

1. Financial Statements

1.1 Opinion

The audit of the financial statements of the Merchant Bank of Sri Lanka & Finance PLC (the “Company”) and the consolidated financial statements of the company and its subsidiary (the “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, the statement of comprehensive income, statement of changes in equity and the 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 comments and observations which I consider should be report to parliament appear in this report. 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 its financial performance and its 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 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 intend 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 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 Company.

1.4 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. 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 Company'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 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.

The scope of the audit also extended to examine as far as possible, and as far as necessary the following;

- Whether the organization, systems, procedures, books, records and other documents have been properly and adequately designed from the point of view of the presentation of information to enable a continuous evaluation of the activities of the Company, and whether such systems, procedures, books, records and other documents are in effective operation;

- Whether the Company has complied with applicable written law, or other general or special directions issued by the governing body of the Company;
- Whether the Company has performed according to its powers, functions and duties; and
- Whether the resources of the Company had been procured and utilized economically, efficiently and effectively within the time frames and in compliance with the applicable laws.

1.5 Accounts Receivable and Payable

1.5.1 Receivables

Audit Issue	Management Comment	Recommendation																
(i) A balance should be recoverable from a staff member who had engaged in fraudulent activities shown as employee receivable. Long outstanding employee receivable balances aggregating to Rs.43.44 million were observed which are outstanding from one year to five years period. The age analysis of the long outstanding employee receivable balances is given in the following table.	Out of LKR 43.44 Mn, the Company has provided for LKR 39.41 Mn as at 31.12.2024. Legal action has been taken and in progress to recover from respective employees.	It is recommended to take necessary steps to clear long outstanding employee receivable balances including appropriate legal and disciplinary measures. The Company should establish a clear policy and timeline for the recovery of such dues, including escalation procedures and potential write-offs where recovery is deemed unfeasible. Strengthening internal controls and regular monitoring transactions and events is also essential to prevent recurrence of such cases in the future.																
<table><tr><th>Description</th><th colspan="3">Outstanding Period (Years)</th></tr><tr><th></th><th>1-3</th><th>3-5</th><th>Total</th></tr><tr><th></th><th>(Rs.Mn.)</th><th>(Rs.Mn.)</th><th>(Rs.Mn.)</th></tr><tr><td>Employee Receivable</td><td>4.70</td><td>38.74</td><td>43.44</td></tr></table>	Description	Outstanding Period (Years)				1-3	3-5	Total		(Rs.Mn.)	(Rs.Mn.)	(Rs.Mn.)	Employee Receivable	4.70	38.74	43.44		
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	(Rs.Mn.)	(Rs.Mn.)	(Rs.Mn.)															
Employee Receivable	4.70	38.74	43.44															

