



Reap the fruits of saving...

ANNUAL REPORT 2009

 **MBSL** Savings Bank
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As sure as the rising sun නිසිවිට නිසිවිට මෙන් වැඩෙන



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Chairman's Statement



It is my sincere privilege to address our valued shareholders, and reflect on a year that has put to test the ability and the perseverance of the entire team of MBSL Savings Bank. The fiscal crisis that occurred affected several financial corporations and a large vacuum in liquidity levels were resonant throughout the economy. Naturally, this delivered a harsh blow towards the operations of MBSL Savings Bank.

However, the positives were that despite several challenges that we encountered, MBSL Savings Bank has persevered to continue serving our valued customers and are gradually growing towards being an imposing business entity, thus enriching the faith placed in us by our shareholders.

Aptly reacting to the situation that we faced in early January, the Central Bank assigned Merchant Bank of Sri Lanka PLC (MBSL) as the Managing Agent for our Bank, which was re-branded as MBSL Savings Bank, and became a subsidiary of MBSL, along with a newly appointed Board of Directors.

As the Chairman of MBSL Savings Bank, my initial task was to ensure that the interests of our shareholders were sustained. During the months of consolidating the Bank's activities, the staff and the senior management of the Bank displayed admirable levels of determination & loyalty, walking the extra mile to support the Board restore operations towards full strength.

The large scale awareness campaign we carried out to overcome the liquidity issue, brought about a renewed sense of ownership of the Bank among the staff, and towards latter period of 2009; we were able to gradually step out of the shadow of the crisis.

MBSL is the leading merchant bank in the country, consisting of over 28 years in financial service, and MBSL is in turn a subsidiary of Bank of Ceylon (BOC) - an institution with rich history of over 70 years. BOC & MBSL provide pivotal financial strength & stability towards MBSL Savings Bank.

With the end of a 30 year long civil war in the country, the advent of peace has brought much promise for financial activities in future years and we are optimistic about creating greater value for our shareholders in the upcoming years through constantly superior levels of service, and constantly adapting and delivering products according to changing needs of the industry.

It is no easy task to recognize the efforts of the staff & the senior management; towards the growth of MBSL Savings Bank following challenging economic situations, yet there is a huge portion of accolades deserved by the entire team, and I convey my sincere gratitude to each individual for their contribution and loyalty.

I would also like to appreciate the tireless service of my fellow Board Members towards our common cause - we are fortunate to have in our ranks seasoned professionals tempered with the disciplines of prudent management.

I extend my thanks to the Governor, Deputy Governor (Retired) - Dr. Rani Jayamaha and the Bank Supervision Department of Central Bank for their timely and commendable intervention, our valued shareholders - who have given us abundant levels of confidence by keeping faith in MBSL Savings Bank, and of course; our customers - who have been our lifeblood from the beginning, and continue to stand by our side to this day.

A handwritten signature in black ink, appearing to read 'Janaka Ratnayake'. The signature is fluid and cursive, with a long horizontal stroke extending to the left.

Janaka Ratnayake
Chairman
MBSL Group

Managing Director's Message



It gives me a great pleasure, in placing before you the status of your Bank at this juncture, where your Bank has consolidated its position under unfavourable market conditions, aggravated by the liquidity crisis that arose due to the loss of reputation that prevailed at the beginning of the year 2009. I also wish to state that your Bank is now heading towards a sustainable growth in order to enhance wealth of its Shareholders.

The Chairman, Board of Directors and the Senior Management of your Bank are fully aware of the need in meeting directions issued by the Regulator and has effected corrective plans of action to improve performances in order to meet the requirements of the Regulator.

At this crucial juncture of the Bank the team at MBSL Savings Bank Ltd., has demonstrated unstinted loyalty towards reaching the goals of the organisation. Even though being comparatively younger in the banking industry, your Bank has proven that despite challenges, It has pursued its objective to protect the interests of the shareholders by providing value added services to its loyal customers, who remained unfazed, with trust in MBSL Savings Bank Ltd.

Customer satisfaction and value creation for our stakeholders have always been our prime objectives, even though the future is filled with mixed fortunes. We are confident and optimistic that through continuous innovation, diligent teamwork, and with the support & trust of our customers, we could thrive and reach highest levels of success.

Lastly, I wish to express my sincere gratitude to the Chairman and the Board of Directors of MBSL Savings Bank Ltd., the Governor and the Staff of the Central Bank of Sri Lanka, our loyal Customers, valued Shareholders and the Senior Management of Merchant Bank of Sri Lanka PLC (MBSL) and the CEO, Management and Staff of MBSL Savings Bank Ltd for their continuous support extended during this crucial period, enabling the Bank to reach the present level of performance.

A handwritten signature in black ink, appearing to read 'GKS', written over a horizontal line.

Gamini Karunathilake
Managing Director
MBSL Savings Bank

Chief Executive Officer's Review



As the Chief Executive Officer, it is my fervent belief that through diligent teamwork and swift action, even the most challenging situation can be remedied. The liquidity crisis that had a direct impact on MBSL Savings Bank Limited, severely hampered our growth during the financial year under review January 2009 to December 2009, yet the team at MBSL Savings Bank Limited chose to face this crisis head on and with the support of Merchant Bank of Sri Lanka PLC (MBSL), and the Central Bank of Sri Lanka, we ended the year 2009, by restoring a high degree of normality to our operations, and I confidently state, that your Bank is now geared to compete in the most challenging financial conditions.

Financial Year Under Review

Overall

MBSL Savings Bank Limited began the year with the impact of the liquidity crisis, that took its toll during January 2009 and due to this reason most Operations of the Bank were at dormant levels, until July 2009. While the minimum liquidity ratio to be maintained, as per the guidelines of the Central Bank of Sri Lanka is 20% of the Total Deposits, during this period the liquidity level dropped from a positive 24% to a precariously low 4%, until April 2009, when Central Bank of Sri Lanka assigned Merchant Bank of Sri Lanka PLC as the Managing Agent of the Bank to remedy the situation. Merchant Bank of Sri Lanka PLC infused new capital into the Bank and purchased a 78.03% stake in MBSL Savings Bank Limited; and by July 2009 all our operations including Lending, were continuing with restored normality.

While the period January 2009 to April 2009, stretching towards June 2009 were understandably bleak for our Bank's operations, and proactive measures were taken to consolidate our position, which resulted with the period July 2009 to December 2009 having a much more positive impact on our Bank.

In June 2009, the Bank was re-branded as MBSL Savings Bank Limited, and became a subsidiary of Merchant Bank of Sri Lanka PLC. The newly appointed Chairman and the Board of Directors, together with the dedicated staff of the Bank deserve much credit for the efforts they took to overcome this liquidity crisis and its aftereffects, by creating awareness campaigns strengthening and stabilizing the image of the Bank in the view of the public.

Despite all corrective measures taken, the contribution of our team at MBSL Savings Bank Limited was inevitably the make or break factor for us, and the level of dedication and ownership they displayed towards the Bank was an elevating factor for me, as it would have been for any Chief Executive Officer.

Performance and Accomplishments

Due to the liquidity crisis and its effects, the initial Six (6) months of the year from January 2009 to June 2009 was concentrated towards restoring and consolidating our footing in the industry. The period June 2009 to December 2009 brought many positives as MBSL Savings Bank Limited established a strong position in the Industry.

Savings were up by 69% during the period from June 2009 to December 2009, while Total Deposits enjoyed a growth of Rs. 194 million in the same period. Minor's Savings were up 11% from June 2009, while Pawning was up by 245% in the latter half of 2009.

The after effects of the liquidity crisis resulted in the Bank's Total Assets being reduced from Rs. 2.4 billion in 2008 to Rs. 2.1 billion in 2009, while the Total Liabilities dropped from Rs. 2.5 billion to Rs. 2.0 billion during the same period. The Total Revenue dipped by Rs. 43 million from 2008. However, the Net Interest Income increased by 19%, Operating Income increased 42% from Rs. 98.6 million during 2008 towards a healthy Rs. 139.8 million in 2009.

Lending Operations that were dormant for over Six (6) months finally commenced in July 2009, and during the latter half of the year from July 2009 to December 2009, there were Rs. 325 million of lending facilities granted. During the period from June 2009 to December 2009 there were Fixed Deposits mobilised to the value of Rs. 480 million, this was in contrast with the sharp decline of the same from January 2009 to May 2009. These figures displayed that despite the crisis, there were high levels of confidence placed in us by our customers.

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

Stringent Cost Control measures were taken, and Personnel Costs were reduced from Rs. 68.1 million in 2008 to Rs. 62.9 million in 2009, while Fees and Commission Expenses dropped from Rs. 18.6 million to Rs. 11.2 million during the same period, and other expenses were curtailed by 41% from Rs. 104 million in 2008 to Rs. 61 million in 2009.

As a result of much aptitude and hard work by a dedicated team, there were many positives to be salvaged from a highly challenging year, and it was encouraging to note that the financial year under review, January 2009 to December 2009 recorded a Net Profit of Rs. 40 million, in comparison to the Net Loss of Rs. 371.8 million recorded in the coinciding period of review last year.

Focus and Moving Forward

While we take it in our stride as Professionals, that there are constant encounters that will test our ability when moving forward and look forward to the upcoming years with much enthusiasm and belief in our ability to perform towards the benefit of our Shareholders expectations, as a team.

MBSL Savings Bank Limited prepared a viable plan of action to increase its quality Lending and to focus on low cost funding products such as Savings and Minor's Savings with a view to inculcate the savings habits of the individuals, particularly of the younger generation, inspiring them to save and view our bank as a preferred partner in this aspect.

Product Development

We comprise of a large product line, from Lending to Savings and Fixed Deposits etc., however, new product development will take priority as the needs of customers constantly keep changing, aimed at convenience.

Introduction of innovative products in keeping with market expectations and standards have taken place, while a strong point of MBSL Savings Bank Limited, is that our entire team play a proactive role in regularly infusing ideas towards Product Development.

Our Personnel

Through a disciplined code of ethics and appropriate Human Resource measures being in place, our personnel, in general have displayed a yearning to enhance their performance levels, thus inevitably resulting in the increased output of our Bank.

The challenge at MBSL Savings Bank Limited is to create an environment that entails all team members to take the initiative and responsibility, as much as the key personnel in their respective units. While maintaining levels of discipline, we encourage an open and cordial culture at the Bank. We urge our marketing team to think in various out of the box perspectives, and ensure every staff member has direct access to the office of the Chief Executive Officer at all times.

It was unity among our personnel that ensured we are a growing corporate entity today, despite the setbacks we faced. Therefore, our personnel are always an integral part of our plans.

