriety, transactions with the bank and the total of fees/remuneration paid by the bank.	Complied with. Please refer following pages of the Annual Report. Details of Directors on page 05 Related Party Transaction on page 53 Key Management Personnel on page 52.



Bank's compliance with Direction No 12 of 2007, issued by the Central Bank of Sri Lanka on the subject "Corporate Governance for Licensed Specialized Banks in Sri Lanka"

Relevant Section	Rule	Degree of compliance
	Disclosures	Reference
e.	Total net accommodation as defined in 3(7)(iii) granted to each category of related parties. The net accommodation granted to each category of related parties shall also be disclosed as a percentage of the bank's regulatory capital.	Complied with. Please refer Page No 52 of the Annual Report.
f.	The aggregate values of remuneration paid by the bank to its key management personnel and the aggregate values of the transactions of the bank with its key management personnel, set out by broad categories such as remuneration paid, accommodation granted and deposits or investments made in the bank.	Complied with. Please refer Page No 52 of the Annual Report.
g.	Check that the board has obtained the external auditor's report on the compliance with Corporate Governance Directions.	Complied with. A certification has been given by the External Auditor's as required by the Direction on Corporate Governance.
h.	A report setting out details of the compliance with prudential requirements, regulations, laws and internal controls and measures taken to rectify any material non-compliances	Complied with. Please refer Page No 30 of the Annual Report.
i.	A statement of the regulatory and supervisory concerns on lapses in the bank's risk management, or non-compliance with these Directions that have been pointed out by the Director of Bank Supervision, if so directed by the Monetary board to be disclosed to the public, together with the measures taken by the bank to address such concerns	Such situation has not arisen.



Directors' Statement on Internal Control

Responsibility

In line with the Banking Act Direction No. 11 of 2007, Section 3 (8) (ii) (b), the Board of Directors presents this Report on Internal Control.

The Board of Directors ('Board') is responsible for the adequacy and effectiveness of the MBSL Savings Bank Ltd ('the Bank') system of internal controls. However, such a system is designed to manage the Bank's key areas of risk within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Bank. Accordingly, the system of internal controls can only provide reasonable but not absolute assurance against material misstatement of management and financial information and records or against financial losses or fraud.

The Board has established an ongoing process for identifying, evaluating and managing the significant risks faced by the Bank and this process includes enhancing the system of internal controls as and when there are changes to business environment or regulatory guidelines. The process is regularly reviewed by the Board and accords with the Guidance for Directors of Banks on the Directors' Statement on Internal Control issued by The Institute of Chartered Accountants of Sri Lanka. The Board has assessed the internal control system taking into account principles for the assessment of internal control system as given in that guidance.

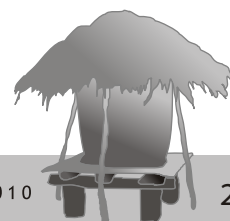
The Board is of the view that the system of internal controls in place is sound and adequate to provide reasonable assurance regarding the reliability of financial reporting, and that the preparation of Financial Statements for external purposes and is in accordance with relevant accounting principles and regulatory requirements

The management assists the Board in the implementation of the Board's policies and procedures on risk and control by identifying and assessing the risks faced, and in the design, operation and monitoring of suitable internal controls to mitigate and control these risks.

Key features of the process adopted in applying in reviewing the design and effectiveness of the internal control system on financial reporting

The key processes that have been established in reviewing the adequacy and integrity of the system of internal controls with respect to financial reporting include the following:

- Various appointed Committees are established by the Board to assist the Board in ensuring the effectiveness of Bank's daily operations and that the Bank's operations are in accordance with the corporate objectives, strategies and the annual budget as well as the policies and business directions that have been approved.
- The Internal Audit Division of the Bank check for compliance with policies and procedures and the effectiveness of the internal control systems on an ongoing basis using samples and rotational procedures and highlight significant findings in respect of any non-compliance. Audits are carried out on all units and branches, the frequency of which is determined by the level of risk assessed, to provide an independent and objective report. The annual audit plan is reviewed and approved by the Audit Committee. Findings of the Internal audit are submitted to the Audit Committee for review at their periodic meetings.
- The Audit Committees of the Bank review internal control issues identified by the respective Internal Audit Division, regulatory authorities and management, and evaluate the adequacy and effectiveness of the risk management and internal control systems. They also review the internal audit functions with particular emphasis on the scope of audits and quality of internal audits. The minutes of the Audit Committee meetings are tabled to the Board of the Bank on a periodic basis. Further details of the activities undertaken by the Audit Committee of the Bank are set out in the Audit Committee Report appearing on page 31.
- In assessing the internal control system, identified officers of the Bank collated all procedures and controls that are connected with significant accounts and disclosures of the Financial Statements of the Bank. These in turn were observed and checked by the Internal Audit Department for suitability of design and effectiveness on an ongoing basis. Due to time constraints, areas with respect to the process that provided disclosures to the financial such as related party transactions, contingencies and commitments, inventories, non current assets held for sale were not fully completed.
- Comments made by the External Auditors in connection with internal control system will be dealt with in the future.



Directors' Statement on Internal Control

Confirmation

Based on the above processes, the Board confirms that the financial reporting system of the Bank has been designed to provide reasonable assurance regarding the reliability of financial reporting and the preparation of Financial Statements for external purposes has been done in accordance with Sri Lanka Accounting Standards and regulatory requirements of the Central Bank of Sri Lanka.

Review of the statement by external auditors

The External Auditors have reviewed the above Directors' Statement on Internal Control included in the Annual Report of the Bank for the year ended December 31, 2010 and reported to the Board that nothing has come to their attention that causes them to believe that the statement is inconsistent with their understanding of the process adopted by the Board in the review of the design and effectiveness of the internal control system over financial reporting of the Bank, other than the necessity to improve documentation on tests carried out including an increase in the sample of tests; and requirement to test IT related controls.

By order of the Board,



Mr. M R Shah
Chairman



Mr. M S S Paramananda
Chairman - Board Audit Committee

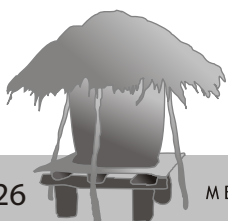


Dr. T Senthilvel
Director



Mr. B R S T Edirisinghe
Director

Date :- 31st May 2011



Annual Report of The Board of Directors on the State of Affairs of the company

The Annual Report of the Board of Directors on the State of Affairs of the Company is presented hereto by the Board of Directors of MBSL Savings Bank Limited.

The Board of Directors of MBSL Savings Bank Limited presents herewith their Report on the State of Affairs of the Company for the year ended 31st December 2010 in compliance with the provisions of the Companies Act No. 07 of 2007. The Report also provides information as required by the best accounting practices and other disclosures deemed relevant to the Stakeholders of the Bank.

The Board of Directors wherever necessary has made changes to areas dealt with in this Report and to Board Sub – Committees being focused in adhering to the Corporate Governance for Licensed Specialized Banks by Banking Act Direction No. 12 of 2007 which have also been reported.

General

MBSL Savings Bank Limited was incorporated on 14th August 1996 as a limited liability company under the Companies Act No. 17 of 1982 and was re-registered under the Companies Act No. 7 of 2007 on the 13th of June 2008 and is an approved Licensed Specialized Savings Bank under the Banking Act No. 30 of 1988 as amended.

Principal Activity

The principal activity of the Bank is specialized banking and providing of related financial services, such as, accepting of deposits, personal banking, corporate and retail credit, pawn broking, lease financing, etc.

Review of Operations

A review of the operations during the financial year 2010 and the performance of the Bank is given in the Chairman's Statement appearing on page 2 and in the Chief Executive Officer's Review on pages 3 and 4 of the Annual Report. Both reports form an integral part of this report.

Financial Statements

The audited financial statements of the Bank for the financial year ended 31st December 2010 are given on pages 32 to 54 and form an integral part of the Annual Report of the Board of Directors.

Auditors' Report

The Auditors of the Company M/s. KPMG Ford Rhodes Thornton & Co., Chartered Accountants have carried out the audit of the financial statements for the financial year ended 31st December 2010 and their report on the financial statements is given on page 32 of the Annual Report.

Significant Accounting Policies

The significant accounting policies adopted in preparation of the financial statements are given on pages 37 to 42 of the Annual Report.

Financial Results

The income of the Bank as at 31st December 2010 was Rs.394,374,353/- (Rs.445,779,373/- in 2009)

Donations

During the year, the Bank made donations amounting to Rs.10,400/- as at 31st December 2010 (Donations made in 2009 amounted to Rs.20,500/-)

Capital Expenditure

The total capital expenditure incurred on the acquisition of property, plant and equipment is given in note 29 to the Accounts.

Reserves

Total reserves of the Company and its composition are stated in the Statement of Changes in Equity on page 35.

Stated Capital

The stated capital of the Bank as at 31st December 2010 was Rs. 728,734,192/- comprising of Rs. 381,448,450/- Voting Ordinary Shares and Rs. 347,285,742/- Non-Voting Ordinary Shares.

The Bank in October 2010 engaged in a 1:1 Rights Issue of 121,685,328 Non Voting Ordinary Shares at the rate of Rs. 1.50 per share and raised a sum of Rs.182,527,992/-.

Debt Capital

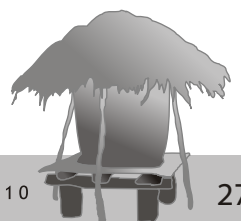
The Bank had debentures to the value of Rs.17,484,000/- as at 31st December 2010 which was Rs.90,684,000 in 2009.

Directorate

The Board of Directors of MBSL Savings Bank Limited consisted of Nine (09) Directors as at 31st December 2010.

01.	Mr. M.R.Shah	- Chairman
02.	Dr. T.Senthilverl	- Director
03.	Mr. B.R.S.T.Edirisinghe	- Director
04.	Mr. Gamini Karunathilake	- Director
05.	Dr. Ranjith Bandara	- Director
06.	Mr. P.G.Rupasinghe	- Director
07.	Mr. M.S.S.Paramananda	- Director
08.	Dr. S.T.S.De Silva	- Director
09.	Capt. Nithiabala Balasingam	- Director

The management of MBSL Savings Bank Limited (which was previously known as Ceylinco Savings Bank Limited) was vested in the Merchant Bank of Sri Lanka PLC in early 2009 and on the 08th day of June, 2009 the name of the Bank, Ceylinco Savings Bank Limited was changed to MBSL Savings Bank Limited on obtaining the consent of the Shareholders of the Bank effected with the approval of the Central Bank of Sri Lanka.



Annual Report of The Board of Directors on the State of Affairs of the company *contd....*

The Merchant Bank of Sri Lanka PLC having invested in One Hundred Million Voting Ordinary Shares of MBSL Savings Bank Limited on the 30th of April 2009, subsequently disposed 9.99% of its holding of MBSL Savings Bank Limited to Flybrunei Sdn. Bhd., a company in Malaysia and the Merchant Bank of Sri Lanka PLC holds 68.03% of the shares of MBSL Savings Bank Limited.

Retirement of Directors of the Bank by rotation or otherwise and their re – election

Mr. Janaka Ratnayake who was the Chairman of the Bank resigned from the directorate of the Company on the 12th of May 2010.

Mr. M. R. Shah was appointed as the Chairman of the Bank with effect from 03rd of June 2010.

Dr. Ranjith Bandara and Mr. M.S.S. Paramananda were appointed to the Board of Directors on the 03rd of June, 2010.

Mr. Imtiyaz Nulair resigned from the Board of Directors on the 03rd of June, 2010.

Mr. Lakshman Perera and Mr. Ranjith Siriwardena ceased to be Members of the Board of Directors at the last Annual General Meeting held on the 04th of June, 2010.

