Merchant Bank of Sri Lanka and Finance PLC - 2023

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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 2023 comprising the statement of financial position as at 31 December 2023 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 2023 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 Audit Scope

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 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)	Long outstanding receivable balances aggregating to Rs.95.28 million were observed in relation to interest receivable from Fingara Town & Country Club, Employee Receivable Account and Customer Liability Bank Guarantee account which are outstanding from 1 year to more than five years period. The age analysis of the long outstanding receivable balances is given in the following table.	**Fingara Town & Country Club** This is the Interest Receivable - Fingara Town & Country Club (Pvt) Limited under Investment property. Interest has been accrued from May 2014 to October 2014 and litigation has been executed to recover with capital of Rs. 110,000,000/-. Interest Receivable Rs. 8,380,000/- Fully provided. **Employee Receivable** ** More than 05 Year* Rs. 235,500/- Written-off with the Board approval in March 2024. ***** *Kandana Fraud – Rs. 37,160,000 /-* It is a relevant to Kandana branch FD fraud - Still under litigation process. ** Amount receivable from a resigned employee Mr. B.G.G.Nilanga -Rs.296,000* Settlement pending due to legal outcome ** Claim payment to Ms. R.A.A Perera – Rs. 1,347,300* An entry logged with CID in order to investigate the captioned matter and to recover the loss. Made arrangements to sell the vehicle and	It is recommended to take necessary steps to clear long outstanding receivable balances.

Outstanding Period (Years)

Description	0-1	1-3	3-5	More than 05 Year	Total
	(Rs.Mn.)	(Rs.Mn.)	(Rs.Mn.)	(Rs.Mn.)	(Rs.Mn.)
Fingara Town & Country Club	-	-	-	8.38	**8.38**
Employee Receivable	-	5.77	38.80	0.24	**44.81**
Customer Liability Bank Guarantee	31.22	10.87	-	-	**42.09**
Total	**31.22**	**16.64**	**38.80**	**8.62**	**95.28**

to recover the balance as well.

**Galle branch Window creditor receivable- Rs. 839,950.94*

Written-off with the Board approval in July 2024

**Loan Settlement of ECO Cabana- Rs. 2,673,905.65*

Action was filed in SCIB Galle. Case is in final stage. Settlement pending due to legal outcome

**Anuradhapura branch Pawning articles fraud-Rs.2,256,211.07*

An inquiry and a court case in progress in the Anuradhapura police and the Anuradhapura courts. Few gold articles are in the custody of courts as the articles to the case. The court case is ongoing and completion is pending until the legal case is concluded

1.5.2 Payable

	Audit Issue	Management Comment	Recommendation
(i)	The Long outstanding payable balances aggregating to Rs.143.74 million were observed in relation to Unidentified Direct Deposit, Unpresented Payment, Customer Collection Account, Unscheduled Payment Collection, and Deposit Payable to Deceased Customer, Accrued Expenses and Term Cash Disbursement Account which are outstanding from 1 year to more than five years period. The age analysis of the long outstanding balances is given in the following table.	**Unidentified Direct Deposits** This includes unidentified direct deposits from the customers to our bank accounts. Those were sent to the branches for the identification with the available information. As per the current long outstanding balances policy, the balances are removed from books of accounts every five years, hence balances relevant to the year 2019, will be cleared in the year 2024. The deposits received after 2019 has to be kept in the books of accounts, until the identification of the customer by the relevant branch and send the same with the approval to Finance division to transfer funds to the respective facility. **Unpresented Payments**	It is recommended to take necessary steps to clear long outstanding payable balances and follow the directions and policies of the Company.

Description	**Outstanding Period (Years)**				
	0-1	**1-3**	**3-5**	**More than 05 Years**	**Total**
	(Rs. Mn)	**(Rs. Mn)**	**(Rs. Mn)**	**(Rs. Mn)**	**(Rs. Mn).**
Unidentified Direct Deposits	2.32	6.78	5.12	-	14.22
Unpresented	0.63	0.14	0.65	1.98	3.40

Payment					
Customer Collection Account	5.27	1.68	0.12	100.44	107.51
Unscheduled Payment Collection	1.02	0.12	0.005	-	1.15
Deposit payable to deceased Customer	1.29	0.3	0.6	-	2.19
Accrued Expenses	12.02	0.04	0.04	-	12.1
Term Cash Disbursement Account	-	3.17	-	-	3.17
Total	**22.55**	**12.23**	**6.54**	**102.42**	**143.74**

Payments made but not presented over 6 months are transferred to this account.