Appreciation

The unexpected crisis that arrived enabled me and my team, to take many positives from a bleak situation that will undoubtedly make us a stronger corporate force. Due to this crisis, we faced a serious loss of capital that placed us in a very volatile situation. Due to Prudent Policies of our new Board of Directors and numerous contributions from key personnel, we are able to continue this forward journey towards excellence in our industry.

Mr. Janaka Ratnayake - our Chairman, deserves much applause for his vision and proactive involvement in stabilizing our Bank, immense gratitude goes to the Central Bank of Sri Lanka for their prompt intervention - especially the Bank Supervision Department, our Managing Director, the Board of Directors, the Senior Management and Staff of MBSL Savings Bank Limited for their steadfastness.

Our valued Shareholders deserve special words of praise for their support, patience and trust placed in the Bank at all times, while our loyal customers' faith in us has also been a large factor that continues to propel our journey towards the summit of excellence in financial services.



Sujam Ratnayake
Chief Executive Officer

Corporate Governance

The Board of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) comprised of the Chairman and Seven (07) Directors during most parts of the year 2009 during which several changes took place in the Board.

In the beginning of the year 2009 the Board of Directors of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) was reconstituted on the instructions of the Monetary Board of the Central Bank of Sri Lanka, due to the financial difficulties experienced by the Ceylinco Group of Companies that managed the Bank, and the Merchant Bank of Sri Lanka was appointed as the Managing Agent of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited). Consequently, Merchant Bank of Sri Lanka having invested in One Hundred Million Ordinary Shares acquired 78.03% of the Ordinary Voting Shares of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited).

Subsequently, resignations of the following Members of the Board of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) were tendered and tabled at the Board Meeting held on the 14th of May 2009.

1. Mr. Hiran Kosala De Silva
2. Mrs. Padmini Kamaladevi Karunanayake
3. Mr. Ivor Manik Rajiva Wijetunge
4. Mr. Ranga Goonawardena
5. Mr. Kathiresan Sankaramoorthy
6. Mr. Abdul Hassan Mohamed Riyaz
7. Mr. Gamini Patrick Karunaratne
8. Mrs. Sanjani Gnanamalika De Silva Gamage

Consequent to the tendering of the above resignations at the said Board Meeting held on the 14th of May 2009, the Members of the Board of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) were appointed and presently consists of the following other than the Ex-Director, Dr. Ranjith Bandara who was treated as to have vacated the post of Director by the Board of Directors during the financial year ended 31st December, 2009, due to non attendance at meetings as per the requirement of the Articles of Association of the Bank.

1. Mr. Janaka Ratnayake - Chairman
2. Mr. Gamini Karunathilake - Managing Director
3. Dr. T. Senthilvel - Director
4. Mr. B. R. S. T. Edirisinghe - Director
5. Mr. Imtiyaz Nulair - Director
6. Mr. P. G. Rupasinghe - Director
7. Mr. Lakshman Perera - Director
8. Mr. Ranjith Siriwardena - Director

On the 08th day of June 2009, the name change of Ceylinco Savings Bank Limited to MBSL Savings Bank Limited was approved by the Department of the Registrar of Companies, consequent to approval being granted by the Shareholders and the Central Bank of Sri Lanka.

The Board of Directors of MBSL Savings Bank Limited has appointed the Managing Director, Mr. Gamini Karunathilake as an Executive Director and the Directors Dr. T. Senthilvel, Mr. B. R. S. T. Edirisinghe and Mr. Imtiyaz Nulair were appointed as Independent Non Executive Directors while the other Members of the Board of Directors mentioned above namely, the Chairman, Mr. Janaka Ratnayake and the Directors Mr. P. G. Rupasinghe, Mr. Lakshman Perera and Mr. Ranjith Siriwardena were appointed as Non Executive Directors on the Board of Directors of MBSL Savings Bank Limited.

The effectiveness and extent of compliance with Corporate Governance practices are being reviewed by the new Board of Directors of the Bank.

Board Meetings

The Board met Ten (10) times during the financial year ended 31st December 2009 and the attendances at these meetings are given below.

Name	Meetings	Attendance	Excused
Mr. H. K. De Silva (resigned w.e.f. 07/05/2009)	02	02	00
Mrs. P. K. Karunanayake (resigned w.e.f. 07/05/2009)	02	00	02
Mr. I. M. R. Wijetunga (resigned w.e.f. 07/05/2009)	02	01	01
Mr. R. Goonawardene (resigned w.e.f. 07/05/2009)	02	01	01
Mr. K. Sankaramoorthy (resigned w.e.f. 07/05/2009)	02	01	01
Mr. A. H. M. Riyaz (resigned w.e.f. 07/05/2009)	02	00	02
Mr. G. P. Karunaratne (resigned w.e.f. 07/05/2009)	02	02	00
Mrs. S. De S. Gamage (resigned w.e.f. 07/05/2009)	02	01	01
Dr. T. Senthilvel	10	07	03
Mr. B. R. S. T. Edirisinghe	10	04	06
Mr. Janaka Ratnayake (appointed w.e.f. 07/05/2009)	09	08	01
Mr. Gamini Karunathilake (appointed w.e.f. 07/05/2009)	09	08	01
Dr. Ranjith Bandara (appointed w.e.f. 07/05/2009 and vacated post w.e.f. 27/11/2009)	07	02	05
Mr. P. G. Rupasinghe (appointed w.e.f. 07/05/2009)	09	08	01
Mr. Lakshman Perera (appointed w.e.f. 07/05/2009)	09	09	00
Mr. Imtiyaz Nulair (appointed w.e.f. 07/05/2009)	09	08	01
Mr. Ranjith Siriwardena (appointed w.e.f. 28/08/2009)	04	04	00

Corporate Governance *Contd...*

Consequent to the said re-constitution of the Board of Directors of the Bank all former sub-committees of the Board was dissolved and the current Board of Directors of MBSL Savings Bank Limited have 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. Human Resources Committee
4. Risk Management Committee
5. Nomination Committee

Audit Committee

The Committee met five (5) times during the financial year ended 31st December 2009 and the attendances at these meetings are given below.

Name	Meetings	Attendance	Excused
Mr. Gamini Karunathilake (resigned w.e.f. 25/09/2009)	02	02	-
Mr. Ranjith Siriwardena (appointed w.e.f. 25/09/2009)	04	04	-
Dr. T. Senthilverl	05	02	03
Mr. B. R. S. T. Edirisinghe	05	02	03
Mr. P.G. Rupasinghe	05	05	-
Mr. Lakshman Perera (appointed w.e.f. 25/09/2009)	03	03	-

The Audit Committee of the Bank presently comprises of Five (5) Committee Members namely the Chairperson, Mr. Ranjith Siriwardena and the other members Dr. T. Senthilverl, Mr. B.R.S.T. Edirisinghe, Mr. P.G. Rupasinghe and Mr. Lakshman Perera. During the financial year ended 31st December 2009 the Managing Director, Mr. Gamini Karunathilake was appointed as the Chairperson on 14th of May 2009, and in order to adhere to good Corporate Governance practices resigned from the Chairpersonship of the Audit Committee with effect from 25th of September 2009, and Mr. Ranjith Siriwardena was appointed as the Chairperson of the Audit Committee on 25th of September 2009.

Activities of the Audit Committee

- Review and provide special attention to the adequacy of procedures and effectiveness of internal controls, recommend corrective action whenever necessary.
- Review and recommend to the Board with regard to implementation of policies, authority limits and strategies.
- Review and monitor the integrity of the annual, quarterly and monthly financial statements prior to submission to the Board.

- Review the internal audit manual and programme, 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 in 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 Corporate Governance Committee of the Bank consisting of the following members was appointed on 14th May 2009.

Mr. Janaka Ratnayake- Chairperson
Mr. Lakshman Perera
Mr. Gamini Karunathilake

Human Resources Committee

The Human Resources Committee of the Bank consisting of the following members was appointed on 14th May 2009.

Mr. Janaka Ratnayake- Chairperson
Mr. Gamini Karunathilake
Mr. Imtiyaz Nulair

Risk Management Committee

The Risk Management Committee of the Bank consisting of the following members was appointed on 31st July 2009.

Mr. Janaka Ratnayake- Chairperson
Mr. Lakshman Perera

Nomination Committee

The Nomination Committee of the Bank consisted of the Chairperson Mr. Janaka Ratnayake and the Ex-Director, Dr. Ranjith Bandara who were appointed on 31st July 2009.

Going Concern Principle

The Directors are satisfied that the Bank has sufficient resources to continue in operation for the foreseeable future. Going Concern Principle has been adopted in preparing the financial statements.

Corporate Governance *Contd...*

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

- Monitor the integrity of the annual, quarterly 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;
- Re-viewing Human Resources and Procurement policies.

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

Chairman and Chief Executive Officer - Division of Responsibilities

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

The Board has delegated the day to day management functions of the Bank to the Managing Director (MD) and the Chief Executive Officer (CEO). The performance of the Bank is reviewed at the Board Meetings scheduled to be held every month. In addition, the Senior Management headed by the Chief Executive Officer meets weekly to monitor performance and deal with operational issues.

The Chief Executive Officer (CEO) heads the Senior Management team of the Bank, and reports to the Managing Director who in turn is responsible to the Chairman of the Bank. The Chief Executive Officer (CEO) also chairs the Bank's ALCO, Credit and Treasury Committees.

Accountability and Audit

The Board of Directors are 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 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 designed 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 and other related regulations. The Compliance Officer submits monthly Compliance Reports to the Board on recommendation of the Audit Committee. Further, the Compliance Department ensures that Compliance Reports are submitted to the Central Bank of Sri Lanka confirming the status of Bank's compliance with applicable laws and regulations.

Annual Report of the Board of Directors on the State of Affairs of the Company

The Annual Report of the Board on the state of the 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 hereto their Report on the state of affairs of the Company for the year ended 31st December 2009 in compliance with the provision 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 and has also been reported. The Report was approved by the Directors on 27th of April 2010.

General

MBSL Savings Bank Limited formerly known as Ceylinco 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 by Banking (Amendment) Act No. 33 of 1995.

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 2009 and the performance of the Bank are given in the Chairman's Statement appearing on page 02, Managing Director's Message appearing on page 03 and the Chief Executive Officer's Review on pages 04 & 05 of the Annual Report and the said reports form an integral part of this report.

Financial Statement

The audited financial statement of the Bank for the financial year ended 31st December 2009 are given on pages 14 to 37 and form an integral part of the Annual Report of the Board.

Auditors' Report

The Auditors of the Company M/s KPMG Ford Rhodes Thornton & Co., Chartered Accountants have carried out the audit of the financial statement for the financial year ended 31st December 2009 and their report on the financial statement is given on page 14 of the Annual Report.