1.5.2 Payable

Audit Issue					Management Comment	Recommendation																																											
(i)	The Long outstanding payable balances aggregating to Rs.74.45 million were observed in relation to Unidentified Direct Deposit, Un presented Payment, Customer Collection Account, Accrued Expenses and Deposit Payable to Deceased Customers which are outstanding from one year to more than five years period. The age analysis of the long outstanding payable balances are given in the following table.				In line with the Board-approved Policy on Clearing Long Outstanding Balances in the General Ledger, the company undertakes regular actions to resolve such balances. As part of this process, any unsettled balances exceeding five years will be written off or written back, subject to acceptable recommendations and approvals.	It is recommended to take necessary steps to clear long outstanding payable balances by following the Board approved policy of the Company. Further the Company should actively monitor the legal proceedings and engage with relevant stakeholders to expedite resolution. Where balances are confirmed as unrecoverable or no longer payable, appropriate write-off actions should be initiated in line with policy and subject to necessary approvals. Strengthening internal reconciliation processes and enhancing the timeliness of clearing such balances will also help prevent accumulation of similar issues in the future.																																											
	<table><tr><th rowspan="3">Description</th><th colspan="4">Outstanding Period (Years)</th></tr><tr><th>1-3</th><th>3-5</th><th>More than 05</th><th>Total</th></tr><tr><th>(Rs. Mn)</th><th>(Rs.Mn)</th><th>(Rs. Mn)</th><th>(Rs. Mn).</th></tr><tr><td>Unidentified Direct Deposits</td><td>4.11</td><td>6.85</td><td>-</td><td>10.96</td></tr><tr><td>Unpresented Payment</td><td>0.40</td><td>0.34</td><td>0.04</td><td>0.78</td></tr><tr><td>Customer Collection Account</td><td>1.91</td><td>0.09</td><td>51.19</td><td>53.19</td></tr><tr><td>Accrued Expenses</td><td>7.39</td><td>-</td><td>-</td><td>7.39</td></tr><tr><td>Deposit payable to deceased Customer</td><td>1.46</td><td>0.67</td><td>-</td><td>2.13</td></tr><tr><td>Total</td><td>15.27</td><td>7.95</td><td>51.23</td><td>74.45</td></tr></table>				Description		Outstanding Period (Years)				1-3	3-5	More than 05	Total	(Rs. Mn)	(Rs.Mn)	(Rs. Mn)	(Rs. Mn).	Unidentified Direct Deposits	4.11	6.85	-	10.96	Unpresented Payment	0.40	0.34	0.04	0.78	Customer Collection Account	1.91	0.09	51.19	53.19	Accrued Expenses	7.39	-	-	7.39	Deposit payable to deceased Customer	1.46	0.67	-	2.13	Total	15.27	7.95	51.23	74.45	As of 31 December 2024, the Customer Collection Account reflects a total outstanding balance of LKR 53.19 Mn. A significant portion of this amounting to LKR 50.7 Mn relates to funds received from Navara Capital (Pvt) Ltd. These funds were collected several years ago and have remained unresolved due to ongoing litigation.
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1.5.3 Advances

Audit Issue		Management Comment	Recommendation
(i)	The aggregated outstanding balance of top 10 Non- Performing customers was Rs. 1,578.82 million as at 31 December 2024 and it represents 26.77 percent of total non-performing gross loans and advances of the	MAG – Legal settlement sought. Case ongoing	It is recommended that the satisfactory actions need to be taken by the company to recover the balance
		Corporate Risk management Consultants – court judgment delivered in favour of MBSL.	

Company as at that date. Details are given below.

No	Name of the Customer	Total Amount Outstanding (Rs. Mn)
1	MAG Storage Battery (pvt) Ltd	387.02
2	Corporate Risk Management Consultants (pvt) Ltd	350.68
3	A P A Jewellery (pvt) Limited	259.68
4	M/S Kent Hydro (pvt) Ltd	173.84
5	Walkers Sons & Company Engineers (pvt) Ltd	104.79
6	Daya Group (pvt) Ltd	65.50
7	Sigiriya Viceroy Hotels (pvt) Ltd	63.73
8	Mrs.W.J.R.Fernando	61.94
9	Dr. U.G.A.Fernando	57.58
10	Mr.R.A.L.Wimaladasa	54.06
Total		1,578.82

Proceeding by negotiating of settlement with customer

APA Jewellery – Settlement collected amounting to Rs. 105 mn to date.

M/S/ Kent Hydro – client is paying a monthly installment of Rs. 5,585,000 each month.

Walkers Sons & Company – outstanding balance fully settled

Daya Group – Settlement terms breached. Writ action to be filed.

Sigiriya Viceroy Hotels – Acquired property agreed to sell to a selected buyer. Transaction to be completed by December 2025.

Mrs. WJR Fernando – Agreed settlement carried through part settlements as per Board approved settlement plan. Outstanding dues to be fully paid by December 2025.

Dr. UGA Fernando – next Case calling date fixed for 16th December 2025 for trial. Settlement is being negotiated with the customer.

Mr RAL Wimaladasa – 2 cases have been filed. One case has been called for trial on 21/10/2025 and the other on 12/01/2026. Settlement is being negotiated with the customer.

due from Non - Performing customers. Further, strengthening credit risk assessment processes, improving post-disbursement monitoring, and enhancing early warning mechanisms are essential to mitigate the recurrence of high-value non-performing customers.