Those information are sent to the respective divisions to clear the liability at the time of transferring to the liability account.

Subsequent payments are posted when required to clear these balances.

As per the current long outstanding balances policy, the balances are removed from books of accounts every five years and the balances relevant to the year 2019 will be cleared in the year 2024.

Customer Collection Account

Main component relevant to the legal case filed by Navara Capital Ltd amounting to Rs.100Mn and this amount has to be kept in the books of accounts until finalization of the legal case.

2017 - FD Slip returned amounting to Rs. 18,340/- cleared in the month of January 2024.

Rs. 426,580.82 related to Debenture payments belong to a deceased customer and his heirs might request this funds through a court order. This is being followed up by Corporate Advisory & Capital Markets dept. on regular basis.

There are some other balances remaining after settling the facilities by the customers. When receiving the confirmation from respective customer touch points, the amounts could be cleared from the book of accounts. 2019 balances will be cleared within the year 2024 as per the current long outstanding balance policy.

Unscheduled Payment Collection

Rs. 4,500/- balance in 3-5 year bucket cleared in August 2024.

Rs. 122,400/- was from excess collected on Disposal of vehicle loan 4548218

Rs. 1,023,000/- Excess collected on Disposal of vehicles 8055317, 8763981, 7718901, 7412119

All these balances were cleared in Aug 2024.

Deposit payable to deceased Customer

Settlement of Rs.377, 740.55 pending legal outcome.

Rs.144, 480.12 to be paid to the nominee. Reminder to be sent.

Rs.493,861.10 balance payment to be paid to the 2nd legal hair (Overseas).

Rs.647, 587.55 a letter to be sent to the administrator requesting legal documents to finalize.

Rs.525,931.30 unable to contact the legal hairs. A letter will be sent to the deceased address to produce necessary documents to clear the balance.

Accrued Expenses

Rs. 35,700/- in 3-5 year bucket is payable to Amarasekara & Co. for Tax consultancy. Will be cleared before December 2024 after reconciling the payments.

Rs. 41,900/- in 1-3 year bucket is payable to Nativeway for Generator. Over provision will be cleared by SS division after reconciling payments before December 2024.

Rs. 12,025,500/- in 0-1 year bucket is related to AGM & annual report printing for 2023, HR gratuity, leave encashment, insurance on pawning, Mcash and agency commission payments.

Term Cash Disbursement Account

FD division has cleared this balance in February 2024.

1.5.3 Advances

Audit Issue

(i) The aggregated outstanding balance of top 10 Non- Performing customers was Rs. 1,075.34 million as at 31 December 2023 and it represents 16.44 per cent of total non-performing gross loans and advances of the Company as at that date. Details are given below.

No.	Name of the Customer	Total Amount Outstanding (Rs. Mn)
1	Corpoate Risk Management Consultants (pvt) Ltd	245.57
2	M/S Kent Hydro (pvt) Ltd	194.33
3	A P A Jewellery (pvt) Limited	163.75
4	MAG Storage Battery (pvt) Ltd	142.62
5	Walkers Sons & Company Engineers (pvt) Ltd	81.05
6	Daya Group (pvt) Ltd	79.97
7	Plantation Development & Management (pvt) Ltd	52.34
8	Dr. U.G.A.Fernando	42.05
9	Sigiriya Viceroy Hotels (pvt) Ltd	39.11
10	Anura Man Power Suppliers (pvt) Ltd	34.55
Total		**1,075.34**

Management Comment

1. **Corpoate Risk Management Consultants (pvt) Ltd** Response provided under 3.2 Operational Inefficiencies (iv)

2. M/S Kent Hydro (pvt) Ltd

LOD Sent on 08/09/2023. Recoveries Department requested The Legal Department to refrain from filling action due to the ongoing settlement discussions.

