



Merchant Bank of Sri Lanka & Finance PLC

FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2025

Rating 'A (Ika)'
Co. Reg. No. PQ 10



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தேசிய கணக்காய்வு அலுவலகம்
NATIONAL AUDIT OFFICE



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My No. } BAN/H/BOC/S/MBSL/FA/2025/06
கணக்காய்வு
Your No. }

දිනය
Date } 27 March 2026

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 2025 in terms of Section 12 of the National Audit Act, No. 19 of 2018, as amended.

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 (the "Group") for the year ended 31 December 2025 comprising the statement of financial position as at 31 December 2025 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 2025 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

Expected Credit Losses of Loans and Advances measured at amortized cost.

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.

This was a key audit matter due to

- the significant management judgements, assumptions and estimation uncertainty involved in assessing the future recoverability of Loans and Advances; and
- the materiality of the reported amount of allowance of expected credit losses.

Key areas of significant judgements, assumptions and estimates used by management in the assessment of the impairment for expected credit losses included determining whether significant increase in credit risk has occurred, use of a broad range of forward looking macroeconomic inputs and their associated weightages which are subject to inherently heightened levels of estimation uncertainty and subjectivity. Further information on the key estimates, assumptions and judgements is disclosed in Notes 3.5.11.

How my audit addressed the key audit matter

In addressing the allowances for expected credit losses of loan and advances measured at amortized cost, my audit procedures included the following key procedures:

- Assessed the alignment of the Company's allowances for expected credit loss computations with the underlying methodology and related accounting policies, based on the best available information up to date of my report.
- Evaluated the design, implementation and operating effectiveness of controls over estimation of expected credit losses.
- Assessed the level of oversight, review and approval of allowances for expected credit losses, policies and procedures by the Board and management.
- Tested the completeness, accuracy and reasonableness of the underlying data used in the expected credit loss computations by agreeing details to relevant source documents and accounting records of the Company.
- Evaluated the reasonableness of qualitative and quantitative factors used in credit quality assessments and related stage classifications.
- In addition to the above, the following procedures were performed:
 - » **For Loans and advances on an individual basis for impairment:**
 - Evaluated the reasonableness of key inputs used in the allowances for expected credit losses made. Such evaluations were carried out considering the value and timing of cash flow forecasts particularly relating to elevated risk industries and status of recovery action of collateral.
 - Tested the arithmetical accuracy of the underlying individual impairment calculations.
 - » **For loans and advances assessed on a collective basis for impairment:**
 - Tested the key inputs and the calculations used in the allowances for expected credit losses.
- Assessed the reasonableness of judgements, assumptions and estimates used by the Management in the underlying methodology including any considerations by Management relating to overlays to the ECL allowance.
- My testing included evaluating the reasonableness of forward-looking information used, economic scenarios considered, and probability weighting assigned to each scenario.

Assessed the adequacy of the related financial statement disclosures set out in notes 3.5.11, 23 and 48.2.

Information Technology (IT) systems related internal controls over financial reporting

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 formulated with the use of spreadsheets.

Accordingly, IT systems and related internal controls over financial reporting were identified as a key audit matter.

My audit procedures included the following key procedures:

- Obtained an understanding of the internal control environment of the processes and tested relevant key controls relating to financial reporting and related disclosures.
- Involved my internal specialized resources and;
 - 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 Company 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 Group's 2025 Annual Report.

The other information comprises the information included in the 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 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 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 skepticism throughout the audit. 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.

- Plan and perform the group audit to obtain sufficient appropriate audit evidence regarding the financial information of the entities or business units within the Group as a basis for forming an opinion on the consolidated financial statements. I am responsible for the direction, supervision and review of the audit work performed for the purposes 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) 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 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.

2.1.3 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.

L.S.I. Jayaratna
Auditor General

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Merchant Bank of Sri Lanka & Finance PLC

(Subsidiary of Bank of Ceylon)

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E-mail : mbslbank@mbslbank.com, Web Site : www.mbslbank.com

STATEMENT OF PROFIT OR LOSS	2025 Rs. 000	2024 Rs. 000
Income	7,904,903	7,582,723
Interest and similar income	7,243,533	6,207,886
Interest and similar expenses	(4,273,983)	(4,021,096)
Net interest income	2,969,550	2,186,790
Fee and commission income	233,879	211,880
Fee and commission expenses	(94,055)	(43,332)
Net fee and commission income	139,824	168,548
Net trading income	782,290	804,725
Net gain/(loss) on financial instruments at fair value through profit or loss	(586,908)	257,327
Other operating income	232,109	100,905
Total operating income	3,536,865	3,518,295
Allowance for impairment losses reversal/(charge) for loans and other assets	111,515	46,193
Net operating income	3,648,380	3,564,488
Personnel expenses	(1,500,408)	(1,400,614)
Depreciation and amortisation	(295,628)	(291,078)
Other operating expenses	(906,190)	(1,029,665)
Total operating expenses	(2,702,226)	(2,721,357)
Operating profit/(loss) before VAT on financial services and impairment of investment in group companies	946,154	843,131
Impairment reversal/(charge) of investment in subsidiary	(29,693)	(4,435)
Profit/(loss) from operations after impairment of investment in group companies	916,461	838,696
Taxes on financial services	(405,504)	(392,787)
Profit/(loss) before income tax	510,957	445,909
Income tax (expense)/reversal	(245,436)	(205,455)
Profit/(loss) for the year	265,522	240,454
Earnings per share:		
Basic/diluted earnings/(loss) per share:	0.51	0.46