Significant Accounting Policies

The significant Accounting policies adopted in preparation of the financial statement are given on pages 19 to 24 of the Annual Report.

Financial Results

The income of the Bank as at 31st December 2009 was Rs. 445,779,373/- (Rs. 488,702,321/- in 2008)

Donations

During the year, the Company made donations amounting to Rs. 20,500/- as at 31st December 2009 (Donations made in 2008 amounted to Rs. 854,561/-)

Capital Expenditure

The total capital expenditure incurred on the acquisition of property, plant and equipment are given in note 22 to the Accounts.

Reserves

Total reserves of the company and its composition are stated in the statement of changes in equity on page 17.

Stated Capital

The Stated Capital of the Bank as at 31st December 2009 was Rs. 546,206,200/- comprising of Rs. 381,448,450/- Ordinary Voting Shares, and Rs. 164,757,750/- Ordinary Non-Voting Shares.

Debt Capital

The Bank had issued Debentures to the value of Rs. 95,484,000/- as at 31st December 2009 (Rs. 98,944,000/- in 2008)

Directorate

The Board of Directors of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) consisted of Eight (08) Directors as at 31st December 2009.

- | | |
|------------------------------|---------------------|
| 01. Mr. Janaka Ratnayake | - Chairman |
| 02. Mr. Gamini Karunathilake | - Managing Director |
| 03. Dr. T. Senthilverl | - Director |
| 04. Mr. B.R.S.T. Edirisinghe | - Director |
| 05. Mr. Imtiyaz Nulair | - Director |
| 06. Mr. P.G. Rupasinghe | - Director |
| 07. Mr. Lakshman Perera | - Director |
| 08. Mr. Ranjith Siriwardena | - Director |

During the beginning of the year 2009, MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) was affected by the financial difficulties experienced by the Ceylinco Group of Companies that managed the Bank and on the instructions of the Monetary Board of the Central Bank of Sri Lanka, the Merchant Bank of Sri Lanka was appointed as the Managing Agent of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) on the 06th of March 2009.

Subsequently, Ceylinco Savings Bank Limited changed the name to MBSL Savings Bank Limited, duly approved at an Extra Ordinary General Meeting by the Share Holders of the Bank which was approved by the Department of Registrar of Companies and the Central Bank of Sri Lanka.

Annual Report of the Board of Directors on the State of Affairs of the Company *Contd...*

Consequently the Merchant Bank of Sri Lanka has invested in One Hundred Million Ordinary Shares on the 30th of April 2009 gaining a stake of 78.03% of the Ordinary Voting Shares of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) and the current Board of Directors of MBSL Savings Bank Limited consists of the following Directors.

1. Mr. Janaka Ratnayake - Chairman
2. Mr. Gamini Karunathilake - Managing Director
3. Dr. T. Senthilvel - Director
4. Mr. B. R. S. T. Edirisinghe - Director
5. Mr. Imtiyaz Nulair - Director
6. Mr. P. G. Rupasinghe - Director
7. Mr. Lakshman Perera - Director
8. Mr. Ranjith Siriwardena - Director

Retirement of Directors by rotation or otherwise and their re-election

Mr. H. K. De Silva who was the Chairman resigned from the directorate on 07th May 2009.

Mr. Janaka Ratnayake replaced Mr. H. K. De Silva as Chairman with effect from 07th May 2009.

Mr. Gamini Karunathilake, Dr. Ranjith Bandara, Mr. P. G. Rupasinghe, Mr. Lakshman Perera and Mr. Imtiyaz Nulair were appointed to the Board during the year with effect from 07th May 2009.

Mrs. P. K. Karunanayake, Mr. I. M. R. Wijetunga, Mr. R. Goonawardene, Mr. K. Sankaramoorthy, Mr. A. H. M. Riyaz, Mr. G. P. Karunaratne and Mrs. S. G. De Silva Gamage resigned from the Board of Directors with effect from 07th May 2009.

In terms of Article 81 (a) of the Articles of Association of the Company Mr. Ranjith Siriwardena was appointed to the Board during the year.

As at the balance sheet date, the Managing Director Mr. Gamini Karunathilake held office as an Executive Director. The Directors namely, Mr. B. R. S. T. Edirisinghe, Dr. T. Senthilvel, and Mr. Imtiyaz Nulair who held office were described as Independent Non - Executive Directors while the Chairman, Mr. Janaka Ratnayake, and the Directors namely Mr. P. G. Rupasinghe, Mr. Lakshman Perera and Mr. Ranjith Siriwardena were categorized as Non - Executive Directors.

In terms of Article 88 of the Articles of Association of the Bank, Mr. Gamini Karunathilake and Mr. Imtiyaz Nulair would retire by rotation and have offered themselves for re-election at the forthcoming Annual General Meeting.

In terms of Article 86 (d) of the Articles of Association of the Bank Dr. Ranjith Bandara was treated as to have vacated the post of Director by the Board of Directors of the company during year 2009 due to non attendance at meetings as per the requirement of the Articles of Association of the Bank.

The Directors namely, Mr. B. R. S. T. Edirisinghe, Dr. T. Senthilvel, Mr. P. G. Rupasinghe, Mr. Lakshman Perera and Mr. Ranjith Siriwardena, have been appointed to the Board of Directors of the Bank since the Annual General Meeting.

Directors' Interest in Shares and Debentures as at 31st December 2009

	Number of Ordinary Shares as at 31st December 2009	Number of Debentures as at 31st December 2009
Mr. Janaka Ratnayake	-	-
Mr. Gamini Karunathilake	-	-
Dr. T. Senthilvel	1,200,000	-
Mr. B. R. S. T. Edirisinghe	60,000	-
Mr. Imtiyaz Nulair	-	-
Mr. P. G. Rupasinghe	-	-
Mr. Lakshman Perera	-	-
Mr. Ranjith Siriwardena	-	-

The said Director's 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 no direct or indirect interest in any contract or proposed contract of the Company, except those specified in Note 31 to the Audited Accounts which have been disclosed and declared at meetings of Directors.

Post Balance Sheet Events

No circumstances have arisen since the balance sheet date that would require adjustment or disclosure in the financial statements.

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 was M/s KPMG Ford, Rhodes, Thornton & Co., Chartered Accountants. A sum of Rs 435,000/- (Rs385,000/- 2008) is payable to Auditors as Audit service fees for the year under review, Rs 435,000/- (Rs385,000/- 2008) as Audit related Fees and 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 Company 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 Annual General Meeting.

Notice of Meeting

Notice of Meeting relating to the Thirteenth Annual General Meeting of the Bank is included in the Annual Report.

BY ORDER OF THE BOARD

 Chairman	 Executive Director	 Company Secretary
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Date: 27th April 2010

Director's 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 Directors and of the Auditors in relation to the financial statements contained in the Annual Report.

Consequent to the Monetary Board of the Central Bank of Sri Lanka appointing Merchant Bank of Sri Lanka as the Managing Agent of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) on the 06th of March 2009, invested in One Hundred Million Ordinary Shares and acquired 78.03% of the Ordinary Voting Shares of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) with the approval of the Shareholders and the Board of Directors of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) was reconstituted on the 07th of May 2009.

As per the provision 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 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 section 150 (1), 151 (1), 152 (1), 153 (1) of the Companies Act No. 07 of 2007.

The financial reporting system of the MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) has been constantly reviewed by the Board of Directors through Financial Reports submitted to the Board of Directors, recommended by the Audit Committee.

The Bank's financial statements for the year ended 31st December 2009 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 news papers on the format as per the requirements prescribed by the Central Bank of Sri Lanka.

The Directors also confirm that the preparation of the financial statements for the year ended 31st December 2009 published on pages 14 to 37 of this reports 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 14 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 on the financial statements of the Bank.

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

BY ORDER OF THE BOARD



A.V.C. Fernando
Company Secretary
Date: 27th April 2010

Audit Committee Report

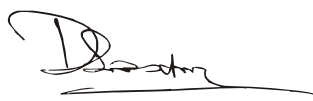
The Audit Committee is appointed by the Board of Directors and comprises of Five (5) Non-Executive Directors of the Bank. The Company Secretary functions as the Secretary of the Audit Committee. The Chief Executive Officer, Manager Finance, Head of Internal Audit and the External Auditors attend the Audit Committee Meetings by invitation while other members of the Senior Management attend meetings when required.

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

During the year under review, the Audit Committee met Five (5) times and reviewed internal audit reports of the Bank. The minutes of the Committee were made available to the Board of Directors.

The Audit Committee reviewed the implementation of policies and the strategies approved by the Board Directors, evaluated the extent to which corporate objectives are achieved and also reviewed the adequacy and effectiveness of the internal control procedures in order to mitigate the risk and recommended corrective actions 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 MBSL Savings Bank Limited are safeguarded and financial stability of the Bank is well monitored. Further, the Committee monitors the status of compliance monthly with requirements laid down by the Central Bank of Sri Lanka and other regulatory bodies.

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 year ending 31st December 2010 subject to approval of the shareholders at the Annual General Meeting.



Ranjith Siriwardena
Chairperson of the Audit Committee
Date: 27th April 2010



KPMG Ford, Rhodes, Thornton & Co.
(Chartered Accountants)
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Colombo 00300,
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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, 2009, 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 principles 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. 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 Company maintained proper accounting records for the year ended 31st December, 2009 and the financial statements give a true and fair view of the state of affairs of MBSL Savings Bank Limited as at December 31, 2009 and its profit 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 the following uncertainties;

1. The Company had failed to maintain a Capital Adequacy Ratio of not less than 10% in relation to total risk weighted assets with core capital constituting not less than 5% in relation to total risk weighted assets as per the Direction No 10 of 2007 issued by the Central Bank of Sri Lanka. This factor raises substantial doubt that the Company will be able to continue as a going concern.
2. Representations made by the Directors that the Company has no contingent liability on the assurance by Ceylinco Shriram Securities Holdings Limited to shareholders of the Company on the issue of shares during 2008, more fully explained in Note No.29 to the financial statements.

Report on Other Legal and Regulatory Requirements

Company had failed to comply with the following Directions issued by the Central Bank of Sri Lanka.

- Direction No 8 of 2007 on Maximum Amount of Accommodation, as per the said Direction. The Company is permitted to grant maximum amount of accommodation up to thirty percent (30%) of its capital base to any single company. During the year, the Company granted a syndicate loan facility of Rs. 50 Mn to irrespective of the limits permitted by the said direction.
- Minimum percentage of investments in equity of Public companies, where the Company is permitted to invest in equity capital of any public company up to ten percent (10%) of its capital funds. However, the Company had invested in equity capital of a Quoted Public Company in excess of 10% of its capital funds.
- The Company is required to maintain minimum average monthly liquid assets of not less than 20% of its total monthly deposit liabilities. However, the Company had failed to maintain minimum liquid assets percentage of 20% throughout the year.