Client has been paying one installment every month. Negotiation is being done for full settlement.

3. A P A Jewellery (pvt) Limited

1D and 4D - DECREE NISI made absolute, 2D & 3D - Steps to be taken to Serve notices on the Foreign Address.

Settlement plan negotiated with client and collected LKR 92Mn.

4. MAG Storage Battery (pvt) Ltd

Further trials are ongoing, based on legal cases filed.

5. Walkers Sons & Company Engineers (pvt) Ltd

Judgments delivered in favor of 2 separate cases on 02/08/2024 and 19/02/2024 respectively.

Repayment plan of LKR 100Mn given to customer with the Board approval and collected Rs. 5.0Mn.

6. Daya Group (pvt) Ltd

Terms of settlement entered on 11/06/2024.

Settlement plan entered in courts for LKR 78.50Mn and collected LKR 10.0Mn up to date.

7. Plantation Development & Management (pvt) Ltd

Recommendation

Satisfactory actions need to be taken by the Company to recover the total due amount from the Non-Performing customers.

	Response provided under 3.2 Operational Inefficiencies (vii). **8. Dr. U.G.A.Fernando** Further trial on 05/11/2024. **9. Sigiriya Viceroy Hotels (pvt) Ltd** Response provided under 3.2 Operational Inefficiencies (vi). **10. Anura Man Power Suppliers (pvt) Ltd** Response provided under 3.2 Operational Inefficiencies (viii).	

1.5.4 IT General Controls

	Audit Issue	Management Comment	Recommendation
(i)	The company uses the Commvault backup management tool for the backup operation process and it is not the latest version. It could result in unavailability of important updates and patches, by increasing the likelihood of data breaches.	We are currently in the process of procuring new backup solution to address the concerns raised by Auditors and to address few other operational issues. We are planning to complete the implementation by December 31, 2024.	It is recommended to use the latest version of IT system to improve the backup data operation process.

2. Financial Review

2.1 Financial Result

The operating result of the year under review amounted to a profit of Rs. 20.8 million and the corresponding loss in the preceding year amounted to Rs. 495.6 million. Therefore, an improvement amounting to Rs.516.4 million of the financial result was observed. The main reason for the improvement is the increase of total operating income by Rs. 714.9 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	2023 (Rs.'000)	2022 (Rs.'000)	Change (%)	Reason for the Variance
Interest and Similar Income	6,559,123	6,451,083	1.67	Interest income has slightly increased mainly due to increase of financial investments at fair value through profit or loss (FVTPL) and placement with banks and financial institutions.
Interest and Similar Expenses	4,918,658	4,695,684	4.75	Interest expense has increased due to increase of deposit base and the borrowings of the company.
Fee and Commission Income	123,292	129,157	(4.54)	Fee and Commission Income has decreased mainly due to decrease of trade and other related activities.
Net Trading Income	120,243	3,658	3,187.0	The result arise from trading activities including gain on disposal of financial assets at Fair Value through Profit or Loss (FVTPL).
Other Operating Income	116,167	90,826	27.90	Increase in other operating income has resulted due to increase in gains on disposal of property & equipment, dividend income from associates and other income while decreasing the profit & losses from real estates.
Impairment Chargers for Loans and Other Losses	25,094	16,504	52.05	Impairment chargers for Loan and other losses has increased mainly due to increase in impairment on individual significant loans and the impairment computed on collective loans and decreasing the write off .

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	
		2023	2022
Performance Ratios			
Return on Equity (ROE)	12.09	0.57	(12.60)

Return on Assets (ROA)	4.23	0.06		(1.51)
Interest Margin	7.74	5.55		5.85
Assets Quality Ratio				
Gross Non-performing Advances (NPA)	17.76	19.32		17.77
Capital Adequacy Ratios				
Tier 1 Capital (Minimum 8.50%)	21.13		13.60	11.33
Total Capital (Minimum 12.50%)	22.33		16.75	12.01
Statutory Ratio				
Liquid Assets Ratio	14.09		11.59	13.41

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

3. Operational Review

3.1 Identified Losses

No.	Audit Issue	Management Comment	Recommendation
(i)	The Company has written off 127 numbers of non-performing loans and advances aggregating to Rs.64.09 million during the year under review under the approval of the Board of Directors due to inability of recovering.	As per the guidelines stated in the Board approved write off policy, management decides to write off facilities where payments were not received for longer period/unsecured disposal balances etc. However, Prior to write-off, all possible recovery actions were taken to collect the outstanding dues and litigation process will be further continued until fully settle the facility.	It is recommended to take every possible effort to recover the loans and advances before writing off.