In terms of Article 81 (a) of the Articles of Association of the Company Dr. S.T.S. De Silva and Capt. Nithiabala Balasingam (Nominee Director of Ms. Flybrunei Sdn. Bhd. of Malaysia) were appointed to the Board of Directors during the year.

As at 31st of December, 2010, the Bank had no Executive Directors and the Directors namely, Mr. B. R. S. T. Edirisinghe, Dr. T. Senthilverl, and Dr. S.T.S. De Silva who held office were categorized as Independent and Non-Executive Directors while the Chairman, Mr. M.R. Shah and the Directors namely Dr. Ranjith Bandara, Mr. Gamini Karunathilake, Mr. P.G. Rupasinghe, Mr. M.S.S. Paramananda (Nominee Directors of Merchant Bank of Sri Lanka PLC) and Capt. Nithiabala Balasingam (Nominee Director of Ms. Flybrunei Sdn. Bhd. of Malaysia) were categorized as Non Independent and Non Executive Directors of the Bank.

In terms of Article 88 of the Articles of Association of the Company, Mr. P.G. Rupasinghe, Dr. Ranjith Bandara and Mr. M.S.S. Paramananda would retire by rotation and have offered themselves for re-election at the forthcoming Annual General Meeting.

The Directors namely, Dr. S.T.S. De Silva and Capt. Nithiabala Balasingam (Nominee Director of Ms. Flybrunei Sdn. Bhd. of Malaysia) who have been appointed to the Board of Directors of the Bank since the Annual General Meeting held on 04th of June, 2010 have offered themselves for election at the forthcoming Annual General Meeting.

Directors' Interest in Shares and Debentures as at 31st December 2010

	Number of Ordinary Shares as at 31st December 2010	Number of Debentures as at 31st December 2010
Mr. M.R. Shah	-	-
Dr. T. Senthilverl	1,200,000	-
Mr. B. R. S. T. Edirisinghe	120,000	-
Mr. Gamini Karunathilake	-	-
Dr. Ranjith Bandara	-	-
Mr. P. G. Rupasinghe	-	-
Mr. M.S.S. Paramananda	-	-
Dr. S.T.S. De Silva	-	-
Capt. Nithiabala Balasingam	-	-

The said Directors' Shareholdings and Debentures have not changed subsequent to the date of the Balance Sheet up to the date of this Annual Report.

Directors' Interest in Contracts

The Directors of the Company have confirmed that they have no direct or indirect interest in any contract or proposed contract of the Bank, except those specified in Note 40 to the Audited Accounts which have been disclosed and declared at meetings of the Directors.

Post Balance Sheet Events

The post balance sheet events are disclosed under note 38 to the financial statements. No events have taken place which require any adjustments or disclosures other than the above.

Going Concern

The Directors are satisfied that the Bank has adequate resources to continue its operations in the foreseeable future. The financial statements of the Bank have accordingly been prepared on the going concern basis.

Statutory Payments

The Directors are satisfied that to the best of their knowledge and belief that all statutory payments due to the government and to the employees of the Bank have been made up to date.



Annual Report of The Board of Directors on the State of Affairs of the company *contd....*

Auditors

The Bank's Auditors during the period under review were M/s. KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants. A sum of Rs. 490,000/- (Rs. 435,000/- 2009) is payable to the Auditors as audit service fees for the year under review; no payment has been made as non-audit related fees. Based on the declaration made by M/s. KPMG Ford, Rhodes, Thornton & Co., and as far as the Directors are aware, the Auditors do not have any relationship with or interest in the Bank other than disclosed in this paragraph.

The retiring Auditors, M/s KPMG Ford, Rhodes, Thornton & Co., has signified their willingness to continue in office and a resolution to re-appoint them as Auditors and authorizing the Directors to fix their remuneration will be proposed at the forthcoming Annual General Meeting.

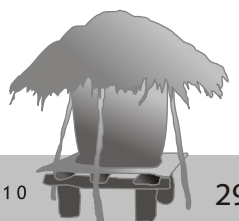
Notice of Meeting

Notice of Meeting relating to the Fourteenth (14th) Annual General Meeting of the Bank is included in the Annual Report.

BY ORDER OF THE BOARD


Chairman
Company Secretary

Date :- 31st May 2011



Directors' Responsibility for Financial Reporting

This statement of Directors' responsibilities is to be read in combination with the report of the Auditors and is made to differentiate the responsibilities of the Members of the Board of Directors and of the Auditors in relation to the financial statements contained in the Annual Report.

MBSL Savings Bank Limited (which was formerly known as Ceylinco Savings Bank Limited) was managed by the Merchant Bank of Sri Lanka PLC in early 2009 having been appointed as the Managing Agent of MBSL Savings Bank Limited on the 06th of March 2009 and on the 30th of April, 2009 the Merchant Bank of Sri Lanka PLC invested in One Hundred Million Voting Ordinary Shares of MBSL Savings Bank Limited and acquired 78.03% of the Voting Ordinary Shares of MBSL Savings Bank Limited with the approval of the Shareholders and the then Board of Directors of Ceylinco Savings Bank Limited

Consequently on the 08th day of June, 2009 the name of the bank Ceylinco Savings Bank Limited was changed to MBSL Savings Bank Limited on the approval granted by the Department of the Registrar of Companies and on the approval of the Central Bank of Sri Lanka with the consent of the Shareholders of the Bank.

The Merchant Bank of Sri Lanka PLC disposed 9.99% of the Ordinary Voting Shares of the Bank to Ms. Flybrunei Sdn. Bhd. in September 2010 and currently the Merchant Bank of Sri Lanka PLC holds 68.03% of the shareholding of MBSL Savings Bank Limited.

As per the provisions of the Companies Act No.07 of 2007, the Directors are responsible to ensure that the Company maintains proper books of accounts relating to all its transactions so as to,

- (i) enable the financial position of the Company to be determined with reasonable accuracy at any time,
- (ii) enable the Directors to prepare financial statements in accordance with the said Act,
- (iii) enable the financial statements of the Company to be readily and properly audited,

The Directors of a Company are required to prepare financial statements that give a true and fair view of the affairs of the Company as at the end of the financial year, and of the income and expenditure of the Company for the financial year as per the provisions of sections 150 (1), 151 (1) and 151 (2) of the Companies Act No.07 of 2007.

The financial reporting system of MBSL Savings Bank Limited has been constantly reviewed by the Board of Directors through Financial Reports submitted unto the Board of Directors, recommended by the Audit Committee on a monthly basis.

The Bank's financial statements for the year ended 31st December 2010 which are presented in this report are consistent with the books of accounts of the Bank and are in conformity with the Sri Lanka Accounting Standards, Companies Act No. 07 of 2007, Sri Lanka Auditing Standards Act No. 15 of 1995 and the Banking Act No. 30 of 1988 as amended by Banking (Amendment) Act No.33 of 1995 and is published in newspapers on the format prescribed by the Central Bank of Sri Lanka.

The Directors also confirm that in the preparation of the financial statements for the year ended 31st December 2010 published on pages 32 to 54 of this report, appropriate accounting policies have been selected and applied on a consistent basis with material departures disclosed in the financial statements.

To the best of the knowledge and belief of the Directors, the Auditors of the Bank, M/s. KPMG Ford, Rhodes, Thornton and Company have carried out reviews and sample checks on the effectiveness of the Internal Control Systems, as they have considered necessary when providing their opinion on the financial statements having examined the financial statements made available together with all other financial records, minutes of Shareholders and Directors Meetings and other related information and have given their opinion which appears on page 32 of the Annual Report.

The Directors confirm that, to the best of their knowledge and belief, all taxes and levies payable by the Company and all other known statutory obligations as at Balance Sheet date have been paid or provided for on the financial statements of the Bank.

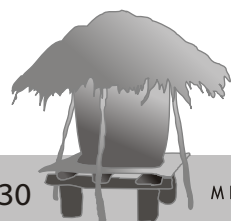
The Directors are of the opinion that they have discharged their obligations as set out in this statement.

By Order of the Board



A.V.C. Fernando
Company Secretary

Date :- 31st May 2011



Audit Committee Report

The Composition of the Committee

The Board Audit Committee is appointed by the Board of Directors and comprises of three Non Executive Directors of the Bank. The Company Secretary is functioning as the Secretary to the Board Audit Committee. Mr. M.S.S. Paramananda was appointed the Chairperson of the Audit Committee from the 23rd of June 2010, on Mr. Ranjith Siriwardena, the former Chairperson stepping down from the Chairpersonship. Other members of the Audit Committee are Dr.T.Senthilvel and Mr.B.R.S.T.Edirisinghe.

Financial Reporting

The Board Audit Committee independently examines and evaluates the activities of the Bank, specially reviewing and monitoring the financial reporting process of the Bank. As a part of its responsibility the Audit Committee oversees the Bank's financial reporting process on behalf of the Board of Directors. The Audit Committee has reviewed and discussed with the Management the quarterly and the annual financial statements prior to release, including the extent of the compliance with Sri Lanka Accounting Standards and disclosure requirements. The Audit Committee acts as an effective forum in assisting the Board of Directors in discharging their responsibilities of ensuring the quality of financial reporting to its Shareholders and the public.

Internal Audit, Risks and Controls

During the year, internal audit reports and investigation reports have been reviewed by the Audit Committee and discussed with the Senior Management and the Internal Audit Department of the Bank. Major findings on the internal audit reports and investigation reports and responses of the management thereto were considered with appropriate directions being issued.

The Board Audit Committee continuously reviews the implementation of policies and the strategies approved by the Board of Directors and evaluates the extent to which corporate objectives are achieved. The Audit Committee reviewed the adequacy and effectiveness of the Internal Control Procedures in order to mitigate the risk and recommended corrective action providing guidance to the Management of the Bank. The Committee is of the view that adequate controls and procedures are in place to provide reasonable assurance that the assets of the Bank are safeguarded and financial stability of the Bank is well monitored.

Regulatory Compliance

The Committee monitored compliance with requirements laid down by the Central Bank of Sri Lanka and other regulatory authorities and compliance reports are submitted monthly to the Audit Committee to review the compliance status of the Bank.

Meetings of the Committee

During the year under review, the Audit Committee met eleven (11) times. The proceedings of the Audit Committee Meetings are recorded with adequate details and are reported regularly to the Board of Directors at Board Meetings of the Bank. The attendance of the Committee Members at the meeting is stated in the table on page 06 of this Annual Report

The Chief Executive Officer, Manager Finance, Head of Internal Audit and External Auditors attend the Audit Committee Meetings by invitation. Other members of the Senior Management attend the meeting if required.

External Audit

The Audit Committee reviewed the External Auditors' Letter of Engagement prior to the commencement of the audit. Before the conclusion of the audit, the Committee met the External Auditors to discuss all audit issues and agreed to their treatment. The Auditors' Management Letter together with the Management's responses thereto and the Audited Financial Statements were reviewed with the audit. Follow up actions were taken by the External Auditors to ensure that the recommendations contained on the Management Letter were implemented by the Management.

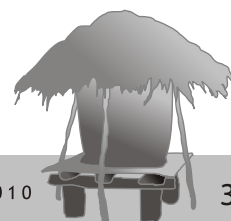
Re-appointment of the Auditors

The Audit Committee has recommended to the Board of Directors that M/s KPMG Ford, Rhodes, Thornton & Co., be re-appointed as Auditors for the financial year ending 31st December 2011 subject to approval of the Shareholders at the Annual General Meeting.



M.S.S. Paramananda
Chairman - Board Audit Committee

Date :- 31st May 2011





KPMG Ford, Rhodes, Thornton & Co.
 (Chartered Accountants)
 32A, Sir Mohamed Moan Mooker Mawatha,
 P. O. Box 186,
 Colombo 00300,
 Sri Lanka.