Further, the Company faces a serious loss of capital situation in terms of Section 220 of the Companies Act No.07 of 2007.

Except as mentioned above;

- The Company's financial statements also comply with the requirements of Section 151(2) of the Companies Act No.07 of 2007.
- These financial statements present the information required by the Banking Act No 30 of 1988.

Chartered Accountants,

Colombo
25th January 2010
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
Ms. M. P. Perera FCA
T.J.S. Rajakarier FCA
Ms. S.M.B. Jayasekara ACA

S. Sirikananathan FCA
P.Y.S. Perera FCA
W.W.J.C. Perera FCA
W.K.D.C. Abeyrathne ACA

M.R. Mihular FCA
C.P. Jayatilake FCA
Ms. S. Joseph ACA
S.T.D.L. Perera FCA

Income Statement

For the year ended 31st December,

	Notes	2009 Rs.	2008 Rs.
Income	1	<u>445,779,373</u>	<u>488,702,321</u>
Interest income	2	369,893,797	443,540,607
Interest expense	3	<u>(305,998,663)</u>	<u>(390,069,257)</u>
Net interest income		63,895,134	53,471,350
Fee and commission income		4,158,737	2,998,281
Other income	4	71,726,839	42,163,433
Operating income		<u>139,780,710</u>	<u>98,633,064</u>
Less: Operating expenses	5		
Personnel expenses		62,983,758	68,117,836
Provision for employee retirement benefits	26	1,978,778	756,148
Premises, equipment and establishment expenses		44,608,599	33,970,871
Fee and commission expense		11,238,899	18,631,539
Provision/(Reversal of provision) for recoverability of deposits and placements	12.3	(95,640,000)	225,640,000
Provision for loan losses	6	13,449,384	16,251,622
Value Added Tax on Financial Services		-	2,874,285
Other expenses	7	60,904,978	104,262,302
		<u>99,524,396</u>	<u>470,504,603</u>
Profit/(loss) before taxation		40,256,314	(371,871,539)
Income tax expense	8	-	-
Profit/(loss) for the year		<u>40,256,314</u>	<u>(371,871,539)</u>
Earnings/(deficit) per share	9	0.36	(12.84)

The Accounting Policies and Notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Balance Sheet

As at 31st December,

	Notes	2009 Rs.	2008 Rs.
ASSETS			
Cash and cash equivalents	10	57,481,056	14,853,376
Government treasury bills and bonds	11	271,598,242	420,879,567
Placements and deposits with other Banks and Financial Institutions	12	61,067,478	230,448,757
Loans and advances	13	741,283,686	755,412,135
Lease rentals receivable within one year	14.1	39,625,750	168,082,833
Lease rentals receivable after one year	14.2	219,318,304	286,039,026
Hire purchase receivable	15	311,061,846	402,985,921
Non current assets held for sale	16	276,800,656	-
Interest receivable	17	14,796,426	16,977,095
Dealing securities	19	23,544,625	-
Investment securities	20	10,000	10,000
Amounts due from MBSL Insurance Company Limited		95,844	-
Other assets	21	58,822,074	76,694,174
Property, plant and equipment	22	63,268,268	62,158,451
Total Assets		2,138,774,255	2,434,541,335
LIABILITIES			
Deposits from customers	23	1,717,087,050	2,074,310,653
Borrowings	24	8,107,441	102,562,927
Debentures	25	90,684,000	97,444,000
Unclaimed debentures		4,800,000	1,500,000
Retirement benefit obligations	26	3,586,060	2,737,633
Amounts due to related companies	27	621,908	-
Other liabilities	28	247,417,346	229,083,669
Total Liabilities		2,072,303,805	2,507,638,882
EQUITY			
Stated capital	29	546,206,200	445,396,200
Share application		269,865	1,768,182
Statutory reserve fund		2,338,157	325,341
Accumulated losses		(482,343,772)	(520,587,270)
Total Equity		66,470,450	(73,097,547)
Total Equity and Liabilities		2,138,774,255	2,434,541,335
Commitments and Contingencies	30	71,973,893	42,755,177

The Accounting Policies and Notes annexed form an integral part of these Financial Statements.

Figures in 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

25th January 2010
Colombo

Statement of Changes in Equity

	Stated Capital	Share Application	Statutory Reserve Fund	Accumulated Losses	Total
	Rs.	Rs.	Rs.	Rs.	Rs.
Balance as at 31st December 2007	279,248,450	19,246,145	325,341	(149,308,441)	149,511,495
Effect of change in accounting policy due to adoption of SLAS 16 (revised 2006)	-	-	-	592,710	592,710
Revised balance as at 1st January, 2008	279,248,450	19,246,145	325,341	(148,715,731)	150,104,205
Shares issued during the year	166,147,750	(19,246,145)	-	-	146,901,605
Money received against application	-	1,768,182	-	-	1,768,182
Loss for the year	-	-	-	(371,871,539)	(371,871,539)
Transfer to Statutory Reserve Fund	-	-	-	-	-
Balance as at 31st December 2008	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

The Accounting Policies and Notes annexed form an integral part of these Financial Statements.

Figures in brackets indicate deductions.

Cash Flow Statement

For the year ended 31st December,

	2009 Rs.	2008 Rs.
Cash flow from operating activities		
Interest receipts	372,074,466	460,124,616
Interest payments	(258,859,071)	(306,611,118)
Fee and commission payments	(11,238,899)	(18,631,539)
Receipts from other operating activities	67,525,542	44,576,445
Payments to employees and suppliers	(62,983,758)	(61,501,665)
Payments on other operating activities	(89,907,291)	(130,923,919)
Operating profit before changes in operating assets and liabilities	16,610,988	(12,967,180)
(Increase) / decrease in operating assets		
Loans and advances to customers	287,761,450	(93,574,064)
Receivables from MBSL Insurance Company Limited	(95,844)	-
Treasury bills and other securities	149,281,325	(288,553,190)
Placements and deposits with other banks and financial institutions	2,821,278	(115,088,757)
Other short term assets	17,872,100	(86,656,407)
Payable to related companies	621,908	-
	458,262,217	(583,872,418)
Increase / (decrease) in operating liabilities		
Deposits from customers	(357,223,603)	372,009,647
Other liabilities	(30,676,279)	88,213,720
Unclaimed debentures	(1,500,000)	(1,500,000)
	(389,399,882)	458,723,367
Net cash flow from operating activities before income tax	85,473,323	(138,116,231)
Income tax paid	-	-
Retiring gratuity paid	(1,130,351)	(413,450)
Retiring gratuity transferred from related companies	-	629,620
Net cash flow from operating activities	84,342,972	(137,900,061)
Cash flow from investing activities		
Acquisition of property, plant and equipment	(36,270,891)	(19,953,567)
Payment to lease creditors	1,870,365	(950,808)
Proceeds from disposal of property, plant and equipment	7,299,627	-
Proceeds from sale of shares	16,406,600	-
Investments in shares	(33,917,190)	-
Net cash flow from investing activities	(44,611,489)	(20,904,375)
Cash flow from financing activities		
Proceeds from issue of shares	100,000,000	146,901,605
Share application money refunded	(688,317)	1,768,182
Borrowings under repurchase agreements	(75,000,000)	25,000,000
Short term borrowings	-	-
Repayment of debentures	(1,960,000)	(23,400,000)
Net cash flow from financing activities	22,351,683	150,269,787
Net Increase /(decrease) in cash and cash equivalents	62,083,166	(8,534,649)
Cash and cash equivalents at beginning of the year	(12,709,551)	(4,174,903)
Cash and cash equivalents at end of the year	49,373,615	(12,709,551)
Reconciliation of cash and cash equivalents		
Cash in hand	4,063,577	9,014,497
Balance with banks	53,417,478	5,838,879
Bank overdraft	(8,107,441)	(27,562,927)
	49,373,615	(12,709,551)

The Accounting Policies and Notes annexed form an integral part of these Financial Statements.
Figures in brackets indicate deductions.

Significant Accounting Policies

Corporate Information

1. General

MBSL Savings Bank is a Company domiciled in Sri Lanka. It is a Licensed Specialized Bank regulated under the Banking Act No.30 of 1988 and amendments thereto. The main place of business of the Bank is at No 02 Deal Place, Colombo 03. Earlier the bank was known as Ceylinco Savings Bank Limited, consequent to the acquisition of controlling stake by Merchant Bank of Sri Lanka, it was known as MBSL Savings Bank Limited with effective from 8th June 2009.

1.1 Approval of Financial Statements by Directors

The Financial Statements for the year ended December 31, 2009 were authorised on 25th January 2010, in accordance with a resolution of a Board of Directors passed on 25th January 2010.

1.2 Principal Activities and Nature of Operations

The Bank provides comprehensive range of financial services encompassing accepting deposits, lease financing, hire purchase financing, 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 and comply with the requirements of the Companies Act No 7 of 2007 and Banking Act No 30 of 1988 and amendments thereto.

2.2 Basis of Measurement

The financial statements have been prepared on the historical cost basis. The accounting policies have been consistently applied by MBSL Savings Bank Limited. No adjustments have been made for inflationary factors affecting the Financial Statements, except for the following;

- Dealing securities are measured at market value.

2.3 Functional and presentation currency

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

2.4 Use of estimates and Judgments

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. Judgments and estimates are based on historical experience and other factors, including expectations that are believed to be reasonable under the circumstances. Hence 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 if the revision affects only that period, or in the period of the revision and future periods if the revision affects current and future periods.

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 of the Banks" 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 about the borrower's financial situation, the workout strategy and the net realisable value of any underlying collateral considered.

2.4.2 Income taxes

The Company is subject to income taxes in numerous jurisdictions. The Company 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.

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.

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

Significant Accounting Policies *Contd...*

3. **Materiality and aggregation**

Each material classes of similar item is presented separately in the financial statements. Items of a dissimilar nature or function are presented separately unless they are immaterial.

4. **Significant Accounting Policies**

Subject to the implication flowing from the application of SLAS 16, Employee benefits (Revised 2006), which is applicable for financial year 2008/09, the accounting policies set out below are consistent with those used in the previous year.

