



Merchant Bank of Sri Lanka & Finance PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2024

Fitch Ratings A(Ika) Outlook Stable
Co. Reg. No. PQ 10



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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எனது இல. } My No. } BAN/H/BOC-S/MBSL/FA/2024 }
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දිනය
திகதி } Date } 27 March 2025

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 2024 in terms of Section 12 of the National Audit Act, No. 19 of 2018.

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Merchant Bank of Sri Lanka and Finance PLC (the "Company") and its subsidiary ("Group") for the year ended 31 December 2024 comprising the statement of financial position as at 31 December 2024 and the statement of profit or loss, statement of comprehensive income, statement of changes in equity and statement of cash flows for the year then ended, and notes to the financial statements, including material accounting policy information, 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 (6) 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 of the Company and the Group give a true and fair view of the financial position of the Company and the Group as at 31 December 2024 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 the 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
<p>Expected Credit Losses of Loans and Advances measured at amortized cost.</p> <p>Expected credit losses of loans and advances measured at amortized cost as disclosed in note 23 is determined by management based on accounting policies described in Note 3.5.11 to the financial statements.</p> <p>This was a key audit matter due to</p> <ul style="list-style-type: none"> The involvement of significant management judgments, assumptions and level of uncertainty associated with estimating future cash flows to recover such loans and advances; and The materiality of the reported amount of expected credit losses. <p>Key areas of significant judgements, assumptions and estimates made by management in the assessment of expected credit losses for loans and advances include forward-looking macro-economic scenarios, associated weightages and considerations that indicate significant increase in credit risk. These are subject to inherently heightened levels of estimation uncertainty.</p> <p>Information of such key estimates, assumptions and judgements are disclosed in Note 3.5.11.</p>	<p>In addressing the adequacy of expected credit losses of loans and advances, my audit procedures included the following key procedures:</p> <ul style="list-style-type: none"> Assessed the Group's expected credit loss computations with the underlying methodology including responses to economic conditions to its accounting policies, based on the best available information up to the date of my report. Evaluated the design, implementation, and operating effectiveness of controls over estimation of expected credit losses, which included assessing the level of oversight, review and approval of expected credit losses, policies and procedures by the Board of Directors and management. Tested the completeness, accuracy and reasonableness of the underlying data used in expected credit loss computations by agreeing details to relevant source documents and accounting records of the Group. Evaluated the reasonableness of credit quality assessments and related stage classifications. <p>The following procedures were also performed:</p> <ul style="list-style-type: none"> For Loans and advances on an individual basis for impairment: Tested arithmetical accuracy of the underlying individual impairment calculations. Evaluated reasonableness of key inputs used in expected credit losses made with economic conditions. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to risk elevated industries and status of recovery action of the collaterals. For Loan and advances assessed on a collective basis for impairment: Tested key inputs and the calculations used in the allowances of expected credit losses. Assessed reasonableness of judgements, assumptions and estimates used by the management in the underlying methodology and the management overlays. My testing included evaluating reasonableness of forward looking information used, economic scenarios considered, and probability weighting assigned to each scenario. <p>Assessed the adequacy of the related financial statement disclosures set out in Notes 3.5.11, 23 & 48.2.</p>
<p>Information Technology (IT) systems related internal controls over financial reporting</p> <p>Group's financial reporting process is significantly reliant on multiple IT systems and related internal controls. Further, key financial statement disclosures are prepared using data and reports generated by IT systems, that are compiled and formulated with the use of spread sheets.</p> <p>Accordingly, IT systems related internal controls over financial reporting were considered a key audit matter.</p>	<p>My audit procedures included the following key procedures :</p> <ul style="list-style-type: none"> Obtained an understanding of the internal control environment of the processes and tested relevant key controls relating to financial reporting and related disclosures. Involved our internal specialized resources and ; <ul style="list-style-type: none"> Identified, evaluated and tested the design and operating effectiveness of IT systems related internal controls, including those related to user access and change management, and Obtained a high-level understanding of the cyber security risks affecting the Group and the actions taken to address these risks primarily through inquiry. Tested source data of the reports used to generate disclosures for accuracy and completeness, including review of the general ledger reconciliations.

1.4 Other information included in the 2024 Annual Report.

The other information comprises the information included in the Group's 2024 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 Group's 2024 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 existed those will be included in my report to Parliament in pursuance of provisions in Article 154 (6) 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 determine 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 Company and the Group are required to maintain proper books and records of all their income, expenditure, assets and liabilities, to enable annual and periodic financial statements to be prepared of the Company and 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 internal control of the Company and the Group.
- 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 audit 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 in 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.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. I am responsible for the direction, supervision and performance of the group audit. I remain solely responsible for my audit opinion.

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 section 12 (a) of the 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) (iii) 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 6 (1) (d) (iv) 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 section 12 (f) of the National Audit Act, No. 19 of 2018.