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INDEPENDENT AUDITOR'S REPORT

TO THE SHAREHOLDERS OF MBSL SAVINGS BANK LIMITED

Report on the Financial Statements

We have audited the accompanying financial statements of MBSL Savings Bank Limited, which comprise the balance sheet as at December 31, 2010, and the income statement, statement of changes in equity and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory notes.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Sri Lanka Accounting Standards. This responsibility includes: designing, implementing and maintaining internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error; selecting and applying appropriate accounting policies; and making accounting estimates that are reasonable in the circumstances.

Scope of Audit and Basis of Opinion

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Sri Lanka Auditing Standards. Those standards require that we plan and perform the audit to obtain reasonable assurance whether the financial statements are free from material misstatement.

An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting policies used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

We have obtained all the information and explanations which to the best of our knowledge and belief were necessary for the purposes of our audit except for the matters referred to in the opinion paragraph. We therefore believe that our audit provides a reasonable basis for our opinion.

Opinion

In our opinion, so far as appears from our examination, the Bank maintained proper accounting records for the year ended 31st December, 2010 and the financial statements give a true and fair view of the state of affairs of MBSL Savings Bank Limited as at December 31, 2010 and its loss and cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

Emphasis of Matter

Without qualifying our opinion we draw attention to Note 7 and 36 to the financial statements.

Report on Other Legal and Regulatory Requirements

- These financial statements comply with the requirements of Section 151 (2) of the Companies Act No.07 of 2007. However, the Bank's net assets are less than half of the stated capital and face a serious loss of capital situation in terms of Section 220 of the same Act.
- These financial statements present the information required by the Banking Act No.30 of 1988.

Chartered Accountants,
 Colombo
 01st February 2011
 YP/MS

KPMG Ford, Rhodes, Thornton & Co., a Sri Lankan Partnership and a member firm of the KPMG network of independent member firms affiliated with KPMG International Cooperative ("KPMG International"), a Swiss entity.

A.N. Fernando FCA
 M. M.P. Perera FCA
 I.J.B. Rajapaksa FCA
 M. S.M.B. Jayaratne ACA

S. Srinivasanathan FCA
 R.Y.S. Perera FCA
 W.W.J.C. Perera FCA
 H.K.D.C. Abeyaratne ACA

M.S. Mithila FCA
 L.P. Jayatilaka FCA
 M.A.S. Jayasinghe ACA
 S.Y.D.V.L. Perera FCA



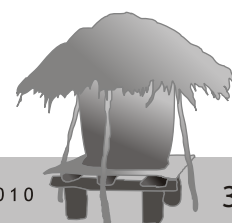
Income Statement

For the year ended 31st December,

	Notes	2010 Rs.	2009 Rs.
Income	8	<u>394,374,353</u>	<u>445,779,373</u>
Interest income	9	335,084,402	369,893,797
Interest expense	10	(241,985,445)	(305,998,663)
Net interest income		<u>93,098,957</u>	<u>63,895,134</u>
Fee and commission income		6,777,502	4,158,737
Other income	11	<u>52,512,448</u>	<u>71,726,839</u>
Operating income		<u>152,388,907</u>	<u>139,780,710</u>
Less: Operating expenses	12		
Personnel expenses		52,713,412	62,983,758
Provision for employee retirement benefits	33	1,253,416	1,978,778
Premises, equipment and establishment expenses		45,613,235	44,608,599
Fee and commission expense		7,325,056	11,238,899
Reversal of provision for recoverability of deposits and placements	19.3	-	(95,640,000)
Provision for loan losses	13	16,908,480	20,686,740
Value Added Tax on Financial Services		2,192,406	-
Other expenses	14	<u>47,314,491</u>	<u>53,667,622</u>
		<u>173,320,496</u>	<u>99,524,396</u>
Profit/(loss) before taxation		(20,931,589)	40,256,314
Income tax expense	15	-	-
Profit/(loss) for the year		<u>(20,931,589)</u>	<u>40,256,314</u>
Earnings/(deficit) per share	16	(0.13)	0.36

The Notes to the Financial Statements annexed form an integral part of these Financial Statements.

Figures in the brackets indicate deductions.



Balance Sheet

As at 31st December,


	Notes	2010 Rs.	2009 Rs.
ASSETS			
Cash and cash equivalents	17	31,487,207	57,481,056
Government treasury bills and bonds	18	604,019,184	271,598,242
Placements and deposits with other Banks and Financial Institutions	19	8,208,082	61,067,479
Loans and advances	20	861,059,678	741,283,685
Lease rentals receivable within one year	21.1	45,749,178	39,625,750
Lease rentals receivable after one year	21.2	156,987,103	219,318,304
Hire purchase receivable	22	315,328,525	311,061,846
Non current assets held for sale	23	257,040,856	276,800,656
Interest receivable	24	38,833,505	14,796,426
Dealing securities	26	22,853,300	23,544,625
Investment securities	27	10,000	10,000
Amounts due from MBSL Insurance Company Limited		340,640	95,844
Other assets	28	66,194,138	58,822,074
Property, plant and equipment	29	55,619,133	63,268,268
Total Assets		2,463,730,529	2,138,774,255
LIABILITIES			
Deposits from customers	30	1,906,276,032	1,717,087,050
Borrowings	31	61,363,089	8,107,441
Debentures	32	17,484,000	90,684,000
Unclaimed debentures		400,000	4,800,000
Retirement benefit obligations	33	4,452,491	3,586,060
Amounts due to related companies	34	667,428	621,908
Other liabilities	35	245,290,501	247,687,211
Total Liabilities		2,235,933,541	2,072,573,670
EQUITY			
Stated capital	36	728,734,192	546,206,200
Statutory reserve fund		2,338,157	2,338,157
Retained profit/ (loss)		(503,275,361)	(482,343,772)
Total Equity		227,796,988	66,200,585
Total Equity and Liabilities		2,463,730,529	2,138,774,255
Commitments and Contingencies	37	82,077,851	82,428,130

The Notes to the Financial Statements annexed form an integral part of these Financial Statements.
Figures in the brackets indicate deductions.

I certify that the financial statements comply with the requirements of the Companies Act No 07 of 2007.


.....
Finance Manager

The Directors are responsible for the preparation and presentation of these Financial Statements.
Approved and signed for and on behalf of the Board


.....
Chairman


.....
Director


.....
Director

1st February 2011
Colombo

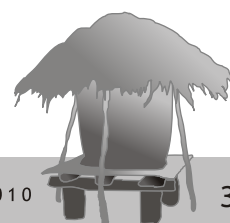


Statement of Changes in Equity

	Stated Capital	Share Application	Statutory Reserve Fund	Retained Profit/ (Loss)	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 1st January 2009	445,396,200	1,768,182	325,341	(520,587,270)	(73,097,547)
Shares issued during the year	100,810,000	(810,000)	-	-	100,000,000
Money refund against application	-	(688,317)	-	-	(688,317)
Profit for the year	-	-	-	40,256,314	40,256,314
Transfer to Statutory Reserve Fund	-	-	2,012,816	(2,012,816)	-
Balance as at 31st December 2009	546,206,200	269,865	2,338,157	(482,343,772)	66,470,450
Shares issued during the year	182,527,992	-	-	-	182,527,992
Money refund against application	-	(100,000)	-	-	(100,000)
Loss for the year	-	-	-	(20,931,589)	(20,931,589)
Transfer to other liabilities	-	(169,865)	-	-	(169,865)
Balance as at 31st December 2010	728,734,192	-	2,338,157	(503,275,361)	227,796,988

The Notes to the Financial Statements annexed form an integral part of these Financial Statements.

Figures in the brackets indicate deductions.

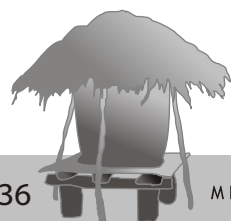


Cash Flow Statement

For the year ended 31st December,

	2010 Rs.	2009 Rs.
Cash flow from operating activities		
Interest receipts	311,047,323	372,074,466
Interest payments	(234,877,952)	(258,859,072)
Fee and commission receipts	6,777,503	4,158,737
Fee and commission payments	(7,325,056)	(11,238,899)
Receipts from other operating activities	24,659,679	63,366,805
Payments to employees	(52,713,412)	(62,983,758)
Payments on other operating activities	(93,877,677)	(89,907,291)
Operating profit/(loss) before changes in operating assets and liabilities	(46,309,593)	16,610,988
(Increase) / decrease in operating assets		
Loans and advances to customers	(59,302,552)	287,761,450
Receivables from MBSL Insurance Company Limited	(244,796)	(95,844)
Treasury bills and other securities	(332,420,942)	149,281,325
Placements and deposits with other banks and financial institutions	52,859,397	2,821,278
Other short term assets	(7,372,064)	17,872,100
Payable to related companies	(45,519)	621,908
	(346,526,476)	458,262,217
Increase / (decrease) in operating liabilities		
Deposits from customers	189,188,982	(357,223,603)
Other liabilities	(7,365,330)	(30,676,279)
Unclaimed debentures	(4,400,000)	(1,500,000)
	177,423,652	(389,399,882)
Net cash flow from operating activities before income tax	(215,412,418)	85,473,323
Income tax paid	-	-
Retiring gratuity paid	(386,985)	(1,130,351)
Net cash flow from operating activities	(215,799,403)	84,342,972
Cash flow from investing activities		
Acquisition of property, plant and equipment	(6,161,150)	(36,270,891)
Payment to lease creditors	(2,138,874)	1,870,365
Proceeds from disposal of property, plant and equipment/Non current assets held for sale	22,183,522	7,299,627
Proceeds from sale of shares	49,701,225	16,406,600
Investments in shares	(36,262,809)	(33,917,190)
Net cash flow from investing activities	27,321,914	(44,611,489)
Cash flow from financing activities		
Proceeds from issue of shares	182,527,992	100,000,000
Share application money refunded	(100,000)	(688,317)
Borrowings under repurchase agreements	50,000,000	(75,000,000)
Repayment of debentures	(73,200,000)	(1,960,000)
Net cash flow from financing activities	159,227,992	22,351,683
Net Increase /(decrease) in cash and cash equivalents	(29,249,497)	62,083,166
Cash and cash equivalents at beginning of the year	49,373,615	(12,709,551)
Cash and cash equivalents at end of the year	20,124,118	49,373,615
Reconciliation of cash and cash equivalents		
Cash in hand	5,055,025	4,063,577
Balances with banks	26,432,183	53,417,478
Bank overdraft	(11,363,089)	(8,107,441)
	20,124,118	49,373,615

The Notes to the Financial Statements annexed form an integral part of these Financial Statements.
Figures in the brackets indicate deductions.



Significant Accounting Policies

1. Corporate Information

1.1 Reporting Entity

MBSL Savings Bank is a limited liability Company domiciled in Sri Lanka. It is a Licensed Specialised Bank regulated under the Banking Act No. 30 of 1988 and amendments thereto. The address of registered office of the Bank is at No 97, Hyde Park Corner, Colombo 02. and its principal place of business is No 02 Deal Place, Colombo 03. The Bank (which was previously known as Ceylinco Savings Bank Limited), changed its name to MBSL Savings Bank Limited with effect from 8th June 2009 consequent to the acquisition of its controlling stake by Merchant Bank PLC of Sri Lanka.

1.2 Principal Activities

The Bank provides comprehensive range of financial services encompassing accepting deposits and savings, lease financing, hire purchase financing, mortgage loans, pawning and etc.

2 BASIS OF PREPARATION

2.1 Statement of Compliance

The financial statements of the Bank have been prepared in accordance with Sri Lanka Accounting Standards promulgated by the Institute of Chartered Accountants of Sri Lanka (ICASL) and comply with the requirements of the Banking Act No 30 of 1988 and amendments thereto.