ASSETS AND BASES OF THEIR VALUATION

4.1 **Cash and Cash Equivalents**

Cash and cash equivalents include cash in hand, balances with banks, placements with banks and bank overdrafts. 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, held to maturity or holds as part of a portfolio that is managed for short term profits. These investments are initially recognized at cost and subsequently measured at market value in the Balance Sheet. Gains and losses on market 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 investment 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 recognized at cost and subsequently measured at 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 the value of bills/bonds purchased 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" once identified that the carrying amount will be recovered principally through a sale transaction rather than through continuing use. 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 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 recognized 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 value of the outstanding balances adjusted for provision of loan losses and interest in suspense (interest which is not accrued to revenue).

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.

Significant Accounting Policies *Contd...*

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 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 above basis.

4.5.2.2 General Provision

The Direction issued by the Monetary Board of the Central Bank of Sri Lanka on 5th December 2006, in terms Section 46 of the Banking Act No 30th of 1988, as amended, in "Requirements to Maintain a General Provision for Advances" requires all licensed 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 general provision was commenced with a minimum of 0.1% provision as at 31st December 2006 and thereafter incremental provisions are being made on the same basis till 31st March 2009, with the view of meeting the total provision requirement of 1% not later than 31st March 2009.

The Direction referred to above was revoked and replaced by the Direction issued on 8th May 2008 on "Classification of Loans and Advances, Income Recognition and Provisioning" which reiterated the above basis for general provisioning.

4.5.3 Revenue recognition on non performing loans

When an advance is classified as non-performing interest ceased to be recognised on Loans and Advance when due capital and/or interest were in arrears for more than 2 months. Interest was taken to Income on cash basis thereafter.

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 equipments are measured at cost less accumulated depreciation and accumulated impairment losses.

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.

A revaluation of land is done when there is a substantial difference between the fair value and the carrying amount of land and is undertaken by professionally qualified valuers.

Increases in the carrying amount on revaluation are credited to the revaluation reserve in shareholders' equity. Decreases that offset previous increases of the same individual assets are charged against revaluation reserve directly in equity. All other decreases are expensed in the profit and loss.

Significant Accounting Policies *Contd...*

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 inception less accumulated depreciation and accumulated impairment losses.

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 or loss and gains are not classified as revenue.

4.7.6 Depreciation

The Bank provide depreciation from the date assets are available for use up to the date of disposal, at the following rates on a reducing balance basis over the periods appropriate to the estimated useful life of the different types of assets on 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.

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. For goodwill that has indefinite lives or that are not yet available for use, recoverable amounts are estimated at each reporting date or more frequently, if events or changes in circumstances indicate that they might be impaired.

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 Statements.

4.10 Borrowing

Borrowings include 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 Bills payable and other liabilities

Bills payable and 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.

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 recognized in the balance sheet in respect of defined benefit plan is 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.

Significant Accounting Policies *Contd...*

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.

4.13.3 Short-term benefits

Short-term employees benefit obligations are measured on an undiscounted basis and are expensed as the related service is provided.

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.

Provisions 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 any 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.

INCOME STATEMENT

4.17 Revenue Recognition

4.17.1 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.

4.17.2 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.

4.17.3 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.

4.17.4 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.

4.17.5 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.

4.17.6 Profit/loss from sale of PPE

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.

4.18 Expenses

4.18.1 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.

4.18.2 Lease payments made

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.

Significant Accounting Policies *Contd...*

4.18.3 Fee and commission expenses

Fee and commission expenses are recognized on an accrual basis.

4.18.4 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.

4.18.5 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.

4.18.6 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.

4.18.7 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.

4.19 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.

4.20 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 comprise cash balances, call deposits and bank overdrafts. They are net of Government of Sri Lanka Treasury Bills held by the Bank.

5. Comparative Information

The Accounting Policies adopted by the Bank are consistent with those of the previous financial year, except where the Bank has adopted the Sri Lanka Accounting Standard No. 16 (Revised 2006) - Employee Benefits, during the year.

Comparative information are reclassified wherever necessary to comply with current 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.

Notes to the Financial Statements

	2009 Rs.	2008 Rs.
1 INCOME		
Gross Income	445,779,373	488,702,321
Interest income (Refer Note 2)	369,893,797	443,540,607
Fee and commission income	4,158,737	2,998,281
Other income (Refer Note 4)	71,726,839	42,163,433
	<u>445,779,373</u>	<u>488,702,321</u>
2 INTEREST INCOME		
Loans and advances to customers	128,416,283	129,607,518
Leasing	75,688,043	95,718,734
Hire purchase	98,041,029	86,785,694
Placements with banks	12,559,291	127,771,167
Government Securities	55,189,151	3,657,494
	<u>369,893,797</u>	<u>443,540,607</u>
3 INTEREST EXPENSE		
Deposits from customers	277,820,558	359,511,114
Debentures	14,091,776	17,242,766
Treasury bills repurchased	14,045,135	11,386,632
Short term borrowings	41,194	1,928,745
	<u>305,998,663</u>	<u>390,069,257</u>
4 OTHER INCOME		
Dividend income from Investments Securities (Unquoted)	-	5,000
Documentation income	1,532,240	3,982,332
Gain on trading treasury bonds	38,648,306	10,852,469
Gain on sale of shares	3,347,397	-
Surplus on valuation of dealing securities	2,686,638	-
Gain on disposal of property, plant & equipment	2,345,495	25,000
Penalty income on loan, leases & hire purchase	23,115,402	26,115,239
Write back of payable to CIC Middle way	-	560,269
Sundry income	51,361	623,124
	<u>71,726,839</u>	<u>42,163,433</u>
5 OPERATING EXPENSES		
Operating expenses include the following:		
Auditors' remuneration - Audit services	435,000	385,000
Depreciation on property, plant and equipment	15,552,688	12,115,833
Rent expenses	15,537,495	7,677,067
Donation	20,500	854,561
Personnel expenses		
In addition to salaries personnel expenses include the following:		
Employees' Provident Fund	5,919,347	7,318,871
Employees' Trust Fund	1,479,837	1,829,718
Number of staff	132	225
6 PROVISION FOR LOAN LOSSES		
Specific provision for customer loans and advances	4,072,824	2,417,372
Specific provision for lease rentals receivable	3,599,968	7,690,214
Specific provision for hire purchase receivable	7,099,822	1,428,969
Statutory general provision /(reversal) made during the year	(1,323,230)	4,715,067
	<u>13,449,384</u>	<u>16,251,622</u>

Notes to the Financial Statements *Contd...*

	2009 Rs.	2008 Rs.
7 OTHER EXPENSES		
Advertising expenses	138,415	409,941
Business promotion	9,379,802	28,147,218
Subsistence & Traveling - Marketing	661,156	2,057,851
Share issue expenses	1,078,038	13,655,354
Stamp duty for property transferred from The Finance Company PLC	-	6,687,150
Expenses-The Finance Company PLC Project	-	6,906,611
Provision for expenses-Others	-	7,430,258
Write off of Economic Service Charge Recoverable	-	1,206,720
Loss on disposal of leased assets	12,769,936	3,340,239
Other administrative expenses	36,877,630	34,420,960
	60,904,978	104,262,302
8 INCOME TAX EXPENSE		
Charges to taxation is as follows:		
Taxation on profit for the year	-	-
Reconciliation between Accounting profit and Taxable profit		
Accounting profit		
Net profit/(loss) before tax	40,256,314	(371,871,539)
Other income	4,606,441	(30,000)
Capital portion of lease rentals	156,057,951	176,205,592
Aggregate disallowed items	21,907,924	287,059,503
Aggregate allowable	(269,339,694)	(159,717,832)
Taxable loss on disposal of leased assets	(11,136,988)	(40,124,958)
Adjusted business loss from leasing	11,529,610	21,695,847
Taxable profit/(loss) for the year	(46,118,441)	(86,783,387)
Tax loss brought forward	(314,643,701)	(227,860,314)
Adjustment to brought forward tax loss	4,708,239	-
Tax loss for the year	(46,118,441)	(86,783,387)
Tax loss carried forward	(356,053,903)	(314,643,701)

The tax effect of temporary difference resulted in a deferred tax asset of Rs.415,173,390/-. No credit was taken into the Income Statement since the differences are not expected to reverse in the foreseeable future.

9 BASIC EARNINGS/(DEFICIT) PER SHARE

Basic earnings/(deficit) per share

The calculation of the basic 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.

	2009 Rs.	2008 Rs.
Profit/(loss) attributable to ordinary shareholders (Rs)	40,256,314	(371,871,539)
Weighted average number of ordinary shares -Note (i)	111,260,287	28,970,090
Earnings/(deficit) per share (Rs)	0.36	(12.84)
(i) Qualifying ordinary shares at beginning of the year	44,539,620	22,924,845
Effect of shares issued during the year	66,720,667	6,045,245
Weighted average number of ordinary shares at the end of the year	111,260,287	28,970,090

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 basic earning/(deficit) per share shown above.

Notes to the Financial Statements *Contd...*

	2009 Rs.	2008 Rs.
10 CASH AND CASH EQUIVALENTS		
Cash in hand	4,063,577	9,014,497
Balances with banks (with maturity of less than 12 months)	<u>53,417,478</u>	<u>5,838,879</u>
	<u>57,481,056</u>	<u>14,853,376</u>
11 GOVERNMENT TREASURY BILLS AND BONDS		
Treasury bonds purchased under repurchase agreements	-	420,879,567
Treasury bills	<u>271,598,242</u>	<u>-</u>
	<u>271,598,242</u>	<u>420,879,567</u>
12 PLACEMENTS AND DEPOSITS WITH OTHER BANKS AND FINANCIAL INSTITUTIONS		
Deposit with banks	11,067,478	63,888,757
Deposits with financial institutions (Note 12.1)	50,000,000	262,200,000
Promissory notes	130,000,000	130,000,000
Provision for recoverability of placements and deposits (Note 12.2)	<u>(130,000,000)</u>	<u>(225,640,000)</u>
	<u>61,067,478</u>	<u>230,448,757</u>
12.1 DEPOSITS WITH FINANCIAL INSTITUTIONS		
The Finance PLC	-	167,200,000
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
Commercial Leasing PLC	<u>50,000,000</u>	<u>-</u>
	<u>50,000,000</u>	<u>262,200,000</u>
12.2 PROVISION FOR RECOVERABILITY OF PLACEMENTS AND DEPOSITS		
Ceylinco Shriram Securities Holdings Ltd.	100,000,000	100,000,000
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
Ceylinco Consolidated Overseas (Pvt) Ltd.	30,000,000	30,000,000
The Finance PLC	<u>-</u>	<u>640,000</u>
	<u>130,000,000</u>	<u>225,640,000</u>
12.3 REVERSAL OF PROVISION FOR PLACEMENTS AND DEPOSITS		
Ceylinco Shriram Securities Holdings Ltd.	-	-
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)	-
Ceylinco Consolidated Overseas (Pvt) Ltd.	-	-
The Finance PLC	<u>(640,000)</u>	<u>-</u>
	<u>(95,640,000)</u>	<u>-</u>
13 LOANS AND ADVANCES		
Staff loans	36,150,534	46,523,092
Term loans	283,675,191	365,480,357
Housing loans	384,279,174	352,370,601
Pawning advances	<u>57,598,863</u>	<u>23,199,947</u>
	<u>761,703,763</u>	<u>787,573,997</u>
Loan loss provision (Note 18)	<u>(20,420,077)</u>	<u>(32,161,862)</u>
	<u>741,283,686</u>	<u>755,412,135</u>
14 LEASE RENTALS RECEIVABLE		
Cost of equipment	614,590,134	766,079,585
Unearned lease income	143,333,325	181,438,987
Gross lease rentals receivable	757,923,459	947,518,572
Less :		
Initial rentals received (prepaid)	(8,523,385)	(12,481,762)
Lease rentals received	<u>(402,470,142)</u>	<u>(320,446,676)</u>
Total lease rentals receivable (Note 14.1)	<u>346,929,932</u>	<u>614,590,134</u>

