



**Merchant Bank of Sri Lanka & Finance PLC**  
**FINANCIAL STATEMENTS**  
**FOR THE YEAR ENDED 31 DECEMBER 2022**

LRA BBB+ Stable  
 Co. Reg. No. PQ 10



Chairman  
 Merchant Bank of Sri Lanka and Finance PLC  
 Report of the Auditor General on the Financial Statements and Other Legal and Regulatory Requirements of the Merchant Bank of Sri Lanka and Finance PLC and its subsidiary for the year ended 31 December 2022 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

STATEMENT OF PROFIT OR LOSS	2022 Rs. 000	2021 Rs. 000
<b>Income</b>	<b>6,542,593</b>	<b>5,971,065</b>
Interest and similar income	6,451,083	5,525,955
Interest and similar expenses	(4,695,684)	(2,675,588)
<b>Net interest income</b>	<b>1,755,399</b>	<b>2,850,367</b>
Fee and commission income	129,157	189,929
Fee and commission expenses	(19,205)	(38,587)
<b>Net fee and commission income</b>	<b>109,952</b>	<b>151,342</b>
Net trading income	2,265	44,281
Net gain/(loss) on financial instruments at fair value through profit or loss	(132,131)	(23,435)
Other operating income	92,229	234,335
<b>Total operating income</b>	<b>1,827,704</b>	<b>3,256,890</b>
Impairment charges for loans and other losses	16,504	(74,450)
<b>Net operating income</b>	<b>1,844,208</b>	<b>3,182,440</b>
Personnel expenses	(1,333,268)	(1,200,450)
Depreciation and amortisation	(265,420)	(245,115)
Other operating expenses	(660,683)	(613,860)
<b>Total operating expenses</b>	<b>(2,259,371)</b>	<b>(2,059,425)</b>
<b>Operating profit/(loss) before VAT on financial services and impairment of investment in group companies</b>	<b>(415,163)</b>	<b>1,123,015</b>
Impairment reversal/(charge) of investment in subsidiary	(113,773)	(16,019)
<b>Profit/(loss) from operations after impairment of investment in group companies</b>	<b>(528,936)</b>	<b>1,106,996</b>
Taxes on financial services	(127,978)	(294,268)
<b>Profit/(loss) before income tax</b>	<b>(656,914)</b>	<b>812,728</b>
Income tax (expense)/reversal	161,306	(283,684)
<b>Profit/(loss) for the year</b>	<b>(495,608)</b>	<b>529,044</b>
<b>Earnings per share:</b>		
Basic/diluted earnings/(loss) per share:	(0.94)	2.04

STATEMENT OF COMPREHENSIVE INCOME	2022 Rs. 000	2021 Rs. 000
<b>Profit/(loss) for the year</b>	<b>(495,608)</b>	<b>529,044</b>
<b>Other comprehensive income/(expenses)</b>		
Other comprehensive income to be reclassified to profit or loss in subsequent periods (net of tax):		
Gains/(losses) on re-measuring financial investments at fair value through other comprehensive income	(10,735)	(22,217)
<b>Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods</b>	<b>(10,735)</b>	<b>(22,217)</b>
<b>Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):</b>		
Actuarial gains/(losses) on defined benefit plans	47,045	59,658
Deferred tax effect relating to components of other comprehensive income	(14,113)	(16,449)
<b>Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods</b>	<b>32,932</b>	<b>43,209</b>
Other comprehensive income/(expenses) for the year, net of tax	22,197	20,992
<b>Total comprehensive income/(expenses) for the year, net of tax</b>	<b>(473,411)</b>	<b>550,036</b>