The financial statements were approved by the Board of Directors on 01st February 2011.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis, except for the following;

- Dealing securities are measured at market value.
- The liability for defined benefit obligations is recognised as the present value of the defined benefit obligation

2.3 Functional and presentation currency

The financial statements are presented in Sri Lankan rupees, which is the Bank's functional currency.

2.4 Use of estimates and Judgements

The preparation of financial statements in conformity with SLAS requires management to make judgments, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets, liabilities, income and expenses. Actual results may differ from those estimates and judgmental decisions.

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

Information about significant areas of estimated uncertainty and critical judgments in applying accounting policies that have the most significant effect on the amounts recognised in the Financial Statements is included in the following notes.

2.4.1 Provision for loan losses

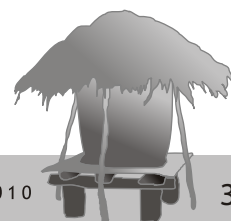
In addition to the specific provisions for possible loan losses made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard 23, "Revenue Recognition and Disclosure in the Financial Statements" and the directions issued by the Central Bank of Sri Lanka, the Bank evaluates the need for loans and advances based upon management's best estimate of recoverability. In estimating the recoverability the management makes judgments about the borrower's financial situation, the workout strategy and the net realisable value of any underlying collateral.

2.4.2 Income taxes

The Bank is subject to income taxes in numerous jurisdictions. The Bank recognizes liabilities for anticipated tax based on estimates of taxable income. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the current and deferred income tax assets and liabilities in the period in which such determination is made.

2.4.3 Retirement Benefit Obligation

The present value of the retirement benefit obligations depends on a number of factors that are determined on an actuarial basis using a number of assumptions. Key assumptions used in determining the retirement benefit obligations are given in 4.13.1. Any changes in these assumptions will impact the carrying amount of retirement benefit obligation.



Significant Accounting Policies *Contd...*

2.4.4 Classification of Dealing (Trading) securities and investment securities

In classifying security as "Dealing" (Trading), the Bank has determined that it meets the description set out in Note No 4.3.1.

In classifying securities as "investment", the Bank has determined that it has both positive intention and ability to hold the securities until their maturity dates as required by Note No 4.3.2.

3. Materiality and aggregation

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

4. Significant Accounting Policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

Comparative information has where necessary been reclassified to conform to the current year's presentation.

The Directors have made an assessment of the bank's ability to continue as a going concern in the foreseeable future, and they do not foresee a need for liquidation or cessation of business.

ASSETS AND BASES OF THEIR VALUATION

4.1 Cash and Cash Equivalents

Cash and cash equivalents include cash in hand, balances with banks and placements with banks. They are brought to account at the face value or gross value where appropriate.

4.2 Government of Sri Lanka Treasury Bills and Bonds

4.2.1 Investments in Treasury Bills and Bonds held for Dealing

Investments in Treasury Bills and Treasury Bonds in dealing portfolio are those investments that the Bank acquired or incurs principally for the purpose of selling, or holds as part of a portfolio that is managed for short term profits. These investments are initially recognised and subsequently measured at market value in the Balance Sheet. Gains and losses on marked to market valuation are dealt with through the Income Statement.

4.2.2 Securities Purchased Under Re-sale Agreements

Securities purchased under resale agreements are recorded separately in the financial statements at cost. The difference between the purchase and sale price represents interest income and is recognized in the Income statement over the period of the resale agreement.

4.3 Investments

4.3.1 Dealing (Trading) Securities

Dealing (Trading) Securities are those investments that are acquired or incurred principally for the purpose of selling or holding as part of a portfolio that is managed for short term profit. These investments are initially recognised at cost and subsequently measured at market value. Gains and losses on marked to market valuations are dealt with through the Income Statement.

4.3.2 Investment Securities

These are securities which are acquired and held for yield or capital growth in the medium/long term with the positive intent and ability to hold until maturity. Such securities are recorded at cost. Interest and dividend income are accrued. Changes in market values of these securities are not taken into account, unless there is considered to be a diminution in value which is other than temporary.

Investments in Treasury bill/bonds in the investment portfolio are initially measured at cost of bills/bonds at the date of purchase and the discount/premium accrued thereon.

4.4 Non-current assets held for sale

Non-current assets that are expected to be recovered primarily through sale rather than through continuing use are classified as "held for sale." These are assets which are available for immediate sale in their present condition, subject to only the terms that are usual and customary for the sale of such assets and their sale is highly probable.

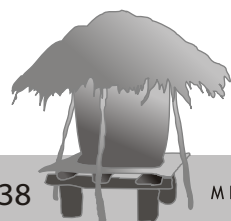
"Non-current assets held for sale" are presented separately on the face of the balance sheet and are measured at the lower of its carrying amount and fair value less costs to sell.

Assets classified as "Non-current assets held for sale" are neither amortised nor depreciated.

Impairment losses on initial classification as held for sale and subsequent gains and losses on re-measurement are recognised in the Income Statement.

4.5 Loans and advance to customers

Loans and advances to customers are stated in the Balance Sheet at the recoverable amount represented by the gross amount of the outstanding balances adjusted for provision of loan losses and interest in suspense (interest which is not accrued to revenue).



Significant Accounting Policies *Contd...*

4.5.1 Non-performing loans and advances

The loans and advances are classified as Non-Performing Advances (NPA) based on the period in arrears of due capital and/or interest, Credit facilities repayable in monthly installments when more than 2 months principal and/or interest in arrears are recognised as non performing.

Provision for possible loans losses are made on the basis of a continuous review of all loans and advances to customers in accordance with the Sri Lanka Accounting Standard 23, "Revenue Recognition and Disclosures in the Financial Statements of the Banks" and Directions issued by the Central Bank of Sri Lanka and disclosed in the financial statements of the Bank.

4.5.2 Provision for loan losses

4.5.2.1 Specific Provisions for loan losses are made as follows

Bank makes specific provisions in respect of loans and advances based on the period in arrears on the following basis.

Period outstanding	Category of NPA credit quality	Minimum specific Provision Requirements
5-11 Months	Sub-Standard	20%
11-17 Months	Doubtful	50%
> 17 Months	Loss	100%

The provision made relates to all categories of loans and advances identified as substandard, doubtful and loss.

Values assigned to collateral held for non-performing loans secured by properties are determined based on the realisable values of the properties, being the forced sale value provided by independent parties/valuers, on the following basis.

Item	% of FSV of immovable property that can be considered as the value of security	
	Freehold Property	Leasehold Property
At the first time of Provisioning	75	60
Period in the Loss Section		
Less than 12 months	75	60
More than 12 but less than 24 months	60	50
More than 24 but less than 36 months	50	40
More than 36 but less than 48 months	40	30
More than 48 months	Property is reviewed on a regular basis, and discounted further at the discretion of the bank's management.	Nil

4.5.2.2 General Provision

The Direction issued by the Monetary Board of the Central Bank of Sri Lanka on 8th May 2008, in terms Section 46 of the Banking Act No 30 of 1988, as amended, in "Requirement to Maintain a General Provision for Advances" requires all licensed specialised banks to maintain a general provision of 1% of the total on balance sheet performing loans and advances, net of interest in suspense and credit facilities secured by cash deposits, gold or Government securities with the same bank.

The Direction referred to above was replaced by the Direction issued on 27th September 2010, thereby the banks are required to make general provision of 0.5% of total outstanding on balance sheet performing loans and total outstanding of special mention on-balance sheet credit facilities commencing on 1st January 2012. According to the said Direction, banks shall reduce the existing general provision requirements of 1% to 0.5% at a rate of 0.1% per quarter during the five quarters commencing 1st October 2010.

4.5.3 Revenue recognition on non performing loans

When an advance is classified as non-performing Loans and Advance if due capital and/or interest were in arrears for more than 2 months the interest ceased to be accrued and is taken income thereafter on cash basis.

4.6 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. Amounts receivable under finance leases are included under 'Lease Rentals Receivable'. Leasing balances are stated in the Balance Sheet after deduction of initial rentals received, unearned lease income and the provisions for rentals doubtful of recovery.

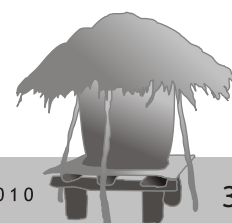
4.6.1 Provision for Lease Receivables

Specific provision has been made in relation to identified non performing leases as stated above in Note No 4.5.2.1. In addition, a general provision has been made as stated above in Note No 4.5.2.2.

4.7 Property, plant and equipment

4.7.1 Recognition and measurement

Items of property, plant and equipment are measured at cost less accumulated depreciation and accumulated impairment losses.



Significant Accounting Policies *Contd...*

4.7.2 Owned assets

The cost of property, plant and equipment includes expenditure that is directly attributable to the acquisition of the asset. 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 capitalized as a part of equipment.

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

4.7.3 Leased Assets

Leases in terms of which the Bank assumes substantially all the risks and rewards of ownership are classified as finance lease. Assets acquired by way of a finance leases are measured at an amount equal to the lower of their fair value and the present value of minimum lease payments at the at the inception less accumulated depreciation and accumulated impairment losses.

Subsequent to the initial recognition, the asset is accounted for in accordance with the accounting policy applicable to the asset.

Other leases are operating leases and are not recognised in the Balance Sheet.

4.7.4 Subsequent expenditure

The cost of replacing a part of an item of property, plant & equipment is recognised in carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Bank and its cost can be measured reliably. The carrying amount of these parts that are replaced is derecognised in accordance with the derecognition policy given below.

The cost of the day-to-day servicing of property, plant & equipment are recognised in profit and loss as incurred.

4.7.5 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. Gains and losses on derecognition are recognised in profit and loss and gains are not classified as revenue.

4.7.6 Depreciation

Depreciation is recognized in the Income Statement on a reducing balance basis over the periods appropriate to the estimated useful life of the different types of property, plant and equipment at the rates are given below.

Motor vehicles	20% p.a.
Furniture & Fittings	20% p.a.
Computer & Equipment	20% p.a.
Office Equipment	20% p.a.
Improvements to Building	20% p.a.

Depreciation of an asset begins when it is available for use and ceases at the earlier of the dates on which the asset is classified as held for sale or is derecognised.

4.8 Impairment

The carrying amounts of the Bank's assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists then the asset's recoverable amount is estimated.

Liabilities and provisions

4.9 Deposits from customers

Deposits include savings deposits, term deposits, deposits redeemable at call and certificates of deposits. They are brought to account at the gross value of the outstanding balance. Interest paid is charged to the Income Statement.

4.10 Borrowing

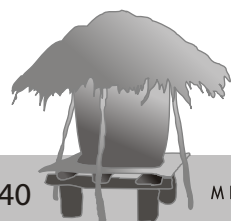
Borrowings include refinance borrowings, call and time deposits and borrowings from financial institutions. They are brought to account at the gross value of the outstanding balance.

4.11 Securities sold under Re-purchase Agreements

Securities sold under agreements to re-purchase are recorded separately in the financial statements. The difference between the sale and the purchase price represents interest expense, which is recognised in the Income Statement over the period of the re-purchase agreements.

4.12 Other liabilities

Other liabilities include all financial liabilities, interest, fees, expenses payable and securities purchased but not delivered. These liabilities are recorded at the cash value to be realised when settled.



Significant Accounting Policies *Contd...*

4.13 Employee retirement benefits

4.13.1 Defined benefit plan

The defined benefit plan is a post-employment benefit plan other than a defined contribution plan. The liability recognised in the balance sheet in respect of defined benefit plan is the present value of the defined benefit obligation at the balance sheet date. The defined benefit obligation is calculated annually using the Projected Unit Credit method. The present value of the defined benefit obligation is determined by discounting the estimated future cash flows using the interest rates that apply to the currency in which the benefit will be paid and that have terms to maturity approximating to the terms of the related liability.