Notes to the Financial Statements *Contd...*

	2009 Rs.	2008 Rs.
14.1 LEASE RENTALS RECEIVABLE WITHIN ONE YEAR		
Total lease rentals receivable (Note 14)	346,929,932	614,590,134
Less: Lease rentals receivable from one to five years from balance sheet date (Note 14.2)	(272,047,093)	(374,191,333)
	74,882,839	240,398,801
Less: Unearned lease income	(14,912,496)	(55,181,023)
Provision for lease receivables (Note 14.3)	(14,418,018)	(10,818,050)
Interest in suspense	(5,926,575)	(6,316,895)
Balance at the end of the year	39,625,750	168,082,833
14.2 LEASE RENTALS RECEIVABLE AFTER ONE YEAR		
Lease rentals receivables from one to five years from balance sheet date (Note 14.1)	272,047,093	374,191,333
Less: Unearned lease income	(52,728,789)	(88,152,307)
	219,318,304	286,039,026
14.3 MOVEMENT IN PROVISION FOR LEASE RENTALS RECEIVABLE		
Balance at the beginning of the year	10,818,050	3,127,836
Additional provision made during the year	3,599,968	7,690,214
Balance at the end of the year	14,418,018	10,818,050
15 HIRE PURCHASE RECEIVABLE		
Hire purchase debtors	459,593,185	606,244,419
Less : Deferred profit on Hire Purchase Sales	(131,507,929)	(198,637,525)
Interest in suspense	(8,494,619)	(3,192,004)
Provision for doubtful debts (Note 15.1)	(8,528,791)	(1,428,969)
	311,061,846	402,985,921
15.1 MOVEMENT IN PROVISION FOR HIRE PURCHASE RECEIVABLE		
Balance at the beginning of the year	1,428,969	-
Provision made during the year	7,099,822	1,428,969
Balance at the end of the year	8,528,791	1,428,969
16 NON CURRENT ASSETS HELD FOR SALE		
Balance at the beginning of the year	-	-
Transferred from deposits in financial institutions	276,800,656	-
Balance at the end of the year	276,800,656	-
16.1 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. This balance comprise of land & building situated in following locations.		
	2009	
Location	Extent	Value
	(perches)	Rs.
Land at Colombo 4	38	178,000,656
Land and building at Hokandara	73	98,800,000
	111	276,800,656
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 sale would be expected to complete within one year from the date of classification.		
17 INTEREST RECEIVABLE		
Interest receivable on loans	31,877,090	39,674,287
Less: Interest in suspense (Note 18)	(19,054,120)	(27,877,559)
Interest receivable from deposits in bank and financial institutions	1,973,456	5,180,367
	14,796,426	16,977,095

Notes to the Financial Statements *Contd...*

		2009				2008	
		Provision Against Advances		Interest in suspense			
		Rs.		Rs.			
18	MOVEMENTS IN THE PROVISION FOR LOAN LOSSES AND ADVANCES INTEREST IN SUSPENSE						
	Balance at the beginning of the year		32,161,358		27,877,559		
	Recoveries made during the year		(7,670,214)		-		
	Fully provided loans written off		(14,510,875)		-		
	Provision made during the year		11,763,038		-		
	Interest suspended during the year		-		(8,823,439)		
	Statutory general provision/ (reversal) made during the year		(1,323,230)		-		
	Balance at the end of the year		<u>20,420,077</u>		<u>19,054,120</u>		
18.1	ANALYSIS OF PROVISION FOR LOAN LOSSES AND INTEREST IN SUSPENSE						
			2009		2008		
			Loan loss provision		Interest suspense		
			Rs.		Rs.		
	Loans and advances		20,420,077		19,054,120		
	Lease rental receivable (Note 14.1)		14,418,018		5,926,575		
	Hire purchase rental receivable		8,528,791		8,494,619		
			<u>43,366,886</u>		<u>33,475,314</u>		
18.2	NON - OPERATING ASSETS INCLUDED IN THE LOANS AND ADVANCES AND LEASE		2009		2008		
	Rentals receivables on which interest is not being accrued is as follows.		Rs.		Rs.		
	Loans and advances		139,339,988		78,903,776		
	Lease rental receivable		32,149,300		43,358,954		
			<u>171,489,288</u>		<u>122,262,730</u>		
18.3	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		413,572,935		521,693,049		
	Leasing/HP		598,850,517		866,418,248		
	Others		348,130,827		265,800,632		
			<u>1,360,554,279</u>		<u>1,653,911,929</u>		
19	DEALING SECURITIES		2009		2008		
		No of shares	Cost of the investment	Market value	No of shares	Cost of the investment	Market value
	Quoted shares held by bank						
	Hotel Services Ceylon PLC	996,125	16,203,638	18,926,375	-	-	-
	Eden Hotel Lanka PLC	176,000	4,568,133	4,532,000	-	-	-
	Lanka Ventures PLC	5,000	86,216	86,250	-	-	-
			<u>20,857,987</u>	<u>23,544,625</u>			
20	INVESTMENT SECURITIES						
	Unquoted shares held by bank				No of shares	2009	2008
						Rs.	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					(500,000)	(500,000)
						<u>10,000</u>	<u>10,000</u>
21	OTHER ASSETS						
	Advance to purchase the banking system AS400						14,758,383
	Deposits and prepayments					13,346,616	22,123,795
	Stationery stock					4,176,783	5,307,279
	Advances to staff					-	211,668
	Economic Service Charge (ESC) recoverable					20,979,753	12,177,814
	Advance on rent					4,999,320	6,175,915
	With Holding Tax (WHT) recoverable					7,166,327	6,765,290
	Other receivables					8,153,275	9,174,030
						<u>58,822,074</u>	<u>76,694,174</u>

Notes to the Financial Statements *Contd...*

22. PROPERTY, PLANT AND EQUIPMENT

	Computer Equipment	Office Equipment	Improvements to Building	Furniture & Fittings	Motor Vehicles	Lease hold Motor Vehicles	Total 31.12.2009	Total 31.12.2008
	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.	Rs.
Cost								
Balance as at 1st January, 2009	76,739,366	9,342,083	11,910,117	5,522,891	17,169,941	5,197,500	125,881,898	100,128,332
Additions during the year	16,478,459	15,112	4,930,344	246,320	-	-	21,670,235	25,753,567
Disposals during the year	-	(815,700)	(12,000)	-	(5,796,805)	(2,406,250)	(9,030,755)	-
Balance as at 31st December, 2009	<u>93,217,825</u>	<u>8,541,495</u>	<u>16,828,461</u>	<u>5,769,211</u>	<u>11,373,136</u>	<u>2,791,250</u>	<u>138,521,378</u>	<u>125,881,899</u>
Accumulated depreciation								
Balance as at 1st January, 2009	44,750,081	3,131,310	5,058,844	4,307,864	5,366,549	1,108,800	63,723,448	51,607,615
Charge for the year	9,680,436	1,058,997	1,743,573	435,565	2,046,683	587,435	15,552,688	12,115,833
Disposals during the year	-	(54,706)	(200)	-	(3,306,707)	(661,412)	(4,023,025)	-
Balance as at 31st December, 2009	<u>54,430,517</u>	<u>4,135,601</u>	<u>6,802,217</u>	<u>4,743,429</u>	<u>4,106,525</u>	<u>1,034,823</u>	<u>75,253,111</u>	<u>63,723,448</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>63,268,268</u>	-
Carrying amount as at 31.12.2008	<u>31,989,285</u>	<u>6,210,773</u>	<u>6,851,273</u>	<u>1,215,027</u>	<u>11,803,392</u>	<u>4,088,700</u>	-	<u>62,158,451</u>

Notes to the Financial Statements *Contd...*

	2009 Rs.	2008 Rs.
23 DEPOSITS		
Time deposits	1,374,213,725	1,680,645,214
Savings deposits	333,709,151	371,513,582
Certificates of deposit	4,749,174	5,939,764
Call deposits	4,415,000	16,212,093
	<u>1,717,087,050</u>	<u>2,074,310,653</u>
24 BORROWINGS		
Borrowings under repurchase agreement		
Bank overdraft	-	75,000,000
	<u>8,107,441</u>	<u>27,562,927</u>
	<u>8,107,441</u>	<u>102,562,927</u>
25 DEBENTURES		
Balance at the beginning of the year	97,444,000	122,344,000
Redeemed during the year	(1,960,000)	(23,400,000)
Transfer of unclaimed debentures	(4,800,000)	(1,500,000)
Balance at the end of the year	<u>90,684,000</u>	<u>97,444,000</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 years	13.00%

	2009 Rs.	2008 Rs.
26 RETIREMENT BENEFIT OBLIGATION		
Present value of unfunded gratuity	<u>3,586,060</u>	2,737,633
Total present value of the obligation	<u>3,586,060</u>	<u>2,737,633</u>
Balance at the beginning of the year	2,737,633	2,358,025
Effect of change in accounting policy due to adoption of SLAS 16 (revised 2006)*** (Note ***)	-	(592,710)
Revised balance at the beginning of the year	2,737,633	1,765,315
Current service costs	999,177	514,502
Interest costs	201,896	273,578
Actuarial losses / (gains) recognized in the income statement	777,704	(31,932)
	<u>4,716,411</u>	<u>2,521,463</u>
Transferred from related companies	-	629,620
Benefits paid by the plan	(1,130,351)	(413,450)
Balance at the end of the year	<u>3,586,060</u>	<u>2,737,633</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 2009.