STATEMENT OF FINANCIAL POSITION	2022 Rs. 000	2021 Rs. 000
<b>Assets</b>		
Cash and cash equivalents	748,724	1,191,374
Placements with banks & financial institutions	103,682	246,166
Financial investments at fair value through profit or loss	287,510	341,547
Loans & receivables at amortised cost	24,423,300	28,184,638
Financial investments at fair value through other comprehensive income	15,863	1,989,169
Financial investments at amortised cost	4,307,394	-
Real estate stock	96,937	175,816
Investment in associate	81,084	81,084
Investment in subsidiary	257,631	371,404
Investment properties	104,798	107,703
Property, equipment and right-of-use assets	504,669	607,185
Intangible assets	103,208	128,578
Deferred tax assets	33,824	-
Other assets	163,157	852,795
<b>Total assets</b>	<b>31,231,781</b>	<b>34,277,459</b>
<b>Liabilities</b>		
Due to banks	2,925,953	4,116,812
Due to customers at amortised cost	23,524,609	22,267,862
Debt issued and borrowed funds at amortised cost	69,082	2,381,579
Current tax liabilities	49,029	178,898
Deferred tax liabilities	-	78,301
Other liabilities	686,361	764,118
Retirement benefits obligations	281,203	320,934
<b>Total liabilities</b>	<b>27,536,237</b>	<b>30,108,504</b>
<b>Equity</b>		
Stated capital	4,276,448	4,276,448
Statutory reserves	339,996	339,996
Retained earnings	(944,964)	(427,847)
RLA reserve	54,441	-
OCI reserve	(30,377)	(19,642)
<b>Total equity</b>	<b>3,695,544</b>	<b>4,168,955</b>
<b>Total liabilities and equity</b>	<b>31,231,781</b>	<b>34,277,459</b>
Commitments and contingent liabilities	103,938	102,400
Net assets value per share (Rs.)	7.05	16.08

SELECTED PERFORMANCE INDICATORS	As at 31/12/2022 (Unaudited)	As at 31/12/2021 (Unaudited)
<b>Regulatory capital adequacy</b>		
Core capital (tier 1 capital), Rs. '000	2,973,001	3,492,691
Total capital base, Rs. '000	3,151,598	3,681,259
Core capital adequacy ratio, as % of risk weighted assets (minimum requirement, 8.5%)	11.33%	10.75%
Total capital adequacy ratio, as % of risk weighted assets (minimum requirement, 12.5%)	12.01%	11.33%
Capital funds to deposit liabilities ratio (minimum requirement, 10%)	14.65%	20.50%
<b>Assets quality (quality of loan portfolio)</b>		
Gross non-performing accommodations, Rs. '000	5,161,299	5,352,157
Gross non-performing accommodations ratio, %	17.77%	15.92%
Net non performing accommodations ratio, %	8.14%	6.01%
<b>Profitability (%)</b>		
Interest margin	5.85%	9.42%
Return on assets (before tax)	-2.01%	1.59%
Return on equity (after tax)	-12.60%	18.77%
<b>Regulatory liquidity (Rs. '000)</b>		
Required minimum amount of liquid assets	2,636,887	2,563,952
Available amount of liquid assets	3,485,014	3,252,670
Required minimum amount of government securities	1,894,394	1,991,713
Available amount of government securities	2,992,197	2,599,103
<b>Memorandum information</b>		
Number of employees	893	982
Number of branches	39	39
Number of other centers	9	9

**Cap on Loans and Advances and Deposits**  
 The company has been imposed with caps of LKR 25 Bn on net loans & advances, LKR 23.9 Bn on deposits by 31<sup>st</sup> March 2023 & deposit limit in terms of section 3.2 (c) (vi) of the finance business act guideline No.1 of 2022 on PCA Framework for LCFs with effect from 1<sup>st</sup> September 2022. MBSL has already announced an unsecured subordinated redeemable debenture of LKR 500 Mn with ability to increase up to LKR 1 Bn to comply with total capital requirement (Tier 1).

**Certification:**  
 We, the undersigned, being the Head of Finance and the Chief Executive Officer of Merchant Bank of Sri Lanka & Finance PLC certify jointly that:

- (a) The above statements have been prepared in compliance with the format and definitions prescribed by the Central Bank of Sri Lanka;
- (b) The information contained in these statements have been extracted from audited financial statements of the Licensed Finance Company unless indicated as "Unaudited".

(Sgd.) P I Kandanaratchchi  
 Head of Finance  
 29/03/2023

(Sgd.) H K D W M D K Hapuhinna  
 Chief Executive Officer  
 29/03/2023

**1.1 Opinion**  
 The audit of the Financial Statements of the Merchant Bank of Sri Lanka and Finance PLC (the "Company") and the Consolidated Financial Statements of the Company and its subsidiary (the "Group") for the year ended 31 December 2022 comprising the statement of financial position as at 31 December 2022 and the statement of profit or loss, the statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the Financial Statements, including a summary of significant accounting policies, was carried out under my direction in pursuance of provisions in Article 154(1) of the Constitution of the Democratic Socialist Republic of Sri Lanka read in conjunction with provisions of the National Audit Act No. 19 of 2018. My report to Parliament in pursuance of provisions in Article 154(4) of the Constitution will be tabled in due course. To carry out this audit I was assisted by a firm of Chartered Accountants in public practice.