Provision has been made for retirement gratuities from the first year of service for all employees, in conformity with SLAS 16 on Retirement Benefit Costs. 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.

The liability is not externally funded nor is it actuarially valued.

4.13.2 Defined contribution plans

The defined contribution plan is a post-employment benefit plan under which an entity pays fixed contributions into a separate entity and will have no legal or constructive obligation to pay further amounts. Obligations for contributions to Provident and Trust Funds covering all employees are recognised as an expense in profit and loss when incurred.

A liability is recognised for the amount expected to be paid under short-term cash basis, if the Bank has a present legal or constructive obligation to pay this amount as a result of past service provided by the employee and the obligation can be estimated reliably.

4.14 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.

Provision for non performing loans and advances are made as set out in Note No 4.5.2.

4.15 Capital commitments and contingencies

Contingent liabilities are possible obligations whose existence will be confirmed only by uncertain future events or present obligations where the transfer of economic benefit is not probable or cannot be reliably measured. Contingent liabilities are not accounted in the Balance Sheet but are disclosed unless they are remote.

Capital commitments and contingent liabilities of the Bank are disclosed in the respective Notes to the Financial Statements.

4.16 Events occurring after the Balance Sheet date

All material post Balance Sheet events have been considered and where appropriate adjustments or disclosures have been made in the respective notes to the financial statements.

4.17 Income Statement

4.17.1 Revenue Recognition

4.17.1.1 Interest Income

Interest income from loans and advances is recognized on an accrual basis. Interest ceases to be accrued when the recovery of interest or Principal is in arrears for more than two (2) months. Interest on non-performing advances is accounted for on a cash basis.

Interest on Non- Performing debts is credited to the 'Interest in suspense account' which is netted in the Balance Sheet against the relevant balance.

Interest income from investments is recognised on an accrual basis.

4.17.1.2 Dividend income

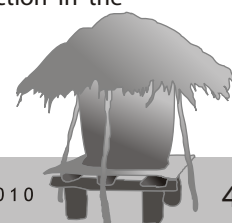
Dividend income is recognized in the Income Statement on an accrual basis when the Bank's right to receive the dividend is established.

4.17.1.3 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 lease is executed in proportion to the declining receivable balance.

4.17.1.4 Trading Income

Gains or losses arising from the sale of investment securities, dealing securities, share and units are accounted for on the date of transaction in the Income Statement.



Significant Accounting Policies *Contd...*

4.17.1.5 Fee and Commission Income

Fee and commission income include accounts servicing fees, investment management fees, sales commission, placement fees are recognised as the related services are performed.

4.17.1.6 Profit/loss from sale of Property, plant and equipments

Profit/loss from sale of Property plant and equipment is recognised in the period in which the sale occurred and is classified as other income.

4.17.2 Expenses

4.17.2.1 Interest expenses and other expenses

Interest payable is recognised on accrual basis. Other expenses are recognised in the accounts as they are incurred, in the period to which they relate.

4.17.2.2 Lease payments made

Payments made under operating leases are recognized in the Income Statement on straight-line basis over the terms of the lease.

The future monthly commitments on operating leases are shown in Note No 39.

Minimum lease payments made under finance leases are apportioned between the finance expense and the reduction of the outstanding liability. The finance expense is allocated to each period during the lease term so as to produce a constant periodic rate of return on the remaining balance of the liability. Contingent lease payments are accounted for by revising the minimum lease payments over the remaining term of the lease when the lease adjustment is confirmed.

4.17.2.3 Fee and commission expenses

Fee and commission expenses are recognized on an accrual basis.

4.17.2.4 Income tax expense

Income tax expense comprises of current and deferred tax. Current and Deferred tax are recognised in profit or loss except to the extent that it relates to items recognised directly in equity, when it is recognised in equity.

4.17.2.5 Current Tax

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

4.17.2.6 Deferred Tax

Deferred tax is recognised using the balance sheet method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. 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.

A deferred tax asset is recognised only to the extent that it is probable that future taxable profits will be available against which the temporary difference can be utilised. 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 realised.

4.17.2.7 Value Added Tax on financial services

The basis for the computation of Value Added Tax on financial services is the accounting profit before income tax adjusted for the economic depreciation and emoluments of employees computed on prescribed rate.

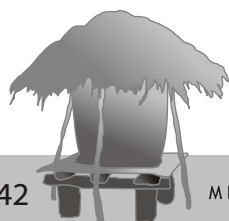
5. Earnings per share

The company presents basic and diluted earnings per share (EPS) data for its ordinary shares. Basic EPS is calculated by dividing the profit or loss attributable to ordinary shareholders of the Bank by the weighted average number of ordinary shares outstanding during the period. Diluted EPS is determined by adjusting the profit or loss attributable to the ordinary shareholders and weighted average number of ordinary shares outstanding for the effects of all dilutive potential ordinary shares, which comprise share options granted to employees.

6. Cash flow statement

The Cash flow has been prepared by using the "Direct Method" of preparing of cash flow statement in accordance with the SLAS 9, Cash Flow Statements.

Cash and Cash equivalents comprises cash balances, call deposits and Bank overdrafts. They are net of Government of Sri Lanka Treasury Bills held by the Bank.



Notes to the Financial Statements

7 Going Concern

MBSL Savings Bank Limited is an associate company of Bank of Ceylon and a subsidiary of Merchant Bank of Sri Lanka PLC and the Bank has more prominence in the current market.

During the year 2010, the Bank successfully completed a Rights Issue of 121,685,328 Ordinary Non Voting Shares to the value of Rs.182,527,992/- and the required level of Capital Adequacy as per CBSL guidelines has been met as of 31st December 2010.

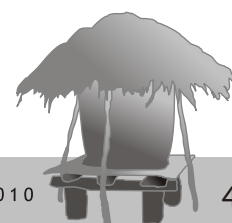
The Bank has budgeted to offer a fresh issue of Rs.600 Mn Ordinary Shares and list the Bank on the Colombo Stock Exchange by 31st December 2011 in order to comply with the CBSL guidelines. The above budget has been approved by the Board of Directors and the new capital infusion will allow the Bank to overcome the serious loss of capital in May 2011.

Also, the Bank has sought approval from the CBSL to convert the 12 Extension Offices to fully fledged branches and that will allow the Bank to explore many opportunities and enhance business volumes, which will eventually increase the profitability of the Bank.

Considering the above, the directors are of the view that it is appropriate to adopt the going concern assumption in preparation of the financial statements for the year ended 31st December 2010.

for the year ended 31st December 2010

	2010 Rs.	2009 Rs.
8. INCOME		
Gross Income	394,374,353	445,779,373
Interest income (Refer Note 9)	335,084,402	369,893,797
Fee and commission income	6,777,503	4,158,737
Other income (Refer Note 11)	52,512,448	71,726,839
	394,374,353	445,779,373
9. INTEREST INCOME		
Loans and advances to customers	160,063,809	128,416,283
Leasing	48,402,029	75,688,043
Hire purchase	85,852,238	98,041,029
Placements with banks	4,600,402	12,559,291
Government Securities	36,165,925	55,189,151
	335,084,402	369,893,797
10. INTEREST EXPENSE		
Deposits from customers	235,220,019	277,820,558
Debentures	5,227,662	14,091,776
Treasury bills repurchased	1,536,041	14,045,135
Short term borrowings	1,724	41,194
	241,985,445	305,998,663
11. OTHER INCOME		
Documentation income	3,719,678	1,532,240
Gain on trading treasury bills/bonds	2,095,670	38,648,306
Gain on disposal of shares	6,465,289	3,347,397
Surplus on valuation of dealing securities	6,281,803	2,686,638
Gain on disposal of property, plant & equipment	5,982,560	2,345,495
Penalty income on loan, leases & hire purchase	20,861,875	23,115,402
Profit on disposal of leased assets	7,027,447	-
Sundry income	78,126	51,361
	52,512,448	71,726,839



Notes to the Financial Statements *Contd...*

for the year ended 31st December 2010

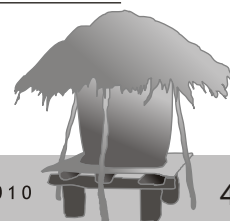
	2010 Rs.	2009 Rs.
12 OPERATING EXPENSES		
Operating expenses include the following:		
Auditors' remuneration - Statutory audit	490,000	435,000
Depreciation on property, plant and equipment	13,128,922	15,606,286
Rent expense	15,561,374	15,537,495
Donation	10,400	20,500
Personnel expenses		
In addition to salaries personnel expenses include the following:		
Employees' Provident Fund	4,942,232	5,919,347
Employees' Trust Fund	1,235,558	1,479,837
Number of staff	148	134
13 PROVISION FOR LOAN LOSSES		
Specific provision for customer loans and advances	2,986,361	4,072,824
Specific provision/(reversal) for lease rentals receivable	771,823	5,604,136
Specific provision/(reversal) for hire purchase receivable	13,033,494	12,333,010
Statutory general provision /(reversal) made during the year	116,802	(1,323,230)
	<u>16,908,480</u>	<u>20,686,740</u>
14 OTHER EXPENSES		
Advertising expenses	59,159	138,415
Business promotion expenses	4,253,515	9,379,802
Subsistence & Traveling - Marketing	-	661,156
Share issue expenses	1,865,814	1,078,038
Loss on disposal of leased assets	-	5,532,580
Other administrative expenses	41,136,003	36,877,630
	<u>47,314,491</u>	<u>53,667,622</u>
15 INCOME TAX EXPENSE		
Charges to taxation is as follows:		
Taxation on profit for the year	-	-
	<u>-</u>	<u>-</u>
Reconciliation between Accounting profit and Taxable profit		
Accounting profit		
Net profit/(loss) before tax	(20,931,589)	40,256,314
Notional tax credit	4,412,873	4,606,441
Capital portion of lease rentals	114,559,905	156,057,951
Other income	(18,846,455)	(127,444,720)
Aggregate disallowables	33,467,683	21,907,925
Aggregate allowables	(87,464,945)	(141,894,975)
Taxable loss on disposal of leased assets	(65,480,963)	(11,136,988)
Adjusted business loss from leasing	7,800,754	11,529,610
Taxable profit/(loss) for the year	<u>(32,482,737)</u>	<u>(46,118,442)</u>
Tax loss brought forward - others	342,551,735	314,643,701
Adjustment to brought forward tax loss	(693,935)	(18,210,407)
Tax loss for the year	32,482,737	46,118,441
Tax loss carried forward	<u>374,340,537</u>	<u>342,551,735</u>
Tax loss brought forward - leasing	29,849,915	21,695,847
Adjustment to brought forward tax loss	-	-
Tax loss for the year	7,947,200	8,154,068
Tax loss carried forward	<u>37,797,115</u>	<u>29,849,915</u>