(a) Expected salary increment rate	5% per annum
(b) Discount rate	11% per annum

*** Effect of change in accounting policy due to adoption of SLAS 16 (revised 2006)***

An actuarial valuation was carried out on 26th May, 2009 By 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...*

	2009 Rs.	2008 Rs.
27 PAYABLE TO RELATED COMPANIES		
MBSL Insurance Company Limited	318,908	-
Merchant Bank of Sri Lanka PLC	<u>303,000</u>	<u>-</u>
	<u>621,908</u>	
28 OTHER LIABILITIES		
Accrued expenditure	14,872,139	46,644,076
Value Added Tax (VAT) payable	5,889,491	2,457,333
Economic Service Charge (ESC) payable	1,621,876	-
Lease creditors	5,887,105	4,016,740
Interest payable	210,623,350	163,483,758
Pre-paid lease rentals	8,523,385	12,481,762
	<u>247,417,346</u>	<u>229,083,669</u>
29 STATED CAPITAL		
Issued and fully paid number of Ordinary Shares		
At the beginning of the Year	445,396,200	279,248,450
44,539,620 Ordinary shares (2008-27,924,845)		
Issued during the year	100,810,000	166,147,750
100,081,000 Ordinary shares (2008-16,614,775)		
At the end of the Year	<u>546,206,200</u>	<u>445,396,200</u>
144,620,620 Ordinary shares (2008-44,539,620)		

Above includes 128,144,845 number of voting shares and 16,475,775 number of non voting shares.

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 confirm that there is no contingent liability to the Bank, from the assurance given by aforementioned Company.

The Central Bank of Sri Lanka ("CBSL") issued the circular dated 11th December 2006, on "Minimum Capital Requirement of Licensed Specialized Banks" requiring all Licensed Specialized 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.

30 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.

	2009 Rs.	2008 Rs.
(b) Contingent liabilities		
Financial guarantees	9,683,923	12,168,323
Security held - Pawning advances	62,289,970	30,586,854
	<u>71,973,893</u>	<u>42,755,177</u>

Notes to the Financial Statements *Contd...*

31 RELATED PARTY DISCLOSURES

a) Parent and ultimate controlling party

On 30th April 2009 Merchant Bank of Sri Lanka PLC acquired 78% of ordinary shares of MBSL Savings Bank through a fresh capital infusion of Rs. 100 Mn. As a result, the new ultimate controlling party of the bank is Merchant Bank of Sri Lanka PLC. Consequent to the acquisition of controlling interest in Ceylinco Savings Bank Limited by Merchant Bank of Sri Lanka, the following Directors tendered their resignations.

Mr. H. K. De Silva
Mr. I. M. R. Wijethunge
Mr. K. Sankaramoorthy
Mr. G. P. Karunaratne
Mrs. S. G. De Silva Gamage
Mr. R. Goonawardena

Further Merchant Bank of Sri Lanka reconstituted the Board of Directors (as mentioned in Note 31 (b)) with representatives of Merchant Bank of Sri Lanka PLC with effect from 7th May 2009. Dr. T. Senthilverl and Mr. B.R.S.T. Edirisinghe at the invitation of MBSL continue as Directors of the Bank.

b) Transactions with Key Management Personnel

Chairman

Mr. Janaka Ratnayake

Board of Directors

Mr. Gamini Karunathilake
Dr. T. Senthilverl
Mr. B.R.S.T Edirisinghe
Dr. Ranjith Bandara (Vacated post w.e.f 27/11/2009)
Mr. P.G Rupasinghe
Mr. Lakshman Perera
Mr. Imitiyaz Nulair
Mr. Ranjith Siriwardena

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

	Nature of Transaction	2009 Total Amount
Mr. Janaka Ratnayake	Board Meetings	191,250

Board of Directors

Mr. Gamini Karunathilake	Director's Remuneration/Audit Committee Meetings/Board Meetings	888,833
Dr. T. Senthilverl	Board Meetings/Audit Committee Meetings	93,000
Mr. B.R.S.T Edirisinghe	Board Meetings/Audit Committee Meetings	63,000
Dr. Ranjith Bandara	Board Meetings	37,500
Mr. P.G Rupasinghe	Board Meetings/Audit Committee Meetings	187,500
Mr. Lakshman Perera	Board Meetings/Audit Committee Meetings	169,500
Mr. Imitiyaz Nulair	Board Meetings	120,000
Mr. Ranjith Siriwardena	Board Meetings/Audit Committee Meetings	99,750

(ii) Post employment benefits

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

Notes to the Financial Statements *Contd...*

c) Transactions with related companies from 1/1/2009-30/4/2009

<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 30.04.2009 (Rs.)</u>	<u>Balance outstanding 31.12.2008 (Rs.)</u>
1 Ceylinco Cisco Security Corporation (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Mrs. P K Karunanayake	Chairman Director Alt Director	Security Charges (Invoice Value)	2,085,494	-	104,639
			Settlements	(2,190,133)	-	-
			Vetting Report Charges	66,844	-	-
			Settlements	(66,844)	-	-
			Investment in equity	-	10,000	10,000
2 Ceylinco Cisco Technology & Consultancy (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Monthly Subscription Central Alarm System (Invoice Value)	26,356	-	6,356
			Settlements	(32,713)	-	-
3 CTV Creation	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Transmission Charges	45,200	-	-
			Settlements	(45,200)	-	-
4 Ceylinco Express (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Courier Charges (Invoice Value)	119,674	-	20,000
			Settlements	(139,674)	-	-
5 Ceylinco Insurance Company PLC	Deshamanya Dr. J L B Kotelawala Mr. R Renganathan Mrs. P K Karunanayake Dr T Senthilvel	Chairman/MD Chief Executive Shareholder Shareholder	Insurance Service	640,173	-	-
			Settlements	(640,173)	-	-
			Commission income	1,411,545	2,144,829	1,254,930
			Commission Received During the Year	(521,646)	-	-
			Investment in Debentures	-	69,000,000	69,000,000
			Interest payable on debentures	3,516,164	26,312,630	22,796,466
			Investment in equity	-	47,291,660	47,291,660
6 Ceylinco- CISCO Cash Management & Transit Company (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman/MD Director	Security Charges For Cash	62,404	-	10,000
			Transport Charges (Invoice Value)	-	-	-
			Settlements	(72,404)	-	-
7 Hire Drive (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman/MD Director	Vehicle Maintenance	494,697	-	-
			Settlements	(494,697)	-	-
8 Ceylinco Tourist Hotels Limited (Hotel Ceysand)	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Accommodation	13,000	-	-
			Settlements	(13,000)	-	-
9 Ceylinco Group Library	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Charges for Library Facilities (Invoice Value)	4,767	-	4,767
			Settlements	(4,767)	-	-
10 Seylan Merchant Bank Ltd.	Deshamanya Dr. J L B Kotelawala Mr. R Renganathan	Chairman Director	Vehicle Lease Rental	733,648	-	-
			Settlements	(733,648)	-	-
			Investment in equity	-	11,896,000	11,896,000
11 The Multi Finance Co. Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Vehicle Lease Rental	793,752	-	-
			Settlements	(793,752)	-	-
12 Ceylinco Finance PLC	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Dr T Senthilvel	Chairman Director Shareholder	Parking Charges	63,653	-	-
			Settlements	(63,653)	-	-
13 Seylan Bank PLC	Deshamanya Dr. J L B Kotelawala Mr. R Renganathan Lady Dr. S P C Kotelawala Mr. S C O De Livera Mrs. P K Karunanayake Mr. H. K De Silva	Chairman Jt. Deputy Chairman Jt. Deputy Chairperson Director Shareholder Shareholder	Visa Debit Card Maintenance Fees	922,886	-	-
			Settlements	(922,886)	-	-
			Investment Transaction- Deposit	(53,358,105)	10,530,653	63,888,757
			Receivable Interest Income On Fixed Deposits	-	179,415	1,343,600
			Interest Income On Fixed Deposits	2,670,714	-	-
			Borrowings	(65,000,000)	-	65,000,000
			Payable Interest on Borrowings	(34,726)	-	34,726
			Maintaining Bank Accounts	673,448	5,506,772	4,833,324

Notes to the Financial Statements *Contd...*

c) Transactions with related companies from 1/1/2009-30/4/2009

<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</u> (Rs.)	<u>Balance outstanding 30.04.2009</u> (Rs.)	<u>Balance outstanding 31.12.2008</u> (Rs.)
14 Ceylinco Shriram Securities Holding Limited	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Mrs. P.K Karunanayake	Chairman Director Deputy Chairperson	Investment in equity	-	100,000,000	100,000,000
			Borrowings	(10,000,000)	-	10,000,000
			Payable Interest on Borrowings	(3,973)	-	3,973
			Receivable Interest Income	7,561,644	21,983,775	14,422,131
15 Ceylinco Shriram Capital Management Services Co Ltd.	Deshamanya Dr. J L B Kotelawala Mrs. P K Karunanayeke Lady Dr. S P C Kotelawala	Chairman Deputy Chairperson Director	Investment in equity	-	1,000,000	1,000,000
16 South Asian Travels Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Deputy Chairperson	Investment in equity	-	100,000	100,000
17 Ceylinco Universal Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Mr. R Renganathan	Chairman Deputy Chairperson Director	Investment in equity	-	100,000	100,000
18 Ceylinco Seylan Development Limited	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Mr. R Renganathan	Chairman Director Director	Investment in equity	-	250,000	250,000
19 Blue Diamonds Jewellery Worldwide Limited	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Dr T Senthilvel Mr. R Renganathan	Chairman Director Director Shareholder	Investment in equity	-	150,000	150,000
20 The Golden Key Credit Card Company Limited	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Mrs. P K Karunanayeke	Chairman Director Director	Investment in equity	-	360,000	360,000
21 Ceylinco Securities & Financial Services Limited	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Dr T Senthilvel	Chairman Director Director	Investment in equity	-	258,330	258,330
22 Ceylinco International Trading Limited	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Investment in equity	-	350,000	350,000
23 Serene Resorts Limited	Deshamanya Dr. J L B Kotelawala Mr. R Renganathan Lady Dr. S P C Kotelawala	Chairman/MD Deputy Chairman Director	Investment in equity	-	4,100,000	4,100,000
24 Ceylinco Investment & Realty Co Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Investment in equity	-	11,625,000	11,625,000
25 Ceylinco Homes International Ltd	Deshamanya Dr. J L B Kotelawala Mrs. P K Karunanayeke Lady Dr. S P C Kotelawala	Chairman Deputy Chairperson Director	Investment in equity	-	1,000,000	1,000,000
26 Ceylinco Homes International (Lotus Tower) Ltd	Deshamanya Dr. J L B Kotelawala Mrs. P K Karunanayeke Lady Dr. S P C Kotelawala Mr. H.K de Sliva	Chairman Deputy Chairperson Director Director	Investment in equity	-	1,000,000	1,000,000