In my opinion, the accompanying financial statements give a true and fair view of the financial position of the Company and the Group as at 31 December 2022 and of their financial performance and their cash flows for the year then ended in accordance with Sri Lanka Accounting Standards.

**1.2 Basis for Opinion**  
 I conducted my audit in accordance with Sri Lanka Auditing Standards (SLAuSs). My responsibilities, under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my opinion.

**1.3 Key Audit Matters**  
 Key audit matters are those matters that, in my professional judgment, were of most significance in my audit of the financial statements of the current period. These matters were addressed in the context of the audit of the financial statements as a whole, and in forming my opinion thereon, and I do not provide a separate opinion on these matters. For each matter below, my description of how my audit addressed the matter is provided in that context.

I have fulfilled the responsibilities described in the Auditor's responsibilities for the audit of the financial statements section of my report, including in relation to these matters. Accordingly, my audit included the performance of procedures designed to respond to my assessment of the risks of material misstatement of the financial statements. The results of my audit procedures, including the procedures performed to address the matters below, provide the basis for my audit opinion on the accompanying financial statements.

Key audit matter	How my audit addressed the key audit matter
<b>Allowance for Impairment Losses on Loans &amp; Receivables at amortised cost</b> This was a key audit matter due to: Allowance for Impairment Losses on Loans & Receivables at amortised cost as stated in Notes 12 & 23 is determined by management in accordance with the accounting policies described in Note 3.5.11. This was a key audit matter due to: • the materiality of the reported allowance for Impairment Losses which involved complex calculations; and • degree of judgements, significance of assumptions and level of estimation uncertainty associated with estimating future cash flows management expects to receive from such Loans & Receivables at amortised cost. Key areas of significant judgements, estimates and assumptions used by management in the assessment of the allowance for Impairment Losses included the following: • management overlays to incorporate the current economic contraction; • the incorporation of forward-looking information such that expected cash flows reflect current and anticipated future external factors, in the multiple economic scenarios and the probability weighting determined for each of these scenarios.	In addressing the adequacy of the allowance for Impairment Losses on Loans & Receivables at amortised cost, My audit procedures included the following key procedures: • I assessed the alignment of the allowance for Impairment Losses computations and underlying methodology including responses to market economic volatility with its accounting policies, based on the best available information up to the date of my report. • I evaluated the internal controls over estimation of allowance for Impairment Losses, which included assessing the level of oversight, review and approval of allowance for Impairment Losses policies and procedures by the Board and management. • In addition to the above, the following procedures were performed: • For loans & receivables assessed on an individual basis for impairment: - I evaluated the reasonableness of credit quality assessments. - I checked the arithmetical accuracy of the underlying individual impairment calculations. - I evaluated the reasonableness of key inputs used in the provision for credit impairment made with particular focus on the current economic contraction. Such evaluations were carried out considering the rates and timing of cash flow forecasts particularly relating to elevated risk industries, debt moratoriums and status of recovery actions of the collateral. • For Loans & Receivables at amortised cost assessed on a collective basis for impairment: - I tested the key calculations used in the allowance for impairment. - I assessed whether judgements, estimates and assumptions used by the Management in the underlying methodology and the management overlays, were reasonable. My testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each of those scenarios. - I assessed the adequacy of the related financial statement disclosures as set out in Notes 3.5.11, 12, 23 and 48.2.
<b>Information Technology (IT) systems and controls over financial reporting</b> A significant part of the Company's financial reporting process is significantly reliant on multiple IT systems with automated processes and internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formalised with the use of spreadsheets. Accordingly, IT systems and related internal controls over financial reporting were considered a key audit matter.	My audit procedures included the following: • I obtained an understanding of the internal control environment of the processes relating to financial reporting and related disclosures. • I identified and tested relevant controls of key IT systems related to the Company's financial reporting process. • I involved my internal specialised resources to evaluate the design and operating effectiveness of IT controls, including those related to user access and change management. • I checked key source data of the reports used to generate key disclosures for accuracy and completeness, including review of the general ledger reconciliations. • I also obtained an understanding, primarily through inquiry of the other security risks affecting the Company and the actions taken to address these risks. Further, I checked changes if any have been made to security monitoring procedures, given the increase in use of remote working access including the Company's monitoring on remote working activities.