3.2 Operational Inefficiencies

No.	Audit Issue	Management Comment	Recommendation
(i)	Hundred and thirteen (113) numbers of seized vehicles were sold during the year 2023. However, out of the above 113 vehicles, 98 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 calculated as Rs. 18.05 million.	The company disposed of its repossessed vehicles within the parameters given in the vehicle yard operation procedure. However, the company managed to dispose of almost all vehicles at transaction profits even though the vehicles were disposed of at 20% less than the forced sale value. Further, the actual market values of repossessed vehicles are comparatively less than the regular valuations. As per the yard operation procedure, the Disposal Committee decided to dispose of the vehicles above 80% of the forced sale price. Realizing assets wherever possible is an economic decision during the prevailing turbulent time and, such disposal decisions were taken assuming that the shortfall is expected to be recovered from the customer through the recovery process.	It is recommended to take action to minimize the losses to the company from sale of seized vehicles.
(ii)	The Company had granted leasing facilities to customers aggregating to Rs.30.27 million, by keeping 23 vehicles as securities, which were sold during the year 2023 after they have been seized. However, only Rs.15.71 million was received and the balance of Rs.14.56 million is still to be recovered from the customers. Therefore, the Company was unable to get recovered at least disbursed amount even after 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 loss.	Most of the facilities obtained by the customers are to provide services related to construction activities. The facilities were granted before the pandemic, which resulted in a deteriorated condition of the vehicles, reduction of offer values, etc. due to the market conditions that prevailed. However, the management is taking every possible step to recover the balances from the customers through recovery actions such as direct negotiations, outsourcing agents and litigation process.	It is recommended to take decisions in a prudent manner which minimize the possible losses to the company.
(iii)	Significant delays were observed when disposing the seized vehicles in the yard.	Out of the listed 65 vehicles, 52 are court bonded, which cannot be disposed	It is recommended to take every possible

	Out of 115 parked vehicles in the yard as at 31 May 2024, 65 vehicles were parked there since long period of time. 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 relating to parking period of vehicles are given below. **Parked Period in the Yard** — **Number of vehicles** 1 – 3 Years — 19 3 – 5 Years — 09 More than 05 Years — 37 **Total** — **65**	of until the cancellation of bonds through court. Due to RMV objection from the customers, 03 vehicles cannot be disposed of until the customer effects the cancellation, and 01 vehicle itemized in the list was disposed of and released accordingly. The balance 09 vehicles will be disposed of through the auction process scheduled for 16th August 2024 at Dambulla yard, where the Board approval has already been obtained	effort to clear the bond by the court and also dispose the seized vehicles by incurring minimum loss to the company.
(iv)	The company had granted short term loan and a moratorium loan facilities to a Corporate Risk Management Consultants (pvt) Ltd since 2019 to 2021. In 2021 as per the irregular payment pattern of the said customer and on the request of the customer, without considering the payment history, the Company had restructured the facilities by converting all the existing loans into a one loan amounting to Rs.250.32 million. Following observations are made regarding the restructured facility.		The credit policy instructions and accuracy of documents must be evaluated in correct manner when granting the loan facilities.
	• 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. However board approval has been obtained to exceed the FSV.	BOD has approved	
	• The Company had not obtained the audited financial statements to evaluate the financial position of the borrowing company.	Agreed with the comment	
	• The Company had not informed to the personal guarantor and further action had not been taken against the	Agreed with the comment	