Notes to the Financial Statements *Contd...*

for the year ended 31st December 2010

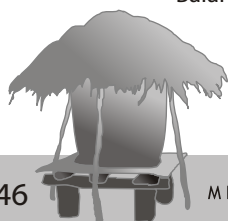
	2010 Rs.	2009 Rs.
15 INCOME TAX EXPENSE (CONTD)		
Unrecognised Deferred Tax Asset		
Deferred tax asset have not been recognised in respect of following items because it is not probable that future taxable profit will be available against which the Bank can utilise the benefit thereon.		
Property, plant and equipment	(101,348,528)	(86,599,272)
Retirement benefit obligation	(1,246,697)	(1,255,121)
Tax loss carried forward	(114,835,195)	(131,522,017)
Deferred tax asset	<u>(217,430,421)</u>	<u>(219,376,410)</u>
16 EARNINGS/(DEFICIT) PER SHARE		
Earnings/(deficit) per share		
The calculation of the earnings/(deficit) per ordinary share is based on the profit or loss attributable to the ordinary shareholders divided by a weighted average number of ordinary shares in issue during the year.		
	2010 Rs.	2009 Rs.
Profit/(loss) attributable to ordinary shareholders (Rs)	(20,931,589)	40,256,314
Weighted average number of ordinary shares -Note (i)	164,901,508	111,260,287
Earnings/(deficit) per share (Rs)	(0.13)	0.36
(i) Qualifying ordinary shares at beginning of the year	144,620,620	44,539,620
Effect of shares issued during the year	20,280,888	66,720,667
Weighted average number of ordinary shares at the end of the year	164,901,508	111,260,287
Diluted Earnings/(deficit) per share		
There are no potentially dilutive ordinary shares of the company and as a result the diluted earning/(deficit) per share is the same as the earning/(deficit) per share shown above.		
As at 31st December 2010	2010 Rs.	2009 Rs.
17 CASH AND CASH EQUIVALENTS		
Cash in hand	5,055,024	4,063,578
Balances with banks (with maturity of less than 12 months)	26,432,183	53,417,478
	<u>31,487,207</u>	<u>57,481,056</u>
18 GOVERNMENT TREASURY BILLS AND BONDS		
Treasury bonds purchased	604,019,184	-
Treasury bills	-	271,598,242
	<u>604,019,184</u>	<u>271,598,242</u>
19 PLACEMENTS AND DEPOSITS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS		
Deposit with banks	8,208,082	11,067,479
Deposits with financial institutions (Note 19.1)	-	50,000,000
Promissory notes	130,000,000	130,000,000
Provision for recoverability of placements (Note 19.2)	(130,000,000)	(130,000,000)
	<u>8,208,082</u>	<u>61,067,479</u>
19.1 DEPOSITS WITH FINANCIAL INSTITUTIONS		
Commercial Leasing Company Limited	-	50,000,000
	-	50,000,000
19.2 PROVISION FOR RECOVERABILITY OF PLACEMENTS		
Ceylinco Shriram Securities Holdings Ltd.	100,000,000	100,000,000
Ceylinco Consolidated Overseas (Pvt) Ltd.	30,000,000	30,000,000
	<u>130,000,000</u>	<u>130,000,000</u>



Notes to the Financial Statements *Contd...*

As at 31st December 2010

	2010 Rs.	2009 Rs.
19.3 REVERSAL OF PROVISION FOR PLACEMENTS AND DEPOSITS		
Ceylinco Leasing Corporation Ltd	-	(40,000,000)
Ceylinco Shriram Capital Management Co.(Pvt) Ltd.	-	(25,000,000)
CLC Asset Management (Pvt) Ltd	-	(30,000,000)
The Finance PLC	-	(640,000)
	<u>-</u>	<u>(95,640,000)</u>
20 LOANS AND ADVANCES		
Staff loans	27,588,099	36,150,534
Term loans	392,071,100	283,675,191
Housing loans	402,961,253	384,279,174
Pawning advances	57,395,455	57,598,863
	<u>880,015,907</u>	<u>761,703,762</u>
Loan loss provision (Note 25)	(18,956,230)	(20,420,077)
	<u>861,059,678</u>	<u>741,283,685</u>
21 LEASE RENTALS RECEIVABLE		
Cost of equipment	346,929,932	614,590,134
Unearned lease income	67,641,285	143,333,325
Gross lease rentals receivable	414,571,217	757,923,459
Less: Initial rentals received (prepaid)	(5,550,242)	(8,523,385)
Lease rentals received	(127,625,440)	(402,470,142)
Total lease rentals receivable (Note 21.1)	<u>281,395,535</u>	<u>346,929,932</u>
21.1 LEASE RENTALS RECEIVABLE WITHIN ONE YEAR		
Total lease rentals receivable (Note 21)	281,395,535	346,929,932
Less: Lease rentals receivable from one to five years from balance sheet date (Note 21.2)	(183,680,351)	(272,047,093)
	<u>97,715,184</u>	<u>74,882,839</u>
Less: Unearned lease income	(30,639,334)	(14,912,496)
Provision for lease receivables (Note 21.3)	(15,471,926)	(14,418,018)
Interest in suspense	(5,854,746)	(5,926,575)
Balance at the end of the year	<u>45,749,178</u>	<u>39,625,750</u>
21.2 LEASE RENTALS RECEIVABLE AFTER ONE YEAR		
Lease rentals receivables from one to five years from balance sheet date (Note 21.1)	183,680,351	272,047,093
Less: Unearned lease income	(26,693,248)	(52,728,789)
	<u>156,987,103</u>	<u>219,318,304</u>
21.3 MOVEMENT IN PROVISION FOR LEASE RENTALS RECEIVABLE		
Balance at the beginning of the year	14,418,018	10,818,050
Additional provision made during the year	1,053,908	3,599,968
Balance at the end of the year	<u>15,471,926</u>	<u>14,418,018</u>
22 HIRE PURCHASE RECEIVABLE		
Hire debtors	435,728,987	459,593,185
Less : Deferred profit on Hire Sales	(110,867,538)	(131,507,929)
Interest in suspense	(2,638,633)	(8,494,619)
Provision for doubtful debts (Note 22.1)	(6,894,291)	(8,528,791)
	<u>315,328,525</u>	<u>311,061,846</u>
22.1 MOVEMENT IN PROVISION FOR HIRE PURCHASE RECEIVABLE		
Balance at the beginning of the year	8,528,791	1,428,969
Provision made/(reversal of provision) during the year	(1,634,500)	7,099,822
Balance at the end of the year	<u>6,894,291</u>	<u>8,528,791</u>



Notes to the Financial Statements *Contd...*

As at 31st December 2010

	2010 Rs.	2009 Rs.
23 NON CURRENT ASSETS HELD FOR SALE		
Balance at the beginning of the year	276,800,656	-
Transferred from deposits in financial institutions/(Disposals during the year)	<u>(19,759,800)</u>	276,800,656
Balance at the end of the year	<u>257,040,856</u>	<u>276,800,656</u>

23.1 Represents the value of the Land and Buildings, the title of which was transferred to the Bank in settlement of deposits with The Finance Co. PLC, Ceylinco Leasing Corporation Ltd, Ceylinco Shriram Capital Management Co. (Pvt) Ltd and CLC Asset Management (Pvt) Ltd. The valuation was carried out by professionally qualified independent valuer and balance comprise of land & building situated in following locations.

Location	2010		2009	
	Extent (perches)	Value Rs	Extent (perches)	Value Rs
Land at Colombo 4	38	178,000,656	38	178,000,656
Land and building at Hokandara	58	<u>79,040,200</u>	73	<u>98,800,000</u>
		<u>257,040,856</u>		<u>276,800,656</u>

In accordance with SLAS 38, Non Current Assets held for sale and discontinued Operations the management of the bank committed to a plan to sell and recover the carrying amount through a sale transaction rather than continuing use. The directors are of the view that the Bank will be able to sell the above properties by the end of 2011 with the increasing demand for properties.

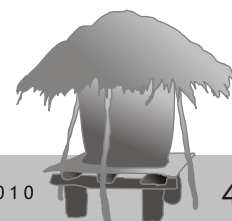
	2010 Rs.	2009 Rs.
24 INTEREST RECEIVABLE		
Interest receivable on loans	45,899,785	31,877,090
Less: Interest in suspense (Note 25)	<u>(29,317,438)</u>	(19,054,120)
Interest receivable from deposits in bank and financial institutions	<u>22,251,157</u>	1,973,456
	<u>38,833,505</u>	<u>14,796,426</u>

25 MOVEMENTS IN THE PROVISION FOR LOAN LOSSES AND ADVANCES INTEREST IN SUSPENSE

	2010	
	Provision Against Advances Rs.	Interest in suspense Rs.
Balance at the beginning of the year	20,420,077	19,054,120
Recoveries made during the year	<u>(18,352,820)</u>	-
Fully provided loans written off	(19,508)	-
Provision made during the year	16,791,678	-
Interest suspended during the year	-	10,263,318
Statutory general provision/ (reversal) made during the year	<u>116,802</u>	-
Balance at the end of the year	<u>18,956,230</u>	<u>29,317,438</u>

25.1 ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE

	2010	
	Loan loss provision Rs.	Interest in suspense Rs.
Loans and advances (Note 25)	18,956,230	29,317,438
Lease rental receivable (Note 21.1)	15,471,926	5,854,746
Hire purchase rental receivable (Note 22.1)	<u>6,894,291</u>	<u>2,638,633</u>
	<u>41,322,447</u>	<u>37,810,817</u>



Notes to the Financial Statements *Contd...*

As at 31st December 2010

	2010 Rs.	2009 Rs.
25.2 NON-OPERATING ASSETS INCLUDED IN THE LOANS AND ADVANCES AND LEASE		
Rentals receivables on which interest is not being accrued is as follows.		
Loans and advances	115,599,155	139,339,988
Lease rental receivable	20,413,550	32,149,300
	<u>136,012,705</u>	<u>171,489,288</u>

25.3 CONCENTRATION ON CREDIT RISK

Sector wise analysis of bank's credit portfolio given below reflects the bank's exposure to credit risk in the various sectors of the economy.

Housing and construction	425,831,159	413,572,935
Leasing/HP	537,519,415	598,850,517
Others	452,474,649	348,130,827
	<u>1,415,825,222</u>	<u>1,360,554,279</u>

26 DEALING SECURITIES

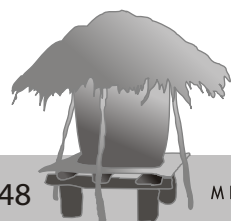
Quoted shares held by bank	2010			2009		
	No of shares	Cost of investment Rs.	Market value Rs.	No of shares	Cost of investment Rs.	Market value Rs.
Ceylon Leather Products PLC	61,500	5,391,764	5,694,900	-	-	-
John Keels Holdings PLC	10,000	3,081,110	2,984,000	-	-	-
Galadari Hotel PLC	10,000	379,847	358,000	-	-	-
First Capital Holdings PLC	95,000	1,742,044	1,805,000	-	-	-
Browns Group PLC	10,000	1,993,888	2,469,000	-	-	-
Seylan Bank PLC	50,000	5,663,383	4,890,000	-	-	-
Lion Brewery PLC	20,000	3,939,780	3,702,000	-	-	-
Hotel Services Ceylon PLC	-	-	-	996,125	16,203,638	18,926,375
Eden Hotel Lanka PLC	16,500	1,124,908	950,400	176,000	4,568,133	4,532,000
Lanka Ventures PLC	-	-	-	5,000	86,216	86,250
		<u>23,316,724</u>	<u>22,853,300</u>		<u>20,857,987</u>	<u>23,544,625</u>

27 INVESTMENT SECURITIES

Unquoted shares held by bank	No of shares	2010 Rs.	2009 Rs.
Credit Information Bureau of Sri Lanka	100	10,000	10,000
San Michele Limited	50,000	500,000	500,000
Less : Provision for fall in value of investments		<u>(500,000)</u>	<u>(500,000)</u>
		<u>10,000</u>	<u>10,000</u>

28 OTHER ASSETS

Deposits and prepayments	13,838,335	13,346,616
Stationery stock	3,290,551	4,176,783
Economic Service Charge (ESC) recoverable	26,621,588	20,979,753
Advance on rent	4,999,320	4,999,320
Withholding Tax (WHT) recoverable	7,779,181	7,166,327
Value Added Tax (VAT) receivable	1,931,387	-
Insurance receivable from customers	6,066,835	6,009,012
Other receivables	1,666,941	2,144,263
	<u>66,194,138</u>	<u>58,822,074</u>