Notes to the Financial Statements *Contd...*

c) Transactions with related companies from 1/1/2009-30/4/2009

<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 30.04.2009 (Rs.)</u>	<u>Balance outstanding 31.12.2008 (Rs.)</u>
27 Ceyhomes Credit & Investment Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Investment in equity	-	1,000,000	1,000,000
28 Ceylinco Housing & Real Estate Company Limited	Deshamanya Dr. J L B Kotelawala Mrs. P K Karunanayake	Chairman Deputy Chairperson	Investment in equity	-	1,075,000	1,075,000
29 The Finance Company PLC	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala Dr T Senthilvel Mr. Hiran Kosala De Silva	Chairman Director Shareholder Shareholder	Investment in deposits Receivable Interest Income Investment in equity	(167,200,000) (27,010,966) -	- - 15,108,330	167,200,000 27,010,966 15,108,330
30 Ceylinco Leasing Corporation Ltd	Deshamanya Dr. J L B Kotelawala Mrs. P K Karunanayake Lady Dr. S P C Kotelawala	Chairman Deputy Chairperson Director	Investment in deposits Receivable Interest Income Investment in equity	(40,000,000) (95,342) -	- - 1,000,000	40,000,000 95,342 1,000,000
31 Ceylinco Capital Investment Co (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Mrs. P K Karunanayake Lady Dr. S P C Kotelawala Mr. H K de Silva	Chairman Deputy Chairperson Director Deputy Chief Executive/ Director	Investment Transaction Receivable Interest Income Investment in equity	(25,000,000) (615,753) -	- - 1,500,000	25,000,000 615,753 1,500,000
32 CLC Asset Management (Pvt) Ltd	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Investment in deposits Receivable Interest Income	(30,000,000) (22,253)	- -	30,000,000 22,253
33 Seylan Bank Asset Management Ltd	Mr. R Renganathan	Chairman	Investment in Debentures Interest on Debentures	- 69,041	1,500,000 104,137	1,500,000 35,096
34 Ceylinco Grameen Credit	Deshamanya Dr. J L B Kotelawala Lady Dr. S P C Kotelawala	Chairman Director	Investment in Debentures Interest on Debentures	- 152,877	3,000,000 1,161,863	3,000,000 1,008,986

Transactions with related companies from 30/4/2009-31/12/2009

Central Bank of Sri Lanka had appointed Merchant Bank of Sri Lanka as managing agent of the company with effect from 6th March 2009

<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 31.12.2009 (Rs.)</u>
1 MBSL Insurance Company Ltd	Mr. Janaka Ratnayake Dr. Ranjith Bandara Mr. J.G.B.P. Tissera Mr. Gamini Karunathilake Mr. G.K.A.C.K. Kularatne Mr. Imitiyaz Mulair	Chairman Director Director Director Director Director	Insurance Service Settlements Commission income Commission Received During the Year Directors Fees Settlements	679,645 (360,737) 728,649 (632,805) 120,000 (120,000)	318,908 - 95,844 - -
2 Merchant Bank of Sri Lanka PLC	Mr. Janaka Ratnayake Mr. Gamini Karunathilake Dr. Ranjith Bandara Mr. P G Rupasinghe Mr. Lakshman Perera	Chairman Chief Executive Officer Director Director Director	Management Fees Settlements Investment in Equity Directors Fees Settlements Directors Remuneration Settlements	2,379,083 (2,076,083) 100,000,000 885,500 (885,500) 688,833 (688,833)	303,000 - - - - -

Notes to the Financial Statements *Contd...*

32 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	45,035,417	-	-	-	-	-	45,035,417
Placements and deposits with other banks and financial institutions	61,067,479	-	-	-	-	-	61,067,479
Government treasury bills and bonds	271,598,242	-	-	-	-	-	271,598,242
Loans and advances	106,427,422	24,851,130	52,256,623	208,613,731	131,698,421	217,436,359	741,283,686
Leases	45,829,876	28,428,720	54,648,744	120,043,041	9,993,675	-	258,944,056
Hire purchase receivables	48,778,075	26,950,311	56,858,117	156,299,493	22,175,850	-	311,061,846
Investment securities	-	-	-	-	-	-	-
Dealing securities	23,554,625	-	-	-	-	-	23,554,625
	<u>602,291,136</u>	<u>80,230,161</u>	<u>163,763,484</u>	<u>484,956,265</u>	<u>163,867,946</u>	<u>217,436,359</u>	<u>1,712,545,351</u>
Total non interest earning assets							
Cash and cash equivalents	12,445,639	-	-	-	-	-	12,445,639
Property, plant and equipment	-	-	-	-	-	63,268,266	63,268,266
Other assets	-	-	-	-	-	58,917,917	58,917,917
Interest receivable	14,796,426	-	-	-	-	-	14,796,426
Non current assets held for sale	-	-	-	-	-	276,800,656	276,800,656
	<u>27,242,065</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>398,986,839</u>	<u>426,228,904</u>
Total assets							<u><u>2,138,774,255</u></u>
Interest Bearing Liabilities							
Deposits	623,268,512	179,503,793	387,003,482	374,482,011	45,739,416	107,089,835	1,717,087,050
Borrowings	9,707,441	-	-	89,084,000	-	-	98,791,441
Lease/hire purchase creditors	429,754	457,100	1,010,039	3,990,212	-	-	5,887,105
	<u>633,405,707</u>	<u>179,960,893</u>	<u>388,013,521</u>	<u>467,556,223</u>	<u>45,739,416</u>	<u>107,089,835</u>	<u>1,821,765,596</u>
Total non interest earning liabilities							
Unclaimed debentures	4,800,000	-	-	-	-	-	4,800,000
Other payables	30,666,273	-	8,523,386	-	-	-	39,189,659
Interest payable	16,156,905	13,712,023	11,263,094	158,733,391	6,666,452	16,685	206,548,549
	<u>51,623,178</u>	<u>13,712,023</u>	<u>19,786,480</u>	<u>158,733,391</u>	<u>6,666,452</u>	<u>16,685</u>	<u>250,538,208</u>
Shareholders' funds							<u>66,470,451</u>
Total liabilities and shareholders' funds							<u><u>2,138,774,255</u></u>

Notice of Meeting

Notice is hereby given that the Thirteenth (13th) Annual General Meeting of the Shareholders of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) will be held on 04th of June, 2010 at 10.00 a. m. at the Auditorium of the Raja Bojun, Ceylinco Seylan Towers, No. 90, Galle Road, Colombo-03, for the following purposes.

RESOLUTION NO. 1

To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Statements of Accounts for the year ended 31st December, 2009 together with the Report of the Auditors thereon.

RESOLUTION NO. 2

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

RESOLUTION NO. 3

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

RESOLUTION NO. 4

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. 5

To authorize the Directors to determine contributions to charities and other donations for the year 2010.

BY ORDER OF THE BOARD



A.V.C. Fernando
Company Secretary
27th April 2010

Form of Proxy

I / We of

.....

Being a member / members of MBSL Savings Bank Limited (formerly known as Ceylinco Savings Bank Limited) do hereby appoint :

- | | |
|-----------------------------|--------------|
| Mr. Janaka Ratnayake | Whom failing |
| Mr. Gamini Karunathilake | Whom failing |
| Mr. B. R. S. T. Edirisinghe | Whom failing |
| Dr. T. Senthilverl | Whom failing |
| Mr. Lakshman Perera | Whom failing |
| Mr. P. G. Rupasinghe | Whom failing |
| Mr. I.M.A. Nulair | Whom failing |
| Mr. Ranjith Siriwardena | 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 at and at

any adjournment thereof and at every poll which may be taken in consequence thereof.

	Favor	Against
<p>RESOLUTION NO. 1 To receive and consider the Annual Report of the Board of Directors on the affairs of the Company and the Audited Statements of Accounts for the year ended 31st December, 2009 together with the Report of the Auditors thereon.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>RESOLUTION NO. 2 To re-elect Mr. Gamini Karunathilake, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>RESOLUTION NO. 3 To re-elect Mr. Imtiaz Nulair, Director who retires by rotation in terms of Article 88 of the Articles of Association as a Director.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>RESOLUTION NO. 4 To re-appoint the retiring auditors, M/s. KPMG Ford, Rhodes Thornton & Co. Chartered Accountants and to authorize the Directors to determine their remuneration.</p>	<input type="checkbox"/>	<input type="checkbox"/>
<p>RESOLUTION NO. 5 To authorize the Directors to determine contributions to charities and other donations for the year 2010.</p>	<input type="checkbox"/>	<input type="checkbox"/>

Form of Proxy *Contd...*

As witness my/our hand(s) this.....day of2010.

Indicate your preference by placing X against the Resolution No.

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

.....
Signature

Note :-

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

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.

Form of Proxy *Contd...*

NOTE:-

- (a) A Shareholder is entitled to appoint a Proxy to attend and vote instead of him/her/it. A Proxy need not be a member of the Company. A form of Proxy is enclosed with this notice for this purpose.
- (b) The instrument appointing a Proxy should be deposited with the Company Secretary at No. 2, Deal Place, Colombo - 03 not later than 48 hours before the time fixed for the Annual General Meeting.
- (c) Shareholders appointing Proxies (other than Directors of the Company) to attend the Meeting are requested to indicate the number of the National Identity Card of the Proxy holder on the form of Proxy. Only registered proxy holders will be permitted to attend the Meeting.
- (d) Shareholders / Proxy holders attending the Annual General Meeting are requested to bring with them their National Identity Card or any other form of valid identification.

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 by the Banking (Amendment) Act No. 33 of 1995.

Date of Incorporation

14th August 1996

Date of Re-registration

13th June 2008

Board of Directors

Mr. Janaka Ratnayake	- Chairman
Mr. Gamini Karunathilake	- Managing Director
Dr. T. Senthilverl	- Director
Mr. B.R.S.T.Edirisinghe	- Director
Mr. Imtiyaz Nulair	- Director
Mr. P.G. Rupasinghe	- Director
Mr. Lakshman Perera	- Director
Mr. Ranjith Siriwardena	- 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

 **MBSL Savings Bank**
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As sure as the rising sun නැගෙන හිට එළවැසයි

Subsidiary of Merchant Bank of Sri Lanka PLC

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

Phone: 0112 374000 **Fax:** 0112 374044 **Email:** savingsbank@mbslsavingsbank.com **Web:** www.mbslsavings.com

Hotline: 2 374000 / 0716 163163