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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Merchant Bank of Sri Lanka & Finance PLC

(Subsidiary of Bank of Ceylon)

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STATEMENT OF PROFIT OR LOSS	2024 Rs. 000	2023 Rs. 000
Income	7,582,723	7,478,049
Interest and similar income	6,207,886	6,559,123
Interest and similar expenses	(4,021,096)	(4,918,658)
Net interest income	2,186,790	1,640,465
Fee and commission income	211,880	123,292
Fee and commission expenses	(43,332)	(16,757)
Net fee and commission income	168,548	106,535
Net trading income	793,811	120,243
Net gain/(loss) on financial instruments at fair value through profit or loss	257,327	559,224
Other operating income	111,819	116,167
Total operating income	3,518,295	2,542,634
Allowance for impairment losses reversal/(charge) for loans and other assets	101,111	25,094
Net operating income	3,619,406	2,567,728
Personnel expenses	(1,400,614)	(1,289,690)
Depreciation and amortisation	(291,078)	(272,869)
Other operating expenses	(1,084,583)	(739,416)
Total operating expenses	(2,776,275)	(2,301,975)
Operating profit/(loss) before VAT on financial services and impairment of investment in group companies	843,131	265,753
Impairment reversal/(charge) of investment in subsidiary	(4,435)	95,065
Profit/(loss) from operations after impairment of investment in group companies	838,696	360,818
Taxes on financial services	(392,787)	(292,911)
Profit/(loss) before income tax	445,909	67,907
Income tax (expense)/reversal	(205,455)	(47,019)
Profit/(loss) for the year	240,454	20,888
Earnings per share:		
Basic/diluted earnings/(loss) per share:	0.46	0.04

STATEMENT OF COMPREHENSIVE INCOME	2024 Rs. 000	2023 Rs. 000
Profit/(loss) for the year	240,454	20,888
Other comprehensive income/(expenses)		
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	2,750	(1,515)
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods	2,750	(1,515)
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		
Actuarial gains/(losses) on defined benefit plans	(45,492)	(63,207)
Deferred tax effect relating to components of other comprehensive income	13,648	18,962
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods	(31,844)	(44,245)
Other comprehensive income/(expenses) for the year, net of tax	(29,094)	(45,760)
Total comprehensive income/(expenses) for the year, net of tax	211,360	(24,872)

STATEMENT OF FINANCIAL POSITION	2024 Rs. 000	2023 Rs. 000
Assets		
Cash and cash equivalents	752,190	720,397
Placements with banks & financial institutions	203,332	574,588
Financial investments at fair value through profit or loss	8,534,914	8,161,368
Loans & receivables at amortised cost	25,942,008	19,054,715
Financial investments at fair value through other comprehensive income	16,554	14,348
Financial investments at amortised cost	3,473,969	3,727,940
Real estate stock	40,446	58,158
Investment in associate	81,084	81,084
Investment in subsidiary	348,261	352,696
Investment properties	-	95,446
Property, equipment and right-of-use assets	467,355	585,436
Intangible assets	61,329	67,117
Deferred tax assets	91,893	54,951
Other assets	186,673	150,878
Total assets	40,200,008	33,699,122
Liabilities		
Due to banks	8,144,088	2,599,970
Due to customers at amortised cost	25,956,175	25,444,119
Debt issued and borrowed funds at amortised cost	730,033	741,030
Current tax liabilities	209,437	30,055
Other liabilities	895,070	858,908
Retirement benefits obligations	383,174	354,368
Total liabilities	36,317,977	30,028,450
Equity		
Stated capital	4,276,448	4,276,448
Statutory reserves	392,265	344,174
Retained earnings	(1,189,204)	(1,289,648)
RLA reserve	424,622	371,590
OCI reserve	(22,100)	(31,892)
Total equity	3,882,031	3,670,672
Total liabilities and equity	40,200,008	33,699,122
Commitments and contingent liabilities	48,858	42,093
Net assets value per share (Rs.)	7.40	7.00

SELECTED PERFORMANCE INDICATORS	As at 31/12/2024 (Unaudited)	As at 31/12/2023 (Unaudited)
Regulatory capital adequacy		
Core capital (tier 1 capital), Rs. '000	3,079,961	2,950,935
Total capital base, Rs. '000	3,719,619	3,634,681
Core capital adequacy ratio, as % of risk weighted assets (minimum requirement, 8.5%)	11.97%	13.60%
Total capital adequacy ratio, as % of risk weighted assets (minimum requirement, 12.5%)	14.45%	16.75%
Capital funds to deposit liabilities ratio (minimum requirement, 10%)	15.87%	15.75%
Assets quality (quality of loan portfolio)		
Gross non-performing accommodations, Rs.'000	3,990,711	4,579,316
Gross non-performing accommodations ratio, %	14.07%	21.06%
Net non performing accommodations ratio, %	4.08%	7.12%
Profitability(%)		
Interest margin	6.52%	5.55%
Return on assets (before tax)	1.21%	0.21%
Return on equity (after tax)	6.37%	0.57%
Regulatory liquidity (Rs.'000)		
Required minimum amount of liquid assets	3,172,545	2,859,509
Available amount of liquid assets	9,697,514	3,257,794
Required minimum amount of government securities	1,945,408	2,086,865
Available amount of government securities	2,991,310	2,979,348
Memorandum information		
Number of employees	870	785
Number of branches	47	48

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:

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

(Sgd.)
Charitha Vithana
Chief Financial Officer
26/03/2025

(Sgd.)
H K D W M D K Hapuhinna
Chief Executive Officer
26/03/2025

(Sgd.)
D M S P Bandara
Compliance Officer
26/03/2025