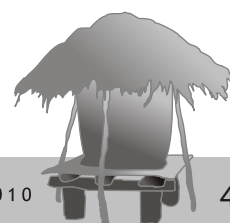


Notes to the Financial Statements *Contd...*

As at 31st December 2010

29. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment	Office Equipment	Improvements to Building	Furniture & Fittings	Motor Vehicles	Lease hold Motor Vehicles	Total 31.12.2010	Total 31.12.2009
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost								
Balance as at 1st January 2010	93,217,825	8,541,495	16,828,461	5,769,211	11,373,136	2,791,250	138,521,378	125,881,898
Additions during the year	1,975,821	517,075	2,608,460	833,079	226,714	-	6,161,150	21,670,235
Disposals during the year	-	-	-	-	(2,235,643)	-	(2,235,643)	(9,030,755)
Balance as at 31st December 2010	<u>95,193,646</u>	<u>9,058,570</u>	<u>19,436,921</u>	<u>6,602,291</u>	<u>9,364,207</u>	<u>2,791,250</u>	<u>142,446,885</u>	<u>138,521,378</u>
Accumulated depreciation								
Balance as at 1st January 2010	54,430,517	4,135,601	6,802,217	4,743,429	4,106,525	1,034,823	75,253,111	63,723,448
Charge for the year	7,905,022	920,223	1,112,068	1,378,853	610,765	1,201,992	13,128,922	15,552,688
Disposals during the year	-	-	-	-	(1,554,280)	-	(1,554,280)	(4,023,025)
Balance as at 31st December 2010	<u>62,335,539</u>	<u>5,055,824</u>	<u>7,914,284</u>	<u>6,122,281</u>	<u>3,163,009</u>	<u>2,236,815</u>	<u>86,827,753</u>	<u>75,253,111</u>
Carrying amount as at 31.12.2010	<u>32,858,107</u>	<u>4,002,746</u>	<u>11,522,637</u>	<u>480,010</u>	<u>6,201,198</u>	<u>554,435</u>	<u>55,619,133</u>	<u>-</u>
Carrying amount as at 31.12.2009	<u>38,787,308</u>	<u>4,405,894</u>	<u>10,026,244</u>	<u>1,025,783</u>	<u>7,266,612</u>	<u>1,756,427</u>	<u>-</u>	<u>63,268,268</u>



Notes to the Financial Statements *Contd...*

As at 31st December 2010

	2010 Rs.	2009 Rs.
30 DEPOSITS		
Time deposits	1,412,142,865	1,376,994,063
Savings deposits	493,933,167	330,928,813
Certificates of deposit	-	4,749,174
Call deposits	200,000	4,415,000
	<u>1,906,276,032</u>	<u>1,717,087,050</u>
31 BORROWINGS		
Borrowings under repurchase agreement	50,000,000	-
Bank overdraft	11,363,089	8,107,441
	<u>61,363,089</u>	<u>8,107,441</u>
32 DEBENTURES		
Balance at the beginning of the year	90,684,000	97,444,000
Redeemed during the year	(72,800,000)	(1,960,000)
Transfer of unclaimed debentures	(400,000)	(4,800,000)
Balance at the end of the year	<u>17,484,000</u>	<u>90,684,000</u>

The Bank issued 900,000 unsecured subordinated redeemable debentures of 100/- each. The tenor of debentures range from 1 to 5 years in years of 2007, 2011 respectively. The applicable interest rates for debentures with and without put option are as follows.

Interest on debentures without put option	Nominal rate
Quarterly	13.50% p.a.
Annually	14.00% p.a.
At maturity	16.00% p.a.
Interest on debentures with put option	Penalty rate
One year	12.00%
Two year	13.00%

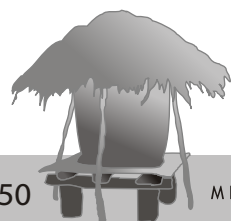
	2010 Rs.	2009 Rs.
33 RETIREMENT BENEFIT OBLIGATION		
Present value of unfunded gratuity	<u>4,452,491</u>	3,586,060
Total present value of the obligation	<u>4,452,491</u>	<u>3,586,060</u>
Balance at the beginning of the year	3,586,060	2,737,633
Current service cost	831,901	999,177
Interest cost	454,764	201,896
Actuarial losses / (gains)	(33,249)	777,704
	<u>4,839,476</u>	4,716,411
Benefits paid by the plan	(386,985)	(1,130,351)
Balance at the end of the year	<u>4,452,491</u>	<u>3,586,060</u>

The expense is recognised in the provision for staff retirement benefits in the income statement.

SLAS 16 (Revised 2006) requires the use of actuarial techniques to make a reliable estimate of the amount of retirement benefit using the Projected Unit Credit method in order to determine the present value of the retirement benefit obligation. The following key assumptions were made in arriving at the retirement obligation as at 31st December 2010.

(a) Expected salary increment rate	10% per annum
(b) Discount rate	10% per annum

An actuarial valuation was carried out on 31st December 2010 By Mr. Piyal S. Goonetilleke Fellow of the Society of Actuaries (USA), Member of the American Academy of Actuaries and Consulting Actuary.



Notes to the Financial Statements *Contd...*

As at 31st December 2010

	2010 Rs.	2009 Rs.
34 PAYABLE TO RELATED COMPANIES		
MBSL Insurance Company Limited	-	318,908
Merchant Bank of Sri Lanka PLC	<u>667,428</u>	<u>303,000</u>
	<u>667,428</u>	<u>621,908</u>
35 OTHER LIABILITIES		
Share Application money received	169,865	269,865
Accrued expenditure	16,892,458	14,872,139
Value Added Tax (VAT) payable	-	5,889,491
Economic Service Charge (ESC) payable	1,198,861	1,621,876
Lease obligations payable	3,748,231	5,887,105
Interest payable	217,730,843	210,623,350
Pre-paid lease rentals	5,550,242	8,523,385
	<u>245,290,501</u>	<u>247,687,211</u>
36 STATED CAPITAL		
Issued and fully paid number of Ordinary Shares		
At the beginning of the Year		
144,620,620 Ordinary shares(2009-44,539,620)	546,206,200	445,396,200
Issued during the year		
121,685,328 Ordinary Non Voting Shares (2009-100,081,000)	182,527,992	100,810,000
At the end of the Year		
266,305,948 Ordinary shares(2009-144,620,620)	<u>728,734,192</u>	<u>546,206,200</u>

Above includes 128,144,845 number of Voting Shares and 138,161,103 number of Non Voting Shares.

36.1 The Prospectus published by the Bank with regard to the share issue made during the year 2008, included a statement stating that Ceylinco Shriram Securities Holding (Pvt) Limited had given an assurance to prospective share holders to buy back the shares after 36 months from the allotment date at Rs.16/- per share.

The board of directors reconfirm that there is no contingent liability to the Bank, from the assurance given by aforementioned Company.

36.2 The Central Bank of Sri Lanka ("CBSL") issued the circular dated 11th December 2006, on "Minimum Capital Requirement of Licensed Specialised Banks" requiring all License Specialised Banks to maintain a capital of Rs.1.5 Bn. However CBSL has decided to grant time till 31st December 2012 for MBSL Savings Bank Limited to comply with the minimum capital requirement.

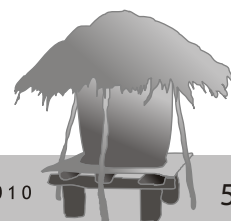
37 COMMITMENTS AND CONTINGENCIES

(a) 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.

	2010 Rs.	2009 Rs.
(b) Contingent liabilities		
Financial Guarantees	9,789,974	9,683,923
Financial Commitments	19,122,001	10,454,237
Security held - Pawning advances	53,165,876	62,289,970
	<u>82,077,851</u>	<u>82,428,130</u>

38 EVENTS OCCURRING AFTER BALANCE SHEET DATE

No circumstances have arisen since the balance sheet date which would require adjustments to or disclosure in the financial statements.



Notes to the Financial Statements *Contd...*

As at 31st December 2010

39 OPERATING LEASE

Non-Cancellable operating lease rentals are payable as follows:

	2010 Rs.	2009 Rs.
Less than one year	10,102,441	15,561,374
Between one year and five years	<u>32,461,373</u>	<u>48,012,883</u>
	<u>42,563,814</u>	<u>63,574,257</u>

The Bank has rented out premises for head office and extension offices for period of more than 2 years and the respective rental payables are shown above as per the agreements. The total rental cost for year 2010 is Rs.15,561,374 (2009-Rs.15,537,495)

40 RELATED PARTY DISCLOSURES

a) Parent and ultimate controlling party

Merchant Bank of Sri Lanka PLC

b) Transactions with Key Management Personnel

Chairman

Mr. M R Shah

Board of Directors

Mr. Gamini Karunathilake

Dr. T. Senthilverl

Mr. B.R.S.T. Edirisinghe

Dr. Ranjith Bandara

Mr. P.G. Rupasinghe

Mr. M.S.S. Paramananda

Dr. S.T.S. De Silva

Key Management Personnel

According to Sri Lanka Accounting Standard 30 (Revised 2005) "Related Party Transaction, Key Management Personnel are those having authority and responsibility for planning, directing and controlling the activities of the entity. Accordingly Chairman and the Board of Directors have been classified as Key Management Personnel of the bank.

1 Loans to Directors

No loans have given to the Directors of the Bank

2 Key Management Personnel compensation

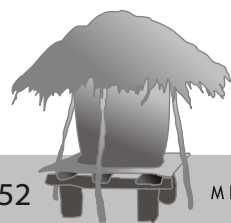
Emoluments and compensation paid to Key Management Personnel are as follows.

(i) Short term employee benefits

	2010 Total Amount Rs.
Mr. M R Shah	223,000
Mr. Lakshman Perera (Former Director)	105,000
Mr. Janaka Ratnayake (Former Chairman)	90,000
Mr. M S S Paramananda	196,500
Mr. Gamini Karunathilake	723,555
Dr. Ranjith Bandara	123,000
Mr. P G Rupasinghe	258,000
Mr. B R S T Edirisinghe	183,000
Dr. T Senthilverl	168,000
Dr. S T S De Silva	75,000
Mr. Ranjith Siriwardena (Former Director)	111,250
Mr. Imityaz Nulair (Former Director)	60,000

(ii) Post employment benefits

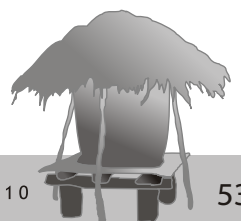
Directors of the bank are not entitled for retirement benefit, therefore no provision was made during the year.