STATEMENT OF COMPREHENSIVE INCOME	2025 Rs. 000	2024 Rs. 000
Profit/(loss) for the year	265,522	240,454
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	13,004	2,750
Net other comprehensive income/(expenses) to be reclassified to profit or loss in subsequent periods	13,004	2,750
Other comprehensive income not to be reclassified to profit or loss in subsequent periods (net of tax):		
Actuarial gains/(losses) on defined benefit plans	(37,644)	(45,492)
Deferred tax effect relating to components of other comprehensive income	11,293	13,648
Net other comprehensive income/(expenses) not to be reclassified to profit or loss in subsequent periods	(26,351)	(31,844)
Other comprehensive income/(expenses) for the year, net of tax	(13,347)	(29,094)
Total comprehensive income/(expenses) for the year, net of tax	252,175	211,360

STATEMENT OF FINANCIAL POSITION	2025 Rs. 000	2024 Rs. 000
Assets		
Cash and cash equivalents	618,703	752,190
Placements with banks & financial institutions	-	203,332
Financial investments at fair value through profit or loss	7,634,038	8,534,914
Loans & receivables at amortised cost	39,585,583	25,942,008
Financial investments at fair value through other comprehensive income	54	16,554
Financial investments at amortised cost	4,425,177	3,473,969
Real estate stock	26,029	40,446
Investment in associate	81,084	81,084
Investment in subsidiary	318,568	348,261
Investment properties	-	-
Property, equipment and right-of-use assets	1,080,743	467,355
Intangible assets	38,374	61,329
Deferred tax assets	130,134	91,893
Other assets	449,308	186,673
Total assets	54,387,795	40,200,008
Liabilities		
Due to banks	14,889,904	8,144,088
Due to customers at amortised cost	31,792,758	25,956,175
Debt issued and borrowed funds at amortised cost	1,821,393	730,033
Current tax liabilities	166,186	209,437
Other liabilities	1,159,257	895,070
Retirement benefits obligations	424,091	383,174
Total liabilities	50,253,589	36,317,977
Equity		
Stated capital	4,276,448	4,276,448
Statutory reserves	450,501	392,265
Retained earnings	(1,011,105)	(1,189,204)
RLA reserve	418,362	424,622
OCI reserve	-	(22,100)
Total equity	4,134,206	3,882,031
Total liabilities and equity	54,387,795	40,200,008
Commitments and contingent liabilities	61,624	48,858
Net assets value per share (Rs.)	7.88	7.40

SELECTED PERFORMANCE INDICATORS	As at 31/12/2025 (Unaudited)	As at 31/12/2024 (Unaudited)
Regulatory capital adequacy		
Core capital (tier 1 capital), Rs. '000	3,379,195	3,079,961
Total capital base, Rs. '000	4,943,210	3,719,619
Core capital adequacy ratio, as % of risk weighted assets (minimum requirement, 8.5%)	9.10%	11.97%
Total capital adequacy ratio, as % of risk weighted assets (minimum requirement, 12.5%)	13.31%	14.45%
Capital funds to deposit liabilities ratio (minimum requirement, 10%)	19.87%	16.02%
Assets quality (quality of loan portfolio)		
Gross non-performing accommodations, Rs.'000	3,190,380	3,990,711
Gross non-performing accommodations ratio, %	7.39%	14.07%
Net non performing accommodations ratio, %	2.41%	4.08%
Profitability(%)		
Interest margin	6.63%	6.52%
Return on assets (before tax)	1.08%	1.21%
Return on equity (after tax)	6.62%	6.37%
Regulatory liquidity (Rs.'000)		
Required minimum amount of liquid assets	3,696,294	3,172,545
Available amount of liquid assets	4,472,364	9,697,514
Required minimum amount of government securities	2,206,919	1,945,408
Available amount of government securities	3,760,381	2,991,310
Memorandum information		
Number of employees	900	870
Number of branches	47	47

Certification;
We, the undersigned, being the Head of Finance, the Chief Executive Officer and Compliance 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.)
A C P Ekanayake
Chief Financial Officer
27/03/2026

(Sgd.)
H K D W M D K Hapuhinna
Chief Executive Officer
27/03/2026

(Sgd.)
D M S P Bandara
Compliance Officer
27/03/2026