	guarantor.		
	• The Company had not implemented following strategies recommended by the credit committee to reduce the overall risk of the restructuring process. Strategies recommended by the credit committee I. Audited Financial Statements of the Company shall be obtained for the financial year 2020/2021. II. Future Business Plans, details of existing /proposed business projects of the company together with forecasted financial statements shall be obtained. III. Conduct periodical reviews on business performance, CRIB reports and cash flow position of the applicant company until the full settlement of the facilities. 1st review shall performed within 6 months of the restructured loan and reported to credit committee by the post Credit Monitoring Unit/Central Business Unit.	Agreed with the comment	
(v)	The Company had granted the revolving and term loan facilities to the Ranjanas (pvt) Ltd who is a reputed retail trader in textile market from 2014 to 2017. As the repayments were not regular of existing facilities, the Company had restructured the outstanding balance of the existing term loans in August 2019 to the amount of Rs.25.22 million. Following observations are made about the restructured facility.		The credit policy instructions and accuracy of documents must be evaluated in correct manner when granting the loan facilities.
	• As per Section 3.0 of the Procedure Manual, stringent control measures had not been applied and followed up and the monitoring and supervision part had not been done properly before the restructuring process.	Agreed with the comment.	

	• Proper guarantor evaluation had not been done.	Agreed with the comment	
	• The Company had not obtained the audited financial statements of the borrowing company to evaluate the financial position.	Agreed with the comment	
	• The borrowing company had paid 03 installments after the restructuring, and the letter of demand has been issued in December 2023. The customer has continued to make capital repayment of Rs. 500,000 per month since February 2024.	Company continue to make capital repayment of LKR 500,000/- per month, accordingly, already paid LKR 3.5Mn since February 2024.	
(vi)	The Company had granted a term loan facility of Rs.34.14 million to Sigiriya Viceroy Hotels (pvt) Ltd in May 2010. The facility was transferred to the Non Performing Category (NPA) in December 2014. Following observations are made in this regard.		Satisfactory actions need to be taken by the Company to recover the total due amount from the customer or from the guarantor.
	• The granted loan amount was higher than the forced sale value (FSV) of the property mortgaged.	Agreed with the comment.	
	• The property mortgaged as security had some legal problems relating to the ownership.	Agreed with the comment.	
(vii)	The Company had granted two term loan facilities aggregating to Rs.52.34 million to Plantation Development & Management (pvt) Ltd which is an expert in the coconut industry in Sri Lanka. Two properties and a personal guarantee had been obtained as security against the loan. Due to non-payment of installments, the facility had transferred to NPA in December 2014. Following observations are made in this regard.		Credit policy instructions and accuracy of documents must be evaluated in correct manner when granting the loan facilities.
	• Properties which are mortgaged for these facilities are leasehold properties of the Government.	Agreed with the comments.	

	• Director of the borrowing Company is untraceable.	Agreed with the comments.	
(viii)	Two loan facilities of Rs. 20 million and Rs. 5 million had been granted to Anura Manpower Suppliers (pvt) Ltd in 2010, on a property mortgage. It had been transferred to NPA in 2010 due to nonpayment of installments. Further the borrower had voluntarily transferred the above mentioned property to the Company in 2012. Following observations are made in this regard.		Credit policy instructions and accuracy of documents must be evaluated in correct manner when granting the loan facilities.
	• The Company could not sell the above property due to non- availability of legal access to the land and also it is situated in a flooded area.	Agreed with the comment	
	• As per the valuation report dated February 2022, it has a zero value.	Agreed with the comment	
(ix)	Out of the total 49 branches of the company, 40 branches had reported a loss aggregated to Rs.414.64 million as at 31 December 2023. The reported aggregated loss in the previous year was Rs.227.16 million relating to 28 branches. It was observed that the aggregated loss had increased by 82.53 per cent in the year under review. It was further observed that majority of branches had reported a loss during the year under review when compared with the profit of Rs. 57.86 million reported by the balance 09 branches.	Agreed with the comments.	It is recommended to take necessary steps to increase the performance of branches by eliminating the losses.