- (ii) The gross total loan portfolio of the Company as at 31 December 2024 aggregating to Rs.30, 274.94 million with a significant concentration observed in Leasing (38.63%), Pawning (16.45%), and Short-Term Loans (15.82%).

As at present, we have discontinued the Micro Loans, Bill Discounting, Daily Collection, Hire Purchase and Cheque Discounting facilities.

It is recommended that the Company conduct a comprehensive review of the performance, credit

These three product categories alone account for over 70% of the total portfolio, indicating a relatively high product concentration risk. Product wise analysis of the total loan portfolio of the Company are given below.

Product Name	Total Gross Loan Portfolio as at 31 December 2024 (Rs.Mn.)	Percent age to the Gross Loan Portfolio %
Leasing	11,696.54	38.63
Hire purchase	275.75	0.91
Closure type 10- LE	8.95	0.03
Term Loan	3,770.37	12.45
Housing Loan	43.02	0.14
Auto Loan	77.04	0.26
Staff car loan	147.87	0.49
Staff Education Loan	0.03	0.00
Staff Housing Loan	0.26	0.00
Staff personal Loan	49.64	0.16
Short Term Loan	4,790.17	15.82
Micro Finance	261.95	0.87
Personal Loan	876.56	2.90
Daily Collection	69.56	0.23
Bill Discounting	456.53	1.51
Cheque Discounting	75.11	0.25
Pawning	4,981.10	16.45
Loan Against Deposits	688.27	2.27
Real Estate Loan	16.93	0.06
Margin Trading	1,989.29	6.57
Total	30,274.94	100.0

MBSL continues to grow the loans advances book with strict control and the current lending book stands at **LKR 38,795,439,104/-**

Leasing, STL, Auto Loans, Easy Drafts and Term Loans have been key products in the growth phase. Strict credit underwriting with continued follow up on cash flows and recoveries have ensured a healthy portfolio.

risk exposure, and recovery trends of these segments to ensure the sustainability and resilience of the loan book. In addition, efforts should be made to diversify the portfolio by promoting underrepresented but potentially viable products such as Housing Loans, Microfinance, and Bill Discounting. This diversification, supported by sound credit evaluation and market analysis, will enhance portfolio stability and reduce overreliance on a few product types, thereby strengthening the Company's overall risk management framework.

1.5.4 IT General Controls

Audit Issue	Management Comment	Recommendation
(i) The absence of an adequately documented and approved Standard Operating Procedures (SOP) over backup management function presents several risk factors for the company such as inconsistency and errors in the handling of the backup management process. Further, without SOP documentation, there is a risk of inconsistent or ineffective utilization of the backup management tool which could also result in complications while training the staff members for the established process without documentation.	As per the IS Audit concern raised by the IS Auditors, the IT Department has implemented the Veeam Backup solution. Therefore, according to the Backup process of the Veeam Backup solution, the IT Department is in the process of implementing the SOP document for the same and will be presented to the next IT Steering Committee (27 th IT Steering Committee meeting, which will be held in the month of November) and will be finalized.	It is recommended to minimize the risk factors in backup management process by improving new backup solution and the SOP document.
(ii) A Security Operations Centre (SOC) is essential for a company as it provides a solution for monitoring, detecting and responding to security threats in real time. In the absence of a SOC within the company, it may have limited visibility into ongoing attacks, making it easier for attackers to compromise systems and steal sensitive data.	At Present, we have already engaged with the FINCSIRT ISOC Service and threat Intelligence services, and to meet the requirement for a 24/7/365 SOC service, initiated the procurement process for Managed SOC. The SOC will be implemented by 1 st quarter of 2026.	It is recommended to establish a SOC to minimize the security threats.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 240.4 million and the corresponding profit in the preceding year amounted to Rs. 20.8 million. Therefore, an improvement amounting to Rs.219.6 million of the financial result was observed. The main reason for the improvement is the increase of total operating income by Rs. 975.6 million in the year under review when compared with the preceding year.

2.2 Trend Analysis of major Income and Expenditure items

Analysis of major income and expenditure items of the year under review as compared with the preceding year with the percentage of increase or decrease are given below.