Notes to the Financial Statements *contd...*

c) Transactions with related companies

<u>Name of the Related Party</u>	<u>Name of the Director</u>	<u>Position</u>	<u>Nature of Transaction</u>	<u>Amount during the year (Rs.)</u>	<u>Balance outstanding 31/12/2010 (Rs.)</u>	<u>Balance outstanding 31/12/2009 (Rs.)</u>
MBSL Insurance Company Ltd	Mr. M R Shah	Chairman	Insurance Service	2,679,606	-	318,908
	Mr. Gamini Karunathilake	Director	Settlements	2,998,514	-	-
	Dr. Ranjith Bandara	Director	Commission income	2,436,749	-	95,844
	Mr. S Gajanayake	Director	Commission Received	2,191,959	340,640	-
			Directors Fees	-	-	-
			Settlements	-	-	-
Merchant Bank of Sri Lanka PLC	Mr. M R Shah	Chairman	Management Fees	672,000	-	303,000
	Ms. W A Nalani	Director	Settlements	975,000	-	-
	Mr. M S S Paramananda	Director	Investment in Equity	150,000,000	-	100,000,000
	Mr. Lakshman Perera	Director	Disposal of shares (voting)	12,814,480	237,185,520	-
	Mr. P G Rupasinghe	Director	Directors Fees	-	-	-
	Mr. V Kanagasabapathy	Director	Settlements	-	-	-
	Dr. Ranjith Bandara	Director	Directors Remuneration	-	-	-
	Mr. Lalith De Silva	Director	Settlements	-	-	-
			Share Issue Expense	728,928	-	-
			Settlements	300,000	428,928	-
			Advertising Expense	238,500	238,500	-
		Settlements	-	-	-	

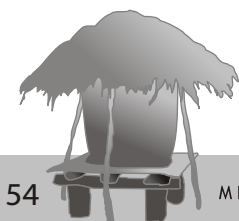


Notes to the Financial Statements *Contd...*

41 MATURITY ANALYSIS

An analysis of the assets and liabilities based on the remaining period at the Balance Sheet date to the respective contractual maturity dates is as follows :

	Up to 3 Months Rs.	3 to 6 Months Rs.	6 to 12 Months Rs.	1 to 3 Years Rs.	3 to 5 Years Rs.	More than 5 Years Rs.	Total Rs.
Interest Earning Assets							
Cash and cash equivalents	31,487,207	-	-	-	-	-	31,487,207
Placements and deposits with other banks and financial institutions	8,208,082	-	-	-	-	-	8,208,082
Government treasury bills and bonds	-	-	-	-	604,019,184	-	604,019,184
Loans and advances	65,803,531	37,097,727	70,716,858	283,013,347	203,376,720	201,051,495	861,059,678
Leases	35,691,942	20,581,333	36,882,948	80,308,284	1,993,864	27,277,910	202,736,281
Hire purchase receivables	43,032,765	25,841,959	52,211,331	155,761,591	38,480,878	-	315,328,524
Investment securities	-	-	-	-	-	10,000	10,000
Dealing securities	22,853,300	-	-	-	-	-	22,853,300
	207,076,827	83,521,019	159,811,137	519,083,222	847,870,646	228,339,405	2,045,702,256
Total non interest earning assets							
Cash and cash equivalents	-	-	-	-	-	-	-
Property, plant and equipment	-	-	-	-	-	-	55,619,133
Other assets	-	-	-	-	-	-	66,534,779
Interest receivable	38,833,505	-	-	-	-	-	38,833,505
Non current assets held for sale	-	-	257,040,856	-	-	-	257,040,856
	38,833,505	-	257,040,856	-	-	-	418,028,273
Total assets							2,463,730,529
Interest Bearing Liabilities							
Deposits	783,535,143	174,395,664	423,367,126	365,136,555	19,251,400	140,590,143	1,906,276,032
Borrowings	65,113,089	-	13,734,000	-	-	-	78,847,089
Lease/hire purchase creditors	838,942	676,286	1,128,600	1,104,404	-	-	3,748,232
	849,487,174	175,071,950	438,229,726	366,240,959	19,251,400	140,590,143	1,988,871,353
Total non interest earning liabilities							
Unclaimed debentures	400,000	-	-	-	-	-	400,000
Other payables	28,931,345	-	-	-	-	-	28,931,345
Interest payable	15,914,300	6,952,456	12,831,423	180,291,325	1,722,509	18,831	217,730,843
	45,245,645	6,952,456	12,831,423	180,291,325	1,722,509	18,831	247,062,188
Shareholders' funds							227,796,988
Total liabilities and shareholders' funds							2,463,730,529



Notice of Meeting

Notice is hereby given that the Fourteenth (14th) Annual General Meeting of the Shareholders of MBSL Savings Bank Limited will be held on the 28th of June, 2011 at 10.00 a.m. at the Auditorium of the Sri Lanka Foundation Institute, No. 100, Independence Square, Colombo-07, for the following purposes.

RESOLUTION NO. 1

on the affairs of the Company and the Audited Financial Statements for the year ended 31st December, 2010 together with the Report of the Auditors thereon.

RESOLUTION NO. 2

To re-elect Mr. P.G. Rupasinghe, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.

RESOLUTION NO. 3

To re-elect Dr. Ranjith Bandara, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.

RESOLUTION NO. 4

To re-elect Mr. M.S.S. Paramananda, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.

RESOLUTION NO. 5

To elect Dr. S.T.S. De Silva, Director who has been appointed to the Board of Directors of the Bank since the last Annual General Meeting in terms of Article 81 (a) of the Articles of Association as a Director.

RESOLUTION NO. 6

To elect Capt. Nithiabala Balasingam, Director who has been appointed to the Board of Directors of the Bank since the last Annual General Meeting in terms of Article 81(a) of the Articles of Association as a Director.

RESOLUTION NO. 7

To re-appoint the retiring auditors, M/s. KPMG Ford, Rhodes Thornton & Co. Chartered Accountants and to authorize the Directors to determine their remuneration.

RESOLUTION NO. 8

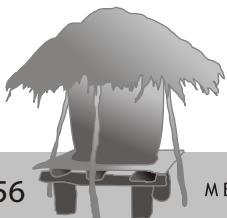
To authorize the Directors to determine contributions to charities and other donations for the year 2011.

BY ORDER OF THE BOARD



A.V.C. Fernando
Company Secretary

Date:- 31st May 2011



Form of Proxy

I/We

of
Being a member / members of MBSL Savings Bank Limited do hereby appoint:

Mr. M.R.Shah	Whom failing
Dr. T.Senthilverl	Whom failing
Mr. B.R.S.T.Edirisinghe	Whom failing
Mr. Gamini Karunathilake	Whom failing
Dr. Ranjith Bandara	Whom failing
Mr. P.G.Rupasinghe	Whom failing
Mr. M.S.S.Paramananda	Whom failing
Dr. S.T.S.De Silva	Whom failing
Capt. N.Balasingam	Whom failing

Mr./Mrs./Miss

.....of

(NIC No.) my/our Proxy to represent me/us on my/our behalf and vote at the Annual General Meeting of the Bank to be held on the 28th of June 2011 at the Auditorium of the Sri Lanka Foundation Institute, No.100, Independence Square, Colombo 07 and at any adjournment thereof and at every poll which may be taken in consequence thereof.

RESOLUTION NO. 1

To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Financial Statements for the year ended 31st December, 2010 together with the Report of the Auditors thereon.

Favour **Against**

<input type="checkbox"/>	<input type="checkbox"/>
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RESOLUTION NO. 2

To re-elect Mr.P.G.Rupasinghe, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.

<input type="checkbox"/>	<input type="checkbox"/>
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RESOLUTION NO. 3

To re-elect Dr.Ranjith Bandara, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.

<input type="checkbox"/>	<input type="checkbox"/>
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RESOLUTION NO. 4

To re-elect Mr. M.S.S. Paramananda, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.

<input type="checkbox"/>	<input type="checkbox"/>
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RESOLUTION NO.5

To elect Dr. S.T.S. De Silva, Director who Has been appointed to the Board of Directors of the Bank since the Last Annual General Meeting in terms of Article 81 (a) of the Articles of Association as a Director.

Favour **Against**

<input type="checkbox"/>	<input type="checkbox"/>
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RESOLUTION NO.6

To elect Capt. Nithiabala Balasingam, Director who Has been appointed to the Board of Directors of the Bank since the Last Annual General Meeting in terms of Article 81 (a) of the Articles of Association as a Director.

<input type="checkbox"/>	<input type="checkbox"/>
--------------------------	--------------------------

RESOLUTION NO.7

To re-appoint the retiring auditors, M/s. KPMG Ford, Rhodes Thornton & Co. Chartered Accountants and to authorize the Directors to determine their remuneration.

<input type="checkbox"/>	<input type="checkbox"/>
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RESOLUTION NO.8

To authorize the Directors to determine contributions to charities and other donations for the year 2011.

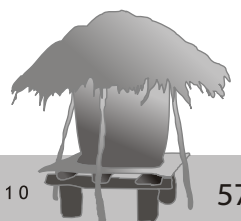
<input type="checkbox"/>	<input type="checkbox"/>
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As witness my/our hand(s) this.....day of2011.

Please indicate your preference by placing X on the cage relevant for the respective resolution above.

.....
NIC No./PP No./Co.Reg.No.

.....
Signature



FORM OF PROXY *Contd...*

Note

Only proxy holders of Ordinary Voting Shareholders are entitled to vote on their behalf at the said Annual General Meeting and at any adjournment thereof. Ordinary Non-Voting Shareholders can only appoint a proxy holder to represent them at the said Annual General Meeting.

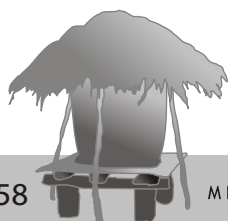
Please provide the following details:

Type of Shareholder	Please tick (√)	Folio No.	No. of Shares
Ordinary Voting			
Ordinary Non – Voting			

Instructions as to the completion of the Form of Proxy are given below.

Instructions for the completion of the Form of Proxy :

1. Please perfect the Form of Proxy overleaf, after filling in legibly your full name and address, by signing in the space provided and filling in the date of signature.
2. The completed Form of the Proxy should be deposited with the Company Secretary at No. 2, Deal Place, Colombo 03 not less than 48 hours before the time appointed for the holding of the meeting.
3. If the Form of Proxy has been signed by an Attorney, the relative or a notarially certified copy should also accompany the completed Form of Proxy for registration, if such Power of Attorney has not already been registered with the Company.
4. If the Shareholder is a Company or a Corporate Body, the Proxy should be executed under its Common Seal in accordance with its Articles of Association or Constitution.
5. If there is any doubt as to how the vote is to be exercised, by reason of the manner in which the Form of Proxy has been completed, no vote will be recorded by the Form of Proxy.



Corporate Information

Legal Status

A Public Limited Liability Company incorporated in Sri Lanka under the provisions of the Companies Act No. 17 of 1982 (re-registered under the Companies Act No.07 of 2007) and a Licensed Specialized Savings Bank under the Banking Act No. 30 of 1988 as amended.

Date of Incorporation

14th August 1996

Date of Re-registration

13th June 2008

Board of Directors

- | | |
|--------------------------------|------------|
| 1. Mr.M.R.Shah | - Chairman |
| 2. Dr.T. Senthilverl | - Director |
| 3. Mr. B.R.S.T. Edirisinghe | - Director |
| 4. Dr. Ranjith Bandara | - Director |
| 5. Mr. Gamini Karunathilake | - Director |
| 6. Mr. P.G. Rupasinghe | - Director |
| 7. Mr. M.S.S. Paramananda | - Director |
| 8. Dr. S.T.S. De Silva | - Director |
| 9. Capt. Nithiabala Balasingam | - Director |

Registered Office

97, Hyde Park Corner, Colombo 2

Main Place of Business

No.2, Deal Place,
Colombo 03
Tel: 2374000 Fax: 2374044
Email: savingsbank@mbslsavingsbank.com

Auditors

Messrs K.P.M.G.Ford Rhodes Thornton & Co.,
Chartered Accountants

Lawyers

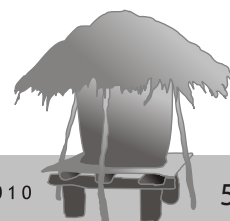
Messrs. De Livera Associates
Attorneys at Law, Solicitors & Notaries Public

Bankers

Bank of Ceylon
Seylan Bank PLC
Peoples Bank
Commercial Bank of Ceylon PLC

Company Secretary

Chandima Fernando
Attorney-at-Law





*The enchanting 'Vee Bissa' is a traditional structure for storing grain for future use.
For us, it has come to symbolize the concept of saving.*



No. 02, Deal Place, Colombo 03, Sri Lanka.

Phone: 0112 374000 **Fax:** 0112 374044

Email: savingsbank@mbslsavingsbank.com **Web:** www.mbslsavingsbank.com