3.3 Idle or underutilized Property, Plant and Equipment

No	Audit Issue	Management Comment	Recommendation
(i)	Out of 06 properties shows under investment properties at the end of the year under review, legal cases were initiated to possess the ownership of 04 properties which were not finalized up to the date of audit on 31 July 2024.	Legal action has been initiated for 04 properties and the said cases are ongoing as at 31st August 2024. **Remaining 02 Investment Properties** 1. Embilipitiya As per the Board approval, we wrote off a	Properties of the Company need to be used in an efficient way without keeping as idle.

		sum of LKR.1,750,000.00 appearing in the books of MBSL in respect of the Pallegama, Embilipitiya property and removed Pallegama, Embilipitiya investment property from our books in May 2024. 02. No. 116/4,116/7,116/27,116/29 1st Cross street, Colombo 11 The said property was shown in books of MBSL as an investment property with a carrying cost of LKR 1,249,000/-, which was recovered with the collection of LKR 3,981,250/- from the disposal of Lot Nos. A - 05, A - 07 and A- 09 as per the Board approvals obtained recently. Accordingly, we removed 01st, Cross Street, Colombo 11 investment property from our books in May 2024.	
(ii)	Although any income on investment properties has not generated since the acquired date, legal charges and depreciation amounting to Rs.15.3 million and Rs.46.9 million respectively had been incurred by the Company until the date of audit on 31 July 2024. These land and buildings are still being idle without any use.	Full provision has been made in the accounts for the investment properties listed, since cases are ongoing as stated above. Hence no income is generated in the meantime.	It is recommended to minimize the legal charges by satisfying the legal clearance of the properties mortgaged at the inception of granting loans and actions to be taken to generate the income through these properties.

3.4 Human Resource Management

No.	Audit Issue	Management Comment	Recommendation
(i)	Hundred Fifty Four (154) numbers of employees had left the company during the year 2023 which represents 17.18 per cent of existed number of employees as at 01 January 2023. This indicates high staff turnover of the Company during the year under review.	We acknowledge that the staff turnover rate of 17.18% is indeed high for a financial organization. However, it is important to note that the majority of these resignations were not attributable to internal organizational issues. A significant portion of our staff departures were driven by individuals seeking better opportunities both domestically and internationally. The primary motivator was the pursuit of higher net salaries, largely influenced by increased taxation rates in 2023. This external economic factor made alternative employment more attractive to our staff. The rising inflation rates also played a	It is recommended to minimize the staff turnover to ensure the smooth functioning of the Company's operations.

		critical role in staff turnover. Some employees opted to find employment closer to their hometowns as a strategy to mitigate the escalating costs of living, including food, travel, and accommodation expenses. This trend was particularly pronounced among staff members whose relocation could significantly reduce their daily expenses. The macro-economic financial crisis of 2022 had a profound impact on the labor market. As a result, many staff members chose to migrate abroad for better stability and opportunities. Additionally, a notable number of our employees left to pursue educational opportunities overseas, seeking to enhance their qualifications and career prospects in a more favorable economic environment. We understand the implications of a high turnover rate and are actively implementing measures to address this challenge.	
(ii)	As per the clause No.5.1 of the employee transfer policy of the company, every employee should be transferred once in every 5 years. However, it was observed that, in some branches employees are engaging at the same branch for more than 5 years period.	We acknowledge that there has been non-compliance with this policy in some instances where employees have remained at the same branch for longer than the prescribed 5-year period. The primary reasons for this deviation are related to the challenging conditions we faced in 2022. During that year, our business operations were significantly impacted by restrictions imposed by the Central Bank of Sri Lanka (CBSL), which directly affected our ability to execute regular employee transfers. Additionally, we encountered a recruitment freeze, leading to a shortage of staff and limiting our capacity to conduct transfers and rotations effectively. Compounding this issue were high attrition rates and a reduced staff count, which made it increasingly difficult to implement the transfer policy. Furthermore, the economic turmoil and high inflation during this period contributed to staff reluctance to relocate to outstation branches or positions away from their homes due to the increased cost of living. We are committed to addressing these challenges and are actively working to ensure future compliance with our transfer policy by reassessing and adjusting our procedures in light of the current economic conditions and operational needs.	It is recommended to adhere with the employee transfer policy of the company.