Description	2024 (Rs.'000)	2023 (Rs.'000)	Change (%)	Reason for the Variance
Interest and Similar Income	6,207,886	6,559,123	(5.35)	Interest income has slightly decreased mainly due to decrease in interest rates in par with market rates on loans & receivables at amortized cost and placement with banks and financial institutions.
Interest and Similar Expenses	4,021,096	4,918,658	(18.2)	Interest expense has decreased due to decrease in interest rates on deposit base and the borrowings of the company.
Fee and Commission Income	211,880	123,292	71.85	Fee and Commission Income has increased mainly due to increase of trade and other related activities such as gross lease and loan granting during the year 2024.
Net Trading Income	793,811	120,243	560.17	The result arise from trading activities including gain on disposal of financial assets at Fair Value through Profit or Loss (FVTPL).
Other Operating Income	111,819	116,167	(3.74)	Decrease in other operating income has resulted due to decrease of profit & losses from real dividend income from associates while increasing the recovery of bad debts written off and gains on disposal of property & equipment.
Allowance for Impairment losses reversal for Loans and Other assets	101,111	25,094	302.92	Allowance for Impairment losses reversal for Loans and Other assets has increased mainly due to increase in impairment on individual significant loans and write off while decreasing the impairment provided on collective basis.

2.3 Ratio Analysis

According to the information made available, certain important ratios of the Company for the year under review and the preceding year are given below with comparison to the Sector Ratios published by the Central Bank of Sri Lanka.

Description	Sector Ratio *	Company	
		2024	2023
Performance Ratios			
Return on Equity (ROE)	13.5	6.37	0.57
Return on Assets (ROA)	6.1	0.65	0.06
Interest Margin	10.6	6.52	5.55
Assets Quality Ratio			
Gross Non-performing Advances (NPA)	11.3	13.18	19.32
Capital Adequacy Ratios			
Tier 1 Capital (Minimum 8.50%)	20.4	11.97	13.60
Total Capital (Minimum 12.50%)	21.2	14.45	16.75
Statutory Ratio			
Liquid Assets Ratio	11.4	31.19	11.59

*** Sector ratios had taken from CBSL web site under Finance Sector - Licensed Finance Companies**

3. Operational Review

3.1 Identified Losses

Audit Issue	Management Comment	Recommendation
(i) The Company has written off 87 numbers of non-performing loans and advances aggregating to Rs.108.7 million during the year under review under the approval of the Board of Directors due to inability of recovery.	After evaluating all options of recovery, recommendations to write off made to the Board for approval. Balances include inherited portfolio at the time of merger in 2015. Further efforts are being made by the “Write Off Collection Team” in the Recoveries Dept. to recover these written off balances on an ongoing basis.	It is recommended to take every possible effort to recover the loans and advances before write off and to strengthen its credit evaluation process and loan monitoring mechanisms to minimize future occurrences of non-performing loans.

3.2 Operational Inefficiencies

Audit Issue	Management Comment	Recommendation
(i) 125 numbers of seized vehicles were sold during the year 2024. However, out of the above 125 vehicles, 94 vehicles were sold at a lower price than the forced sale value given in the valuation report. The aggregated loss from the aforesaid transaction to the company was Rs. 28,632,511.	Considering that many vehicles had been held for an extended period without maintenance and were repeatedly advertised with limited offers, the “Disposals Committee” collectively decided to accept the available bids to mitigate further disposal losses.	It is recommended that the Company strengthen its asset disposal process by ensuring timely sales, periodic revaluation to reflect market conditions, minimal maintenance of seized vehicles, and wider marketing channels to attract competitive bids, thereby minimizing future losses on asset disposals.
(ii) Out of the above 125 vehicles, total Capital Outstanding amount as at the disposal date relating to 106 vehicles was Rs.146,867,288. However, the Company was only able to recover the capital amount of Rs. 76,624,366 from the vehicle disposal by leaving a balance of Rs. 70,242,922 remain still outstanding and to be recovered from the customers. Therefore, the company had not been recovered at least disbursed amount even after the disposal of the vehicles. It was observed that upon inability of recovering the aforesaid amount from the customers, the company may have to incur the losses.	The higher reported loss is primarily due to the company’s recovery appropriation methodology, under which recovery of charges takes priority, followed by an allocation of 70% of the remaining proceeds to capital recovery and 30% to partial interest recovery. If the entire disposal value had been applied to capital recovery, the loss would have been reduced to Rs. 39.5 million.	It is recommended to take decisions in a prudent manner which minimize the possible losses to the company while following the company’s policy. As well the Company should strengthen its credit risk management and post-seizure recovery processes by