**1.4 Other information included in the Company's 2022 Annual Report**  
 The other information comprises the information included in the Company's 2022 Annual Report, but does not include the financial statements and my auditor's report thereon, which is expected to be made available to me after the date of this auditor's report. Management is responsible for the other information. My opinion on the financial statements does not cover the other information and I do not express any form of assurance conclusion thereon.

In connection with my audit of the financial statements, my responsibility is to read the other information identified above when it becomes available and, in doing so, consider whether the other information is materially inconsistent with the financial statements or my knowledge obtained in the audit or otherwise appears to be materially misstated. When I read the Company's 2022 Annual Report, if I conclude that there are material misstatements therein, I am required to communicate that matter to those charged with governance for correction. If further material uncorrected misstatements are identified those will be included in my report to Parliament in pursuance of provisions in Article 154 (9) of the Constitution that will be tabled in due course.

**1.5 Responsibilities of Management and Those Charged with Governance for the Financial Statements**  
 Management is responsible for the preparation of Financial Statements that give a true and fair view in accordance with Sri Lanka Accounting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error. In preparing the Financial Statements, management is responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless management either intends to liquidate the Group or to cease operations, or has no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Company's and the Group's financial reporting process. As per Section 16(1) of the National Audit Act No. 19 of 2018, the Group is required to maintain proper books and records of all its income, expenditure, assets and liabilities, to enable annual and periodic Financial Statements to be prepared of the Group.

**1.6 Auditor's Responsibilities for the Audit of the Financial Statements**  
 My objective is to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes my opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with Sri Lanka Auditing Standards will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements. As part of an audit in accordance with Sri Lanka Auditing Standards, I exercise professional judgment and maintain professional scepticism throughout the audit. I also:

- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for my opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the management.

- Conclude on the appropriateness of the management's use of the going concern basis of accounting and based on the evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If I conclude that a material uncertainty exists, I am required to draw attention to my auditor's report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify my opinion. My conclusions are based on the audit evidence obtained up to the date of my auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the financial statements, including the disclosures, and whether the financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

I communicate with those charged with governance regarding, among other matters, significant audit findings, including any significant deficiencies in internal control that I identify during my audit.

**2. Report on Other Legal and Regulatory Requirements**  
**2.1 National Audit Act, No. 19 of 2018 and Companies Act, No. 7 of 2007** Include specific provisions for following requirements.

2.1.1 I have obtained all the information and explanation that required for the audit and as far as appears from my examination, proper accounting records have been kept by the Company as per the requirement of section 163 (2) (d) of the Companies Act, No. 7 of 2007 and the section 12 (g) of National Audit Act, No. 19 of 2018.

2.1.2 The financial statements of the Company comply with the requirement of section 151 of the Companies Act, No. 07 of 2007.

2.1.3 The financial statements presented is consistent with the preceding year as per the requirement of section 6 (1) (d) of the National Audit Act, No. 19 of 2018.

2.1.4 The financial statements presented includes all the recommendations made by me in the previous year as per the requirement of section 5 (1) (b) of the National Audit Act, No. 19 of 2018.

2.2 Based on the procedures performed and evidence obtained were limited to matters that are material, nothing has come to my attention,  
 2.2.1 to state that any member of the governing body of the Company has any direct or indirect interest in any contract entered into by the Company which are out of the normal course of business as per the requirement of section 12 (d) of the National Audit Act, No. 19 of 2018.

2.2.2 to state that the Company has not complied with any applicable written law, general and special directions issued by the governing body of the Company as per the requirement of the section 12 (f) of the National Audit Act, No. 19 of 2018 except for:

Reference to law/direction Description  
 Direction No 03 of 2018 issued by the Central Bank of Sri Lanka (Risk Weighted Average Capital Adequacy Requirements). Non-compliance of the total capital ratio as disclosed in Note 48.1 of the financial statements.

2.2.3 to state that the Company has not performed according to its powers, functions and duties as per the requirement of section 12 (g) of the National Audit Act, No. 19 of 2018.

2.2.4 to state that the resources of the Company had not been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws as per the requirement of section 12 (h) of the National Audit Act, No. 19 of 2018.

W.P.C. Wickramaratne  
 Auditor General

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