closely monitoring high-risk accounts, initiating timely recovery actions, and ensuring that disposal strategies are optimized to maximize realizations and reduce potential future losses.

- (iii) Significant delays were observed when disposing seized vehicles from the yard. Out of **56** parked vehicles in the yard as at 31 July 2025, **43** vehicles were parked there since a long period. This may cause for incurring of high maintenance cost over years and the losses may arise due to reduction of market values as well. Details are given below.

Parked Period in the Yard	Number of Vehicles
1 – 3 Years	04
3 – 5 Years	06
More than 05 Years	37
Total	47

As of 31st July 2025, there were 56 vehicles in our yards. Of these, 44 vehicles are classified as court-bonded and cannot be disposed of until the bonds are canceled through court orders. Three (03) vehicles are held due to RMV objections filed by customers, while four (04) vehicles from the remaining nine have been released, leaving only five (05) vehicles still retained in the yards.

It is recommended that the Company expedite legal and administrative processes related to court-bonded and RMV-objection cases to minimize holding periods, reduce maintenance costs, and prevent further decline in the market value of the seized vehicles.

- (iv) Loan no. - 7620941

The company had granted a term loan facility of Rs. 8.5 Mn to a particular customer in 2020 to meet three purposes. The main purpose was to settle the loans obtained from other institution. Following

This loan has been settled in full on 10 September 2025.

It is recommended to follow the credit policy instructions and accuracy of

observations are made in this regard.

- As per Section 6.3.2. (2) of the Procedure Manual, the company had not evaluated earlier loan with the following conditions mentioned in the manual.

- Regular satisfactory payment.
- Over 35 per cent of the capital has been repaid.
- If the facility is a revolving/capital STL facility, total capital outstanding excluding interest outstanding can be taken over.
- Reason is justifiable to MBSL.

Agreed with the comment

documents must be evaluated in correct manner when granting the loan facilities to minimize future occurrence of non-performing loans.

- The customer's repayment capacity had not been properly evaluated and not obtained and evaluated any valid income proof documents.

Agreed with the comment

- The company had restructured the facility in 2021 and a secondary mortgage bond has been signed. However, the secondary mortgage bond was not included in the offer letter.

Agreed with the comment

- Although Debt moratorium on loan installments had been given in 2021 as per the loan system documents, documentary evidences such as requisition made by the applicant, appraisal, evaluation, progress were not available in the loan files.

Agreed with the comment

(v) Loan No.-7193199

The company had granted a term loans and a moratorium loan facilities to a particular customer since 2019 to 2021. As the repayments were not regular of existing facilities, in 2021, the company had restructured the facilities by converting all existing loans into one loan amounting to Rs. 71.5 million. Following observations are made regarding the restructured facility.

- Total loan amount had been granted by exceeding the Forced Sales Value (FSV) of the mortgaged property as opposed to the instructions mentioned in the Credit Procedure Manual.

Agreed with the comment.
The restructure of LKR 71.5 Mn. was granted considering upto 100%

The credit policy instructions and accuracy of documents must be evaluated in correct manner when granting the loan facilities to minimize future occurrence of non-performing loans.

• The audited financial statement of the year 2021 has not been obtained to evaluate the financial position.	exposure from the market value of the property valuation of LKR 71.84 Mn. dated 10.06.2019 based on the BOD approval for the LTV deviation, considering the customer's cash flow constrains experienced during the pandemic crisis period.	
• As per the financial statements in year 2019 and 2020, the borrowing company had reported unsatisfactory financial performance.	Agreed with the comment. Since the audit was not finalized by the time of granting the facility, Management financials were considered for 2021 along with audited financials of 2019 & 2020.	
	Agreed with the comment. The said unsatisfactory standing of the applicant company reflected in provided audit financials were noted and commented under clause No. 9.2, financial highlights of the credit appraisal. The facility had been considered as restructure in order to pave way for an exit plan.	
(vi) The company has 14 acquired properties as at 31 December 2024 which relating to the facilities given before 2015. After the facilities became non-performing the company had acquired these properties to recover the outstanding dues. According to the information made available, the capital outstanding amounting to Rs.61, 151,284 which is only relevant for 06 acquired properties.	The acquired properties are related to facilities defaulted by customers and acquired after legal proceedings. MBSL Real Estate Department is entrusted with sale of these properties at the earliest possible after the property is acquired by MBSL. However some of the loan balances have been written-off long years ago	It is recommended to take every possible effort to sell acquired properties and recover the outstanding dues and increase the Company income against write-off loan

and currently no balances are available in the system. The sale of these acquired properties take some times long time due to legal disputes, unable to locate the property and no buyers for the property after advertising.

balances. Further the company need to expedite the disposal process of the acquired properties to the extent possible in order to recover any remaining value and minimize holding costs. Regular follow-up with legal authorities and periodic reviews by management are advised to ensure timely resolution of legal disputes. And also to initiate appropriate marketing strategies to attract potential buyers and facilitate quicker disposal.

3.3 Procurements

	Audit Issue	Management Comment	Recommendation
	The Company had procured a cloud based Human Resources Management System named “MINT HRM” to fulfill the operational and strategic requirements at a total cost of Rs. 5,887,500. Following observations are made in this regard.	Full payment has not been made. A discount has been negotiated. Payroll module has not been implemented as the payroll function has been outsourced to a 3rd party. This module includes 2 sub modules that are not used. The other 3 sub modules relate to the Strategic main module, where the	It is recommended to do a feasibility study of the system to ensure the fulfillment of the company’s requirements before enter into an agreement and also the management should ensure that the revised system implementation scope and pricing are properly reflected in the vendor agreement and related
(i)	The system includes three modules such as Operational module, Strategic module and Compensations module. These modules must be implemented within		

	120 days as per the estimated timeline of the project. Significant timeline variation was observed between estimated time and real time of implementation the MINT HRM System. 5 out of 17 sub modules were not implemented and 1 module was not available as at 31 December 2024.	configuration needs to be completed by MINT HR.	accounting records.
		A Board approval has been obtained on 29 th September 2025 to implement only two modules and for reduction of price of LKR 387,500/- from the original price.	
(ii)	As per agreed payment terms, seventy percent of payments should be made upon successful implementation and confirmation of all modules. Although 6 out of 17 modules were not started up to 31 December 2024, seventy percent of payments has been disbursed up to August 2023.	A Board approval has been obtained on 29 th September 2025 to implement only two modules and for reduction of price of LKR 387,500/- from the original price. Operational modules are being fully utilized currently by the HR dept.	Management should ensure that future system implementation payments are made strictly in accordance with the agreed milestones and completion confirmations to safeguard company funds. Any changes to the project scope or payment terms should be formally documented, approved by the Board, and reflected in the vendor agreement. In addition, management should closely monitor the performance and usage of the implemented modules to ensure that the system delivers the intended operational benefits.

3.4 Human Resource Management

	Audit Issue	Management Comment	Recommendation
(i)	Two Hundred and Fourteen (214) numbers of employees had left the company during the year 2024 which represents 27.05 percent of existed number of employees as at 01 January 2024. This indicates high staff turnover of the Company during the year under review.	The collective agreement has been finalized and signed in 2025 with the MBSL employees' trade union, increasing benefits and facilities granted to employees in order to encourage staff to remain with MBSL. The 214 referred to includes 201 in the permanent cadre and 13 trainees who were employed	It is recommended to take appropriate measures to enhance job satisfaction and retention of the Company employees which may help for the smooth functioning of the Company's operations.

under contact basis. The majority of staff who had resigned belonged to the marketing functions of the company.